Keflavík International Airport — A major industry in steady growth

What is the importance of the development of Keflavík International Airport for the future?

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Summary of Results

Tourism in Iceland is a fast-growing industry and its scope of activities has increased in all fields. The growth is so prodigious that it tests infrastructure in many areas.

The foreign exchange earnings generated by the tourism industry have grown concurrently with the increased number of passengers travelling to the country. The tourism industry has reached the point of being the industry generating most of Iceland's foreign exchange earnings.

Isavia, the Icelandic authorities, the airlines and other stakeholders have been successful in promoting Keflavík Airport to foreign airlines, particularly outside peak hours. Passenger numbers outside peak hours have grown proportionately faster than during peak hours in recent years. The greatest growth in passenger numbers has been in September and October.

Keflavík Airport is the largest gateway into Iceland and is one of the most important individual aspects of the tourism industry. It is important that care is taken as regards the enlargement plans for Keflavík Airport, which are necessary for the airport to be able to welcome the growing number of passengers in the future. It is clear that if Keflavík Airport is properly developed, it will be profitable, not only for the operation of the airport but for the entire economy of Iceland. We must, however, ensure that developments are carried out in such a manner that they do not cause the economy to overheat.

The recently issued Roadmap for Tourism Iceland predicts continued growth in the activities of the sector and a significant increase in foreign exchange earnings. Isavia's development schedule is a phased development plan based on forecasts of passenger numbers in coming years.

Isavia's financial position has strengthened considerably in recent years in line with its increased scope of operations. These are an important prerequisite to enable the company to cover the increased leveraging with the necessary developments ahead.

Isavia's passenger forecast is based on the forecasts of the main airlines operating in Keflavik Airport. The total number of passengers passing through Keflavík Airport is expected to increase by 37% in 2016. There were 25 airlines flying to Keflavík Airport during peak periods this year. In 2010, there were eleven. We anticipate continued growth over the next few years although not as much proportionately as in recent years. The forecast for the future is a 3% increase in passenger numbers, which is in accordance with the long-term forecast of the World Tourism Organisation (UNWTO).

As before, the heaviest traffic through Keflavík Airport is early in the morning and then again in the afternoon. This is for the most part due to the manner in which the route networks of Icelandair and WOW air are organised. Considerable success has been achieved in getting in new airlines that arrive and depart outside peak hours. It is important for this trend to continue, to ensure optimal utilisation of the installations at Keflavík Airport.

Of the total number of passengers, the greatest increase is expected to be in connecting passengers, mainly passengers travelling with Icelandair and WOW air. It is assumed that around 43% of all passengers passing through Keflavík Airport will be connecting passengers by the end of the forecast period in 2040. In comparison, it is assumed that this percentage will be 33% this year (2016).

The current passenger forecast assumes a significantly speedier increase in the number of passengers than the one used in the preparation of the Keflavík Airport's development schedule in the autumn of 2015.

Isavia's passenger number forecast is proportionately somewhat lower than the forecast for foreign currency income set forth in the Roadmap for Tourism Iceland issued by the Travel Industry Association and the Ministry of Industry. The Roadmap appears to assume that foreign currency income from each foreign traveller will increase from what it is today.

Icelanders are frequent flyers, measured per capita, in comparison to other European countries, according to a recent study carried out by the ACI (Airports Council International). Of all European countries, only Luxemburg has more direct airport jobs per capita than Iceland.

Based on the ACI's calculation model of the number of direct airport jobs and having taken into account the current number of jobs at Keflavík Airport, the number of direct jobs will increase significantly over the next few years. Thus over 1,300 new jobs will be created this year and around 1,110 in 2017.

Based on Isavia's passenger number forecast to 2040, an average of 415 new jobs will be created in Keflavík Airport every year from 2018 to 2040. These jobs will be distributed among many companies that operate in the airport. Approximately 40% of these jobs are directly connected to the Icelandic airlines (pilots, cabin crew, etc.) and other jobs are direct service jobs at the airport.

In light of the fact that there is little unemployment in the Reykjanes region, and in fact in Iceland as a whole, it is clear that a large proportion of these new jobs will have to be filled from outside the Reykjanes area and also from overseas. It is clear that the employment situation in Reykjanes, already quite good, will become even better, which should make the area a sought-after place to live in. By the end of 2016, approximately 3% of the total workforce in Iceland will be directly linked to the operations of Keflavík Airport.

Great opportunities lie in establishing what has been called Airport City, which consists of the area that covers the airport, the terminal, cargo areas, office buildings, shops and services as well as hotels. The area could support the development of operations, both flight-related and non-flight-related, that seek to be located near an international airport with strong flight connections. Such development at Keflavík Airport is realistic. Mention should be made of the fact that the availability of direct flights from Iceland to the US and Canada during the summer is similar to the total availability at all major international airports in Scandinavia.

Clear policies towards using flight connections to gain a competitive advantage can result in an increase in goods and services transactions, attract increased foreign investment in Iceland, increase the number of valuable jobs and increase the prosperity of all Icelanders.

Keflavik International Airport in 1954

The Airport's History

Formal opening of the airport
Keflavik International Airport was formally opened on 23 March 1943 and was constructed by US armed forces in WWII. The airport was owned by the armed forces and was an important stopover for flights on the way over the North Atlantic Ocean. After the war, in 1946, the airport was transferred to Icelandic ownership, although the US navy continued to use it due to occupation in Europe and therefore covered the cost of its operation. Keflavik International Airport played an important role in the development of civil aviation between Europe and America.

The defence agreement
The Icelandic Civil Aviation Administration of Keflavík Airport took over the management of all aircraft at the airport in 1955 and managed approach controls for Keflavík and Reykjavik airports as of 1978.

Two Icelandic airlines operated international flights – Loftleiðir hf. flew to Europe and the US while Flugfélag Íslands hf. concentrated its operations on flights to mainland Europe and the UK.

When the aircraft of these airlines became larger and the jet age began, both companies moved their operations to Keflavík, while domestic flights remained based in Reykjavik. Loftleiðir took over the operation of the flight services at Keflavík Airport under the overall management of the Airport Director in 1962.

The two companies merged into Flugleiðir hf. in 1973. The move of Icelandic international flights marked a turning point in the operation of Keflavík Airport and increased traffic through the airport significantly. In 1958, just under 44,000 passengers and more than 1,200 tonnes of goods went through the airport. In 2007, there were 2.2 million passengers and around 60,000 tonnes of cargo.

Leif Eiriksson Air Terminal
The Leif Eiriksson Air Terminal was brought into use in April 1987 to separate civil aviation from the operations of the navy. The US and Iceland divided the cost of the airport operation in such a manner that the US paid two-thirds of the total cost. The operation of the airport was managed by the Keflavík Civil Aviation Administration until 1998, when the government body 'Flugstöð Leifs Eiríkssonar' was established to manage the operation of the airport. The advisory management of the air terminal, appointed in August 1999 to prepare proposals for the future arrangement of the operation, proposed fundamental changes.

The public bodies 'Fríhöfnin á Keflavíkurflugvelli' (Keflavík Duty Free Store) and 'Flugstöð Leifs Eiríkssonar' (Leif Eiriksson Air Terminal) were subsequently merged into a single limited liability company owned by the State. The Leifur Eiríksson International Air Terminal Ltd. was established by an Act of Parliament in May 2000, and took over the entire operation of the air terminal, real property and obligations on 1 October that same year. The company was made a public limited company in 2007.

Non-stop improvements
The air terminal gained an extra 16,000 m2 when its south building was brought into use on 25 March 2001, the same date as the Schengen passport union of the European countries came into effect. In 2003, the check-in and arrivals halls were extended, office premises were fitted on the third floor, a warehouse was constructed for duty-free goods, and improvements were made to car parks and technological equipment. Work on the enlargement and changes to the north building of the air terminal began in October 2005 and were completed in the spring of 2008. This work included the transformation of the organisation of the ground and second floors of the air terminal. The second floor was dedicated to shops and passenger services. The total floor area was then approximately 56,000 m2. The north building, originally around 22,000 m2, had been enlarged to 39,000 m2. During the summer of 2008, further work on improvements to the customs search area and several minor tasks were halted due to uncertainties in the economy.

16 billion in 2016
In 2014, work formally began on the 5,000 m2 enlargement of the south building to the west. This added six new gates, a waiting area for passengers and increased the ability of the air terminal to segregate passengers according to whether they were arriving from a Shengen area or a non-Schengen area.

Considerable construction work has been carried out at Keflavík Airport recently. For 2016, the financial scope of the projects undertaken is approximately ISK 16bn. This has been one of the largest single projects by a State-owned company this year. In comparison, one can mention that Landsnet will, over the next three years, spend approximately ISK 20bn on the development of its transmission system at Krafla and Blanda.

2016 saw the construction of a 3,000 m2 building housing, among other things, a larger baggage sorting system. The air terminal was around 10,000 m2 larger by the summer of 2016 than it was at the beginning of the summer in 2015.

Tourism Sector

Increase in the number of tourists

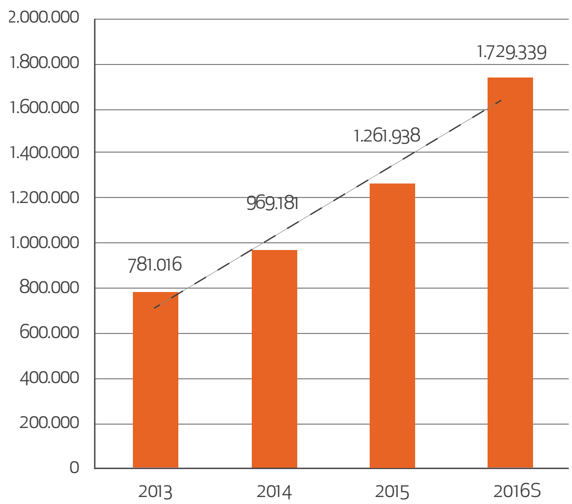
The tourism sector is steadily becoming a more dynamic industry, not just in Iceland but globally. According to statistics from the World Tourism Organisation (UNWTO), there were 1.1bn people travelling in 2014. Of these, approximately half, or around 590m, travelled to Europe and around 70m thereof to Northern Europe. Just under 2m of these 70m came to Iceland in 2016.

In October 2015, the Ministry of Industry and Innovation and the Travel Industry Association issued its Roadmap for Tourism in Iceland, a strategy for tourism to 2020. The paper reveals that for a number of years the increase in foreign tourists to Iceland has been proportionately far greater than globally.

Coverage of Iceland in foreign media, increased availability of airline seats, foreign exchange developments, concerted marketing efforts and other complementary elements have led to an average 22% increase in the number of foreign visitors over the past five years, five times more than on a global level.

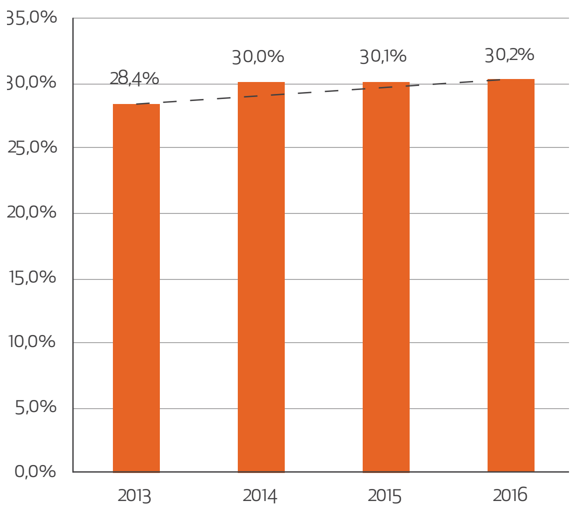
The increase in the number of travellers is expected to continue to be greater in Iceland than elsewhere. Account is taken not least of untapped opportunities as regards winter tourism, as interest in various forms of winter, outdoor and adventure tourism is steadily rising. In addition, interest in Iceland as a destination is high and is expected to remain so.

The tourism industry, however, is a fickle industry and it can be difficult to make forecasts far into the future. The calculations in the Roadmap assume that growth in Iceland will follow global growth trends after 2030 and will become 3.5% per year.

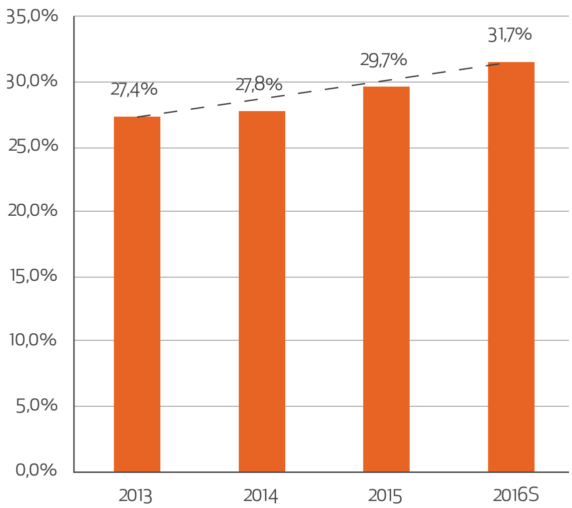


Foreign travellers to Iceland through Keflavik Airport

Increase outside peak periods



Proportionate increase of travellers to KEF in the early part of the year (Jan-May)



Proportionate increase of travellers to KEF in the later part of the year (Sept -Dec)

The majority of travellers passing through Keflavík Airport do so during peak periods. This applies both as regards the season, as most travel during the summer months, and the time of day.

