

Stability in operations

- One of the biggest construction years in Landsnet's history

The financial statements were approved by the Board of Directors on the 7th of February, 2018.

Main points of the financial statement:

- Earnings Before Interest and Taxes (EBIT) was 59.3 million USD compared with 49.7 million USD in the previous year and increased by 9.6 million USD between years and is mostly explained by changes to tariffs and the increased strength of the ISK.
- Profits were 28 million USD in 2017, compared with 13 million USD in losses in 2016.
- The refinance of long-term loans in 2016, in accordance with Landsnet's functional currency, created the balance in operations that had been sought- after. The risks associated with currency have decreased significantly and the overall effects of the increased strength of the ISK on operations have not been substantial.
- Liquid assets of the company are strong. Net cash availability was 49.2 million USD at year end and net cash provided by operating activities amounted to 68.7 million USD. Strong liquid assets and new funding has ensured financing for planned construction projects in 2018.

Gudmundur Ingi Asmundsson, CEO says that 2017 has been a record year of construction and that there has been stability in operations.

"Operations this year were in line with our plans and it is satisfying to see that the work we have been involved in has led to steady operations, instead of the large fluctuations that we have previously experienced. The refinancing of long-term loans with favourable terms, the transfer to US dollars and procedure improvements has created the balanced operating environment expected. The company's currency risk has fallen considerably and the strengthening of the ISK has not had a significant effect on operations. This year has been one of the largest construction years in company history and it is pleasing to see that construction costs were largely in line with plans, despite major delays in large-scale projects. We continued payments on loans from the parent company to reduce risk in refinancing, due to maturity in 2020. There are numerous future challenges in ensuring national access to a sufficient and secure electricity supply, energy saving and developing systems that utilise existing power stations more efficiently. However, Landsnet is well prepared to take on these challenges. "

More information can be accessed at: www.landsnet.is where the Annual report is also available.

The main results of the financial statement, key figures and balance sheet ratios (amounts in thousands of USD):

| <i>Amounts are in USD thousand</i> | 2017 | 2016 | 2015 |
|---|-------------------|-------------------|-------------------|
| Income Statement | | | |
| Operating revenue | 147,326 | 129,743 | 122,735 |
| Operating expenses | (87,988) | (80,026) | (65,920) |
| Operating profit | 59,338 | 49,717 | 56,815 |
| Net financial expenses | (24,440) | (66,178) | (18,978) |
| Share in net earnings of associated company | 164 | 205 | 150 |
| Profit (loss) before income tax | 35,062 | (16,256) | 37,987 |
| Income tax | (7,049) | 3,289 | (7,575) |
| Profit (loss) | 28,013 | (12,967) | 30,412 |
| Balance Sheet | | | |
| <i>Amounts are in USD thousand</i> | | | |
| | 31.12.2017 | 31.12.2016 | 31.12.2015 |
| Balance Sheet | | | |
| Fixed assets | 777,214 | 735,376 | 709,797 |
| Current assets | 74,088 | 35,441 | 84,813 |
| Total assets | 851,302 | 770,817 | 794,610 |
| Equity | 336,964 | 308,411 | 323,756 |
| Long-term liabilities | 472,685 | 425,762 | 435,935 |
| Short-term liabilities | 41,653 | 36,644 | 34,919 |
| Total equity and liabilities | 851,302 | 770,817 | 794,610 |
| Cash Flow | | | |
| <i>Amounts are in USD thousand</i> | | | |
| | 2017 | 2016 | 2015 |
| Cash Flow | | | |
| Net cash from operating activities | 68,726 | 52,396 | 61,536 |
| Net cash to investment activities | (74,627) | (42,007) | (35,732) |
| Net cash to financing activities | 36,411 | (55,808) | (59,203) |
| Effect of exchange rate changes on cash | 412 | 1,382 | (723) |
| Cash and cash equivalents at 1 January | 18,253 | 62,290 | 96,412 |
| Cash and cash equivalents at 31 December | 49,175 | 18,253 | 62,290 |
| Financial ratios | | | |
| <i>Amounts are in USD thousand</i> | | | |
| | 2017 | 2016 | 2015 |
| Financial ratios | | | |
| EBITDA | 87,822 | 79,167 | 78,980 |
| | 31.12.2017 | 31.12.2016 | 31.12.2015 |
| Equity ratio | 39.6% | 40.0% | 40.7% |

