

Group

Condensed Interim Financial Statements

January 1 to June 30, 2015

Landsvirkjun  
Háaleitisbraut 68  
103 Reykjavík  
Iceland

Reg. no. 420269-1299

## Contents

---

Key Figures, Management's Presentation of the Operation of Landsvirkjun .....	3
Endorsement and Statement of the Board of Directors and CEO .....	4
Independent Auditors' Review Report .....	5
Income Statement .....	6
Statement of Comprehensive Income .....	7
Balance Sheet .....	8
Statement of Equity .....	9
Statement of Cash Flows .....	10
Notes .....	11

## Key figures - not reviewed

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

Amounts are in USD thousand

	2015 1.1.-30.6.	2014 1.1.-30.6.	2013 1.1.-30.6.	2012 1.1.-30.6.	2011 1.1.-30.6.
<b>Operation</b>					
Operating revenues .....	210.979	196.877	199.266	193.454	214.370
Realised aluminium hedges .....	4.764	6.363	7.447	9.426	3.515
<b>Total operating revenues .....</b>	<b>215.743</b>	<b>203.240</b>	<b>206.713</b>	<b>202.880</b>	<b>217.885</b>
Operating and maintainance expenses .....	( 46.483)	( 48.381)	( 41.460)	( 38.932)	( 38.667)
<b>EBITDA .....</b>	<b>169.260</b>	<b>154.859</b>	<b>165.253</b>	<b>163.948</b>	<b>179.218</b>
Depreciation and impairment loss .....	( 57.399)	( 55.831)	( 60.603)	( 52.391)	( 53.777)
<b>EBIT .....</b>	<b>111.861</b>	<b>99.028</b>	<b>104.650</b>	<b>111.557</b>	<b>125.441</b>
Financial items .....	( 31.822)	( 44.601)	( 37.577)	( 63.905)	( 74.959)
<b>Profit before unrealised financial items .....</b>	<b>80.039</b>	<b>54.427</b>	<b>67.073</b>	<b>47.652</b>	<b>50.482</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives ....	( 13.591)	( 5.650)	( 169.459)	( 67.420)	59.000
Fair value changes in other derivatives .....	( 3.475)	( 6.566)	564	12.239	21.817
Unrealised foreign exchange difference .....	34.130	8.779	16.510	22.018	( 94.221)
	17.064	( 3.437)	( 152.385)	( 33.163)	( 13.404)
<b>Profit (loss) before income tax .....</b>	<b>97.103</b>	<b>50.990</b>	<b>( 85.312)</b>	<b>14.489</b>	<b>37.078</b>
Income tax .....	( 33.203)	( 16.443)	33.089	( 5.470)	( 13.675)
<b>Profit (loss) for the period .....</b>	<b>63.900</b>	<b>34.547</b>	<b>( 52.223)</b>	<b>9.019</b>	<b>23.403</b>
<b>Balance sheet</b>					
	<b>30.6.2015</b>	<b>30.6.2014</b>	<b>30.6.2013</b>	<b>30.6.2012</b>	<b>30.6.2011</b>
Total assets .....	4.150.537	4.455.652	4.389.289	4.541.882	4.792.271
Total equity .....	1.750.658	1.681.003	1.635.705	1.651.834	1.670.073
Total liabilities .....	2.399.879	2.774.649	2.753.584	2.890.048	3.122.198
Net liabilities* .....	2.018.559	2.376.422	2.405.474	2.428.898	2.684.795
<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) .....	131.480	118.962	134.112	118.974	129.637
Cash flow from operating activities .....	146.428	114.226	134.430	118.087	132.669
Investing activities .....	( 21.774)	( 48.533)	( 75.363)	( 36.414)	( 26.226)
Financing activities .....	( 148.425)	( 139.227)	( 89.290)	( 63.106)	( 178.161)
<b>Liquidity</b>					
	<b>30.6.2015</b>	<b>30.6.2014</b>	<b>30.6.2013</b>	<b>30.6.2012</b>	<b>30.6.2011</b>
Cash and cash equivalents .....	182.072	215.248	158.800	244.961	193.332
Undrawn loans .....	279.787	293.036	400.105	411.182	351.672
Total liquidity .....	461.859	508.284	558.905	656.143	545.004
<b>Key ratios</b>					
Return on equity ** .....	6,4%	2,9%	( 0,4)%	0,7%	5,1%
Equity ratio .....	42,2%	37,7%	37,3%	36,4%	34,8%
Interest cover (EBITDA/net interest exp)** .....	4,39x	3,35x	3,62x	2,90x	3,38x
FFO / net liabilities** .....	13,4%	10,2%	10,7%	10,1%	8,7%
FFO / interest expenses** .....	3,29x	2,48x	2,77x	2,07x	2,31x
Net liabilities / EBITDA** .....	5,82x	7,46x	7,46x	7,36x	8,05x
<b>Credit rating at the end of June</b>					
Standard & Poor's .....	BB	BB	BB	BB	BB
Moody's .....	Baa2	Baa3	Baa3	Baa3	Baa3

\* Net liabilities are interest bearing long-term liabilities less 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 condensed consolidated financial statements include, in addition to the parent company, four subsidiaries, Landsnet hf., Orkufjarskipti hf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf., in addition to two subsidiaries of Landsvirkjun Power ehf.

