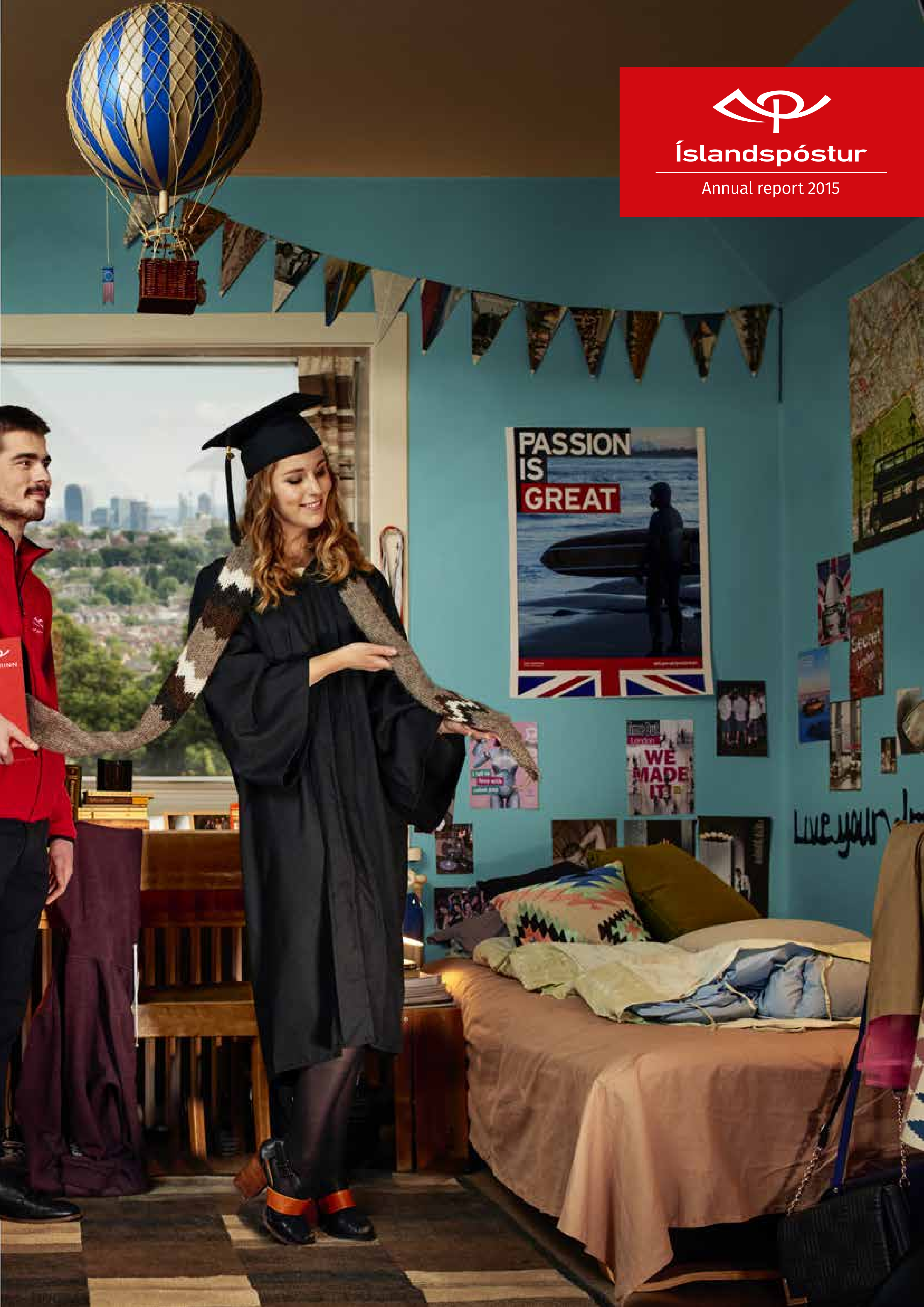
Íslandspóstur

Annual report 2015



Changes in sight

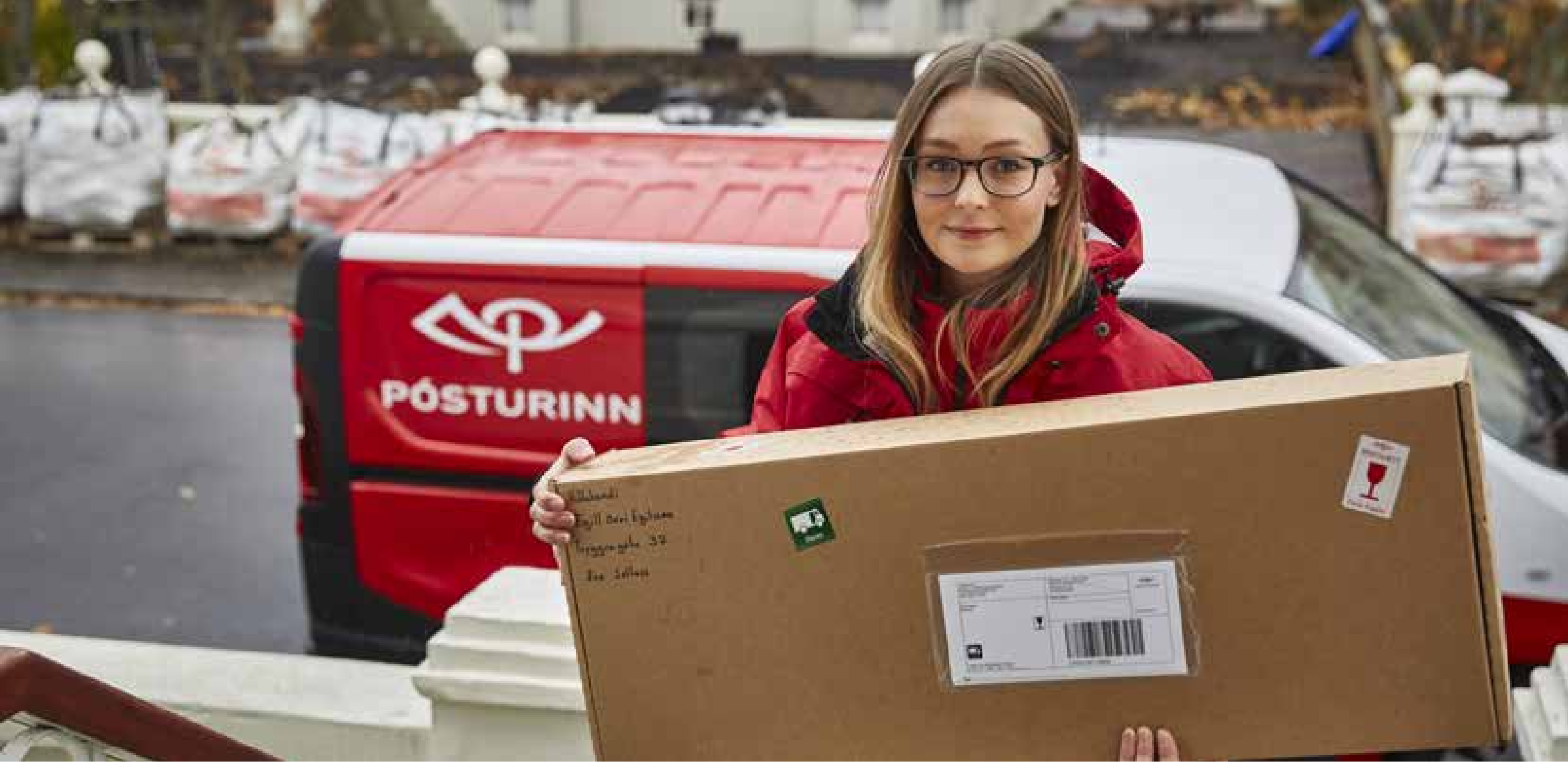
The 2015 financial results for Iceland Post did not meet our expectations. The main criteria for the annual budget were met – except that price increases for 0-50 g letters within the exclusive right necessary to meet the universal service obligation and reduction of delivery days in rural areas, due to fewer letters sent, did not go forth as planned. This resulted in a loss of ISK 118 million in 2015, instead of the ISK 150 million profit forecast in the budget. This is the third year in a row, and the fourth year out of the last five, that the company has posted losses, with losses for 2015 exceeding the previous year's losses by approximately ISK 75 million.

In general, Iceland Post's operations in 2015 were otherwise successful. Many interacting factors had a positive impact on operations, including reduced transport costs on major transportation routes, thanks to the company overtaking routes that were previously outsourced, reduced fuel costs and reduced service costs due to changes in the collection and delivery of shipments. The company's main quality criteria were also met in all major respects. Another factor is the increase in shipments, both domestic and international, due to the growth in online shopping, as well as increased special delivery services and increased sales of products and services. Furthermore, the operation of the company's subsidiaries was successful and yielded good results.

The purpose of Iceland Post's segment reporting is to analyse the company's results, but it is also significant for the pricing of products and services. Reporting for Iceland Post's operating segments is threefold: (i) Exclusive rights within the universal service, which account for 41% of total income, (ii) Competitive services within the universal service, which account for 43% of income, and (iii) Competitive services outside the universal service, which account for 16% of the company's total income. About 59% of Iceland Post's income therefore comes from the competitive market. It is worth noting in this regard that our competitors are understandably not interested in other market segments than those where income exceeds costs and where it is a chance to make a profit.

