

Group

Condensed Interim Financial Statements

January 1 to June 30, 2016

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík
Iceland

Reg. no. 420269-1299

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Key figures - not reviewed

Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2016 1.1.-30.6.	2015 1.1.-30.6.	2014 1.1.-30.6.	2013 1.1.-30.6.	2012 1.1.-30.6.
Operation					
Operating revenue	204,452	210,979	196,877	199,266	193,454
Realised aluminium hedges	2,475	4,764	6,363	7,447	9,426
Total operating revenues	206,927	215,743	203,240	206,713	202,880
Operating and maintenance expenses	(51,720)	(46,483)	(48,381)	(41,460)	(38,932)
EBITDA	155,207	169,260	154,859	165,253	163,948
Depreciation and impairment loss	(58,471)	(57,399)	(55,831)	(60,603)	(52,391)
EBIT	96,736	111,861	99,028	104,650	111,557
Financial items	(32,256)	(31,822)	(44,601)	(37,577)	(63,905)
Profit before unrealised financial items	64,480	80,039	54,427	67,073	47,652
Unrealised financial items:					
Fair value changes in embedded derivatives ...	14,391	(13,591)	(5,650)	(169,459)	(67,420)
Fair value changes in other derivatives	(2,908)	(3,475)	(6,566)	564	12,239
Unrealised foreign exchange difference	(20,914)	34,130	8,779	16,510	22,018
	(9,431)	17,064	(3,437)	(152,385)	(33,163)
Profit (loss) before income tax	55,049	97,103	50,990	(85,312)	14,489
Income tax	(20,216)	(33,203)	(16,443)	33,089	(5,470)
Profit (loss) for the period	34,833	63,900	34,547	(52,223)	9,019
Balance sheet					
	30.6.2016	30.6.2015	30.6.2014	30.6.2013	30.6.2012
Total assets	4,233,437	4,150,537	4,455,652	4,389,289	4,541,882
Total equity	1,937,653	1,750,658	1,681,003	1,635,705	1,651,834
Total liabilities	2,295,784	2,399,879	2,774,649	2,753,584	2,890,048
Net debt*	1,946,033	2,018,559	2,376,422	2,405,474	2,428,898
Cash flow					
	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.
Funds from operations (FFO)	123,905	131,480	118,962	134,112	118,974
Cash flow from operating activities	123,841	146,428	114,226	134,430	118,087
Investing activities	(51,132)	(21,774)	(48,533)	(75,363)	(36,414)
Financing activities	(103,290)	(148,425)	(139,227)	(89,290)	(63,106)
Liquidity					
	30.6.2016	30.6.2015	30.6.2014	30.6.2013	30.6.2012
Cash and cash equivalents	113,200	182,072	215,248	158,800	244,961
Undrawn loans	504,298	279,787	293,036	400,105	411,182
Total liquidity	617,498	461,859	508,284	558,905	656,143
Key ratios					
Return on equity **	3.1%	6.4%	2.9%	(0.4)%	0.7%
Equity ratio	45.8%	42.2%	37.7%	37.3%	36.4%
Interest cover (EBITDA/net interest exp)**	4.87x	4.39x	3.35x	3.62x	2.90x
FFO / net debt**	12.0%	13.4%	10.2%	10.7%	10.1%
FFO / interest expense**	3.53x	3.29x	2.48x	2.77x	2.07x
Net debt / EBITDA**	6.33x	5.82x	7.46x	7.46x	7.36x
Credit rating without state guarantee at the end of June					
Standard & Poor's	BBB-	BB	BB	-	-
Moody's	Ba1	Ba2	Ba2	-	-

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

** Key ratios based on the past 12 months

Endorsement and Statement of the Board of Directors and CEO

Landsvirkjun's objective is to operate in the energy sector and to engage in other business and financial operations according to the decision of the Board of Directors at each time. The Company's consolidated interim financial statements for the period from January 1 to June 30, 2016 which have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the EU and include, in addition to the parent company, four subsidiaries, Landsnet hf., Orkufjarskipti hf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf.

According to the income statement, the Group's profit in the period from January to June 2016 amounted to USD 34.8 million while during the same period in 2015 the Group's profit amounted to USD 63.9 million. The change between periods is USD 29.1 million, mainly due to a negative currency exchange difference, which amounted to USD 21.1 million compared to a positive difference in the amount of USD 41.1 million during the same period in 2015. The Group's operating revenue amounted to USD 206.9 million during the period compared to USD 215.7 million during the same period in the previous year. Cash flow from operations amounted to USD 123.8 million during the period compared to USD 146.4 million during the same period in the previous year. At the end of June 2016, the Group's cash and cash equivalents amounted to USD 113.2 million and undrawn credit facilities amounted to USD 504.3 million, a total of USD 617.5 million. The Group's equity at the end of June amounted to USD 1,937.7 million according to the balance sheet compared to USD 1,916.6 million at year end 2015.

