

# BASE PROSPECTUS



## LANDSVIRKJUN

*(incorporated with limited liability in Iceland)*

**U.S.\$1,000,000,000**

### **Euro Medium Term Note Programme**

Under this U.S.\$1,000,000,000 Euro Medium Term Note Programme (the **Programme**), Landsvirkjun (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".**

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the **Prospectus Act 2005**) to approve this document as a base prospectus. By approving this Base Prospectus the CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. Notes which are neither listed nor admitted to trading may also be issued under the Programme.

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The requirement to publish a prospectus under the Prospectus Directive (as defined under "*Important Information*" below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive. References in this Base Prospectus to **Exempt Notes** are to Notes for which no prospectus is required to be published

under the Prospectus Directive. The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will (other than in the case of Exempt Notes, as defined above) be set out in a final terms document (the **Final Terms**) which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the **Pricing Supplement**).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer has been rated BB by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. (**Standard & Poor's**). The Programme has been rated Ba1 by Moody's Investors Service Limited (**Moody's**) and BB+ by Standard & Poor's. Each of Moody's and Standard & Poor's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Moody's and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by either of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms (or Pricing Supplement, in the case of Exempt Notes) and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Arranger**

**Citigroup**

**Dealers**

**Barclays**

**Citigroup**

**J.P Morgan**

**SEB**

The date of this Base Prospectus is 18 December 2015.

## IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Notes other than Exempt Notes issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU ), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer confirms that the information sourced from the National Energy Authority (Orkustofnun) on page 76 of this Base Prospectus has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from the information published by National Energy Authority (Orkustofnun), no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated by reference in and form part of this Base Prospectus.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

## IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and Iceland) and Japan, see "*Subscription and Sale*".

This Base Prospectus has been prepared on a basis that would permit an offer of Notes to the public with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes to the public in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) must be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes to the public. Accordingly any person making or intending to make an offer of Notes to the public in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer to the public. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes to the public in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer to the public.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and

- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

### PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

- **U.S. dollars, U.S.\$ and \$** refer to United States dollars;
- **krónur, ISK and kr** refer to Icelandic Krónur;
- **Sterling** and **£** refer to pounds sterling; and
- **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In this Base Prospectus the following expressions bear the following meanings:

kV	=	kilovolt	=	1,000 volts
kW	=	kilowatt	=	1,000 watts
MW	=	megawatt	=	1,000 kW
kWh	=	kilowatthour	=	1,000 watthours
MWh	=	megawatthour	=	1,000 kWh
GWh	=	gigawatthour	=	1,000 MWh
TWh	=	terawatthour	=	1,000 GWh

## CONTENTS

Clause	Page
Overview of the Programme .....	7
Risk Factors .....	12
Documents incorporated by Reference.....	23
Form of the Notes .....	25
Applicable Pricing Supplement .....	38
Terms and Conditions of the Notes .....	49
Use of Proceeds .....	75
Description of the Issuer.....	76
Taxation.....	86
Subscription and Sale .....	90
General Information .....	93

## STABILISATION

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of Notes other than Exempt Notes and, if appropriate, a supplement to the Base Prospectus or a new Base Prospectus will be published.*

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC (the **Prospectus Regulation**).

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this Overview.

Issuer:	Landsvirkjun
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Euro Medium Term Note Programme
Arranger:	Citigroup Global Markets Limited
Dealers:	Barclays Bank PLC Citigroup Global Markets Limited J.P. Morgan Securities plc Skandinaviska Enskilda Banken AB and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus.

**Notes having a maturity of less than one year**

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Issuing and Principal Paying Agent:	Citibank, N.A, London Branch
Programme Size:	Up to U.S.\$1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed on either a syndicated or non-syndicated basis.
Currencies:	Notes may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or, in the case of Exempt Notes, a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in " <i>Form of the Notes</i> ".
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined:  (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or



- (b) on the basis of the reference rate set out in the applicable Final Terms (or, in the case of Exempt Notes, Pricing Supplement).

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Exempt Notes:

The Issuer may issue Exempt Notes which are Index Linked Notes, Dual Currency Notes, Partly Paid Notes or Notes redeemable in one or more instalments.

***Index Linked Notes:*** Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

***Dual Currency Notes:*** Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

***Partly Paid Notes:*** The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

***Notes redeemable in instalments:*** The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

The Issuer may agree with any Dealer that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.

Redemption:

The applicable Final Terms (or, in the case of Exempt Notes, the

applicable Pricing Supplement) will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in the case of Exempt Notes in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

Unless previously redeemed or purchased and cancelled, each Note which is not an Exempt Note will be redeemed by the Issuer at at least 100 per cent. of its nominal value on its scheduled maturity date.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions - Notes having a maturity of less than one year*" above.

No money-market instruments having a maturity of less than 12 months will be issued under the Programme in circumstances which would require a simplified prospectus to be approved under Part III or IV of the Prospectus Act 2005.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions - Notes having a maturity of less than one year*" above, and save that the minimum denomination of each Note (other than an Exempt Note) will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 7. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 3.

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 9.

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among

themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Rating:

The Issuer has been rated BB positive outlook by Standard & Poor's. The Programme has been rated Ba2 by Moody's and BB by Standard & Poor's. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes) and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Approval, listing and admission to trading:

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Notes issued under the Programme to be listed on the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

In the case of Notes other than Exempt Notes the applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading. In the case of Exempt Notes the applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges or markets.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Iceland) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".

United States Selling Restrictions:

Regulation S, Category 2. TEFRA C or D/TEFRA not applicable, as specified in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes).

## **RISK FACTORS**

*In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### **FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME**

#### ***State ownership and government control***

The Republic of Iceland is 99.9 per cent. owner of the Issuer and Eignarhlutir ehf., fully owned by The Republic of Iceland, is 0.1 per cent. owner of the Issuer. As such, Landsvirkjun's strategy, capital structure, the payments of dividends and level of retained profit may be directly and indirectly influenced by decisions of the government of The Republic of Iceland over which Landsvirkjun may have limited control. In particular, Landsvirkjun's actions and policies may be influenced by political imperatives. The minister of finance appoints all members of Landsvirkjun's Board of Directors.

There can be no assurance that the interests of the government of The Republic of Iceland, which is responsible for regulating, supervising and taxing activities in Iceland, will be aligned with those of Landsvirkjun. Political developments and considerations, therefore, have the ability to materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

#### **Competition and Regulation Risks**

##### ***The economic environment in which Landsvirkjun operates***

The ability of Landsvirkjun to maintain and grow its business and profit levels could be adversely affected by economic factors, such as a general economic downturn. In particular, a significant proportion of Landsvirkjun's operating revenues are derived from power sales agreements with aluminium smelters, the price of which may be linked to global aluminium prices or consumer price inflation. Although Landsvirkjun mitigates the risk of short and medium-term fluctuations in the global economy by entering into long-term "take or pay" contracts with these customers, a sustained long-term economic downturn which impacts the price of aluminium and the economic strength of Landsvirkjun's customers could result in lower business activity levels and/or lower profitability in Landsvirkjun's existing business.

In addition, changes in the regulatory environment and general economic conditions are long-term factors which may influence demand and available generation capacity, which in turn affects the long-term electricity price. A downward pressure on prices can be caused by excessive investment in generation relative to demand development. Demand development may deteriorate in relation to forecasts due to, for example, decreased industrial activity, and in the long-term there are no assurances that current price levels

can be sustained. Lower prices could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

### ***Landsvirkjun's business is subject to regulation and political oversight***

Political and regulatory developments affecting the energy market within which Landsvirkjun operates may materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition, and ability to meet long term growth aspirations. Landsvirkjun's business activities are carried on in Iceland and are subject to Icelandic legislation, in particular the Electricity Act no.65/2003 (the **Electricity Act**). In addition, Landsnet hf., a subsidiary of Landsvirkjun, operates the power transmission and power system management business in Iceland and is subject to regulation including Chapter III of the Electricity Act and oversight by the National Energy Authority (the **NEA**). In particular, the prices of electricity transmission tariffs in Iceland are regulated by the NEA and could be subject to penalties including fines or a revenue cap established by the NEA.

Legislators have the power to amend primary or secondary legislation and operating licences including changes to the fiscal regime. Regulatory bodies have the power to amend licences, conduct investigations into company operations, and issue fines and enforcement notices. Material increases in the regulated charges which Landsvirkjun pays for use of distribution, network price controls, and other infrastructure may also impact Landsvirkjun's margins, to the extent that any such increases cannot be passed on to its customers.

Despite measures taken by Landsvirkjun, there can be no assurances that a regulatory or compliance breach will not occur which could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

### **Operational/Compliance Risks**

#### ***Operational risks***

Landsvirkjun faces the risk of losses or reputational damage due to human error, fraud, external events or inadequate internal processes across all its operations, including its treasury operations. Any losses which may arise as a result of human error, fraud, external events or inadequate internal processes affecting Landsvirkjun's treasury operations could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

In the transmission business, these risks may lead to power cuts, and in general, to deterioration in the required quality of supply. These may, in turn, lead to administrative actions or sanctions, with the consequent impact on Landsvirkjun's finances and reputation.

#### ***Interruptions to information systems***

Effective and secure information systems are essential for the efficient management and accurate billing of Landsvirkjun's customers, effective power generation, and successful hedging activities. The confidentiality, integrity, and availability of Landsvirkjun's information systems could be affected by a number of factors, including human error, ineffective design or operation of key controls, malfunction, damage, or deliberate attack. There can be no certainty that recovery plans and contingency plans will be effective in all possible scenarios. Outages and interruptions could affect Landsvirkjun's ability to conduct day-to-day operations.

