

Group

Condensed Interim Financial Statements

January 1 to September 30, 2017

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

	2017 1.1.-30.9.	2016 1.1.-30.9.	2015 1.1.-30.9.	2014 1.1.-30.9.	2013 1.1.-30.9.
Operation					
Operating revenues	351,691	303,485	306,457	299,953	294,659
Realised aluminium hedges	(4,361)	3,632	7,529	7,854	11,239
Total operating revenues	347,330	307,117	313,986	307,807	305,898
Operating and maintenance expenses	(97,762)	(81,502)	(69,216)	(77,087)	(62,654)
EBITDA	249,568	225,615	244,770	230,720	243,244
Depreciation and impairment loss	(87,070)	(87,721)	(87,314)	(85,302)	(86,812)
EBIT	162,498	137,894	157,456	145,418	156,432
Financial items	(47,664)	(49,137)	(62,346)	(62,027)	(62,704)
Profit before unrealised financial items	114,834	88,757	95,110	83,391	93,728
Unrealised financial items:					
Fair value changes in embedded derivatives ...	66,194	29,828	(26,237)	22	(123,937)
Fair value changes in other derivatives	(8,919)	(921)	6,464	(11,487)	1,028
Unrealised foreign exchange difference	(56,091)	(38,179)	39,972	51,147	(6,313)
	1,184	(9,272)	20,199	39,682	(129,222)
Profit (loss) before income tax	116,018	79,485	115,309	123,073	(35,494)
Income tax	(37,489)	(31,997)	(39,012)	(41,106)	15,970
Profit (loss) for the period	78,529	47,488	76,297	81,967	(19,524)
Balance sheet					
	30.9.2017	30.9.2016	30.9.2015	30.9.2014	30.9.2013
Total assets	4,441,672	4,261,610	4,085,272	4,363,098	4,443,861
Total equity	2,034,201	1,949,506	1,768,147	1,716,517	1,670,792
Total liabilities	2,407,471	2,312,104	2,317,125	2,646,581	2,773,069
Net debt*	2,038,246	1,973,757	2,027,487	2,263,318	2,432,527
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)	202,521	179,816	179,344	177,717	193,856
Cash flow from operating activities	200,432	172,545	194,302	168,908	192,036
Investing activities	(188,691)	(109,293)	(47,379)	(82,739)	(119,966)
Financing activities	(47,660)	(101,229)	(241,607)	(185,381)	(106,939)
Liquidity					
	30.9.2017	30.9.2016	30.9.2015	30.9.2014	30.9.2013
Cash and cash equivalents	111,176	107,183	112,318	185,866	154,904
Undrawn loans	380,219	420,942	270,671	286,605	399,398
Total liquidity	491,395	528,125	382,989	472,471	554,302
Key ratios					
Return on equity **	5.0%	3.1%	4.2%	3.8%	(1.9)%
Equity ratio	45.8%	45.7%	43.3%	39.3%	37.6%
Interest cover (EBITDA/net interest exp)**	5.43x	5.12x	4.59x	3.35x	3.49x
FFO / net debt**	12.7%	12.2%	12.8%	10.7%	10.7%
FFO / interest expense**	4.10x	3.89x	3.30x	2.47x	2.72x
Net debt / EBITDA**	6.26x	6.53x	5.86x	7.15x	7.51x
Credit rating without state guarantee at the end of September					
Standard & Poor's	BBB	BBB-	BB+	BB	BB
Moody's	Baa3	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 September 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. The interim financial statements have not been audited or reviewed by the Company's auditors.

According to the income statement, the Group's profit in the period from January to September 2017 amounted to USD 78.5 million while during the same period in 2016 the Group's profit amounted to USD 47.5 million. The change between periods is USD 31.0 million. The Group's operating revenues amounted to USD 347.3 million during the period compared to USD 307.1 million during the same period in the previous year. The main changes in financial items are due to a negative currency exchange difference, which amounted to USD 56.9 million compared to a negative difference in the amount of USD 39.6 million during the same period in 2016 and the fair value gain of embedded derivatives, which amounted to USD 66.2 million compared to fair value gain in the amount of USD 29.8 million during the same period in 2016. Cash flow from operations amounted to USD 200.4 million during the period compared to USD 172.5 million during the same period in the previous year. At the end of September 2017, the Group's cash and cash equivalents amounted to USD 111.2 million and undrawn loans amounted to USD 380.2 million, a total of USD 491.4 million. The Group's equity at the end of September amounted to USD 2,034.2 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 September 2017 and the Group's operating results and changes in cash flow during the period from 1 January to 30 September 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 September 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.