Isavia has made efforts to increase the utilisation of the terminal during off-peak periods and has specially marketed the terminal thus. Some success has been achieved in this respect, and as can be seen in the accompanying graphs, the number of travellers during off-peak periods has risen.

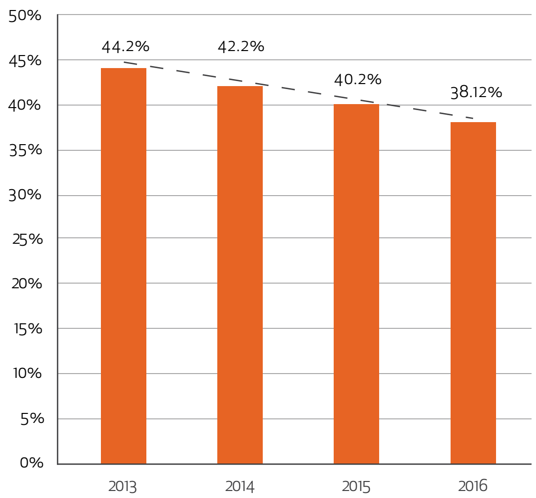
The increase during the earlier part of the year has not been very much above the average, but still a little above. There was however, an increase in 2014 when this figure rose from 28.4% to 30%. Since then it has remained just over 30%.

Greater success has been achieved in increasing the number of travellers passing through the terminal in the latter part of the year. Thus this figure has risen from 27.4% in 2013 to 31.7% in 2016, according to forecasts. The increase during the latter part of the year does more than keep up with the increase during the summer and is therefore significant.

This means that those who pass through the terminal during peak periods have decreased proportionately. The vast majority, however, still comes during the three summer months, i.e. June, July and August. That said, the proportion has decreased. In 2013, 44.2% of all those passing through the terminal did so during this period, while in 2016 this proportion is expected to have decreased to 38.1% of the total number of passengers.

The increase outside the peak period is no coincidence, but is rather the result of focused marketing efforts over a number of years. Isavia has, through concentrated efforts and in collaboration with tourist services, marketed Keflavík Airport, and thereby Iceland, as a winter destination. In addition, Isavia has endeavoured to direct airlines, by means of an incentives system, towards seeing the advantage of increasing the number of flights to Iceland during the winter months. These efforts have paid off. A similar incentives system is being initiated to increase flights outside peak hours within the day. Users have welcomed the initiative.

In addition, the authorities have been responsible for a focused marketing campaign to increase the number of tourists to Iceland during the winter months. The campaign Inspired by Iceland may be mentioned in this respect. The government's policy has thereby made its mark and has gone hand in hand with the efforts of Isavia, the tourist sector and the airlines.

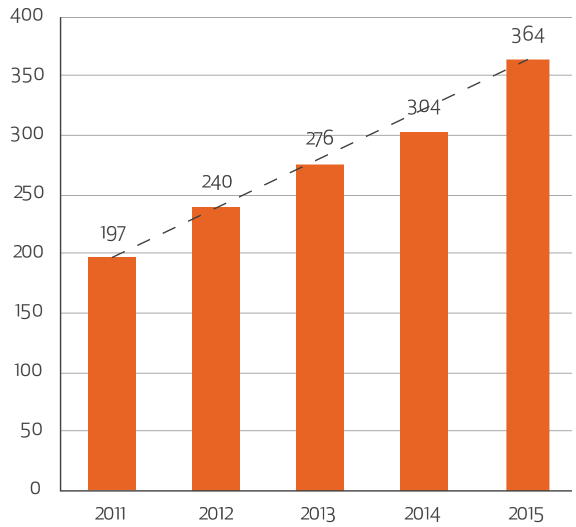


Increase of foreign travellers at peak period (June-August)

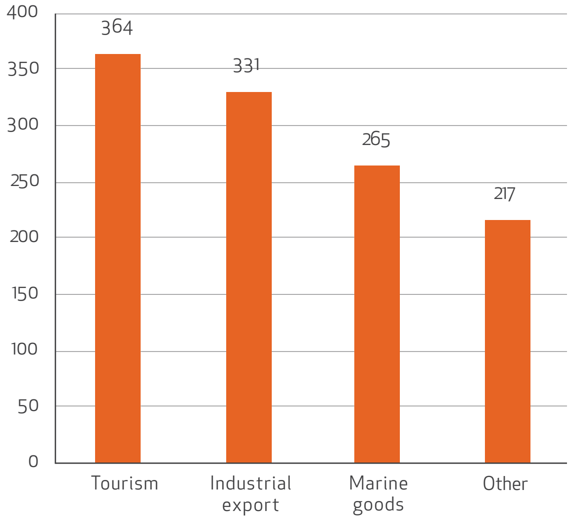
Foreign currency earnings

The increased interest in Iceland and the significantly greater number of travellers has resulted in sharply rising foreign exchange earnings for the economy. The tourism sector has in fact been the main driving force behind rising prosperity in Iceland since 2011. Since then, around 8,000 jobs have been created in the sectors that Statistics Iceland defines as tourism core sectors.

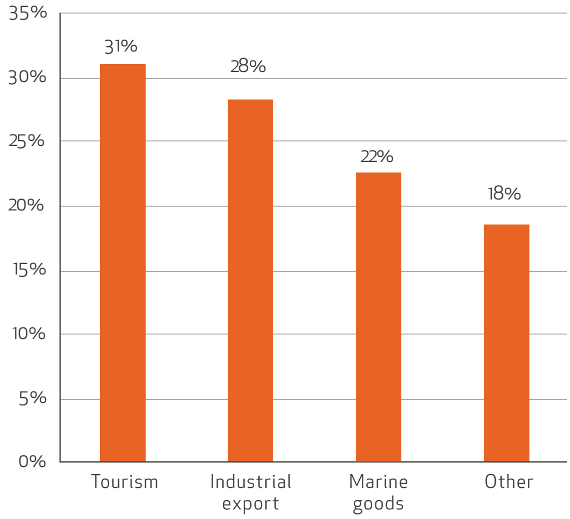
These foreign exchange earnings have grown quickly in tune with the increase in the number of tourists to Iceland. In 2014, such earnings grew by 10% from the year before, amounting to ISK 304bn, and it is estimated that foreign exchange earnings from the



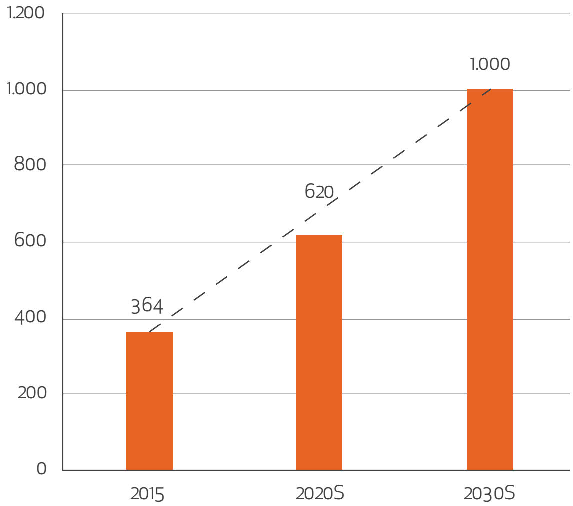
Foreign exchange earnings, in ISK billion, at each year's price levels



Foreign exchange earnings 2015 by sector, ISK bn.



Foreign exchange earnings 2015 by sector, % of total



Roadmap: Foreign exchange earnings from tourism 2015–2030, ISK billion

Source: Statistics Iceland, Roadmap

tourism industry as a whole were ISK 364bn in 2015. This represents an increase of 15% from 2014. Included in these figures are the foreign exchange earnings of all Icelandic companies involved in tourism services in Iceland as well as the foreign exchange earnings of Air Atlanta and Primera Air overseas.

The tourism sector is largest

This strong growth in the tourism sector means that foreign exchange earnings of the sector have exceeded those from industrial exports (including aluminium) and exports of marine products. This is a rapid change as the tourism sector has until now generated less income than these main pillars in the currency earnings of the economy. In 2010, the tourist sector's share was 18%, i.e. approximately ISK 150bn. Figures from 2015 show that the tourism sector's share in foreign exchange earnings is 31%, while that of industrial exports is 28% and that of marine goods is 22%.

This significant increase of foreign exchange earnings in the tourism sector has been extremely important as regards the foreign currency position of the Icelandic economy. It has supported the economic recovery after the financial crash and has contributed significantly to ensuring the inflow of foreign currency, making it possible to lift currency restrictions. If the trend continues as described above, it is clear that the tourism industry will be by far the largest sector when it comes to foreign currency generation.

Considerable increase ahead

Foreign exchange earnings will increase by just under 80% to 2020, according to the forecast set forth in the Roadmap, to just over ISK 620bn. As of 2020 to 2030, the growth in foreign exchange earnings will go hand in hand with the forecast of the UNWTO as regards the global increase in tourism.

Isavia and the Keflavík Airport Masterplan

Keflavík Airport Masterplan

The Keflavík Airport Masterplan is a flexible plan that addresses the entire area and environment of the airport, i.e. both within the security fence and outside it. The plan is a control device that stakeholders can make use of for policy formulation and development. The plan maps out the development plans of Keflavík Airport so as to ensure to make the most of the airport's funds. Thus, the plan is a guiding light for future arrangements where efforts are spent for the benefit of the airport in accordance with traffic and passenger forecasts.

Phased masterplan

Keflavík Airport Masterplan is the airport's growth and developmental plan for the next 25 years. The plan shows the phased development for the airport, taking account of forecasts of passenger numbers, composition of passengers and air traffic. The plan shows the optimal growth of the Leifur Eiríksson Air Terminal and the development of the airport when the traffic begins to demand further facilities.

Object of the masterplan

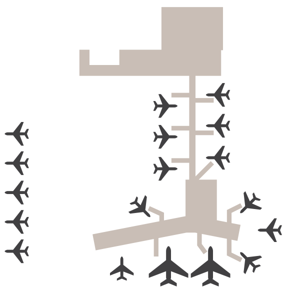
The plan is a venue for Keflavík Airport and stakeholders to communicate and collaborate as regards future developments. The plan, moreover, is a guideline for Isavia as regards land use and organisation of Keflavík Airport and its environs so that attention is paid to development options and it ensured that services to the airport are available when needed.

Better utilisation of the runway system

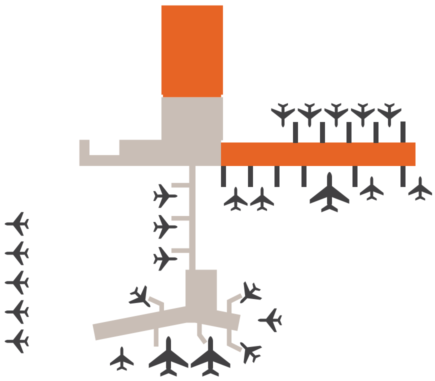
The airport's Masterplan puts forward proposals for the better utilisation of the runway system with the aim of postponing the construction of a new runway. Various options are available, such as exit lanes to vacate the runway more quickly (RET-Rapid exit taxiways), sharing of the current runways and improvements to air traffic control.

Environmental plan for the future

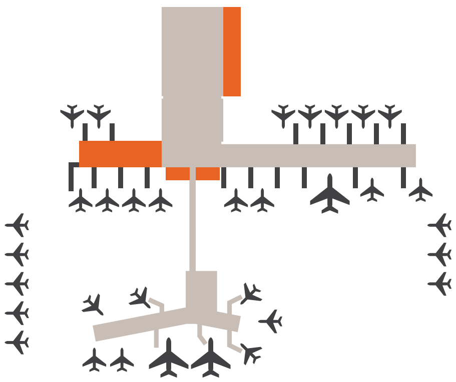
The Masterplan maps out the environmental impact of Keflavík Airport with the goal of reducing negative effects. Sound and air pollution for the nearest environs are inevitably involved in the operation of airports. The same applies to the emission of greenhouse gasses. Isavia intends to monitor the environmental quality at Keflavík Airport and reduce pollution. The plan is to reduce emissions of



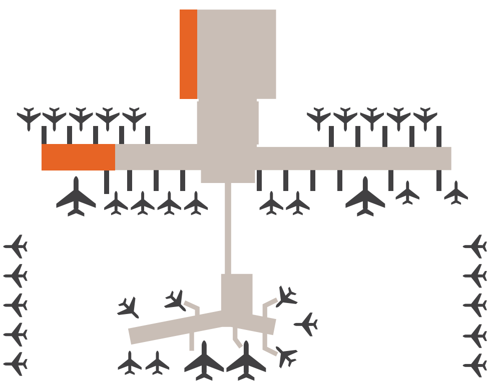
The number of passengers stated in the Masterplan is based on an unchanged load distribution within the day and the year. The increase of winter travel and increase of travel outside peak hours means that the present structure can welcome many more passengers than the Masterplan assumed. In addition, many more can go through an enlarged terminal.