Landsvirkjun must comply with restrictions on the use of customer data, and provide for secure transmission of confidential information to ensure the security of financial and personal data passing over public networks. Landsvirkjun has prepared a risk assessment for its information systems and systematic processes are employed to minimise risks. Landsvirkjun has an IT-recovery and contingency plan in effect and an off-site back-up system in Iceland. Landsvirkjun's Information System Division, which is responsible for the

operation of the principal information systems of Landsvirkjun and certain associated companies, has fulfilled requirements for certification in accordance with the ISO 27001 standard, information security management systems. Significant disruption to systems and any compromise of confidential information could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition. There can be no assurance that Landsvirkjun's controls ensure the confidentiality, integrity and availability of customer and company data. Landsvirkjun may breach restrictions or may be subject to attack from computer programs that attempt to penetrate its network security and misappropriate confidential information. Due to continual advancement of these programmes, computing capabilities and other developments, there is no guarantee that Landsvirkjun's security measures will be sufficient to prevent all possible breaches.

### ***Environmental, health and safety risks***

Many of Landsvirkjun's activities could potentially have a significant environmental impact and are regulated in the European Economic Area (EEA) under the integrated pollution prevention and control framework and under other national Icelandic and EU legislation. Regular compliance audits are a feature of this system. Increased costs of environmental regulatory compliance could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

Significant environmental and health and safety events could affect the safety of individuals and result in precautionary closures, the suspension of activities or the breach of applicable environmental and health and safety regulations. Such events might lead to litigation and other liabilities or a reduction in power production or service which, in turn, could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

### ***Hazard risk***

Landsvirkjun's facilities may be exposed to the effects of natural disasters and, potentially, catastrophic events, such as a major accident or incident in an electricity generation plant. Although constructed, operated and maintained to withstand certain occurrences, Landsvirkjun's facilities may not do so in all circumstances. This risk is heightened by the concentration of all of Landsvirkjun's assets in one country.

### ***Functioning of the power system***

Major disturbance or power shortages in the Icelandic power systems could occur due to a range of factors including severe and simultaneous faults in the grid, malfunctioning of the network control system, adverse weather conditions, human error, inadequate production capacity, or an external incident, any of which could prevent the operation of the power system in whole or partially.

Although Landsvirkjun is prepared for these situations with various reserves, operational codes, manuals and emergency provisions, a disturbance could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

### ***Compliance with laws and regulations***

The management of Landsvirkjun's operational assets is subject to various environmental, health and safety, economic and competition laws and regulations governing, among other things: (a) the generation, storage, handling, release, use, disposal, and transportation of hazardous materials; (b) the emission and discharge of hazardous materials into the ground, air or water; (c) decommissioning and decontamination of its facilities; (d) the health and safety of the public and its employees; and (e) trading activities. Changes to these regulations could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

Environmental and safety permits are required to be obtained from various governmental authorities in order to manage Landsvirkjun's operational assets. Certain permits require periodic renewal or review of their conditions, and it cannot be predicted whether it will be possible to renew such permits or whether material changes in permit conditions will be imposed. While the nature of developments in environmental regulation and control cannot be predicted, it is anticipated that the direction of future changes will be towards stricter controls.

Landsvirkjun owns and operates some of the key energy infrastructure and services in Iceland. Its ownership of such infrastructure and/or its position in some of the markets in which it operates may result in Landsvirkjun being required to comply with competition law. In addition, although it is exempted from most Icelandic public procurement requirements, Landsvirkjun is subject to certain public procurement law requirements. For example, it must comply with provisions regarding the Icelandic Complaint Committee for Public Procurement. Landsvirkjun is also subject to the procurement law and the provisions of the European Utilities Directive (2004/17/EC).

Whilst Landsvirkjun has policies and procedures in place which seek to ensure compliance with the relevant competition and procurement legislation, any failure by Landsvirkjun to comply with relevant law and/or delays to construction could result in penalties being imposed. The imposition of any such penalties could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

#### ***Insurance risks***

Landsvirkjun seeks to maintain insurance cover on all its key property in the international insurance market. No assurance can be given that the insurance cover acquired by Landsvirkjun provides adequate or sufficient cover for all events or incidents. The international insurance market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable premiums. Failure to maintain insurance could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

#### **Financial Risks**

##### ***Foreign exchange risks***

Landsvirkjun's financial statements are reported in U.S. dollars and its income is principally denominated in U.S. dollars. Landsvirkjun is therefore exposed to foreign exchange risks where its cash flows, financial assets, liabilities and transactions are in currencies other than U.S. dollars.

Landsvirkjun's policy is to hedge major exposures (foreign exchange exposures relating to contracted cash flows and balance sheet items where changes in exchange rates will have an impact on earnings and cash flow) to avoid the effect of exchange differences in the profit and loss statement. Adverse movements in foreign exchange rates could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

##### ***Aluminium price risk***

A significant proportion of Landsvirkjun's income is derived from power sales agreements with aluminium smelters under which amounts payable to the Issuer are linked to the price of aluminium. Landsvirkjun has thus entered into derivative agreements in order to secure its income base and reduce fluctuations. Generally such agreements consist of fixing aluminium prices at a certain level. The Issuer could, therefore, potentially lose income if aluminium price increases considerably. However, the Issuer's cash flow is partially fixed in circumstances where the market price of aluminium decreases. In addition, International Financial Reporting Standards require the Issuer to account for the link to aluminium prices in its power sales agreements as embedded derivatives. Accordingly, changes in the fair market value of such embedded derivatives are recognised in the Issuer's income state whether or not such changes are realised. A decrease in the market

price of aluminium will therefore have a negative impact on the fair value of the company's embedded derivatives. Increases or decreases in the market price of aluminium may therefore have a significant impact on the Issuer's financial condition and, in particular, its profit or loss.

Market prices of aluminium are volatile and have fallen significantly in the last few years. No assurance can be given that the price will not decrease further or return to previous levels.

Although its hedging strategies are intended to reduce risk, there can be no assurance that Landsvirkjun will not be negatively impacted by changes in the price of aluminium. Volatility in aluminium prices could significantly and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

### ***Credit risk***

Landsvirkjun's business operations lead to contractual arrangements with customers, financing partners, trading counterparts and other counterparties which expose Landsvirkjun to counterparty risks.

Credit risk exposure relating to financial derivative instruments is often volatile. Swaps and derivatives, as well as other counterparty exposures relating to treasury activities, are limited to banks and financial institutions. Landsvirkjun directly enters into over the counter transaction contracts with counterparties which are active in financial and commodity markets.

A significant proportion of Landsvirkjun's revenues are derived from three counterparties involved in smelting aluminium. Landsvirkjun maintains procedures for performing credit checks before entering into contractual agreements and for managing credit exposures in existing contracts. Exposures are monitored in relation to limits and counterparties creditworthiness in order to ensure that the risks are at an acceptable level. However, there are no assurances that Landsvirkjun will not sustain losses as a result of default, litigation or other actions by one or more of its counterparties. Should this occur, it may materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

### ***Liquidity and refinancing risks***

Liquidity risk is the risk that Landsvirkjun does not have sufficient funds available at all times to meet its contractual and contingent cash flow obligations. Landsvirkjun manages these risks through a combination of cash positions and committed credit facility agreements. Capital investments in new projects are generally funded by a combination of retained profit, international and domestic funding and via export credit.

Landsvirkjun maintains a diversified financing structure in terms of its debt maturity profile and access to debt instruments. Credit rating agencies assess Landsvirkjun's business and publish credit ratings. A lowering of credit ratings could raise the financing costs of possible new funding, which could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition. Furthermore, there are no assurances that possible adverse changes in business cycles or other factors would not result in renegotiation of financing or the need for further financing, which in turn may materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition. Rating agencies regularly evaluate Landsvirkjun and their ratings of its long-term debt are based on a number of factors, such as cash flow, leverage, capital structure, commodity prices, competitive environment and the likelihood of government support. In addition, rating agencies may at any time revise their rating methodology with the result that, amongst other things, any rating assigned to Landsvirkjun may be lowered. A downgrade or potential downgrade of the sovereign rating of The Republic of Iceland or a change in rating agency methodologies relating to the likelihood of support provided by The Republic of Iceland could also negatively affect the perception by rating agencies of Landsvirkjun's rating. There can be no assurance that rating agencies will maintain Landsvirkjun's current ratings or outlooks or those of The Republic of Iceland.



### ***Interest rate risk***

Landsvirkjun faces interest rate risks as it has interest bearing assets and liabilities. Landsvirkjun's liabilities carry both fixed and floating interest rates. Interest bearing financial liabilities are greater than interest bearing financial assets and Landsvirkjun is subject to possible interest rate increases and expenses relating to such interest rate increases. In addition, a significant part of Landsvirkjun's indebtedness bears a floating interest rate and therefore the Issuer benefits from the currently low interest rate environment.

Landsvirkjun hedges interest rate risks using derivative financial instruments, such as interest rate swaps, to manage interest rate risk on long-term borrowings. To the extent that any of Landsvirkjun's interest rate exposure remains unhedged, adverse movements in interest rates could materially and adversely affect Landsvirkjun's operating results, cash flows and financial condition.

