Financial Statements 2016

Landsnet hf.
Gylfaflöt 9
112 Reykjavík

Reg. no. 580804-2410

Contents

Endorsement by the Board of Directors and the CEO

Landsnet hf. was established in 2004 and 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.

Results of the year 2016

According to the income statement, loss of the year amounted to 13 million USD and total loss amounted to 13 million USD. According to the balance sheet, the Company's equity at year end amounted to 308 million USD, including share capital in the amount of 46 million USD. Average number of employees was 123.

Share capital at year end 2016 is divided between four shareholders as at the beginning of the year:

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

The Board of Directors of the Company is composed of two women and one man plus two Alternate Directors, one of each sex. The Board thus meets the requirement of Article 63 of the Public Limited Companies Act that both genders must be represented on a board of directors composed of three members.

The Board of Directors proposes that no dividends be paid to shareholders in 2017 for the operating year 2016, in which context the Board makes reference to the annual financial statements regarding changes in equity.

As of the beginning of the year 2016 the Financial Statements are prepared in US dollars (USD), which is the Company´s new functional currency. Comparison amounts have been translated into USD using the exchange rate published by the Central Bank of Iceland.

In December 2016, Landsnet issued unsecured, USD-denominated bonds. At the same time, it made a payment on an Icelandic, inflation-indexed start-up loan from the parent company, the remaining balance of which was converted into USD. The funding and currency conversion are part of an effort to change the composition of loans, convert the loan portfolio into Landsnet´s functional currency and reduce currency risk. The December bond issue is divided into two phases, with half paid in December 2016 and the remainder in March 2017. Approximately 80% of Landsnet´s long-term debt was consequently denominated in USD at year-end, having previously been 90% denominated in ISK. These changes to the loan portfolio serve to reduce future currency risk substantially as regards impact on operating results and the balance sheet.

Corporate governance

The Board of Directors of Landsnet hf. emphasizes maintaining good management practices. The Board of Directors has laid down comprehensive guidelines wherein the competence of the Board is defined and its scope of work vis-à vis the CEO. These rules include i.e. rules regarding order at meetings, comprehensive rules on the competence of Directors to participate in the discussion and decision of issues presented to the Board, rules on secrecy, rules on information disclosure by the CEO to the Board and other issues. The Corporate Governance Statement, which is appendix 1 in the Financial Statements, provides further information.

Non-financial information

In June 2016, Iceland´s parliament, the Althingi, passed amendments to the Annual Accounts Act No. 3/2006, which amendments took effect as of January 2016. These amendments include increased requirements for information disclosure in the Report of the Board of Directors, futher details on which are provided in Annex 2 to the Company´s annual Financial Statements.

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 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 annual financial statements give a true and fair view of the financial performance of the Company for the financial year 2016, its assets, liabilities and financial position as at 31 December 2016 and its cash flows for the financial year 2016.

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.

Endorsement by the Board of Directors and the CEO, continued

The Board of Directors and the CEO have today discussed the annual financial statements of Landsnet hf. for the year 2016 and confirmed them by means of their signatures.

Reykjavik, 9 February 2017

The Board of Directors:

Sigrún Björk Jakobsdóttir
Svana Helen Björnsdóttir
Ómar Benediktsson

CEO:
Guðmundur Ingi Ásmundsson

Independent Auditor's Report

To the Shareholder of Landsnet hf.

Opinion

We have audited the financial statements of Landsnet hf. for the year ended December 31, 2016 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Landsnet hf. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Landsnet hf. in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in our audit
Valuation of transmission lines and substations	
Transmission lines and substrations are the companies most valuable assets and its valuation is based on management estimations, therefore we consider it to be a key audit matter. Transmission lines and substrations are recognised according to the revaluation method. At the year-end its carrying amount was USD 643 million or 83% of total assets. Revaluation is performed on a regular basis, when management assesses that its fair value has changed significantly. Operating value was measured using a cash flow analysis. The assets were revaluated at year-end 2015 and it is management estimation that there is no basis for revaluation at year-end 2016. As to the valuation of the assets, we refer to fixed assets in operation note 14 and accounting policies notes 35c and 35h.	Our audit was focused on management estimations of operating value of transmission lines and substations at the year-end 2016. We examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included.: • Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of catital (WACC) used. We assessed if the valuation´s calculations were in accordance with IFRSs and assessed that the discloures were appropriate. We have also examined management judgement related to depreciation methods in accordance with IFRS.

Interest-bearing loans and borrowings	
Due to its significance in the company´s financial statements and related to changes during the year, we consider interest-bearing loans and borrowings to be a key audit matter. Interest-bearing loans and borrowings carrying amount at the year-end 2016 was USD 383 million. At the end of the financial year new loan agreements were made with third party and changes were made to loan agreements with the parent company. The basis for accounting for interest-bearing loans and borrowings are presented in notes 24 and 35b in the financial statements.	Our audit procedures included.: • Recalculation of interest-bearing loans and borrowings at year-end according to loan agreements. • Third-party confirmation of year-end balance. • Assessment of covenants, accrued interests and maturities. • Evaluation of management accounting treatment of parent company loans in accordance with IFRSs. • Assessment of interest-bearing loans and borrowings disclosures in accordance with IFRSs.

Other information

Management is responsible for the other information. The other information comprises the report of board of directors, non-financial reporting and corporate governance statement which is an appendix in the Financial Statement. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Landsnet hf.’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Landsnet hf.’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Landsnet hf.'s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Reykjavik, 9 February 2017.

Deloitte ehf.

Páll Grétar Steingrímsson
State Authorized Public Accountant

Rúnar Dór Daníelsson
State Authorized Public Accountant

Income Statement for the year 2016

	Notes	2016	2015
Operating revenue			
Transmission	5,6	128,640	121,876
Other income	7	1,103	859
		129,743	122,735
Operating expenses			
Energy procurement costs	8	20,565	16,445
Transmission costs	10.11	44,121	34,400
System operation	10.11	7,873	7,413
Other operating expenses	10.11	7,467	7,662
		80,026	65,920
Operating profit		49,717	56,815
Financial income		1,205	2,987
Financial expenses		(67,383)	(21,965)
Net financial expenses	12	(66,178)	(18,978)
Share in net earnings of associated company	17	205	150
(Loss) profit before income tax		(16,256)	37,987
Income tax	13,25	3,289	(7,575)
(Loss) profit		(12,967)	30,412
(Loss) earnings per share:			
Basic and diluted (loss) earnings per each 1 share	23	(0.28)	0.68

Notes no. 1 to 35 are an integral part of these financial statements.

Financial Statements of Landsnet hf. 2016 8 Amounts are in USD thousand

Statement of Comprehensive Income for the year 2016

	Notes	2016	2015
(Loss) profit		(12,967)	30,412
Items under total (loss) profit recognised among equity:			
Revaluation of transmission system		0	180,737
Current tax on revaluation of transmission system		0	(36,147)
Total items under total profit recognised among equity		0	144,590
Total (loss) profit of the year		(12,967)	175,002

Notes no. 1 to 35 are an integral part of these financial statements.

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Balance Sheet as at 31 December 2016

	Notes	31.12.2016	31.12.2015
Assets			
Fixed assets in operation	14	665,084	666,931
Projects under construction	14	51,615	23,310
Intangible assets	15	11,003	13,034
Investments in subsidiary and associates	16.17	6,667	5,614
Long-term note		1,007	908
Fixed assets		735,376	709,797
Inventories	18	4,646	4,323
Receivable from parent company	32	4,457	4,743
Trade and other receivables	19	8,085	7,794
Marketable securities	20	0	5,663
Cash and cash equivalents	21	18,253	62,290
Current assets		35,441	84,813
Total assets		770,817	794,610
Equity			
Share capital		45,549	45,549
Statutory reserve		4,703	4,703
Restricted equity		205	0
Revaluation account		210,520	220,989
Foreign currency translation		849	0
Retained earnings		46,585	52,515
Equity	22	308,411	323,756
Liabilities			
Long term liabilities from parent company	24	198,394	298,311
Other interest bearing long-term liabilities	24	168,464	71,091
Deferred income tax liability	25	49,019	56,600
Deferred income	26	2,862	2,936
Provision due to site restoration	27	7,023	6,997
Long-term liabilities and obligations		425,762	435,935
Loans from parent company	24	69	9,768
Current maturities	24	16,454	7,222
Income tax payable	13.25	4,292	7,895
Trade and other payables	29	15,829	10,034
Short-term liabilities		36,644	34,919
Total liabilities		462,406	470,854
Total equity and liabilities		770,817	794,610

Notes no. 1 to 35 are an integral part of these financial statements.

