Landsvirkjun

Group

Condensed Interim Financial Statements

January 1 to June 30, 2018

Landsvirkjun
Háaleitisbraut 68
103 Reykjavik
Iceland

Reg. no. 420269-1299

Contents

Key figures - not reviewed

Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2018 1.1.-30.6.	2017 1.1.-30.6.	2016 1.1.-30.6.	2015 1.1.-30.6.	2014 1.1.-30.6.
Operation					
Operating revenues	273,946	234,172	204,452	210,979	196,877
Realised aluminium hedges	(4,402)	(1,812)	2,475	4,764	6,363
Total operating revenues	269,544	232,360	206,927	215,743	203,240
Operating and maintainance expenses	(71,789)	(64,676)	(51,720)	(46,483)	(48,381)
EBITDA	197,755	167,684	155,207	169,260	154,859
Depreciation and impairment loss	(61,839)	(58,321)	(58,471)	(57,399)	(55,831)
EBIT	135,916	109,363	96,736	111,861	99,028
Financial items	(49,192)	(34,231)	(32,256)	(31,822)	(44,601)
Profit before unrealised financial items	86,724	75,132	64,480	80,039	54,427
Unrealised financial items:					
Fair value changes in embedded derivatives	(29,133)	35,816	14,391	(13,591)	(5,650)
Fair value changes in other derivatives	14,046	(2,951)	(2,908)	(3,475)	(6,566)
Unrealised foreign exchange difference	10,037	(48,495)	(20,914)	34,130	8,779
	(5,050)	(15,630)	(9,431)	17,064	(3,437)
Profit before income tax	81,674	59,502	55,049	97,103	50,990
Income tax	(27,167)	(19,789)	(20,216)	(33,203)	(16,443)
Profit for the period	54,507	39,713	34,833	63,900	34,547
Balance sheet	**30.6.2018**	**30.6.2017**	**30.6.2016**	**30.6.2015**	**30.6.2014**
Total assets	4,486,572	4,379,436	4,233,437	4,150,537	4,455,652
Total equity	2,099,502	1,995,963	1,937,653	1,750,658	1,681,003
Total liabilities	2,387,070	2,383,473	2,295,784	2,399,879	2,774,649
Net debt*	1,992,640	2,017,227	1,946,033	2,018,559	2,376,422
Cash flow	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**	**1.1.-30.6.**
Funds from operation (FFO)	154,955	134,136	123,905	131,480	118,962
Cash flow from operating activities	149,239	142,366	123,841	146,428	114,226
Investing activities	(96,656)	(117,767)	(51,132)	(21,774)	(48,533)
Financing activities	(66,682)	(62,681)	(103,290)	(148,425)	(139,227)
Liquidity	**30.6.2018**	**30.6.2017**	**30.6.2016**	**30.6.2015**	**30.6.2014**
Cash and cash equivalents	111,802	108,807	113,200	182,072	215,248
Undrawn loans	379,224	401,840	504,298	279,787	293,036
Total liquidity	491,026	510,647	617,498	461,859	508,284
Key ratios					
Return on equity **	6.2%	3.7%	3.1%	6.4%	2.9%
Equity ratio	46.8%	45.6%	45.8%	42.2%	37.7%
Interest cover (EBITDA/net interest exp.)**	4.77x	5.32x	4.87x	4.39x	3.35x
FFO / net debt**	15.2%	12.2%	12.0%	13.4%	10.2%
FFO / interest expense**	3.71x	3.95x	3.53x	3.29x	2.48x
Net debt / EBITDA**	5.30x	6.42x	6.33x	5.82x	7.46x
Credit rating without state guarantee at the end of June					
Standard & Poor's	BBB	BBB	BBB-	BB	BB
Moody's	Baa2	Baa3	Ba1	Ba2	Ba2

