

Group

Condensed Interim Financial Statements

January 1 to June 30, 2017

Landsvirkjun  
Háaleitisbraut 68  
103 Reykjavík  
Iceland

Reg. no. 420269-1299

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## Key figures - not reviewed

### Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2017 1.1.-30.6.	2016 1.1.-30.6.	2015 1.1.-30.6.	2014 1.1.-30.6.	2013 1.1.-30.6.
<b>Operation</b>					
Operating revenues .....	234,172	204,452	210,979	196,877	199,266
Realised aluminium hedges .....	( 1,812)	2,475	4,764	6,363	7,447
<b>Total operating revenues .....</b>	<b>232,360</b>	<b>206,927</b>	<b>215,743</b>	<b>203,240</b>	<b>206,713</b>
Operating and maintenance expenses .....	( 64,676)	( 51,720)	( 46,483)	( 48,381)	( 41,460)
<b>EBITDA .....</b>	<b>167,684</b>	<b>155,207</b>	<b>169,260</b>	<b>154,859</b>	<b>165,253</b>
Depreciation and impairment loss .....	( 58,321)	( 58,471)	( 57,399)	( 55,831)	( 60,603)
<b>EBIT .....</b>	<b>109,363</b>	<b>96,736</b>	<b>111,861</b>	<b>99,028</b>	<b>104,650</b>
Financial items .....	( 34,231)	( 32,256)	( 31,822)	( 44,601)	( 37,577)
<b>Profit before unrealised financial items .....</b>	<b>75,132</b>	<b>64,480</b>	<b>80,039</b>	<b>54,427</b>	<b>67,073</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives ...	35,816	14,391	( 13,591)	( 5,650)	( 169,459)
Fair value changes in other derivatives .....	( 2,951)	( 2,908)	( 3,475)	( 6,566)	564
Unrealised foreign exchange difference .....	( 48,495)	( 20,914)	34,130	8,779	16,510
	( 15,630)	( 9,431)	17,064	( 3,437)	( 152,385)
<b>Profit (loss) before income tax .....</b>	<b>59,502</b>	<b>55,049</b>	<b>97,103</b>	<b>50,990</b>	<b>( 85,312)</b>
Income tax .....	( 19,789)	( 20,216)	( 33,203)	( 16,443)	33,089
<b>Profit (loss) for the period .....</b>	<b>39,713</b>	<b>34,833</b>	<b>63,900</b>	<b>34,547</b>	<b>( 52,223)</b>
<b>Balance sheet</b>					
	<b>30.6.2017</b>	<b>30.6.2016</b>	<b>30.6.2015</b>	<b>30.6.2014</b>	<b>30.6.2013</b>
Total assets .....	4,379,436	4,233,437	4,150,537	4,455,652	4,389,289
Total equity .....	1,995,963	1,937,653	1,750,658	1,681,003	1,635,705
Total liabilities .....	2,383,473	2,295,784	2,399,879	2,774,649	2,753,584
Net debt* .....	2,017,227	1,946,033	2,018,559	2,376,422	2,405,474
<b>Cash flow</b>					
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Funds from operation (FFO) .....	134,136	123,905	131,480	118,962	134,112
Cash flow from operating activities .....	142,366	123,841	146,428	114,226	134,430
Investing activities .....	( 117,767)	( 51,132)	( 21,774)	( 48,533)	( 75,363)
Financing activities .....	( 62,681)	( 103,290)	( 148,425)	( 139,227)	( 89,290)
<b>Liquidity</b>					
	<b>30.6.2017</b>	<b>30.6.2016</b>	<b>30.6.2015</b>	<b>30.6.2014</b>	<b>30.6.2013</b>
Cash and cash equivalents .....	108,807	113,200	182,072	215,248	158,800
Undrawn loans .....	401,840	504,298	279,787	293,036	400,105
Total liquidity .....	510,647	617,498	461,859	508,284	558,905
<b>Key ratios</b>					
Return on equity ** .....	3.7%	3.1%	6.4%	2.9%	( 0.4)%
Equity ratio .....	45.6%	45.8%	42.2%	37.7%	37.3%
Interest cover (EBITDA/net interest exp)** .....	5.32x	4.87x	4.39x	3.35x	3.62x
FFO / net debt** .....	12.2%	12.0%	13.4%	10.2%	10.7%
FFO / interest expense** .....	3.95x	3.53x	3.29x	2.48x	2.77x
Net debt / EBITDA** .....	6.42x	6.33x	5.82x	7.46x	7.46x
<b>Credit rating without state guarantee at the end of June</b>					
Standard & Poor's .....	BBB	BBB-	BB	BB	-
Moody's .....	Baa3	Ba1	Ba2	Ba2	-

