



Condensed  
Interim Financial Statement  
January 1st - June 30th 2016

Landsnet hf.  
Gylfaflöt 9  
112 Reykjavík

Reg.no. 580804-2410

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# Report of the Board of Directors and the CEO

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The role of Landsnet is to administer the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003.

According to the income statement and Statement of Comprehensive Income, loss and total loss of the period amounted to USD 2,644 thousand. According to the balance sheet, the Company's equity at end of June amounted to USD 318,206 thousand.

Share capital at the end of June 2016 is divided between four shareholders:

|                             | Share  |
|-----------------------------|--------|
| Landsvirkjun .....          | 64.73% |
| Rarik ohf. ....             | 22.51% |
| Orkuveita Reykjavíkur ..... | 6.78%  |
| Orkubú Vestfjarða ohf. .... | 5.98%  |

The Interim Financial Statements are for the first time prepared in US dollars (USD), which is the Company's new functional currency as of the beginning of the year 2016. Comparison figures in the Interim Financial Statements have been translated accordingly and are shown in USD.

## Statement of the Board of Directors and the CEO

According to the best of the Board of Director's and the CEO's knowledge, the Interim Financial Statements are in accordance with the International Financial Reporting Standards as adopted by the EU and it is the Board's and CEO's opinion that the Interim Financial Statements give a true and fair view of the financial performance of the Company for the six month period ended 30 June 2016, its assets, liabilities and financial position as at 30 June 2016 and its cash flow for the period then ended.

Further, in our opinion the financial statements and the endorsement by the Board of Directors and the CEO give a fair view of the development and performance of the Company's operations and its position and describes the principal risks and uncertainties faced by the Company.

The Board of Directors and the CEO have today discussed the Interim Financial Statements of Landsnet hf. for the period 1 January to 30 June 2016 and confirmed them by means of their signatures.

Reykjavík, 15 August 2016.

The Board of Directors:

Sigrún Björk Jakobsdóttir  
Ómar Benediktsson

CEO:

Guðmundur Ingi Ásmundsson

# Independent Auditors' Review Report

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To the Board of Directors and Shareholders of Landsnet hf.

We have on behalf of The Icelandic National Audit Office, reviewed the accompanying condensed interim financial statements of Landsnet hf., which comprise the endorsement by the Board of Directors and the CEO, the statement of financial position as at 30 June 2016 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of accounting policies and other explanatory notes.

## **Management's responsibility for the financial statements**

The Board of Directors and CEO are responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with IAS 34 as adopted by the EU.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these condensed interim financial statements.

## **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements does not give a true and fair view of the financial position of Landsnet hf. as at June 30, 2016, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standard, IAS 34, as adopted by the EU.

Reykjavík, 15 August 2016.

## ***Deloitte ehf.***

Páll Grétar Steingrímsson  
Rúnar Dór Daníelsson  
Certified Public Accountants

# Income Statement and Statement of Comprehensive Income for six months ended 30 June 2016

|   | Notes | 1.1-30.6.2016   | 1.1.-30.6.2015 |
|---|-------|-----------------|----------------|
| <b>Operating revenue</b>                                      |       |                 |                |
| Transmission .....  | 5.6   | 64,824          | 60,545         |
| Other income .....  |       | 526             | 452            |
|   |       | <u>65,350</u>   | <u>60,997</u>  |
| <b>Operating expenses</b>                                     |       |                 |                |
| Energy procurement costs .....                                | 7     | 10,383          | 9,054          |
| Transmission costs .....                                      | 8     | 20,075          | 16,084         |
| System operation .....  | 8     | 3,589           | 3,575          |
| Other operating expenses .....                                | 8     | 3,693           | 3,710          |
|   |       | <u>37,740</u>   | <u>32,423</u>  |
| <b>Operating profit</b> .....                                 |       | 27,610          | 28,574         |
| Financial income .....  |       | 793             | 980            |
| Financial expenses .....                                      |       | ( 31,857)       | ( 14,929)      |
| Net financial expenses .....                                  | 9     | ( 31,064)       | ( 13,949)      |
| Share in net earnings of associated company .....             |       | 119             | 81             |
| <b>(Loss) profit before income tax</b> .....                  |       | ( 3,335)        | 14,706         |
| Income tax .....  | 10    | 691             | ( 2,925)       |
| <b>Total comprehensive (loss) profit for the period</b> ..... |       | <u>( 2,644)</u> | <u>11,781</u>  |
| <b>(Loss) earnings per share:</b>                             |       |                 |                |
| Basic and diluted (loss) earnings per each USD 1 share .....  |       | ( 0.06)         | 0.26           |

Notes no. 1 to 17 are an integral part of these financial statements.