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Statement of Changes in Equity for the year 2016

	Share capital	Statutory reserve	Restricted equity	Foreign currency translation	Revaluation account	Retained earnings	Total
Year 2015:							
Equity at 1 January 2015	45,549	1,757	0	0	80,647	20,801	148,754
Profit						30,412	30,412
Revaluation of transmission					180,737		180,737
Income tax effects of revaluation of transmission					(36,147)		(36,147)
Total comprehensive income					144,590	30,412	175,002
Transfer to statutory reserve		2,946				(2,946)	0
Depreciation on revaluation recognised under accumulated deficit					(4,248)	4,248	0
Equity at 31 December 2015	45,549	4,703	0	0	220,989	52,515	323,756
Year 2016:							
Equity at 1 January 2016	45,549	4,703	0	0	220,989	52,515	323,756
Foreign currency translation				849			849
Total comprehensive loss						(12,967)	(12,967)
Dividends paid to shareholders						(3,227)	(3,227)
Share in net earnings of associated company			205			(205)	
Depreciation on revaluation recognised under accumulated deficit					(10,469)	10,469	0
Equity at 31 December 2016	45,549	4,703	205	849	210,520	46,585	308,411

Notes no. 1 to 35 are an integral part of these financial statements.

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Statement of Cash Flows for the year 2016

	Notes	2016	2015
Cash flow from operating activities			
Operating profit		49,717	56,815
Adjustments for:			
Profit from sales of fixed assets	7	(1)	(9)
Depreciation and amortisation	11	29,450	22,165
Working capital from operation before financial items and taxes		79,166	78,971
Operating assets, (increase) decrease		(644)	1,436
Operating liabilities, decrease		(229)	(610)
Net Cash from operating activities before financial items and taxes		78,293	79,797
Interest income received		1,204	1,471
Interest expenses paid and foreign exchange difference		(18,403)	(15,274)
Taxes paid		(8,698)	(4,458)
Net cash from operating activities		52,396	61,536
Cash flow from investing activities			
Investment in transmission infrastructures		(45,208)	(29,517)
Other investments		(3,035)	(3,527)
Proceeds from sale of property, plant and equipment		28	26
Long-term note, change		55	(759)
Marketable securities, change		6,153	(1,955)
Net cash to investment activities		(42,007)	(35,732)
Cash flow from financing activities			
Payment of loans from parent company		(143,916)	(51,794)
New long-term liabilities		98,767	0
Payments of long-term liabilities		(7,432)	(7,409)
Dividends paid to shareholders		(3,227)	0
Net cash to financing activities		(55,808)	(59,203)
Net decrease in cash and cash equivalents		(45,419)	(33,399)
Effect of exchange rate changes on cash and cash equivalents		1,382	(716)
Foreign currency translation		0	(7)
Cash and cash equivalents at 1 January		62,290	96,412
Cash and cash equivalents at 31 December	21	18,253	62,290
Investment and financing activities without cash flow effect:			
Currency-converted, USD-denominated loan from parent company		207,582	207,582
Currency-conversion of ISK-denominated loan from parent company		(207,582)	(207,582)

Notes no. 1 to 35 are an integral part of these financial statements.

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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 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. Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements were approved by the Board of Directors on 9 February 2017.

Details of the Company's accounting policies are included in note 35.

3. Functional and presentational currency

The 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 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.

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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 14 and 35c - Fixed assets in operation
- Note 15 and 35d - Intangible assets
- Note 27 and 35j - Estimation of provision due to site restoration
- Note 25 and 35n - Income tax

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Landsnet revaluates part of fixed assets to fair value, as stated in note 14, just as they do with marketable securities. Other assets and liabilities are not recognised at fair value.

Trade and other receivables

The fair value of trade and other receivables is measured at the estimated discounted cash flow, based on market interests on the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Revenue

See accounting policies in note 35k

Transmission revenue consist of:

	2016	2015
Energy transmission	106,243	103,641
Transmission losses and ancillary services	21,067	17,148
Service income	456	373
Input fees	874	714
Transmission revenue total	128,640	121,876

Landsnet's largest customers are also shareholders in the company. Further information on revenues from shareholders is provided in Note 32 on related parties.

6. Energy transmission

Energy transmission consist of:

	2016	2015
Energy transmission to power-intensive consumers	70,840	73,454
Energy transmission to distribution system operators	35,403	30,187
Energy transmission total	106,243	103,641

7. Other income

Other income consist of:

Income from work sold	472	381
Rental income	241	247
Income from guarantees of origin and certification	287	176
Sales profit from fixed assets	1	9
Other income	102	46
Other income total	1,103	859

8. Energy procurement costs

Energy procurement costs consist of:

Electricity purchases due to transmission losses	14,184	10,774
Purchase of ancillary services	6,381	5,671
Energy procurement costs total	20,565	16,445

9. Fee to auditors

Fee to auditors consist of:

	2016		2015	
	Audit of Financial Statement	Other service	Audit of Financial Statement	Other service
Deloitte ehf.	53	70	46	35
KPMG ehf.	0	0	39	0
Fee to auditors total	53	70	85	35

Other services in 2016 consists of costs relating to a review of interim financial statements and purchased services regarding the introduction of the Company´s changed functional currency.

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10. Personnel expenses

See accounting policies in note 35c and 35i

Salaries and other personnel expenses consist of:

	2016	2015
Salaries	12,316	10,330
Defined contribution plan payments	1,567	1,278
Defined benefit plan payments	37	9
Other payroll expenses	1,098	930
Capitalised salaries	(1,430)	(1,057)
Personnell expenses total	13,588	11,490

Personnel expenses are specified as follows:

Transmission costs	5,601	5,067
System operation	3,574	3,198
Other operating expenses	4,413	3,225
	13,588	11,490

Average number of employees	123	124
Full-time equivalent units at year-end	119	113

Remuneration of the Board of Directors, CEO and Executive Directors were as follows:

	Thousand ISK		Thousand USD	
	2016	2015	2016	2015
Remuneration of the Board of Directors	7,831	7,311	65	55
Remuneration and benefits of the CEO	19,731	18,237	164	138
Remuneration of Excecutive Directors	99,963	62,525	828	474

Five director positions were filled in 2016 compared with 3.33 in 2015. Salaries are determined by the National Remuneration Board and are increased accordingly. An additional and outstanding sum of 17 thousand USD (2.2 million) was paid to the CEO for the year 2015 and the comparative figure was adjusted accordingly.

11. Depreciation and amortisation

See accounting policies in notes 35c and 35d

Depreciation and amortisation are specified as follows:

Depreciation of fixed assets in operation, see Note 14	28,862	21,156
Amortisation and impairment losses, see Note 15	588	1,009
Depreciation and amortisation recognised in the income statement	29,450	22,165

Depreciation and amortisation are allocated as follows to operating items:

Transmission costs	28,341	20,811
System operation	328	522
Other operating expenses	781	832
Depreciation and amortisation recognised in the income statement	29,450	22,165

12. Financial income and expenses

See accounting policies in note 35m

Financial income and expenses are specified as follows:

Interest income	628	1,055
Net gain in fair value of marketable securities	577	455
Exchange rate difference	0	1,477
Total financial income	1,205	2,987

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12. Financial income and expenses, contd.:

Interest expenses	(17,408)	(15,351)
Indexation	(7,412)	(7,309)
Exchange rate difference	(45,219)	0
Change in present value of the provision due to site restoration	(26)	(659)
Capitalised interest expense	2,682	1,354
Total financial expenses	(67,383)	(21,965)
Net financial expenses	(66,178)	(18,978)

Net financial expenses due to the construction of a transmission infrastructure and capitalised development cost amounting to 2.7 million USD (2015: 1.4 million USD) is capitalised and has been reported as a reduction in financial expenses.