The Icelandic state has a legal obligation to maintain a certain level of postal services, i.e. the universal service obligation, which applies to letters and parcels up to 20 kg, as well as an exclusive right on delivery of addressed letters under 50 g. Under the terms of its operating licence, Iceland Post has been designated to fulfil the universal service, but in the past few years, the company's management has repeatedly notified the authorities about unacceptable operating results and foreseeable increasing difficulties in postal services if appropriate action is not taken. This operating result is due to a decline in the volume of letters within the exclusive right by 51% in the last decade while the network needed to meet the universal service obligation has increased, with attendant costs. Despite this considerable volume decline, the universal service obligation has not changed. Meanwhile, service costs are higher due to the expansion of the delivery network, with residential and commercial housing having increased by 16%.

Profits from the exclusive right have been intended to cover costs of universal postal services to the extent that income from these services does not suffice. The fact is that for the last few years, income from the delivery of letters within the exclusive right has barely covered the costs of these services, despite significant increases in postage prices. As a result, there has been a significant lack of funding for the universal service in the segment of the postal market that is open to competition, but only Iceland Post has been interested in covering. Iceland Post estimates the cost of the universal service at about ISK 1 billion and to the extent that income from competitive services does



not cover these costs, the operational losses cut into the equity of the company, so the company is, in effect, subsidising these services.

The Postal Services Act must be revised in order for services to develop in accordance with customers' needs regarding speed, frequency, quality and pricing. The Minister of the Interior´s new draft legislation is therefore a positive development. The legislation has the general aim of ensuring efficient and reliable services by further opening the market for postal services while simplifying and reducing supervision of the services. This will not be achieved with more regulations and increased oversight, but with the opening of markets and clear rules regarding the services that the Icelandic state wishes to secure while abolishing the exclusive right. It is important that the net cost of the universal service is known when new postal legislation is tabled so the legislator can weigh together the scope of the universal service set by law and the cost thereof, which will presumably have to be covered by state funding. It is to be expected that the volume of letters and income there from will decrease further in coming years. It is unlikely that there will be a widespread interest in using the state's limited resources to subsidise postal services.