8.5 million passengers
60,000 movements
22 contact stands
7 remote stands
5 baggage claim belts



10.6 million passengers
65,000 movements
26 contact stands
8 remote stands
7 baggage claim belts



13.8 million passengers
86,000 movements
30 contact stands
10 remote stands
9 baggage claim belts

greenhouse gasses from the operation of the airport and to work towards sustainability in the future development of the airport.

Aerotropolis — aviation acropolis

Keflavik International Airport is a transportation hub between Europe and North America and is a short distance from the capital of Iceland. Increased operations at the airport call for the development of support services while, at the same time, extending Keflavík Airport means that the area will become a magnet for a diverse range of operations. Flight-related operations such as shipping operations or air services, accommodation, retail and more are an opportunity for neighbouring communities and operators, that will grow stronger with increased traffic through the area.

Isavia is a company that plays an important role both community-wise and in an economic sense. Isavia's airports, especially Keflavik International Airport, create value for the community and the economy, both in Iceland and elsewhere in the world. Direct flight connections are extremely important, both as regards economic aspects as well as human aspects. Any form of connections result in sustainable growth. The more direct connections by flight from Iceland to the main cities of the world, the easier it is for Icelandic companies to engage in business overseas and gain international experience. Connections increase prosperity. They increase the interest of foreign companies in embarking on operations in Iceland.

The human aspect involves providing people from different countries with opportunities to meet and connect. Thus connections promote the wellbeing of individuals and communities in all parts of the world. Iceland's location between North America and Europe therefore provides the opportunity of developing an aerotropolis, such as has been done at Schiphol and other airports.

Isavia has, through e.g. the preparation of its Masterplan to 2040, examined the possibility of constructing, in the operating area of the airport, an Airport City, which consists of the area that covers the airport, the terminal, cargo areas, office buildings, shops and services as well as hotels. The area could support the development of operations, both flight-related and non-flight-related, seeking to be located near an international airport with strong flight connections.

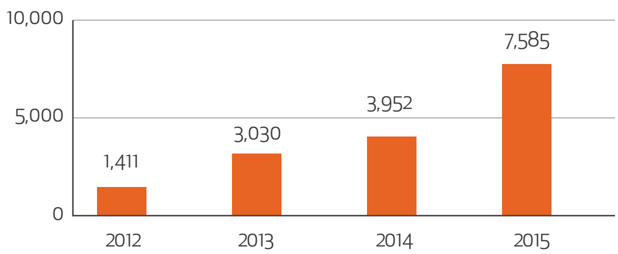
Such development at Keflavík Airport is realistic. Mention should be made of the fact that the availability of direct flights from Iceland to the US and Canada during the summer is similar to the total availability at all major international airports in Scandinavia (Oslo, Copenhagen, Helsinki and Stockholm). It is clear that numerous opportunities are involved in such a development.

The Airport City is often called the heart of Aerotropolis, which covers the built-up area that forms around the airport and utilises flight connections to gain a competitive edge. Thus the cities become more competitive by linking them with other places in as rapid a manner as possible and thereby attract funds and investors. Airports are no longer just places where people come and go. They are a growth area for companies that enjoy the advantages of being near them.

Clear policies toward using the flight connections to gain a competitive advantage can result in increased goods and services transactions, attract increased foreign investment in Iceland, increase the number of


ICELANDAIR
ICELANDAIR

ISK million	2012	2013	2014	2015
Operation				
Income	18,397	19,810	22,079	26,013
EBITDA	**4,470**	**3,823**	**4,906**	**6,008**
EBIT	2,818	2,396	3,328	3,999
Profits before taxes	**932**	**4,018**	**2,724**	**3,818**
Taxes	-194	-801	527	745
Profits after taxes	**738**	**3,217**	**2,197**	**3,073**
Balance sheet				
Assets	33,390	34,511	40,849	45,187
Interest bearing liabilities	18,807	15,888	18,964	18,564
Cash and cash equivalents	3,026	2,730	4,491	4,994
Equity	**11,647**	**14,864**	**17,061**	**20,134**
Ratios				
EBITDA %	*24%*	*19%*	*22%*	*23%*
Equity ratio	35%	43%	42%	45%



ISAVIA Investments (CAPEX) 2012–2015, ISK millions

valuable jobs and increase the prosperity of all Icelanders. Experience from Dubai, Hong Kong and Singapore has shown us that small nations and countries can compete with larger countries and cities by using the strengths inherent in airports and airlines offering connection options, and thereby increasingly attract international companies and operations.

Operations and financial position

The operation of Isavia has much improved over the past few years. Profits have increased, as has equity and all debt proportions, such as EBITDA, have improved. The owner of Isavia, the Icelandic state, has decided over the past few years not to pay itself dividends, despite better performance and instead increase equity and use that for construction and development.

Good equity position

As can be seen in the table, equity amounts to just over ISK 20bn. The decision of the owners not to pay dividends due to planned construction, which would have to be carried out, makes the company better able to undertake the construction necessary at Keflavík Airport.

Considerable investments

Extensive construction work has been carried out at Keflavík Airport in recent years, given the need to respond to the significant increase in traffic in recent years. Large structures such as Keflavík Airport naturally require extensive maintenance and when the number of users has increased as much as has been the case here, considerable investment is required.

Isavia invested ISK 16bn in 2012-15. Investments have grown steadily from ISK 1.4bn in 2010 to ISK 7.6bn in 2015. In addition, the investment schedule for 2016 expects double the amount for investment from that in 2015.

Gregory Josiah Lue was passenger number 5,000,000. Here he is together with partner Leanna Cheecin Lau. Keflavík Airport staff welcomed them and gave them gifts on the occasion.

Passenger Numbers at Keflavík Airport

Increased number of passengers

"The five millionth passenger welcomed." This was the heading of a news item published on the website of Isavia on 20 September 2016. There is no doubt that it was a considerable milestone to achieve the number of five million passengers in one year. It is now apparent, however, that the number will also exceed, for the first time, six million within a single year.

There has been significant growth in tourism in recent years, with Keflavík International Airport playing a key role in this respect. The airport is a gateway into the country as 96% of all travellers who come to Iceland pass through the airport.

Considerable and speedy increase

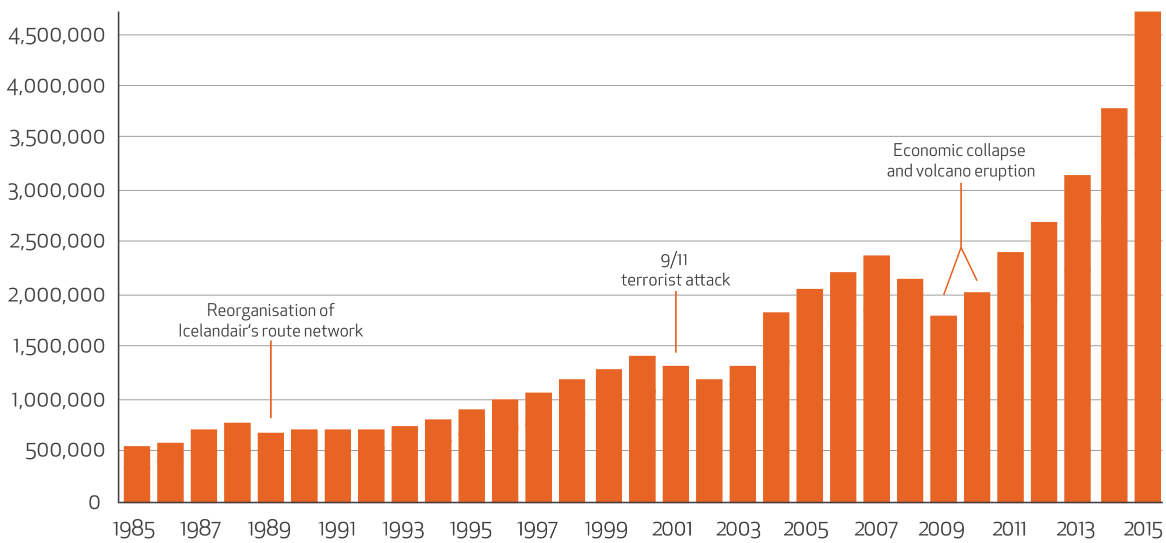
The increase has been so great and steady that there is a risk that people will become immune to it, or get the feeling that it has always been so. It is a good idea, therefore, to take a look at the past and see what the expectations were a few years ago.

Far beyond expectations

In 2011, 2.1 million passengers passed through Keflavík Airport, a matter that was celebrated, given that the economic collapse had had an effect on passenger numbers, as it had on most other things in Iceland. The Ministry of Industries and Innovation published a news item on its website at the beginning of 2012, stating that "the continued increase of tourists over the past two years was considered an indication that a new growth period had begun in passenger flights after the downturn following the economic collapse in 2008".

Although passenger throughput at the airport has generally increased since it opened, the increase over the past few years has been exceptional. The increase between 2011 and 2015, on its own, is greater than all the passengers that came through the airport in 2011. The current growth period is the greatest in the history of Icelandic tourism and one needs to go quite far back to see comparable growth to that seen now. In conjunction with this strong growth, there are many challenges that face the Icelandic tourism industry. One of these is the enlargement of Keflavík Airport to meet the increase in the number of passengers. Keflavík Airport's Masterplan is a progressive plan put forward to achieve this goal in consultation with the users of the airport and other stakeholders.

According to Isavia's passenger forecast, a 37% increase from 2015 in passengers is expected through Keflavík Airport. The summer months are the peak season. However, it is interesting to note



Total number of passengers through Keflavik Airport 1985-2015

Passenger numbers at Keflavík Airport

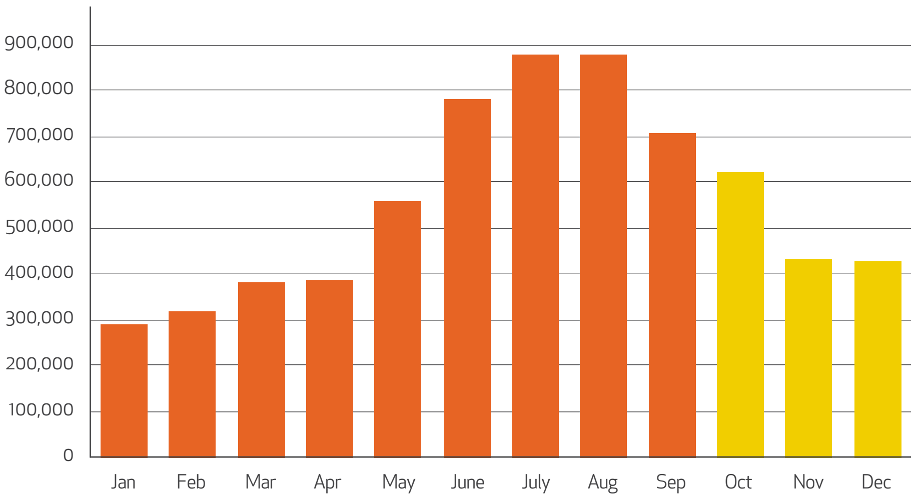
that the increase by months is greatest in September (45%) and October (just under 50%).

This is good as by increasing traffic through Keflavík Airport outside peak periods it is possible to utilise the investments into the airport much better than otherwise. In addition, the distribution of tourists over the entire year is beneficial when account is taken of the tourism infrastructure and its ability to receive more tourists.