## Balance Sheet as at 30 June 2016

|  | Notes | 30.6.2016 | 31.12.2015 |
|--|-------|-----------|------------|
| <b>Assets</b>                                      |       |           |            |
| Fixed assets in operation .....                    | 11    | 659,720   | 666,931    |
| Projects under construction .....                  | 11    | 32,005    | 23,310     |
| Intangible assets .....                            | 12    | 10,842    | 13,034     |
| Investment in subsidiary and associate .....       |       | 6,054     | 5,614      |
| Long-term note .....                               | 16    | 947       | 908        |
| Fixed assets                                       |       | 709,568   | 709,797    |
| Inventories .....                                  |       | 4,527     | 4,323      |
| Receivable from parent company .....               | 16    | 5,941     | 4,743      |
| Trade and other receivables .....                  |       | 8,256     | 7,794      |
| Marketable securities .....                        |       | 7,615     | 5,663      |
| Cash and cash equivalents .....                    |       | 66,974    | 62,290     |
| Current assets                                     |       | 93,313    | 84,813     |
| <b>Total assets</b>                                |       | 802,881   | 794,610    |
| <b>Equity</b>                                      |       |           |            |
| Share capital .....                                |       | 45,549    | 45,549     |
| Statutory reserve .....                            |       | 4,703     | 4,703      |
| Revaluation account .....                          |       | 216,366   | 220,989    |
| Foreign currency translation .....                 |       | 321       | 0          |
| Retained earnings .....                            |       | 51,267    | 52,515     |
| Equity   |       | 318,206   | 323,756    |
| <b>Liabilities</b>                                 |       |           |            |
| Long term liabilities from parent company .....    | 13    | 319,668   | 298,311    |
| Other interest bearing long-term liabilities ..... | 13    | 70,615    | 71,029     |
| Deferred income tax liability .....                | 14    | 52,696    | 56,600     |
| Deferred income .....                              |       | 2,951     | 2,936      |
| Provision due to site restoration .....            |       | 7,444     | 6,997      |
| Long-term liabilities                              |       | 453,374   | 435,873    |
| Loans from parent company .....                    | 13    | 3,738     | 9,768      |
| Current maturities .....                           | 13    | 7,522     | 7,284      |
| Income tax payable .....                           |       | 9,517     | 7,895      |
| Trade and other payables .....                     |       | 10,524    | 10,034     |
| Short-term liabilities                             |       | 31,301    | 34,981     |
| Total liabilities                                  |       | 484,675   | 470,854    |
| <b>Total equity and liabilities</b>                |       | 802,881   | 794,610    |

Notes no. 1 to 17 are an integral part of these financial statements.

## Statement of Equity 30 June 2016

|  | Share<br>capital | Statutory<br>reserve | Translation<br>difference | Revaluation<br>account | Retained<br>earnings | Total    |
|--|------------------|----------------------|---------------------------|------------------------|----------------------|----------|
| <b>Changes in equity for six months<br/>ended 30 June 2015</b>         |                  |                      |                           |                        |                      |          |
| Equity at 1 January 2015.....  | 45,549           | 1,730                | 0                         | 79,458                 | 18,898               | 143,905  |
| Total comprehensive income.....  |                  |                      |                           |                        | 11,781               | 11,781   |
| Transfer to statutory reserve.....                                     |                  | 1,196                |                           |                        |                      | 0        |
| Depreciation on revaluation recognised<br>under retained earnings..... |                  |                      |                           | ( 2,073)               | 2,073                | 0        |
| Equity at 30 June 2015.....  | 45,549           | 2,926                | 0                         | 77,385                 | 32,752               | 155,686  |
| <b>Changes in equity for six months<br/>ended 30 June 2016</b>         |                  |                      |                           |                        |                      |          |
| Equity at 1 January 2016.....  | 45,549           | 4,703                | 0                         | 220,989                | 52,515               | 323,756  |
| Foreign currency translation.....                                      |                  |                      | 321                       |                        |                      | 321      |
| Total comprehensive loss.....  |                  |                      |                           |                        | ( 2,644)             | ( 2,644) |
| Dividend to owners.....  |                  |                      |                           |                        | ( 3,227)             | ( 3,227) |
| Depreciation on revaluation recognised<br>under retained earnings..... |                  |                      |                           | ( 4,623)               | 4,623                | 0        |
| Equity at 30 June 2016.....  | 45,549           | 4,703                | 321                       | 216,366                | 51,267               | 318,206  |