Capitalised financial expenses were 6.5% of capital tied in transmission structures under construction during the year (2015: 5.7%). This is the Company's average finance cost.

13. Income tax

See accounting policies in note 35n

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

Deferred income tax for the year	7,581	187
Foreign currency translation	0	133
Income tax payable	(4,292)	(7,895)
Income tax recognised in the income statement	3,289	(7,575)

13. Income tax, contd.:

	2016	2015
Income tax recognised in equity:		
Income tax liability due to revaluation of fixed assets	0	36,147
Change in deferred income tax liability is specified as follows:		
Change in temporary differences	7,581	187
Income tax liability due to revaluation of fixed assets	0	(36,147)
Change in deferred tax assets	7,581	(35,960)

		2016		2015
Reconciliation of effective tax rate				
(Loss) profit before income tax		(16,256)		37,987
Income tax according to the current tax rate	20.0%	3,251	20.0%	(7,597)
Effects of associates	0.3%	41	(0.1%)	30
Other	0.0%	(3)	(0.0%)	(8)
Effective tax rate	20.3%	3,289	19.9%	(7,575)

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14. Fixed assets in operation:

See accounting policies in note 35c

Fixed assets in operation:

	Substations	Transmission lines	Other	Total
Cost				
Balance at 1.1.2015	234,739	397,125	32,998	664,862
Revaluation	112,998	132,662	0	245,660
Additions	3,518	2,568	782	6,868
Transfer	(1,047)	1,047	0	0
Transferred from projects under construction	1,918	6,581	0	8,499
Sold and disposed of	0	0	(115)	(115)
Foreign currency translation	(4,796)	(8,066)	(673)	(13,535)
Balance at 31.12.2015	347,330	531,917	32,992	912,239
Additions	2,327	2,140	895	5,362
Transferred from projects under construction	9,072	12,606	0	21,678
Sold	0	0	(72)	(72)
Balance at 31.12.2016	358,729	546,663	33,815	939,207
Depreciation				
Balance at 1.1.2015	51,209	101,226	9,896	162,331
Revaluation	27,458	37,465	0	64,923
Depreciation	7,132	12,533	1,491	21,156
Sold and disposed of	0	0	(98)	(98)
Foreign currency translation	(940)	(1,883)	(181)	(3,004)
Balance at 31.12.2015	84,859	149,341	11,108	245,308
Depreciation	12,373	15,327	1,162	28,862
Sold	0	0	(47)	(47)
Balance 31.12.2016	97,232	164,668	12,223	274,123
Carrying amount				
1.1.2015	183,530	295,899	23,102	502,531
31.12.2015	262,471	382,576	21,884	666,931
31.12.2016	261,497	381,995	21,592	665,084
Carrying amount without revaluation				
1.1.2015	165,653	210,735	23,102	399,490
31.12.2015	160,270	208,539	21,884	390,693
31.12.2016	164,310	216,031	21,592	401,933

Basis of revaluation of fixed assets in operation in 2015

In accordance with the International Accounting Standard, the Company's lines and substations are recognised according to the revaluation method. These assets were revalued at year-end 2015. The revaluation was based on two methods. First, it was based on the estimated reconstruction cost of the transmission system, which was calculated by independent experts at the beginning of the year and projected to year-end 2015. Second, the operating value was measured using a cash flow analysis. The valuation period was 2016-2025, with the future operating value calculated thereafter. The year's revaluation was based on the operating value on the assumption that investment would equal the depreciation of the current asset base. The discounting of future cash flows was based on the weighted average cost of capital (WACC) determined for the Company with respect to power-intensive consumers and distribution system operators. In the assessment of the Company's management, a revaluation of fixed assets in operation in 2016 is not necessary. The revaluation has been categorised as level 3 fair value.

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Notes, continued

14. Fixed assets in operation, contd.:

Rateable value and insurance value

The rateable value of the Company's real property amounts to upwards of 30.9 million (2015: 24.0 million). Assessed value for the same property's fire insurance amounts to 50.7 million (2015: 44.3 million) and book value amounts to 45 million (2015: 29.6 million). The insurance value of the Company's assets amounts to 566.4 million (2015: 450.2 million), excluding transmission lines and cables, which are insured by an emergency insurance fund. The Company's emergency insurance amounts to 990.5 million (2015: 888.1 million).

Projects under construction:

	2016	2015
Balance at 1.1.	23,310	6,377
Additions	46,782	24,640
Transferred to fixed assets in operation	(21,678)	(8,498)
Transferred from intangible assets	3,201	631
Foreign currency translation	0	160
Balance at 31.12.	51,615	23,310

15. Intangible assets:

See accounting policies in note 35d and 35h

	Capitalised development cost	Software	Total
Cost			
Balance at 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 at 31.12.2015	15,951	4,411	20,362
Additions	1,275	483	1,758
Transferred to projects under construction	(3,201)	0	(3,201)
Balance at 31.12.2016	14,025	4,894	18,919
Amortisation and impairment losses			
Balance at 1.1.2015	3,997	2,438	6,435
Amortisation and impairment losses	772	237	1,009
Foreign currency translation	(70)	(46)	(116)
Balance at 31.12.2015	4,699	2,629	7,328
Amortisation and impairment losses	269	319	588
Balance at 31.12.2016	4,968	2,948	7,916

15. Intangible assets, contd.:

Carrying amount

1.1.2015	10,082	1,578	11,660
31.12.2015	11,252	1,782	13,034
31.12.2016	9,057	1,946	11,003

Development costs are reviewed each year by the management of Landsnet hf. and are examined for any indications of impairment. If the management believes that impairment has occurred, that development cost is expensed as impairment.

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16. Investment in subsidiary

See accounting policies in note 35e

The breakdown of investment in subsidiary is as follows:

	31.12.2016 Share	31.12.2016 Carrying amount	31.12.2015 Share	31.12.2015 Carrying amount
Landsnet ehf.	100.00%	5	100.00%	4

The Company's share in Landsnet ehf. is stated at cost as the firm has not conducted any operations from its establishment.

17. Investment in associates

See accounting policies in note 35f

The breakdown of investment in associates is as follows:

	2016 Share in net earnings	2015 Share in net earnings	31.12.2016 Carrying amount	31.12.2015 Carrying amount
Orkufjarskipti hf. 50%	205	150	6,662	5,610

18. Inventories

See accounting policies in note 35g

Inventories are spare parts and material inventories. No write-down due to the Company's inventories is recognised in the financial statements for the year 2016 nor for the year 2015.

19. Trade and other receivables

See accounting policies in note 35b

Trade and other receivables:

	31.12.2016	31.12.2015
Trade receivables	6,832	6,600
Other receivables	1,253	1,194
Trade and other receivables total	8,085	7,794

20. Marketable securities

See accounting policies in note 35b

Marketable securities held by the Company are listed on a stock exchange. They are liquid but cannot be classed as cash because their maturity is more than three months. The measurements of marketable securities are categorised as Level 1 fair value.

21. Cash and cash equivalents

See accounting policies in note 35b

Cash and cash equivalents:

	31.12.2016	31.12.2015
Bank deposits in USD	10,731	33,558
Bank deposits in other currency	7,522	28,732
Cash and cash equivalents total	18,253	62,290

22. Equity

See accounting policies in note 35b

Share capital

The Company's total share capital according to its Articles of Association was ISK 5,903 million at year-end. The Company holds no treasury shares. Each share of ISK in the Company carries one vote. All share capital has been paid.

Revaluation account

The Company's revaluation account consists of the revaluation increase of the Company's fixed assets after income tax effects. Depreciation of the revalued price is entered in the income statement and transferred from the revaluation account to retained earnings (unadjusted loss).

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22. Equity, contd.:

Statutory reserve

Under the Public Limited Companies Act, 25% of the nominal value of the Company's share capital must be held in a statutory reserve, which is not permitted to be used to pay dividends to shareholders. 10% of each year's profit must be deposited in the reserve until it amounts to 10% of the nominal value of the share capital, when the percentage deposited becomes 5%.

Foreign currency translation

Foreign currency translation is the foreign exchange difference arising due to subsidiary and associated company with other functional currencies.