For many years, Iceland Post has held the view that holding the state's exclusive right to delivery of addressed letters does not serve the interests of the company, so the company welcomes the abolishment of the exclusive right. There is, however, some concern due to the uncertainty of how the state plans to finance the universal service and ensure that postal operators have the same opportunities as other logistics companies to take necessary decisions in operational matters. It is vital that the new Postal Services Act explicitly ensures the financing of postal services not provided by the market. There is limited capacity to subsidise these services by using the company's equity, and thereby the state's assets, as has been the case. Such subsidising is also lacking in transparency, as well as being one of the worst possible methods for funding public services.

„The fact is that for the last few years, income from the delivery of letters within the exclusive right has barely covered the costs of these services, despite significant increases in postage prices.“

For the last two years, Iceland Post has operated in accordance with a strategy formulated by key employees and approved by the Board of Directors. This strategy has been highly effective, marking the successful transformation of the company from a mail delivery company that also distributed parcels into a logistics company that also delivers letters. This has strengthened Iceland Post's operations and improved the company's operating basis in the long term. This past operating year was characterised by the adaptation of Iceland's Posts delivery network to the decreasing volume of letters and dealing with increased logistics activities. Much work has been put into developing operations in accordance with the needs of customers and the company's employees are to be commended for their contributions and constant professionalism over the last year. We are looking forward to the work ahead in the coming years and hope to be able to continue serving our customers, owners and other stakeholders.

Ingimundur Sigurpálsson,
Managing Director & CEO

2015

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 2015

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 loss for the year amounted to ISK 118,4 million according to the income statement. Equity as at December 31, 2015 amounted to ISK 2.195 million according to the balance sheet. The Company's share capital as at December 31, 2015 amounted to ISK 1.448 million and is wholly owned by the Icelandic State.

The Company’s operating result for the year 2015 was unsatisfactory, see note 23. In a declining 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. 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 very limited.

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 2015, its assets, liabilities and financial position as at December 31, 2015 and its consolidated cash flows for the financial year 2015.

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 2015 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, 19th of February, 2016.

The Board of Directors:

Eiríkur Haukur Hauksson, Svanhildur Hólm Valsdóttir

Jón Ingi Cæsarsson, Ólöf Kristín Sveinsdóttir, Preben Jón Pétursson

Managing Director:

Ingimundur Sigurpálsson

Auditor´s report

To the Board of Directors and Shareholders of Íslandspóstur ohf.

We have audited the accompanying consolidated financial statements of Íslandspóstur ohf., and its subsidiaries, (the Group), which comprise the balance sheet as at December 31, 2015 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors and CEO's responsibility for the financial statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Íslandspóstur ohf. as at December 31, 2015 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, 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 consolidated financial statements.

Reykjavik, 19th of February, 2016.

The National Audit Office of Iceland:

Sveinn Arason

Auditor General CPA

Óskar Sverrisson

Auditor CPA

Income statement for the year 2015

	Notes	2015	2014
OPERATING REVENUE			
Postal services		6.409.494	6.237.375
Other revenue		1.190.602	1.041.125
		7.600.096	7.278.500
OPERATING EXPENSES			
Salaries and related expenses	5	4.418.722	3.994.529
Direct cost of postal distribution		1.458.086	1.538.269
Other operating expenses		1.354.987	1.266.424
		7.231.795	6.799.222
EBITDA		368.301	479.278
Depreciation	8	(395.753)	(410.291)
EBIT		(27.452)	68.987
Finance income		26.124	20.360
Finance expenses		(150.050)	(131.058)
Net finance expenses	7	(123.926)	(110.698)
Loss before income tax		(151.378)	(41.711)
Income tax	16	32.951	(1.266)
Comprehensive loss for the year		(118.427)	(42.977)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the Company		(120.676)	(50.560)
Non-controlling interests		2.249	7.583
Total comprehensive loss for the year		(118.427)	(42.977)
EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE			
Earnings and diluted earnings per share on each ISK 1 share	3.l	(0,08)	(0,03)

Amount are in ISK thousand   Notes no. 1-25 are an integral part of these Consolidated Financial Statement

Balance sheet December 31, 2015

	Notes	2015	2014
ASSETS			
Property, plant and equipment	8	3.196.441	3.307.642
Investment in other companies	9	80.372	80.372
Bonds	10	12.401	16.171
Deferred tax asset	17	13.167	0
NON-CURRENT ASSETS		3.302.381	3.404.185
Inventories	11	176.399	196.896
Accounts receivable and other receivables	12	1.334.418	1.134.836
Cash and cash equivalents	13	419.082	86.725
Assets held for sale	14	7.798	50.140
CURRENT ASSETS		1.937.697	1.468.597
TOTAL ASSETS		5.240.078	4.872.782
EQUITY			
Share capital	15	1.447.500	1.447.500
Statutory reserve		351.378	351.378
Retained earnings		385.901	506.577
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		2.184.779	2.305.455
Non-controlling interests		10.386	8.137
EQUITY		2.195.165	2.313.592
LIABILITIES			
Loans and borrowings	19	1.810.437	1.385.540
Deferred tax liability	17	0	21.970
NON-CURRENT LIABILITIES		1.810.437	1.407.510
Current tax	17	2.186	0
Accounts payable and other short term liabilities	18	1.232.290	1.151.680
CURRENT LIABILITIES		1.234.476	1.151.680
LIABILITIES		3.044.913	2.559.190
TOTAL EQUITY AND LIABILITIES		5.240.078	4.872.782

Amount are in ISK thousand

Statement of changes in equity for the year 2015

	Share capital	Statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
YEAR 2015						
Equity 1.1.2015	1.447.500	351.378	506.577	2.305.455	8.137	2.313.592
Net (loss) income 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
YEAR 2014						
Equity 1.1.2014	1.447.500	351.378	557.137	2.356.015	554	2.356.569
Net (loss) income for the year			(50.560)	(50.560)	7.583	(42.977)
Equity 31.12.2014	1.447.500	351.378	506.577	2.305.455	8.137	2.313.592

