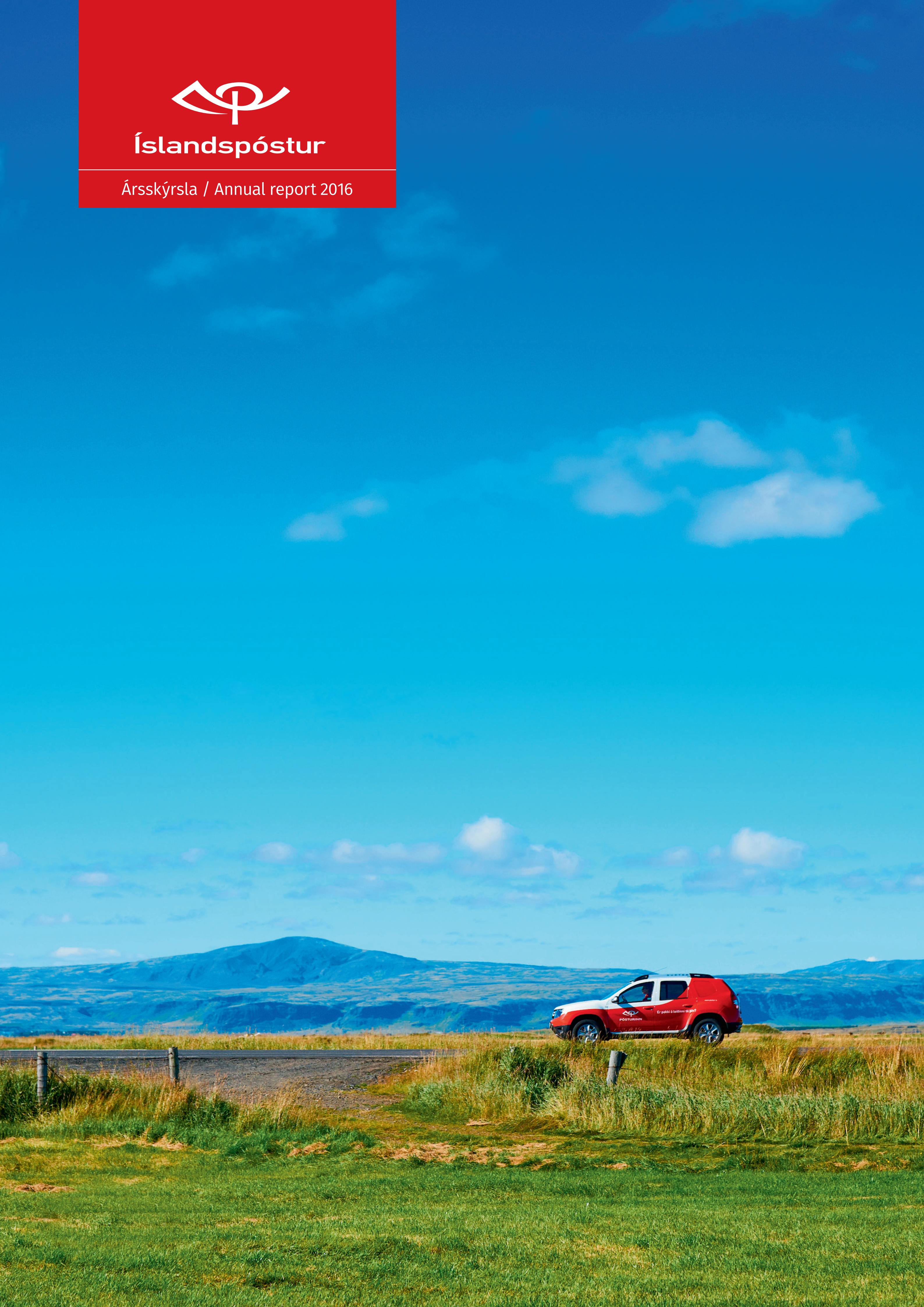
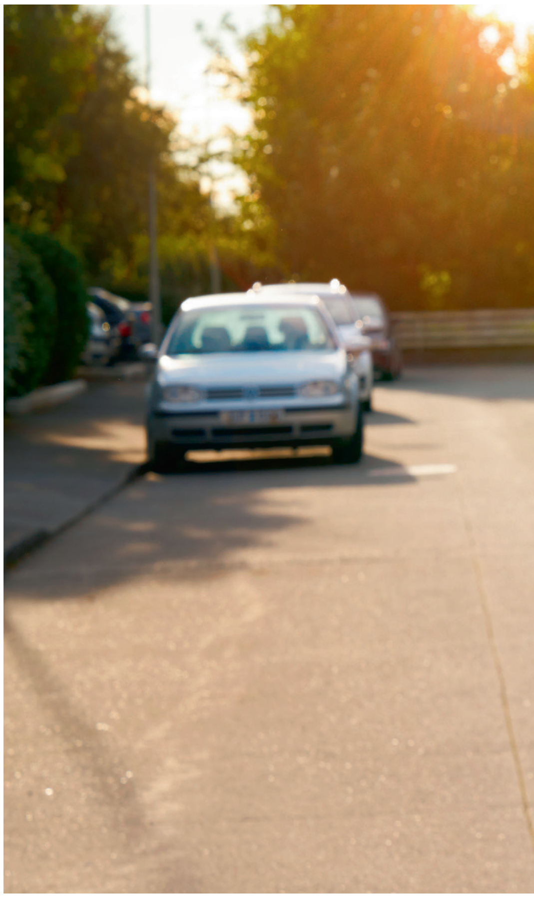
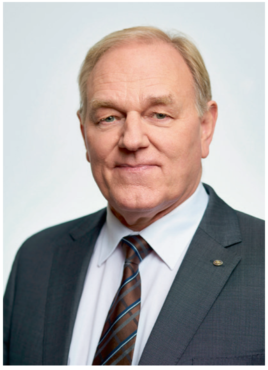
Íslandspóstur

Ársskýrsla / Annual report 2016







Good turnaround

Iceland Post's profit in 2016 was 121 million ISK which is a long awaited turnaround after a three year period of losses. Net profit is slightly less than the original budget for 2016 estimated, mainly due to currency fluctuation, where the strengthening of the Icelandic Króna (ISK) led to losses due to the exchange rate, but, conversely, a considerable cost reduction was achieved with the reduction in delivery days in the countryside. Operating profit was, however, somewhat higher than budgeted and reached 330 million ISK. EBIDTA reached 726 million ISK or 8,5% of gross income which is nearly two percent lower than what was aimed for.