\* Net debt is interest bearing long-term liabilities less cash and cash equivalent

\*\* Key ratios based on the past 12 months

## Endorsement and Statement of the Board of Directors and CEO

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Landsvirkjun's objective is to operate in the energy sector and to engage in other business and financial operations according to the decision of the Board of Directors at each time. The Company's condensed consolidated financial statements in the period from January 1 to June 30 2017 are prepared in accordance with IAS 34 Interim Financial Reporting and additional requirements in the Icelandic Financial Statement Act and include, in addition to the parent company, four subsidiaries, Landsnet hf., Orkufjarskipti hf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf.

According to the income statement, the Group's profit in the period from January to June 2017 amounted to USD 39.7 million while during the same period in 2016 the Group's profit amounted to USD 34.8 million. The change between periods is USD 4.9 million. The Group's operating revenues amounted to USD 232.4 million during the period compared to USD 206.9 million during the same period in the previous year. Main changes in financial items are due to a negative currency exchange difference, which amounted to USD 50.6 million compared to a negative difference in the amount of USD 21.1 million during the same period in 2016 and the fair value gain of embedded derivatives, which amounted to USD 35.8 million compared to fair value gain in the amount of USD 14.4 million during the same period in 2016. Cash flow from operations amounted to USD 142.4 million during the period compared to USD 123.8 million during the same period in the previous year. At the end of June 2017, the Group's cash and cash equivalents amounted to USD 108.8 million and undrawn loans amounted to USD 401.8 million, a total of USD 510.6 million. The Group's equity at the end of June amounted to USD 1.996.0 million according to the balance sheet compared to USD 1,969.1 million at year end 2016.

### Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the financial statements are in accordance with IAS 34, Interim financial statements, as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. According to the best knowledge of the Board of Directors and the CEO the financial statements give a fair view of the Group's assets, liabilities and financial position as at 30 June 2017 and the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2017.

Furthermore, it is the opinion of the Board of Directors and the CEO that the interim financial statements and the Endorsement by the Board of Directors for the period from January to June 2017 give a fair view of the Group's results, financial position and development and describe the main risk factors faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements and confirm them by means of their signatures.

Burfell, August 31, 2017.

The Board of Directors:  
Jónas Þór Guðmundsson  
Ragnheiður Elín Árnadóttir  
Haraldur Flosi Tryggvason  
Álfheiður Ingadóttir

The CEO:  
Hörður Arnarson

# Independent Auditors' Review Report

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## To the Board of Directors and owners of Landsvirkjun

We have reviewed the accompanying condensed consolidated interim financial statements of Landsvirkjun, which comprise the endorsement by the Board of Directors and the CEO, the consolidated statement of financial position as at 30 June, 2017 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

## The Board of directors and CEO's responsibility for the Interim Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard, IAS 34, as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

## Auditors' Responsibility

Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information does not give a true and fair view of the financial position of the Group as at 30 June 2017, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standard, IAS 34, as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Reykjavik, August 31, 2017.