Restricted equity

Under the Annual Accounts Act, the Company must transfer its share in the profit or loss of associates exceeding received dividends, or dividend payouts that have been decided, into a restricted reserve account among equity.

Dividends

The Company paid dividends in 2016 for the financial year 2015 ISK 400 million, but not in the year 2015 for the financial year 2014.

23. (Loss) earnings per share

See accounting policies in note 35o

Basic and diluted (loss) earnings per share:

	2016	2015
(Loss) profit to shareholders	(12,967)	30,412
Weighted average number of ordinary shares at 31 December	45,549	45,549
Basic and diluted (loss) earnings per share	(0.28)	0.68

24. Interest-bearing loans and borrowings

See accounting policies in note 35b

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

	31.12.2016	31.12.2015
Long-term liabilities		
Indexed bond loan from parent company in ISK, fixed interest	0	298,311
Loan agreement from parent company in USD, fixed interest	207,582	0
Unlisted bond loan in USD, fixed interest	98,767	0
Loan agreement in CHF, LIBOR + margin	31,661	38,364
Listed indexed bond loan in NASDAQ OMX in ISK, fixed interest	45,302	39,949
	383,312	376,624
Current maturities on long-term liabilities	(16,454)	(7,222)
Interest-bearing long-term liabilities total	366,858	369,402

Short-term liabilities

Short-term loans from parent company specifies as follows:		
Accrued interest of long-term liabilities with parent company	69	9,768
Short-term loans from parent company total	69	9,768

The issuance of unlisted bonds on the United States Private Placement market in the amount of USD 200 million was finalised at the end of the year. Half of this amount was issued and finalised in December, with the other half to be completed in March 2017. The average interest rate of the issue is a fixed rate of 4.56%. Concurrently, Landsnet paid USD 95 million on an indexed loan from the parent company, with the remaing balance converted to USD and maturing in 2020.

As at year-end 2016, the Company meets all current requirements of loan agreements regarding financial strength.

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24. Loans and borrowings, contd.:

Terms of interest-bearing loans and borrowings

Debts in foreign currencies:

		31.12.2016		31.12.2015	
	Final maturity	Weighted avg. rate	Carrying amount	Weighted avg. rate	Carrying amount
Debt in USD	2020-2029	4.10%	306,349	-	0
Debt in CHF	2022	0.00%	31,661	0.05%	38,364
Debt in ISK, indexed	2034	5.00%	45,302	4.30%	338,260
Total interest-bearing loans and borrowings			383,312		376,624

Maturities by year of interest-bearing loans and borrowings:

Year 2017/2016	16,454	7,222
Year 2018/2017	16,559	7,292
Year 2019/2018	16,675	7,366
Year 2020/2019	187,461	7,445
Year 2021/2020	12,630	305,837
Later	133,533	41,462
	383,312	376,624

25. Deferred tax liability

See accounting policies in note 35n

The breakdown of deferred tax liability is as follows:	2016	2015
Deferred tax liability at 1 January	56,600	21,078
Calculated income tax for the year	(3,289)	7,575
Deferred tax liability due to revaluation of fixed assets	0	36,147
Income tax payable	(4,292)	(7,895)
Foreign currency translation	0	(305)
Deferred tax liability at 31 December	49,019	56,600

The breakdown of deferred tax liability was as follows at year-end:	31.12.2016	31.12.2015
Fixed assets in operation	55,188	56,223
Intangible assets	1,366	1,549
Other assets	414	157
Provision due to site restoration	(1,405)	(1,399)
Other obligations	(616)	(635)
Unrealized exchange rate difference	(5,928)	705
Deferred tax liability at 31 December	49,019	56,600

26. Deferred income

Deferred income is recognised mostly with regard to connection charges paid by electricity buyers to the Company during the year. At year-end, deferred income amounted to 3.1 million USD (2015: 3.1 million USD). The part of deferred income that will be recognised in the income statement next year is recognised in current liabilities. Connection charges recognised in profit or loss for 2016 amounted to 0.1 million USD (2015: 0.1 million USD).

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27. Provision due to site restoration

See accounting policies in note 35j

Change in the provision due to site restoration is specified as follows:

	2016	2015
Balance at 1.1.	6,997	6,460
Present value for the year reversed	26	659
Increase in provision	0	0
Foreign currency translation	0	(122)
Balance at 31.12.	7,023	6,997

The initial value of property, plant and equipment includes the estimated cost of the demolition thereof after use. The estimated demolition cost of lines has been valuated and discounted based on life-cycle criteria. The discounted value is recognised as a provision under long-term liabilities. In the income statement, the change in the discounting provision, which is based on a 5.7% interest rate (2015: 6.4%), is reported under financial expenses, in addition to depreciation under operating expenses.

28. Pension fund obligation

See accounting policies in note 35i

The Pension Fund for State Employees calculates at the end of each year the benefit plan obligation accrued for the year. Actuary assessment is based on the accrued obligation for the year being discounted at year-end on the basis of the annual interest rate generally used to assess pension fund obligations. The present annual rate is 3.5%. A total of 37 thousand USD is expensed in relation thereto for 2016 (2015: 8 thousand USD), but the accrued benefit plan obligation is paid in full each year.

29. Trade and other payables

See accounting policies in note 35b

Trade and other payables are specified as follows:

	31.12.2016	31.12.2015
Trade payables	11,868	6,876
Other payables	3,961	3,158
Trade and other payables total	15,829	10,034

30. Financial instruments

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and its management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors seeks consultation regarding financial risk both from its employees and external consultants and discusses it regularly at Board meetings.

The Company's objective is to discover and analyse the risks it faces, set a benchmark for risk exposure and control it. The Company's risk management policy is regularily reviewed to analyse market changes and changes within the Company.

The year saw a systematic initiative to reduce market risk through the refinancing and currency conversion of a start-up loan from the parent company, which was previously inflation-indexed and ISK-denominated. In December 2016, the Company raised funds by issuing a fixed-interest bond in the amount of USD 200 million, half of which was issued and finalised in December 2016, with the other half to be completed in March 2017.

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30. Financial instruments, contd.:

At the end of September 2016, an agreement was concluded with the parent company on a payment on the start-up loan, followed by an agreement at the end of December to convert the remaining balance of the loan to USD. Landsnet has thus achieved its objective to have a large proportion of its funding in its functional currency, thereby minimising future market risk in the form of operational and balance sheet currency risk. At year-end, the Company´s loan portfolio had become 79.9% USD-denominated (2015: 0%) and 11.8% ISK-denominated (2015: 89.8%),

Through this refinancing and debt restructuring, the Company has also moved nearer to its objective of a normally spread maturity profile of its long-term debt.

Credit risk

Credit risk is the risk of financial loss of the Company owing to the failure of a customer or counterparty to a financial instrument to meet its contractual obligations. The Company's credit risk is mainly due to trade receivables and is dependant on the financial condition and operations of each customer and also cash and cash equivalent.

Trade and other receivables

The Company’s main customers are electricity generating companies, distribution system operators and power-intensive consumers. The Company's largest customers are also shareholders in the Company. Approximately 85% (2015: 86%) of the Company's transmission income derives from the Company's shareholders.

Highest possible loss due to credit risk

The Company's highest possible loss due to financial assets is their book value, which was as follows at year-end:

	31.12.2016	31.12.2015
Long-term note	1,065	957
Receivables from parent company	4,457	4,743
Trade and other receivables	8,026	7,744
Market securities	0	5,663
Cash and cash equivalents	18,253	62,290
Highest possible loss due to credit risk total	31,801	81,397

Impairment losses

No impairment loss has been recognised in relation to accounts receivable at year-end; nor has loss on receivables been expensed during the year, which is based on the management's experience. The Company's collection issues are reviewed on a regular basis.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial commitments as they fall due. Landsnet´s aim is to manage its cash position so as to ensure that it has sufficient cash at all times to meet its commitments and thereby minimise liquidity risk. During the year, the Company obtained a credit line facility from Landsbankinn hf. in the amount of USD 50 million. This facility is as yet undrawn. The strong cash flow from operations, new funding, a well spread maturity profile and the access to a credit line have already secured the Company´s liquidity to the year 2018.

