

Group

Condensed Interim Financial Statements

January 1 to September 30, 2016

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík
Iceland

Reg. no. 420269-1299

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Key figures

Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2016	2015	2014	2013	2012
	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.
Operation					
Operating revenues	303,485	306,457	299,953	294,659	285,376
Realised aluminium hedges	3,632	7,529	7,854	11,239	15,563
Total operating revenues	307,117	313,986	307,807	305,898	300,939
Operating and maintainance expenses	(81,502)	(69,216)	(77,087)	(62,654)	(60,963)
EBITDA	225,615	244,770	230,720	243,244	239,976
Depreciation and impairment loss	(87,721)	(87,314)	(85,302)	(86,812)	(78,361)
EBIT	137,894	157,456	145,418	156,432	161,615
Financial items	(49,137)	(62,346)	(62,027)	(62,704)	(86,286)
Profit before unrealised financial items	88,757	95,110	83,391	93,728	75,329
Unrealised financial items:					
Fair value changes in embedded derivatives	29,828	(26,237)	22	(123,937)	21,881
Fair value changes in other derivatives	(921)	6,464	(11,487)	1,028	10,402
Unrealised foreign exchange difference	(38,179)	39,972	51,147	(6,313)	(1,657)
	(9,272)	20,199	39,682	(129,222)	30,626
Profit (loss) before income tax	79,485	115,309	123,073	(35,494)	105,955
Income tax	(31,997)	(39,012)	(41,106)	15,970	(37,341)
Profit (loss) for the period	47,488	76,297	81,967	(19,524)	68,614
Balance sheet					
	30.9.2016	30.9.2015	30.9.2014	30.9.2013	30.9.2012
Total assets	4,261,610	4,085,272	4,363,098	4,443,861	4,520,272
Total equity	1,949,506	1,768,147	1,716,517	1,670,792	1,714,105
Total liabilities	2,312,104	2,317,125	2,646,581	2,773,069	2,806,167
Net debt*	1,973,757	2,027,487	2,263,318	2,432,527	2,450,893
Cash flow					
	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.
Funds from operation (FFO)	179,816	179,344	177,717	193,856	175,047
Cash flow from operating activities	172,545	194,302	168,908	192,036	164,377
Investing activities	(109,293)	(47,379)	(82,739)	(119,966)	(71,489)
Financing activities	(101,229)	(241,607)	(185,381)	(106,939)	(154,813)
Liquidity					
	30.9.2016	30.9.2015	30.9.2014	30.9.2013	30.9.2012
Cash and cash equivalents	107,183	112,318	185,866	154,904	165,899
Undrawn loans	420,942	270,671	286,605	399,398	413,682
Total liquidity	528,125	382,989	472,471	554,302	579,581
Key ratios					
Return on equity **	3.1%	4.2%	3.8%	(1.9)%	6.4%
Equity ratio	45.7%	43.3%	39.3%	37.6%	37.9%
Interest cover (EBITDA/net interest exp)**	5.12x	4.59x	3.35x	3.49x	3.12x
FFO / net debt**	12.2%	12.8%	10.7%	10.7%	9.4%
FFO / interest expense**	3.89x	3.30x	2.47x	2.72x	2.15x
Net debt / EBITDA**	6.53x	5.86x	7.15x	7.51x	7.79x
Credit rating without state guarantee at the end of September					
Standard & Poor's	BBB-	BB+	BB	BB	-
Moody's	Baa3	Ba1	Ba2	Ba2	-

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

** 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 consolidated interim financial statements for the period from January 1 to September 30, 2016 which have been prepared in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting, as adopted by the EU and include, in addition to the parent company, four subsidiaries, Landsnet hf., Orkufjarskipti hf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf. The condensed consolidated Interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to the income statement, the Group's profit in the period from January to September 2016 amounted to USD 47.5 million while during the same period in 2015 the Group's profit amounted to USD 76.3 million. The change between periods is USD 28.8 million. The Group's operating revenues amounted to USD 307.1 million during the period compared to USD 314.0 million during the same period in the previous year. Cash flow from operations amounted to USD 172.5 million during the period compared to USD 194.3 million during the same period in the previous year. At the end of September 2016, the Group's cash and cash equivalents amounted to USD 107.2 million and undrawn credit facilities amounted to USD 420.9 million, a total of USD 528.1 million. The Group's equity at the end of September amounted to USD 1,949.5 million according to the balance sheet compared to USD 1,916.6 million at year end 2015.