**Deloitte ehf.**

Þorsteinn Pétur Guðjónsson  
auditor

Lárus Finnbogason  
auditor

## Income Statement January 1 to June 30, 2017

	Note:	2017	2016	2017*	2016*
		1.1.-30.6.	1.1.-30.6.	Q2	Q2
<b>Operating revenues</b>					
Power sales .....		193,337	171,410	94,745	83,703
Realised aluminium hedges .....	(	1,812)	2,475	( 1,159)	1,266
Transmission .....		38,679	31,527	19,631	15,654
Other income .....		2,156	1,515	331	801
		<u>232,360</u>	<u>206,927</u>	<u>113,548</u>	<u>101,424</u>
<b>Operating expenses</b>					
Energy production costs .....		70,218	62,225	35,901	32,569
Transmission costs .....		25,895	27,006	13,034	13,832
Cost of general research .....		5,666	4,410	3,290	2,489
Other operating expenses .....		21,218	16,550	11,048	8,732
		<u>122,997</u>	<u>110,191</u>	<u>63,273</u>	<u>57,622</u>
<b>Operating profit</b> .....		<u>109,363</u>	<u>96,736</u>	<u>50,275</u>	<u>43,802</u>
<b>Financial income and (expenses)</b>					
Interest income .....		1,241	1,404	596	565
Interest expenses .....	(	32,669)	( 32,337)	( 16,952)	( 16,317)
Foreign exchange difference .....	(	50,574)	( 21,112)	( 46,759)	5,252
Fair value changes in embedded derivatives .....		35,816	14,391	( 6,739)	18,200
Fair value changes in other derivatives .....	(	2,951)	( 2,908)	5,159	( 2,753)
	6	<u>( 49,137)</u>	<u>( 40,562)</u>	<u>( 64,695)</u>	<u>4,947</u>
Associated companies .....	(	724)	( 1,125)	( 736)	( 666)
<b>Profit (loss) before income tax</b> .....		<u>59,502</u>	<u>55,049</u>	<u>( 15,156)</u>	<u>48,083</u>
Income tax .....	(	19,789)	( 20,216)	5,488	( 16,694)
<b>Net profit (loss) for the period</b> .....		<u>39,713</u>	<u>34,833</u>	<u>( 9,668)</u>	<u>31,389</u>
<b>Attributable to:</b>					
Owners of the parent company .....		35,994	35,765	( 10,871)	30,119
Subsidiaries minority interest .....		3,719	( 932)	1,203	1,270
		<u>39,713</u>	<u>34,833</u>	<u>( 9,668)</u>	<u>31,389</u>

\* Quarterly financial statements have not been reviewed by the auditors of the group

Notes 1 to 10 are an integral part of these interim financial statements.

## Statement of Comprehensive Income January 1 to June 30, 2017

	<b>2017</b>	<b>2016</b>	<b>2017*</b>	<b>2016*</b>
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>	<b>Q2</b>	<b>Q2</b>
<b>Net profit (loss) for the period</b> .....	39,713	34,833	( 9,668)	31,389
<b>Items that will not be reclassified subsequently to profit or loss:</b>				
Pension obligation after income tax, change .....	( 1,173)	( 889)	( 622)	( 486)
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Translation diff. due to sub. and associated comp. ....	2,403	355	2,330	( 202)
Total operating items moved to equity	1,230	( 534)	1,708	( 688)
<b>Total Comprehensive Income (loss) for the period</b> .....	<u>40,943</u>	<u>34,299</u>	<u>( 7,960)</u>	<u>30,701</u>
<b>Attributable to:</b>				
Owners of the parent company .....	37,007	35,118	( 9,386)	29,416
Subsidiaries minority interest .....	3,936	( 819)	1,426	1,285
	<u>40,943</u>	<u>34,299</u>	<u>( 7,960)</u>	<u>30,701</u>

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## Balance Sheet June 30, 2017