## **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME**

### **Risks related to the structure of a particular issue of Notes**

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Notes and those which might occur in relation to certain types of Exempt Notes:

#### ***Risks applicable to all Notes***

*If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.*

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.*

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

*Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.*

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

### ***Risks applicable to certain types of Exempt Notes***

*There are particular risks associated with an investment in certain types of Exempt Notes, such as Index Linked Notes and Dual Currency Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

*Where Notes are issued on a partly paid basis, an investor who fails to pay any subsequent instalment of the issue price could lose all of his investment.*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of his Notes could result in such investor losing all of his investment.

*Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

*Inverse Floating Rate Notes will have more volatile market values than conventional Floating Rate Notes.*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### **Risks related to Notes generally**

Set out below is a description of material risks relating to the Notes generally:

***The conditions of the Notes contain provisions which may permit their modification without the consent of all investors.***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

***The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.***

*Withholding under the EU Savings Directive.*

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative

Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

#### *U.S. Foreign Account Tax Compliance Act Withholding*

Whilst the Notes are in global form and held within Euroclear Bank SA/NV or Clearstream Banking, *société anonyme* (together the ICSDs), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (FATCA) will affect the amount of any payment received by the ICSDs (see "*Taxation – Foreign Account Tax Compliance Act*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has made payment to, or to the order of, the common depositary or common safekeeper for the ICSDs (as bearer of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an IGA) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

#### ***The value of the Notes could be adversely affected by a change in English law or administrative practice.***

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

#### ***Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued.***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding

amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **Risks related to the market generally**

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes***

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

***If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.***

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

*Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes.*

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which are published simultaneously with this Base Prospectus and have been filed with the CSSF shall be incorporated by reference in, and form part of, this Base Prospectus:

- (a) the auditors' report and audited consolidated annual financial statements for the financial years ended 31 December 2013 and 31 December 2014 of the Issuer including the information set out at the following pages in particular:

### Cross Reference List

<i>Financial Statements</i>	Year ended 31 December 2013	Year ended 31 December 2014
Endorsement by the Board of Directors and CEO	Page 5	Page 5
Independent Auditors' Report	Page 7	Page 7
Income Statement	Page 8	Page 8
Balance Sheet	Page 10	Page 10
Statement of Equity	Page 11	Page 11
Statement of Cash Flows	Page 12	Page 12
Notes	Pages 13-39	Pages 13-40

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Prospectus Regulation.

- (b) the unaudited consolidated condensed interim financial statements for the six months ended 30 June 2015 of the Issuer including the information set out at the following pages in particular:

### Cross Reference List

<i>Financial Statements</i>	Six months ended 30 June 2015
Income Statement	Page 6
Balance Sheet	Page 8
Statement of Equity	Page 9
Statement of Cash Flows	Page 10
Notes	Pages 11-20

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Prospectus Regulation.

Following the publication of this Base Prospectus, the Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus (to be approved by the CSSF in accordance with Article 16 of the Prospectus Directive) or publish a new Base Prospectus for use in connection with any subsequent issue of Notes. Statements contained in any such supplement (or contained

in any document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and are available for inspection at the specified offices of the Paying Agents for the time being in London and Luxembourg. Each document incorporated by reference and any supplements to this Base Prospectus circulated by the Issuer from time to time will be published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).



## FORM OF THE NOTES

*Any reference in this section to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.*

Each Tranche of Notes will be in bearer form and will initially be issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Global Note**) which, in either case, will:

- (a) if the Global Notes are intended to be issued in new global note (NGN) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**); and
- (b) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes (other than Temporary Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms or Pricing Supplement, as the case may be:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of

account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 26 July 2013 and executed by the Issuer.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, other than where such Notes are Exempt Notes, a supplement to the Base Prospectus or a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

## APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes and which have a denomination of €100,000 (or its equivalent in any other currency) or more issued under the Programme.

[Date]

### Landsvirkjun

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the U.S.\$1,000,000,000  
Euro Medium Term Note Programme

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 18 December 2015 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Luxembourg Stock Exchange's website (www.bourse.lu).

*[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
(c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with the [Series [●] Tranche [●] Notes due [●] issued on [●]] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 21 below, which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency or Currencies: [ ]  
(Condition 1)
3. Aggregate Nominal Amount:  
(a) Series: [ ]  
(b) Tranche: [ ]

4. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
5. (a) Specified Denominations: [ ]  
(Condition 1)
- (N.B. Notes must have a minimum denomination of EUR 100,000 (or equivalent))*
- (Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:*
- "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")*
- (b) Calculation Amount: [ ]  
*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
6. (a) Issue Date: [ ]  
(b) Interest Commencement Date: [specify/Issue Date/Not Applicable]  
(Condition 4.1)
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
7. Maturity Date: [Specify date or for Floating rate notes- Interest Payment Date falling in or nearest to [specify month and year]]  
(Condition 6.1)
8. Interest Basis: [[ ] per cent. Fixed Rate]  
[[[ ] month [LIBOR/EURIBOR/NIBOR/CHF LIBOR]] +/- [ ] per cent. Floating Rate]  
[Zero coupon]  
(see paragraph 13/14/15 below)
9. Redemption Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] [ ]<sup>1</sup> per cent. of their nominal amount  
(Condition 6.1)
10. Change of Interest Basis: [Specify the date when any fixed to floating rate change

<sup>1</sup> The Notes will be redeemed at an amount equal to, or higher than, 100 per cent. of their nominal value.

*occurs or cross refer to paragraphs 13 and 14 below and identify there*][Not Applicable]

11. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(see paragraph 17/18/ below)]

12.

[Date [Board] approval for issuance of Notes obtained: [ ]  
(*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)

### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date  
(Condition 4.1)
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date  
*(Amend appropriately in the case of irregular coupons)*
- (c) Fixed Coupon Amount(s): [ ] per Calculation Amount  
*(Applicable to Notes in definitive form.)*
- (d) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]  
*(Applicable to Notes in definitive form.)*
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]  
(Condition 4.1)
- (f) Determination Date(s): [[ ] in each year][Not Applicable]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
14. Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ][, subject to adjustment in accordance with the Business Day Convention set out in (b) below /, not subject to adjustment, as the Business Day Convention

in (b) below is specified to be Not Applicable]

- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]  
(Condition 4.2(a))
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]  
(Condition 4.2(b))
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (f) Screen Rate Determination:  
(Condition 4.2(b)(ii))
- Reference Rate: [ ] month [LIBOR/EURIBOR/NIBOR/CHF LIBOR]  
(Condition 4.2(b)(ii))
  - Interest Determination Date(s): [ ]  
(Condition 4.2(b)(ii)) *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
  - Relevant Screen Page: [ ]  
(Condition 4.2(b)(ii)) *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (g) ISDA Determination:  
(Condition 4.2(b)(i))
- Floating Rate Option: [ ]  
(Condition 4.2(b)(i)(A))
  - Designated Maturity: [ ]  
(Condition 4.2(b)(i)(B))
  - Reset Date: [ ]  
(Condition 4.2(b)(i)(C)) *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*

- (h) Margin(s): [ +/- ] [ ] per cent. per annum  
(Condition 4.2(b))
- (i) Minimum Rate of Interest: [ ] per cent. per annum  
(Condition 4.2(c))
- (j) Maximum Rate of Interest: [ ] per cent. per annum  
(Condition 4.2(c))
- (k) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond Basis]  
30E/360 (ISDA)]  
(Condition 4.2(d))

15. Zero Coupon Note Provisions [Applicable/Not Applicable]  
(Condition 6) *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [ ] per cent. per annum
  - (b) Reference Price: [ ]
  - (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]  
[Actual/365]

#### PROVISIONS RELATING TO REDEMPTION

16. Notice periods for Condition 6.2: Minimum period: [30] days  
Maximum period: [60] days
17. Issuer Call: [Applicable/Not Applicable]  
(Condition 6.3) *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
  - (b) Optional Redemption Amount: [[ ] per Calculation Amount]  
  
*[Set out appropriate variable details in this pro forma, for example reference obligation]*
  - (c) If redeemable in part:
    - (i) Minimum Redemption Amount: [ ]
    - (ii) Maximum Redemption [ ]



Amount:

(d) Notice periods: Minimum period: [15] days  
Maximum period: [30] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

18. Investor Put: [Applicable/Not Applicable]  
(Condition 6.4) *(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a) Optional Redemption Date(s): [ ]

(b) Optional Redemption Amount: [ ] per Calculation Amount  
*(NB: If the Optional Redemption Amount is other than a specified amount per Calculation Amount, the Notes will need to be Exempt Notes)*

(c) Notice periods: Minimum period: [15] days  
Maximum period: [30] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

19. Final Redemption Amount: [ ] per Calculation Amount

(Condition 6)

20. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [ ] per Calculation Amount  
*(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)*

(Condition 6)

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes:

(a) Form [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]

*(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*

(b) New Global Note: [Yes][No]

22. Additional Financial Centre(s): [Not Applicable/give details]  
*(Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 14(c) relates)*

23. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

**THIRD PARTY INFORMATION**

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of Landsvirkjun:

By: .....

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

(a) Listing and Admission to trading [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of the Luxembourg Stock Exchange and listed on the Official List of the Luxembourg Stock Exchange with effect from [ ].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of the Luxembourg Stock Exchange and listed on the Official List of the Luxembourg Stock Exchange with effect from [ ].]

[Not Applicable]

(b) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings:

[The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

[insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].

Each of [defined terms] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).

