

Group

Condensed Interim Financial Statements

January 1 to September 30, 2018

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

	2018	2017	2016	2015	2014
	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.
Operation					
Operating revenues	403,800	351,691	303,485	306,457	299,953
Realised aluminium hedges	(4,983)	(4,361)	3,632	7,529	7,854
Total operating revenues	398,817	347,330	307,117	313,986	307,807
Operating and maintenance expenses	(107,125)	(97,762)	(81,502)	(69,216)	(77,087)
EBITDA	291,692	249,568	225,615	244,770	230,720
Depreciation and impairment loss	(93,114)	(87,070)	(87,721)	(87,314)	(85,302)
EBIT	198,578	162,498	137,894	157,456	145,418
Financial items	(65,134)	(47,664)	(49,137)	(62,346)	(62,027)
Profit before unrealised financial items	133,444	114,834	88,757	95,110	83,391
Unrealised financial items:					
Fair value changes in embedded derivatives ...	(32,762)	66,194	29,828	(26,237)	22
Fair value changes in other derivatives	17,573	(8,919)	(921)	6,464	(11,487)
Unrealised foreign exchange difference	14,623	(56,091)	(38,179)	39,972	51,147
	(566)	1,184	(9,272)	20,199	39,682
Profit before income tax	132,878	116,018	79,485	115,309	123,073
Income tax	(43,601)	(37,489)	(31,997)	(39,012)	(41,106)
Profit for the period	89,277	78,529	47,488	76,297	81,967
Balance sheet					
	30.9.2018	30.9.2017	30.9.2016	30.9.2015	30.9.2014
Total assets	4,445,981	4,441,672	4,261,610	4,085,272	4,363,098
Total equity	2,132,829	2,034,201	1,949,506	1,768,147	1,716,517
Total liabilities	2,313,152	2,407,471	2,312,104	2,317,125	2,646,581
Net debt*	1,940,009	2,038,246	1,973,757	2,027,487	2,263,318
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)	234,505	202,521	179,816	179,344	177,717
Cash flow from operating activities	222,693	200,432	172,545	194,302	168,908
Investing activities	(126,863)	(188,691)	(109,293)	(47,379)	(82,739)
Financing activities	(131,696)	(47,660)	(101,229)	(241,607)	(185,381)
Liquidity					
	30.9.2018	30.9.2017	30.9.2016	30.9.2015	30.9.2014
Cash and cash equivalents	88,867	111,176	107,183	112,318	185,866
Undrawn loans	364,492	380,219	420,942	270,671	286,605
Total liquidity	453,359	491,395	528,125	382,989	472,471
Key ratios					
Return on equity **	5.8%	5.0%	3.1%	4.2%	3.8%
Equity ratio	48.0%	45.8%	45.7%	43.3%	39.3%
Interest cover (EBITDA/net interest exp.)**	4.88x	5.43x	5.12x	4.59x	3.35x
FFO / net debt**	16.2%	12.7%	12.2%	12.8%	10.7%
FFO / interest expense**	3.82x	4.10x	3.89x	3.30x	2.47x
Net debt / EBITDA**	5.00x	6.26x	6.53x	5.86x	7.15x
Credit rating without state guarantee at the end of September					
Standard & Poor's	BBB	BBB	BBB-	BB+	BB
Moody's	Baa2	Baa3	Baa3	Ba1	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 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. 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 2018 amounted to USD 89.3 million while during the same period in 2017 the Group's profit amounted to USD 78.5 million. The change between periods amounted to USD 10.7 million. The Group's operating revenues amounted to USD 398.8 million during the period compared to USD 347.3 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 13.6 million during the period January to September 2018 compared to a negative difference in the amount of USD 56.9 million during the same period in 2017 and due to the fair value loss of embedded derivatives, which amounted to USD 32.8 million during the period January to September 2018 compared to a positive difference in the amount of USD 66.2 million during the same period in 2017. Cash flow from operations amounted to USD 222.7 million during the period compared to USD 200.4 million during the same period in the previous year. At the end of September 2018, the Group's cash and cash equivalents amounted to USD 88.9 million and undrawn loans amounted to USD 364.5 million, a total of USD 453.4 million. The Group's equity at the end of September amounted to USD 2,132.8 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 September 2018 and the Group's operating results and changes in cash flow during the period from 1 January to 30 September 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 September 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, November 21, 2018.