One could say that Iceland Post's operations were successful in 2016 although the result is slightly lower than the company's profitability requirement was. In recent years there has been a vast increase in packets and parcels, a development that continued in 2016. This can, for the most part, be attributed to an increase in online shopping. There has been an interesting development in registered letters from abroad, with volume increase of 50% year on year. Revenue from these items is determined by international agreements and is, generally, insufficient for postal operators in the Western hemisphere to cover the cost of delivery of such items despite being contractually obligated to deliver them. Logistics is an ever increasing part of Iceland Post's operations as reflected in the company's increased emphasis on quality in that area, aiming to provide our customers outstanding service in distribution, communications, and logistics. This counteracts to some extent the substantial reduction in letter volume that has been prevalent in the last decade and seems likely to continue in the coming years.

In the last decade, Iceland Post's directors have implemented a variety of cost reducing changes resulting in savings in operations currently amounting to 1,2 billion ISK annually. The changes in the company's operations, as well as the changes in its operational environment are swift and there are numerous challenges, but we have seen an increase in gross income in the last year. As the number of homes and businesses grows, the size of the legally obligated distribution network increases while the volume in letter mail continues to fall, salary cost as percentage of operating expenses is atypically high in postal services and wages are generally still too low. There is a limit to how advisable a further increase in postage for letters within the monopoly is, but further actions aimed at maintaining current service level or reducing operating cost are, for the most part, governed by changes in laws and regulations concerning postal services. All these issues must be addressed while the quality of service is improved and service level is increased at a competitive price, both in the interest of the company's customers.

Iceland Post has for many years emphasised fulfilling legal obligations regarding equal pay for equal work for men and women. In 2016 the company hired PwC to conduct an equal pay audit. Salary of all employees were assessed and analysed with respect to age, seniority, total work hours, and job description. The result showed that Iceland Post fulfilled the requirements of the audit and the company earned the Gold Seal of PwC's Equal Pay Audit in 2016.

Iceland Post and the Icelandic Competition Authority have finalised a settlement which concludes investigation by the Competition Authority into a number of issues. The conclusion of these issues is a great relief and suffice it to say that the actions agreed upon in the settlement are beneficial to the company and its operational environment. The goal is to increase competition and reduce restrictions to competition in the postal market which stem from laws concerning universal service and the State's, and by proxy Iceland Post's, monopoly on the distribution of addressed letters weighing under 50 g. The settlement stipulates that Iceland Post must increase the company's operational transparency, the main branches of the operations be clearly separated with divisional reporting beyond the ordinary legal requirements. The company's

directors hope the settlement will make it clear that Iceland Post's operations in the market are conducted on a sound basis and are not subsidised by the monopoly branch of the operations beyond what is necessary and required to fulfil universal service obligations.

Clearly, Iceland Post's operating environment is quite complicated in many respects in that the company assumes the State's monopoly for delivery of addressed letters under 50 g, has wide ranging legal universal service obligations for domestic and international items, and its revenue is in part governed by international agreements, all of which has been costly for the company. All the while, some of Iceland Post's operations are conducted in a competitive market. Iceland Post's directors have, for years, emphasized that the residual monopoly on addressed letters is not in the company's interest and the company's spokesmen have lobbied for this monopoly to be abolished as required by the European Union's Postal Directive. Moreover, authorities must define the scope of the postal service and how the cost of providing legally required universal service shall be met, which, until now, Iceland Post has done without the aid of any government funding, unlike the situation found in most other European countries.

Iceland Post's board of directors has scrutinised the postal service's operating conditions and operating results for the last few years as well as the report from the Government's task force on Iceland Post's operating conditions which was prepared in 2014. At the same time they have reviewed their comments to the Minister of the Interior in recent years regarding the eroded premises for providing postal service as well as the necessity to reach a conclusion on the assessment of the financial burden of the universal service obligation that Iceland Post has calculated for its part. Furthermore, the board of directors has, with respect to recent judicial rulings, scrutinized and debated their, and Iceland Post managers', duties and responsibility with respect to corporate law, especially those that touch upon guarding the interest of the corporation as a legal entity, and thereby its creditors, while separating the company from its shareholders.

Following that discussion, the Minister of the Interior was informed of the assessment of the board of directors that it is indefensible to continue providing postal services under current conditions as the company's directors do not have sufficient leeway to react in a timely manner to changes in the company's operating environment. This has led to the company having to subsidise postal services with its equity and loans. This is no longer possible. Financial basis for maintaining the level of service in accordance with the company's operating license is long gone. Therefore, yet again but now in this venue, attention must be drawn to the dire necessity to review the current law concerning postal services no. 19/2002 with respect to universal service obligations and to take a decision on whether they should be changed or whether the State should finance the unfunded universal service obligation burden. The current situation is untenable for a company operating in accordance with corporate law.

Iceland Post's employees have tackled the challenging operations with enthusiasm and vigour. Operating aspects under their control have been successful for the main part and as before they deserve praise for the success achieved in 2016. Iceland Post's policy is clear in its constant strive to develop its operations in accordance with the customers' wishes, because, at the end of the day, they are judge and jury. It is imperative for us that their judgement is in our favour and therefore we emphasise continuing on our course; to fulfil the company's policy and values of building on trust, willingness and progress.