[Not Applicable]

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - *Amend as appropriate if there are other interests*]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

#### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(a) Reasons for the offer [ ]

[(b) Estimated net proceeds: [ ]

[(c) Estimated total expenses: [ ]

#### 5. YIELD (Fixed Rate Notes only)

Indication of yield: [ ]

#### 6. OPERATIONAL INFORMATION

(a) ISIN Code: [ ]

(b) Common Code: [ ]

(c) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s), address(es) and number(s)]

(d) Delivery: Delivery [against/free of] payment

(e) Names and addresses of additional Paying Agent(s) (if any): [ ]

(f) Deemed delivery of clearing system notices for the purposes of Condition 13: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

(g) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem

eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 7. DISTRIBUTION

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable/*give names*]
- (c) Date of [Subscription] Agreement: [ ]
- (d) Stabilisation Manager(s) (if any): [Not Applicable/*give name*]
- (e) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (f) U.S. Selling Restrictions: [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable]

## APPLICABLE PRICING SUPPLEMENT

### EXEMPT NOTES OF ANY DENOMINATION

*Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, whatever the denomination of those Notes, issued under the Programme.*

**NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.**

[Date]

### Landsvirkjun

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the U.S.\$  
**Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated 18 December 2015 [as supplemented by the supplement[s] dated [date[s]]] (the **Base Prospectus**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus may be obtained from KBL European Private Bankers S.A at 43 Boulevard Royal, L-2955 Luxembourg.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus.

*[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. (a) Issuer: [ ]
2. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
(c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for

interests in the Permanent Global Note, as referred to in paragraph 24 below, which is expected to occur on or about [date]][Not Applicable]

3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:
- (a) Series: [ ]
- (b) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. (a) Specified Denominations: [ ]
- (b) Calculation Amount: [ ]  
*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]  
*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Specify date or for Floating rate notes - Interest Payment Date falling in or nearest to [specify month and year]]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[specify Reference Rate] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
[specify other]  
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]  
[specify other]
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis][Not Applicable]

12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. (a) Status of the Notes: Senior
- (b) [Date [Board] approval for [ ]  
issuance of Notes obtained: (N.B. Only relevant where Board (or similar)  
authorisation is required for the particular tranche of  
Notes)

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. Fixed Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs  
of this paragraph)
- (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each  
Interest Payment Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity  
Date  
(Amend appropriately in the case of irregular coupons)
- (c) Fixed Coupon Amount(s): [ ] per Calculation Amount  
(Applicable to Notes in definitive  
form.)
- (d) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest  
(Applicable to Notes in definitive Payment Date falling [in/on] [ ]][Not Applicable]  
form.)
- (e) Day Count Fraction: [30/360/Actual/Actual (ICMA)/specify other]
- (f) Determination Date(s): [[ ] in each year][Not Applicable]  
(Only relevant where Day Count Fraction is  
Actual/Actual (ICMA). In such a case, insert regular  
interest payment dates, ignoring issue date or maturity  
date in the case of a long or short first or last coupon]
- (g) Other terms relating to the [None/Give details]  
method of calculating interest for  
Fixed Rate Notes which are  
Exempt Notes:
15. Floating Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs  
of this paragraph)
- (a) Specified Period(s)/Specified [ ][, subject to adjustment in accordance with the  
Interest Payment Dates: Business Day Convention set out in (b) below /, not  
subject to adjustment, as the Business Day Convention



in (b) below is specified to be Not Applicable]

- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[specify other]][Not Applicable]
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (f) Screen Rate Determination:
- Reference Rate: Reference Rate: [ ] month [LIBOR/EURIBOR/NIBOR/CHF LIBOR/specify other Reference Rate].  
(Either LIBOR, EURIBOR, NIBOR, CHF LIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement.)
  - Interest Determination Date(s): [ ]  
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
  - Relevant Screen Page: [ ]  
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]  
(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
- (h) Margin(s): [+/-] [ ] per cent. per annum
- (i) Minimum Rate of Interest: [ ] per cent. per annum

- (j) Maximum Rate of Interest: [ ] per cent. per annum
- (k) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond Basis]  
30E/360 (ISDA)  
*Other*]
- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes which are Exempt Notes, if different from those set out in the Conditions: [ ]
16. Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Any other formula/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes: [ ]
- (d) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]  
[Actual/365]
17. Index Linked Interest Note [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent [give name]
- (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [ ]

- (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (e) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (f) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (g) Additional Business Centre(s): [ ]
- (h) Minimum Rate of Interest: [ ] per cent. per annum
- (i) Maximum Rate of Interest: [ ] per cent. per annum
- (j) Day Count Fraction: [ ]
18. Dual Currency Interest Note Provisions *[Applicable/Not Applicable]*  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: *[give or annex details]*
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [ ]
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Person at whose option Specified Currency(ies) is/are payable: [ ]

**PROVISIONS RELATING TO REDEMPTION**

19. Notice periods for Condition 6.2: Minimum period: [30] days  
Maximum period: [60] days

20. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (d) Notice periods: Minimum period: [15] days  
Maximum period: [30] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (c) Notice periods: Minimum period: [15] days  
Maximum period: [30] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
22. Final Redemption Amount: [[ ] per Calculation Amount/specify other/see Appendix]

23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required):
- [[ ] per Calculation Amount/specify other/see Appendix]  
*(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)*

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:
- (a) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]
- (b) New Global Note: [Yes][No]
25. Additional Financial Centre(s): [Not Applicable/give details]  
*(Note that this paragraph relates to the date of payment and not the end date of Interest Periods for the purposes of calculating the amount of interest to which sub-paragraphs 15(c) and 17(g) relate)*
26. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment. [Not Applicable/give details. *N.B. A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28. Details relating to Instalment Notes: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Instalment Amount(s): [give details]
- (b) Instalment Date(s): [give details]

29. Other terms or special conditions: [Not Applicable/*give details*]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Landsvirkjun:

By: .....

*Duly authorised*

## PART B – OTHER INFORMATION

1. **LISTING** [Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Notes to be listed on [specify market - note this must not be a regulated market] with effect from [ ].][Not Applicable]
2. **RATINGS**
- Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)]]
- (The above disclosure is only required if the ratings of the Notes are different to those stated in the Base Prospectus)*
3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**
- [Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - Amend as appropriate if there are other interests]
4. **OPERATIONAL INFORMATION**
- (a) ISIN: [ ]
- (b) Common Code: [ ]
- (c) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (d) Delivery: Delivery [against/free of] payment
- (e) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (f) Deemed delivery of clearing system notices for the purposes of Condition 13: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

- (g) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 5. DISTRIBUTION

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable/*give names*]
- (c) Stabilisation Manager(s) (if any): [Not Applicable/*give name*]
- (d) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (e) U.S. Selling Restrictions: Reg. S Compliance Category 2; [TEFRA D/TEFRA C/TEFRA not applicable]
- (f) Additional selling restrictions: [Not Applicable/*give details*]

*(Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes)*



## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Landsvirkjun (Iceland) (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 4 December 2014 and made between the Issuer, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

References to the **applicable Final Terms** are, unless otherwise stated, to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. Any reference in the Conditions to **applicable Final Terms** shall be deemed to include a reference to **applicable Pricing Supplement** where relevant. The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which complete these Terms and Conditions (the **Conditions**) or, if this Note is a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an **Exempt Note**), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note.

Interest bearing definitive Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Exempt Notes in definitive form which are repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than

the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the **Deed of Covenant**) dated 26 July 2013 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Agent and the other Paying Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

## **1. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

If this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

If this Note is an Exempt Note, this Note may also be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

## **2. STATUS OF THE NOTES**

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

## **3. NEGATIVE PLEDGE**

So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not, and will procure that none of its Subsidiaries (as defined in the Agency Agreement) shall, create or permit to be outstanding, any mortgage, lien (other than solely by operation of law), charge,

pledge or other security interest upon the whole or any part of its undertaking or assets, present or future, to secure any liability (including any contingent liability) in respect of any Relevant Indebtedness without at the same time according to the Notes either the same security as is granted to or is outstanding in respect of such liability or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders. **Relevant Indebtedness** means any present or future indebtedness in respect of bonds, notes, debentures, loan stock or other securities which are, or are capable of being, quoted, listed or ordinarily traded on any stock exchange, automated trading system, over-the-counter or other securities market.

