

## **Strong position despite currency exchange losses**

### **Main points of the financial statement:**

- Operating profits before financial items (EBIT) was 49.7 million USD compared with 56.8 million USD in the previous year and decreased by 7.1 million USD between years and is mostly explained by an increase in depreciation.
- The company incurred losses of 13 million USD, compared with a profit of 30.4 million USD in the previous year.
- Landsnet took steps to refinance the company in USD this year as Landsnet changed its functional currency to the USD at the beginning of the 2016. Unsecured bonds (the “Notes”) were issued in December of 2016 in the amount of 200 million USD and were sold to American institutional investors, via a private placement. An instalment was made on an indexed loan from the largest owner and the outstanding amount was changed over to USD. Approximately 80% of financing for the company was transferred over to USD in 2016, in line with the policy of the Board.
- Liquid assets of the company are strong. Net cash availability was 18.3 million USD at year end and net cash provided by operating activities amounted to 52.4 million USD

Landsnet changed its functional currency to the US dollar at the beginning of the 2016. The company was mostly financed using local currency rates (Icelandic Kroner:ISK) and Landsnet’s financial results were unfavorable due to the strengthening of the currency.

Landsnet took steps to refinance the company this year and a large milestone was reached at the end of the year when a bond (the “Notes”) was issued in the amount of 200 million USD sold to American institutional investors, via a private placement.

Gudmundur Ingi Ásmundsson, CEO of Landsnet stated that these financing changes have resulted in a reduced currency risk and more favorable interest rates. The changes have significantly reduced the exchange rate risk and the company's capital costs, which will benefit consumers in the future.

*"It is positive to see that operating income before financial items, depreciation and amortization is good and in line with expectations. Landsnet’s operations are built on a solid foundation and losses can be almost entirely explained by the strengthening of the Icelandic Kroner and its impact on financial costs. Through out the year 2016 approximately 80% of interest-bearing long-term liabilities consisted of an indexed start-up loan in ISK from the largest owner, on which no payments were due until 2020. Discussions took place with our lenders and a major step was taken when an agreement was reached in December on payments on the start-up loan as well as the restructuring of the outstanding balance at the close of 2016. Changes in financing will result in more favorable terms as well as minimizing the currency risk. "*

**More information can be found on our website: [www.landsnet.is](http://www.landsnet.is) where you can access the Annual Report.**

The company incurred losses of 13 million USD, compared with a profit of 30.4 million USD in the previous year.

The EBITDA of the company remained stable between years and was 79.2 million USD in 2016 compared with 79 million USD in the previous year. The company's losses and reduction in performance between years can be almost entirely explained by the strengthening of the ISK and its impact on financial items.

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>	<b>2016</b>	<b>2015</b>
<b>Income Statement</b>		
Operating revenue	129,743	122,735
Operating expenses	( 80,026)	( 65,920)
<b>Operating profit</b>	49,717	56,815
Net financial expenses	( 66,178)	( 18,978)
Share in net earnings of associated company	205	150
<b>(Loss) profit before income tax</b>	( 16,256)	37,987
Income tax	3,289	( 7,575)
<b>(Loss) profit</b>	( 12,967)	30,412

<i>Amounts are in USD thousand</i>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Balance Sheet</b>		
Fixed assets	735,376	709,797
Current assets	35,441	84,813
<b>Total assets</b>	770,817	794,610
Equity	308,411	323,756
Long-term liabilities	425,762	435,935
Short-term liabilities	36,644	34,919
<b>Total equity and liabilities</b>	770,817	794,610

<i>Amounts are in USD thousand</i>	<b>2016</b>	<b>2015</b>
<b>Cash Flow</b>		
Net cash from operating activities	52,396	61,536
Net cash to investment activities	( 42,007)	( 35,732)
Net cash to financing activities	( 55,808)	( 59,203)
Effect of exchange rate changes on cash	1,382	( 723)
Cash and cash equivalents at 1 January	62,290	96,412
<b>Cash and cash equivalents at 31 December</b>	18,253	62,290