Ingimundur Sigurpálsson,
Managing director & CEO

2016

CONSOLIDATED
FINANCIAL STATEMENTS*

*These consolidated financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Endorsement and statement by the Board of Directors and the Managing Director

Operations in 2016

The consolidated financial statements include the financial statements of Íslandspóstur ohf. and its subsidiaries, Trönur ehf., Samskipti ehf., Frakt flutningsmiðlun ehf., ePóstur ehf. and Gagnageymslan ehf.

The Group's profit for the year amounted to ISK 120,7 million according to the income statement. Equity as at December 31, 2016 amounted to ISK 2.314 million according to the balance sheet. The Company's share capital as at December 31, 2016 amounted to ISK 1.448 million and is wholly owned by the Icelandic State.

Despite the Company’s profit in 2016, its operating result for the year was not in line with the Company's assessment on necessary profit. In a declining monopoly letter market, management is of the opinion that it is of the upmost importance that the Company can under these exceptional circumstances react quickly to new market conditions, both regarding pricing and increasing efficiency, but under current condition this is partly dependent upon Icelandic regulations and international pricing agreements. In regards to the future of the postal service it also needs to be defined who is obliged to finance those sectors of the operations that are unprofitable. Ability to subsidize the service by using the equity of Íslandspóstur as in previous years is no longer an option.

Corporate governance

The Board of Directors of Íslandspóstur endeavours to maintain good corporate governance in line with the Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce in collaboration with the Confederation of Icelandic Employers and Nasdaq OMX Iceland. The Board of Directors operates on the basis of the State‘s ownership policy for public limited companies, the Company's Articles of Association and the Board of Directors' operating procedures. The procedures include among other things definition of the competences and division of tasks between the Directors of the Board, provisions on the qualification of the Directors of the Board, confidentiality rules and more.

Statement by the Board of Directors and the Managing Director

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

According to the best of our knowledge, it is our opinion that the consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the year 2016, its assets, liabilities and financial position as at December 31, 2016 and its consolidated cash flows for the financial year 2016.

Further, in our opinion the consolidated financial statements and the Endorsement of the Board of Directors and the Managing Director gives a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the Managing Director of Íslandspóstur ohf. have today discussed the Company's consolidated financial statements for the year 2016 and confirm them by means of their signatures. The Board of Directors and the Managing Director recommend that the consolidated financial statements be approved at the annual general meeting of Íslandspóstur ohf.

Reykjavik, 17th of February, 2017.

The Board of Directors:

Eiríkur Haukur Hauksson, Svanhildur Hólm Valsdóttir

Jón Ingi Cæsarsson, Ólöf Kristín Sveinsdóttir, Preben Jón Pétursson

Managing Director:

Ingimundur Sigurpálsson

Independent auditor´s report

To the Board of Directors and Shareholders of Íslandspóstur ohf.

Opinion

We have audited the accompanying consolidated financial statements of Íslandspóstur ohf. and its subsidiaries („the Group“) for the year 2016. The financial statement comprise the endorsement and statement by the Board of Directors and the Managing Director, the balance sheet, the income statement, statement of changes in equity, statement of cash flows, notes to the financial statements including a summary of significant accounting policies.

We confirm that to the best of our knowledge, the report of the Board of Directors accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2016, and of 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.

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 Íslandspóstur ohf. and have fulfilled the requirements of the Code of ethics for auditors in Iceland. We believe that the audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the EU. The Board of Directors and CEO are also responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

Our audit is in accordance with ISAs and is based on professional judgement and professional scepticism. We also:

- Identify and assess the risks of material misstatement of the consolidated 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, misrepresentations, intentional omissions, 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 the Company’s internal control.

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

Independent auditor´s report, cont.

- 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 consolidated 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 on an overall basis whether the consolidated financial statements give a true and fair view of the underlying transactions and events, evaluate the presentation, structure and content of the consolidated financial statements, including disclosures with regard to fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with The Board of Directors 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 may identify during our audit.

Reykjavik, 17th of February, 2017.

The National Audit Office of Iceland:

Sveinn Arason

Auditor General CPA

Óskar Sverrisson

Auditor CPA

Income statement for the year 2016

	Notes	2016	2015
OPERATING REVENUE			
Postal services		7.081.452	6.409.494
Other revenue		1.442.666	1.190.602
		8.524.118	7.600.096
OPERATING EXPENSES			
Salaries and related expenses	4	4.949.626	4.418.722
Direct cost of postal distribution		1.357.370	1.458.086
Other operating expenses		1.491.377	1.354.987
		7.798.373	7.231.795
EBITDA		725.745	368.301
Depreciation	7	(395.963)	(395.753)
EBIT		329.782	(27.452)
Finance income		37.636	26.124
Finance expenses		(233.621)	(150.050)
Net finance expenses	6	(195.985)	(123.926)
Profit (loss) before income tax		133.797	(151.378)
Income tax	16	(13.116)	32.951
Comprehensive profit (loss) for the year		120.681	(118.427)
TOTAL COMPREHENSIVE PROFIT (LOSS) ATTRIBUTABLE TO:			
Owners of the Company		119.302	(120.676)
Non-controlling interests		1.379	2.249
Total comprehensive profit (loss) for the year		120.681	(118.427)
EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE			
Earnings and diluted earnings per share on each ISK 1 share	14	0,08	(0,08)