Reykjavik, November 22, 2017.

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

The CEO:
Hörður Arnarson

Income Statement January 1 to September 30, 2017

	Note:	2017	2016	2017	2016
		1.1.-30.9.	1.1.-30.9.	Q3	Q3
Operating revenues					
Power sales		289,969	254,197	96,632	82,787
Realised aluminium hedges .....	(	4,361)	3,632	(2,549)	1,157
Transmission		58,468	47,219	19,789	15,692
Other income		3,254	2,069	1,098	554
		<u>347,330</u>	<u>307,117</u>	<u>114,970</u>	<u>100,190</u>
Operating expenses					
Energy production costs		105,345	97,135	35,127	34,910
Transmission costs		40,232	40,320	14,337	13,314
Cost of general research		8,348	6,587	2,682	2,177
Other operating expenses		30,907	25,181	9,689	8,631
		<u>184,832</u>	<u>169,223</u>	<u>61,835</u>	<u>59,032</u>
Operating profit		<u>162,498</u>	<u>137,894</u>	<u>53,135</u>	<u>41,158</u>
Financial income and (expenses)					
Interest income		1,787	2,145	546	741
Interest expenses .....	(	48,574)	(47,564)	(15,905)	(15,227)
Foreign exchange difference .....	(	56,884)	(39,617)	(6,310)	(18,505)
Fair value changes in embedded derivatives		66,194	29,828	30,378	15,437
Fair value changes in other derivatives .....	(	8,919)	(921)	(5,968)	1,987
	6	<u>(46,396)</u>	<u>(56,129)</u>	<u>2,741</u>	<u>(15,567)</u>
Associated companies .....	(	84)	(2,280)	640	(1,155)
Profit before income tax		<u>116,018</u>	<u>79,485</u>	<u>56,516</u>	<u>24,436</u>
Income tax .....	(	37,489)	(31,997)	(17,700)	(11,781)
Net profit for the period		<u>78,529</u>	<u>47,488</u>	<u>38,816</u>	<u>12,655</u>
Attributable to:					
Owners of the parent company		71,074	53,243	35,080	17,478
Subsidiaries minority interest		7,455	(5,755)	3,736	(4,823)
		<u>78,529</u>	<u>47,488</u>	<u>38,816</u>	<u>12,655</u>

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

Statement of Comprehensive Income January 1 to September 30, 2017

	2017	2016	2017	2016
	1.1.-30.9.	1.1.-30.9.	Q3	Q3
Net profit for the period	78,529	47,488	38,816	12,655
Items that will not be reclassified subsequently to profit or loss:				
Pension obligation after income tax, change	(1,786)	(1,875)	(613)	(986)
Items that may be reclassified subsequently to profit or loss:				
Translation diff. due to sub. and associated comp.	2,437	539	34	184
Total operating items moved to equity	651	(1,336)	(579)	(802)
Total Comprehensive Income for the period	<u>79,180</u>	<u>46,152</u>	<u>38,237</u>	<u>11,853</u>
Attributable to:				
Owners of the parent company	71,560	51,639	34,553	16,521
Subsidiaries minority interest	7,620	(5,487)	3,684	(4,668)
	<u>79,180</u>	<u>46,152</u>	<u>38,237</u>	<u>11,853</u>