#### 4. INTEREST

##### 4.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

- (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
  - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.
- (c) In the Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

## 4.2 Interest on Floating Rate Notes

### (a) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Business Centre specified in the applicable Final Terms; and
- (ii) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

- (i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR, CHF LIBOR or NIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. London time in the case of LIBOR or CHF LIBOR, 11.00am Brussels time in the case of EURIBOR or 12:00 noon Oslo time in the case of NIBOR on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (A) above, no offered quotation appears or, in the case of (B) above, fewer than three offered quotations appear, in each case as at the time specified in the preceding paragraph, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a

percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR or CHF LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Oslo inter-bank market (if the Reference Rate is NIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR or CHF LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Oslo inter-bank market (if the Reference Rate is NIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR, EURIBOR, CHF LIBOR or NIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

In the Conditions:

**Reference Banks** means, in the case of a determination of LIBOR or CHF LIBOR, the principal London office of four major banks in the London inter-bank market or, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, or, in the case of a determination of NIBOR, the principal Oslo office of four major banks in the Oslo inter-bank market. in each case selected by the Agent; and



**Specified Time** means 11.00 a.m. London time in the case of a determination of LIBOR or CHF LIBOR, 11.00 a.m. Brussels time, in the case of a determination of EURIBOR or 12.00 noon Oslo time in the case of a determination of NIBOR.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2:

- (i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

- (iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

(e) **Notification of Rate of Interest and Interest Amounts**

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 by the

Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### **4.3 Exempt Notes**

The rate or amount of interest payable in respect of Exempt Notes which are not also Fixed Rate Notes or Floating Rate Notes shall be determined in the manner specified in the applicable Pricing Supplement, provided that where such Notes are Index Linked Interest Notes the provisions of Condition 4.2 shall, save to the extent amended in the applicable Pricing Supplement, apply as if the references therein to Floating Rate Notes and to the Agent were references to Index Linked Interest Notes and the Calculation Agent, respectively, and provided further that the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

### **4.4 Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 13.

## **5. PAYMENTS**

### **5.1 Method of payment**

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

## 5.2 Payments subject to fiscal and other laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto.

## 5.3 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below) and save as provided in Condition 5.5) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

#### **5.4 Payments in respect of Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States (which term, as used herein, means the United States of America and its possessions). A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

#### **5.5 Specific provisions in relation to payments in respect of certain types of Exempt Notes**

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Upon the date on which any Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

#### **5.6 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

## 5.7 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 8) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## 5.8 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Exempt Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

## **6. REDEMPTION AND PURCHASE**

### **6.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount (which may be par or such other fixed amount as agreed by the Issuer with the relevant Dealer(s)) specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

### **6.2 Redemption for tax reasons**

Subject to Condition 6.5, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **6.3 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal



amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption.

#### **6.4 Redemption at the option of the Noteholders (Investor Put)**

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 6.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.4 and instead to declare such Note forthwith due and payable pursuant to Condition 9.

## 6.5 Early Redemption Amounts

For the purpose of Condition 6.2 above and Condition 9, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

$y$  is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365)

## 6.6 Specific redemption provisions applicable to certain types of Exempt Notes

The Final Redemption Amount, any Optional Redemption Amount and the Early Redemption Amount in respect of Index Linked Redemption Notes and Dual Currency Redemption Notes may be specified in, or determined in the manner specified in, the applicable Pricing Supplement. For the purposes of Condition 6.2, Index Linked Interest Notes and Dual Currency Interest Notes may be redeemed only on an Interest Payment Date.

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined in the manner specified in the applicable Pricing Supplement.

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

## **6.7 Purchases**

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

## **6.8 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6.7 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

## **6.9 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1, 6.2, 6.3 or 6.4 above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 13.

## **7. TAXATION**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) the holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on

presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5.7); or

- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Republic of Iceland or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

## 8. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5.3 or any Talon which would be void pursuant to Condition 5.3.

## 9. EVENTS OF DEFAULT

### 9.1 Events of Default

If any one or more of the following events (each an **Event of Default**) shall occur:

- (a) if default is made in the payment of any principal, premium (if any) or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal or premium (if any) and 15 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if any present or future Indebtedness of the Issuer or any of its Material Subsidiaries (as defined below) becomes due and repayable prior to the stated maturity thereof by reason of an event of default (however described) or if the Issuer or any of its Material Subsidiaries

defaults in the repayment of any such Indebtedness, upon the maturity thereof or within any grace period originally applicable thereto (or in the case of any such Indebtedness, defaults in the payment thereof on demand) or if any guarantee or indemnity given by the Issuer or any of its Material Subsidiaries in respect of any Indebtedness of any person is not honoured when due and called upon or a general moratorium shall be declared by the Issuer or any of its Material Subsidiaries on the repayment of any Indebtedness, provided that no such event shall constitute an Event of Default unless the relevant Indebtedness either (a) alone, shall amount to at least U.S.\$15,000,000 (or its equivalent in any other currency), or (b) when aggregated with other Indebtedness or Indebtedness guaranteed by the same party in respect of all (if any) other such events which shall have occurred shall amount to at least U.S.\$25,000,000 (or its equivalent in any other currency); or

- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of Noteholders or for the purposes of a change in the Issuer's corporate status from a partnership to a limited company pursuant to an applicable law; or
- (e) if the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business save for the purposes of (a) a Permitted Reorganisation (as defined below) or (b) a change in the Issuer's corporate status from a partnership to a limited company pursuant to an applicable law or (c) where such cessation results from a sale by the Issuer of all or a part of its shareholding in Landsnet hf. to the Republic of Iceland or to one or more municipalities of the Republic of Iceland pursuant to and in compliance with the Electricity Act No.65/2003 as may be amended or replaced from time to time, or the Issuer or any of its Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if, other than for the purposes of a change in the Issuer's corporate status from a partnership to a limited company pursuant to an applicable law, (A) proceedings are initiated against the Issuer or any of its Material Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Material Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- (g) if, other than for the purposes of a change in the Issuer's corporate status from a partnership to a limited company pursuant to an applicable law, the Issuer or any of its Material Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

## 9.2 Definitions

For the purposes of the Conditions:

**Indebtedness** means any present or future indebtedness in respect of bonds, notes, debentures, loan stock or other securities or in respect of moneys borrowed or raised.

**Material Subsidiaries** means any Subsidiary of the Issuer:

- (a) (i) whose total assets represent not less than 5 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole; or
- (ii) whose operating revenue is more than 5 per cent. of the consolidated operating revenue of the Issuer and its Subsidiaries,

all as calculated by reference to the then latest audited consolidated accounts of the Issuer and the then latest audited accounts of its Subsidiaries; or

- (b) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Material Subsidiary whereupon the transferor Subsidiary shall immediately cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary, but shall cease to be a Material Subsidiary under this sub-paragraph (b) (but without prejudice to the provisions of sub-paragraph (a) above) upon publication of its next audited accounts.

A report by the Directors of the Issuer that in their opinion a Subsidiary of the Issuer is or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

**Permitted Reorganisation** means:

- (a) any amalgamation, merger, consolidation, reorganisation or other similar arrangement not involving the insolvency of the Issuer or such Subsidiary and under which the whole or a substantial part of its relevant business, undertaking or assets is transferred to the Issuer or a Subsidiary or a transferee which upon acquiring the relevant business undertaking or assets thereupon becomes a Subsidiary; or
- (b) any amalgamation, consolidation, restructuring, merger or reorganisation on terms approved by an Extraordinary Resolution of Noteholders.

**Subsidiary** means any entity which is a subsidiary within the meaning of Section 1159 of the UK Companies Act 2006 (as amended).

## 10. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and

expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **11. AGENT AND PAYING AGENTS**

The names of the initial Agent and other initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent with a specified office in a jurisdiction within Europe.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.6. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **12. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

### **13. NOTICES**

All notices regarding the Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London, and (b) if and for so long as the Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, [www.bourse.lu](http://www.bourse.lu). It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on such day as is specified in the applicable Final Terms after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

### **14. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at



any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

A Written Resolution shall take effect as if it were an Extraordinary Resolution. The provisions set out in these Terms and Conditions relating to the powers of meetings and notification of Extraordinary Resolutions shall apply *mutatis mutandis* to Written Resolutions.

**Written Resolution** means a resolution in writing signed by or on behalf of 90 per cent. of holders of Notes who for the time being are entitled to receive notice of a meeting in accordance with the provisions for Meetings of Noteholders set out in the Agency Agreement, whether such resolution is contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Notes. The date of such Written Resolution shall be the date on which the latest such document is signed.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

## **15. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **17. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **17.1 Governing law**

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

## **17.2 Submission to jurisdiction**

- (a) Subject to Condition 17.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 17.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Noteholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

## **17.3 Appointment of Process Agent**

The Issuer irrevocably appoints the Ambassador of the Republic of Iceland to the Court of St. James at his official residence in England for the time being (currently 2A Hans Street, London SW1X 0JE) as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of the said Ambassador being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## **17.4 Waiver of immunity**

The Issuer irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

## **17.5 Other documents**

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, which include making a profit. If, in respect of an issue there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## DESCRIPTION OF THE ISSUER

### OVERVIEW

Landsvirkjun (**Landsvirkjun** or the **Company**) produces and sells wholesale electricity to local sales companies and, under special agreements, to power-intensive industries. The Company's principal industrial customers include Rio Tinto Alcan Iceland hf., Elkem Iceland ehf., Nordural Grundartangi ehf., which is wholly-owned by Nordural ehf., Alcoa Fjarðaal sf., Becromal Iceland ehf., PCC BakkiSilicon hf., United Silicon hf. and Verne Holdings ehf. Landsvirkjun is the largest producer of electricity in Iceland (source: the National Energy Authority (Orkustofnun)). Landsvirkjun operates in compliance with the EU directives on deregulation of the electricity business.

Landsvirkjun is 99.9 per cent. owned by The Republic of Iceland and 0.1 per cent. owned by Eignarhlutir ehf., and was established on 1 July 1965. The Company is an independent juristic person having independent finances and accounting. It is registered in the commercial register of Reykjavik as of 28 April 1966 under registration number 420269-1299 and operates under the Act on Landsvirkjun No.42, 23 March 1983. The Company's registered head office is located at Håaleitisbraut 68, 103 Reykjavik, Iceland and its telephone number is +354 515 9000.

According to the Act No. 42, 23 March 1983 on Landsvirkjun, the objective of the Company is to engage in operations in the energy sector and any other business and financial activities pursuant to the decisions of the board of directors at any time.

The board of directors have stated that Landsvirkjun's objective is to maximize the potential yield and value of the natural resources entrusted to the Company in a sustainable, responsible and efficient manner.