Amount are in ISK thousand

Notes no. 1-26 are an integral part of these Consolidated Financial Statement

Balance sheet December 31, 2016

ASSETS	Notes	2016	2015
Property, plant and equipment	7	3.170.097	3.196.441
Investment in other companies	8	80.372	80.372
Bonds	9	7.844	12.401
Deferred tax asset	16	1.251	13.167
NON-CURRENT ASSETS		3.259.564	3.302.381
Inventories	10	182.234	176.399
Accounts receivable and other receivables	11	1.515.015	1.334.418
Cash and cash equivalents	12	405.660	419.082
Assets held for sale	13	7.798	7.798
CURRENT ASSETS		2.110.707	1.937.697
TOTAL ASSETS		5.370.271	5.240.078
EQUITY			
Share capital	14	1.447.500	1.447.500
Statutory reserve	15	357.343	351.378
Undistributed profit	15	13.093	0
Retained earnings		486.145	385.901
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		2.304.081	2.184.779
Non-controlling interests		9.515	10.386
EQUITY		2.313.596	2.195.165
LIABILITIES			
Loans and borrowings	17	1.699.818	1.810.437
Deferred tax liability	16	495	0
NON-CURRENT LIABILITIES		1.700.313	1.810.437
Current tax	16	705	2.186
Accounts payable and other short term liabilities	18	1.355.657	1.232.290
CURRENT LIABILITIES		1.356.362	1.234.476
LIABILITIES		3.056.675	3.044.913
TOTAL EQUITY AND LIABILITIES		5.370.271	5.240.078

Amount are in ISK thousand

Notes no. 1-26 are an integral part of these Consolidated Financial Statement

Statement of changes in equity for the year 2016

	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
YEAR 2016						
Equity 1.1.2016	1.447.500	351.378	385.901	2.184.779	10.386	2.195.165
Dividends to non-controlling interest				0	(2.250)	(2.250)
Statutory reserve contribution		5.965	(5.965)	0		0
Profit for the year			119.302	119.302	1.379	120.681
Moved to other reserves		13.093	(13.093)	0		0
Equity 31.12.2016	1.447.500	370.436	486.145	2.304.081	9.515	2.313.596
YEAR 2015						
Equity 1.1.2015	1.447.500	351.378	506.577	2.305.455	8.137	2.313.592
(Loss) profit for the year			(120.676)	(120.676)	2.249	(118.427)
Equity 31.12.2015	1.447.500	351.378	385.901	2.184.779	10.386	2.195.165

For further information on other reserves, see note 15.

Amount are in ISK thousand

Statement of cash flows for the year 2016

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2016	2015
Profit (loss) for the year		120.681	(118.427)
Operating items not affecting cash flow:			
Loss (gain) on sale of assets		18.987	(2.081)
Depreciation	7	395.963	395.753
Net finance expenses	6	195.985	123.926
Income tax	16	12.411	(35.137)
WORKING CAPITAL FROM OPERATING ACTIVITIES		744.027	364.034
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(5.835)	20.497
Receivables, increase		(277.881)	(182.847)
Current liabilities, increase		136.289	98.236
CASH GENERATED FROM OPERATING ACTIVITIES		(147.427)	(64.114)
Interest received		19.060	11.141
Interest paid		(117.100)	(88.664)
Income tax paid		2.185	0
NET CASH FROM OPERATING ACTIVITIES		500.745	222.397
CASH FLOWS FROM INVESTING ACTIVITIES			
Real estate and land	7	(22.355)	(65.979)
Machinery, equipment and vehicles	7	(408.085)	(259.489)
Proceeds from the sales of fixed assets		41.834	44.435
Other changes		5.933	5.588
NET CASH USED IN INVESTING ACTIVITIES		(382.673)	(275.445)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans		0	500.000
Contribution from non-controlling shareholders		(2.250)	0
Repayment on long-term loans		(129.244)	(114.595)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(131.494)	385.405
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(13.422)	332.357
CASH AND CASH EQUIVALENTS AT YEAR BEGINNING		419.082	86.725
CASH AND CASH EQUIVALENTS AT YEAR END	12	405.660	419.082

Amount are in ISK thousand

Notes no. 1-26 are an integral part of these Consolidated Financial Statement

Notes

1. REPORTING ENTITY

Íslandspóstur ohf. ("the Company") is a company domiciled in Iceland. The address of the Company's registered office and headquarters is Stórhöfði 29, Reykjavík. The consolidated financial statements of the Company as at and for the year ended December 31, 2016 comprise the Company and its subsidiaries, together referred to as the "Group".

2. BASIS OF PREPARATION

a. Statement of compliance

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

The Company's Board of Directors approved the consolidated financial statements on February 17, 2017.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These consolidated financial statements are presented in Icelandic kronas, which is the Company's functional currency. All financial information presented in Icelandic kronas has been rounded to the nearest thousand.

d. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs 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.

3. REVENUE

The Group's revenue for services are recognised in the income statement in the month, in which the service is rendered without regard for when settlement therefore is received. Revenue on sale of goods is recognised in the income statements when the ownership is transferred to the buyer.

4. SALARIES AND RELATED EXPENSES

The Company has engaged in paying a pension fund contribution to the Pension Fund of State Employees amounting to 6% of the difference betweeen total salaries and standard salaries of those employees exploiting their right to payment of pension fund premiums while working for the Company.

Salaries, related expenses and other personnel expenses are specified as follows:

	2016	2015
Salaries	3.982.147	3.532.520
Contribution to defined contribution fund	383.836	338.730
Salary related expenses	361.315	337.551
Other personnel expenses	222.328	209.921
Total salaries and related expenses	4.949.626	4.418.722
Full-time equivalent units	833	816

Amount are in ISK thousand

Notes cont.

4. SALARIES AND RELATED EXPENSES, CONT.

Salaries and perquisite of the Board of Directors and executive management amounted to ISK 111 million (2015: ISK 104 million) during the year, whereof the salaries of the Managing Director amounted to ISK 17 million (2015: ISK 14 million) and the salaries of Directors of the Board amounted to ISK 9 million (2015: ISK 8 million). Salaries of the Chairman of the Board are the double of the salaries of a Director of the Board. Agreements with the Company's management neither include provisions on option rights to shares in the Company nor special employment termination payments.

5. AUDITOR'S FEE

Payments to the Icelandic National Audit Office are specified as follows:	2016	2015
Audit of financial statements	5.138	5.836
Interim financial statements review	6.065	3.387
Total	11.203	9.223

6. FINANCE INCOME AND EXPENSES

Finance income

Finance income comprises interest income on funds invested, foreign exchange gain on foreign currencies and dividends received. Interest income is recognised as it accrues in the income statement.