* Net debt is interest bearing liabilities less cash and cash equivalent

** Key ratios based on the past 12 months

Endorsement and Statement of the Board of Directors and CEO

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 2018 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 2018 amounted to USD 54.5 million while during the same period in 2017 the Group's profit amounted to USD 39.7 million. The change between periods amounted to USD 14.8 million. The Group's operating revenues amounted to USD 269.5 million during the period compared to USD 232.4 million during the same period in the previous year. The main changes in financial items are due to a positive currency exchange difference of USD 9.5 million during the period January to June 2018 compared to a negative difference in the amount of USD 50.6 million during the same period in 2017 and due to the fair value loss of embedded derivatives, which amounted to USD 29.1 million during the period January to June 2018 compared to a positive difference in the amount of USD 35.8 million during the same period in 2017. Cash flow from operations amounted to USD 149.2 million during the period compared to USD 142.4 million during the same period in the previous year. At the end of June 2018, the Group's cash and cash equivalents amounted to USD 111.8 million and undrawn loans amounted to USD 379.2 million, a total of USD 491.0 million. The Group's equity at the end of June amounted to USD 2,099.5 million according to the balance sheet compared to USD 2,063.1 million at year end 2017.

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 2018 and the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2018.

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 2018 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.

Reykjavik, August 17, 2018.

The Board of Directors:
Jónas Þór Guðmundsson
Álfheiður Ingadóttir
Guðfinna Jóhanna Guðmundsdóttir
Gunnar Tryggvason
Jón Björn Hákonarson

The CEO:
Hörður Arnarson

Independent Auditors' Review Report

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, the consolidated statement of financial position as at 30 June, 2018 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 2018, 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 17, 2018.

Deloitte ehf.

Þorsteinn Pétur Guðjónsson
auditor

Pétur Hansson
auditor

Income Statement

	Notes	2018 1.1.-30.6.	2017 1.1.-30.6.	2018* Q2	2017* Q2
Operating revenues					
Power sales	6	226,511	193,337	108,781	94,745
Realised aluminium hedges		(4,402)	(1,812)	(2,754)	(1,159)
Transmission	6	43,948	38,679	21,622	19,631
Other income		3,487	2,156	733	331
		269,544	232,360	128,382	113,548
Operating expenses					
Energy production costs		72,074	70,218	36,726	35,901
Transmission costs		32,626	25,895	15,809	13,034
Cost of general research		4,786	5,666	2,576	3,290
Other operating expenses		24,142	21,218	12,001	11,048
		133,628	122,997	67,112	63,273
Operating profit		135,916	109,363	61,270	50,275
Financial income and (expenses)					
Interest income		1,662	1,241	803	596
Interest expenses		(49,402)	(32,669)	(30,629)	(16,952)
Foreign exchange difference		9,451	(50,574)	28,192	(46,759)
Fair value changes in embedded derivatives		(29,133)	35,816	10,423	(6,739)
Fair value changes in other derivatives		14,046	(2,951)	(2,833)	5,159
	7	(53,376)	(49,137)	5,956	(64,695)
Associated companies		(866)	(724)	55	(736)
Profit (loss) before income tax		81,674	59,502	67,281	(15,156)
Income tax		(27,167)	(19,789)	(21,839)	5,488
Net profit (loss) for the period		54,507	39,713	45,442	(9,668)
Attributable to:					
Owners of the parent company		48,782	35,994	41,132	(10,871)
Subsidiaries minority interest		5,725	3,719	4,310	1,203
		54,507	39,713	45,442	(9,668)

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

Notes 1 to 11 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2018 6 Amounts in USD thousand

Statement of Comprehensive Income

	2018 1.1.-30.6.	2017 1.1.-30.6.	2018* Q2	2017* Q2
Net profit (loss) for the period	54,507	39,713	45,442	(9,668)
Items that will not be reclassified subsequently to profit or loss:				
Pension obligation after income tax, change	(1,169)	(1,173)	(581)	(622)
Items that may be reclassified subsequently to profit or loss:				
Translation diff. due to subs. and associated comp.	(648)	2,403	(2,291)	2,330
Total operating items moved to equity	(1,817)	1,230	(2,872)	1,708
Total Comprehensive Income (loss) for the period	52,690	40,943	42,570	(7,960)
Attributable to:				
Owners of the parent company	47,014	37,007	38,479	(9,386)
Subsidiaries minority interest	5,676	3,936	4,091	1,426
	52,690	40,943	42,570	(7,960)

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

Notes 1 to 11 are an integral part of these interim financial statements.

