

Group

Condensed Interim Financial Statements

January 1 to March 31, 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.-31.3.	2016 1.1.-31.3.	2015 1.1.-31.3.	2014 1.1.-31.3.	2013 1.1.-31.3.
Operation					
Operating revenues	119,465	104,294	109,375	101,638	103,951
Realised aluminium hedges	(653)	1,209	2,290	3,408	3,106
Total operating revenues	118,812	105,503	111,665	105,046	107,057
Operating and maintenance expenses	(30,544)	(23,296)	(22,410)	(22,458)	(19,340)
EBITDA	88,268	82,207	89,255	82,588	87,717
Depreciation and impairment loss	(29,180)	(29,273)	(27,573)	(27,416)	(25,871)
EBIT	59,088	52,934	61,682	55,172	61,846
Financial items	(15,307)	(15,108)	(9,655)	(21,066)	(23,977)
Profit before unrealised financial items	43,781	37,826	52,027	34,106	37,869
Unrealised financial items:					
Fair value changes in embedded derivatives ...	42,555	(3,809)	(4,679)	(32,568)	(114,681)
Fair value changes in other derivatives	(8,110)	(155)	(7,306)	(1,231)	(5,798)
Unrealised foreign exchange difference	(3,568)	(26,896)	44,791	2,196	34,349
	30,877	(30,860)	32,806	(31,603)	(86,130)
Profit (loss) before income tax	74,658	6,966	84,833	2,503	(48,261)
Income tax	(25,277)	(3,522)	(29,253)	75	17,982
Profit (loss) for the period	49,381	3,444	55,580	2,578	(30,279)
Balance sheet					
	31.3.2017	31.3.2016	31.3.2015	31.3.2014	31.3.2013
Total assets	4,472,638	4,261,913	4,202,682	4,496,933	4,434,229
Total equity	2,017,992	1,920,232	1,746,998	1,663,121	1,669,334
Total liabilities	2,454,646	2,341,681	2,455,684	2,833,812	2,764,895
Net debt*	1,965,833	1,974,816	2,028,575	2,403,087	2,382,566
Cash flow					
	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.	1.1.-31.3.
Funds from operation (FFO)	70,900	66,477	69,423	66,502	74,501
Cash flow from operating activities	66,285	68,711	82,850	69,046	74,885
Investing activities	(67,732)	(22,248)	(14,403)	(51,853)	(35,723)
Financing activities	95,757	(64,717)	(52,293)	(80,923)	(46,380)
Liquidity					
	31.3.2017	31.3.2016	31.3.2015	31.3.2014	31.3.2013
Cash and cash equivalents	241,417	125,810	219,264	224,877	182,247
Undrawn loans	472,184	365,366	276,525	301,529	403,163
Total liquidity	713,601	491,176	495,789	526,406	585,410
Key ratios					
Return on equity **	5.9%	1.8%	7.9%	(0.3)%	0.4%
Equity ratio	45.1%	45.1%	41.6%	37.0%	37.6%
Interest cover (EBITDA/net interest exp)**	5.26x	4.68x	4.05x	3.57x	3.42x
FFO / net debt**	12.2%	12.0%	12.9%	10.4%	11.0%
FFO / interest expense**	3.89x	3.38x	3.00x	2.67x	2.62x
Net debt / EBITDA**	6.39x	6.28x	5.99x	7.42x	7.34x
Credit rating without state guarantee at the end of March					
Standard & Poor's	BBB	BBB-	BB	BB	-
Moody's	Baa3	Ba1	Ba2	Ba2	-