Finance expense

Finance expenses comprise interest expense on borrowings and foreign exchange loss on foreign currencies.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising is recognised in the income statement.

Finance income and expenses are specified as follows:	2016	2015
Interest earned and indexation	19.430	11.502
Dividend	18.206	14.622
Total financial income	37.636	26.124
Interest expenses and indexation	(137.138)	(132.030)
Foreign exchange difference	(96.483)	(18.020)
Total financial expense	(233.621)	(150.050)
Total net financial expense	(195.985)	(123.926)

7. PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement.

Amount are in ISK thousand

7. PROPERTY, PLANT AND EQUIPMENT, CONT.

Subsequent costs

The cost of replacing 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 Group and its cost can be measured reliably. All other cost is recognised in the income statement as incurred.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are specified as follows:

Buildings	20-25 years
Machines, equipment and vehicles	3-10 years

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

Property, plant and equipment and depreciation are specified as follows:	Real estates and land	Machinery, equipment and vehicles	Total
Cost price			
Balance at 1.1.2015	3.216.121	3.103.549	6.319.670
Additions during the year	65.979	259.489	325.468
Disposals	(93.284)	(58.821)	(152.105)
Balance at 31.12.2015	3.188.816	3.304.217	6.493.033
Balance at 1.1.2016	3.188.816	3.304.217	6.493.033
Additions during the year	22.355	408.085	430.440
Disposals	0	(161.825)	(161.825)
Balance at 31.12.2016	3.211.171	3.550.477	6.761.648
Depreciation			
Balance at 1.1.2015	1.334.479	1.677.549	3.012.028
Depreciation for the year	123.737	272.016	395.753
Disposals	(60.554)	(50.635)	(111.189)
Balance at 31.12.2015	1.397.662	1.898.930	3.296.592
Balance at 1.1.2016	1.397.662	1.898.930	3.296.592
Depreciation for the year	101.023	294.940	395.963
Disposals	0	(101.004)	(101.004)
Balance at 31.12.2016	1.498.685	2.092.866	3.591.551
Book value			
1.1.2015	1.881.642	1.426.000	3.307.642
31.12.2015 and 1.1.2016	1.791.154	1.405.287	3.196.441
31.12.2016	1.712.486	1.457.611	3.170.097
Depreciation rates	0-5%	10-33%	

Insurance and evaluation of assets

Insurance value, official premises valuation and book value of proprety, plant and equipment at year end were as follows:

	2016	2015
Insurance value of real estate	3.499.060	3.649.044
Official premises valuation of real estate and land	1.969.607	1.911.045
Book value of real estate and land	1.712.486	1.791.154
Insurance value of machinery, equipment and vehicles	5.027.994	4.877.154
Book value of machinery, equipment and vehicles	1.457.611	1.405.287

Amount are in ISK thousand

Notes cont.

7. PROPERTY, PLANT AND EQUIPMENT, CONT.

Mortgages

The Group's operating assets are pledged for an insurance bill and bonds to secure liabilities amounting to ISK 1.285 million at year end (2015: ISK 1.332 million.)

8. INVESTMENT IN OTHER COMPANIES

The Group’s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. When investments in equity securities do not have a quoted market price in an active market and whose fair value cannot be reliably measured they are measured at cost less any impairment recognised.

Investment in other companies is specified as follows:	2016		2015	
	Nominal value	Book value	Nominal value	Book value
Internet á Íslandi hf.	3.781	45.352	3.781	45.352
Vörusjá ehf.	27.500	27.500	27.500	27.500
Sendill is Unimaze ehf.	25	5.000	25	5.000
Eurogiro,				
nominal value 100 thousand DKK		2.520		2.520
Total shares in other companies		80.372		80.372

9. BONDS

Bonds are specified as follows:	2016	2015
Balance at 1.1	17.932	22.369
Indexation	298	372
Maturities	(5.780)	(5.434)
Change in allowance	548	625
Current maturities	(5.154)	(5.531)
Bonds at 31.12	7.844	12.401

10. INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The net realisable value is the estimated sales value in transactions between unrelated parties less estimated cost of selling the goods. The cost of inventories is based on the average cost principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Inventories at year end are specified as follows:	2016	2015
Inventories, consumables	90.738	93.850
Inventories, postage stamps	91.496	82.549
Total inventories	182.234	176.399

Inventories recognised as cost of sales amounted to ISK 145 million. (2015: ISK 155 million.)

11. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable and other receivables are specified as follows:	2016	2015
Nominal value of accounts receivable	1.223.208	1.112.815
Write down of probable loss on accounts receivable	(133.618)	(112.778)
Current maturities of bonds	5.154	5.531
Various short term receivables	420.271	328.850
Total accounts receivable and other receivables	1.515.015	1.334.418

Amount are in ISK thousand

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits.

Cash and cash equivalents are specified as follows:	2016	2015
Market securities	25.484	24.215
Current bank deposits	374.373	390.422
Funds	5.803	4.445
Total cash and cash equivalents	405.660	419.082

13. ASSETS HELD FOR SALE

Fixed assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and net fair value.

Fixed assets held for sale are specified as follows:	2016	2015
Balance at 1.1	7.798	50.140
Disposals	0	(42.342)
Total fixed assets held for sale	7.798	7.798

14. EQUITY

Share capital

The Company's total share capital according to its Articles of Association amounts to ISK 1.448 million and have all been paid. One vote is attached to each ISK 1 share in the Company.

Dividends

No dividends paid in the year 2016 (2015: No dividends).