Notes no. 1 to 17 are an integral part of these financial statements.

# Statement of Cash Flows for the six months ended 30 June 2016

|   | Notes | 1.1-30.6.2016 | 1.1.-30.6.2015 |         |         |
|---|-------|---------------|----------------|---------|---------|
| <b>Cash flow from operating activities</b>                                |       |               |                |         |         |
| Operating profit .....  |       | 27,610        | 28,574         |         |         |
| <b>Adjustments for:</b>   |       |               |                |         |         |
| Profit from sales of fixed assets .....                                   | (     | 5)            | (              | 8)      |         |
| Depreciation and amortisation .....                                       | 8     | 14,044        | (              | 10,655  |         |
| Working capital from operation before financial items                     |       | 41,649        | (              | 39,221  |         |
| Operating assets, increase .....  | (     | 1,684)        | (              | 591)    |         |
| Operating liabilities, increase .....                                     |       | 1,331         | (              | 197     |         |
| Net cash from operating activities before financial items                 |       | 41,296        | (              | 38,827  |         |
| Interest income received .....  |       | 656           | (              | 764     |         |
| Interest expenses paid and foreign exchange difference .....              | (     | 13,228)       | (              | 14,886) |         |
| Taxes paid .....  | (     | 1,972)        | (              | 0       |         |
| Net cash from operating activities  |       | 26,752        | (              | 24,705  |         |
| <b>Cash flow from investing activities</b>                                |       |               |                |         |         |
| Investment in transmission infrastructures .....                          | 11    | (             | 12,085)        | (       | 7,003)  |
| Other investments .....   | 11,12 | (             | 2,270)         | (       | 1,673)  |
| Proceeds from sale of property, plant and equipment .....                 |       | 12            |                | 17      |         |
| Marketable securities, change .....                                       | (     | 1,666)        |                | 87      |         |
| Long-term note, change .....  |       | 26            | (              | 773)    |         |
| Net cash used in investing activities                                     |       | (             | 15,983)        | (       | 9,345)  |
| <b>Cash flow from financing activities</b>                                |       |               |                |         |         |
| Change in loans from parent company .....                                 |       | 0             | (              | 51,794) |         |
| Payments of long-term liabilities .....                                   | (     | 3,650)        | (              | 3,650)  |         |
| Dividend paid to owners .....   | (     | 3,227)        |                | 0       |         |
| Deferred income, change .....   |       | 165           |                | 124     |         |
| Net cash used in financing activities                                     |       | (             | 6,712)         | (       | 55,320) |
| <b>Net increase (decrease) in cash and cash equivalents .....</b>         |       | 4,057         | (              | 39,960) |         |
| <b>Effect of exchange rate changes on cash and cash equivalents .....</b> |       | 627           | (              | 1,148)  |         |
| <b>Foreign currency translation .....</b>                                 |       | 0             |                | 433     |         |
| <b>Cash and cash equivalents at 1 January .....</b>                       |       | 62,290        |                | 96,412  |         |
| <b>Cash and cash equivalents at the end of the period .....</b>           |       | 66,974        |                | 55,737  |         |

Notes no. 1 to 17 are an integral part of these financial statements.