The Board of Directors:

Jónas Þór Guðmundsson

Álfheiður Ingadóttir

Guðfinna Jóhanna Guðmundsdóttir

Gunnar Tryggvason

Jón Björn Hákonarson

The CEO:

Hörður Arnarson

Income Statement

	Notes	2018 1.1.-30.9.	2017 1.1.-30.9.	2018 Q3	2017 Q3
Operating revenues					
Power sales	6	333,794	289,969	107,283	96,632
Realised aluminium hedges		(4,983)	(4,361)	(581)	(2,549)
Transmission	6	65,357	58,468	21,409	19,789
Other income		4,649	3,254	1,162	1,098
		<u>398,817</u>	<u>347,330</u>	<u>129,273</u>	<u>114,970</u>
Operating expenses					
Energy production costs		108,654	105,345	36,580	35,127
Transmission costs		50,608	40,232	17,982	14,337
Cost of general research		7,150	8,348	2,364	2,682
Other operating expenses		33,827	30,907	9,685	9,689
		<u>200,239</u>	<u>184,832</u>	<u>66,611</u>	<u>61,835</u>
Operating profit		<u>198,578</u>	<u>162,498</u>	<u>62,662</u>	<u>53,135</u>
Financial income and (expenses)					
Interest income		2,262	1,787	600	546
Interest expenses		(65,989)	(48,574)	(16,587)	(15,905)
Foreign exchange difference		13,555	(56,884)	4,104	(6,310)
Fair value changes in embedded derivatives		(32,762)	66,194	(3,629)	30,378
Fair value changes in other derivatives		17,573	(8,919)	3,527	(5,968)
	7	<u>(65,361)</u>	<u>(46,396)</u>	<u>(11,985)</u>	<u>2,741</u>
Associated companies		(339)	(84)	527	640
Profit before income tax		<u>132,878</u>	<u>116,018</u>	<u>51,204</u>	<u>56,516</u>
Income tax		(43,601)	(37,489)	(16,434)	(17,700)
Net profit for the period		<u>89,277</u>	<u>78,529</u>	<u>34,770</u>	<u>38,816</u>
Attributable to:					
Owners of the parent company		79,929	71,074	31,147	35,080
Subsidiaries minority interest		9,348	7,455	3,623	3,736
		<u>89,277</u>	<u>78,529</u>	<u>34,770</u>	<u>38,816</u>

Notes 1 to 12 are an integral part of these interim financial statements.

Statement of Comprehensive Income

	2018	2017	2018	2017
	1.1.-30.9.	1.1.-30.9.	Q3	Q3
Net profit for the period	89,277	78,529	34,770	38,816
Items that will not be reclassified subsequently to profit or loss:				
Pension obligation after income tax, change	(1,727)	(1,786)	(558)	(613)
Items that may be reclassified subsequently to profit or loss:				
Translation diff. due to subs. and associated comp.	(1,532)	2,437	(884)	34
Total operating items moved to equity	(3,259)	651	(1,442)	(579)
Total Comprehensive Income for the period	<u>86,018</u>	<u>79,180</u>	<u>33,328</u>	<u>38,237</u>
Attributable to:				
Owners of the parent company	76,829	71,560	29,815	34,553
Subsidiaries minority interest	9,189	7,620	3,513	3,684
	<u>86,018</u>	<u>79,180</u>	<u>33,328</u>	<u>38,237</u>

Notes 1 to 12 are an integral part of these interim financial statements.

Balance Sheet

Assets	Notes	30.9.2018	31.12.2017
Non-current assets			
Property, plant and equipment		4,029,762	3,810,257
Projects under construction		23,586	232,425
Development cost		135,951	130,319
Other intangible assets		48,068	48,413
Derivative financial instruments	8	28,772	66,200
Associated companies		11,060	11,778
Tax asset		2	14
Other non-current assets		771	163
Total non-current assets		<u>4,277,972</u>	<u>4,299,569</u>
Current assets			
Inventories		5,832	5,625
Accounts receivables and other receivables		66,132	66,383
Derivative financial instruments	8	7,178	8,271
Cash and cash equivalents		88,867	126,544
Total current assets		<u>168,009</u>	<u>206,823</u>
Total assets		<u>4,445,981</u>	<u>4,506,392</u>
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		164,901	169,329
Restricted reserves		25,908	10,390
Translation difference		(39,909)	(38,536)
Other equity		1,268,448	1,216,571
Equity of the owners of the parent company		<u>2,005,860</u>	<u>1,944,265</u>
Minority interest		126,969	118,847
Total equity		<u>2,132,829</u>	<u>2,063,112</u>
Long-term liabilities			
Interest bearing liabilities	9	1,825,991	1,889,372
Accrued pension liabilities		39,385	40,597
Deferred income tax liability		122,372	91,268
Obligation due to demolition		9,128	8,551
Prepaid income		2,910	3,043
Derivative financial instruments	8	5,381	4,110
		<u>2,005,167</u>	<u>2,036,941</u>
Current liabilities			
Accounts payable and other payables		89,847	93,028
Interest bearing liabilities	9	202,885	279,814
Income tax payable		12,592	18,038
Derivative financial instruments	8	2,661	15,459
		<u>307,985</u>	<u>406,339</u>
Total liabilities		<u>2,313,152</u>	<u>2,443,280</u>
Total equity and liabilities		<u>4,445,981</u>	<u>4,506,392</u>