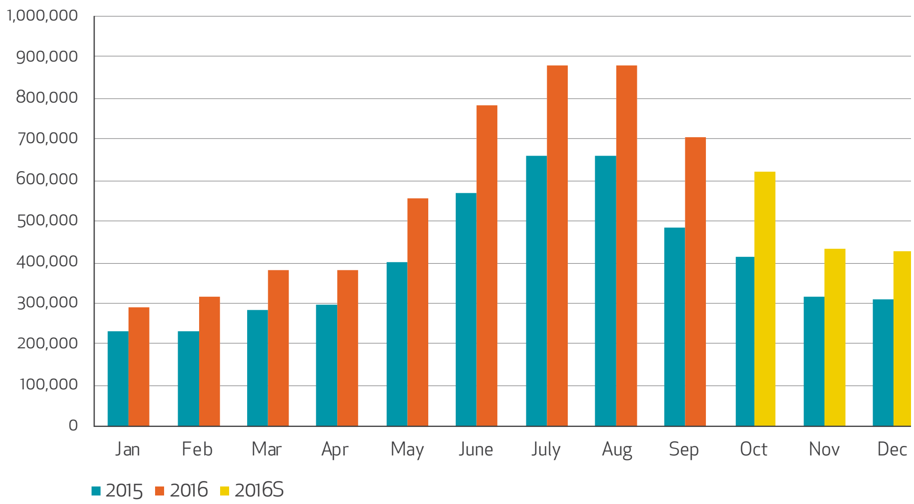
It is important, however, to remember that a proportion of the passengers never leave the airport. The 6.7 million passengers forecasted to pass through the airport in 2016 are divided into 2.2 million arriving passengers, 2.2 million departing passengers, figures that naturally go hand in hand, and 2.2 million connecting passengers, i.e. those transferring between flights and continuing their travel and who never leave the airport terminal.

Icelandic passengers

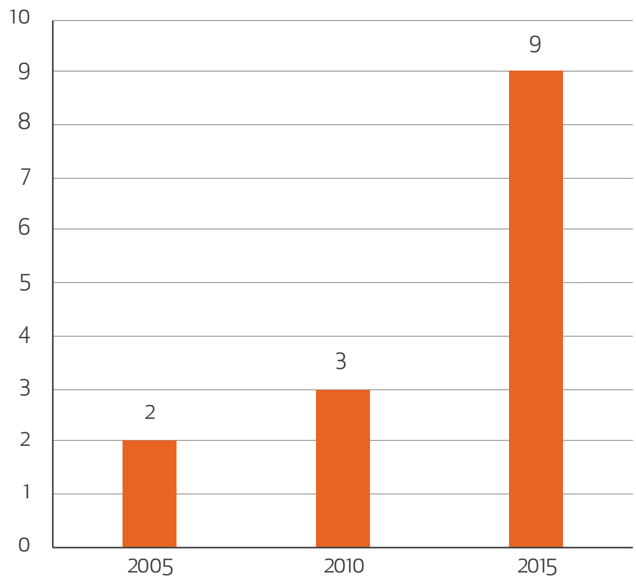
According to the figures of the Icelandic Tourist Board for departing passengers from Keflavík Airport, travel undertaken by Icelanders has increased by 18.6% during the first nine months of 2016 as compared to 2015, from 336,000 in 2015 to 400,000 in 2016. If the passenger forecast that was prepared for November and December is realised, the total number of Icelandic departure passengers will end up being 523,000 in 2016, an increase of approximately 16.2%.



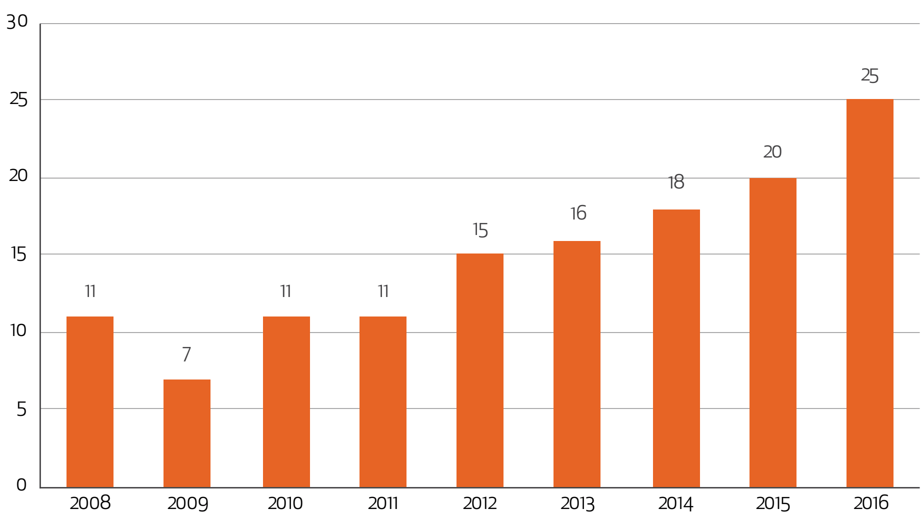
Passenger throughput 2016 — forecast Oct-Dec



Passenger throughput to KEF by month 2016 — forecast Oct-Dec



Number of passengers to KEF all year



Number of passengers on scheduled flights to KEF during summer

Based on these criteria, the proportion of Icelanders of the total number of departure passengers will be 23.0% in 2016. In comparison, the proportion of Icelanders was 36.1% in 2012 and just under 50% in 2007.

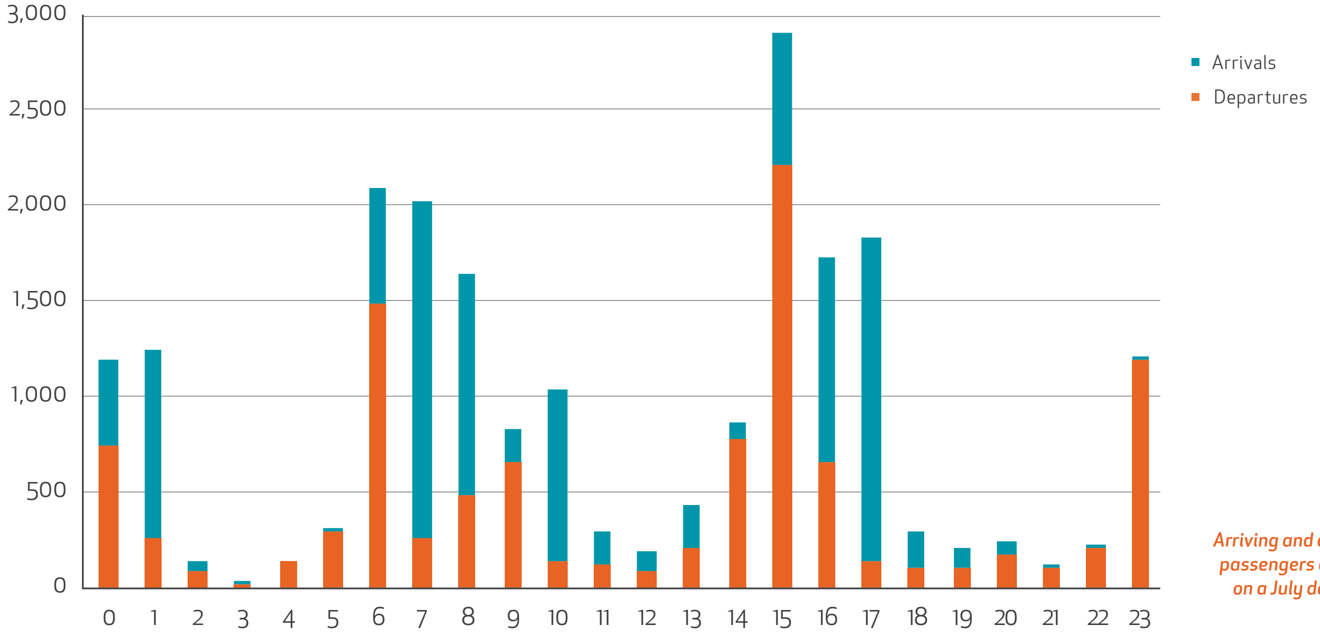
Record number of airlines

Isavia has been responsible for targeted marketing efforts for Keflavík Airport in recent years. This has had the result that the number of airlines using the airport has significantly increased, not least those that fly during the peak period.

In addition, we have also been able to increase the number of airlines that fly to Iceland all year. In 2005 there were only two, Icelandair and Iceland Express. By 2015 they had increased to nine and in 2016 there were eleven.

In the summer of 2009, seven airlines flew to 47 destinations from Keflavík Airport. By the summer of 2015, 25 airlines flew to eighty destinations from the airport.

Passenger numbers at Keflavík Airport



Arriving and departing passengers each hour on a July day in 2015

All figures, therefore, are rising in this respect and most of the existing airlines increased their frequency in 2016 or added destinations. In addition, some new airlines began using the airport in 2016.

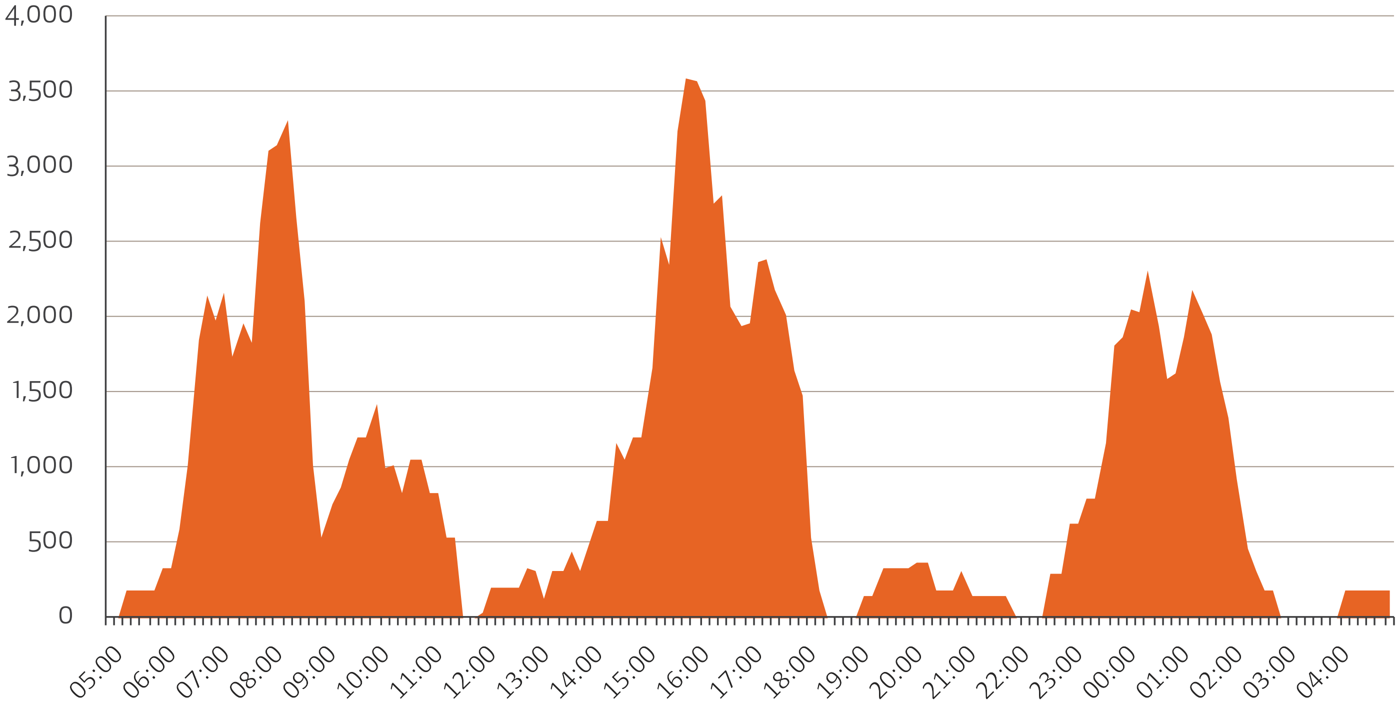
Better use of facilities

Isavia has endeavoured to direct, by means of an incentives system, airlines toward seeing the advantage of flying to Iceland during the winter months. These efforts have paid off. With respect to the airlines, Isavia has begun to market time slots outside peak hours each day with the objective of better utilising the investments in place in Keflavík Airport. Although the capacity of the airport is fully used during peak hours, it is possible, by means of better distribution, to increase the number of foreign travellers coming to Iceland and thereby obtain increased foreign exchange earnings for the Icelandic economy.

By utilising off-peak hours better, we will achieve better utilisation of the facilities at Keflavík Airport and thereby the investment already made. As can be seen in the figure, however, the situation remains such that the heaviest traffic is still during the same hours of the day.

Even greater increases ahead

The World Tourism Organisation (UNWTO) assumes that the increase in travel will continue and that in 2020, there will be 1.4bn travellers and 1.8bn by 2030, up from 1.1bn in 2014 as stated earlier. The Roadmap assumes that the proportionate annual growth of tourism in Iceland will be higher than the above figures indicate, not least due to increased interest in winter, outdoor and adventure tourism and a thriving interest in Iceland in general.



This illustration shows the number of passengers and peak hours during a 24-hour period. Peak hours are in the morning, afternoon and around midnight.