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30. Financial instruments, contd.:

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

31.12.2016	Carrying amount	Contractual cash flow	Within 12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities:						
Long-term liabilities from parent comp.	207,650	238,667	18,724	18,312	201,631	0
Long-term liabilities	175,731	238,800	10,423	10,423	48,036	169,918
Trade and other payables	13,327	13,327	13,327	0	0	0
	396,708	490,794	42,474	28,735	249,667	169,918
31.12.2015						
Non-derivative financial liabilities:						
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
	393,314	475,679	28,786	21,986	364,128	60,779

Market risk

Market risk is the risk that changes in the market prices of foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return. Market risk consist of currency risk, interest rate risk and indexaton risk.

Currency risk

Currency risk is the risk of a loss because of unfavorable changes in the rate of currencies. The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Company´s functional currency. The Company´s functional currency is US dollars and therefore a currency risk arises from the net cash flow and opening balance in currencies other than USD. Substantial part of the Company´s income derives from USD, but other income is in Icelandic króna (ISK). Currency risk regarding income in ISK is limited by being almost offset by purchasing in ISK, on the basis of cash flow. Two currencies in particular, the ISK and the Swiss franc (CHF), posed balance sheet currency risk during the year. The refinancing in December 2016 and the currency conversion of the remaining balance of the start-up loan from the parent company reduced the balance sheet currency risk substantially. At year-end, 79.9% of the Company´s long-term debt was denominated in USD, with 20.1% denominated in other currencies.

The Company does in general not hedge against foreign exchange risk but reviews on a regular basis the currency combination of its liabilities against the currency combination of its income.

The Company´s loan denominated in Swiss francs (CHF) poses a currency risk, but the interest rate on this loan is lower than on USD-denominated loans taken out by the Company. Landsnet partly hedges against this currency risk by holding CHF-denominated assets in the form of deposits against the debt.

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30. Financial instruments, contd.:

The Company's exposure to foreign currency risk, based on nominal amounts, was as follows:

	EUR	CHF	ISK
31.12.2016			
Cash and cash equivalent	398	4,828	2,298
Trade and other receivables	4	0	6,036
Other long-term liabilities	0	(31,661)	(45,302)
Trade and other payables	(2,817)	0	(11,746)
Net currency risk	(2,415)	(26,833)	(48,714)
31.12.2015			
Cash and cash equivalent	679	12,717	14,896
Trade and other receivables	4	0	5,208
Other long-term liabilities	0	(38,364)	(338,260)
Trade and other payables	(545)	0	(17,148)
Net currency risk	138	(25,647)	(335,304)

	Av. exch. rate for the year		Year-end exch. rate	
	2016	2015	31.12.2016	31.12.2015
Currency risk				
EUR	0.90	0.90	0.95	0.92
CHF	0.99	0.96	1.02	0.99
ISK	0.01	0.01	0.01	0.01

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December would have increased (decreased) after-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

	31.12.2016	31.12.2015
EUR	(193)	11
CHF	(2,147)	(2,052)
ISK	(3,897)	(26,824)

A 10% weakening of the USD against the above currencies at 31 December would have had the equal but opposite effect on profit or loss after tax to the amounts shown above, given that all other variables remain constant.

Interest rate risk

The Company´s interest rate risk arises from interest bearing assets and liabilities. The Company's borrowings bear both floating interest and fixed inflation-indexed interest. The majority of the Company's borrowings bear fixed interest, cf. Note 24. At year end 2016, the proportion of liabilities with floating interest rates was 8% (2015: 10%).

The breakdown of the Company's interest-bearing financial instruments at year-end was as follows:

	Carrying amount	
	31.12.2016	31.12.2015
Financial instruments with floating interest rate		
Financial assets	18,253	67,952
Financial liabilities	(31,661)	(38,364)
	(13,408)	29,588

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30. Financial instruments, contd.:

Financial instruments with fixed interest rate

Financial assets	1,065	957
Financial liabilities	(351,651)	(338,260)
	(350,586)	(337,303)

Cash-flow sensitivity analysis for fixed-interest-rate instruments

The Company's liabilities all carry fixed interest rates except for liability in Swiss franc (CHF). These liabilities are not recognised at fair value. Therefore, interest changes on the settlement date should not affect the Company's income statement.

Cash-flow sensitivity analysis for floating interest rate instruments

An increase in interest rates of 100 basis points at the reporting date would have increased (decreased) equity and profit or loss after tax by the amounts stated below. If interest rates had decreased by 100 basis points, the effect would have had the equal but opposite effect on profit or loss after tax. This analysis assumes that all other variables, in particular the exchange rates, remain constant. The analysis was performed in the same manner for the year 2015.

	Earnings	
	100bp increase	100bp decrease
31.12.2016		
Financial instruments with floating interest rates	77	(360)
Cash flow sensitivy (net)	77	(360)
31.12.2015		
Financial instruments with floating interest rates	334	(640)
Cash flow sensitivy (net)	334	(640)

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:

	31.12.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term liabilities from parent company	(207,582)	(220,712)	(298,311)	(313,536)
Other long-term liabilities	(175,730)	(193,605)	(78,313)	(79,434)
	(383,312)	(414,317)	(376,624)	(392,970)

The fair values of other financial assets and liabilities are equivalent to its carrying amounts.

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 as in 2015.

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30. Financial instruments, contd.:

Classification of financial assets and liabilities

The following table shows the Company's classification of financial assets and liabilities:

	Financial assets and liabilities designated at fair value	Loans and receivables	Financial liabilities at amortised cost	Carrying amount
31.12.2016				
Long-term note		1,007		1,007
Receivables from parent company		4,457		4,457
Trade and other receivables		7,803		7,803
Cash and cash equivalents		18,253		18,253
	0	31,520	0	31,520
Loans from parent company			207,582	207,582
Other long-term liabilities			175,730	175,730
Trade and other payables			13,327	13,327
	0	0	396,639	396,639
31.12.2015				
Long-term note		908		908
Receivables from parent company		4,743		4,743
Trade and other receivables		7,794		7,794
Marketable securities	5,663			5,663
Cash and cash equivalents		62,290		62,290
	5,663	75,735	0	81,398
Loans from parent company			308,079	308,079
Other long-term liabilities			78,313	78,313
Trade and other payables			6,922	6,922
	0	0	393,314	393,314

Indexation risk

Indexation risk is the risk of fluctuation in the Consumer Price Index (CPI) affecting the Company´s financial position and the cash flows of inflation-indexed financial instruments. The majority of the Company´s interest-bearing debt was inflation-indexed in the year. However, the indexation risk was reduced substantially by converting the start-up loan from the parent company from ISK to USD in December 2016. At year-end, indexed liabilities comprised 11.8% of total long-term liabilities (2015: 89.8%).

Cash-flow sensitivity analysis for the Consumer Price Index

An increase in the Consumer Price Index of 100 basis points at the reporting date would have increased (decreased) equity and profit or loss after tax by the amounts stated below. If the Consumer Price Index had decreased by 100 basis points, the effect would have had the equal but opposite effect on profit or loss after tax. This analysis assumes that all other variables, in particular the exchange rates, remain constant. The analysis was performed in the same manner for the year 2015.

	Earnings 100bp increase	Earnings 100bp decrease
31.12.2016		
Inflation-indexed financial instruments	(365)	365
Cash flow sensitivy (net)	(365)	365
31.12.2015		
Inflation-indexed financial instruments	(2,974)	2,974
Cash flow sensitivy (net)	(2,974)	2,974

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30. Financial instruments, contd.:

Other market price risk

Other market price risk is limited because investment in bonds and shares is an insubstantial part of the Company's operations.

Capital management

The Company is not subject to external rules on minimum capital requirements.

31. Operating leases

The Company as lessee

The Company leases a part of the transmission structures it uses from domestic energy companies. The lease agreements have an indeterminate lease term and the lease price is determined by the National Energy Authority. Expensed lease payments in 2016 amounted to 1.3 million USD (2015: 1 million USD).