# Notes to the Financial Statements

## 1. Reporting entity

Landsnet hf. is domiciled at Gylfaflöt 9 in Reykjavik, Iceland. The Company is a subsidiary of Landsvirkjun, and the interim financial statement of Landsnet hf. is included in the consolidated financial statements of Landsvirkjun. Landsnet was established in 2004 on the basis of the Electricity Act passed by the Icelandic parliament, the Althingi, in the spring of 2003. The role of Landsnet is to administer the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003, which stipulates that the Company must not engage in any activities other than necessary to perform its duties under the Act.

## 2. Statement of compliance

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2015. The Company's financial statements for the year 2015 can be found its website [www.landsnet.is](http://www.landsnet.is) and the website of NASDAQ OMX Iceland; [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com)

## 3. Accounting policies

The condensed interim financial statements are prepared using the same accounting policies as for the year 2015.

The interim financial statements are presented in USD, which is the Company's functional currency from the beginning of the year 2016. Amounts are presented in USD thousand unless otherwise stated. The interim financial statements have been prepared on the historical cost basis, except for the Company's transmission system is recognised at a revalued amount.

Comparative amounts have been translated into USD using the exchange rate published by the Central Bank of Iceland. Amounts in the income statement are translated using the average mid-rate for the period, balance sheet amounts are translated using the mid-rate on the balance sheet date and cash flow amounts are translated either using the average mid-rate for the period or on the date when the transaction took place, as applicable.

### *New International Financial Reporting Standards*

The Company has adopted new International Financial Reporting Standards, as adopted by the EU, for the accounting period beginning 1 January 2016, changes to the standards and new interpretations.

## 4. Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

## 5. Transmission revenue

|  | <b>2016</b>       | <b>2015</b>       |
|--|-------------------|-------------------|
|  | <b>1.1.-30.6.</b> | <b>1.1.-30.6.</b> |
| Transmission revenue consist of:                 |                   |                   |
| Energy transmission .....                        | 54,045            | 51,734            |
| Transmission losses and ancillary services ..... | 10,139            | 8,275             |
| Service income .....                             | 227               | 183               |
| Input fees .....                                 | 413               | 352               |
| Transmission revenue total .....                 | 64,824            | 60,545            |

## 6. Energy transmission

|  |        |        |
|--|--------|--------|
| Energy transmission consist of:                            |        |        |
| Energy transmission to power-intensive consumers .....     | 37,244 | 36,721 |
| Energy transmission to distribution system operators ..... | 16,801 | 15,013 |
| Energy transmission total .....                            | 54,045 | 51,734 |

## Notes, continued:

| <b>7. Energy procurement costs</b>                     | <b>2016</b>       | <b>2015</b>       |
|--|-------------------|-------------------|
| Energy procurement costs consist of:                   | <b>1.1.-30.6.</b> | <b>1.1.-30.6.</b> |
| Electricity purchases due to transmission losses ..... | 7,407             | 5,991             |
| Purchase of ancillary services .....                   | 2,976             | 3,063             |
| Energy procurement costs total .....                   | <u>10,383</u>     | <u>9,054</u>      |

## 8. Depreciation and amortisation

Depreciation and amortisation are specified as follows:

|  |               |               |
|--|---------------|---------------|
| Depreciation of fixed assets in operation, see Note 11 .....               | 13,776        | 10,318        |
| Amortisation and impairment losses of intangible assets, see Note 12 ..... | 268           | 337           |
| Depreciation and amortisation recognised in the income statement .....     | <u>14,044</u> | <u>10,655</u> |

Depreciation and amortisation are allocated as follows to operating items:

|  |               |               |
|--|---------------|---------------|
| Transmission costs .....   | 13,502        | 9,995         |
| System operation .....   | 147           | 258           |
| Other operating expenses .....   | 395           | 402           |
| Depreciation and amortisation recognised in the income statement ..... | <u>14,044</u> | <u>10,655</u> |

## 9. Financial income and expenses

Financial income and expenses are specified as follows:

|  |                  |                  |
|--|------------------|------------------|
| Interest income .....  | 480              | 827              |
| Net gain in fair value of marketable securities .....                  | 313              | 154              |
| Total financial income .....   | <u>793</u>       | <u>980</u>       |
| Interest expenses .....  | ( 7,433)         | ( 8,009)         |
| Indexation .....   | ( 5,073)         | ( 6,295)         |
| Exchange rate difference .....   | ( 19,817)        | ( 916)           |
| Change in present value of the provision due to site restoration ..... | ( 447)           | ( 172)           |
| Capitalised interest expense due to projects under construction .....  | 913              | 463              |
| Total financial expenses .....   | <u>( 31,857)</u> | <u>( 14,929)</u> |
| Net financial expenses .....   | <u>( 31,064)</u> | <u>( 13,949)</u> |

Capitalised financial expenses were 6.5% (30.06.15: 7.3%) of capital tied in transmission structures under construction during the year. This is the Company's average finance cost.