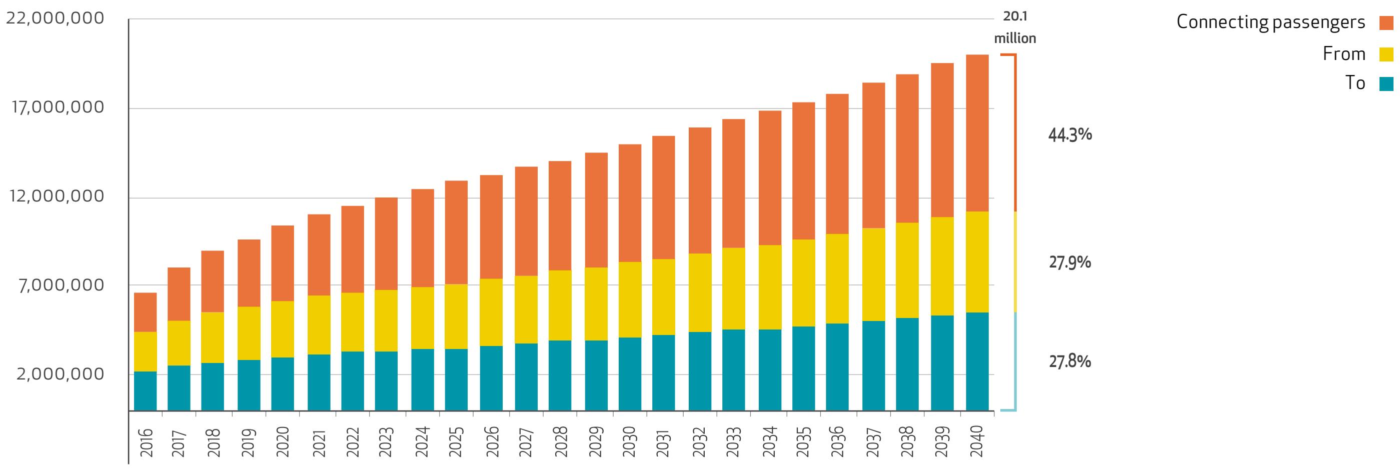
Isavia's passenger forecast is based on data from airlines as regards seat availability and presumes a particular passenger load factor. This provides a fairly good estimation given the criteria available in each case. The forecast is the sum of arriving passengers, departing passengers and connecting passengers. It counts both the foreign and Icelandic passengers both on arrival and departure in addition to those who only stop at the airport to continue on to another destination. Such connecting passengers are also counted on arrival and again on departure. Given the nature of the issue, Isavia's passenger forecasts are much more accurate in the short term than far ahead into the future. Nevertheless, the long-term forecasts provide an indication of the trend that is most likely, based on the criteria available.

The increase is so rapid that the passenger forecast that was used as the criteria for Keflavík Airport's Masterplan, prepared in November 2015, proved to be too cautious. It was updated in February 2016.

The updated forecast assumes that the number of passengers through Keflavík Airport in 2016 will be 6.66 million, while the earlier forecast assumed approximately 6.25 million. As there were 4.86 million passengers in 2015, a 37% increase is expected from year to year. In addition, the passenger forecast that was issued in November last year assumed that the number of foreign travellers to Iceland in 2016 would be just over 1.5 million but we now estimate that this number will be over 1.7 million.

Isavia's long-term forecast takes account of the forecast of the UNWTO as regards long-term tourism growth. Connecting passengers will increase by 4% in the long term, while arrivals and departures passengers will increase by 2%.

Passenger numbers at Keflavík Airport

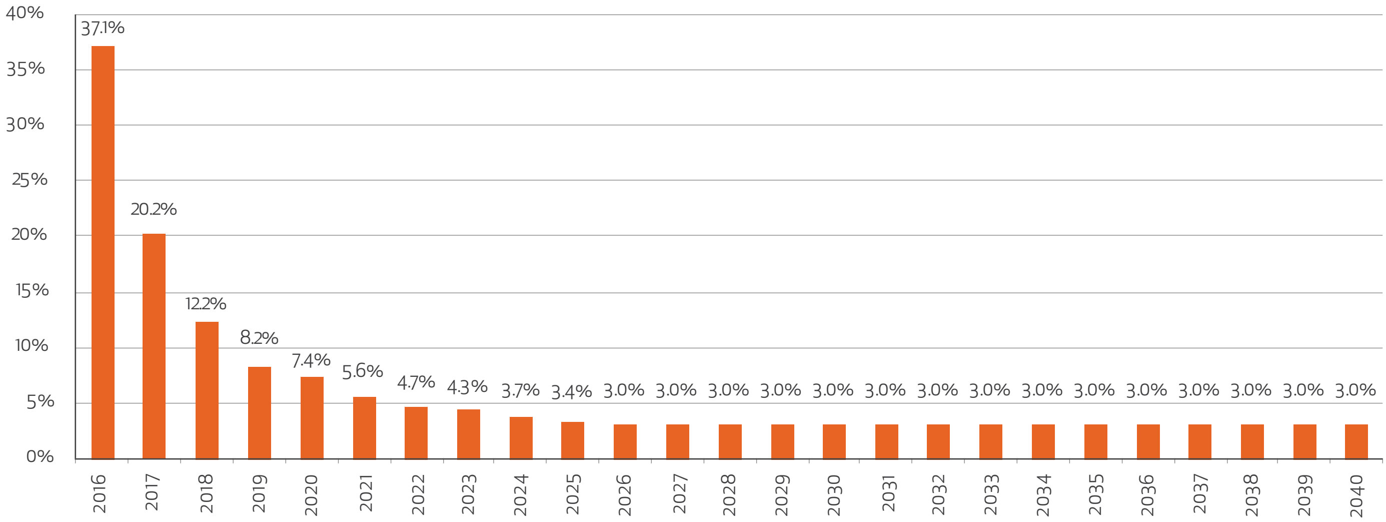


Estimated total number of passengers through Keflavik Airport

Connecting passengers

Keflavík Airport's main uniqueness is the large number of connecting passengers that travel between North America and Europe with a stop-over in Iceland. Most stop for only 1-2 hours to transfer between aircraft although some do stay for a few days in Iceland. With the increased availability of flights from Icelandair and WOW air to North America from Iceland in recent years, passenger numbers have risen rapidly. Isavia's forecast assumes a considerable increase in connecting passengers. According to Isavia's figures connecting passengers numbered 1,465,000 in 2015.

Connecting passengers are important even if they do not stop for long in Iceland. They pay Isavia landing charges and various service companies in Keflavík Airport have earnings from them. In addition, the connecting flights through Iceland are a large part of the operation of the Icelandic airlines. It is the key to the manner in which Icelandair has achieved the maximum utilisation of its aircraft each day, and the same applies to WOW air's US flights which the company has been strengthening considerably. Connecting passengers also significantly increase the range of destinations from Iceland, something that is important for Icelandic households and the economy. Thus there would be much fewer destinations on offer from the airlines if there were fewer connecting passengers. Through dynamic flight connections, the geographical isolation of the country is reduced and quality of life is significantly improved.



Passenger forecast, proportionate increase in %

It is important to keep in mind that, despite the fact that connecting passengers do not enter the country in any real sense, they create numerous direct jobs at Keflavík Airport itself. According to a report by ACI Europe entitled 'Economic Impact of European Airports', issued in January 2015, there is only a 3% difference between connecting passengers and arrivals/departures passengers in this respect, i.e. if a particular number of the latter passengers create 100 jobs at Keflavík Airport, then the same number of connecting passengers create 97 jobs.

Opportunities as regards connecting passengers

Increases in the number of connecting passengers creates numerous opportunities for Keflavík Airport and the community as a whole, particularly the area nearest the airport. Connecting passengers do not come into the country and their number, therefore, does not have an impact on the discourse as to whether there is a risk of too great an increase of tourists coming to Iceland. They provide an opportunity to utilise investments and facilities at Keflavík Airport much more effectively than would otherwise be the case.

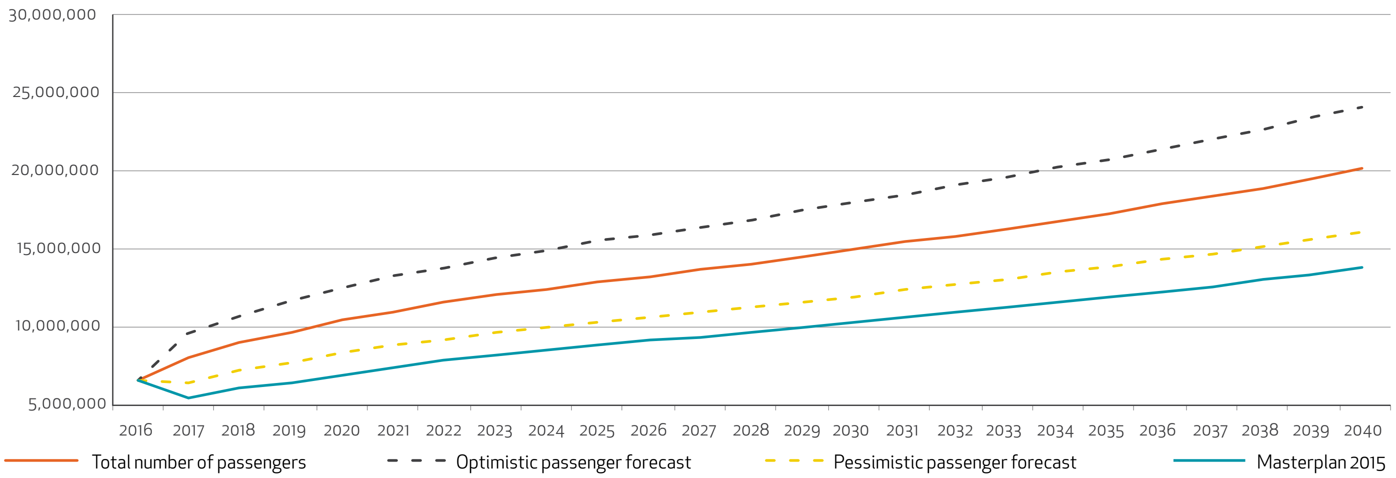
Icelandair has for many years built its business model to a considerable extent on connecting passengers and WOW air has now followed suit. The number of connecting passengers, therefore, is expected to significantly increase over the next few years and will become an ever larger proportion of those passing through the airport.

By the same token, the proportion of the arrivals and departures passengers will decrease as regards the total number of passenger passing through Keflavík Airport. It is, however, important to keep in mind that both groups will increase in number, both connecting passengers as well as arrivals and departures passengers, although the number of connecting passengers will increase more and thus become an ever greater percentage of the whole.

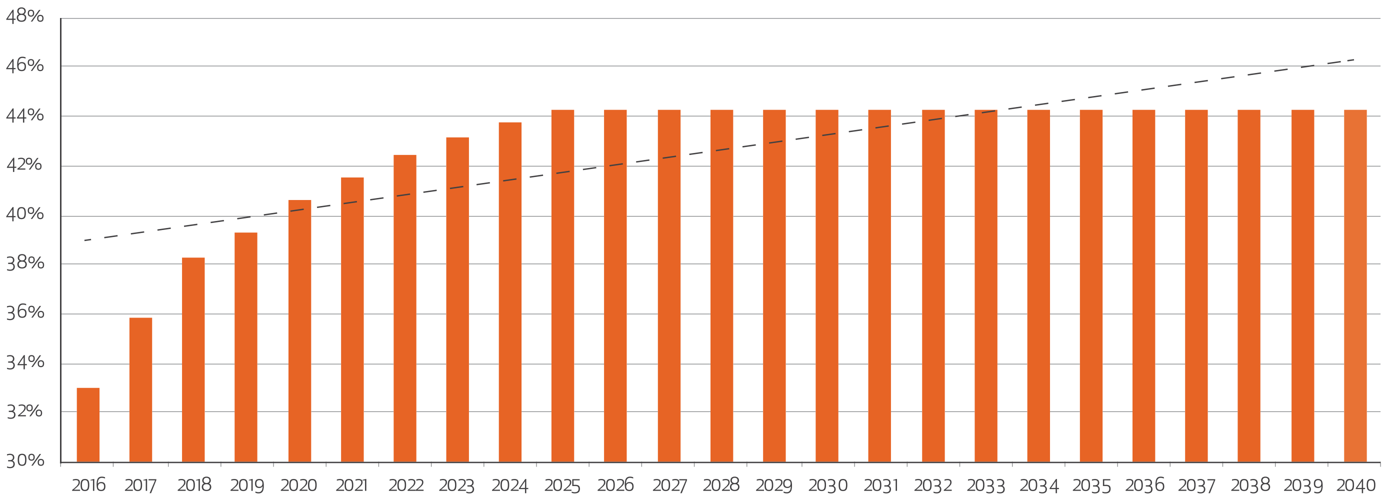
Different scenarios

When looking so far into the future as we are doing here, it is a good idea to anticipate different scenarios as to how things might develop. As passenger forecasts are, by their nature, organic and fluid depending on the estimates of the airlines, the authors of this report decided to calculate what the picture would look like