32. Related parties

Definition of related parties

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

Transactions with senior management

(i) Payments to senior management

In addition to receiving salaries, the CEO and Managing Directors (Vice Presidents) of the Company receive a contribution to a defined benefit pension fund. They also receive a car allowance. Management’s salaries are accounted for in Note 10.

Other transactions with related parties

	2016	2015
Sale of goods and services:		
Landsnet's parent company and its subsidiaries	64,832	64,348
Landsnet's other shareholders	46,056	40,830
Sale of goods and services to related parties total	110,888	105,178
Cost of goods and services:		
Landsnet's parent company and its subsidiaries	15,571	18,439
Landsnet's other shareholders	7,406	3,661
Cost of goods and services to related parties total	22,977	22,100

In addition to the costs outlined above, the Company paid 16 million USD (2015: 15 million USD) in interest to its parent company. The Company also received minor interest income from a long-term receivable from an affiliated company.

Balance:

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

	31.12.2016		31.12.2015	
	Receivables	Payables	Receivables	Payables
Landsnet's parent company and its subsidiaries	4,457	0	4,743	0
Landsnet's other shareholders	4,358	0	4,241	0
	8,815	0	8,984	0

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32. Related parties, contd.:

Other receivables and payables with related parties are as follows:

	31.12.2016	31.12.2015
Interest-bearing long-term note to associate	1,065	957
Interest-bearing liabilities to parent company, see note 24	(207,582)	(298,311)
Accrued interest payable to parent company	(69)	(9,768)
	(206,586)	(307,122)

33. Financial ratios

The company's key financial ratios:

Financial performance:	2016	2015
EBIT	49,717	56,815
EBITDA	79,167	78,980

Financial position:	31.12.2016	31.12.2015
Current ratio – current assets/current liabilities	0.97	2.43
Equity ratio – equity/total assets	40.0%	40.7%
Return on average equity	(4.1%)	13.1%

34. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for:

- The Company's transmission system is recognised at a revalued amount, which was its fair value at revaluation date in the year 2015.
- Financial assets at fair value through profit and loss are recognised at fair value.

35. Accounting policies

The following accounting methods have been consistently applied to all disclosed periods in the financial statements. Costs have been reclassed between Transmission cost and Other operating expenses and comparison figures have been restated accordingly. Changes in presentation does not affect the Companys profit or loss nor equity.

The following table of contents shows the pages on which various accounting policies may be found.

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35. Accounting policies, contd.:

a. Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

b. Financial instruments

(i) Non-derivative financial instruments

The Company initially recognises loans, receivables and cash and cash equivalents on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest is such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifes non-deravative financial assets into the following catagories: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Marketable securities are recognised at fair value through profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.
Cash and cash equivalents comprise cash balances and call deposits.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

35. Accounting policies, contd.:

Borrowing costs are recognised as a deduction of the financial liability and amortised using the effective interest method.

(iii) Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity.

c. Property, plant and equipment

(i) Fixed assets in operation

Items of fixed assets in operation other than transmission lines and substations are measured at cost less accumulated depreciation and impairment losses.
The cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items as well as restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.
In accordance with the provisions of the International Accounting Standards, the Company's transmission lines and substations are recognised on the basis of the revaluation method. The Company's transmission lines and substations are thus stated at a revalued cost in the balance sheet, which is their fair value on the revaluation date less revalued depreciation from the assets' acquisition date. The revaluation of those assets will be performed on a regular basis and when the management believes that their fair value has changed significantly, among other things due to external factors. All value increases due to the revaluation are entered in a revaluation account among equity after income tax. Depreciation of the revalued price is recognised in the income statement. Upon sale or disposal of an asset, the part of the revaluation account pertaining to that asset is recognised in retained earnings.

Any gain on disposal of an item of fixed assets in operating (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss as other income but any loss on disposal of an item of fixed assets in operation is recognised in profit or loss as other operating expenses.

(ii) Transmission structures under construction

Projects under construction are capitalised on the basis of the cost of purchased services, materials, direct wages and other costs directly attributable to the property. Assets that have not been put to use are not depreciated. Cost of capital for financing the cost of projects under construction is capitalised in the period that the asset is being constructed and is considered a part of the cost of the asset. Capitalised cost of capital is the Company's weighted average cost of capital.

(iii) Leased assets

The leases the Company holds are operating leases. Leased assets are not recognised in the Company's balance sheet.

(iv) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of day-to-day servicing of fixed assets in operation are recognised in profit or loss when incurred.

35. Accounting policies, contd.:

(v) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant or equipment until the salvage value is reached. The estimated useful lives are as follows:

Substations	20 - 40 years
Transmission lines	20 - 60 years
Buildings	50 years
Other assets	4 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

d. Intangible assets

(i) Developement cost

Developement cost is capitalised within fixed assets. This cost consists largely of expenses relating to exploration for transmission line sites, preparation for transmission structures and environmental impact assessments of proposed projects. Cost of capital attributable to developement costs is capitalised except when there is a extended delay on the projects. Developement cost is not depreciated at this stage, but possible impairment losses have been considered, as discussed in Note 35h.

The Company has concluded agreements whereby the prospective buyers of electricity shall bear all expenses of the project if it is cancelled.

When the decision to construct a transmission structure has been made and all neccessary approvals have been obtained, the development cost of the transmission structure is capitalised in fixed assets as a project under construction.

At each accounting date, capitalised development cost is reviewed by management and impairment is recognised if premises for the recognition of development cost no longer exist.
Expenditure on research activities is recognised in profit or loss when incurred.

(ii) Software and other intangible assets

Software and other intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of software are 4 years.

e. Investment in subsidiaries

The Company has one subsidiary, Landsnet ehf. The financial statements of the two companies are not consolidated and the holding is recognised at historical cost. The subsidiary has had no activity since its establishment. The share capital of the subsidiary is ISK 500 thousand.

f. Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The financial statements include the Company's share of the total recognised gains and losses of equity movements of associates on an equity-accounted basis from the date that significant influence commences until the date that the significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount, including any long-term investments, is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has undertaken an obligation for or made payments on behalf of the investee.

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35. Accounting policies, contd.:

g. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the expected sales price in normal operation net of any cost of selling the product. The cost of inventories is based on the first-in-first-out (FIFO) principle of inventory valuation and includes cost incurred in acquiring the inventories and bringing them to their existing location and condition.

h. Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

(ii) Other assets

The carrying amount of the Company's other assets, except for inventories, is reviewed at each reporting date to determine whether there is any indication of an impairment loss. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the "cash-generating unit"). Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. An impairment loss of revalued assets is recognised in revaluation account amongst retained earnings.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

i. Pension payments

(i) Defined contribution plans

The Company pays a contribution for part of its employees to defined contribution pension funds. The Company has no responsibility regarding the obligations of the pension funds. The contributions are recognised as an expense under salary and salary related expenses as incurred.

(ii) Defined benefit plans

Under an agreement between the Company and the Pension Fund for State Employees (LSR), the Company's obligations regarding employees who are members of LSR shall be settled yearly. LSR estimates specifically at year-end the present value of the pension obligation accrued during the year and deducts from that amount the contributions paid by employees and the Company to LSR due to pension rights accrued during the year. The difference is recognised in profit or loss and settled on a yearly basis. The actuarial estimation shall assume that the obligation accrued for the year is calculated to the present value at year-end using the interest rate normally used to estimate the obligations of pension funds, which is currently 3.5% per annum.

35. Accounting policies, contd.:

j. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are estimated by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

(i) Site restoration

The Company has estimated the cost of demolition of current line lots. The estimation is based on expert assessment. The demolition cost has been discounted based on the estimated useful life of the Company's power transmission lines. The discounted value is entered, on the one hand, as an increase for the relevant asset and, on the other hand, as an obligation in the balance sheet.

k. Revenue

Income from electricity transmission is recognised in the income statement on the basis of measured delivery during the year. Other revenue is recognised as earned or delivered. A revenue cap is set for the Company on the basis of Article 12 of the Electricity Act No. 65/2003.

l. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

An asset lease is expensed in the financial statements, the amount of which corresponds to financing cost and depreciation during the year, in relation to the use of electricity companies' transmission structures. The lease charge is regulated by the National Energy Authority.

m. Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign exchange rate differences recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, reversal of discounting of obligations, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs are recognised in income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

n. Income tax

Income tax on the results for the year consists of current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised among those items.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, in addition to adjustments made to current tax of previous years. The income tax rate is 20%.