According to the income statement, the Group's profit in the period from January to June 2015 amounted to USD 63.9 million while during the same period in 2014 the Group's profit amounted to USD 34.5 million. The change between periods is USD 29.4 million, mainly due to positive currency exchange difference, which amounted to USD 41.4 million compared to USD 12.6 million during the same period in 2014. The Group's operating revenues amounted to USD 215.7 million during the period compared to USD 203.2 million during the same period in the previous year. Cash flow from operations amounted to USD 146.4 million during the period compared to USD 114.2 million during the same period in the previous year. At the end of June 2015, the Group's cash and cash equivalents amounted to USD 182.1 million and undrawn loans amounted to USD 279.8 million, a total of USD 461.9 million. The Group's equity at the end of June amounted to USD 1,750.7 million according to the balance sheet compared to USD 1,704.7 million at year end 2014. At the annual general meeting, 22 April, 2015, it was approved to pay dividends to the owners of the company amounting to ISK 1.5 billion or USD 11 million.

### 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 it is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of the Group's assets, liabilities and financial position as at 30 June, 2015 and the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2015.

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 2015 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 hereby confirm these consolidated interim financial statements with their signature.

Egilsstaðir, August 27, 2015.

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

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 and the CEO, the consolidated statement of financial position as at 30 June, 2015 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.

## Auditor's 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 2015, 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.

Reykjavik, August 27, 2015.

**Deloitte ehf.**

Þorsteinn Pétur Guðjónsson  
auditor

Lárus Finnbogason  
auditor

## Income Statement January 1 to June 30, 2015

	Notes	2015 1.1.-30.6.	2014 1.1.-30.6.
<b>Operating revenues</b>			
Power sales .....		180.938	165.488
Realised aluminium hedges .....		4.764	6.363
Transmission .....		28.602	29.529
Other income .....		1.439	1.860
		215.743	203.240
<b>Operating expenses</b>			
Energy production costs .....		61.315	61.907
Transmission costs .....		19.742	21.467
Cost of general research .....		5.695	3.220
Other operating expenses .....		17.130	17.618
		103.882	104.212
<b>Operating profit</b> .....		111.861	99.028
<b>Financial income and (expenses)</b>			
Interest income .....		2.015	1.854
Interest expenses .....		( 39.729)	( 49.166)
Foreign exchange difference .....		41.082	12.636
Fair value changes in embedded derivatives .....	14	( 13.591)	( 5.650)
Fair value changes in other derivatives .....		( 3.475)	( 6.566)
	6	( 13.698)	( 46.892)
Associated companies .....		( 1.060)	( 1.146)
<b>Profit before income tax</b> .....		97.103	50.990
Income tax .....		( 33.203)	( 16.443)
<b>Net profit for the period</b> .....		63.900	34.547
<b>Attributable to:</b>			
Owners of the parent company .....		59.742	30.728
Subsidiaries minority interest .....		4.158	3.819
		63.900	34.547

Notes 1 to 21 are an integral part of these interim financial statements.

## Statement of Comprehensive Income January 1 to June 30, 2015

	<b>2015</b> 1.1.-30.6.	<b>2014</b> 1.1.-30.6.
<b>Profit for the period</b> .....	<u>63.900</u>	<u>34.547</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Pension obligation after income tax, change .....	( 712)	( 647)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Translation difference due to subsidiaries and associated companies .....	<u>( 6.225)</u>	<u>2.362</u>
Total operating items moved to equity	<u>( 6.937)</u>	<u>1.715</u>
<b>Total Comprehensive Income for the period</b> .....	<u><u>56.963</u></u>	<u><u>36.262</u></u>
<b>Attributable to:</b>		
Owners of the parent company .....	54.651	31.507
Subsidiaries minority interest .....	<u>2.312</u>	<u>4.755</u>
	<u><u>56.963</u></u>	<u><u>36.262</u></u>

Notes 1 to 21 are an integral part of these interim financial statements.

