



Landsvirkjun

Consolidated Financial Statements
2009

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík

Reg.no. 420269-1299

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Key figures

Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2009	2008	2007	2006
Operation *				
Operating revenues	299,788	452,027	368,824	343,511
Realised aluminium hedges, income (expenses)	42,526	(54,759)	(59,447)	(50,963)
Total operating revenues	342,314	397,268	309,377	292,548
Operating expenses	(70,655)	(100,512)	(105,800)	(102,805)
EBITDA	271,659	296,756	203,577	189,743
Depreciation and impairment loss	(114,321)	(105,532)	(81,960)	(76,932)
EBIT	157,338	191,224	121,617	112,811
Financial items	52,602	(605,804)	505,085	(212,470)
Income tax	(16,944)	70,048	(167,444)	277,230
Profit/(loss) of the year	192,996	(344,532)	459,258	177,571
Balance Sheet				
Total assets	4,803,522	4,619,220	5,142,303	4,279,794
Equity	1,564,487	1,376,792	1,600,145	1,143,272
Liabilities	3,239,035	3,242,428	3,542,158	3,136,522
Cash Flow				
Funds from operation (FFO)	186,869	223,007	135,886	151,377
Cash flow from operation	197,023	184,350	138,522	146,789
Investment activities	(120,533)	(374,797)	(532,526)	(731,967)
Financing activities	(4,572)	168,586	506,937	601,544
Liquidity				
Cash and cash equivalents at year end	194,248	124,993	179,578	74,963
Undrawn revolving credit facility	281,600	350,000	350,000	350,000
Total liquidity	475,848	474,993	529,578	424,963
Key ratios				
Return on equity	14.0%	-21.5%	40.2%	18.3%
Equity ratio	32.6%	29.8%	31.1%	26.7%
EBITDA/interest expenses	2.94x	1.67x	2.21x	2.07x
FFO / net liabilities **	6.6%	7.8%	4.7%	5.6%
FFO / interest expenses	2.02x	1.25x	1.47x	1.65x
Net liabilities / EBITDA	10.39x	9.60x	14.26x	14.18x
Credit rating at year end				
Standard & Poor's	BB	BBB-	A+	A+
Moody's	Baa3	Baa1	Aaa	Aaa
Other criterion for Landsvirkjun (parent company)				
Installed power at year end (MW)	1,860	1,860	1,860	1,170
Sales in Gwh	12,546	12,746	8,903	7,892
No. of employees based on full time employment	179	180	212	208
Sales per employee	70	71	42	38
Research and development	23,601	48,363	32,877	18,448
Accident frequency: H200***	1.1	0.4	0.7	n.a.

* Hedges, income (expenses) related to electric power sale agreements have been transferred from financial items to operating income

** Net liabilities are long term loans including current maturities less cash

*** H200 is the number of absence accidents per each 200,000 working hours

Endorsement by the Board of Directors and Managing Director

Landsvirkjun's objective is to operate in the energy sector and to engage in other business and financial operations according to the decision of the Board of Directors at each time. The Company's consolidated financial statements include, in addition to the parent company, five subsidiaries, Landsnet hf., Fjarski ehf., Hraunaveita ehf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf., in addition to three subsidiaries of Landsvirkjun Power ehf.

The financial statements of Landsvirkjun for the year 2009 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The functional currency of the Company is USD and amounts in the financial statements are rounded to the nearest thousand USD.

The Group's operating income amounted to USD 299.8 million in the year 2009 compared to USD 452 million in the previous year. Income thus decreased by USD 152.2 million which is mainly explained by lower energy price to aluminium companies due to decrease in the world market aluminium price and the decreased income on energy sale in the domestic market between years in USD due to the depreciation of the ISK. Realised aluminium hedges amounted to USD 42.5 million in the year 2009 but in the previous year the amount of USD 54.8 million was expensed related to such hedges. Taking realised hedges into account, the decrease in income from the previous year amounted to USD 54.9 million. Operating expenses amounted to USD 185 million in 2009 compared to USD 206 million in 2008. The Company's operating profit thus amounted to USD 114.8 million in 2009 compared to USD 246 million the previous year. When taking into account the aforementioned hedges, operating profit decreases modestly and amounts to USD 157.3 million compared to USD 191.2 million the previous year.