Statutory reserve

The Company has the obligation to allocate at least 10% of its profit, which is not used to meet possible losses of previous years and is not allocated into other statutory reserves, into a legal reserve until reaching 10% of share capital. When that target has been reached, contributions must be at least 5% until the reserve amounts to 25% of share capital. The Company has received payments exceeding the nominal value for shares when share capital was increased, and the paid amount in excess of the nominal value has been allocated to the premium account. The Company may use the legal reserve to settle against a loss that can not be settled with other reserves. When the reserve amounts to more than 25% of share capital, the amount in excess may be used to increase share capital or, in accordance with provisions of Article 53 of the Act on Limited Companies, no. 2/1995, for other concerns.

Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares, which are 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. The Company has neither concluded option agreements nor acquired new loans convertible into share capital so diluted earnings per share equals basic earnings per share.

Amount are in ISK thousand

Notes cont.

15. OTHER RESERVES

Other reserves are specified as follows:

	Statutory reserve	Undistributed profits	Total
Other reserves 1.1. and 31. 12. 2015	351.378	0	351.378
Other reserves 1.1.2016	351.378	0	351.378
Share in profit or loss of subsidiaries		15.391	15.391
Dividend received		(2.298)	(2.298)
Statutory reserve contribution	5.965		5.965
Other reserves 31.12.2016	357.343	13.093	370.436

According to law no. 73/2016 on amendments to the law on Financial Statements no. 3/2006, companies are required to recognize share in profit or loss of subsidiaries and associated companies that exceeds dividend received or declared from those companies to a restricted reserve among equity. If a subsidiary or an associated company is sold or liquidated, the undistributed profit or loss relating to that entity shall be transferred to retained earnings. The effect of the law amendment has been estimated but there is still uncertainty regarding its implementation.

16. INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income tax in the income statement is specified as follows:

Current tax	2016	2015
Taxes for the year	705	2.186
Deferred taxes		
Temporary differences	12.411	(35.137)
Income tax recognised in the income statement	13.116	(32.951)

Amount are in ISK thousand

Notes cont.

16. INCOME TAX EXPENSE, CONT.

Effective income tax is specified as follows:		2016		2015
Profit (loss) for the year		120.681		(118.427)
Income tax		13.116		(32.951)
Profit (loss) before income tax		133.797		(151.378)
Income tax according to current income tax rate	20,0%	26.759	20,0%	(30.276)
Non-taxable income	(6,8%)	(9.127)	0,0%	0
Non-deductibe expenses	0,0%	12	0,0%	0
Effects of tax losses	(2,5%)	(3.294)	1,8%	(2.675)
Other	(0,9%)	(1.234)	0,0%	0
Effective tax rate	9,8%	13.116	21,8%	(32.951)

The Company's income tax asset and liability is specified as follows:	2016	2015
Income tax asset (liability) at 1.1	13.167	(21.970)
Calculated income tax for the year	(13.116)	32.951
Income tax payable	705	2.186
Income tax asset (liability) at 31.12	756	13.167

Income tax asset (liability) is specified as follows at year end:	2016	2015
Property, plant and equipment	(39.851)	(41.434)
Accounts receivable	13.595	6.703
Deferred foreign exchange difference	14.638	104
Tax loss carry-forwards	34.926	70.583
Valuation allowance	(22.409)	(22.712)
Inventories	(143)	(77)
Total	756	13.167

17. INTEREST BEARING LIABILITIES

Interest bearing liabilities are specified as follows:	2016	2015
Loans bound by consumer price index	1.798.403	1.893.656
Loans in ISK, non-indexed	7.304	10.842
Loans in EUR	20.685	26.444
Loans in CHF	20.593	25.309
Loans in JPY	6.824	8.269
Next year's maturities	(153.991)	(154.083)
Long term liabilities at 31.12	1.699.818	1.810.437

Payments on long-term liabilities at year end are specified as follows over the coming years:

Year 2016		154.083
Year 2017	153.991	157.854
Year 2018	157.761	161.851
Year 2019	161.541	165.907
Year 2020	165.734	170.338
Year 2021	168.778	174.828
Later	1.046.004	979.659
Total long-term liabilities	1.853.809	1.964.520

Amount are in ISK thousand

Notes cont.

18. ACCOUNTS PAYABLE AND OTHERS SHORT-TERM PAYABLES

Accounts payable and other short-term payables are specified as follows:	2016	2015
Accounts payable	614.575	510.045
Other short-term payables	741.082	722.245
Total accounts payable and other short-term payables	1.355.657	1.232.290

19. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks:
* credit risk
* liquidity risk
* market risk

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has assigned to the Managing Director of the parent company the task of monitoring the Group's daily risk management.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Group has established a credit policy under which all new customers are measured before the Group's standard payment and delivery terms and conditions are offered. Each new customer is analysed individually for creditworthiness and credit limits are set. When managements feel it is needed a guarantee is requested.

Most of the Group's customers have been its customer for many years and there have been insubstantial losses on receivables in proportion to turnover. Credit risk management due to customers mainly involves age of receivables and financial standing of single customers. The Group's accounts receivable and other receivables both regard individuals and companies. Customers classified as "high risk" may not have further credit transactions with the Group unless their debt is settled.

The Group establishes an allowance for impairment that represents its estimate of losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Amount are in ISK thousand

19. FINANCIAL RISK MANAGEMENT, CONT.

Credit risk, cont.

The allowance for impairment of accounts receivable at year end amounts to ISK 134 million (2015: ISK 113 million) and the allowance for impairment of notes receivable at year end amount to ISK 1 million (2015: ISK 2 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Residual contractual maturities of financial liabilities are specified as follows at year-end:

2016	Book value	Within 1 year	2-3 years	4-5 years	More than 5 years
Debenture loans	1.853.809	265.220	513.815	490.230	1.987.408
Accounts payable and short term payables	1.355.657	1.355.657			
	3.209.466	1.620.877	513.815	490.230	1.987.408
2015					
Debenture loans	1.964.520	272.775	529.007	504.444	2.195.955
Accounts payable and short term payables	1.232.290	1.232.290			
	3.196.810	1.505.065	529.007	504.444	2.195.955

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group'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 the return.