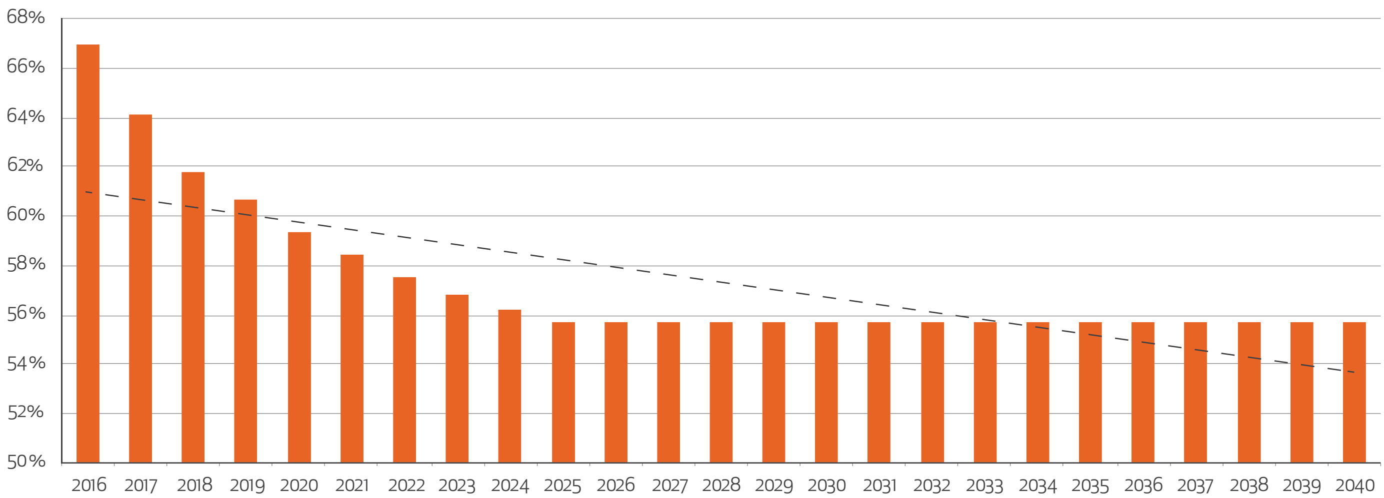
Passenger numbers at Keflavík Airport



Passenger numbers based on different scenarios +/- 20% change in number



Connecting passengers, proportion of total number of passengers



To/from passengers, proportion of total number of passengers if passenger numbers were 20% more than passenger forecasts anticipate and if they were 20% fewer than anticipated.

When these differing scenarios are examined it is important to keep in mind that they all anticipate a much greater number of passengers than was provided for in the Keflavík Airport Masterplan that was presented in 2015. Thus the most negative forecast, i.e. around 20% fewer passengers than in the passenger forecast, is considerably higher than the forecast of the Masterplan which was issued in autumn 2015.

It shows us yet again how dynamic the tourism sector, in all its manifestations, is. At the same time, one must keep in mind that the number will go hand in hand with what is decided on the development of Keflavík Airport.

Comparison with the Roadmap

This report has often referred to the Roadmap for Tourism in Iceland which was issued in October 2015. One could say that the Roadmap is the only comprehensive policy that the authorities have established as regards tourism and its growth. This work is still ongoing and is based on the forecasts put forward in the Roadmap.

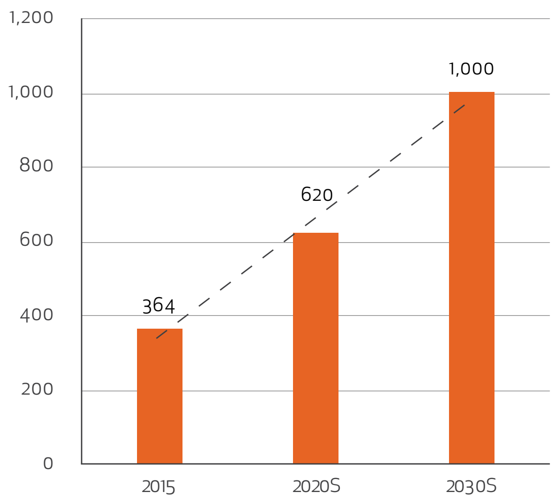
In order to have an even firmer foundation, the authors of the report compared the passenger forecast of Isavia and the Roadmap's predictions for increased foreign exchange earnings from the tourism sector. As can be seen, these forecasts largely accord with each other. The difference between the two can be attributed to connecting passengers which have an effect on Isavia's passenger forecast.

Forecasts of foreign exchange earnings are based on the number of travellers expected to visit the country in the next few years. As the image shows, it tallies well with Isavia's passenger forecast so that each forecast supports the other. The development in the number of passengers, according to Isavia's forecast, is such that the foreign exchange earnings that it brings into the Icelandic economy will be in tune with that predicted in the Roadmap.

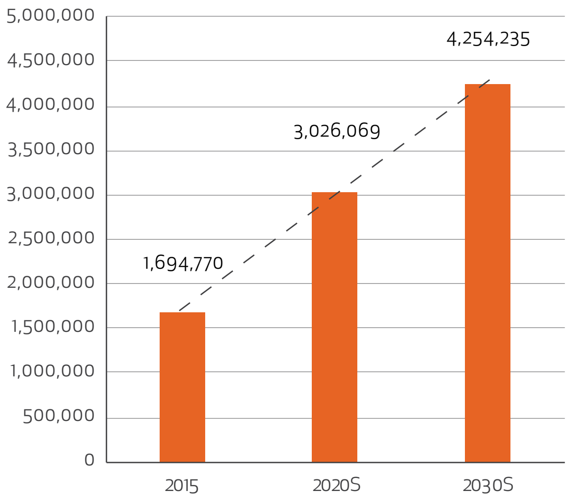
Forecasts of increases in passenger numbers and increased foreign exchange earnings, therefore, show us what can be done, if it becomes the policy of the government and the tourist industry.

Foreign exchange earnings from travel services 2018-2030, ISK bn

Increase in foreign exchange earnings
2015-20: 70%
2020-30: 61%
2015-30: 174%



Arrivals to KEF



Direct Jobs in Companies at Keflavík Airport

ACI Report
The Airports Council International Europe (ACI Europe) commissioned a detailed examination of the economic impact of airport operations in member countries. The results of the examination were published in a report in January 2015. In the report, airport-related operations are assessed by means of special co-ordinated methodology for the countries that are members of the association. Various indicators are examined, such as number of jobs, turnover and impact on GDP. The countries who are members of the ACI represent over 90% of airport-related operations in Europe.

At its core, ACI's investigation is based on harmonised data acquisition from 125 airports in Europe. Detailed questionnaires were sent to the companies/public bodies that operate individual airports requesting information on passenger numbers, turnover, number of employees, performance, etc.

High proportion of direct jobs
One of the indicators specifically examined in the report from ACI was the number of jobs directly connected with the operations of an airport. Information on indirect jobs was also requested. The report also assessed the multiplier impact of airport operations.

The number of direct jobs at Keflavík Airport (KEF) was assessed as being 3,500 in the ACI report. These figures, however, are from 2013. In comparison with large European countries, this number is negligible. In Germany, for example, there were around 220,000 employees in airports, 40,000 in Sweden and 30,000 in Denmark.

A few European countries	Number of direct jobs	Number of direct jobs in airports / per 1,000 residents	Effect of direct jobs on economic growth
Germany	220,500	3.3	0.6%
UK	199,200	3.1	0.8%
France	168,800	2.6	0.6%
Turkey	168,600	2.3	0.6%
Spain	146,500	3.1	0.7%
Sweden	40,400	4.2	0.8%
Denmark	29,600	5.3	1.1%
Norway	27,700	5.4	0.7%
Finland	17,200	3.2	0.7%
Iceland	3,500	10.8	1.5%

Economic effects on airport operations
ACI Europe

A few European countries	Number of direct jobs in airports / per 1,000 residents	Effect of direct jobs on economic growth
Luxemborg	20.3	2.1%
Iceland	10.8	1.5%
Malta	9.0	2.9%
Cypress	7,0	1.9%
Switzerland	5,5	0.9%
Norway	5.4	0.7%
Denmark	5.3	1.1%
The Netherlands	4.8	0.9%
Sweden	4.2	0.8%
Greece	3.3	1.1%

Greatest flying countries measured per resident
ACI Europe

One of the most prominent flying nations in Europe

The ACI report reveals that Europe's large, densely populated countries – Germany, the UK, France, Turkey, Spain Russia and Italy – are the countries that create the greatest number of jobs in airports and are also the countries that generate the highest income from airports. This comes as no surprise.

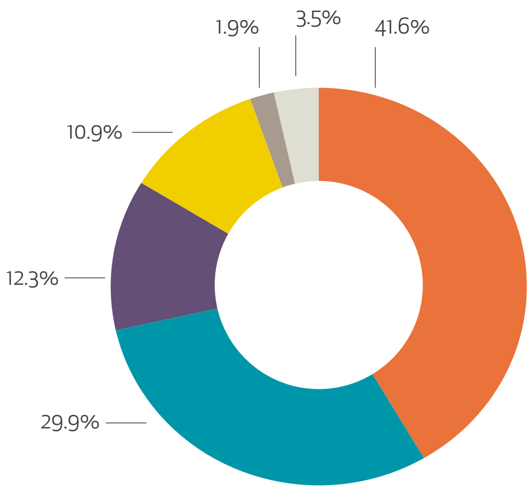
When account is taken of how many direct jobs are created due to airport operations in Europe measured per capita, however, a quite different picture emerges. Smaller countries score much higher by this yardstick. Thus Iceland is in second place when account is taken of the number of jobs per 1,000 residents in each country. Only Luxembourg has more direct jobs in airports measured per capita. After Iceland come Malta, Cyprus, Switzerland, Norway and Denmark.

Likewise, the impact of direct jobs in airports on economic growth is proportionately high in Iceland as compared to other European countries. In the ACI's report, direct jobs in Iceland are considered to have been 1.5% of GDP in 2013. This is considered to be an unusually high percentage in European comparison. It may be considered likely that this percentage was higher in 2014 and 2015 in light of the significant growth of tourism ahead of other business sectors over the past two years.

Collaboration between airports and airlines is important

It must be kept in mind, however, that Keflavík Airport is not on its own the source of the jobs; there are many factors that go hand in hand, such as the operation of the airlines and the airport. The airport would not exist in its present form but for the extensive operations of the airlines, and the airlines would not have been able to strengthen their operations as has been the case of there hadn't been construction at the airport. The Icelandic airlines play a principal part in this respect. By the same token the Icelandic airlines could not have their operations in their present form here in Iceland if it were not for Keflavík Airport.

Airlines – Pilots/cabin crew/other	2,642
Aircraft services/baggage	1,900
Airport/Isavia	780
Shops/catering/banks	694
Customs/police/services to the disabled	119
Coaches/transport/car rentals/miscellaneous	221
Total	**6,355**



Division of jobs at KEF summer 2016

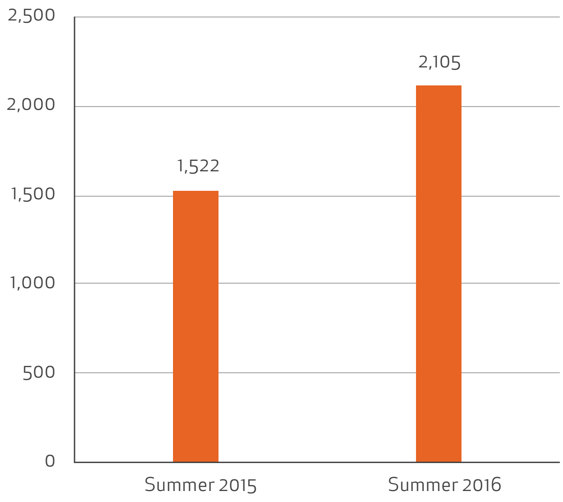
Rapid growth

Direct jobs at the airport are the jobs that are due to direct operations at the airport. The principal jobs are provided by the airlines – pilots and cabin crew. Jobs involving services to aircraft are also numerous and diverse and include employees of companies responsible for loading and unloading aircraft, aircraft maintenance engineers and more. Direct jobs in airports also include jobs in shops and restaurants, security, policing, customs as well as jobs involving coach services and car rentals.