* Net debt are interest bearing long-term 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 March 31 2017 are prepared in accordance with IAS 34 Interim Financial Reporting and include, in addition to the parent company, four subsidiaries, Landsnet hf., Orkufjarskipti hf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf. The condensed consolidated Interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to the income statement, the Group's profit in the period from January to March 2017 amounted to USD 49.4 million while during the same period in 2016 the Group's profit amounted to USD 3.4 million. The change between periods is USD 46 million, mainly due to a negative currency exchange difference, which amounted to USD 3.8 million compared to a negative difference in the amount of USD 26.4 million during the same period in 2016 and the fair value gain of derivatives, which amounted to USD 34.4 million compared to fair value loss in the amount of USD 4.0 million during the same period in 2016. The Group's operating revenues amounted to USD 118.8 million during the period compared to USD 105.5 million during the same period in the previous year. Cash flow from operations amounted to USD 66.3 million during the period compared to USD 68.7 million during the same period in the previous year. At the end of March 2017, the Group's cash and cash equivalents amounted to USD 241.4 million and undrawn loans amounted to USD 472.2 million, a total of USD 713.6 million. The Group's equity at the end of March amounted to USD 2,018.0 million according to the balance sheet compared to USD 1,969.1 million at year end 2016. At the annual general meeting, 27 April, 2017, it was approved to pay dividends to the owners of the company amounting to ISK 1.5 billion or USD 13.3 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. 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 31 March, 2017 and the Group's operating results and changes in cash flow during the period from 1 January to 31 March 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 March 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, May 30, 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 March 31, 2017

	Notes	2017 1.1.-31.3.	2016 1.1.-31.3.
Operating revenues			
Power sales		98,592	87,707
Realised aluminium hedges .....	(	653)	1,209
Transmission		19,048	15,873
Other income		1,825	714
		118,812	105,503
Operating expenses			
Energy production costs		34,317	29,656
Transmission costs		12,861	13,174
Cost of general research		2,376	1,921
Other operating expenses		10,170	7,818
		59,724	52,569
Operating profit		59,088	52,934
Financial income and (expenses)			
Interest income		645	839
Interest expenses .....	(	15,717)	(16,020)
Foreign exchange difference .....	(	3,815)	(26,364)
Fair value changes in embedded derivatives		42,555	(3,809)
Fair value changes in other derivatives .....	(	8,110)	(155)
	6	15,558	(45,509)
Associated companies		12	(459)
Profit before income tax		74,658	6,966
Income tax .....	(	25,277)	(3,522)
Net profit for the period		49,381	3,444
Attributable to:			
Owners of the parent company		46,865	5,646
Subsidiaries minority interest		2,516	(2,202)
		49,381	3,444

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

Statement of Comprehensive Income January 1 to March 31, 2017

	2017 1.1.-31.3.	2016 1.1.-31.3.
Profit for the period	49,381	3,444
Items that will not be reclassified subsequently to profit or loss:		
Pension obligation after income tax, change	(551)	(403)
Items that may be reclassified subsequently to profit or loss:		
Translation difference due to subsidiaries and associated companies	73	557
Total operating items moved to equity	(478)	154
Total Comprehensive Income for the period	<u>48,903</u>	<u>3,598</u>
Attributable to:		
Owners of the parent company	46,393	5,702
Subsidiaries minority interest	2,510	(2,104)
	<u>48,903</u>	<u>3,598</u>

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

Balance Sheet March 31, 2017

Assets	Notes	31.3.2017	31.12.2016
Non-current assets			
Property, plant and equipment		3,592,992	3,614,704
Projects under construction		336,683	282,318
Development cost		143,872	141,401
Other intangible assets		48,664	48,701
Derivative financial instruments	7	18,022	9,528
Associated companies		10,749	10,619
Other non-current assets		150	150
Total non-current assets		4,151,132	4,107,421
Current assets			
Inventories		5,241	5,101
Accounts receivables and other receivables		71,391	72,599
Derivative financial instruments	7	3,457	3,209
Cash and cash equivalents		241,417	144,534
Total current assets		321,506	225,443
Total assets		4,472,638	4,332,864
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		173,307	175,712
Restricted reserves		1,230	1,039
Translation difference		(41,041)	(41,120)
Other equity		1,186,697	1,138,169
Equity of the owners of the parent company		1,906,705	1,860,312
Minority interest		111,287	108,776
Total equity		2,017,992	1,969,088
Long-term liabilities			
Interest bearing liabilities	8	1,908,651	1,883,049
Accrued pension liabilities		35,773	35,383
Deferred income tax liability		73,552	54,517
Obligation due to demolition		7,122	7,023
Prepaid income		2,817	2,862
Derivative financial instruments	7	7,865	33,690
Total Long-term liabilities		2,035,780	2,016,524
Current liabilities			
Accounts payable and other payables		85,788	82,753
Interest bearing liabilities	8	298,599	221,982
Income tax payable		7,904	14,121
Derivative financial instruments	7	26,575	28,396
Total current liabilities		418,866	347,252
Total liabilities		2,454,646	2,363,776
Total equity and liabilities		4,472,638	4,332,864