Income statement

- Operating revenues were 147.3 million USD in 2017 compared with 129.7 million USD in the previous year.
- Profits from transmissions to energy intensive users remained stable between years. An increase in the quantity of electricity supply to energy intensive users in 2017 reduced the effects of the lowered tariff in the middle of 2016.
- Revenue from transmission to distribution system operators increased by 12.3 million USD this year. This can be attributed to three factors: Firstly, the tariff for distributors increased by 8.5% in August, 2017; the tariff for distributors did not retain its value

between 2008 and 2016 and therefore decreased in real terms. Company earnings are calculated on the basis of the Electricity Act and increases for the year were determined on that basis. Secondly, the increased strength of the ISK also appears as increased profit as the tariff for distributors is in ISK. Thirdly, profits increased due to curtailable transmission.

- Revenue from the sale of network services and energy losses in the transmission system increased by 5.5 million USD between years. The tariff for energy losses increased by 10.5% on the 1st of January and the tariffs for network services increased by 2.14% on the 1st of March. The increase is due to the higher purchase price of these items, but the tariff is set on a cost basis with a 1.5% surcharge.
- Operating expenses increased by 8 million USD between years, of which the increase in the purchase of network services and losses is approx. 4.3 million USD which can be attributed to higher purchase prices. National operation costs also increased as a result of the increased strength of the ISK.
- The increased strength of the ISK against the USD in operations was 11.5%. The effects of this on operations can be seen in increased profits and higher operating costs. The overall effect of the strengthening of the ISK has not been significant for operating profits before financial items.
- Earnings Before Interest and Taxes (EBIT) was 59.3 million USD compared with 49.7 million USD in the previous year and increased by 9.6 million USD between years.
- Net financial expenses amounted to 24.4 million USD and were 66.2 million USD in 2016 and decreased by 41.7 million USD between years. This can mostly be attributed to the decreased influence of the ISK on the loan portfolio. Refinancing measures were completed for most of the loan portfolio into USD by the end of 2016. Approximately 82.5% of the company's long-term debts had transferred over to USD by year-end 2017.
- Landsnet's profits were 28 million USD in 2017 according to the income statement compared with 13 million USD in losses in 2016. This change between years can mostly be attributed to more favourable financing and a lower exchange rate.
- The EBITDA of the company remained stable between years and was 87.8 million USD in 2017 compared with 79.2 million USD in the previous year. The increase in EBITDA between years can mostly be attributed the increased tariff for distributors.

Balance sheet and Cash Flow

- The total assets of the company amounted to 851.3 million USD at year end compared with 770.8 million USD at year end, 2016.
- Total liabilities amounted to 514.3 million USD at year end compared with 462.4 million USD at year end, 2016.
- Liquid assets of the company are strong. Net cash availability was 49.2 million USD at year end and net cash provided by operating activities amounted to 68.7 million USD.
- Equity ratio was 39.6% at year-end, compared with 40% at year-end, 2016.

Operating outlook

The company budget for 2018 predicts a 27.9 million USD profit from company operations. The revenue plan is based on the amount and price changes that the company is aware of. The cost estimate is based on the actual cost of the operation of the company, taking into

account the criteria for determining the revenue cap. The company's plans for construction during the year amount to approximately 70 million USD and the company has secured financing for this with cash flow and new funding. There is still some uncertainty associated with some of the projects with regard to licensing and official complaints. Changes to the loan portfolio this year will continue to be in line with the Board's policy with the aim of financing construction in the coming years, extending instalment processes and ensuring more favourable terms.

About the financial statement

The financial statements for 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS). These financial statements are presented in USD, which is the company's functional currency. The financial statements were approved by the Board of Directors on the 7th of February, 2017.

About Landsnet

Landsnet was established in 2005 and is responsible for operating Iceland's electricity transmission system, one of the most important parts of Iceland's infrastructure. Our role is to operate and develop Iceland's electricity transmission system and administer its system operations.

More information can be provided by Guðlaug Sigurðardóttir, CFO of Landsnet.

More information can be accessed at: www.landsnet.is where the Financial Statement is also available.