### HISTORY

Landsvirkjun was established in 1965, on the basis of plans to step up the harnessing of hydropower through the development of power-intensive industries as well as meeting rapidly growing demand from the wholesale market. Initially owned jointly by the City of Reykjavik and the Icelandic state, Landsvirkjun's objective was to supply electricity to south and west Iceland. A new law was enacted in 1983, entrusting it with the objective of supplying electricity to the whole of Iceland. In the same year the Town of Akureyri, the largest town in north Iceland, acquired a share in the Company. Until the end of 2006, Landsvirkjun's owners were the Icelandic state (50 per cent.), Reykjavik (44.525 per cent.) and Akureyri (5.475 per cent.). In 2006, the Icelandic State bought the shares of Reykjavík and Akureyri. The change of ownership was announced on 1 January 2007.

Before 1965, Iceland did not have an interconnected power supply or distribution network covering the whole of the country. The creation of the nationwide transmission network started in 1972. In 1983, Landsvirkjun took over the task from the State Electric Power Works of completing the main transmission line encircling the country. This work was completed in 1984.

The original shareholder capital contribution to Landsvirkjun included the River Sog Power Stations, the Ellidaárdalur steam-power station and accompanying transmission systems, along with harnessing rights in the Thjórsá and Tungnaá river basin. Landsvirkjun has since 1967 constructed nine large hydro-power stations in Iceland including reservoirs, and completed an integrated national grid, which now belongs to Landsnet hf., the Transmission System Operator in Iceland. Landsvirkjun produces approximately 70 per cent. of Iceland's electricity. It is financially independent and is able to finance development of the power system with its own cash generation and borrowing.

Over the period between 1996 and 1999, Landsvirkjun concluded new power sales agreements with three power-intensive industrial users which entailed a substantial increase in the Company's electricity production between 1997 and 2001. Landsvirkjun constructed two hydro and one geothermal power expansion project during this period.

In 2003, Landsvirkjun and Alcoa Fjardaál sf., a subsidiary of Alcoa Inc., entered into contracts for the supply of electricity to an aluminium plant in Reydarfjörður from the Fljotsdalur Power Station. The aluminium plant started operations in 2007 and the plant became fully operational in 2008. The Fljotsdalur Power Station increased the total production capacity of Landsvirkjun by approximately 50 per cent.

Since Landsvirkjun signed the contract with Alcoa Fjardaál sf., Landsvirkjun has signed four greenfield power purchase agreements with power-intensive industries, Becromal Iceland ehf., which operates an aluminium foil plant in Akureyri in north Iceland, Verne Holdings ehf., which operates a data centre in south west Iceland, United Silicon hf. and PCC BakkiSilicon hf.

## CORPORATE STRUCTURE

As at the date of this Base Prospectus, the Company owned four subsidiaries:

Subsidiary	Percentage share	Description
1. Orkufjarskipti hf. (before Fjarski ehf.)	50 per cent.	Orkufjarskipti operates and maintains telecommunication infrastructure in Iceland for Landsvirkjun and Landsnet. Orkufjarskipti is equally owned by Landsvirkjun and Landsnet hf.
2. Landsnet hf.	64.73 per cent.	Landsnet hf. operates under the 'Electricity Act' passed in Parliament in the spring of 2003. Its role is to operate Iceland's electricity transmission system and administer its system operations. It operates on the basis of a special licence and is subject to surveillance by the National Energy Authority, which decides the income framework upon which the company's tariff is based. The operation of Landsnet hf. commenced on 1 January 2005, when the company purchased the transmission system of Landsvirkjun.
3. Landsvirkjun Power ehf.	100 per cent.	Landsvirkjun Power was founded in 2007 as a subsidiary of Landsvirkjun to manage its international operations. The purpose of Landsvirkjun Power is primarily to provide the expertise needed in the development and operations of power schemes.
4. Icelandic Power Insurance Ltd.	100 per cent.	A captive insurance company, which handles insurance and re-insurance for Landsvirkjun's power stations and, in addition, supervises insurance matters for construction projects.

## **OPERATIONS OF LANDSVIRKJUN**

### **Overview**

Hydro-electric and geothermal energy resources in Iceland are vast in relation to the size and population of the country. Harnessable electric power from rivers and geothermal sources is estimated by the National Energy Authority to be about 50 TWh per annum. Present annual production of electric energy in Iceland is approximately 18 TWh, representing 36 per cent. of the country's estimated potential. Today, electricity is available throughout Iceland. All towns and villages and over 99 per cent. of farms are connected to the national power grid.

### **Electricity Production, Procurement and Distribution**

At present, Landsvirkjun has a total installed capacity of 1,958 MW. The Company operates fourteen hydro-electric power plants with total installed production capacity of 1,894 MW representing approximately 97 per cent. of the total capacity. In addition, the Company operates two geothermal power stations with an installed power capacity of 63 MW. In 2013 Landsvirkjun added two small wind turbines to its power system with an installed capacity of 1.8 MW.

The Company is by far the dominant electricity producer in Iceland. In 2014, the Company produced around 13 TWh which was approximately 71 per cent. of the electricity produced in the country as a whole.

### **Energy intensive utility and industrial customers**

Currently, Landsvirkjun sells electricity wholesale on a deregulated market on a fully competitive basis pursuant to EU directives on unbundling of power markets. Competing utilities buy part of Landsvirkjun's generation in long and short term wholesale contracts. However, approximately 80 per cent. of the power generated is sold in long term contracts to power intensive industries.

In 1966 the Company entered into a fixed-price contract with the Icelandic Aluminium Company hf. (**ISAL**) for the supply of electricity to its smelter on the southwestern coast of Iceland. The contract came into effect in 1969 when the smelter began operation and has since been amended. In 2010, Landsvirkjun and Alcan Iceland (previously ISAL) signed a new US CPI linked contract merging all prior commitments and covering all sale of power to Alcan Iceland. This new contract also included increased sale of electricity allowing Alcan Iceland to increase its production.

Landsvirkjun entered into an agreement with the ferro-silicon plant, Icelandic Alloys hf., now Elkem in Iceland ehf., in 1976. The plant began operations in 1979. This contract was amended in September 1984, to adopt a profit-sharing arrangement and expired in April 1999. A new 20 year power contract was signed in January 1997 with prices indexed by wholesale and consumer prices in Norway. The new contract gave Elkem in Iceland the option to purchase electricity for a third furnace at its plant in Grundartangi which was started up in 2001.

In August 1997 Landsvirkjun signed a power contract with Nordural ehf., now Nordural Grundartangi ehf., a wholly-owned subsidiary of Nordural ehf., which is a subsidiary of Century Aluminium Company, for a new 60,000 t.p.a. aluminium plant at Grundartangi. The plant started operations in June 1998. In October 1999 a contract supplement was signed for a 30,000 t.p.a. expansion of the smelter. Power deliveries for the new potline came on stream in September 2001, increasing the production of Nordural Grundartangi to 90,000 tons. Furthermore, Landsvirkjun and Nordural Grundartangi signed a separate 25 MW power contract in February 2009, which was executed immediately. Landsvirkjun now supplies Nordural Grundartangi with approximately one-third of its energy needs and the other two-thirds are supplied by Orka naturunnar and HS Energy.

In March 2003 Landsvirkjun signed a power contract with Alcoa Fjarðaal sf., a wholly-owned subsidiary of Alcoa Inc., for a new 346,000 t.p.a. aluminium plant at Reyðarfjörður in eastern Iceland. The plant came on stream in April of 2007 and was in full operation in the first half of 2008. In 2008 Landsvirkjun and Alcoa Fjarðaal sf. amended the power contract with additional sales of 40 MW so altogether the contract power is 577 MW.

In August 2007 Landsvirkjun signed a power contract with Becromal Iceland Pltd., a wholly-owned subsidiary of Becromal Italy Spa., for a new aluminium foil plant in Akureyri in northern Iceland. The plant came on stream in September 2009 and became fully operational in 2011.

In October 2009 Landsvirkjun signed a power contract with Verne Holdings Pltd., a data centre in Keflavík in Iceland. The data centre came on stream in 2012.

In March 2015 Landsvirkjun signed a power contract with United Silicon hf, a metallurgical grade silicon metal production plant in Helgúvík, Iceland, which replaced a power contract signed in 2014. The plant is now under construction and is expected to come on stream in mid 2016.

Landsvirkjun is currently conducting power contract discussions with several potential power-intensive companies which are considering investing in new projects in Iceland.

## **Electricity Transmission**

Landsnet hf. was founded in accordance with the new Electricity Act set by Althingi in the spring of 2003. The law stipulates the following about Landsnet hf.:

The role of Landsnet hf. is to conduct power transmission and power system management in accordance with chapter III of the Electricity Act no. 65/2003. The company is not authorised to practise any activities other than those necessary to fulfil its duty in accordance with the Law. However, the company is allowed to establish and manage an electrical power market. Landsnet's board are required to be independent from other companies who produce, distribute or sell power or as stated further in its Articles of Association.

Landsnet hf. operates in a specially-licensed environment and therefore operates under the surveillance of the National Energy Authority (Orkustofnun). The National Energy Authority has assigned a budget allowance to Landsnet hf., which will be reconsidered on a regular basis. Landsnet hf. publishes a tariff, which enables the company to receive an income in accordance with the assigned budget allowance.

The owners of Landsnet hf. are Landsvirkjun (64.73 per cent.), RARIK (Iceland State Electricity – 22.51 per cent.), Orkuveita Reykjavíkur (Reykjavík Energy – 6.78 per cent.) and Orkubú Vestfjarða (Westfjord Power Company – 5.98 per cent.) but these companies released all their transmission systems and equipment to Landsnet hf. partly as equity.