Statement by the Board of Directors and the CEO

According to the best of their knowledge, the Board of Directors and the CEO confirm that the financial statements are in accordance with IAS 34, Interim financial statements, as adopted by the EU. According to the best of their knowledge, the Board of Directors and the CEO confirm that the financial statements give a fair view of the Group's assets, liabilities and financial position as at 30 June, 2016 and the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2016.

Furthermore, it is the opinion of the Board of Directors and the CEO that the interim financial statements and the Endorsement by the Board of Directors for the period from January to June 2016 give a fair view of the Group's results, financial position and development and describe the main risk factors faced by the Group.

The Board of Directors and the CEO have today discussed the consolidated interim financial statements and confirm them by means of their signatures.

Reykjavik, August 24, 2016.

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, 2016 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 2016, 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 24, 2016.

Deloitte ehf.

Þorsteinn Pétur Guðjónsson
auditor

Lárus Finnbogason
auditor

Income Statement January 1 to June 30, 2016

	Notes	2016 1.1.-30.6.	2015 1.1.-30.6.
Operating revenue			
Power sales		171,410	180,938
Realised aluminium hedges		2,475	4,764
Transmission		31,527	28,602
Other income		1,515	1,439
		206,927	215,743
Operating expenses			
Energy production costs		62,225	61,315
Transmission costs		27,006	19,742
Cost of general research		4,410	5,695
Other operating expenses		16,550	17,130
		110,191	103,882
Operating profit		96,736	111,861
Financial income and (expenses)			
Interest income		1,404	2,015
Interest expense		(32,337)	(39,729)
Foreign exchange difference		(21,112)	41,082
Fair value changes in embedded derivatives		14,391	(13,591)
Fair value changes in other derivatives		(2,908)	(3,475)
	6	(40,562)	(13,698)
Associated companies		(1,125)	(1,060)
Profit before income tax		55,049	97,103
Income tax		(20,216)	(33,203)
Net profit for the period		34,833	63,900
Attributable to:			
Owners of the parent company		35,765	59,742
Subsidiaries minority interest		(932)	4,158
		34,833	63,900

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

Statement of Comprehensive Income January 1 to June 30, 2016

	2016 1.1.-30.6.	2015 1.1.-30.6.
Profit for the period	<u>34,833</u>	<u>63,900</u>
Items that will not be reclassified subsequently to profit or loss		
Pension obligation after income tax, change	(889)	(712)
Items that may be reclassified subsequently to profit or loss:		
Translation difference due to subsidiaries and associated companies	<u>355</u>	<u>(6,225)</u>
Total operating items moved to equity	<u>(534)</u>	<u>(6,937)</u>
Total Comprehensive Income for the period	<u><u>34,299</u></u>	<u><u>56,963</u></u>
Attributable to		
Owners of the parent company	35,118	54,651
Subsidiaries minority interest	<u>(819)</u>	<u>2,312</u>
	<u>34,299</u>	<u>56,963</u>

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

Balance Sheet June 30, 2016

Assets	Notes	30.6.2016	31.12.2015
Non-current assets			
Property, plant and equipment		3,641,462	3,685,410
Projects under construction		183,533	134,146
Development cost		137,115	141,799
Other intangible assets		48,611	48,469
Derivative financial instruments	7	5,357	2,915
Associated companies		12,718	13,401
Other non-current assets		2,972	5,795
Deferred tax asset		14,815	34,733
Total non-current assets		<u>4,046,583</u>	<u>4,066,668</u>
Current assets			
Inventories		4,823	4,582
Accounts receivables and other receivables		64,105	64,472
Derivative financial instruments	7	4,726	6,854
Cash and cash equivalents		113,200	142,127
Total current assets		<u>186,854</u>	<u>218,035</u>
Total assets		<u><u>4,233,437</u></u>	<u><u>4,284,703</u></u>
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		179,295	182,553
Translation difference		(42,602)	(42,844)
Other equity		1,102,217	1,076,224
Equity of the owners of the parent company		<u>1,825,422</u>	<u>1,802,445</u>
Minority interest		112,231	114,189
Total equity		<u>1,937,653</u>	<u>1,916,634</u>
Long-term liabilities			
Interest bearing liabilities	8	1,694,976	1,890,556
Accrued pension liabilities		29,962	27,663
Deferred income tax liability		53,776	57,553
Obligation due to demolition		7,444	6,997
Prepaid income		2,951	2,936
Derivative financial instruments	7	38,928	67,044
		<u>1,828,037</u>	<u>2,052,749</u>
Current liabilities			
Accounts payable and other payables		70,524	58,342
Interest bearing liabilities	8	364,257	236,982
Income tax payable		9,532	7,895
Derivative financial instruments	7	23,434	12,101
		<u>467,747</u>	<u>315,320</u>
Total liabilities		<u>2,295,784</u>	<u>2,368,069</u>
Total equity and liabilities		<u><u>4,233,437</u></u>	<u><u>4,284,703</u></u>