## Balance Sheet June 30, 2015

Assets	Notes	30.6. 2015	31.12. 2014
<b>Non-current assets</b>			
Property, plant and equipment .....	7	3.534.455	3.599.661
Projects under construction .....	8	98.338	6.377
Development cost .....	9	136.491	212.794
Other intangible assets .....	9	48.587	48.546
Derivative financial instruments .....	11	10.834	15.313
Associated companies .....		14.614	17.012
Other non-current assets .....		8.616	11.454
Deferred tax asset .....		34.413	65.012
Total non-current assets		<u>3.886.348</u>	<u>3.976.169</u>
<b>Current assets</b>			
Inventories .....		4.902	4.498
Accounts receivables and other receivables .....		67.826	73.368
Derivative financial instruments .....	11	9.389	8.993
Cash and cash equivalents .....		182.072	207.070
Total current assets		<u>264.189</u>	<u>293.929</u>
<b>Total assets</b>		<u><u>4.150.537</u></u>	<u><u>4.270.098</u></u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Owners' contributions .....		586.512	586.512
Revaluation account .....		90.373	91.845
Translation difference .....		( 44.165)	( 39.786)
Other equity .....		<u>1.062.192</u>	<u>1.012.718</u>
Equity of the owners of the parent company		<u>1.694.912</u>	<u>1.651.289</u>
Minority interest .....		55.746	53.435
Total equity		<u>1.750.658</u>	<u>1.704.724</u>
<b>Long-term liabilities</b>			
Interest bearing liabilities .....	12	1.956.432	2.125.100
Accrued pension liabilities .....		26.088	26.345
Deferred income tax liability .....		20.764	21.975
Obligation due to demolition .....		6.404	6.460
Prepaid income .....		2.760	2.790
Derivative financial instruments .....	11	31.318	22.053
		<u>2.043.766</u>	<u>2.204.723</u>
<b>Current liabilities</b>			
Accounts payable and other payables .....		66.439	53.031
Interest bearing liabilities .....	13	244.199	272.429
Income tax payable .....		7.914	4.657
Derivative financial instruments .....	11	37.561	30.534
		<u>356.113</u>	<u>360.651</u>
Total liabilities		<u>2.399.879</u>	<u>2.565.374</u>
<b>Total equity and liabilities</b>		<u><u>4.150.537</u></u>	<u><u>4.270.098</u></u>

Notes 1 to 21 are an integral part of these interim financial statements.



## Statement of Equity June 30, 2015

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
<b>January 1 to June 30, 2014</b>							
Equity at January 1, 2014....	586.512	94.898	(28.531)	957.845	1.610.724	47.410	1.658.134
Translation difference.....			1.426		1.426	936	2.362
Pension obligation, change.				(647)	(647)	0	(647)
Profit for the period.....				30.728	30.728	3.819	34.547
Total comprehensive profit.			1.426	30.081	31.507	4.755	36.262
Dividend to owners.....				(13.393)	(13.393)	0	(13.393)
Revaluation transferred to other equity.....		(1.727)		1.727	0		0
Equity at June 30, 2014.....	586.512	93.171	(27.105)	976.260	1.628.838	52.165	1.681.003
<b>January 1 to June 30, 2015</b>							
Equity at January 1, 2015....	586.512	91.845	(39.786)	1.012.718	1.651.289	53.435	1.704.724
Translation difference.....			(4.379)		(4.379)	(1.846)	(6.225)
Pension obligation, change.				(712)	(712)	0	(712)
Profit for the period.....				59.742	59.742	4.158	63.900
Total comprehensive profit.			(4.379)	59.030	54.651	2.312	56.963
Dividend to owners.....				(11.029)	(11.029)	0	(11.029)
Revaluation transferred to other equity.....		(1.472)		1.472	0		0
Equity at June 30, 2015.....	586.512	90.373	(44.165)	1.062.192	1.694.912	55.746	1.750.658

Notes 1 to 21 are an integral part of these interim financial statements.

## Statement of Cash Flows January 1 to June 30, 2015

	Notes	2015 1.1.-30.6.	2014 1.1.-30.6.
<b>Operating activities</b>			
Operating profit .....		111.861	99.028
Depreciation and impairment loss .....	10	57.399	55.831
Pension obligation, change .....	(	437)	( 374)
Obligation due to demolition, change .....		172	189
Other changes .....	(	152)	35
Working capital from operation before financial items		168.843	154.709
Operating assets and liabilities, change .....		9.836	( 3.217)
Cash flow from operating activities before financial items		178.679	151.492
Interest income received .....		2.067	1.875
Interest expenses and foreign exchange difference paid .....	(	34.294)	( 39.102)
Taxes paid .....	(	24)	( 39)
Cash flow from operating activities		146.428	114.226
<b>Investing activities</b>			
Power stations in operation .....	(	4.043)	( 5.426)
Transmission .....	(	7.003)	( 12.057)
Development costs for power plants .....	(	4.053)	( 7.852)
Power stations under construction .....	(	6.516)	( 20.996)
Purchased shares .....	(	96)	( 104)
Dividend received .....		82	102
Other investments .....	(	2.251)	( 7.567)
Assets sold .....		106	306
Other receivables, change .....		2.000	5.061
Investing activities	(	21.774)	( 48.533)
<b>Financing activities</b>			
Dividend paid to owners .....	(	5.514)	( 6.696)
New loans .....		30.000	8.979
Prepaid income, change .....		124	0
Amortisation of long-term debt .....	(	173.035)	( 141.510)
Financing activities	(	148.425)	( 139.227)
<b>Change in cash and cash equivalents</b> .....	(	23.771)	( 73.534)
<b>Effect of exchange difference on cash and cash equivalents</b> .....	(	1.227)	795
<b>Cash and cash equivalents at the beginning of the year</b> .....		207.070	287.987
<b>Cash and cash equivalents at the end of the period</b> .....		182.072	215.248