## 10. Income tax

Income tax recognised in the income statement is specified as follows:

|   |            |                 |
|---|------------|-----------------|
| Calculated income tax for the year .....            | 3,904      | 466             |
| Income tax payable .....                            | ( 3,213)   | ( 3,391)        |
| Income tax recognised in the income statement ..... | <u>691</u> | <u>( 2,925)</u> |

Change in deferred income tax liability is specified as follows:

|                                       |       |     |
|---------------------------------------|-------|-----|
| Change in temporary differences ..... | 3,904 | 466 |
|---------------------------------------|-------|-----|

| Reconciliation of effective tax rate              | <b>1.1.-30.6.2016</b> | <b>1.1.-30.6.2015</b> |
|---|-----------------------|-----------------------|
| (Loss) profit before income tax .....             | ( 3,335)              | 14,706                |
| Income tax according to the current tax rate .... | 20.0% 667             | 20.0% ( 2,941)        |
| Effects of associates .....                       | 0.7% 24 (             | 0.1%) 16              |
| Effective tax rate .....                          | <u>20.7% 691</u>      | <u>19.9% ( 2,925)</u> |

## Notes, continued:

### 11. Fixed assets in operation

Fixed assets in operation specified as follows:

|   | Substations | Transmission<br>lines | Other  | Total     |
|---|-------------|-----------------------|--------|-----------|
| <b>Cost</b>                                     |             |                       |        |           |
| Balance 1.1.2015 .....                          | 234,739     | 397,125               | 32,998 | 664,862   |
| Additions .....                                 | 3,518       | 2,568                 | 782    | 6,868     |
| Transfer .....                                  | ( 1,047)    | 1,047                 | 0      | 0         |
| Transferred from projects under construction .. | 1,918       | 6,580                 | 0      | 8,498     |
| Sold .....                                      | 0           | 0                     | ( 115) | ( 115)    |
| Revaluation .....                               | 85,539      | 95,198                | 0      | 180,737   |
| Foreign currency translation .....              | ( 4,796)    | ( 8,066)              | ( 673) | ( 13,535) |
| Balance 31.12.2015 .....                        | 319,871     | 494,452               | 32,992 | 847,315   |
| Additions .....                                 | 1,204       | 599                   | 630    | 2,433     |
| Transferred from projects under construction .. | 2,435       | 1,704                 | 0      | 4,139     |
| Sold .....                                      | 0           | 0                     | ( 50)  | ( 50)     |
| Balance 30.6.2016 .....                         | 323,510     | 496,755               | 33,572 | 853,837   |
| <b>Depreciation</b>                             |             |                       |        |           |
| Balance 1.1.2015 .....                          | 51,209      | 101,226               | 9,896  | 162,331   |
| Depreciation .....                              | 7,132       | 12,533                | 1,491  | 21,156    |
| Sold .....                                      | 0           | 0                     | ( 98)  | ( 98)     |
| Foreign currency translation .....              | ( 940)      | ( 1,884)              | ( 181) | ( 3,005)  |
| Balance 31.12.2015 .....                        | 57,401      | 111,875               | 11,108 | 180,384   |
| Depreciation .....                              | 5,414       | 7,783                 | 579    | 13,776    |
| Sold .....                                      | 0           | 0                     | ( 43)  | ( 43)     |
| Balance 30.6.2016 .....                         | 62,815      | 119,658               | 11,644 | 194,117   |
| <b>Carrying amount</b>                          |             |                       |        |           |
| 1.1.2015 .....                                  | 183,530     | 295,899               | 23,102 | 502,531   |
| 31.12.2015 .....                                | 262,470     | 382,577               | 21,884 | 666,931   |
| 30.6.2016 .....                                 | 260,695     | 377,097               | 21,928 | 659,720   |
| <b>Carrying amount without revaluation</b>      |             |                       |        |           |
| 1.1.2015 .....                                  | 165,653     | 210,736               | 23,102 | 399,491   |
| 31.12.2015 .....                                | 160,269     | 208,540               | 21,884 | 390,693   |
| 30.6.2016 .....                                 | 160,637     | 206,698               | 21,928 | 389,263   |