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. 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 September, 2016 and the Group's operating results and changes in cash flow during the period from 1 January to 30 September 2016.

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 September 2016 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.

Reykjavík, November 23, 2016.

The Board of Directors:
Jónas Þór Guðmundsson
Jón Björn Hákonarson
Helgi Jóhannesson
Þórunn Sveinbjarnardóttir
Álfheiður Ingadóttir

The CEO:
Hörður Arnarson

Income Statement January 1 to September 30, 2016

	Notes	2016	2015	2016	2015
		1.1.-30.9.	1.1.-30.9.	Q3	Q3
Operating revenues					
Power sales		254,197	261,899	82,787	80,961
Realised aluminium hedges		3,632	7,529	1,157	2,765
Transmission		47,219	42,401	15,692	13,799
Other income		2,069	2,157	554	718
		<u>307,117</u>	<u>313,986</u>	<u>100,190</u>	<u>98,243</u>
Operating expenses					
Energy production costs		97,135	92,802	34,910	31,487
Transmission costs		40,320	29,454	13,314	9,712
Cost of general research		6,587	10,830	2,177	5,135
Other operating expenses		25,181	23,444	8,631	6,314
		<u>169,223</u>	<u>156,530</u>	<u>59,032</u>	<u>52,648</u>
Operating profit		<u>137,894</u>	<u>157,456</u>	<u>41,158</u>	<u>45,595</u>
Financial income and (expenses)					
Interest income		2,145	2,760	741	745
Interest expenses .....	(	47,564)	(59,119)	(15,227)	(19,390)
Foreign exchange difference .....	(	39,617)	35,701	(18,505)	(5,381)
Fair value changes in embedded derivatives		29,828	(26,237)	15,437	(12,646)
Fair value changes in other derivatives .....	(	921)	6,464	1,987	9,939
	6	<u>(56,129)</u>	<u>(40,431)</u>	<u>(15,567)</u>	<u>(26,733)</u>
Associated companies .....	(	2,280)	(1,716)	(1,155)	(656)
Profit before income tax		<u>79,485</u>	<u>115,309</u>	<u>24,436</u>	<u>18,206</u>
Income tax .....	(	31,997)	(39,012)	(11,781)	(5,809)
Net profit for the period		<u>47,488</u>	<u>76,297</u>	<u>12,655</u>	<u>12,397</u>
Attributable to:					
Owners of the parent company		53,243	68,968	17,478	9,226
Subsidiaries minority interest .....	(	5,755)	7,329	(4,823)	3,171
		<u>47,488</u>	<u>76,297</u>	<u>12,655</u>	<u>12,397</u>

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

Statement of Comprehensive Income January 1 to September 30, 2016

	2016 1.1.-30.9.	2015 1.1.-30.9.	2016 Q3	2015 Q3
Profit for the period	47,488	76,297	12,655	12,397
Items that will not be reclassified subsequently to profit or loss:				
Pension obligation after income tax, change	(1,875)	(1,081)	(986)	(369)
Items that may be reclassified subsequently to profit or loss:				
Transl. diff. due to subs. and associated companies	539	(764)	184	5,461
Total operating items moved to equity	(1,336)	(1,845)	(802)	5,092
Total Comprehensive Income for the period	46,152	74,452	11,853	17,489
Attributable to:				
Owners of the parent company	51,639	66,997	16,521	12,346
Subsidiaries minority interest	(5,487)	7,455	(4,668)	5,143
	46,152	74,452	11,853	17,489