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

Statement of Equity March 31, 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 March 31, 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.....				459		459	98	557
Pension obligation, change.....					(403)	(403)	0	(403)
Profit for the period.....					5,646	5,646	(2,202)	3,444
Total comprehensive profit.....				459	5,243	5,702	(2,104)	3,598
Revaluation transferred to other equity.....		(2,370)			2,370	0		0
Equity at March 31, 2016.....	586,512	180,182	0	(42,385)	1,083,838	1,808,147	112,085	1,920,232
January 1 to March 31, 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.....				79		79	(6)	73
Pension obligation, change.....					(551)	(551)	0	(551)
Profit for the period.....					46,865	46,865	2,516	49,381
Total comprehensive profit.....				79	46,314	46,393	2,510	48,903
Share of profit of subsidiaries and associated companies.....			191		(191)	0	0	0
Revaluation transferred to other equity.....		(2,405)			2,405	0	0	0
Equity at March 31, 2017.....	586,512	173,307	1,230	(41,041)	1,186,697	1,906,705	111,287	2,017,992

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

Statement of Cash Flows January 1 to March 31, 2017

	2017	2016
	1.1.-31.3.	1.1.-31.3.
Operating activities		
Operating profit	59,088	52,934
Depreciation and impairment loss	29,180	29,273
Pension obligation, change	(379)	(277)
Obligation due to demolition, change	99	122
Other changes	(1)	(25)
Working capital from operation before financial items	87,987	82,027
Operating assets, change	(1,004)	(2,827)
Operating liabilities, change	3,888	9,272
Cash flow from operating activities before financial items	90,871	88,472
Interest income received	531	839
Interest expenses and foreign exchange difference paid	(22,800)	(19,774)
Taxes paid	(2,317)	(826)
Cash flow from operating activities	<u>66,285</u>	<u>68,711</u>
Investing activities		
Power stations in operation	(2,561)	(1,345)
Transmission	(14,833)	(4,380)
Power plant preparation cost	(2,286)	(1,965)
Power stations under construction	(48,808)	(11,458)
Purchased shares	(21)	(2)
Other investments	(1,460)	(3,160)
Assets sold	37	62
Other receivables, change	2,200	0
Investing activities	<u>(67,732)</u>	<u>(22,248)</u>
Financing activities		
New loans	99,878	0
Amortisation of long-term debt	(4,121)	(64,717)
Financing activities	<u>95,757</u>	<u>(64,717)</u>
Change in cash and cash equivalents	94,310	(18,254)
Effect of exchange difference on cash and cash equivalents	2,573	1,937
Cash and cash equivalents at the beginning of the year	<u>144,534</u>	<u>142,127</u>
Cash and cash equivalents at the end of the period	<u><u>241,417</u></u>	<u><u>125,810</u></u>

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

Notes

Reporting entity

1. Landsvirkjun

Landsvirkjun is a partnership having its place of business in Iceland and its headquarters at Háaleitisbraut 68, Reykjavik, Iceland. Landsvirkjun operates on the basis of the Act on Landsvirkjun no. 42/1983. The Company's main objective is to engage in operations in the energy sector. The interim financial statements include the consolidated financial statements of the Company and its subsidiaries.