#### Basis of revaluation of fixed assets in operation

In accordance with the International Accounting Standard, the Company's lines and substations are recognised according to the revaluation method. A revaluation was conducted on those assets in the year 2015.

#### Projects under construction:

|  | 2016<br>1.1.-30.6. | 2015<br>1.1.-31.12 |
|--|--------------------|--------------------|
| <b>Cost</b>                                    |                    |                    |
| Balance 1.1. ....                              | 23,310             | 6,377              |
| Additions .....                                | 9,725              | 24,640             |
| Transferred from intangible assets .....       | 3,109              | 631                |
| Transferred to fixed assets in operation ..... | ( 4,139)           | ( 8,498)           |
| Foreign currency translation .....             | 0                  | 160                |
| Balance 30.6. / 31.12. ....                    | 32,005             | 23,310             |

## Notes, continued:

### 12. Intangible assets:

Intangible assets specified as follows:

|  | <b>Capitalised<br/>development<br/>cost</b> | <b>Software</b> | <b>Total</b> |
|--|---|-----------------|--------------|
| <b>Cost</b>                                      |   |                 |              |
| Balance 1.1.2015 .....                           | 14,079                                      | 4,016           | 18,095       |
| Additions .....                                  | 2,758                                       | 470             | 3,228        |
| Transferred to projects under construction ..... | ( 631)                                      | 0               | ( 631)       |
| Foreign currency translation .....               | ( 255)                                      | ( 75)           | ( 330)       |
| Balance 31.12.2015 .....                         | 15,951                                      | 4,411           | 20,362       |
| Additions .....                                  | 936   | 249             | 1,185        |
| Transferred to projects under construction ..... | ( 3,109)                                    | 0               | ( 3,109)     |
| Balance 30.6.2016 .....                          | 13,778                                      | 4,660           | 18,438       |
| <b>Amortisation and impairment losses</b>        |   |                 |              |
| Balance 1.1.2015 .....                           | 3,997                                       | 2,438           | 6,435        |
| Amortisation and impairment losses .....         | 772   | 237             | 1,009        |
| Foreign currency translation .....               | ( 70)                                       | ( 46)           | ( 116)       |
| Balance 31.12.2015 .....                         | 4,699                                       | 2,629           | 7,328        |
| Amortisation and impairment losses .....         | 119   | 149             | 268          |
| Balance 30.6.2016 .....                          | 4,818                                       | 2,778           | 7,596        |
| <b>Carrying amount</b>                           |   |                 |              |
| 1.1.2015 .....                                   | 10,082                                      | 1,578           | 11,660       |
| 31.12.2015 .....                                 | 11,252                                      | 1,782           | 13,034       |
| 30.6.2016 .....                                  | 8,960                                       | 1,882           | 10,842       |

### 13. Interest-bearing loans and borrowings

This Note provides information on the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

|  | <b>30.6.2016</b> | <b>31.12.2015</b> |
|--|------------------|-------------------|
| <b>Long-term liabilities</b>                                       |                  |                   |
| Indexed bond loan from parent company in ISK, fixed interest ..... | 319,668          | 298,311           |
| Loan agreement in CHF, LIBOR + margin .....                        | 36,026           | 38,364            |
| Indexed bond loan in ISK, fixed interest .....                     | 42,111           | 39,949            |
|  | 397,805          | 376,624           |
| Current maturities on long-term liabilities .....                  | ( 7,522)         | ( 7,284)          |
| Interest-bearing long-term liabilities total .....                 | 390,283          | 369,340           |

Interest rates on the loans range between 0% - 5%. Weighted average interest rates of the Company are 3.9% (31.12.2015: 3.9%).