All distributors and power intensive consumers in Iceland are connected to Landsnet's power transmission system. The transmission system includes all transmission structures and equipment for 66 kV and higher. A few 33 kV transmission systems are also included in the transmission system. All power plants larger than 7.0 MW shall be connected to the transmission system.

Electricity transmitted through the transmission grid reached a total of 18 TWh in 2014. Transmission losses amounted to 361 GWh, or 2.1 per cent. of the total transmitted power. Landsnet hf. operates substations and outfeeds and 3,226 km of transmission lines in 2014, at voltages of 33 kV to 220 kV. Company success in operating and maintaining the transmission system is in part measured by participating in international benchmarking. The results are used to constantly improve the reliability of Landsnet's transmission system.

## MANAGEMENT

### Board of Directors

The Board of Directors is responsible for the financial matters and operations of Landsvirkjun and is appointed by the Minister of Finance and Economic Affairs for a term of one year. The day-to-day management of Landsvirkjun is conducted by the CEO and in his absence the Executive Vice President. The Board of Directors of the Company has supreme authority in the operations of the Company, its project developments and the preparation thereof. The Board consists of five members that are appointed by the Minister of Finance and Economic Affairs.

As at the date of this Base Prospectus, the Board of Directors comprised 5 members. The names, positions, year of first appointment and outside appointments of each member of the Board of Directors as at the date of this Base Prospectus are set out in the table below:

Name	Position	Year appointed	Appointments outside the Board of Directors
Mr. Jónas Þór Guðmundsson	Chairman	2014	Chairman of the Chief Management of Elections for the South-West electoral district of Iceland, judge in the High Court of Impeachment, Chairman of the Senior Civil Servants Salary Board
Mr. Helgi Jóhannesson	Vice-chairman	2014	Advocate Supreme Court
Mr. Jón Björn Hákonarson	Board Member	2014	Chairman of Fjardabyggd town council
Ms. Þórunn Sveinbjarnardóttir	Board Member	2014	President of the Association of Academics union
Ms. Álfheiður Ingadóttir	Board Member	2014	Biologist

### The Executive Board

The following persons comprise the Executive Board:

*President and CEO – Mr. Hörður Arnarson*

*Executive Vice President - Ms. Ragna Árnadóttir*

### Executive Management

The following persons are members of Landsvirkjun's Executive Management:

*CFO – Mr. Rafnar Lárusson*

*Executive Vice President Marketing and Business Development – Mr. Björgvin Skúli Sigurðsson*

*Executive Vice President Energy Division – Mr. Einar Mathiesen*

*Executive Vice President-Research and Development – Mr. Óli Grétar Blöndal Sveinsson*

*Executive Vice President Project Planning & Construction – Mr. Gunnar Guðni Tómasson*



## **Business Address**

The business address for each of the persons listed under Board of Directors, The Executive Board and Executive Management is Håaleitisbraut 68, 103 Reykjavik, Iceland.

## **Conflicts of Interest**

As far as is known to Landsvirkjun, no potential conflicts of interest exist between any duties to Landsvirkjun of the Board of Directors, The Executive Board and Executive Management listed above and their private interests or other duties in respect of their management roles. No member of the Executive Board and Executive Management listed above carries out any activities outside the Issuer that are significant with respect to the Issuer.

## **SOLE SHAREHOLDER**

The Republic of Iceland (the State Treasury) is 99.9 per cent. owner of the Company and Eignarhlutir ehf., fully owned by The Republic of Iceland (the State Treasury), is 0.1 per cent. owner of the Company. There are no arrangements known to the Issuer, the operation of which may at a subsequent date result in a change of control of the Issuer.

The State Treasury has rendered capital contributions to Landsvirkjun, as reflected in the Act on the Company and Partnership Agreement of 18 April 2012.

## **RELATED PARTY TRANSACTIONS**

Related parties include the Republic of Iceland as the sole shareholder, associated companies and members of the Board of Directors and Executive Management and companies and institutions owned by them. See Note 26 to Landsvirkjun's audited consolidated financial statements for the year ended 31 December 2014.

## **AUDITORS**

Landsvirkjun's audited consolidated financial statements for the years ended 31 December 2013 and 31 December 2014 incorporated by reference into this Base Prospectus have been audited by the state authorised public accountant firm KPMG hf. for the year ended 31 December 2013 and Deloitte ehf. for the year ended 31 December 2014. The business address of KPMG hf is Borgartún 27, 105 Reykjavik, Iceland and for Deloitte is Smáratorg 3, 201 Kópavogur, Iceland.

Deloitte ehf., a member of the Institute of State Authorised Public Accountants in Iceland, of Smáratorg 3, 201 Kópavogur, Iceland, were appointed as auditors of the Issuer by the Board of Directors in April 2014.

The audited consolidated financial statements of Landsvirkjun are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are in USD which is the functional currency of the parent company.

## **CORPORATE GOVERNANCE**

Companies create value by producing goods and providing services on demand. In this way their activities benefit their owners, employees and the community at large. Landsvirkjun's vision is to be at the forefront of progressive companies where operations are conducted in a responsible manner under the banners of sustainability and sound environmental policy. Responsible operation must be grounded in a comprehensive vision, long-term interests and sensitivity to different perspectives. Information on Landsvirkjun's risk

management is set out at Notes 28-37 (inclusive) in the Company's audited consolidated financial statements for the year ended 31 December 2014.

## **Quality, Environmental and Safety Management and Information Security**

To support secure operations and ensure that the overall management system meets internal and external requirements Landsvirkjun management system is certified in four ways. Landsvirkjun management system is a framework to support Landsvirkjun meeting internal and external requirements. The management system is the foundation for every unit within the Company to ensure safe and efficient operations.

### **Quality Management**

Landsvirkjun was certified in accordance with the quality management standard ISO 9001 in 2006. This certification marked the beginning of the introduction of the Company's integrated management system. Included in the quality management system is system of electrical safety which complies with the requirements of Iceland Construction Authority's standards for electrical safety management of electricity utilities. Landsvirkjun's main policy puts emphasis on efficiency and improvements by running a management system that is certified by international management standards. The strategy also emphasizes, amongst other things, customer relations, communication with stakeholders, to harness the knowledge and talent of employees.

### **Environmental Management**

Landsvirkjun environmental management system was certified in 2007 in accordance with the environmental standard ISO 14001. The Company has worked systematically to reduce the impact of its operations. Landsvirkjun's Environmental Policy states that the Company's intentions and aspirations are to become a leader in environmental matters and supports the intention to become carbon neutral. In order to fulfil the environmental policy and its objectives, significant environmental aspects within Landsvirkjun's operations are monitored and 'control methods' are defined. Landsvirkjun has published environmental reports since 2006, describing the Company's environmental monitoring and objectives regarding environmental issues.

### **Safety management**

Landsvirkjun safety management system was certified in 2009 in accordance with the OHSAS 18001 standard. The Company has set a policy in safety, health and work environment matters and works systematically on improving employees' security, health and well-being. The policy includes ensuring that health and safety affairs are an inseparable part of Landsvirkjun's evaluation and decision-making processes of investment, construction, operations and purchase of goods and services.

### **Management of information security**

Landsvirkjun's IT Division was certified in 2008 in accordance with the ISO 27001 standard. The division has set out an information security policy and has developed and operates an active information management security system.

### **Human Resources**

Landsvirkjun has a clear focus on modern human resource management, emphasising knowledge management, a family-oriented working environment, equal rights, promotion of health and opportunities for career advancement. Employees are polled regularly and the results are used to improve morale and working conditions. According to a workplace survey conducted in February 2015, approximately 92 per cent. of Landsvirkjun's employees confirmed that they are satisfied or very satisfied at work.

Efficient and environmentally-friendly energy is only a part of what is needed to develop a power-intensive industry. Human resources is one of Landsvirkjun's basic supports: the Company believes that its well-educated employees are prepared to seek ways to achieve its stated objectives.

There were 244 full time employees at year-end 2014, with the exception of board members, students and other temporary employees. The average number of employees during 2014 was 297 but this total is heavily influenced by the temporary staff members employed for the summer period. A total of 506 employees were paid salaries during 2014, including summer staff and students.

Landsvirkjun has for decades taken pride in offering summer employment to young people between the ages of 16 and 20. They attend to various maintenance and environmental projects for Landsvirkjun's sites, all over the country.

The average age of permanent employees is 50.1 years and the average length of service is approximately 13 years.

Landsvirkjun's human resources policy is based on mutual trust, consideration and respect between the Company and its staff. The Company emphasises good working morale and mutual respect.

The Company's equal opportunities policy seeks to promote equality, regardless of gender. The Company strives to equalise genders in the various jobs in the Company and is conscious of equality in responsibility, and of staff participation in working groups, boards and committees. In addition, the Company pays the same salary and provides identical conditions for the same or equally valuable jobs. The Company systematically examines salaries and terms of employment in order to inhibit gender-related salary differences. The Gold Standard was awarded again to Landsvirkjun in 2014 as PricewaterhouseCoopers found the gender wage difference at Landsvirkjun between base salary is only 0.1 per cent and base salary gross 2.8 per cent. The difference is well below the 3.5 per cent. requirement set out by PricewaterhouseCoopers, in order to achieve the Gold Standard.