Amount are in ISK thousand

Statement of cash flows for the year 2015

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2015	2014
Loss for the year		(118.427)	(42.977)
Operating items not affecting cash flow:			
Gain on sale of assets		(2.081)	(4.377)
Depreciation	8	395.753	410.291
Net finance expenses	7	123.926	110.698
Income tax		(35.137)	1.266
WORKING CAPITAL FROM OPERATING ACTIVITIES		364.034	474.901
Changes in operating assets and liabilities:			
Inventories, decrease		20.497	5.494
Receivables, increase		(182.847)	(186.699)
Current liabilities, increase		98.236	140.382
CASH GENERATED FROM OPERATING ACTIVITIES		(64.114)	(40.823)
Interest received		11.141	11.158
Interest paid		(88.664)	(76.691)
NET CASH FROM OPERATING ACTIVITIES		222.397	368.545
CASH FLOWS FROM INVESTING ACTIVITIES			
Real estate and land	8	(65.979)	(82.289)
Machinery, equipment and vehicles	8	(259.489)	(361.590)
Proceeds from the sales of fixed assets		44.435	14.895
Other changes		5.588	(25.420)
NET CASH USED IN INVESTING ACTIVITIES		(275.445)	(454.404)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans		500.000	0
Repayment on long-term loans		(114.595)	(103.591)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		385.405	(103.591)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		332.357	(189.450)
CASH AND CASH EQUIVALENTS AT YEAR BEGINNING		86.725	276.175
CASH AND CASH EQUIVALENTS AT YEAR END	13	419.082	86.725

Amount are in ISK thousand

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, 2015 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 19, 2016.

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. 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.

Notes cont.

3. SIGNIFICANT ACCOUNTING POLICIES, CONT.

a. Basis of consolidation, cont.

(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. Foreign currency

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.

c. 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.

Cash and cash equivalents comprise cash balances and call deposits.

(i) *Available-for-sale financial assets*

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.

d. Property, plant and equipment

(i) *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.

(ii) *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.

Notes cont.

3. SIGNIFICANT ACCOUNTING POLICIES, CONT.

d. Property, plant and equipment, cont.

(iii) *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.

e. 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.

f. 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.

Notes cont.

3. SIGNIFICANT ACCOUNTING POLICIES, CONT.

g. Fixed 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.

h. 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.

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

i. 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.

j. Finance income and expenses

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

k. Income tax

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.

l. 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.

Notes cont.

3. SIGNIFICANT ACCOUNTING POLICIES, CONT.

m. New standards and interpretations

All new standards and amendments to standards effective for annual periods beginning after January 1, 2015, 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, 2015 and have not been early applied in preparing these consolidated financial statements. The impact of implementing those standards has not yet been assessed.

4. 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.

Notes cont.

4. FINANCIAL RISK MANAGEMENT, CONT.

Credit risk, cont.

The allowance for impairment of accounts receivable at year end amounts to ISK 113 million (2014: ISK 146 million) and the allowance for impairment of notes receivable at year end amount to ISK 2 million (2014: ISK 3 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:

2015	Book value	Within 1 year	2-3 years	4-5 years	More than 5 years
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
2014					
Debenture loans	1.518.003	213.543	421.749	406.774	1.623.603
Accounts payable and short term payables	1.151.680	1.151.680			
	2.669.683	1.365.223	421.749	406.774	1.623.603

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 but foreign exchange rate changes would have insignificant effect on the Group's return.

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 20 million lower in the year 2015 but ISK 20 million higher had the interest rate been 1% lower. If interest rates in the year 2014 had been 1% higher the return for the year 2014 would have been ISK 15 million lower and at the same time ISK 15 million higher had the interest rate for the year 2014 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.

Amount are in ISK thousand

Notes cont.

4. FINANCIAL RISK MANAGEMENT, CONT.

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.

5. SALARIES AND RELATED EXPENSES

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

	2015	2014
Salaries	3.532.520	3.178.386
Contribution to defined contribution fund	338.730	308.569
Salary related expenses	337.551	306.389
Other personnel expenses	209.921	201.185
Total salaries and related expenses	4.418.722	3.994.529
Full-time equivalent units	816	790

Salaries and perquisite of the Board of Directors and executive management amounted to ISK 104 million (2014: ISK 100 million) during the year, whereof the salaries of the Managing Director amounted to ISK 14 million (2014: ISK 14 million) and the salaries of Directors of the Board amounted to ISK 8 million (2014: ISK 7 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.

The remaining balance of employment termination agreements amounted to ISK 18 million (2014: ISK 18 million), which is accounted for in the financial statements.

6. AUDITOR'S FEE

Payments to the Icelandic National Audit Office are specified as follows:

	2015	2014
Audit of financial statements	5.836	6.381
Interim financial statements review	3.387	4.138
Total	9.223	10.519

7. FINANCE INCOME AND EXPENSES

Finance income and expenses are specified as follows:

	2015	2014
Interest earned and indexation	11.502	11.698
Dividend	14.622	8.662
Total financial income	26.124	20.360
Interest expenses and indexation	(132.030)	(121.915)
Foreign exchange difference	(18.020)	(9.143)
Total financial expense	(150.050)	(131.058)
Total net financial expense	(123.926)	(110.698)

Amount are in ISK thousand

Notes cont.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and depreciation are specified as follows:

	Real estates and land	Machinery, equipment and vehicles	Total
Cost price			
Balance at 1.1.2014	3.134.636	2.910.842	6.045.478
Additions do to merger	0	5.005	5.005
Additions during the year	82.289	361.590	443.879
Disposals	(804)	(173.888)	(174.692)
Balance at 31.12.2014	3.216.121	3.103.549	6.319.670
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
Depreciation			
Balance at 1.1.2014	1.209.463	1.592.305	2.801.768
Additions do to merger	0	1.460	1.460
Depreciation for the year	125.821	284.470	410.291
Disposals	(805)	(200.686)	(201.491)
Balance at 31.12.2014	1.334.479	1.677.549	3.012.028
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
Book value			
1.1.2014	1.925.173	1.318.537	3.243.710
31.12.2014 and 1.1.2015	1.881.642	1.426.000	3.307.642
31.12.2015	1.791.154	1.405.287	3.196.441
Depreciation rates	0-5%	10-33%	