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Balance Sheet

Assets	Notes	30.6.2018	31.12.2017
Non-current assets			
Property, plant and equipment		3,891,057	3,810,257
Projects under construction		168,876	232,425
Development cost		136,280	130,319
Other intangible assets		48,186	48,413
Derivative financial instruments	8	37,310	66,200
Associated companies		10,618	11,778
Tax asset		41	14
Other non-current assets		804	163
Total non-current assets		4,293,172	4,299,569
Current assets			
Inventories		5,674	5,625
Accounts receivables and other receivables		68,530	66,383
Derivative financial instruments	8	7,394	8,271
Cash and cash equivalents		111,802	126,544
Total current assets		193,400	206,823
Total assets		4,486,572	4,506,392
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		166,375	169,329
Restricted reserves		19,075	10,390
Translation difference		(39,135)	(38,536)
Other equity		1,243,219	1,216,571
Equity of the owners of the parent company		1,976,046	1,944,265
Minority interest		123,456	118,847
Total equity		2,099,502	2,063,112
Long-term liabilities			
Interest bearing liabilities	9	1,872,110	1,889,372
Accrued pension liabilities		40,687	40,597
Deferred income tax liability		110,777	91,268
Obligation due to demolition		8,960	8,551
Prepaid income		2,973	3,043
Derivative financial instruments	8	2,536	4,110
		2,038,043	2,036,941
Current liabilities			
Accounts payable and other payables		102,486	93,028
Interest bearing liabilities	9	232,332	279,814
Income tax payable		9,070	18,038
Derivative financial instruments	8	5,139	15,459
		349,027	406,339
Total liabilities		2,387,070	2,443,280
Total equity and liabilities		4,486,572	4,506,392

Notes 1 to 11 are an integral part of these interim financial statements.

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Statement of Equity

	Owners' contribution	Revaluation account	Restricted reserves	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
January 1 to June 30, 2017								
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
January 1 to June 30, 2018								
Equity at January 1, 2018	586,512	169,329	10,390	(38,536)	1,216,571	1,944,265	118,847	2,063,112
Translation difference				(599)		(599)	(49)	(648)
Pension obligation, change					(1,169)	(1,169)	0	(1,169)
Profit for the period					48,782	48,782	5,725	54,507
Total comprehensive profit				(599)	47,613	47,014	5,676	52,690
Dividend to owners					(15,235)	(15,235)	(1,067)	(16,302)
Share of profit of subsidiaries and associated companies			8,685		(8,685)	0	0	0
Revaluation transferred to other equity		(2,954)			2,954	0	0	0
Equity at June 30, 2018	586,512	166,375	19,075	(39,135)	1,243,219	1,976,046	123,456	2,099,502

Notes 1 to 11 are an integral part of these interim financial statements.