Notes 1 to 21 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. 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, 2014.

#### 3. Significant accounting policies

The interim financial statements are prepared using the same accounting policies as for the year 2014 except that the Group has adopted new International Accounting Standards, as adopted by the EU, for the accounting period beginning January 1, 2015, changes to the standards and new interpretations. It is the 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 not yet effective. It is the management's opinion that adoption of new and improved standards and interpretations which are not effective will not have significant effects on the consolidated interim financial statements. The Group's financial statements for the year 2014 can be found on its website [www.landsvirkjun.is](http://www.landsvirkjun.is) 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. The interim financial statements have been prepared on historical cost basis except for the following assets and liabilities, which have been measured at fair value: derivative financial instruments, trading financial assets and shares in other companies.

#### 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.-30.6.2015</b>	<b>Electricity production</b>	<b>Electricity transmission</b>	<b>Other segments</b>	<b>Adjustments</b>	<b>Total</b>
Income from third party .....	185.886	28.832	1.025		215.743
Income within the Group .....	8.564	32.164	1.733	( 42.461)	0
Segment income .....	194.450	60.996	2.758	( 42.461)	215.743
Segment operating expenses .....	( 65.016)	( 21.940)	( 1.988)	42.461	( 46.483)
EBITDA .....	129.434	39.056	770		169.260
Depreciation and impairment loss .....	( 46.463)	( 10.654)	( 485)	203	( 57.399)
Segment earnings, EBIT .....	82.971	28.402	285	203	111.861
Segment assets 30.6.2015 .....	3.967.295	580.701	17.636	( 429.709)	4.135.923
Shares in associated companies .....	14.292	5.456	322	( 5.456)	14.614
Total assets 30.6.2015 .....	3.981.587	586.157	17.958	( 435.165)	4.150.537
Segment liabilities 30.6.2015 .....	2.268.290	428.239	3.727	( 300.377)	2.399.879
Total liabilities 30.6.2015 .....	2.268.290	428.239	3.727	( 300.377)	2.399.879

## Notes, contd.:

### 5. Segment information, contd.:

<b>Operating segments 1.1.-30.6. 2014</b>	<b>Electricity production</b>	<b>Electricity transmission</b>	<b>Other segments</b>	<b>Adjustments</b>	<b>Total</b>
Income from third party .....	172.267	29.795	1.178		203.240
Income within the Group .....	7.977	31.346	1.995	( 41.318)	0
Segment income .....	180.244	61.141	3.173	( 41.318)	203.240
Segment operating expenses .....	( 65.158)	( 22.190)	( 2.351)	41.318	( 48.381)
EBITDA .....	115.086	38.951	822		154.859
Depreciation and impairment loss .....	( 43.610)	( 11.921)	( 524)	224	( 55.831)
Segment earnings, EBIT .....	71.476	27.030	298	224	99.028
Segment assets 31.12.2014 .....	4.086.657	639.498	17.872	( 490.941)	4.253.086
Shares in associated companies .....	16.582	5.573	430	( 5.573)	17.012
Total assets 31.12.2014 .....	4.103.239	645.071	18.302	( 496.514)	4.270.098
Segment liabilities 31.12.2014 .....	2.433.266	493.703	3.801	( 365.397)	2.565.374
Total liabilities 31.12.2014 .....	2.433.266	493.703	3.801	( 365.397)	2.565.374

### 6. Financial income and (expenses)

	<b>2015</b>	<b>2014</b>
Financial income and (expenses) are specified as follows:	1.1.-30.6.	1.1.-30.6.
Interest income .....	2.015	1.854
Interest expenses .....	( 32.395)	( 40.311)
Guarantee fee .....	( 5.324)	( 6.299)
Indexation .....	( 3.864)	( 4.215)
Capitalised finance cost .....	1.854	1.659
Total interest expenses .....	( 39.729)	( 49.166)
Realised foreign exchange difference .....	6.952	3.857
Unrealised foreign exchange difference .....	34.130	8.779
Total foreign exchange difference .....	41.082	12.636
Fair value changes in embedded derivatives .....	( 13.591)	( 5.650)
Fair value changes in other derivatives .....	( 3.475)	( 6.566)
Financial income and (expenses)	( 13.698)	( 46.892)