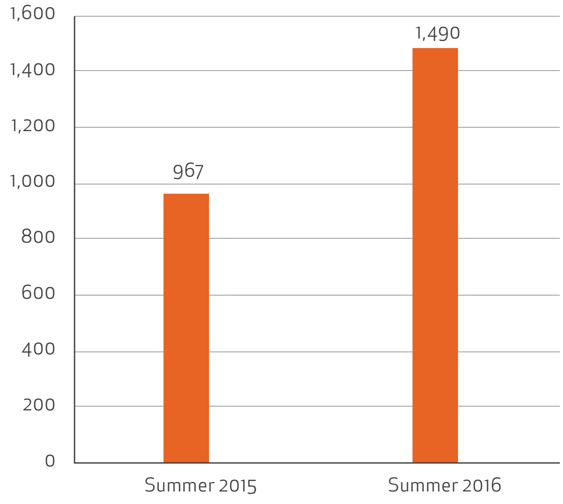
The number of direct jobs connected with the operation of Keflavík Airport is, according to the calculation of the report's authors, just over 5,600 in 2016. The number of these direct jobs has increased rapidly in recent years in conjunction with the rapid increase in the number of passengers.

Significant increase in summer jobs

Direct jobs in the companies who have operations in Keflavík Airport have increased rapidly in conjunction with the increased number of travellers. During the summer of 2016, the companies with operating units had over 3,200 employees every day.



Pilots and cabin crew of Icelandair and WOW air, number of jobs



IGS and Airport Associates, number of jobs

In 2003, the same job figure was around 988 jobs, i.e. a more than three-fold increase during the time that the number of employees was at its highest this summer. These figures, however, do not include employees that do not have a direct work station in Keflavík Airport, such as pilots and cabin crew.

Approximately 30% of direct jobs involve the provision of services to aircraft, check-in services and baggage-related work. Approximately 23% of direct jobs are jobs at the airport itself, including shops, catering and other services. Other jobs relate to policing, customs clearance and security at the airport.

Incredible growth

To fully understand the extent of the increase in traffic at Keflavík Airport and how rapidly the number of jobs have increased, it is a good idea to examine real examples. Account is taken on the one hand of the Icelandic airlines (Icelandair and WOW air) and, on the other, of the two ground handling service companies (Airport Associates and IGS).

As can be seen, the increase in the number of jobs is extremely high, i.e. from just over 1,500 to 2,100 in the case of pilots and cabin crew. It is even greater in the ground handling service companies IGS and Airport Associates, where the number of employees has risen from 967 to 1,490 between the summers of 2015 and 2016.

These are merely examples of four of the very many companies operating in Keflavík Airport and are cited here to show the extent of the growth.

Size of airport, number of passengers	ACI Europe criteria
<1 million	Each increase of 1,000 passengers creates 1.2 direct jobs in an airport
>1 million - 10 million	Each increase of 1,000 passengers creates 0.95 direct jobs in an airport
>10 million	Each increase of 1,000 passengers creates 0.85 direct jobs in an airport
Connecting passengers	Connecting passenger generally create 3% fewer jobs than conventional passengers
Passengers with low-fare airlines	Low-fare airlines create 20% fewer direct jobs than conventional airlines with higher service levels

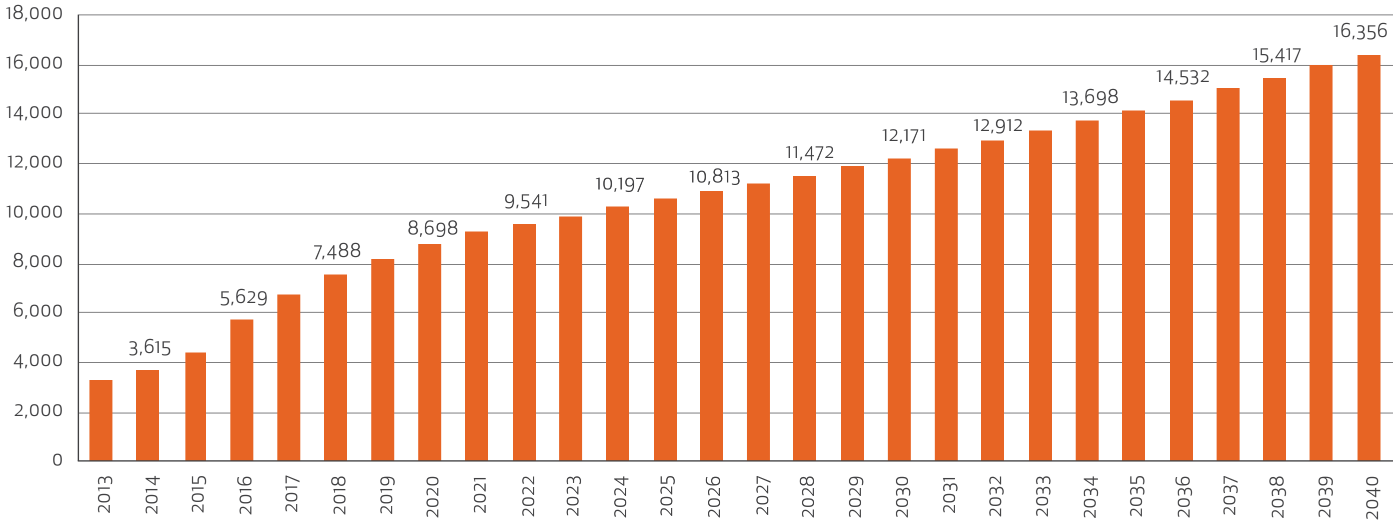
Calculation rule for direct jobs in European airports

Such extensive growth can be a challenge, not least so in a community the size of Keflavik Airport. Thus both ground handling service companies, IGS and Airport Associates, have recruited foreign employees to meet the growth and have purchased housing in the Suðurnes area to house such employees.

0.8 jobs per 1,000 passengers

The report from ACI discusses in detail the effects of increased passenger numbers on direct jobs in airports. According to the ACI's investigation, it is believed that for every increase of 1,000 passengers in airports with 1-10 million passengers, an average of 0.95 direct jobs are created. When the number exceeds 10 million, economy of size is achieved and the increase falls to 0.85 jobs for every increase of 1,000 passengers. ACI's investigation also shows, however, that connecting passengers and the passengers of low-fare airlines create rather fewer jobs than the passengers of the conventional airlines with higher service levels. Figures from the companies at Keflavík Airport for the most part tally quite well with these calculation rules from the ACI investigation.

It is the opinion of the report authors that, in the long term, the proportion between increased numbers of passengers and increases in the number of jobs will be rather lower at Keflavík Airport than the calculation rule of ACI provides for, i.e. 0.8 direct jobs for every 1,000 new passengers rather than 0.95. This is due to the quite high percentage of connecting passengers at Keflavík Airport, and the fact that low-fare airlines also have a lowering effect. In airports of the size of Keflavík Airport, the



Total direct jobs at KEF

If the passenger forecast is realised, Keflavík Airport will be the largest workplace in Iceland by 2018. At least 50% of the jobs are located on the Reykjanes peninsula

number of low-fare airlines makes more of a difference than in larger airports that have a wider range of airlines using their facilities.

It should be noted, however, that the ACI's report assumes that the effects of connecting passengers are similar to the effects of arriving and departing passengers going to and from countries, i.e. that the difference is only 3%. If anything, the report authors are therefore rather cautious in their calculations.

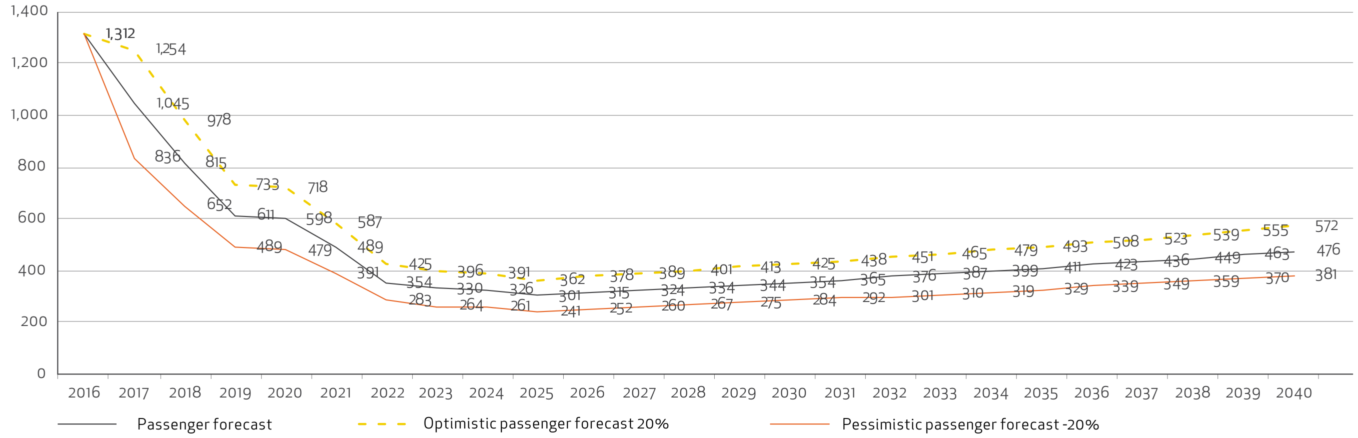
Largest workplace in Iceland

Since there are international standards on the increase in the number of jobs in proportion to the increase in the number of passengers, it is possible to predict what the large increase expected means when it comes to direct jobs at Keflavík Airport.

If the passenger forecast is realised, Keflavík Airport will be the largest workplace in Iceland by 2018 if account is taken of direct jobs. Of course these employees will be working for different companies but if regard is taken of direct jobs at Keflavík Airport, this will be the reality.

Significant increase to begin with

In 2016, the number of direct jobs will increase significantly, by approximately 1,300 jobs, seeing that the increase in the number of passengers will be 37%. In the years thereafter, the increase of passengers will slow down somewhat although it must be considered high in



Increase in the number of jobs based on different scenarios on the increase in the number of passengers through KEF

Scenarios:
***Yellow line:** 20% more passengers each year during the forecast period based on current forecast*
***Grey line:** Isavia's current passenger forecast*
***Orange line:** 20% fewer passengers per year during the forecast based on the current forecast*

comparison with other airports in Europe. By 2020 growth will be 7% and by 2023 growth will be close to the predictions of the UNWTO, i.e. 4%.

According to the above graph, direct jobs at Keflavík Airport will increase by around 3,600 as of 2016 to 2020. As the forecast period progresses, the number of new jobs will fall and will become 300-400 jobs a year during the latter part of the period. After ten years (2026), direct jobs will be just under double the number they are believed to be this year, i.e. just under 10,000. By 2040, there will be 15,000 direct jobs at Keflavík Airport according to these calculations.

Different scenarios

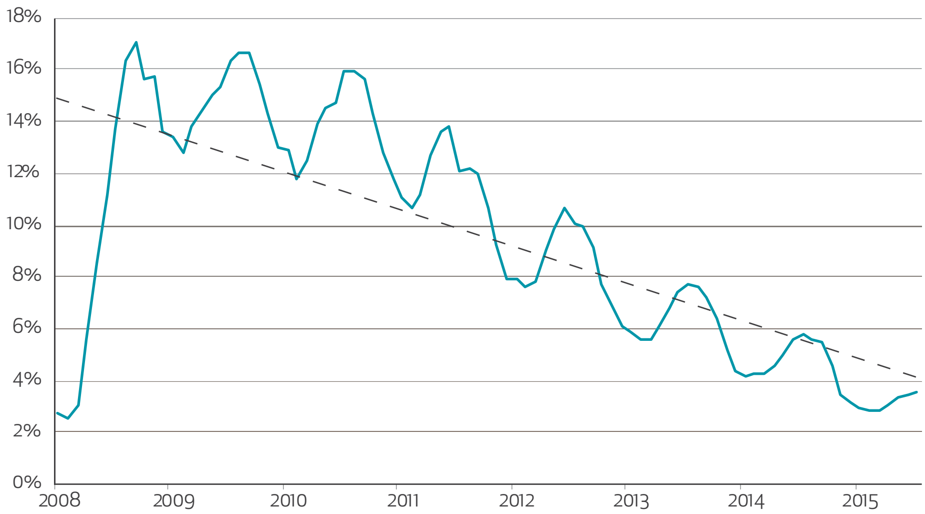
This high increase in the number of jobs is based on the number of passengers through Keflavík Airport increasing as much as predicted. It is important to keep in mind that this increase is not just among travellers coming to Iceland to stay but also connecting passengers.

To be safe, the authors of this report calculated several scenarios, just in case the increase is more or less than predicted. An examination was made of what the situation would be if passenger numbers increased 20% more than predicted and also if the increase were 20% less.

One aluminium smelter per year

As can be seen in the accompanying graph, even the negative forecast means an average annual increase of 381 jobs to 2040.

It is clear, therefore, that whether the increase in the number of travellers (especially travellers through Keflavík Airport) is as great as has been predicted or not, it is certain that direct jobs at Keflavík Airport will increase significantly in number over the next few years and decades. In this context, it is important to understand how important a workplace Keflavík Airport is, both for its nearest environs and Iceland as a whole.