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Statement of Cash Flows

	2018 1.1.-30.6.	2017 1.1.-30.6.	2018* Q2	2017* Q2
Operating activities				
Operating profit	135,916	109,363	61,270	50,275
Depreciation and impairment loss	61,839	58,321	31,216	29,141
Pension obligation, change	(991)	(825)	(498)	(446)
Obligation due to demolition, change	409	694	251	595
Other changes	(52)	(118)	(3)	(117)
Working capital from operations before financial items	197,121	167,435	92,236	79,448
Operating assets, change	3,520	8,657	4,925	9,661
Operating liabilities, change	1,614	5,097	(7,503)	1,209
Cash flow from operating activities before fin. items	202,255	181,189	89,658	90,318
Interest income received	1,416	919	734	388
Interest expenses and foreign exchange diff. paid	(46,244)	(35,493)	(18,309)	(12,693)
Taxes paid	(8,188)	(4,249)	(3,986)	(1,932)
Cash flow from operating activities	149,239	142,366	68,097	76,081
Investing activities				
Power stations in operation	(21,709)	(4,644)	(17,361)	(2,083)
Transmission	(14,908)	(34,262)	(8,956)	(19,429)
Power plant preparation cost	(4,078)	(3,142)	(1,758)	(856)
Power stations under construction	(48,220)	(77,517)	(20,795)	(28,709)
Purchased shares	(622)	(21)	(620)	0
Other investments	(7,135)	(2,764)	(4,598)	(1,304)
Assets sold	76	483	14	446
Other receivables, change	(60)	4,100	0	1,900
Investing activities	(96,656)	(117,767)	(54,074)	(50,035)
Financing activities				
Dividend paid to owners	(8,684)	(7,307)	(8,684)	(7,307)
New loans	240,000	179,867	0	79,989
Currency swaps	0	(12,725)	0	(12,725)
Amortisation of long-term debt	(297,998)	(222,516)	(218,677)	(218,395)
Financing activities	(66,682)	(62,681)	(227,361)	(158,438)
Change in cash and cash equivalents	(14,099)	(38,082)	(213,338)	(132,392)
Effect of exchange difference on cash and cash equiv.	(643)	2,355	(2,704)	(218)
Cash and cash equivalents at the beginning of the year	126,544	144,534	327,844	241,417
Cash and cash equivalents at the end of the period	111,802	108,807	111,802	108,807

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

Notes 1 to 11 are an integral part of these interim financial statements.

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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, 2017.

3. **Significant accounting policies**

The interim financial statements are prepared using the same accounting policies as for the year 2017 except that the Group has adopted new International Accounting Standards, as adopted by the EU, for the accounting period beginning January 1, 2018, changes to the standards and new interpretations. It is management's opinion that the adoption of new, improved standards and new interpretations, other than IFRS 15 and IFRS 9, do not have significant effects on the 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 2017 can be found on its website www.landsvirkjun.com and the website of NASDAQ OMX Iceland; 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.

The Group has implemented IFRS 15 Revenues from Contracts with Customers (see A) and IFRS 9 Financial Instruments (see B) which are effective from January 1, 2018. Changes to significant accounting policies are described below.

A. IFRS 15 Revenues from contracts with Customers

IFRS 15 applies to the sales of goods and services and establishes a comprehensive framework regarding the disclosure of information to the users of the financial information regarding nature, amount, timing and uncertainty relating to revenues and cash flows of contracts with customers. According to the five step revenue recognition model of IFRS 15, revenues shall be recognised in a way that reflects the delivery of goods and services to customers. The revenue recognition model of IFRS 15 is different from previous models where recognition of revenues was based on transfer of risk and rewards. The implementation of IFRS 15 did not effect previously reported comparative financial information or equity at January 1, 2018.

Revenues are recognised for distinct types of goods and services as follows:

Power production

Revenues of Power Production originate from sales of electricity which is produced by hydro, wind and geothermal energy.

3. Significant accounting policies, contd.:

Revenues of Electricity Production originate when power is delivered at a negotiated price. The performance obligation is to deliver electricity over time and the transaction price is considered the fee Landsvirkjun expects to receive, at either spot price or contract price. The performance obligation is satisfied over time and reflects the revenues which are recognized for each delivered unit which is the amount the Company has the right to recognize as revenues. The right to make an invoice due to sales of electricity is established when electricity is produced and delivered and the right to invoice is established for a consideration which normally corresponds directly with the value to the customer.

Furthermore, the operation of Icelandic Power Insurance Ltd. falls under this segment. The purpose of Icelandic Power Insurance Ltd. is to take care of insurances for Landsvirkjun’s power stations.