Currency risk

Of the Group's borrowing which totals 3% in foreign currency, a curve of EUR, CHF and JPY, proposes currency risk which is not hedged. Intrest rates on these borrowings are much lower than on borrowings by the Parent Company denominated in ISK.

The Group is exposed to currency risk on receivables from foreign postal institutions and customers denominated in a currency other than the respective functional currencies of Group entities. Those currencies mainly creating foreign exchange risk are SDR and EUR. The Group does not in general hedge against currency risk.

Interest rate risk

The Group's borrowings in ISK are bound by consumer price index and carry both fixed and variable interests. Borrowings in foreign currencies carry fixed interests. If the interest rate would have been 1% higher the Group's return would have been ISK 19 million lower in the year 2016 but ISK 19 million higher had the interest rate been 1% lower. If interest rates in the year 2015 had been 1% higher the return for the year 2015 would have been ISK 20 million lower and at the same time ISK 20 million higher had the interest rate for the year 2015 been 1% lower.

Other market price risk

Other market price risk is limited, as investments in bonds and shares are an insubstantial part of the Group's operation.

Capital management

The Board's policy is to maintain a strong capital base to sustain future development of the business. The Company's Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Company is not obliged to comply with external rules on minimum equity.

Amount are in ISK thousand

Notes cont.

20. RELATED PARTIES

The Groups related parties is the State and companies and institution that are part of the State, Board of Directors, key management and their close family members. The Group has transactions with its related parties on an arm's length basis.

21. GROUP ENTITIES

Subsidiaries:	Ownership interest	
	2016	2015
Samskipti ehf.	100,0%	100,0%
Trönur ehf.	100,0%	100,0%
Frakt flutningsmiðlun ehf.	62,5%	62,5%
ePóstur ehf.	100%	100%
Gagnageymslan ehf.	100%	100%

22. ACCOUNTING AND FINANCIAL SEPERATION

Regulation 313/2005 imposes requirements on accounting and financial separation of postal operators. The regulation includes provisions on implementation of such separation and on disclosure requirements to the Post and Telecom Administration (PTA). In accordance with the requirements of the regulation Íslandspóstur annually submits to PTA its accounting separation and cost accounting.

The PTA issued on December 8, 2016 a summary of Íslandspóstur's accounting separation from 2015 operation and concluded from its review of the underlying data and cost accounting, that Íslandspóstur's cost accounting and accounting separation was in line with acceptable methodology and legal requirements of the aforementioned regulation on accounting and financial separation of postal operators.

The results of the accounting and financial separation for the 2016 operation will be provided to the PTA as instructed in the regulation.

23. ADDITIONAL INFORMATION

The Icelandic Government has the exclusive rights to distribute letters up to 50 grams but has entrusted Íslandspóstur to execute these rights. Associated with these rights is the universal service obligation which ensures all citizens equal access to certain aspects of the postal service, both locally and between countries, with specific quality and at affordable prices. The universal service obligation of Íslandspóstur requires the Company to distribute shipments up to 20 kilograms. The service obligation requires the Company to provide certain types of services that are not profitable but revenue from the exclusive rights is intended to compensate for those costs.

Over the past years the volume of letters within the exclusive right has decreased significantly. This development is expected to continue in coming years. This decrease in revenue from letters within the exclusive right has resulted in the revenue not being sufficient to cover the cost that relates to the universal service obligation and therefore the Company's operating result has not been satisfactory. Despite profit from Íslandspóstur's operations in 2016 the Company has operated at a loss over the past three years resulting in a decreasing equity ratio which was at year end 43%.

Further information on uncertainties in the Company's operating environment and the future of the postal service is in phragraph 3 in the Endorsement and statement by the board of directors and the managing directors.

Amount are in ISK thousand

24. INTERIM FINANCIAL STATEMENTS

The Group's operation is divided as follow by quarters (unaudited information):

Year 2016	Q4	Q3	Q2	Q1	Total
Postal services	2.097.305	1.693.779	1.660.802	1.629.566	7.081.452
Other revenues	455.184	334.887	363.670	288.925	1.442.666
	2.552.489	2.028.666	2.024.472	1.918.491	8.524.118
Salaries and salary related expenses	1.410.927	1.165.089	1.226.423	1.147.187	4.949.626
Direct cost of postal distribution	358.854	309.131	308.758	380.627	1.357.370
Other operating cost	465.731	323.881	378.827	322.938	1.491.377
	2.235.512	1.798.101	1.914.008	1.850.752	7.798.373
EBITDA	316.977	230.565	110.464	67.739	725.745
Depreciation	(101.731)	(99.692)	(99.281)	(95.259)	(395.963)
EBIT	215.246	130.873	11.183	(27.520)	329.782
Financial expenses	(55.325)	(63.809)	(50.743)	(26.108)	(195.985)
Profit (loss) before income tax	159.921	67.064	(39.560)	(53.628)	133.797
Income tax	(29.849)	(10.425)	11.605	15.553	(13.116)
Profit (loss)	130.072	56.639	(27.955)	(38.075)	120.681

Year 2015	Q4	Q3	Q2	Q1	Total
Postal services	1.894.313	1.509.025	1.500.308	1.505.848	6.409.494
Other revenues	371.456	277.255	279.612	262.279	1.190.602
	2.265.769	1.786.280	1.779.920	1.768.127	7.600.096
Salaries and salary related expenses	1.285.094	1.103.842	1.031.580	998.206	4.418.722
Direct cost of postal distribution	402.713	353.999	350.260	351.114	1.458.086
Other operating cost	426.203	295.883	316.549	316.352	1.354.987
	2.114.010	1.753.724	1.698.389	1.665.672	7.231.795
EBITDA	151.759	32.556	81.531	102.455	368.301
Depreciation	(97.365)	(97.200)	(96.884)	(104.304)	(395.753)
EBIT	54.394	(64.644)	(15.353)	(1.849)	(27.452)
Financial expenses	(12.608)	(52.060)	(49.956)	(9.302)	(123.926)
Profit (loss) before income tax	41.786	(116.704)	(65.309)	(11.151)	(151.378)
Income tax	(9.454)	24.855	10.858	6.692	32.951
Profit (loss)	32.332	(91.849)	(54.451)	(4.459)	(118.427)

Amount are in ISK thousand

Notes cont.