<b>Assets</b>	<b>Notes</b>	<b>30.6.2017</b>	<b>31.12.2016</b>
<b>Non-current assets</b>			
Property, plant and equipment .....		3,579,364	3,614,704
Projects under construction .....		385,460	282,318
Development cost .....		154,634	141,401
Other intangible assets .....		48,638	48,701
Derivative financial instruments .....	7	22,335	9,528
Associated companies .....		10,710	10,619
Deferred tax asset .....		10	0
Other non-current assets .....		164	150
Total non-current assets		<u>4,201,315</u>	<u>4,107,421</u>
<b>Current assets</b>			
Inventories .....		5,180	5,101
Accounts receivables and other receivables .....		61,169	72,599
Derivative financial instruments .....	7	2,965	3,209
Cash and cash equivalents .....		108,807	144,534
Total current assets		<u>178,121</u>	<u>225,443</u>
<b>Total assets</b>		<u><u>4,379,436</u></u>	<u><u>4,332,864</u></u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Owners' contributions .....		586,512	586,512
Revaluation account .....		172,644	175,712
Restricted reserves .....		1,455	1,039
Translation difference .....	(	38,934)	( 41,120)
Other equity .....		1,161,574	1,138,169
Equity of the owners of the parent company		<u>1,883,251</u>	<u>1,860,312</u>
Minority interest .....		112,712	108,776
Total equity		<u>1,995,963</u>	<u>1,969,088</u>
<b>Long-term liabilities</b>			
Interest bearing liabilities .....	8	1,921,891	1,883,049
Accrued pension liabilities .....		39,674	35,383
Deferred income tax liability .....		65,513	54,517
Obligation due to demolition .....		7,716	7,023
Prepaid income .....		2,773	2,862
Derivative financial instruments .....	7	3,829	33,690
		<u>2,041,396</u>	<u>2,016,524</u>
<b>Current liabilities</b>			
Accounts payable and other payables .....		121,350	82,753
Interest bearing liabilities .....	8	204,143	221,982
Income tax payable .....		8,300	14,121
Derivative financial instruments .....	7	8,284	28,396
		<u>342,077</u>	<u>347,252</u>
Total liabilities		<u>2,383,473</u>	<u>2,363,776</u>
<b>Total equity and liabilities</b>		<u><u>4,379,436</u></u>	<u><u>4,332,864</u></u>

Notes 1 to 10 are an integral part of these interim financial statements.



## Statement of Equity June 30, 2017

	Owners' contribution	Revaluation account	Restricted reserves	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
<b>January 1 to June 30, 2016</b>								
Equity at January 1, 2016.....	586,512	182,553	0	(42,844)	1,076,224	1,802,445	114,189	1,916,634
Translation difference.....				242		242	113	355
Pension obligation, change.....					(889)	(889)	0	(889)
Profit for the period.....					35,765	35,765	(932)	34,833
Total comprehensive profit.....				242	34,876	35,118	(819)	34,299
Dividend to owners.....					(12,141)	(12,141)	(1,138)	(13,279)
Revaluation transferred to other equity.....		(3,257)			3,257	0	0	0
Equity at June 30, 2016.....	586,512	179,295	0	(42,602)	1,102,217	1,825,422	112,231	1,937,653
<b>January 1 to June 30, 2017</b>								
Equity at January 1, 2017 .....	586,512	175,712	1,039	(41,120)	1,138,169	1,860,312	108,776	1,969,088
Translation difference.....				2,186		2,186	217	2,403
Pension obligation, change.....					(1,173)	(1,173)	0	(1,173)
Profit for the period.....					35,994	35,994	3,719	39,713
Total comprehensive profit.....				2,186	34,821	37,007	3,936	40,943
Dividend to owners.....					(14,068)	(14,068)	0	(14,068)
Share of profit of subsidiaries and associated companies.....			416		(416)	0	0	0
Revaluation transferred to other equity.....		(3,068)			3,068	0	0	0
Equity at June 30, 2017.....	586,512	172,644	1,455	(38,934)	1,161,574	1,883,251	112,712	1,995,963

Notes 1 to 10 are an integral part of these interim financial statements.