Financial income in excess of financial expenses amounted to USD 95.1 million in the year 2009, but in the year 2008 financial expenses in excess of financial income amounted to USD 660.6 million. The change between years amounts to USD 755.7 million. The main reason for this significant difference between years is that the value of embedded derivatives increased by USD 253.3 million in the year 2009 but decreased by USD 497.2 million in the year 2008. Foreign exchange difference is negative in the year, which is mainly explained by changes in EUR against the USD. Profit on fair value changes in derivative agreements is mostly unrealised which must be taken into account in the analysis of the Company's results. Realised aluminium hedges amounted to USD 42.5 million in the year 2009 compared to expensed hedges to the amount of USD 54.8 million the prior year as previously mentioned. Interest expenses decreased by USD 85.2 million between years due to a decrease in floating interest rates during the year, but Landsvirkjun some time ago made the decision to maintain for some time floating rates on the main part of its loan portfolio. According to the income statement, profit amounted to USD 193 million compared to a USD 344.5 million loss in the previous year.

Landsvirkjun has entered into derivative agreements in order to manage risk. Agreements have been made due to interest rate risk and foreign currency risk. In addition, derivative agreements have been made in order to hedge risk due to fluctuations of aluminium prices in the global market as part of income is based thereon. Positive fair value of aluminium hedges amounted to USD 5 million at year end 2009. Fair value of other derivative agreements at year end 2009 was negative by USD 67.7 million. Fair value of embedded derivatives in Landsvirkjun's electric power sales agreements with aluminium companies after deducting the fair value of embedded derivatives in electric power purchase agreements is positive and their fair value is measured at USD 423 million at year end 2009.

Landsvirkjun has granted Landsnet hf. loans on market terms to the amount of USD 377.7 million and those transactions have been eliminated in the consolidated financial statements. The majority of the loans were granted in connection with the establishment of Landsnet and the spinning off of the company from Landsvirkjun.

Equity at year end 2009 amounted to USD 1,564 million compared to USD 1,377 million at year end 2008 according to the Balance Sheet and the Company's Board of Directors proposes that the profit of the year be recognised as increase in equity. The Company's Board of Directors proposes that no dividends be paid but otherwise refers to the notes to the financial statements and statement of equity for further changes in equity.

Endorsement by the Board of Directors and Managing Director, contd.:

The financial position of the Company is adequate as is its liquidity position due to cash balance and an undrawn Revolving Credit Facility signed in the year 2005. Landsvirkjun is no longer exposed to construction risk after the Kárahnjúkar power plant was taken into use and the Company has not made any commitments on new power projects. It is the opinion of the management of Landsvirkjun that the Company is able to meet its obligations into the year 2012 though no access to new capital will become available during that time. The Company is working on refinancing and its management is confident that it will be concluded within that time. The Company will not undertake any further major investments unless financing is secured.

The city of Reykjavik and the town of Akureyri provide a guarantee of collection together with the State for all obligations of Landsvirkjun, entered into before the end of year 2006. From the beginning of year 2007, the State and Eignarhlutir ehf. provide a guarantee of collection for all of Landsvirkjun's obligations entered into after that date. The Company's payments due to guarantees for long-term loans amounted to USD 7.2 million in the year 2009.

Statement of the Board of Directors and the Managing Director

According to the best knowledge of the Board of Directors' and the Managing Director, the financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the Managing Director that the financial statements give a fair view of the Company's assets, liabilities and financial position as at December 31, 2009 and the Company's results and changes in cash in the year 2009.

Furthermore, it is the opinion of the Board of Directors and the Managing Director that the financial statements and the Endorsement by the Board of Directors for the year 2009 give a fair view of the Company's results, financial position and development and describe the main risk factors faced by the Company.

The Board of Directors and the Managing Director hereby confirm these consolidated financial statements with their signature.

Reykjavik, 19 March 2010.

The Board of Directors:

Bryndís Hlöðversdóttir

Sigurbjörg Gísladóttir

Ingimundur Sigurpálsson

Páll Magnússon

Stefán Arnórsson

Managing Director:

Hörður Arnarson

Independent Auditor's Report

To the Board of Directors and owners of Landsvirkjun

We have audited the accompanying financial statements of Landsvirkjun, which comprise the balance sheet as at December 31, 2009, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Landsvirkjun as at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavik, 19 March 2010.

KPMG hf.