<i>Amounts are in USD thousand</i>	<b>2016</b>	<b>2015</b>
<b>Financial ratios</b>		
EBITDA	79,167	78,980
	<b>31.12.2016</b>	<b>31.12.2015</b>
Equity ratio	40.0%	40.7%

## Income statement

- Operating revenues were 129.7 million USD in 2016 compared with 122.7 million USD in the previous year.
- Profits from energy transmissions to power-intensive costumers decreased by 2.6 million USD which can be mostly explained by a tariff decrease of 9% (from the 1st of July, 2016).
- Revenue from energy transmission to distribution system operators increased by 5.2 million USD and the tariffs increased twice in 2016; first on the 1st of January by 10% and on the 1st of December by 13%. The tariff for distributors has not retained its value since 2008 and 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. The decrease in income from curtailable transmission between years amounted to 1.7 million USD.
- Revenue from the sale of ancillary services and transmission losses in the transmission system increased by 3.9 million USD between years. The tariff for ancillary services increased by 4.5% on the 1st of January and tariffs for energy losses by 12.0%. 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 14.1 million per year, of which the increase in depreciation is 7.3 million USD; explained by the revaluation of property in 2015. The procurement of ancillary services and energy due to transmission losses amounted to 4.1 million USD.
- Part of the Company's revenue and operating cost are Icelandic kroner. The strengthening of the ISK against the USD accounted for 13% and the effect on company operations is reflected in increased revenue and increased operating costs. The overall appreciation had a negligible effect on operating profit before financial items.
- Earnings Before Interest and Taxes (EBIT) was 49.7 million USD compared with 56.8 million USD in the previous year and decreased by 7.1 million USD between years.
- Net financial expenses amounted to 66.2 million USD and were 19.0 million USD in 2015. Net financial expenses therefore increased by 47.2 million USD between years. The company was mostly financed in local currency and the 13% appreciation of the ISK mostly explains the increase in net financial expenses between years. Landsnet took steps to refinance the company in 2016 and an unsecured bond (the "Notes") was issued in December in the amount of 200 million USD (22.9 billion ISK). The move was a big step for Landsnet as it marked the first time that Landsnet has issued bonds to foreign investors. An agreement was reached with the largest owner of the company on payments on the start-up loan from 2005 as well as the restructuring of the outstanding balance to USD. Approximately 80% of the financing for the company was therefore changed to USD by the end of the year, whereas 90% had previously been secured in ISK.
- The company incurred losses of 13 million USD according to the financial statement in 2016, compared with a profit of 30.4 million USD in the previous year. The change between years can mostly be attributed to the currency rate.

## Balance sheet

- The total assets of the company amounted to 770.8 million USD at year end compared with 794.6 million USD at year end, 2015.

- Total liabilities amounted to 462.4 million USD at year end compared with 470.9 million USD at year end, 2015.
- Liquid assets of the company are strong. Net cash availability was 18.3 million USD at year end and net cash provided by operating activities amounted to 52.4 million USD
- Equity ratio was 40% at year-end compared with 40.7% at year-end, 2015.

### **Operating outlook**

The refinancing of the company this year has significantly decreased the currency risk in the future. The effect of the change in functional currency on EBITDA is negligible as income and expenses in Icelandic kroner are naturally defended against this. The changed composition of the loan portfolio and new loans have significantly reduced the future currency risk to company operations.

The company's budget for 2017 predicts a 26.4 million USD profit from company operations. The transmission tariff will remain unchanged this year and there are no proposed changes. The tariff for system services and losses take into account the cost of the service each time. The company will continue to make changes to its loan portfolio, in line with the policy of the Board, with the aim of extending the repayment process and the obtainment of better 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 9th of February, 2017.

### **About Landsnet**

Landsnet hf 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, Tel. +354 563 9300 or e-mail: [gudlaugs@landsnet.is](mailto:gudlaugs@landsnet.is)**