Transmission

Landsnet is responsible for the transmission of electricity and system management under the provisions of Chapter III of the Electricity Act No. 65/2003. Income from transmission is recognised on the basis of measured delivery of electricity and the tariff in force at any given time. The tariff is subject to a revenue cap set for the Company on the basis of Article 12 of the Electricity Act and regulated by the National Energy Authority. Income relating to transmission losses and ancillary services is also recognised on the basis of measured delivery and the tariff in force. The tariff is based on purchase prices determined by tendering processes. It is external to the revenue cap but subject to regulation by the National Energy Authority. The criteria for recognition as income and for billing for transmission are met once the electricity is transmitted and delivered.

Other segments

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate a telecommunications system which is necessary for the shareholders' electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. takes care of sales of technical and operational advisory services to third parties and general research work, harnessing researches and projects for Landsvirkjun and related companies. Other revenues are recognised when the contractutal performance obligation has been fulfilled.

B. IFRS 9 Financial Instruments

IFRS 9 contains new rules for classification and measurement of financial instruments. The classification approach of the standard for financial assets reflects the business model in which assets are managed and their cash flow characteristics. New measurement principles for impairment of financial assets put forward an impairment model which is based on expected losses. The standard also includes new guidelines for hedge accounting. The standard replaces IAS 39.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI (recognised at fair value through comprehensive income) and FVTPL (recognised at fair value through profit or loss). Classification for financial instruments is based on the business model in which assets are managed and their cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial asset is classified as measured at amortised cost if it fulfills both of the following conditions and is not designated as FVTPL:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes, contd.:

3. Significant accounting policies, contd.:

All financial assets which are not classified and measured at amortised cost or FVOCI, are FVTPL, all derivative assets included. On initial recognition, the Group has the possibility of designating financial assets as FVTPL which otherwise would be recognised at amortised cost or FVOCI, if it eliminates or significantly reduces accounting mismatch that would otherwise arise.

The standard introduces a new impairment model. The new model is based on expected losses instead of incurred losses as the IAS 39 model was based on. The new model applies to financial assets that are measured at amortised cost, contractual assets and bonds which are FVOCI. The impairment model does not apply to equity investments.

Based on managements assessment the implementation of the standard did not have significant effects on classification and measurement of financial assets or impairment of financial assets in these condensed interim financial statements.

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

Operating segments 1.1.-30.6.2018	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	224,588	44,282	674		269,544
Income within the Group	9,208	32,460	2,606	(44,274)	0
Segment income	233,796	76,742	3,280	(44,274)	269,544
Segment operating expenses	(80,221)	(33,374)	(2,468)	44,274	(71,789)
EBITDA	153,575	43,368	812		197,755
Depreciation and impairment loss	(46,821)	(14,548)	(674)	204	(61,839)
Segment earnings, EBIT	106,754	28,820	138	204	135,916
Segment assets 30.6.2018	3,963,332	846,015	22,950	(356,343)	4,475,954
Shares in associated companies	10,496	7,294	122	(7,294)	10,618
Total assets 30.6.2018	3,973,828	853,309	23,072	(363,637)	4,486,572
Segment liabilities 30.6.2018	1,981,456	503,277	4,717	(102,380)	2,387,070
Total liabilities 30.6.2018	1,981,456	503,277	4,717	(102,380)	2,387,070

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Notes, contd.:

5. Segment information, contd.:

Operating segments 1.1.-30.6.2017	Electricity production	Electricity transmission	Other segments	Adjustments	Total
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 31.12.2017	4,025,516	843,935	22,893	(397,731)	4,494,613
Shares in associated companies	11,616	7,367	162	(7,367)	11,778
Total assets 31.12.2017	4,037,132	851,302	23,055	(405,098)	4,506,392
Segment liabilities 31.12.2017	2,076,465	514,339	4,351	(151,875)	2,443,280
Total liabilities 31.12.2017	2,076,465	514,339	4,351	(151,875)	2,443,280