## Statement of Cash Flows January 1 to June 30, 2017

	2017 1.1.-30.6.	2016 1.1.-30.6.	2017* Q2	2016* Q2
<b>Operating activities</b>				
Operating profit .....	109,363	96,736	50,275	43,802
Depreciation and impairment loss .....	58,321	58,471	29,141	29,198
Pension obligation, change .....	( 825)	( 672)	( 446)	( 395)
Obligation due to demolition, change .....	694	447	595	325
Other changes .....	( 118)	( 50)	( 117)	( 25)
Working capital from operation before financial items	167,435	154,932	79,448	72,905
Operating assets, change .....	8,657	2,211	9,661	5,038
Operating liabilities, change .....	5,097	1,235	1,209	( 8,037)
Cash flow from operating activities before fin. items	181,189	158,378	90,318	69,906
Interest income received .....	919	1,238	388	399
Interest expenses and foreign exchange diff paid .....	( 35,493)	( 33,804)	( 12,693)	( 14,030)
Taxes paid .....	( 4,249)	( 1,971)	( 1,932)	( 1,145)
Cash flow from operating activities	142,366	123,841	76,081	55,130
<b>Investing activities</b>				
Power stations in operation .....	( 4,644)	( 4,474)	( 2,083)	( 3,129)
Transmission .....	( 34,262)	( 12,085)	( 19,429)	( 7,705)
Power plant preparation cost .....	( 3,142)	( 3,182)	( 856)	( 1,217)
Power stations under construction .....	( 77,517)	( 27,602)	( 28,709)	( 16,144)
Purchased shares .....	( 21)	( 106)	0	( 104)
Received dividend from associated companies .....	0	12	0	12
Other investments .....	( 2,764)	( 4,800)	( 1,304)	( 1,640)
Assets sold .....	483	108	446	46
Other receivables, change .....	4,100	997	1,900	997
Investing activities	( 117,767)	( 51,132)	( 50,035)	( 28,884)
<b>Financing activities</b>				
Dividend paid to owners .....	( 7,307)	( 7,209)	( 7,307)	( 7,209)
New loans .....	179,867	52,141	79,989	52,141
Currency swaps .....	( 12,725)	1,080	( 12,725)	1,080
Prepaid income, change .....	0	165	0	165
Amortisation of long-term debt .....	( 222,516)	( 149,467)	( 218,395)	( 84,750)
Financing activities	( 62,681)	( 103,290)	( 158,438)	( 38,573)
<b>Change in cash and cash equivalents</b> .....	( 38,082)	( 30,581)	( 132,392)	( 12,327)
<b>Effect of exchange difference on cash and cash equiv. ....</b>	2,355	1,654	( 218)	( 283)
<b>Cash and cash equivalents at the beginning of the year .</b>	144,534	142,127	241,417	125,810
<b>Cash and cash equivalents at the end of the period .....</b>	108,807	113,200	108,807	113,200

\* Quarterly financial statements have not been reviewed by the auditors of the group

Notes 1 to 10 are an integral part of these interim financial statements.

# Notes

## Reporting entity

### 1. Landsvirkjun

Landsvirkjun is a partnership having its place of business in Iceland and its headquarters at Háaleitisbraut 68, Reykjavik, Iceland. Landsvirkjun operates on the basis of the Act on Landsvirkjun no. 42/1983. The Company's main objective is to engage in operations in the energy sector. The interim financial statements include the consolidated financial statements of the Company and its subsidiaries.