2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31, 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 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 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.-31.3.2017	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	99,243	19,205	364		118,812
Income within the Group	5,764	16,283	1,234	(23,281)	0
Segment income	105,007	35,488	1,598	(23,281)	118,812
Segment operating expenses	(38,161)	(14,474)	(1,190)	23,281	(30,544)
EBITDA	66,846	21,014	408		88,268
Depreciation and impairment loss	(22,129)	(6,867)	(287)	103	(29,180)
Segment earnings, EBIT	44,717	14,147	121	103	59,088
Segment assets 31.3.2017	4,014,824	810,612	21,275	(384,822)	4,461,889
Shares in associated companies	10,519	6,650	230	(6,650)	10,749
Total assets 31.3.2017	4,025,343	817,262	21,505	(391,472)	4,472,638
Segment liabilities 31.3.2017	2,099,740	501,733	4,327	(151,154)	2,454,646
Total liabilities 31.3.2017	2,099,740	501,733	4,327	(151,154)	2,454,646

Notes, contd.:

5. Segment information, contd.:

Operating segments 1.1.-31.3.2016	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	89,244	16,004	255		105,503
Income within the Group	4,130	16,858	943	(21,931)	0
Segment income	93,374	32,862	1,198	(21,931)	105,503
Segment operating expenses	(32,318)	(12,058)	(851)	21,931	(23,296)
EBITDA	61,056	20,804	347		82,208
Depreciation and impairment loss	(22,086)	(7,061)	(234)	108	(29,273)
Segment earnings, EBIT	38,970	13,743	113	108	52,934
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.-31.3.	1.1.-31.3.
Financial income and (expenses) are specified as follows:		
Interest income	645	839
Interest expense	(16,205)	(14,497)
Guarantee fee	(2,026)	(2,425)
Indexation	(533)	(792)
Capitalised finance cost	3,047	1,695
Total interest expense	(15,717)	(16,020)
Realised foreign exchange difference	(246)	532
Unrealised foreign exchange difference	(3,569)	(26,896)
Total foreign exchange difference	(3,815)	(26,364)
Fair value changes in embedded derivatives	42,555	(3,809)
Fair value changes in other derivatives	(8,110)	(155)
Financial income and (expenses)	15,558	(45,509)

7. Derivative financial instruments in the balance sheet:

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

	31.3.2017	31.12.2016
Assets:		
Embedded derivatives in electricity agreements	14,798	4,858
Aluminium hedges	1,690	2,854
Currency swaps	4,991	5,025
	21,479	12,737
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	18,022	9,528
Short-term component of derivative agreements	3,457	3,209
	21,479	12,737
Liabilities:		
Embedded derivatives in electricity sales agreements	3,294	35,908
Aluminium hedges	10,828	2,651
Currency swaps	17,982	20,164
Interest rate swaps	2,336	3,363
	34,440	62,086

Notes, contd.:

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

	31.3.2017	31.12.2016
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	7,865	33,690
Short-term component of derivative agreements	26,575	28,396
	34,440	62,086

8. Liabilities

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

	31/03/2017			31/12/2016	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2017-2034	3.8%	270,125	3.8%	269,815
Liabilities in CHF	2017-2022	0.0%	29,271	0.0%	31,661
Liabilities in EUR	2017-2026	0.6%	488,933	0.6%	483,486
Liabilities in USD	2017-2035	3.1%	1,418,921	2.9%	1,320,069
			2,207,250		2,105,031
Current maturities of long-term debt			(298,599)		(221,982)
Total long-term debt			1,908,651		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 3.4%, 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:

	31/03/2017
1.4.2017-31.3.2018	298,599
1.4.2018-31.12.2018	195,632
2019	183,817
2020	305,570
2021	205,721
2022	88,187
Later	929,724
	2,207,250

9. Comparison of fair value and book value

	31/03/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	2,207,250	2,366,200	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:

	31/03/2017	31/12/2016
Interest bearing liabilities in ISK	2,5 to 3,0%	2,6 to 2,9%
Interest bearing liabilities other than in ISK	-0,7 to 2,6%	-0,8 to 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
31/03/2017			
Embedded derivatives		11,504	11,504
Other derivatives	(29,456)	4,991	(24,465)
Revaluation of property, plant and equipment		260,764	260,764
Shares in other companies		150	150
	<u>(29,456)</u>	<u>277,409</u>	<u>247,953</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>

11. Other matters

At the annual general meeting at April 27, 2017 the payment of dividends to owners in the amount of ISK 1.5 billion or USD 13.3 million was approved.