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

Balance Sheet September 30, 2017

Assets	Notes	30.9.2017	31.12.2016
Non-current assets			
Property, plant and equipment		3,599,952	3,614,704
Projects under construction		390,740	282,318
Development cost		156,908	141,401
Other intangible assets		48,514	48,701
Derivative financial instruments	7	46,909	9,528
Associated companies		11,768	10,619
Deferred tax asset		4	0
Other non-current assets		161	150
Total non-current assets		<u>4,254,956</u>	<u>4,107,421</u>
Current assets			
Inventories		5,404	5,101
Accounts receivables and other receivables		64,220	72,599
Derivative financial instruments	7	5,916	3,209
Cash and cash equivalents		111,176	144,534
Total current assets		<u>186,716</u>	<u>225,443</u>
Total assets		<u>4,441,672</u>	<u>4,332,864</u>
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		171,143	175,712
Restricted reserves		6,980	1,039
Translation difference		(38,848)	(41,120)
Other equity		1,192,018	1,138,169
Equity of the owners of the parent company		<u>1,917,805</u>	<u>1,860,312</u>
Minority interest		116,396	108,776
Total equity		<u>2,034,201</u>	<u>1,969,088</u>
Long-term liabilities			
Interest bearing liabilities	8	1,872,198	1,883,049
Accrued pension liabilities		39,384	35,383
Deferred income tax liability		80,288	54,517
Obligation due to demolition		8,238	7,023
Prepaid income		2,728	2,862
Derivative financial instruments	7	4,808	33,690
		<u>2,007,644</u>	<u>2,016,524</u>
Current liabilities			
Accounts payable and other payables		101,969	82,753
Interest bearing liabilities	8	277,224	221,982
Income tax payable		9,197	14,121
Derivative financial instruments	7	11,437	28,396
		<u>399,827</u>	<u>347,252</u>
Total liabilities		<u>2,407,471</u>	<u>2,363,776</u>
Total equity and liabilities		<u>4,441,672</u>	<u>4,332,864</u>

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

Statement of Equity September 30, 2017

	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 September 30, 2016								
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.....				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	0
Equity at September 30, 2016.....	586,512	178,060	0	(42,573)	1,119,944	1,841,943	107,563	1,949,506
January 1 to September 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.....				2,272		2,272	165	2,437
Pension obligation, change.....					(1,786)	(1,786)	0	(1,786)
Profit for the period.....					71,074	71,074	7,455	78,529
Total comprehensive profit.....				2,272	69,288	71,560	7,620	79,180
Dividend to owners.....					(14,068)	(14,068)	0	(14,068)
Share of profit of subsidiaries and associated companies.....			5,941		(5,941)	0	0	0
Revaluation transferred to other equity.....		(4,569)			4,569	0	0	0
Equity at September 30, 2017.....	586,512	171,143	6,980	(38,848)	1,192,018	1,917,805	116,396	2,034,201

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

Statement of Cash Flows January 1 to September 30, 2017

	2017 1.1.-30.9.	2016 1.1.-30.9.	2017 Q3	2016 Q3
Operating activities				
Operating profit	162,498	137,894	53,135	41,158
Depreciation and impairment loss	87,070	87,721	28,749	29,250
Pension obligation, change	(1,267)	(953)	(442)	(281)
Obligation due to demolition, change	1,215	551	521	104
Other changes	(134)	(73)	(16)	(23)
Working capital from operation before financial items	249,382	225,140	81,947	70,208
Operating assets, change	4,692	2,188	(3,965)	(23)
Operating liabilities, change	546	(5,798)	(4,551)	(7,033)
Cash flow from operating activities before fin. items	254,620	221,530	73,431	63,152
Interest income received	1,311	1,477	392	239
Interest expenses and foreign exchange diff paid	(49,599)	(47,239)	(14,106)	(13,435)
Taxes paid	(5,900)	(3,223)	(1,651)	(1,252)
Cash flow from operating activities	<u>200,432</u>	<u>172,545</u>	<u>58,066</u>	<u>48,704</u>
Investing activities				
Power stations in operation	(6,851)	(8,010)	(2,207)	(3,536)
Transmission	(55,380)	(25,929)	(21,118)	(13,844)
Power plant preparation cost	(5,160)	(4,269)	(2,018)	(1,087)
Power stations under construction	(120,949)	(65,934)	(43,432)	(38,332)
Purchased shares	(41)	(106)	(20)	0
Received dividend from associated companies	0	12	0	0
Other investments	(5,177)	(7,225)	(2,413)	(2,425)
Assets sold	510	2,096	27	1,988
Other receivables, change	4,357	72	257	(925)
Investing activities	<u>(188,691)</u>	<u>(109,293)</u>	<u>(70,924)</u>	<u>(58,161)</u>
Financing activities				
Dividend paid to owners	(7,307)	(7,209)	0	0
New loans	199,143	142,516	19,276	90,375
Currency swaps	(12,725)	1,080	0	0
Prepaid income, change	0	165	0	0
Amortisation of long-term debt	(226,771)	(237,781)	(4,255)	(88,314)
Financing activities	<u>(47,660)</u>	<u>(101,229)</u>	<u>15,021</u>	<u>2,061</u>
Change in cash and cash equivalents	(35,919)	(37,977)	2,163	(7,396)
Effect of exchange difference on cash and cash equiv.	2,561	3,033	206	1,379
Cash and cash equivalents at the beginning of the year .	<u>144,534</u>	<u>142,127</u>	<u>108,807</u>	<u>113,200</u>
Cash and cash equivalents at the end of the period	<u><u>111,176</u></u>	<u><u>107,183</u></u>	<u><u>111,176</u></u>	<u><u>107,183</u></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 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 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.-30.9.2017	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	287,302	58,861	1,167		347,330
Income within the Group	16,309	48,671	3,719	(68,699)	0
Segment income	303,611	107,532	4,886	(68,699)	347,330
Segment operating expenses	(120,304)	(42,689)	(3,468)	68,699	(97,762)
EBITDA	183,307	64,843	1,418		249,568
Depreciation and impairment loss	(65,866)	(20,602)	(909)	307	(87,070)
Segment earnings, EBIT	117,441	44,241	509	307	162,498
Segment assets 30.9.2017	3,977,528	820,093	22,803	(390,520)	4,429,904
Shares in associated companies	11,575	7,278	193	(7,278)	11,768
Total assets 30.9.2017	3,989,103	827,371	22,996	(397,798)	4,441,672
Segment liabilities 30.9.2017	2,052,376	497,356	4,352	(146,614)	2,407,471
Total liabilities 30.9.2017	2,052,376	497,356	4,352	(146,614)	2,407,471