Reykjanesbær – Unemployment

Increase in the number of flights through Keflavík Airport is the main reason for lower unemployment. Jobs at KEF and elsewhere have increased significantly in conjunction with rapid tourism growth. At the same time, there are plans for an increase in the number of jobs in silicon metal plants on the Reykjanes peninsula.

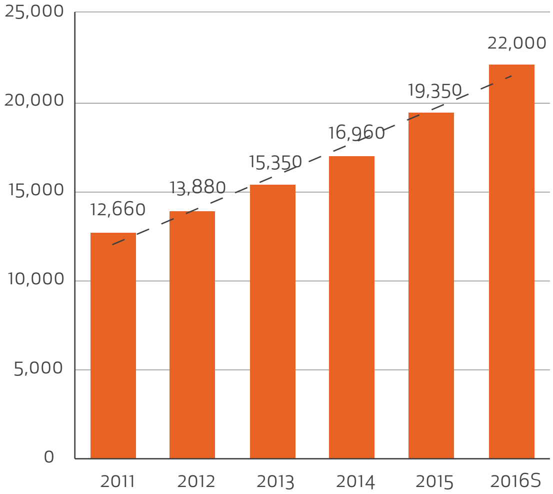
As regards new jobs, an annual increase of 381 jobs per year is equivalent to one small aluminium smelter every year in the area. Attention must be paid to how the area, and the entire country, is prepared to take on this need.

Status in the employment area

During the latter part of 2008, unemployment in Reykjanesbær went from being around 3% up to being 17% over a very short period of time. This development was much worse than generally was the case in the rest of the country where unemployment rose from approximately 1% to 9%. Unemployment, therefore, was almost twice as much as was generally the norm at the time. Prospects in employment matters in Reykjanesbær were, therefore, extremely bleak as in addition to the serious impact of the economic collapse, jobs were lost when the US Navy Base closed. In addition, construction in Helguvík, which would have combated the negative trend in employment matters, was not begun as hoped.

Reduction in unemployment

As of 2008, unemployment figures have fallen rapidly and, at the beginning of 2015, unemployment in Reykjanesbær had fallen to 3%, the same proportion it was before it sky-rocketed. Over a period of seven years, unemployment has been reduced by 14%, a rapid, positive development. The greatest influencing factor in reduced unemployment is the increase in the number of jobs in connection with the high increase of the number of travellers and increased scope of operations at Keflavík Airport.



Total number of jobs in tourism

Jobs in tourism

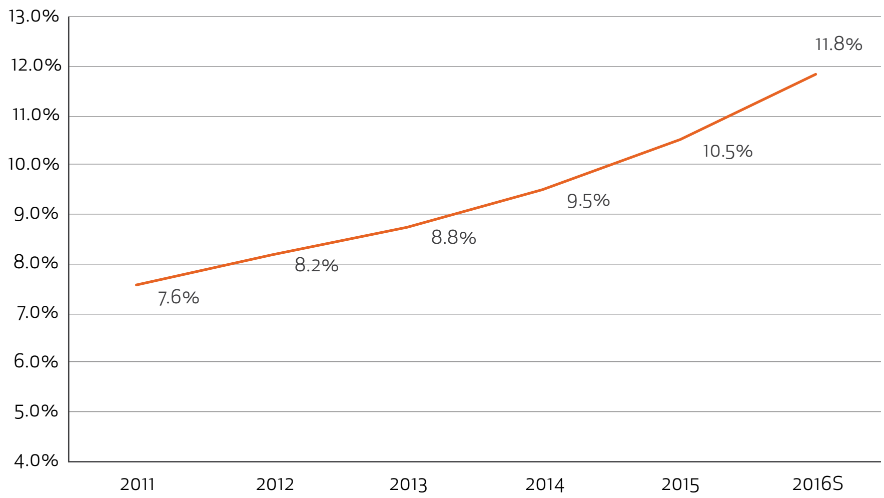
Jobs in the tourist sector have substantially increased in number in recent years, in tune with the sector's growth. There were 12,660 people working in the tourist industry in 2011 while in 2016 there are expected to be around 22,000.

Increased share of tourism

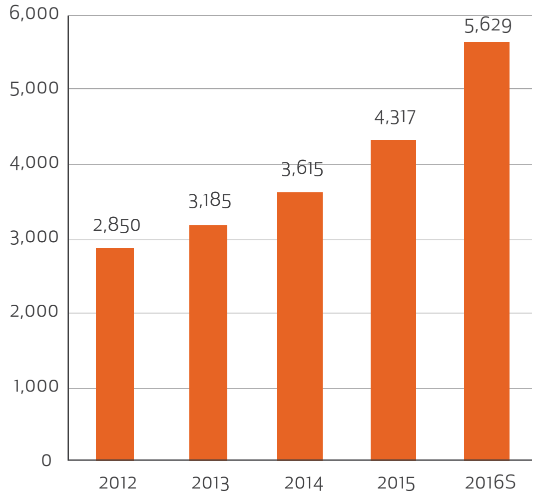
This significant increase of jobs has meant that the share of tourism in all jobs has increased. This accords with other forecasts, e.g. as regards foreign exchange earnings. The share of tourism will substantially increase over the next few years in all sectors.

Keflavík Airport's share

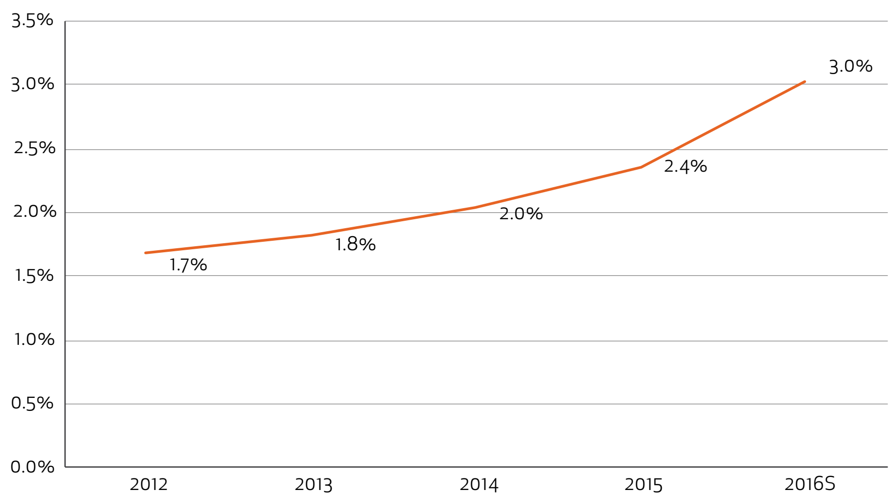
The significant increase in the number of passengers expected over the coming years and the considerable increase in direct jobs this entails means that the operation of Keflavík Airport on its own creates direct jobs for 3% of the workforce in Iceland.



Jobs in tourism / Total number of jobs



Number of direct jobs at Keflavík Airport



Jobs at Keflavík Airport / Total number of jobs

Number of direct jobs

The number of passengers over the coming years will create various challenges that must be addressed. It is clear that the expansion work for Keflavík Airport is of such extent that it is necessary to examine what impact it will have on the Icelandic economy. In addition, it must be kept in mind how to fill the positions that are created with the enlargement and the attendant increase in the number of passengers.

It should be kept in mind that at present, the majority of those who work in Keflavík Airport reside in the Reykjanes area within the area that can be defined as the employment area of Keflavík Airport. As regards the number of direct year-round jobs at Keflavík Airport it is clear that proper attention must be paid to how such positions can be filled.

Conclusions

Tourism has been rapidly growing over the past few years and it is clear that it will continue to do so. The predictions on which this analysis is based all show the same results: continued growth. The tourism sector has already contributed vast amounts into the national economy and will continue to do so over the coming years. The authorities are well aware of this, something that is clearly shown in the sector's policy formulation, Roadmap for Tourism in Iceland:

"Tourism has played a major role in Iceland's economic growth in recent years and, at the same time, generated thousands of new jobs. Foreign exchange earnings from this sector as a whole are expected to substantially increase, rising from ISK 350 billion in 2015 to more than ISK 620 billion in 2020 and probably over ISK 1,000 billion by 2030. These are extremely high figures, considering that the country's total currency inflows are expected to be around ISK 1,140 billion in 2015."

The Roadmap's prediction, presented in October 2015, proved to be conservative, as foreign exchange earnings from the sector that year did not amount to ISK 350bn as predicted, but ISK 364bn. This is ISK 14bn in excess of what was anticipated late in the year.

The tourism industry, therefore, provides the most foreign exchange earnings of any sector and, in 2015, these accounted for 31% of all of Iceland's foreign exchange earnings. Industrial goods amounted to 28%, with all of Iceland's aluminium smelters included, and marine produce provided 22%.

Keflavík Airport is the main gateway

In order for the vision for the future and predictions for the growth of the tourism sector to be realised, there must be facilities available to receive the tourists. If the infrastructure is not sufficiently strong, it is useless to talk about such an increase as is expected. This applies not least to Keflavík Airport, as 96% of all the tourists who visit Iceland go through the airport.

It is clear, therefore, that extensive construction will have to be undertaken at Keflavík Airport. Much has already been done and it is notable that over the past five years, Isavia has spent almost ISK 37bn on construction at Keflavík Airport. In 2016 alone, ISK 16bn will be spent on construction at the Airport.

Much more, however, will be needed to be able to process all the travellers that are expected to want to visit Iceland in the next few years, with the attendant foreign exchange earnings for the Icelandic economy.

Overheating effects

The construction that must be undertaken is so extensive that care must be taken to ensure that they do not overheat the economy. In 2016, ISK 16bn will be spent on construction at Keflavík Airport. In comparison, Landsnet intends to spend around ISK 20bn over the next three years on developing its distribution system for Krafla and Blanda.

It is wise, therefore, to distribute the construction work and its financing as much as possible in order to minimise overheating effects.

It must be kept in mind that the construction work itself will create numerous jobs and it may prove difficult to hire enough people in a labour market that is reasonably balanced as is the case in Iceland. This also applies to the near environs of Keflavík Airport as the employment situation in Reykjanes has improved significantly in recent years.

Number of jobs

The expansion of Keflavík Airport will create 476 new jobs a year on average until 2040. These jobs will be spread between many companies that have operations at the Airport and around 40% will be directly linked to the Icelandic airlines. Others are direct service jobs at Keflavík Airport.

In light of the fact that there is little unemployment on the Reykjanes peninsula and in fact in Iceland as a whole, it is clear that a large proportion of these new jobs will have to be filled from overseas.

Keflavík Airport is at present one of the largest workplaces in Iceland if account is taken of the direct jobs created by the operation. By the end of 2016, approximately 3% of the entire labour force in Iceland will be employed in jobs directly linked with the operation of Keflavík Airport. This proportion will rise in coming years.

It is clear that such a large number of jobs and the anticipated increase will test the community, not least the Airport's nearest community. Companies at the Airport have already had to invest in residential housing for employees they have recruited from overseas and this trend is expected to increase.

Better utilisation of investments

Isavia has, by means of marketing campaigns, in co-operation with numerous entities, been able to increase traffic through Keflavík Airport outside normal peak hours. This applies to both peak hours within the day and by season. Thus the proportionately greatest increase of passengers in 2016 is in September and October.

In addition, the number of connecting passengers has increased significantly, not least since both the Icelandic airlines Icelandair and WOW air are advancing in that market. Their proportion will increase and at the close of the forecast period in 2040, it is assumed that around 43% of all passengers passing through Keflavík Airport will be connecting passengers. This proportion is 33% in 2016.

Much better utilisation of investments at Keflavík Airport is achieved in this manner. It is best to spread the traffic through the airport as much as possible and reduce peak loads. The increase in the number of connecting passengers increases the income of Isavia and its owner, the State, without posing greater load on the tourism sector's infrastructure. It must be kept in mind that connecting passengers create only 3% fewer direct jobs than the same number of arriving and departing passengers.

Profitable development

It is an uncontested fact that if the tourism sector is to develop as forecast, as the authorities and the sector itself hope, extensive construction will have to be undertaken at Keflavík Airport. Isavia has prepared for such investment by saving up own funds. The decision of the owners not to pay dividends due to planned construction, which would have to be carried out, makes the company better able to undertake the construction necessary at Keflavík Airport.

It is also clear that there are considerable opportunities for profit in the development of Keflavík Airport, not least for the Icelandic economy. The expansion of Keflavík Airport will create as many jobs as equivalent to one aluminium smelter per year up until 2040, on average.

The economic effects of the Keflavík Airport Masterplan are extremely extensive and construction at the Airport will open up significant opportunities for high earnings for the national economy. If care is taken to ensure that developments are carried out in such a manner that they do not cause the economy to overheat, it is clear that the future is bright as regards Keflavík Airport. In addition, such development will create numerous jobs and have an extensive and positive impact on the Airport's nearest environs and society as a whole.