### 7. Property, plant and equipment

Property, plant and equipment is specified as follows:

<b>Cost</b>	<b>Power stations</b>	<b>Trans- mission</b>	<b>Communicat. equipment</b>	<b>Other assets</b>	<b>Total</b>
Total value at 1.1.2014 .....	4.866.205	653.214	19.567	71.488	5.610.474
Effect of exchange rate changes .....	0	( 63.100)	( 1.995)	( 3.392)	( 68.487)
Additions during the year .....	9.850	6.519	2.064	4.287	22.720
Moved from projects under constructions .....	231.574	18.475	0	979	251.028
Sold and disposed of .....	( 51.167)	0	( 6)	( 3.070)	( 54.243)
Total value at 31.12.2014 .....	5.056.462	615.108	19.630	70.292	5.761.492
Effect of exchange rate changes .....	0	( 21.935)	( 700)	( 1.186)	( 23.821)
Additions during the period .....	4.350	2.256	90	890	7.586
Moved from development costs .....	0	1	0	0	1
Sold and disposed of .....	0	0	0	( 305)	( 305)
Total value at 30.6.2015 .....	5.060.812	595.430	19.020	69.691	5.744.953

## Notes, cont.:

<b>7. Property, plant and equipment, cont.:</b>	<b>Power</b>	<b>Trans-</b>	<b>Communicat.</b>	<b>Other</b>	<b>Total</b>
<b>Depreciation and impairment loss</b>	<b>stations</b>	<b>mission</b>	<b>equipment</b>	<b>assets</b>	
Total value at 1.1.2014 .....	1.938.826	143.338	5.383	27.316	2.114.863
Effect of exchange rate changes .....	0	( 15.148)	( 585)	( 1.003)	( 16.736)
Depreciation of the year .....	86.117	21.316	1.020	3.310	111.763
Sold and disposed of .....	( 45.988)	0	( 6)	( 2.066)	( 48.060)
Total value at 31.12.2014 .....	1.978.955	149.506	5.812	27.557	2.161.830
Effect of exchange rate changes .....	0	( 5.197)	( 200)	( 345)	( 5.742)
Depreciation during the period .....	43.258	9.365	486	1.502	54.611
Sold and disposed of .....	0	0	0	( 200)	( 200)
Total value at 30.6.2015 .....	2.022.213	153.674	6.098	28.514	2.210.499
<b>Book value</b>					
1.1.2014 .....	2.927.379	509.876	14.184	44.172	3.495.611
31.12.2014 .....	3.077.507	465.602	13.818	42.735	3.599.661
30.6.2015 .....	3.038.599	441.756	12.922	41.177	3.534.455

## 8. Projects under construction

Projects under construction are specified as follows:

### Cost

Total value at 1.1.2014 .....	221.820
Effect of exchange rate changes .....	( 694)
Additions during the year .....	34.319
Moved from development costs .....	981
Moved to property, plant and equipment .....	( 250.049)
Total value 31.12.2014 .....	6.377
Effect of exchange rate changes .....	( 132)
Moved from development costs .....	78.412
Additions during the period .....	13.681
Total value 30.6.2015 .....	98.338

## 9. Intangible assets

Intangible assets are specified as follows:

	<b>Capitalised</b>	<b>Water and</b>	<b>Software</b>	<b>Total</b>
<b>Cost</b>	<b>development</b>	<b>geothermal</b>		
	<b>cost</b>	<b>rights</b>		
Total value at 1.1.2014 .....	264.738	45.611	8.530	318.879
Effect of exchange rate changes .....	( 1.423)	0	( 404)	( 1.827)
Additions during the year .....	25.845	0	912	26.757
Moved to property, plant and equipment .....	( 981)	0	0	( 981)
Total value 31.12.2014 .....	288.179	45.611	9.038	342.828
Effect of exchange rate changes .....	( 486)	0	( 139)	( 625)
Additions during the period .....	4.977	0	364	5.341
Moved to projects under construction .....	( 83.473)	0	0	( 83.473)
Moved to property, plant and equipment .....	( 1)	0	0	( 1)
Total value 30.6.2015 .....	209.196	45.611	9.263	264.070