Notes 1 to 12 are an integral part of these interim financial statements.

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 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
January 1 to September 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.....				(1,373)		(1,373)	(159)	(1,532)
Pension obligation, change.....					(1,727)	(1,727)	0	(1,727)
Profit for the period.....					79,929	79,929	9,348	89,277
Total comprehensive profit.....				(1,373)	78,202	76,829	9,189	86,018
Dividend to owners.....					(15,235)	(15,235)	(1,067)	(16,302)
Share of profit of subsidiaries and associated companies.....			15,518		(15,518)	0	0	0
Revaluation transferred to other equity.....		(4,427)			4,427	0	0	0
Equity at September 30, 2018.....	586,512	164,901	25,908	(39,909)	1,268,448	2,005,860	126,969	2,132,829

Notes 1 to 12 are an integral part of these interim financial statements.

Statement of Cash Flows

	2018	2017	2018	2017
	1.1.-30.9.	1.1.-30.9.	Q3	Q3
Operating activities				
Operating profit	198,578	162,498	62,662	53,135
Depreciation and impairment loss	93,114	87,070	31,275	28,749
Pension obligation, change	(1,467)	(1,267)	(476)	(442)
Obligation due to demolition, change	577	1,215	168	521
Other changes	(52)	(134)	0	(16)
Working capital from operations before financial items	290,750	249,382	93,629	81,947
Operating assets, change	491	4,692	(3,029)	(3,965)
Operating liabilities, change	3,257	546	1,643	(4,551)
Cash flow from operating activities before fin. items	294,498	254,620	92,243	73,431
Interest income received	1,900	1,311	484	392
Interest expenses and foreign exchange diff. paid	(63,330)	(49,599)	(17,086)	(14,106)
Taxes paid	(10,375)	(5,900)	(2,187)	(1,651)
Cash flow from operating activities	222,693	200,432	73,454	58,066
Investing activities				
Power stations in operation	(30,567)	(6,851)	(8,858)	(2,207)
Transmission	(21,155)	(55,380)	(6,247)	(21,118)
Power plant preparation cost	(4,695)	(5,160)	(617)	(2,018)
Power stations under construction	(61,541)	(120,949)	(13,321)	(43,432)
Purchased shares	(622)	(41)	0	(20)
Other investments	(8,299)	(5,177)	(1,164)	(2,413)
Assets sold	76	510	0	27
Other receivables, change	(60)	4,357	0	257
Investing activities	(126,863)	(188,691)	(30,207)	(70,924)
Financing activities				
Dividend paid to owners	(8,684)	(7,307)	0	0
New loans	267,000	199,143	27,000	19,276
Currency swaps	259	(12,725)	259	0
Amortisation of long-term debt	(390,271)	(226,771)	(92,273)	(4,255)
Financing activities	(131,696)	(47,660)	(65,014)	15,021
Change in cash and cash equivalents	(35,866)	(35,919)	(21,767)	2,163
Effect of exchange difference on cash and cash equiv. ..	(1,811)	2,561	(1,168)	206
Cash and cash equivalents at the beginning of the year	126,544	144,534	111,802	108,807
Cash and cash equivalents at the end of the period	88,867	111,176	88,867	111,176

Notes 1 to 12 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, 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.