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

Balance Sheet September 30, 2016

Assets	Notes	30.9.2016	31.12.2015
Non-current assets			
Property, plant and equipment		3,638,375	3,685,410
Projects under construction		229,766	134,146
Development cost		139,131	141,799
Other intangible assets		48,623	48,469
Derivative financial instruments	7	10,825	2,915
Associated companies		13,535	13,401
Other non-current assets		1,565	5,795
Deferred tax asset		379	34,733
Total non-current assets		<u>4,082,199</u>	<u>4,066,668</u>
Current assets			
Inventories		5,023	4,582
Accounts receivables and other receivables		62,639	64,472
Derivative financial instruments	7	4,566	6,854
Cash and cash equivalents		107,183	142,127
Total current assets		<u>179,411</u>	<u>218,035</u>
Total assets		<u><u>4,261,610</u></u>	<u><u>4,284,703</u></u>
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		178,060	182,553
Translation difference		(42,573)	(42,844)
Other equity		1,119,944	1,076,224
Equity of the owners of the parent company		<u>1,841,943</u>	<u>1,802,445</u>
Minority interest		107,563	114,189
Total equity		<u>1,949,506</u>	<u>1,916,634</u>
Long-term liabilities			
Interest bearing liabilities	8	1,800,578	1,890,556
Accrued pension liabilities		33,379	27,663
Deferred income tax liability		50,322	57,553
Obligation due to demolition		7,548	6,997
Prepaid income		2,906	2,936
Derivative financial instruments	7	26,278	67,044
		<u>1,921,011</u>	<u>2,052,749</u>
Current liabilities			
Accounts payable and other payables		81,115	58,342
Interest bearing liabilities	8	280,362	236,982
Income tax payable		8,809	7,895
Derivative financial instruments	7	20,807	12,101
		<u>391,093</u>	<u>315,320</u>
Total liabilities		<u>2,312,104</u>	<u>2,368,069</u>
Total equity and liabilities		<u><u>4,261,610</u></u>	<u><u>4,284,703</u></u>

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

Statement of Equity September 30, 2016

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
January 1 to September 30, 2015							
Equity at January 1, 2015.....	586,512	91,845	(39,786)	1,012,718	1,651,289	53,435	1,704,724
Translation difference.....			(890)		(890)	126	(764)
Pension obligation, change..				(1,081)	(1,081)	0	(1,081)
Profit for the period.....				68,968	68,968	7,329	76,297
Total comprehensive profit..			(890)	67,887	66,997	7,455	74,452
Dividend to owners.....				(11,029)	(11,029)	0	(11,029)
Revaluation transferred to other equity.....		(2,263)		2,263	0		0
Equity at Sept. 30, 2015.....	586,512	89,582	(40,676)	1,071,839	1,707,258	60,890	1,768,147
January 1 to September 30, 2016							
Equity at January 1, 2016.....	586,512	182,553	(42,844)	1,076,224	1,802,445	114,189	1,916,634
Translation difference.....			271		271	268	539
Pension obligation, change..				(1,875)	(1,875)	0	(1,875)
Profit for the period.....				53,243	53,243	(5,755)	47,488
Total comprehensive profit..			271	51,368	51,639	(5,487)	46,152
Dividend to owners.....				(12,141)	(12,141)	(1,138)	(13,279)
Revaluation transferred to other equity.....		(4,492)		4,492	0		0
Equity at Sept 30, 2016.....	586,512	178,060	(42,573)	1,119,944	1,841,943	107,563	1,949,506