Notes, contd.:

5. Segment information, contd.:

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		225,615
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 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)

	2017	2016
	1.1.-30.9.	1.1.-30.9.
Financial income and (expenses) are specified as follows:		
Interest income	1,787	2,145
Interest expense	(51,739)	(43,872)
Guarantee fee	(5,720)	(6,960)
Indexation	(1,681)	(3,276)
Capitalised finance cost	10,566	6,544
Total interest expense	(48,574)	(47,564)
Realised foreign exchange difference	(793)	(1,438)
Unrealised foreign exchange difference	(56,091)	(38,179)
Total foreign exchange difference	(56,884)	(39,617)
Fair value changes in embedded derivatives	66,194	29,828
Fair value changes in other derivatives	(8,919)	(921)
Financial income and (expenses)	(46,396)	(56,129)

7. Derivative financial instruments in the balance sheet:

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

	30.9.2017	31.12.2016
Assets:		
Embedded derivatives in electricity agreements	36,210	4,858
Aluminium hedges	1,264	2,854
Currency swaps	15,351	5,025
	52,825	12,737
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	46,909	9,528
Short-term component of derivative agreements	5,916	3,209
	52,825	12,737
Liabilities:		
Embedded derivatives in electricity sales agreements	1,066	35,908
Aluminium hedges	12,607	2,651
Currency swaps	1,501	20,164
Interest rate swaps	1,071	3,363
	16,245	62,086

Notes, contd.:

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

	30.9.2017	31.12.2016
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	4,808	33,690
Short-term component of derivative agreements	11,437	28,396
	16,245	62,086

8. Liabilities

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

	30/09/2017		31/12/2016		
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2017-2034	3.7%	292,196	3.8%	269,815
Liabilities in CHF	2017-2022	0.0%	27,192	0.0%	31,661
Liabilities in EUR	2017-2026	0.9%	387,205	0.6%	483,486
Liabilities in USD	2017-2035	3.3%	1,442,829	2.9%	1,320,069
			2,149,422		2,105,031
Current maturities of long-term debt			(277,224)		(221,982)
Total long-term debt			1,872,198		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:

	30/09/2017
1.10.2017-30.9.2018	277,224
1.10.2018-31.12.2018	2,356
2019	191,415
2020	333,221
2021	213,159
2022	95,526
Later	1,036,521
	2,149,422

9. Comparison of fair value and book value

	30/09/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	2,149,422	2,328,939	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:

	30/09/2017	31/12/2016
Interest bearing liabilities in ISK	2.2 - 2.4%	2.6 - 2.9%
Interest bearing liabilities other than in ISK	-0.7 - 2.5%	-0.8 - 2.6%

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
30/09/2017			
Embedded derivatives		35,144	35,144
Other derivatives	(9,679)	11,115	1,436
Revaluation of property, plant and equipment		255,026	255,026
Shares in other companies		161	161
	<u>(9,679)</u>	<u>301,446</u>	<u>291,767</u>
31/12/2016			
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>