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

Statement of Equity June 30, 2016

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
January 1 to June 30, 2015							
Equity at January 1, 2015....	586,512	91,845	(39,786)	1,012,718	1,651,289	53,435	1,704,724
Translation difference.....			(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)		(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
January 1 to June 30, 2016							
Equity at January 1, 2016....	586,512	182,553	(42,844)	1,076,224	1,802,445	114,189	1,916,634
Translation difference.....			242		242	113	355
Pension obligation, change..				(889)	(889)	0	(889)
Profit for the period.....				35,765	35,765	(932)	34,833
Total comprehensive profit.			242	34,876	35,118	(819)	34,299
Dividend to owners.....				(12,141)	(12,141)	(1,138)	(13,279)
Revaluation transferred							
to other equity.....		(3,257)		3,257	0		0
Equity at June 30, 2016.....	586,512	179,295	(42,602)	1,102,217	1,825,422	112,231	1,937,653

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

Statement of Cash Flows January 1 to June 30, 2016

	2016	2015
	1.1.-30.6.	1.1.-30.6.
Operating activities		
Operating profit	96,736	111,861
Depreciation and impairment loss	58,471	57,399
Pension obligation, change	(672)	(437)
Obligation due to demolition, change	447	172
Other changes	(50)	(152)
Working capital from operation before financial items	154,932	168,843
Operating assets, change	2,211	5,462
Operating liabilities, change	1,235	4,374
Cash flow from operating activities before financial items	158,378	178,679
Interest income received	1,238	2,067
Interest expense and foreign exchange difference paid	(33,804)	(34,294)
Taxes paid	(1,971)	(24)
Cash flow from operating activities	<u>123,841</u>	<u>146,428</u>
Investing activities		
Power stations in operation	(4,474)	(4,043)
Transmission	(12,085)	(7,003)
Power plant preparation cost	(3,182)	(4,053)
Power stations under construction	(27,602)	(6,516)
Purchased shares	(106)	(96)
Received dividend from associated companies	12	82
Other investments	(4,800)	(2,251)
Assets sold	108	106
Other receivables, change	997	2,000
Investing activities	<u>(51,132)</u>	<u>(21,774)</u>
Financing activities		
Dividend paid to owners	(7,209)	(5,514)
New loans	52,141	30,000
Currency swaps	1,080	0
Prepaid income, change	165	124
Amortisation of long-term debt	(149,467)	(173,035)
Financing activities	<u>(103,290)</u>	<u>(148,425)</u>
Change in cash and cash equivalents	(30,581)	(23,771)
Effect of exchange difference on cash and cash equivalents	1,654	(1,227)
Cash and cash equivalents at the beginning of the year	<u>142,127</u>	<u>207,070</u>
Cash and cash equivalents at the end of the period	<u><u>113,200</u></u>	<u><u>182,072</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 condensed interim financial statements include the consolidated financial statements of the Company and its subsidiaries.

2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31, 2015.

3. Significant accounting policies

The condensed interim financial statements are prepared using the same accounting policies as for the year 2015 except that the Group has adopted new International Accounting Standards, as adopted by the EU, for the accounting period beginning January 1, 2016, changes to the standards and new interpretations. It is 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 2015 can be found on its website www.landsvirkjun.com and the website of NASDAQ OMX Iceland; www.nasdaqomxnordic.com.

The interim financial statements are presented in USD, which is the parent Company's functional currency. Amounts are presented in USD thousand unless otherwise stated.