6. Operating revenues

Electricity sales are specified as follows:	2018 1.1.-30.6.	2017 1.1.-30.6.
Wholesale	49,815	40,240
Industrial users	176,696	153,097
Electricity sales total	226,511	193,337
Revenues from electricity transmission are specified as follows:		
Transmission	38,512	32,869
Transmission losses, grid service and other transmission revenues	5,436	5,810
Electricity transmission total.	43,948	38,679

7. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

Interest income	1,662	1,241
Interest expense	(49,908)	(33,661)
Guarantee fee	(3,164)	(3,995)
Indexation	(712)	(1,592)
Capitalised finance cost	4,382	6,579
Total interest expense	(49,402)	(32,669)
Realised foreign exchange difference	(586)	(2,079)
Unrealised foreign exchange difference	10,037	(48,495)
Total foreign exchange difference	9,451	(50,574)
Fair value changes in embedded derivatives	(29,133)	35,816
Fair value changes in other derivatives	14,046	(2,951)
Financial income and (expenses)	(53,376)	(49,137)

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Notes, contd.:

8. Derivative financial instruments in the balance sheet

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

	30.06.2018	31.12.2017
Assets:		
Embedded derivatives in electricity agreements	24,828	54,390
Aluminium hedges	3,628	1,141
Currency swaps	16,248	18,940
	44,704	74,471
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	37,310	66,200
Short-term component of derivative agreements	7,394	8,271
	44,704	74,471
Liabilities:		
Embedded derivatives in electricity sales agreements	516	946
Aluminium hedges	6,180	17,251
Currency swaps	979	693
Interest rate swaps	0	679
	7,675	19,569
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	2,536	4,110
Short-term component of derivative agreements	5,139	15,459
	7,675	19,569

9. Liabilities

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

	Maturity date	30.06.2018 Average interest	Remaining balance	31.12.2017 Average interest	Remaining balance
Liabilities in ISK	2019-2034	3.7%	293,652	3.7%	295,793
Liabilities in CHF	2019-2022	0.0%	23,598	0.0%	27,044
Liabilities in EUR	2019-2026	0.0%	323,342	0.9%	392,671
Liabilities in USD	2019-2035	3.6%	1,463,850	3.3%	1,453,678
			2,104,442		2,169,186
Current maturities of long-term debt			(232,332)		(279,814)
Total long-term debt			1,872,110		1,889,372

Interest rates on the loans range between 0.0-5.0% at the end of June compared to 0.0-5,6% in the year end 2017. Nominal interest rates for the period were on average approximately just over 3.9%, taking into account the state guarantee fee, compared to 3.5% in the full year 2017.

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

	30.06.2018
1.7.2018-30.6.2019	232,332
1.7.2019-31.12.2019	42,977
2020	278,676
2021	215,528
2022	163,179
2023	166,010
Later	1,005,740
	2,104,442

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Notes, contd.:

10. Comparison of fair value and book value

	30.06.2018 Book value	30.06.2018 Fair value	31.12.2017 Book value	31.12.2017 Fair value
Interest bearing long term liabilities	2,104,442	2,231,913	2,169,186	2,342,525

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:	30.06.2018	31.12.2017
Interest bearing liabilities in ISK	1.7 - 2.2%	1.9 - 2.0%
Interest bearing liabilities other than in ISK	-0.7 - 3.0%	-0.7 - 2.6%

11. Fair value classification

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

	Level 2	Level 3	Total
30/06/2018			
Embedded derivatives		24,312	24,312
Other derivatives	(495)	13,212	12,717
Revaluation of property, plant and equipment		245,765	245,765
Shares in other companies		748	748
	(495)	284,037	283,542
31.12.2017			
Embedded derivatives		53,444	53,444
Other derivatives	(13,228)	14,686	1,458
Revaluation of property, plant and equipment		250,960	250,960
Shares in other companies		163	163
	(13,228)	319,253	306,025

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