#### Short-term liabilities

Short-term loans from parent company consists of accrued interest of long-term liabilities with parent company. At the end of June 2016, accrued interest amounted to USD 3.7 million (30.6.2015: USD 3.4 million).

| Maturities by year of interest-bearing loans and borrowings: | <b>30.6.2016</b> | <b>31.12.2015</b> |
|--|------------------|-------------------|
| 1.7.2016 - 30.6.2017 / 1.1.2016 - 31.12.2016 .....           | 7,522            | 7,284             |
| 1.7.2017 - 30.6.2018 / 1.1.2017 - 31.12.2017 .....           | 7,599            | 7,354             |
| 1.7.2018 - 30.6.2019 / 1.1.2018 - 31.12.2018 .....           | 7,680            | 7,427             |
| 1.7.2019 - 30.6.2020 / 1.1.2019 - 31.12.2019 .....           | 327,432          | 7,505             |
| 1.7.2020 - 30.6.2021 / 1.1.2020 - 31.12.2020 .....           | 7,854            | 305,896           |
| Later .....  | 39,718           | 41,157            |
|  | 397,805          | 376,624           |

## Notes, continued:

|   | <b>2016</b>       | <b>2015</b>        |
|---|-------------------|--------------------|
|   | <b>1.1.-30.6.</b> | <b>1.1.-31.12.</b> |
| <b>14. Deferred tax liability</b>                               |                   |                    |
| The breakdown of deferred tax liability is as follows:          |                   |                    |
| Deferred tax liability at 1 January .....                       | 56,600            | 20,640             |
| Calculated income tax for the year .....                        | ( 691)            | 7,707              |
| Deferred tax liability due to revaluation of fixed assets ..... | 0                 | 36,147             |
| Income tax payable .....  | ( 3,213)          | ( 7,895)           |
| Deferred tax liability at 30 June .....                         | <u>52,696</u>     | <u>56,600</u>      |

The breakdown of deferred tax liability was as follows at end of June:

|   |               |               |
|---|---------------|---------------|
| Fixed assets in operation .....           | 55,904        | 56,223        |
| Intangible assets .....                   | 1,304         | 1,549         |
| Other assets .....                        | 162           | 157           |
| Provision due to site restoration .....   | ( 1,489)      | ( 1,399)      |
| Other obligations .....                   | ( 642)        | ( 635)        |
| Unrealized exchange rate difference ..... | ( 2,543)      | 705           |
| Deferred tax liability at 30 June .....   | <u>52,696</u> | <u>56,600</u> |

## 15. Financial instruments

### Liquidity risk

The following are the contractual maturities of financial liabilities, including future interest payments:

#### 30 June 2016

|  | Carrying<br>amount | Contractual<br>cash flow | Within<br>12 months | 1-2 years     | 2-5 years      | After 5 years |
|--|--------------------|--------------------------|---------------------|---------------|----------------|---------------|
| <b>Non-derivative financial liabilities:</b> |                    |                          |                     |               |                |               |
| Long-term liabilities from parent comp. .    | 323,406            | 373,500                  | 13,458              | 13,458        | 346,584        | 0             |
| Long-term liabilities .....                  | 78,137             | 101,277                  | 9,615               | 9,667         | 29,039         | 52,956        |
| Trade and other payables .....               | 6,184              | 6,184                    | 6,184               | 0             | 0              | 0             |
|  | <u>407,727</u>     | <u>480,961</u>           | <u>29,257</u>       | <u>23,125</u> | <u>375,623</u> | <u>52,956</u> |

#### 31 December 2015

|  |                |                |               |               |                |               |
|--|----------------|----------------|---------------|---------------|----------------|---------------|
| <b>Non-derivative financial liabilities:</b> |                |                |               |               |                |               |
| Long-term liabilities from parent comp. .    | 308,079        | 361,105        | 12,559        | 12,559        | 335,987        | 0             |
| Long-term liabilities .....                  | 78,313         | 107,652        | 9,305         | 9,427         | 28,141         | 60,779        |
| Trade and other payables .....               | 6,922          | 6,922          | 6,922         | 0             | 0              | 0             |
|  | <u>393,314</u> | <u>475,679</u> | <u>28,786</u> | <u>21,986</u> | <u>364,129</u> | <u>60,779</u> |