4. Use of estimates and judgements

The preparation of interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

5. Segment information

Operating segments 1.1.-30.6.2016	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	174,425	31,735	767		206,927
Income within the Group	7,545	33,615	1,983	(43,143)	0
Segment income	181,970	65,350	2,750	(43,143)	206,927
Segment operating expenses	(68,893)	(24,145)	(1,825)	43,143	(51,720)
EBITDA	113,077	41,205	925		155,207
Depreciation and impairment loss	(44,172)	(14,042)	(475)	218	(58,471)
Segment earnings, EBIT	68,905	27,163	450	218	96,736
Segment assets 30.6.2016	3,967,374	796,832	19,409	(562,896)	4,220,719
Shares in associated companies	12,399	6,050	319	(6,050)	12,718
Total assets 30.6.2016	3,979,773	802,882	19,728	(568,946)	4,233,437
Segment liabilities 30.6.2016	2,134,688	484,675	4,047	(327,626)	2,295,784
Total liabilities 30.6.2016	2,134,688	484,675	4,047	(327,626)	2,295,784

Notes, contd.:

5. Segment information, contd.:

Operating segments 1.1.-30.6.2015	Electricity production	Electricity transmission	Other segments	Adjustments	Total
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 31.12.2015	4,011,643	788,999	17,924	(547,264)	4,271,302
Shares in associated companies	13,072	5,610	329	(5,610)	13,401
Total assets 31.12.2015	4,024,715	794,609	18,253	(552,874)	4,284,703
Segment liabilities 31.12.2015	2,203,621	470,852	3,701	(310,105)	2,368,069
Total liabilities 31.12.2015	2,203,621	470,852	3,701	(310,105)	2,368,069

6. Financial income and (expenses)

	2016	2015
	1.1.-30.6.	1.1.-30.6.
Financial income and (expenses) are specified as follows:		
Interest income	1,404	2,015
Interest expense	(28,552)	(32,395)
Guarantee fee	(4,730)	(5,324)
Indexation	(2,821)	(3,864)
Capitalised finance cost	3,767	1,854
Total interest expense	(32,337)	(39,729)
Realised foreign exchange difference	(198)	6,952
Unrealised foreign exchange difference	(20,914)	34,130
Total foreign exchange difference	(21,112)	41,082
Fair value changes in embedded derivatives	14,391	(13,591)
Fair value changes in other derivatives	(2,908)	(3,475)
Financial income and (expenses)	(40,562)	(13,698)

7. Derivative financial instruments

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

	30.6.2016	31.12.2015
Assets:		
Embedded derivatives in electricity agreements	4,953	3,047
Aluminium hedges	3,242	6,722
Currency swaps	1,888	0
	10,083	9,769
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	5,357	2,915
Short-term component of derivative agreements	4,726	6,854
	10,083	9,769
Liabilities:		
Embedded derivatives in electricity sales agreements	42,775	55,261
Aluminium hedges	1,728	1,755
Currency swaps	11,912	14,929
Interest rate swaps	5,947	7,200
	62,362	79,145

Notes, contd.:

7. Derivative financial instruments, contd.

	30.6.2016	31.12.2015
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	38,928	67,044
Short-term component of derivative agreements	23,434	12,101
	62,362	79,145

8. Liabilities

Interest bearing long-term liabilities are specified as follows by currencies:

		30.6.2016		31.12.2015	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2016-2034	3.8%	246,855	3.8%	230,643
Liabilities in CHF	2016-2022	0.0%	36,026	0.0%	38,364
Liabilities in EUR	2016-2026	0.6%	527,230	0.6%	548,376
Liabilities in USD	2016-2035	2.6%	1,249,122	2.4%	1,310,155
			2,059,233		2,127,538
Current maturities of long-term liabilities			(364,257)		(236,982)
Total long-term liabilities			1,694,976		1,890,556

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

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

	30.6.2016
1.7.2016-30.6.2017	364,257
1.7.2017-31.12.2017	5,013
2018	325,318
2019	185,907
2020	282,335
2021	188,699
Later	707,704
	2,059,233

9. Comparison of fair value and book value of long term liabilities

	30.6.2016		31.12.2015	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	2,059,233	2,225,539	2,127,538	2,271,631

Fair value of other financial instruments is equal to book value.

Fair value of interest bearing liabilities is calculated by discounting the expected cash flows with the underlying currencies yield curve.

Interest rates are specified as follows:

	30.6.2016	31.12.2015
Interest bearing liabilities in USD	0,4-1,8%	0,3-2,5%
Interest bearing liabilities other than in USD	0,0-3,1%	0,0-2,8%

Notes, contd.:

10. Fair value classification

The table shows the level categorisation for items in the balance sheet recognised at fair value.

	Level 2	Level 3	Total
30.6.2016			
Embedded derivatives		(37,822)	(37,822)
Other derivatives	(15,711)	1,254	(14,457)
Revaluation of property, plant and equipment		271,063	271,063
Shares in other companies		138	138
	<u>(15,711)</u>	<u>234,633</u>	<u>218,922</u>
31.12.2015			
Embedded derivatives		(52,214)	(52,214)
Other derivatives	(17,162)		(17,162)
Revaluation of property, plant and equipment		276,846	276,846
Shares in other companies		128	128
	<u>(17,162)</u>	<u>224,760</u>	<u>207,598</u>