## **Community**

Landsvirkjun is a state owned company. Its role is to consistently endeavour to maximise the potential yield and value of the natural resources it has been entrusted with, in a sustainable, responsible and efficient manner. The efficient generation of electricity, in harmony with the environment and society, enables the Company to actively take part in the development of a dynamic and profitable labour market at the forefront of the international market.

Landsvirkjun has established an ambitious strategy on corporate social responsibility which states that it is the Company's role to create value, to respect and protect natural resources and the environment and to share its expertise in order to effectively contribute to society. Landsvirkjun ensures that its policy on corporate social responsibility is executed by setting clear goals and by following these six main guidelines in its operations:

- (a) Landsvirkjun works in accordance with responsible management practices
- (b) Landsvirkjun endeavours to positively influence its value chain
- (c) Landsvirkjun strives to be in the forefront of environmental affairs
- (d) Landsvirkjun makes every effort to always work in harmony with society
- (e) Landsvirkjun emphasises being a leader in health, safety and employee affairs

- (f) Landsvirkjun shares knowledge where it can promote innovation and development in the business community and society

### **The UN Global Compact**

Landsvirkjun believes that acting with integrity and pursuing sustainability is the best way to operate its business and create long term value for its owners and the societies it is a part of. As a result, Landsvirkjun is committed to continuously advancing the UN Global Compact principles on respect for the environment, human rights, labour rights, and anti-corruption. In December 2013, Landsvirkjun signed the UN Global Compact on social responsibility and committed to implementing the ten principles outlined by the UN in the areas of human rights, labour, the environment and anti-corruption.

### **Landsvirkjun's Carbon Footprint**

In 2007 the Icelandic government defined a policy of reducing the emission of greenhouse gases by 50 per cent. to 75 per cent. up to the year 2050. In comparison with other countries, Iceland's position in terms of energy is very unusual since 87 per cent. of the primary energy consumption is produced domestically and from renewable resources. Imported energy, primarily oil, represents only 13 per cent. of total consumption. Greenhouse gas emissions on each unit of energy consumed in Iceland are, therefore, low compared with other countries which use coal, oil or natural gas to produce electricity.

The main source of greenhouse gases from Landsvirkjun's operations is emissions from its geothermal power stations (68 per cent.), from reservoirs (30 per cent.) and from the burning of fossil fuels (2 per cent.). In addition, there are small emissions from disposal (in landfills or by incineration) and from SF<sub>6</sub> gas from electrical equipment.

The Company has, from the start of its operations, worked on binding carbon via land reclamation and reforestation. In 2006, it became a participant in the international co-operation on climate change "Global Roundtable on Climate Change" (GROCC), which includes a commitment to provide information on greenhouse gas emissions from our operations. We have supplied information on the Company's carbon footprint since 2007.

It is Landsvirkjun's declared policy to become a carbon neutral company. As a result, the Company works towards reducing all CO<sub>2</sub> emissions in its operations and, in addition, wishes to make a contribution towards enabling Iceland to meet its international obligations.

### **Sustainability Project of Landsvirkjun and Alcoa Fjardaál**

In 2004 Landsvirkjun and Alcoa Fjardaál launched a sustainability project to monitor the impact on the community, the environment and the economy of east Iceland, of the construction of at the Fljotsdalur Power Station and the aluminium smelter at Reydarfjörður.

### **The Hydropower Sustainability Assessment Protocol**

Landsvirkjun is a participant in the implementation and use of the Hydropower Sustainability Assessment Protocol. The Protocol is the result of intensive work from 2008 to 2011 by the Hydropower Sustainability Assessment Forum, a multi-stakeholder body with representatives from social and environmental NGOs (including Oxfam, The Nature Conservancy, Transparency International, WWF); governments (China, Germany, Iceland, Norway, Zambia); commercial and development banks (Equator Principles Financial Institutions Group, The World Bank); and the hydropower sector, represented by IHA. The Protocol was officially launched in Brazil in June 2011 and is governed by a multi-stakeholder council, comprising a governance committee and a management entity. Landsvirkjun worked with the Forum in developing the

methods and until to date two assessments have been carried out at Landsvirkjun. In May 2012 an assessment of Hvammur Hydropower Project took place and in 2013 an assessment was carried out on the operations of the Blanda Hydropower Station.

## **INSURANCE**

In addition to the compulsory insurance on real estate, since 1985 Landsvirkjun has had an all-risk insurance policy with leading international insurance groups for its power stations, dams and waterways. Landsvirkjun has used a construction all risk policy when constructing new power stations. The transmission lines (owned by Landsnet) are insured through the Icelandic Catastrophe Insurance Fund. The electric power contracts all have “force majeure” clauses which permit the Company to interrupt power supplies, under certain circumstances, without penalty.

## **TAXATION**

### **Iceland**

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of Notes, Receipts and Coupons. They may not apply to certain classes of person such as dealers. Prospective holders of Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

Amendment has been made to the Icelandic tax legislation regarding interest payments on Notes and bonds, if the beneficial owner of interest or other revenues is not a resident of Iceland. The amendment to the legislation was made in Act No. 39/2013, which amends Act No. 90/2003 on Income Tax, Article 3.

Pursuant to Act No. 39/2013, the Issuer is not required by Icelandic law to deduct or withhold tax from interest payments on notes or bonds that are held within a securities depository in 1) a member state of the OECD, 2) a member state of the European Economic Area (EEA), 3) a member state of The European Free Trade Association (EFTA) or 4) the Faroe Islands and do not constitute business covered by Articles 13. b – 13. n of Act No. 87/1992 on Foreign Exchange, as amended (which contain some restrictions on capital movement between countries since Iceland is under foreign exchange restrictions subject to Icelandic law). The Issuer will register any Notes issued under the Programme with the Directorate of Internal Revenue in Iceland to exempt the Notes from such taxation, all in accordance with point 8 of the first Paragraph of Article 3 of Act no 90/2003 on Income Tax. The Issuer will provide a certificate of such tax exemption for each issue of Notes.

There are no estate or inheritance taxes, succession duties, gift taxes or capital gains taxes imposed by Iceland or any authority of or in Iceland in respect of Notes if, at the time of the death of the holder of the transfer of the Notes, such holder or transferor is not a resident of Iceland.

No Icelandic issue tax or stamp duty will be payable in connection with the issue of any Notes.

### **Luxembourg Taxation**

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

### **Withholding Tax**

#### **(a) Non-resident holders of Notes**

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Luxembourg has abolished the withholding system with effect from 1 January 2015, in favour of automatic information exchange under Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income.

**(b) Resident holders of Notes**

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (the **Relibi Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg or to a residual entity (within the meaning of the laws of 21 June 2005 implementing Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**)) established in an EU Member State (other than Luxembourg) or one of the Territories and securing such payments for the benefit of such individual beneficial owner will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law will be subject to a withholding tax at a rate of 10 per cent.

**EU Savings Directive**

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

## **The Proposed Financial Transactions Tax (FTT)**

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating EU Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating EU Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## **Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 and associated regulations (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a **foreign financial institution**, or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a **Recalcitrant Holder**). The Issuer may be classified as an FFI.

The new withholding regime is currently in effect for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2019. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the **grandfathering date**, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued on or before the grandfathering date, and additional Notes of the same series are issued after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting**



**FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Iceland have entered into an agreement (the **U.S.-Iceland IGA**) based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI pursuant to the U.S.-Iceland IGA it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. The Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the Common Depositary or Common Safekeeper, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.**

## SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 26 July 2013, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except to certain persons in offshore transactions in reliance on Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations promulgated thereunder. The applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Exempt Notes which are also Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and

including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and
- the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Netherlands**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that any Notes will only be offered in The Netherlands to Qualified Investors (as defined in the Prospectus Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 19 December 2013.

### Approval, Listing of Notes and Admission to Trading

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in Germany and Luxembourg:

- (a) the constitutional documents (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 2013 and 2014 (with an English translation thereof);
- (c) the unaudited financial statements of the Issuer in respect of the six months ended 30 June 2015 (with an English translation thereof);
- (d) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (e) a copy of this Base Prospectus;
- (f) any future Base Prospectuses, prospectuses, information memoranda, supplements, Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that Pricing Supplements will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes). If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Yield**

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer since 30 June 2015 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2014.

### **Litigation**

The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

### **Auditors**

KPMG hf., a member of the Institute of State Authorised Public Accountants in Iceland, have audited the Issuer's accounts, on behalf of the Icelandic National Audit office which is bound by law to be responsible for the audit of enterprises under ownership of the State, without qualification, in accordance with International Standards on Auditing for the financial year ended on 31 December 2013. Deloitte ehf., a member of the Institute of State Authorised Public Accountants in Iceland, have audited the Issuer's accounts, on behalf of the Icelandic National Audit office which is bound by law to be responsible for the audit of enterprises under ownership of the State, without qualification, in accordance with International Standards on Auditing for the financial year ended on 31 December 2014 .

Deloitte ehf., a member of the Institute of State Authorised Public Accountants in Iceland, of Smáratorg 3, 201 Kópavogur, Iceland, were appointed as auditors of the Issuer by the Board of Directors in April 2014.

### **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the

Issuer or its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## ISSUER

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103 REYKJAVIK  
Iceland

## ISSUING AND PRINCIPAL PAYING AGENT

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Canary Wharf  
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## PAYING AGENTS

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**KBL European Private Bankers S.A.**  
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## LEGAL ADVISERS

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Iceland



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**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP

**Skandinaviska Enskilda Banken AB**  
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106 40 Stockholm  
Sweden

## **LUXEMBOURG LISTING AGENT**

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L-2955 Luxembourg