Insurance and evaluation of assets

Insurance value, official premises valuation and book value of real estates and land at year end were as follows:

	2015	2014
Insurance value of real estate	3.649.044	3.638.743
Official premises valuation of real estate and land	1.911.045	1.994.303
Book value of real estate and land	1.791.154	1.881.642

Mortgages

The Group's operating assets are pledged for an insurance bill and bonds to secure liabilities amounting to ISK 1.332 million at year end (2014: ISK 828 million.)

9. INVESTMENT IN OTHER COMPANIES

Investment in other companies is specified as follows:

	2015		2014	
	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

Amount are in ISK thousand

Notes cont.

10. BONDS

Bonds are specified as follows:	2015	2014
Balance at 1.1	22.369	27.870
Indexation	372	679
Maturities	(5.434)	(6.969)
Change in allowance	625	789
Current maturities	(5.531)	(6.198)
Bonds at 31.12	12.401	16.171

11. INVENTORIES

Inventories at year end are specified as follows:	2015	2014
Inventories, consumables	93.850	104.332
Inventories, postage stamps	82.549	92.564
Total inventories	176.399	196.896

Inventories recognised as cost of sales amounted to ISK 143 million. (2014: ISK 155 million.)

12. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable and other receivables are specified as follows:	2015	2014
Nominal value of accounts receivable	1.112.815	904.975
Write down of probable loss on accounts receivable	(112.778)	(145.864)
Current maturities of bonds	5.531	6.198
Various short term receivables	328.850	369.527
Total accounts receivable and other receivables	1.334.418	1.134.836

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are specified as follows:	2015	2014
Market securities	24.215	23.286
Current bank deposits	390.422	59.155
Funds	4.445	4.284
Total cash and cash equivalents	419.082	86.725

14. ASSETS HELD FOR SALE

Fixed assets held for sale are specified as follows:	2015	2014
Balance at 1.1	50.140	27.140
Addition	0	23.000
Disposals	(42.342)	0
Total fixed assets held for sale	7.798	50.140

Amount are in ISK thousand

Notes cont.

15. 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.

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.

16. INCOME TAX EXPENSE

Income tax in the income statement is specified as follows:

Deferred taxes	2015	2014
Temporary differences	(32.951)	1.266
Income tax recognised in the income statement	(32.951)	1.266

Effective income tax is specified as follows:		2015		2014
Loss for the year		(118.427)		(42.977)
Income tax		(32.951)		1.266
Loss before income tax		(151.378)		(41.711)
Income tax according to current income tax rate	20,0%	(30.276)	20,0%	(8.342)
Effects of tax losses	1,8%	(2.675)	(23,0%)	9.608
Effective tax rate	21,8%	(32.951)	(3,0%)	1.266

17. INCOME TAX ASSET AND INCOME TAX LIABILITY

The Company's income tax asset and liability is specified as follows:	2015	2014
Income tax liability at 1.1	(21.970)	(20.704)
Calculated income tax for the year	32.951	(1.266)
Income tax payable	2.186	0
Income tax asset (liability) at 31.12	13.167	(21.970)

Income tax asset (liability) is specified as follows at year end:		
Property, plant and equipment	(41.434)	(45.762)
Accounts receivable	6.703	18.409
Deferred foreign exchange difference	104	187
Tax loss carry-forwards	70.583	22.065
Valuation allowance	(22.712)	(16.765)
Inventories	(77)	(104)
Total	13.167	(21.970)

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:	2015	2014
Accounts payable	510.045	516.895
Other short-term payables	722.245	634.785
Total accounts payable and other short-term payables	1.232.290	1.151.680

19. INTEREST BEARING LIABILITIES

Interest bearing liabilities are specified as follows:	2015	2014
Loans bound by consumer price index	1.893.656	1.436.833
Loans in ISK, non-indexed	10.842	14.675
Loans in EUR	26.444	30.975
Loans in CHF	25.309	26.829
Loans in JPY	8.269	8.691
Next year's maturities	(154.083)	(132.463)
Long term liabilities at 31.12	1.810.437	1.385.540

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

Year 2015	0	132.463
Year 2016	154.083	136.014
Year 2017	157.854	140.011
Year 2018	161.851	144.248
Year 2019	165.907	148.739
Year 2020	170.338	153.230
Later	1.154.487	663.298
Total long-term liabilities	1.964.520	1.518.003

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	
	2015	2014
Samskipti ehf.	100%	100%
Trönur ehf.	100%	100%
Frakt flutningsmiðlun ehf.	62,5%	62,5%
ePóstur ehf.	100%	100%
Gagnageymslan ehf.	100%	100%

Amount are in ISK thousand

Notes cont.

22. ACCOUNTING AND FINANCIAL SEPERATION

Regulation 313/2005 includes 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).

Previously, Íslandspóstur disclosed in its financial statements information on revenue and expenses by operating segments. The separation is based on instructions in the regulation. In ruling 18/2013 made by the PTA the accounting separation and cost accounting was assessed. Their main conclusion was that cost accounting and separation was in all material respect in line with the requirements of the Postal Services Act no 19/2002 and regulation 313/2005. It was also the opinion of PTA that certain improvements regarding assumptions used and application needed improvement.

In accordance with the conclusion of PTA, Íslandspóstur has implemented the necessary improvements on the cost accounting and sent the results to PTA as stipulated in regulation 313/2005.