### 2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31, 2016.

### 3. Significant accounting policies

The interim financial statements are prepared using the same accounting policies as for the year 2016 except that the Group has adopted new International Accounting Standards, as adopted by the EU, for the accounting period beginning January 1, 2017, changes to the standards and new interpretations. It is management's opinion that the adoption of new, improved standards and new interpretations do not have significant effect on these consolidated interim financial statements. The Group has not adopted new or improved standards which have been issued but have not yet taken effect. It is management's opinion that adoption of new and improved standards and interpretations which are not in effect will not have significant effects on the consolidated interim financial statements. The Group's financial statements for the year 2016 can be found on its website [www.landsvirkjun.com](http://www.landsvirkjun.com) and the website of NASDAQ OMX Iceland; [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com).

The interim financial statements are presented in USD, which is the parent Company's functional currency. Amounts are presented in USD thousand unless otherwise stated.

### 4. Use of estimates and judgements

The preparation of interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

### 5. Segment information

<b>Operating segments 1.1.-30.6.2017</b>	<b>Electricity production</b>	<b>Electricity transmission</b>	<b>Other segments</b>	<b>Adjustments</b>	<b>Total</b>
Income from third party .....	192,715	38,960	685		232,360
Income within the Group .....	12,029	32,544	2,528	( 47,101)	0
Segment income .....	204,744	71,504	3,213	( 47,101)	232,360
Segment operating expenses .....	( 80,198)	( 29,324)	( 2,255)	47,101	( 64,676)
EBITDA .....	124,546	42,180	958		167,684
Depreciation and impairment loss .....	( 44,187)	( 13,739)	( 600)	205	( 58,321)
Segment earnings, EBIT .....	80,359	28,441	358	205	109,363
Segment assets 30.6.2017 .....	3,907,356	826,418	23,181	( 388,229)	4,368,726
Shares in associated companies .....	10,499	7,343	211	( 7,343)	10,710
Total assets 30.6.2017 .....	3,917,855	833,761	23,392	( 395,572)	4,379,436
Segment liabilities 30.6.2017 .....	2,017,863	514,191	4,474	( 153,056)	2,383,473
Total liabilities 30.6.2017 .....	2,017,863	514,191	4,474	( 153,056)	2,383,473

## Notes, contd.:

### 5. Segment information, contd.:

<b>Operating segments 1.1.-30.6.2016</b>	<b>Electricity production</b>	<b>Electricity transmission</b>	<b>Other segments</b>	<b>Adjustments</b>	<b>Total</b>
Income from third party .....	174,425	31,735	767		206,927
Income within the Group .....	7,545	33,615	1,983	( 43,143)	0
Segment income .....	181,970	65,350	2,750	( 43,143)	206,927
Segment operating expenses .....	( 68,893)	( 24,145)	( 1,825)	43,143	( 51,720)
EBITDA .....	113,077	41,205	925		155,207
Depreciation and impairment loss .....	( 44,172)	( 14,042)	( 475)	218	( 58,471)
Segment earnings, EBIT .....	68,905	27,163	450	218	96,736
Segment assets 31.12.2016 .....	3,975,620	764,155	21,346	( 438,877)	4,322,244
Shares in associated companies .....	10,395	6,662	225	( 6,663)	10,619
Total assets 31.12.2016 .....	3,986,015	770,817	21,571	( 445,540)	4,332,864
Segment liabilities 31.12.2016 .....	2,106,828	462,407	4,462	( 209,921)	2,363,776
Total liabilities 31.12.2016 .....	2,106,828	462,407	4,462	( 209,921)	2,363,776

### 6. Financial income and (expenses)

	<b>2017</b>	<b>2016</b>
	1.1.-30.6.	1.1.-30.6.
Financial income and (expenses) are specified as follows:		
Interest income .....	1,241	1,404
Interest expense .....	( 33,661)	( 28,552)
Guarantee fee .....	( 3,995)	( 4,730)
Indexation .....	( 1,592)	( 2,821)
Capitalised finance cost .....	6,579	3,767
Total interest expense .....	( 32,669)	( 32,337)
Realised foreign exchange difference .....	( 2,079)	( 198)
Unrealised foreign exchange difference .....	( 48,495)	( 20,914)
Total foreign exchange difference .....	( 50,574)	( 21,112)
Fair value changes in embedded derivatives .....	35,816	14,391
Fair value changes in other derivatives .....	( 2,951)	( 2,908)
Financial income and (expenses)	( 49,137)	( 40,562)