A deferred tax asset (liability) is recognised in the financial statements. It´s calculation is based on the difference in balance sheet items, according to the tax return, on the one hand, and the financial statements, on the other hand. The difference thus arising is due to the fact that the tax assessment is based on premises other than the Company´s financial statements an is in main respect a temporary difference as expenses are entered in the financial statement in another period than in the tax return. Calculation of deferred tax is based on the expected tax ration when temporary differences are estimated to be reversed based on current law at the reporting date.

o. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is the same as basic EPS, as the Company has not issued any call options or convertible bonds.

35. Accounting policies, contd.:

p. Segment reporting

Under the Electricity Act, the Company may only administer the transmission of electricity and system management in Iceland and operate an electricity trading market. The Company has not begun operating an electricity trading market and considers its present operation as one single segment, for which reason it does not provide segment reporting.

q. New standards and interpretations thereof

The Company has implemented all International Financial Reporting Standards, amendments thereto and interpretations confirmed by the EU at year-end 2016 and that apply to its operations. The Company has not implemented standards, amendments thereto or interpretations entering into effect after year-end 2016 but allowed to be implemented sooner. The effect thereof on the Company's financial statements has not been fully determined but is considered to be insubstantial.

Appendix 1: Corporate Governance Statement

Role of Landsnet hf.

Under the Electricity Act No. 65/2003, Landsnet's role is to operate an electricity transmission system and administer its system management. The Company must ensure and maintain the capabilities of the transmission system on a long-term basis and ensure the electricity system's operational security. Landsnet's role is also to maintain a balance between electricity supply and demand at all times and manage the settlement of electricity flows countrywide. In addition, the Company is charged with promoting an efficient electricity market.

Corporate governance

The Board of Directors of Landsnet hf is committed to maintaining good corporate governance and complying with the Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers from June 1st 2015. The Board adopts Rules of Procedure defining the scope of its powers and duties vis-à-vis the President & CEO. The current Rules of Procedure were confirmed at the Annual General Meeting of Landsnet held on 27 June 2013 and are available for inspection at the Company's head office.

Internal control and risk management

To ensure that Landsnet's financial statements accord with generally accepted accounting practice, the Company has emphasised well-defined areas of responsibility, proper segregation of duties, regular reporting and transparency in its activities. The process of monthly reporting and reviews for individual departments is an important part of monitoring financial performance and other key performance indicators. The Board of Directors monitors the Company's financial risk. Information on risk management is provided in Note 30 to the annual financial statements.

Corporate values and Code of Ethics

Landsnet's employees are obliged to abide by the Company's values in all their activities. Its corporate values are informed by its role and future vision and provide the foundation for the corporate culture for which the Company strives. Landsnet's values are: respect, cooperation and responsible.

Landsnet's Code of Conduct was approved at a meeting of the Board of Directors on 25 July 2005 and is designed to encourage honesty, justice and fairness among staff towards each other, the Company and its customers. The Code is also intended to promote the trust and confidence of customers and the general public in Landsnet, as well as to limit the risk of reputational damage. The Board of Directors is of the view that a clear Code of Conduct that is duly observed in the Company's day-to-day activities forms the basis of its success and future growth. Landsnet's Code of Conduct applies to all its employees, including the Directors and the President & CEO. The Code of Conduct is available for inspection at Landsnet's head office.

Future vision and policy focus areas

Landsnet's future vision is an "electrified future in tune with society". Modern societies increasingly rely on a secure supply of electricity, making it necessary to strengthen the transmission system. Landsnet is committed to ensuring a secure supply of electricity in the future and maintaining a balance between generation and consumption. We will work to form as broad a consensus as possible on the way ahead, with due consideration for societal needs at any given time. We will treat the natural environment responsibly. Landsnet places priority on fostering a healthy electricity market environment and efficient use of financial resources.

Landsnet's corporate policy is based on the Company's role and future vision. The policy is reflected in our organisational and policy focus areas, which will guide our activities for the coming years.

Policy focus areas

Landsnet has defined a fourfold promise to society in the form of policy focus areas. These reflect our corporate policy and the milestones that must be achieved along the way to reach our future vision. The promises are:

1. A secure electricity supply – a high-quality, secure grid for the future

Landsnet is committed to ensuring that that all citizens, whether individuals, companies or public bodies, have access to electricity in the quantity and quality needed at all times. Future priorities are defined, including reliability, security and quality criteria. Landsnet will work towards a broad consensus on the rationale underlying decisions on infrastructure development and investment.

2. In harmony with society and the environment

Building a social consensus on Landsnet's role and aims will be an important enabler of progress. Such a consensus requires an understanding among the general public that the grid is one of the mainstays of our society. Landsnet therefore works towards raising awareness of its role, activities and importance as one of modern society's fundamental facilities. This requires a focus on corporate social responsibility intertwined with our policies. The company will seek to initiate and maintain a continuous dialogue with stakeholders – a dialogue characterised by honesty, responsibility, open-mindedness, mutual respect and a co-operative spirit.

3. Prudent use of funds – effective operations

Grid strengthening and a focus on bottleneck elimination will support a healthy investment environment for participants in the energy market and serve to reduce waste in the electricity sector as a whole. We take a "cradle to grave" approach to the grid when making decisions on investment and activities, with due consideration paid to the national interest. We manage and use the funds entrusted to us in a prudent manner, including proper stewardship of financial and other resources and cost-effective grid development, construction and operation. Our operations are streamlined.

4. A clear image

Landsnet seeks to build a clear corporate image of professionalism, trust and social responsibility. We strive to be a modern and forward-looking company that looks for a variety of solutions with an open mind in the overall public interest. We are committed to thorough, readily understandable and honest communication of information.

Organisational focus areas

Landsnet has defined a fourfold promise to society in the form of policy focus areas. These reflect our corporate policy and the milestones that must be achieved along the way to reach our future vision. The promises are:

1. Strategic management and organisation

Landsnet's organisational structure must support its role, policy and activities in a clear and targeted manner, including the company's promises to its customers and society at large. We place importance on a simple and effective organisational structure with strong main functional divisions and clear lines of responsibility that allow for a holistic overview of processes. In parallel, focus is placed on continuous improvements to simplify processes and step up efficiency and effectiveness.

2. A good workplace

Landsnet shows due care for all its employees. This includes providing them with opportunities to engage in exciting work and develop their skills in a professional and ambitious environment. We are committed to creating a good workplace whose culture and relations are shaped by our corporate values and whose employees are afforded opportunities to develop and progress. Importance is attached to cultivating a shared outlook among our staff on the company's values, purpose and role. Our corporate culture is characterised by service-mindedness and due care for the needs of our customers, staff, society and the environment.

Landsnet's management structure

The main units of Landsnet's management structure are the Board of Directors and the Executive Committee. Key roles are also performed by two committees appointed by the Board of Directors: the Audit Committee and the Remuneration Committee.

Relations between shareholders and the Board of Directors/management

Under the provisions of Act No. 75/2004 on the Establishment of Landsnet and the Electricity Act No. 65/2003, the Company's Directors shall be independent in all respects from other companies engaging in the generation, distribution or sale of electricity, whether these companies are owners of the Company or not. The purpose of these provisions is to meet the statutory requirement that the transmission system operator maintains utmost impartiality and non-discrimination in its activities.

With respect to the Company's special status under Chapter III of the Electricity Act and its strict duties to maintain impartiality and non-discrimination, it should be reiterated that shareholders are not permitted to interfere in individual affairs relating to Landsnet's activities.

As a rule, the shareholders' involvement must be limited to general policy decisions taken at regular shareholders' meetings, e.g. on financial targets.

Board of Directors

The Board of Directors of Landsnet hf is the supreme authority in the Company's affairs between Annual General Meetings. The Board is responsible for the Company's policy-making and major decisions between shareholders' meetings, as specified in, e.g., the Rules of Procedure of the Board of Directors. The Board supervises all Company operations, and works to ensure that its activities are in proper and good order at all times. The Board ensures sufficient supervision of the Company's financial management and that its accounts and financial statements are in good order. The Board engages the Chief Executive Officer of the Company, whose salary and employment terms are decided by the National Remuneration Committee, according to Act No. 47/2006 on the National Remuneration Board. All members of the board of directors are independent of the Company and the shareholders in accordance with article 8 of the Electicity Act No. 65/2003.