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 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. The Company's equity ratio has been decreasing over the past years and was at 42% at year end. The Company took a loan in the amount of ISK 500 millj. during 2015 to enable the Company to provide its service obligations and meet commitments.

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. 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 very limited.

24. KEY RATIOS

The Company's key ratios are as follows:	2015	2014
Current ratio - current assets / short term liabilities	1,57	1,28
Equity ratio - equity / total capital	0,42	0,47
Internal value of share capital - equity / share capital	1,51	1,59
EBITDA ratio on total earnings	4,8%	6,6%
EBIT ratio on total earnings	-0,4%	0,9%
Return on equity	-5,1%	-1,8%

Amount are in ISK thousand

Notes cont.

Unaudited information

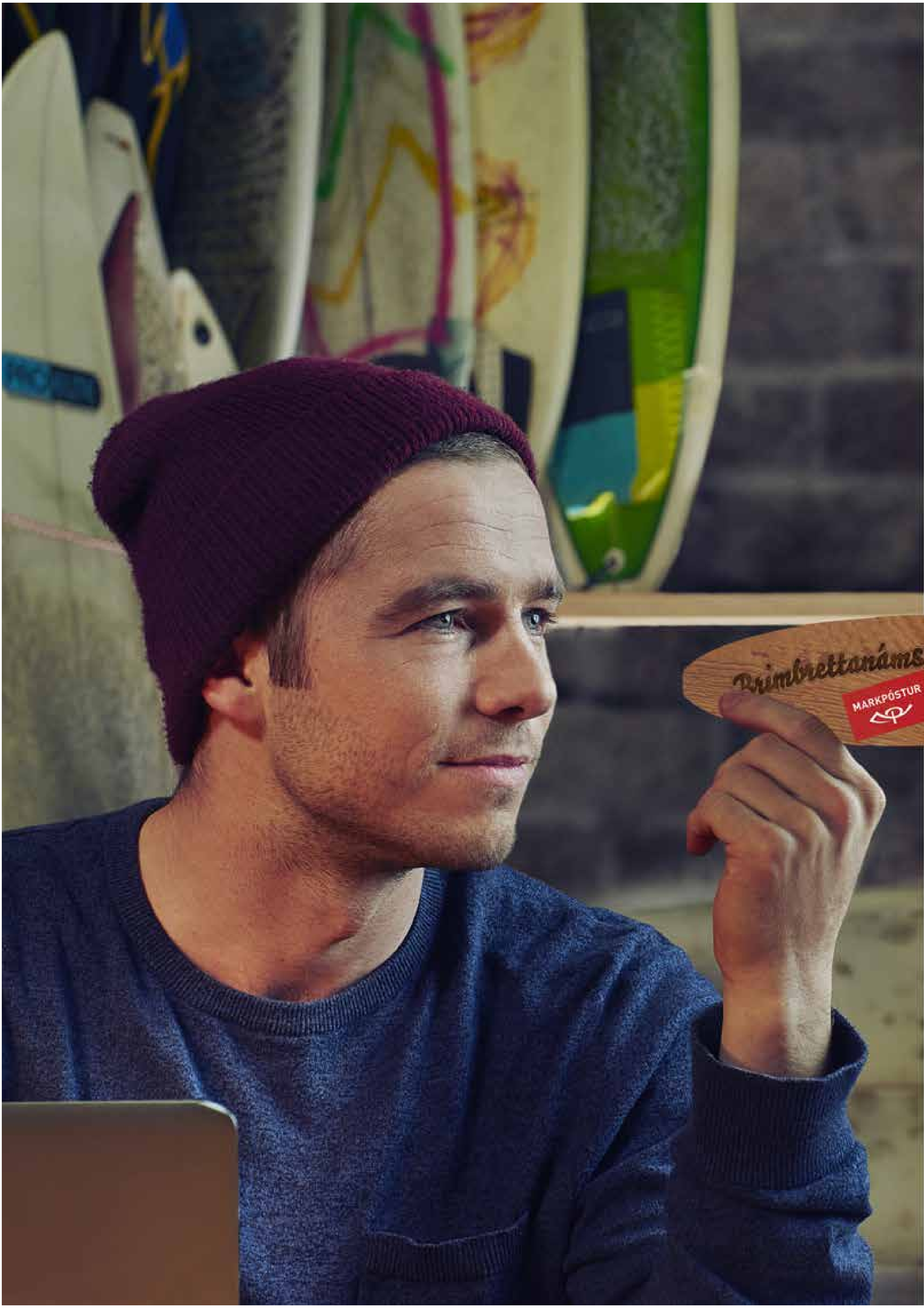
25. INTERIM FINANCIAL STATEMENTS

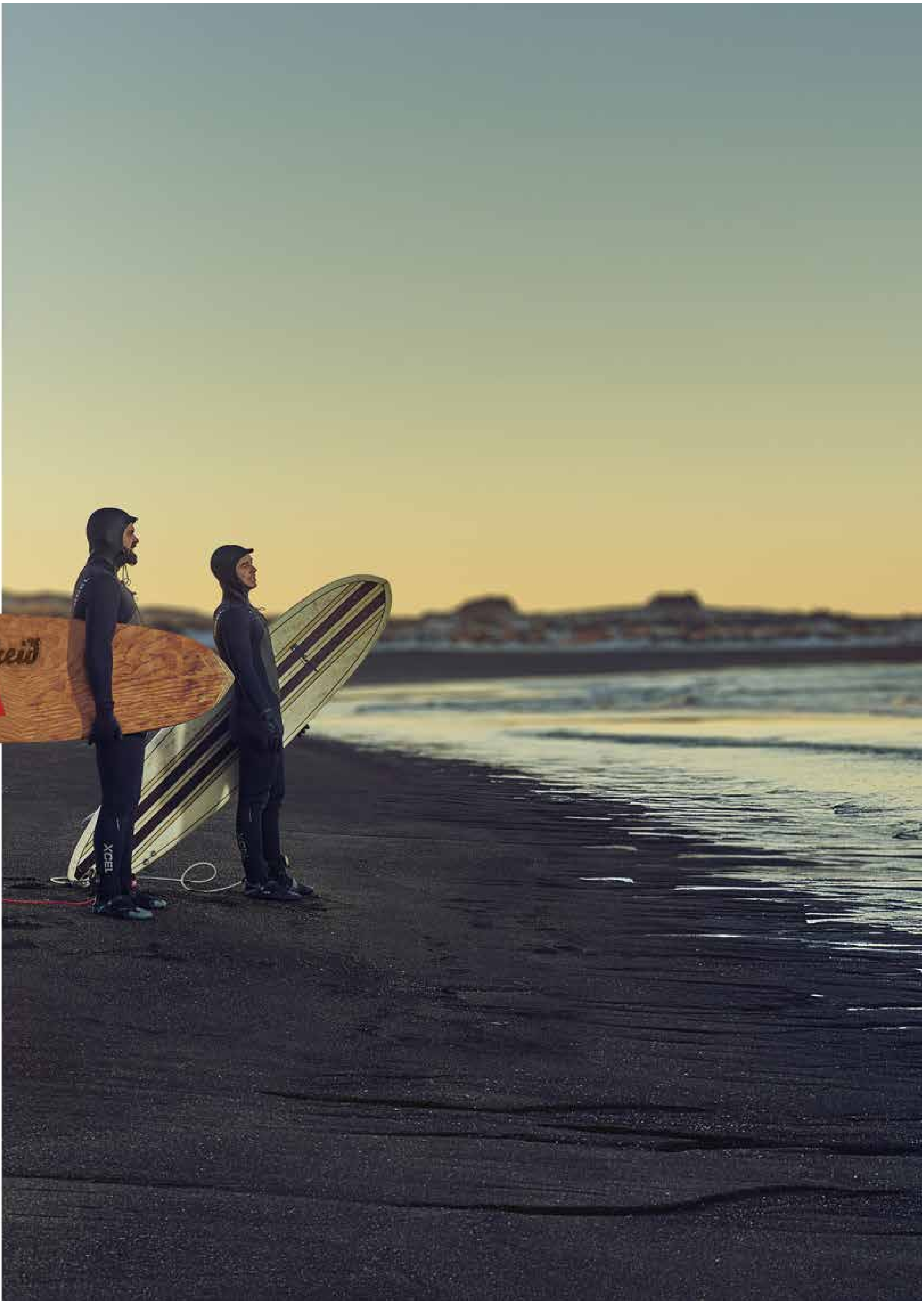
The Group's operation is divided as follow by quarters:

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)

Year 2014					
Postal services	1.850.248	1.493.093	1.454.561	1.439.473	6.237.375
Other revenues	311.714	300.890	189.582	238.939	1.041.125
	2.161.962	1.793.983	1.644.143	1.678.412	7.278.500
Salaries and salary related expenses	1.149.789	944.150	948.623	951.967	3.994.529
Direct cost of postal distribution	401.184	377.432	366.979	392.674	1.538.269
Other operating cost	464.635	305.823	242.910	253.056	1.266.424
	2.015.608	1.627.405	1.558.512	1.597.697	6.799.222
EBITDA	146.354	166.578	85.631	80.715	479.278
Depreciation	(95.236)	(97.620)	(116.131)	(101.304)	(410.291)
EBIT	51.118	68.958	(30.500)	(20.589)	68.987
Financial expenses	(12.790)	(30.981)	(30.284)	(36.643)	(110.698)
Profit (loss) before income tax	38.328	37.977	(60.784)	(57.232)	(41.711)
Income tax	(6.077)	(9.181)	3.980	10.012	(1.266)
Profit (loss)	32.251	28.796	(56.804)	(47.220)	(42.977)

Amount are in ISK thousand


MARKPÓSTUR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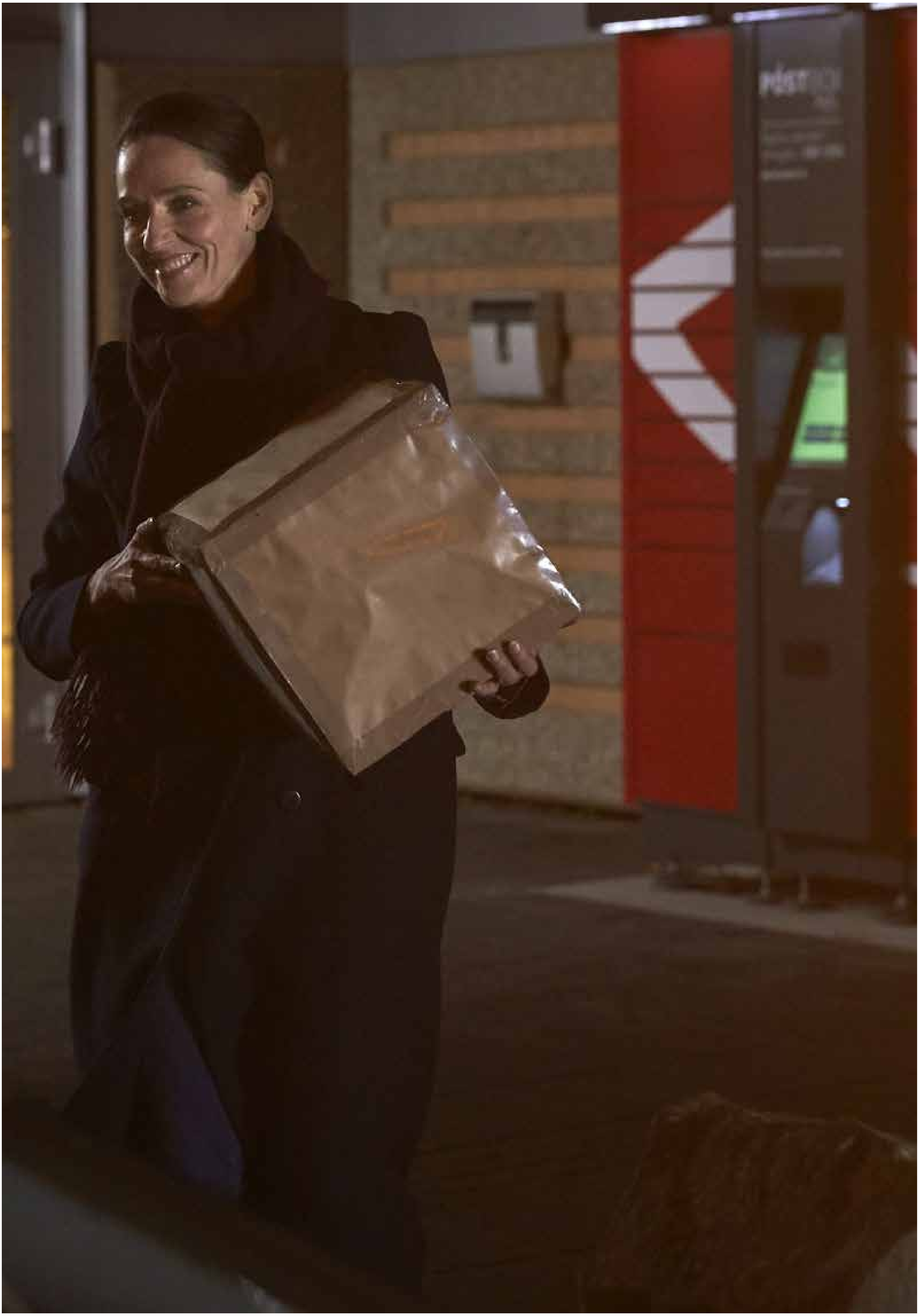