### 7. Derivative financial instruments in the balance sheet:

Derivative financial instruments in the balance sheet are specified as follows:

	<b>30.6.2017</b>	<b>31.12.2016</b>
<b>Assets:</b>		
Embedded derivatives in electricity agreements .....	8,331	4,858
Aluminium hedges .....	1,465	2,854
Currency swaps .....	15,504	5,025
	25,300	12,737
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements .....	22,335	9,528
Short-term component of derivative agreements .....	2,965	3,209
	25,300	12,737
<b>Liabilities:</b>		
Embedded derivatives in electricity sales agreements .....	3,565	35,908
Aluminium hedges .....	6,211	2,651
Currency swaps .....	884	20,164
Interest rate swaps .....	1,453	3,363
	12,113	62,086

## Notes, contd.:

### 7. Derivative financial instruments in the balance sheet, contd.

	30.6.2017	31.12.2016
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements .....	3,829	33,690
Short-term component of derivative agreements .....	8,284	28,396
	12,113	62,086

### 8. Liabilities

Interest bearing long-term debt is specified as follows by currencies:

	30/06/2017			31/12/2016	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK .....	2017-2034	3.7%	297,270	3.8%	269,815
Liabilities in CHF .....	2017-2022	0.0%	30,561	0.0%	31,661
Liabilities in EUR .....	2017-2026	0.9%	373,860	0.6%	483,486
Liabilities in USD .....	2017-2035	3.2%	1,424,343	2.9%	1,320,069
			2,126,034		2,105,031
Current maturities of long-term debt .....			( 204,143)		( 221,982)
Total long-term debt .....			1,921,891		1,883,049

Interest rates on the loans of the parent company range between 0.0-5.6%. Nominal interest rates for the period were on average approximately 3.5%, taking into account the state guarantee fee, compared to 3.3% in 2016.

According to loan agreements, the maturities of long-term debt are as follows:

	30/06/2017
1.7.2017-30.6.2018 .....	204,143
1.7.2018-31.12.2018 .....	78,379
2019 .....	188,822
2020 .....	334,738
2021 .....	212,198
2022 .....	94,533
Later .....	1,013,221
	2,126,034

### 9. Comparison of fair value and book value

	30/06/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities .....	2,126,034	2,307,278	2,105,031	2,255,797

Fair value of other financial instruments is equal to book value.

Fair value of interest bearing liabilities is calculated by discounting the expected cash flows with the underlying currencies yield curve.

Interest rates are specified as follows:

	30/06/2017	31/12/2016
Interest bearing liabilities in ISK .....	2.1 - 2.8%	2.6 - 2.9%
Interest bearing liabilities other than in ISK .....	-0.8 - 2.5%	-0.8 - 2.6%

## Notes, contd.:

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### 10. Fair value classification

The table shows the level categorisation for items in the interim financial statements recognised at fair value.

	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>30/06/2017</b>			
Embedded derivatives .....		4,766	4,766
Other derivatives .....	( 5,813)	14,234	8,421
Revaluation of property, plant and equipment .....		257,929	257,929
Shares in other companies .....		164	164
	<u>( 5,813)</u>	<u>277,093</u>	<u>271,280</u>
 <b>31/12/2016</b>			
Embedded derivatives .....		( 31,050)	( 31,050)
Other derivatives .....	( 23,324)	5,025	( 18,299)
Revaluation of property, plant and equipment .....		263,770	263,770
Shares in other companies .....		150	150
	<u>( 23,324)</u>	<u>237,895</u>	<u>214,571</u>