## Notes, contd.:

### 9. Intangible assets, cont.:

	Capitalised development cost	Water and geothermal rights	Software	Total
<b>Amortisation and impairment</b>				
Total value at 1.1.2014 .....	73.959	0	5.883	79.842
Effect of exchange rate changes .....	( 385)	0	( 249)	( 634)
Amortisation during the year .....	0	0	471	471
Impairment loss during the period .....	1.811	0	0	1.811
Total value at 31.12.2014 .....	75.385	0	6.105	81.490
Effect of exchange rate changes .....	( 140)	0	( 83)	( 223)
Amortisation during the period .....	0	0	265	265
Impairment loss during the period .....	2.523	0	0	2.523
Moved to projects under construction .....	( 5.061)	0	0	( 5.061)
Total value at 30.6.2015 .....	72.707	0	6.287	78.994
<b>Book value</b>				
1.1.2014 .....	190.779	45.611	2.647	239.038
31.12.2014 .....	212.794	45.611	2.935	261.340
30.6.2015 .....	136.491	45.611	2.976	185.077

### 10. Depreciation and impairment

The Group's depreciation and impairment is specified as follows:

	2015 1.1.-30.6.	2014 1.1.-30.6.
Power stations .....	43.258	42.693
Transmission .....	9.365	10.746
Other assets .....	1.988	2.167
Depreciation of assets in operation .....	54.611	55.606
Impairment loss on development cost .....	2.523	0
Amortisation of software .....	265	225
	57.399	55.831

The Group's depreciation and impairment is divided as follows by sectors:

	2015 1.1.-30.6.	2014 1.1.-30.6.
Energy production costs .....	43.563	42.991
Transmission costs .....	10.042	11.232
Cost of general research .....	2.293	0
Other operating expenses .....	1.501	1.608
	57.399	55.831

### 11. Derivative financial instruments

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

	30.6.2015	31.12.2014
<b>Assets:</b>		
Embedded derivatives in electricity agreements .....	8.323	13.620
Aluminium hedges .....	10.017	10.437
Currency swaps .....	1.883	249
	20.223	24.306
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements .....	10.834	15.313
Short-term component of derivative agreements .....	9.389	8.993
	20.223	24.306
<b>Liabilities:</b>		
Embedded derivatives in electricity sales agreements .....	14.203	5.909
Aluminium hedges .....	336	2.939
Currency swaps .....	22.333	10.109
Interest rate swaps .....	32.007	33.630
	68.879	52.587

## Notes, contd.:

### 11. Derivative financial instruments, contd.

	30.6.2015	31.12.2014
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements .....	31.318	22.053
Short-term component of derivative agreements .....	37.561	30.534
	<u>68.879</u>	<u>52.587</u>

### 12. Liabilities

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

		30.6.2015		31.12.2014	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK .....	2015-2034	3,8%	233.349	3,8%	320.758
Liabilities in CHF .....	2015-2022	0,0%	44.113	0,3%	44.439
Liabilities in EUR .....	2016-2026	0,6%	562.648	0,9%	611.294
Liabilities in USD .....	2015-2032	2,6%	1.360.521	2,9%	1.421.038
			<u>2.200.631</u>		<u>2.397.529</u>
Current maturities of long-term debt .....			( 244.199)		( 272.429)
Total long-term debt .....			<u>1.956.432</u>		<u>2.125.100</u>

Interest rates on the loans range between 0.0-6.5%. Nominal interest rates for the period were on average approximately 3.3%, taking into account the state guarantee fee, compared to 3.5% in 2014.

### 13. Maturities of long-term debt

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

	30.6.2015
1.7.2015-30.6.2016 .....	244.199
1.7.2016-31.12.2016 .....	89.464
2017 .....	230.632
2018 .....	325.392
2019 .....	205.065
2020 .....	265.167
Later .....	840.712
	<u>2.200.631</u>

## Notes, contd.:

### 14. Aluminium price risk

#### Aluminium hedges

At the end of June 2015, fair value of the aluminium hedges was positive by USD 9.7 million (31.12.2014: USD 7.5 million). About 50% of estimated cash flow for the year 2015 has been hedged and about 20% for the year 2016.

#### Embedded derivatives

Landsvirkjun's contracts for sale and purchase of electricity which are linked to aluminium prices form embedded derivatives which are recognised in the Company's financial statements.

	30.6.2015	31.12.2014
The fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year .....	7.711	96.195
Fair value changes during the period .....	( 13.591)	( 88.484)
Fair value of embedded derivatives at the end of the period .....	<u>( 5.880)</u>	<u>7.711</u>

Division of embedded derivatives is specified as follows:

Long term component of embedded derivatives .....	( 3.002)	7.728
Short term component of embedded derivatives .....	( 2.878)	( 17)
Total embedded derivatives .....	<u>( 5.880)</u>	<u>7.711</u>

The main assumptions Landsvirkjun uses in the valuation of embedded derivatives are as follows:

Calculations are based on the LME forward price of aluminium and are limited to the maximum time length of forward aluminium prices, or 123 months. It is the management's opinion that aluminium price expectations after ten years reflect the aluminium price at the time the agreements were made and therefore fair value changes will not arise for that period.