Hönnun og umbrot: Markaðsdeild Íslandspósts / Elías Jóhann Jónsson
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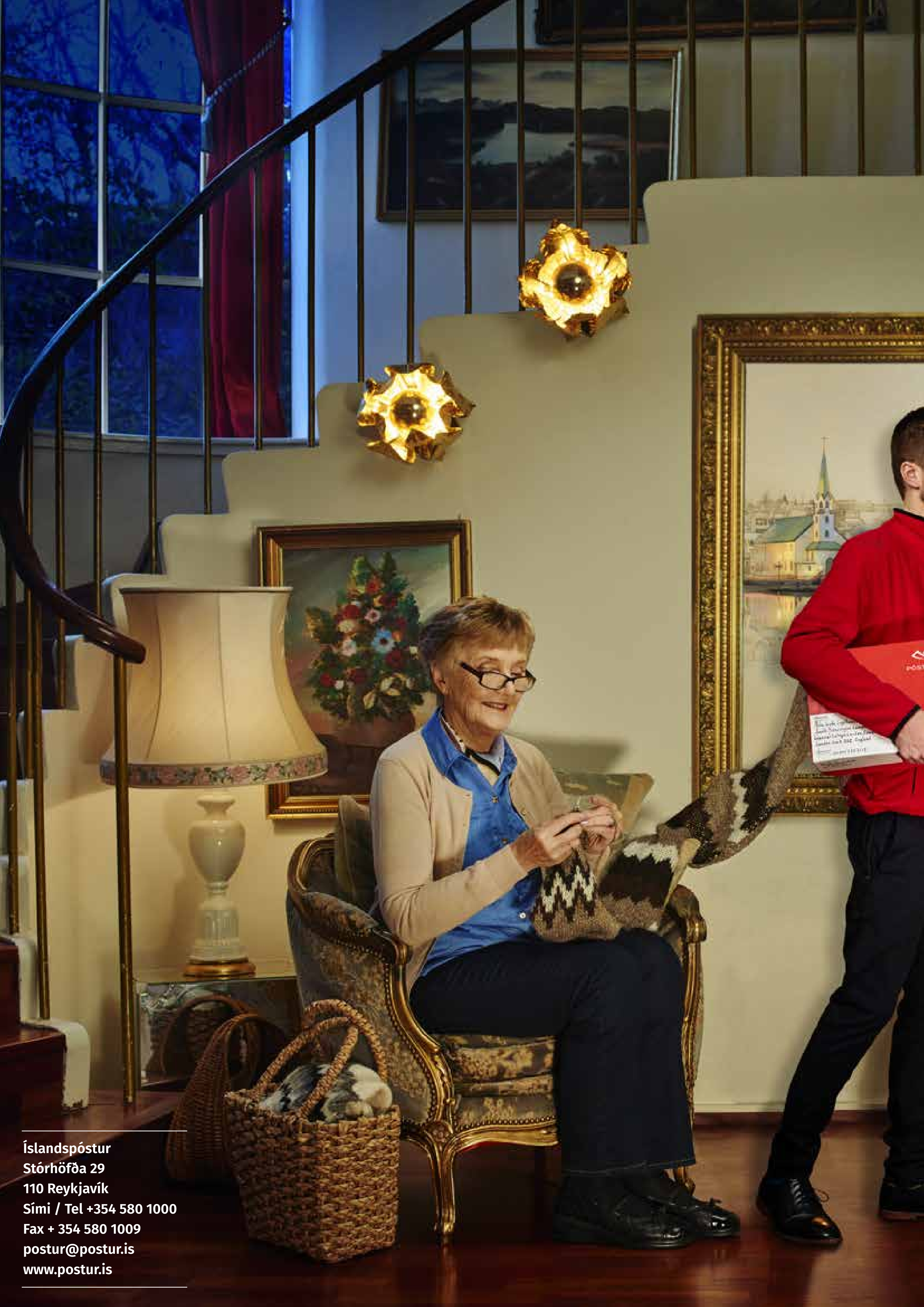

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