Landsnet's Board of Directors consists of the following three members:

Sigrún Björk Jakobsdóttir, Chairman of the Board

Sigrún Björk Jakobsdóttir was born in 1966. She has been a member of the board of many companies, institutions and committees and has extensive experience in the field of tourism and in local government. Sigrún Björk has a degree in hotel management from the IHTTI School of Hotel, Hospitality and Design Management in Luzern, Switzerland and has also studied at the University of Akureyri. She worked in the field of tourism from 1994 until 2003 as a division chief at Úrval Útsýn, as a consultant at PWC and was also a sessional lecturer at Hólar University College. She was a member of the Town Council for Akureyri between 2002 and 2010, Chairman of the council between 2006 and 2007 and the Mayor of Akureyri between 2007 and 2009. She was a Project Manager at the Regional Marketing Offices of Iceland (North) from between 2010 and 2011 until she accepted the position of Hotel Manager at Icelandair Hotel Akureyri in March, 2011. Sigrún Björk Jakobsdóttir was appointed Chairman of the Board at Landsnet's Annual General Meeting on the 7th of April, 2016.

Svana Helen Björnsdóttir, Director

Svana Helen Björnsdóttir was born in 1960. She pursued studies in electrical engineering at the University of Iceland. She read electrical engineering at the Technische Universität Darmstadt in Germany, from which she earned a Dipl.-Ing./MSc degree in electrical power engineering in 1987. Ms Björnsdóttir also holds a diploma in operations management from the University of Iceland. She founded the information security company Stiki in 1992 and is the CEO of Stiki. She was chairman of the Federation of Icelandic Industries. Ms Björnsdóttir was at the same time chairman of Akkur SI. In addition, she was a member of the Executive Committee and a board member of the Confederation of Icelandic Employers. Ms Björnsdóttir has sat on the board of numerous businesses, both Icelandic and foreign, as well as other organisations and institutions, and has extensive experience in business management in Iceland and overseas. Ms Björnsdóttir has been a member of Landsnet´s Board of Directors from 31 March 2009.

Ómar Benediktsson, Director

Ómar Benediktsson was born in 1959. He holds a cand. oecon. degree in business administration from the University of Iceland. He served in managerial positions in tourism and aviation for 30 years. At the beginning of 2012, he became CEO of Farice ehf, which operates the submarine telecommunications network linking Iceland with the rest of the world. Farice is also a key player in developing Iceland's emerging data centre industry. Mr Benediktsson has sat on the board of numerous businesses, both Icelandic and foreign, as well as other organisations and institutions, and has extensive experience in business management in Iceland and overseas. Mr Benediktsson has been a member of Landsnet´s Board of Directors from 29 March 2012.

The Alternate Director is Svava Bjarnadóttir and Jóhannes Sigurðsson.

The Board of Directors held 18 meetings in 2016. All of the meetings were attended by all Board members except for four meetings where one member was absent. Two meetings were attended by an Alternate Director.

Corporate Governance Statement, contd.:

Landsnet´s CEO and Executive Committee

Duties of the President & CEO

The President & CEO is responsible for the Company's day-to-day activities. He/she is empowered to make decisions on all Company affairs not entrusted to others under Act No. 2/1995 and/or the Company's Articles of Association. The President & CEO conducts the operations of the Company in accordance with rules and/or decisions of the Board of Directors, the Articles of Association and the law. The President & CEO's signature constitutes an obligation on the Company's part. He/she is an authorised signatory of the Company ("procuration holder"). The President & CEO may grant power of attorney to other employees of the Company to exercise designated powers of his/her duties of office, provided that prior approval is obtained from the Board of Directors.

The President & CEO is responsible for detecting, measuring, monitoring and controlling risks relating to the Company's operations. The President & CEO must maintain an organisation chart of the Company that clearly delineates areas of responsibility, employees' powers and communication channels within the Company. The President & CEO shall set internal control targets in consultation with the Board and monitor the effectiveness of internal control mechanisms. The President & CEO prepares meetings of the Board of Directors together with its Chairman and reports regularly to the Board on the Company's activities and position.

Guðmundur Ingi Ásmundsson, CEO & President

Mr Ásmundsson was born in 1955. He took a degree in electrical engineering from the University of Iceland in 1980 and a master's degree in electrical power engineering from the Technical University of Denmark in 1982. He joined Landsvirkjun in 1982 as an engineer in the Operations department, later becoming chief engineer and Head of System Operations from 1993. He served as Landsnet's System Manager from the Company's founding on 1 January 2005 and Director of System Operations from 1 November 2005. Mr Ásmundsson became Deputy CEO of Landsnet on 1 January 2008 and CEO & President on 1 January 2015.

Members of Landsnet's Executive Committe in addition to CEO consists of:

Einar S. Einarsson, Head of Corporate Services & Communication
Guðlaug Sigurðardóttir, Head of Finance (CFO)
Íris Baldursdóttir, Head of System Operation
Nils Gustavsson, Head of Constructions & Grid Services
Sverrir Jan Norðfjörð, Head of Technology & Development

Audit Committee

The Board of Directors appoints the Audit Committee. The current Audit Committee of Landsnet consists of:
María Sólbergsdóttir, accountant, Chairman
Ómar Benediktsson, Director of Landsnet's Board
Svava Bjarnadóttir, Alternate Director of Landsnet's Board

The Audit Committee has adopted Rules of Procedure, which define the Committee's role as follows:
The Audit Committee shall, among other things, have the following role, regardless of the responsibilities of the Board of Directors, management staff or others in this area:

- Oversight of procedures for the preparation of financial statements.
- Oversight of the structures and functioning of the Company's internal controls, internal auditing, if applicable, and risk management.
- Oversight of the auditing of the annual financial statements and consolidated financial statements.
- Assessment of the independence of the Company's auditor or audit firm; monitoring of the work of the auditor or audit firm.

The Audit Committee also makes proposals for improvements and deliberates on matters at the Board's request.
The Audit Committee annually submits a proposal to the Board for a certified public accountant or audit firm for the Company.

A total of 7 meetings were held in 2016, all of which were attended by all Committee members.

Corporate Governance Statement, contd.:

Remuneration Committee

The Board of Directors of Landsnet hf performs the role of the Company's Remuneration Committee. Landsnet hf has formulated a Remuneration Policy, which was approved at the Company's Annual General Meeting on 31 March 2011. The Remuneration Policy can be viewed on the Company's website. The business of the Remuneration Committee is transacted at meetings of the Board of Directors when applicable.

Appendix 2: Non-financial information

Non-financial information

In June 2016 the Icelandic Parliament passed a legal reform of the Icelandic Financial Statements Act no. 3/2006. These amendments became effective on January 1, 2016. The legal reform establishes several changes to the legislation including some increased and additional requirements regarding entities that surpass the legal threshold of being considered as large companies. According to these amendments such companies are now required to provide a summary of certain information that are necessary to analyse the environmental, social and employee aspects of the business. This is considered necessary to provide fundamental understanding of the company's development, performance and position on these non-financial matters. The summary shall also include a description of the company's policy regarding human rights matters, along with a description of the company's anti-bribery and anti-corruption policies. At last the summary shall include a brief description of the company's business model and non-financial key performance indicators. If the company has not adopted policies for one or more of the matters mentioned above, it shall disclose that fact and provide a detailed explanation in that regard. These requirements are entered into Icelandic law as part of the implementation of EU directive 2013/34/EU that will become effective for Member States in 2017. The EU has currently not published any further guidelines for implementation of the directive. The company is defined as a Public Interest Entity and is therefore subject to the aforementioned requirements. However, with regards to the short timeframe from the passing of the legal reform and the end of the financial year, the company has currently not been able to implement the necessary changes required. It shall be noted that these requirements will however be fully implemented in the year 2017 and the necessary information will be published along with the next financial statements.