Calculations are limited to the revision time of electric power sales agreements or length of agreements. The time length can though never be more than the aforementioned 123 months.

According to provisions on energy buyers' purchase obligation the calculation is based on a secured minimum purchase. Counterparty risk and inefficient markets have also been taken into account.

Expected cash flows of agreements are discounted with USD interest without margin according to information from Bloomberg. At the end of June 2015, the interest profile for discounting was in the range 0.2% - 2.6% (31.12.2014: 0.2% - 2.4%).

#### Sensitivity analysis of aluminium price risk

The following table shows effects of changes in aluminium prices on fair value of financial instruments linked to aluminium prices. Amounts are in USD thousand, pre tax.

	Aluminum USD/ton	
	-100	+100
<b>30.6.2015</b>		
Embedded derivatives .....	( 12.365)	12.365
Aluminium hedges .....	2.374	( 2.440)
	<u>( 9.991)</u>	<u>9.925</u>
<b>31.12.2014</b>		
Embedded derivatives .....	( 11.811)	11.811
Aluminium hedges .....	4.109	( 4.358)
	<u>( 7.702)</u>	<u>7.453</u>



## Notes, contd.:

### 15. Foreign exchange risk

At the end of June 2015, the fair value of currency swaps was negative by USD 9.5 million (31.12.2014: negative by USD 5.7 million). The fair value of currency options was negative by USD 10.9 million (31.12.2014: negative by USD 4.2 million). Landsvirkjun has recently reduced open positions due to long term loans in EUR significantly. At end of June 2015 open position was approximately EUR 230 million (31.12.2014: EUR 388 million).

### 16. Interest rate risk

At the end of June 2015, the proportion of loans with floating interest rates, including swaps, was 50% (31.12.2014: 57%).

The fair value of interest rate swaps was negative by USD 32.0 million at the end of June 2015 (31.12.2014: negative by USD 33.6 million).

### 17. Liquidity risk

The Company's cash and cash equivalents amounted to USD 182 million at the end of June 2015 (31.12.2014: USD 207 million) but taking into account undrawn credit facilities the Company has access to a total of USD 462 million approx. Cash flow from operations, well organised maturity profile with strong liquidity and access to credit facilities secure the Company's liquidity at least throughout the year 2016.

In order to ensure access to capital and maintain flexible funding possibilities, Landsvirkjun has used different sources of funding. In past years, financing has mostly taken place through a state guaranteed Euro Medium Term Note Programme (EMTN).

- At the end of June 2015, the balance of loans under the EMTN with state guarantee was USD 1.5 billion (31.12.2014: USD 1.6 billion). The total amount the Company can borrow under the programme is USD 2.5 billion.
- At the end of June 2015, the balance of loans under the EMTN without state guarantee was USD 60 million (31.12.2014: USD 30 million). The total amount the Company can borrow under the programme is USD 1.0 billion.

The Company's risk related to refinancing is reduced with an even maturity profile and long loan terms of outstanding loans. Weighted average life of the loan portfolio is 5.3 years (31.12.2014: 5.4 years) and the proportion of loans with maturity within 12 months is 11.0% (31.12.2014: 11.4%).

Contractual payments due to financial instruments, including interest payments, are specified as follows:

30.6.2015	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Non-derivative financial instruments</i>						
Long term receivables ...	8.500	8.500	0	5.666	2.834	0
Cash and cash equiv. ....	182.072	182.072	182.072	0	0	0
Short term receivables ...	67.826	67.826	67.826	0	0	0
Interest bearing liab. ....	( 2.200.631)	( 2.543.258)	( 278.969)	( 358.217)	( 909.819)	( 996.253)
Current liabilities .....	( 74.353)	( 74.353)	( 74.353)	0	0	0
	( 2.016.586)	( 2.359.213)	( 103.424)	( 352.551)	( 906.985)	( 996.253)

## Notes, contd.:

### 17. Liquidity risk, contd.:

	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Derivative financial instruments</i>						
Currency swaps .....	( 20.449)	( 24.203)	( 12.195)	( 11.586)	( 422)	0
Interest rate swaps .....	( 32.007)	( 32.234)	( 27.135)	( 3.808)	( 1.291)	0
Aluminium derivatives ..	9.681	11.328	8.974	2.354	0	0
Embedded derivatives in electricity agreem. ....	( 5.880)	( 5.476)	( 2.885)	( 2.164)	( 2.907)	2.480
	<u>( 48.655)</u>	<u>( 50.585)</u>	<u>( 33.241)</u>	<u>( 15.204)</u>	<u>( 4.620)</u>	<u>2.480</u>