Notes, contd.:

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 contractual 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.-30.9.2018	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	332,139	65,193	969		398,301
Income within the Group	11,062	50,335	3,897	(64,778)	516
Segment income	343,201	115,528	4,866	(64,778)	398,817
Segment operating expenses	(120,020)	(48,363)	(3,520)	64,778	(107,125)
EBITDA	223,181	67,165	1,346		291,692
Depreciation and impairment loss	(70,600)	(21,892)	(928)	306	(93,114)
Segment earnings, EBIT	152,581	45,273	418	306	198,578
Segment assets 30.9.2018	3,919,557	849,487	22,027	(356,150)	4,434,921
Shares in associated companies	10,915	7,073	145	(7,073)	11,060
Total assets 30.9.2018	3,930,472	856,560	22,172	(363,223)	4,445,981
Segment liabilities 30.9.2018	1,908,447	496,568	4,229	(96,092)	2,313,152
Total liabilities 30.9.2018	1,908,447	496,568	4,229	(96,092)	2,313,152

Notes, contd.:

5. Segment information, contd.:

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 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

	2018	2017
	1.1.-30.9.	1.1.-30.9.
Electricity sales are specified as follows:		
Wholesale	67,807	54,723
Industrial users	265,987	235,246
Electricity sales total	333,794	289,969
Revenues from electricity transmission are specified as follows:		
Transmission	56,713	49,615
Transmission losses, grid service and other transmission revenues	8,644	8,853
Electricity transmission total.	65,357	58,468

7. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

Interest income	2,262	1,787
Interest expense	(66,620)	(51,739)
Guarantee fee	(4,437)	(5,720)
Indexation	(1,003)	(1,681)
Capitalised finance cost	6,071	10,566
Total interest expense	(65,989)	(48,574)
Realised foreign exchange difference	(1,068)	(793)
Unrealised foreign exchange difference	14,623	(56,091)
Total foreign exchange difference	13,555	(56,884)
Fair value changes in embedded derivatives	(32,762)	66,194
Fair value changes in other derivatives	17,573	(8,919)
Financial income and (expenses)	(65,361)	(46,396)

Notes, contd.:

8. Derivative financial instruments in the balance sheet

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

	30.9.2018	31.12.2017
Assets:		
Embedded derivatives in electricity agreements	21,023	54,390
Aluminium hedges	4,047	1,141
Currency swaps	10,880	18,940
	<u>35,950</u>	<u>74,471</u>
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	28,772	66,200
Short-term component of derivative agreements	7,178	8,271
	<u>35,950</u>	<u>74,471</u>
Liabilities:		
Embedded derivatives in electricity sales agreements	341	946
Aluminium hedges	3,002	17,251
Currency swaps	4,699	693
Interest rate swaps	0	679
	<u>8,042</u>	<u>19,569</u>
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	5,381	4,110
Short-term component of derivative agreements	2,661	15,459
	<u>8,042</u>	<u>19,569</u>

9. Liabilities

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

	30.9.2018			31.12.2017	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2019-2034	3.7%	284,035	3.7%	295,793
Liabilities in CHF	2019-2022	0.0%	21,023	0.0%	27,044
Liabilities in EUR	2019-2026	0.0%	312,768	0.9%	392,671
Liabilities in USD	2019-2035	3.8%	1,411,050	3.3%	1,453,678
			<u>2,028,876</u>		<u>2,169,186</u>
Current maturities of long-term debt			(202,885)		(279,814)
Total long-term debt			<u>1,825,991</u>		<u>1,889,372</u>

Interest rates on the loans range between 0.0-5.0% at the end of September compared to 0.0-5,6% in the year end 2017. Nominal interest rates for the period were 3.7%, taking into account the state guarantee fee and excluding expenses in relation to prepayments of loans, compared to 3.5% in the full year 2017.

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

	30.9.2018
1.10.2018-30.9.2019	202,885
1.10.2019-31.12.2019	7,347
2020	270,334
2021	215,555
2022	163,155
2023	165,795
Later	1,003,805
	<u>2,028,876</u>

Notes, contd.:

10. Comparison of fair value and book value

	30.9.2018		31.12.2017	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	2,028,876	2,144,407	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:

	30.9.2018	31.12.2017
Interest bearing liabilities in ISK	1.5 - 1.8%	1.9 - 2.0%
Interest bearing liabilities other than in ISK	-0.8 - 3.2%	-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
30.9.2018			
Embedded derivatives		20,682	20,682
Other derivatives	2,631	4,595	7,226
Revaluation of property, plant and equipment		242,916	242,916
Shares in other companies		717	717
	<u>2,631</u>	<u>268,910</u>	<u>271,541</u>
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
	<u>(13,228)</u>	<u>319,253</u>	<u>306,025</u>

12. Other matters

In May 2017, ESA started an investigation to look into whether the state guarantees for Landsvirkjun's hedging derivatives involved state aid that were against EEA rules. The EFTA Surveillance Authority (ESA) concluded that state guarantees for Landsvirkjun's hedging derivatives did not involve state aid.