## Notes, continued:

### 15. Financial instruments, contd.:

#### Fair value

#### Fair value versus carrying amounts

The fair values and carrying amounts of financial assets and liabilities as reported in the balance sheet are specified as follows:

|   | 30.6.2016         |                   | 31.12.2015        |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Carrying amount   | Fair value        | Carrying amount   | Fair value        |
| Long-term liabilities from parent company ..... | ( 319,668)        | ( 323,934)        | ( 298,311)        | ( 313,536)        |
| Other long-term liabilities .....               | ( 78,137)         | ( 78,785)         | ( 78,313)         | ( 79,434)         |
|   | <u>( 397,805)</u> | <u>( 402,719)</u> | <u>( 376,624)</u> | <u>( 392,970)</u> |

#### Interest rate in valuation of fair value

Where applicable, expected contractual cash flow is discounted using the interest rate on government bonds plus a 1% margin on the reporting date.

### 16. Related parties

#### Definition of related parties

The Company has a related-party relationship with its shareholders, subsidiary, associates, directors, executive officers and companies in their possession. Transactions with related parties are on the same basis as transactions with non-related parties.

#### Transactions with related parties

|   | 1.1.-30.6.2016 | 1.1.-30.6.2015 |
|---|----------------|----------------|
| <b>Sale of goods and services:</b>                        |                |                |
| Landsnet's parent company and its subsidiaries .....      | 33,615         | 32,125         |
| Landsnet's other shareholders .....                       | 22,263         | 20,326         |
| Sale of goods and services to related parties total ..... | <u>55,878</u>  | <u>52,451</u>  |
| <b>Cost of goods and services:</b>                        |                |                |
| Landsnet's parent company and its subsidiaries .....      | 7,750          | 8,612          |
| Landsnet's other shareholders .....                       | 3,908          | 1,922          |
| Cost of goods and services to related parties total ..... | <u>11,658</u>  | <u>10,534</u>  |

In addition to the costs outlined above, the Company paid USD 13.0 million (30.6.2015: USD 12.7 million) in interest to its parent company. The Company also made a dividend payment of ISK 400 million to the shareholders.

#### Balance:

Trade receivables and trade payables with related parties are as follows:

|                                     | 30.6.2016    |          | 31.12.2015   |          |
|-------------------------------------|--------------|----------|--------------|----------|
|                                     | Receivables  | Payables | Receivables  | Payables |
| Landsnet's parent company           |              |          |              |          |
| and its subsidiaries .....          | 5,941        | 0        | 4,743        | 0        |
| Landsnet's other shareholders ..... | 3,146        | 0        | 4,241        | 0        |
| Total .....                         | <u>9,087</u> | <u>0</u> | <u>8,984</u> | <u>0</u> |

## Notes, continued:

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### 16. Related parties, contd.:

Other receivables and payables with related parties are as follows:

|   | 30.6.2016         | 31.12.2015        |
|---|-------------------|-------------------|
| Interest-bearing long-term note to associate .....                | 999               | 957               |
| Interest-bearing liabilities to parent company, see note 13 ..... | ( 319,668)        | ( 298,311)        |
| Accrued interest payable to parent company .....                  | ( 3,738)          | ( 9,768)          |
| Total .....   | <u>( 322,407)</u> | <u>( 307,122)</u> |

### 17. Financial ratios

The company's key financial ratios:

| <b>Financial performance:</b>                            | 1.1.-30.6.2016       | 1.1.-30.6.2015        |
|--|----------------------|-----------------------|
| EBIT .....   | 27,610               | 28,574                |
| EBITDA .....   | 41,654               | 39,229                |
| <br><b>Financial position:</b>                           | <br><b>30.6.2016</b> | <br><b>31.12.2015</b> |
| Current ratio – current assets/current liabilities ..... | 2.98                 | 2.42                  |
| Equity ratio – equity/total assets .....                 | 39.6%                | 40.7%                 |
| Return on average equity .....                           | ( 1.6%)              | 13.1%                 |