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

Statement of Cash Flows January 1 to September 30, 2016

	2016	2015	2016	2015
	1.1.-30.9.	1.1.-30.9.	Q3	Q3
Operating activities				
Operating profit	137,894	157,456	41,158	45,595
Depreciation and impairment loss	87,721	87,314	29,250	29,915
Pension obligation, change	(953)	(670)	(281)	(233)
Obligation due to demolition, change	551	262	104	90
Other changes	(73)	(2)	(23)	150
Working capital from op. before financial items	225,140	244,360	70,208	75,517
Operating assets, change	2,188	11,804	(23)	6,342
Operating liabilities, change	(5,798)	3,438	(7,033)	(936)
Cash flow from op. activities before financial items	221,530	259,602	63,152	80,923
Interest income received	1,477	2,812	239	745
Interest expenses and foreign exchange diff. paid	(47,239)	(68,089)	(13,435)	(33,794)
Taxes paid	(3,223)	(23)	(1,252)	0
Cash flow from operating activities	<u>172,545</u>	<u>194,302</u>	<u>48,704</u>	<u>47,874</u>
Investing activities				
Power stations in operation	(8,010)	(5,967)	(3,536)	(1,924)
Transmission	(25,929)	(20,040)	(13,844)	(13,037)
Power plant preparation cost	(4,269)	(5,801)	(1,087)	(1,748)
Power stations under construction	(65,934)	(13,952)	(38,332)	(7,436)
Purchased shares	(106)	(96)	0	0
Dividend received	12	82	0	0
Other investments	(7,225)	(3,711)	(2,425)	(1,460)
Assets sold	2,096	106	1,988	0
Other receivables, change	72	2,000	(925)	0
Investing activities	<u>(109,293)</u>	<u>(47,379)</u>	<u>(58,161)</u>	<u>(25,605)</u>
Financing activities				
Dividend paid to owners	(7,209)	(5,514)	0	0
New loans	142,516	53,459	90,375	23,459
Currency swaps	1,080	0	0	0
Prepaid income, change	165	250	0	126
Amortisation of long-term debt	(237,781)	(289,802)	(88,314)	(116,767)
Financing activities	<u>(101,229)</u>	<u>(241,607)</u>	<u>2,061</u>	<u>(93,182)</u>
Change in cash and cash equivalents	(37,977)	(94,684)	(7,396)	(70,913)
Effect of exchange diff. on cash and cash equivalents ...	3,033	(68)	1,379	1,159
Cash and cash equiv. at the beginning of the period	<u>142,127</u>	<u>207,070</u>	<u>113,200</u>	<u>182,072</u>
Cash and cash equivalents at the end of the period	<u>107,183</u>	<u>112,318</u>	<u>107,183</u>	<u>112,318</u>

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. 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, 2015.

3. Significant accounting policies

The interim financial statements are prepared using the same accounting policies as for the year 2015 except that the Group has adopted new International Accounting Standards, as adopted by the EU, for the accounting period beginning January 1, 2016, 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 effects 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. On the 2nd of June 2016 law no. 73/2016 was passed, which changed law no. 3/2006 on annual reports. The changes took immediate effect and apply to a reporting year starting from the 1st of January 2016 and thereafter. Management has not finished assessing the effects these changes have on the company's annual reports and therefore the current interim report does not fully account for these changes.

The Group's financial statements for the year 2015 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.

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.-30.9.2016	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	258,588	47,526	1,003		307,117
Income within the Group	10,844	49,248	3,103	(63,195)	0
Segment income	269,432	96,774	4,106	(63,195)	307,117
Segment operating expenses	(105,883)	(36,106)	(2,708)	63,195	(81,502)
EBITDA	163,549	60,668	1,398		225,616
Depreciation and impairment loss	(66,212)	(21,122)	(739)	352	(87,721)
Segment earnings, EBIT	97,337	39,546	659	352	137,894
Segment assets 30.9.2016	3,999,002	754,558	21,001	(526,486)	4,248,075
Shares in associated companies	13,229	6,577	306	(6,577)	13,535
Total assets 30.9.2016	4,012,231	761,135	21,307	(533,063)	4,261,610
Segment liabilities 30.9.2016	2,149,705	456,164	4,368	(298,133)	2,312,104
Total liabilities 30.9.2016	2,149,705	456,164	4,368	(298,133)	2,312,104

Notes, contd.:

5. Segment information, contd.:

Operating segments 1.1.-30.9.2015	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	270,146	42,799	1,041		313,986
Income within the Group	11,510	48,180	3,195	(62,885)	0
Segment income	281,656	90,979	4,236	(62,885)	313,986
Segment operating expenses	(98,344)	(30,662)	(3,095)	62,885	(69,216)
EBITDA	183,312	60,317	1,141		244,770
Depreciation and impairment loss	(70,674)	(16,250)	(706)	316	(87,314)
Segment earnings, EBIT	112,638	44,067	435	316	157,456
Segment assets 31.12.2015	4,011,643	788,999	17,924	(547,264)	4,271,302
Shares in associated companies	13,072	5,610	329	(5,610)	13,401
Total assets 31.12.2015	4,024,715	794,609	18,253	(552,874)	4,284,703
Segment liabilities 31.12.2015	2,203,621	470,852	3,701	(310,105)	2,368,069
Total liabilities 31.12.2015	2,203,621	470,852	3,701	(310,105)	2,368,069

6. Financial income and (expenses)

	2016 1.1.-30.9.	2015 1.1.-30.9.
Financial income and (expenses) are specified as follows:		
Interest income	2,145	2,760
Interest expense	(43,872)	(48,693)
Guarantee fee	(6,960)	(7,947)
Indexation	(3,276)	(6,122)
Capitalised finance cost	6,544	3,643
Total interest expense	(47,564)	(59,119)
Realised foreign exchange difference	(1,438)	(4,271)
Unrealised foreign exchange difference	(38,179)	39,972
Total foreign exchange difference	(39,617)	35,701
Fair value changes in embedded derivatives	29,828	(26,237)
Fair value changes in other derivatives	(921)	6,464
Financial income and (expenses)	(56,129)	(40,431)

7. Derivative financial instruments

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

	30.9.2016	31.12.2015
Assets:		
Embedded derivatives in electricity agreements	7,359	3,047
Aluminium hedges	1,933	6,722
Currency swaps	6,099	0
	15,391	9,769
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	10,825	2,915
Short-term component of derivative agreements	4,566	6,854
	15,391	9,769
Liabilities:		
Embedded derivatives in electricity sales agreements	29,744	55,261
Aluminium hedges	1,369	1,755
Currency swaps	11,388	14,929
Interest rate swaps	4,584	7,200
	47,085	79,145

Notes, contd.:

7. Derivative financial instruments, contd.

	30.9.2016	31.12.2015
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	26,278	67,044
Short-term component of derivative agreements	20,807	12,101
	<u>47,085</u>	<u>79,145</u>

8. Liabilities

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

	30.9.2016			31.12.2015	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2016-2034	3.8%	265,350	3.8%	230,643
Liabilities in CHF	2017-2022	0.0%	33,103	0.0%	38,364
Liabilities in EUR	2017-2026	0.6%	511,645	0.6%	548,376
Liabilities in USD	2016-2035	2.8%	1,270,842	2.4%	1,310,155
			<u>2,080,940</u>		<u>2,127,538</u>
Current maturities of long-term debt			(280,362)		(236,982)
Total long-term debt			<u>1,800,578</u>		<u>1,890,556</u>

Interest rates on the loans range between 0.0-5.6%. Nominal interest rates for the period were on average approximately 3.2%, taking into account the state guarantee fee, compared to 3.3% in 2015.

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

	30.9.2016
1.10.2016-30.9.2017	280,362
1.10.2017-31.12.2017	846
2018	275,473
2019	186,148
2020	304,091
2021	201,060
Later	832,960
	<u>2,080,940</u>

9. Comparison of fair value and book value

	30/09/2016		31.12.2015	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	2,080,940	2,255,776	2,127,538	2,271,631

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:

	30.9.2016	31.12.2015
Interest bearing liabilities in USD	0,5-1,7%	0,3-2,5%
Interest bearing liabilities other than in USD	0,0-3,1%	0,0-2,8%

Notes, contd.:

10. 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
30/09/2016			
Embedded derivatives		(22,386)	(22,386)
Other derivatives	(13,503)	4,194	(9,309)
Revaluation of property, plant and equipment		268,284	268,284
Shares in other companies		148	148
	<u>(13,503)</u>	<u>250,240</u>	<u>236,737</u>
31/12/2015			
Embedded derivatives		(52,214)	(52,214)
Other derivatives	(17,162)		(17,162)
Revaluation of property, plant and equipment		276,846	276,846
Shares in other companies		128	128
	<u>(17,162)</u>	<u>224,760</u>	<u>207,598</u>