#### 31.12.2014

##### *Non-derivative financial instruments*

Long-term receivables ...	11.334	11.334	0	5.666	5.668	0
Cash and cash equiv. ....	207.070	207.070	207.070	0	0	0
Short term receivables ..	73.368	73.368	73.368	0	0	0
Interest bearing liab. ....	( 2.397.529)	( 2.758.841)	( 310.905)	( 287.554)	( 900.961)	( 1.259.421)
Current liabilities .....	( 57.688)	( 57.688)	( 57.688)	0	0	0
	<u>( 2.163.445)</u>	<u>( 2.524.757)</u>	<u>( 88.155)</u>	<u>( 281.888)</u>	<u>( 895.293)</u>	<u>( 1.259.421)</u>

##### *Derivative financial instruments*

Currency swaps .....	( 9.861)	( 10.862)	( 3.777)	( 726)	( 6.359)	0
Interest rate swaps .....	( 33.630)	( 33.816)	( 27.606)	( 3.716)	( 2.494)	0
Aluminium derivatives ..	7.499	10.244	7.027	3.217	0	0
Embedded derivatives in electricity agreem. ....	7.711	9.030	( 17)	154	1.924	6.969
	<u>( 28.281)</u>	<u>( 25.404)</u>	<u>( 24.373)</u>	<u>( 1.071)</u>	<u>( 6.929)</u>	<u>6.969</u>

### 18. Counterparty risk

The Company's counterparty risk is specified as follows:

	30.6.2015	31.12.2014
Derivative financial instruments .....	20.223	24.306
Long-term receivables .....	8.500	11.334
Accounts receivables and other receivables .....	67.826	73.368
Cash and cash equivalents .....	182.072	207.070
	<u>278.621</u>	<u>316.078</u>

## Notes, contd.:

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

	30.6.2015		31.12.2014	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities .....	2.200.631	2.344.308	2.397.529	2.548.996

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:

	30.6.2015	31.12.2014
Interest bearing liabilities in ISK .....	2,5%-2,7%	3,1%-4,7%
Interest bearing liabilities other than in ISK .....	0,0-2,9%	0,0-2,6%

### 20. 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
<b>30.6.2015</b>			
Embedded derivatives .....		( 5.880)	( 5.880)
Other derivatives .....	( 42.775)		( 42.775)
Shares in other companies .....		116	116
	<u>( 42.775)</u>	<u>( 5.764)</u>	<u>( 48.539)</u>
<b>31.12.2014</b>			
Embedded derivatives .....		7.711	7.711
Other derivatives .....	( 35.992)		( 35.992)
Shares in other companies .....		120	120
	<u>( 35.992)</u>	<u>7.831</u>	<u>(28.161)</u>

Classification of financial assets between the levels remains unchanged from the previous year. Fair value changes of financial assets at level 3 amounted to USD 13.6 million expensed in the period January to June 2015 (USD 88.5 million expensed in the year 2014) and is recognised among financial income and expenses.

## Notes, contd.:

### 21. Categories of financial instruments

Financial assets and liabilities are divided into defined groups. The classification affects how the valuation of the relevant financial instrument is measured. Those groups to which the Company's financial assets and liabilities pertain and their basis for evaluation are specified as follows:

- Assets and liabilities held for trading - are recognised at fair value through profit and loss.
- Financial assets and liabilities - are denominated at fair value and recognised at fair value through profit and loss.
- Loans and receivables - are recognised at amortised cost.
- Other financial liabilities - are recognised at amortised cost.

Financial assets and liabilities are divided into the following groups of financial instruments:

	Trading assets and liabilities	Financial assets and liabilities at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Book value
<b>30.6.2015</b>					
Derivatives .....	20.223				20.223
Shares in other companies .....		116			116
Long-term receivables .....			8.500		
Accounts receivables and other receivables .....			67.826		67.826
Cash and cash equivalents .....			182.072		182.072
Total assets .....	20.223	116	258.398	0	278.737
Interest bearing liabilities .....				2.200.631	2.200.631
Derivatives .....	68.879				68.879
Accounts payable and other payables ...				74.353	74.353
Total liabilities .....	68.879	0	0	2.274.984	2.343.863
<b>31.12.2014</b>					
Derivatives .....	24.306				24.306
Shares in other companies .....		120			120
Long-term receivables .....			11.334		11.334
Accounts receivables and other receivables .....			73.368		73.368
Cash and cash equivalents .....			207.070		207.070
Total assets .....	24.306	120	291.772	0	316.198
Interest bearing liabilities .....				2.397.529	2.397.529
Derivatives .....	52.587				52.587
Accounts payable and other payables ...				57.688	57.688
Total liabilities .....	52.587	0	0	2.455.217	2.507.804