25. KEY RATIOS

The Company's key ratios are as follows:	2016	2015
Current ratio - current assets / short term liabilities	1,56	1,57
Equity ratio - equity / total capital	0,43	0,42
Internal value of share capital - equity / share capital	1,59	1,51
EBITDA ratio on total earnings	8,5%	4,8%
EBIT ratio on total earnings	3,9%	-0,4%
Return on equity	5,5%	-5,1%

26. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a. Basis of consolidation

(i) *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) *Non-controlling interests (NCI)*

NCI are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

b. Financial instruments

Financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Amount are in ISK thousand

26. SIGNIFICANT ACCOUNTING POLICIES, CONT.

c. 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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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 the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the income statement.

(ii) *Other assets*

The carrying amounts of the Group's non-financial assets, other than inventories (see accounting method e) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

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.

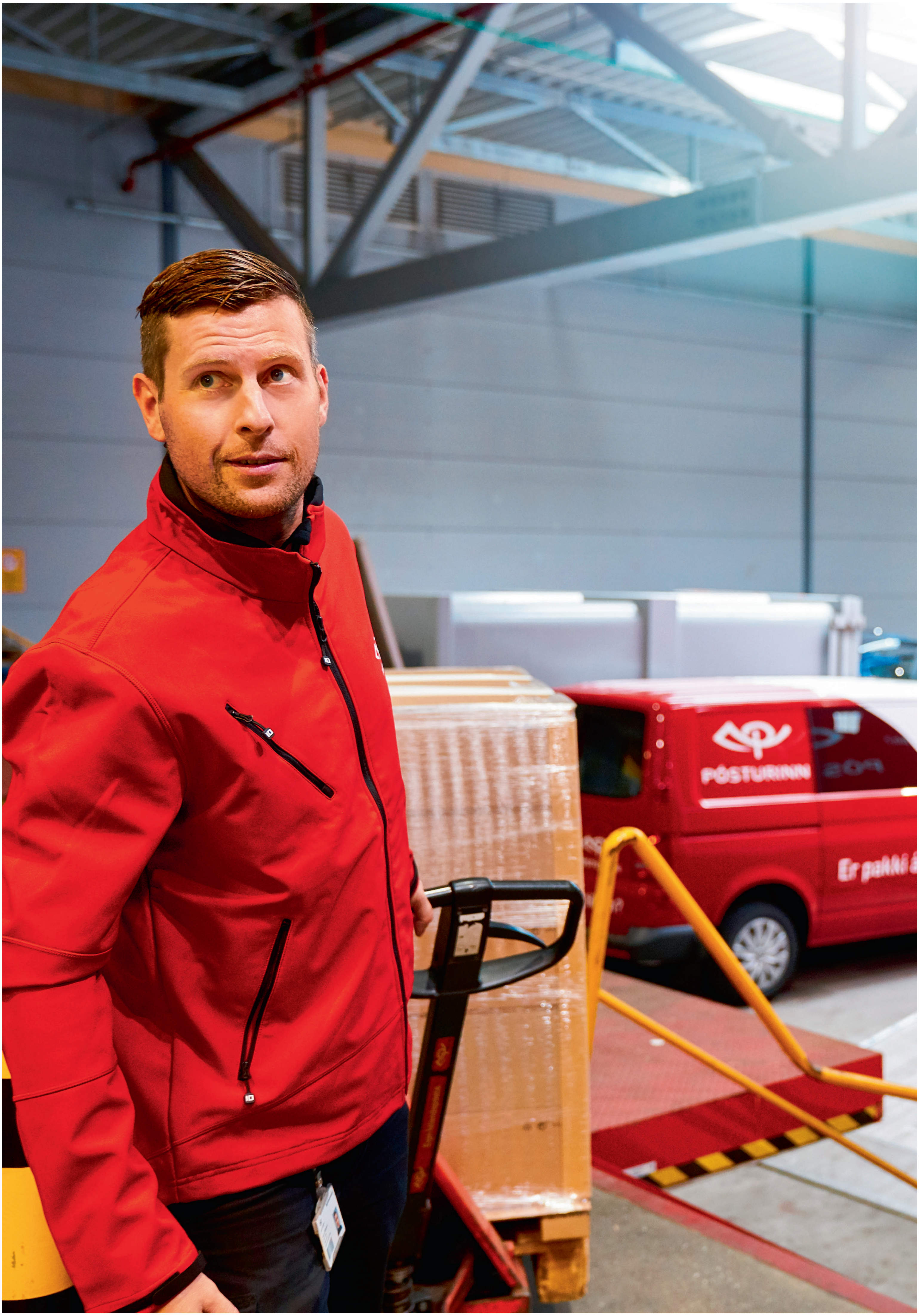
d. Obligations

An obligation is recognised in the financial statements if the Group has a present legal or constructive obligation due to past events, it is likely that payment will take place and it can be measured reliably.

e. New standards and interpretations

All new standards and amendments to standards effective for annual periods beginning after January 1, 2016, have been applied in preparing these consolidated financial statements. The effect on the consolidated financial statements of the Group is immaterial. A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016 can be early adopted. The Group did not early adopt these standards and considers that the adoption of these standards will have immaterial effects on the consolidated financial statements with the exception of IFRS 16 which is effective for annual periods beginning after January 1, 2019. The impact of implementing that standard has not yet been assessed but the standard will apply to the consolidated financial statements if endorsed by the EU.


PÓSTURINN


PÓSTURINN

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