Reynir S. Gylfason

Árni Claessen

Income Statement for 2009

	Notes	2009	2008
Operating revenues			
Power sales		251,492	388,368
Transmission		44,329	53,268
Other income	25	3,967	10,391
		<u>299,788</u>	<u>452,027</u>
Operating expenses			
Energy production costs		112,103	120,710
Transmission costs		31,474	36,435
Cost of general research		11,868	8,073
Other operating expenses	28	29,531	40,826
		<u>184,976</u>	<u>206,044</u>
Operating profit		<u>114,812</u>	<u>245,983</u>
Financial income and (financial expenses)			
Interest income		5,907	15,390
Interest expenses		(92,493)	(177,742)
Net income (expenses) on financial assets and liabilities		(102,923)	57,815
Fair value changes of embedded derivatives	52	253,304	(497,167)
Realised aluminium hedges	52	42,526	(54,759)
Associated companies	35	(11,193)	(4,100)
	29	<u>95,128</u>	<u>(660,563)</u>
Profit (loss) before taxes		209,940	(414,580)
Income tax	30	(16,944)	70,048
Net profit (loss) for the year		<u>192,996</u>	<u>(344,532)</u>
Attributable to:			
Owners of the parent company		188,801	(293,384)
Subsidiaries minority interest		4,195	(51,148)
		<u>192,996</u>	<u>(344,532)</u>

Notes 1 to 60 are an integral part of these financial statements.

Statement of Comprehensive Income for the year 2009

	2009	2008
Profit (loss) for the year	192,996	(344,532)
Operating items moved to equity		
Translation difference due to functional currency	(1,827)	(52,037)
Revaluation of non-current assets	0	212,998
Income tax on revaluation of non-current assets	0	(31,950)
Change in tax ratio	(3,474)	0
Total operating items moved to equity	(5,301)	129,011
Total Comprehensive Income (loss) for the year	187,695	(215,521)
Profit (loss) attributable to:		
Owners of the parent Company	185,492	(208,360)
Subsidiaries minority interest	2,203	(7,161)
	187,695	(215,521)

Notes 1 to 60 are an integral part of these financial statements.

Balance Sheet as at 31 December 2009

Assets	Notes	2009	2008
Non-current assets			
Property, plant and equipment	31	3,737,504	3,789,129
Projects under construction		12,441	12,243
Intangible assets	32	141,523	138,077
Derivative financial instruments	34	431,822	287,513
Associated companies	35	2,367	13,342
Shares in other companies	36	248	127
Long-term notes receivable		334	246
Deferred tax asset	38	112,472	133,409
Total non-current assets		<u>4,438,711</u>	<u>4,374,086</u>
Current assets			
Inventories	39	4,159	4,269
Accounts receivables and other receivables	40	108,858	98,374
Derivative financial instruments	34	57,546	17,498
Cash and cash equivalents	41	194,248	124,993
Total current assets		<u>364,811</u>	<u>245,134</u>
Total assets		<u><u>4,803,522</u></u>	<u><u>4,619,220</u></u>
Equity and liabilities			
Equity			
Owners' contributions	42	586,512	586,512
Revaluation account	43	110,556	116,268
Translation difference	43	(34,702)	(33,670)
Other equity		878,621	686,384
Equity of the owners of the parent company		<u>1,540,987</u>	<u>1,355,494</u>
Minority interest		23,500	21,298
Total equity		<u>1,564,487</u>	<u>1,376,792</u>
Long-term liabilities			
Long-term debt	44	2,750,923	2,789,261
Accrued pension liabilities	46	21,978	22,118
Obligation due to demolition	47	4,663	3,936
Derivative financial instruments	34	96,113	123,971
		<u>2,873,677</u>	<u>2,939,286</u>
Current liabilities			
Accounts payable and other payables	48	65,115	95,537
Current maturities of long-term debt	45	267,197	186,008
Derivative financial instruments	34	33,046	21,597
		<u>365,358</u>	<u>303,142</u>
Total liabilities		<u>3,239,035</u>	<u>3,242,428</u>
Total equity and liabilities		<u><u>4,803,522</u></u>	<u><u>4,619,220</u></u>

Notes 1 to 60 are an integral part of these financial statements.

Statement of Equity from January 1, 2008 to December 31, 2009

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
Changes in equity year 2008							
Equity at January 1 2008.....	586,512	0	(687)	985,861	1,571,686	28,459	1,600,145
Translation difference			(32,982)		(32,982)	(19,055)	(52,037)
Revaluation of non-current assets.....		138,831			138,831	74,167	212,998
Income tax effect of revaluation.....		(20,825)			(20,825)	(11,125)	(31,950)
Loss of the year.....				(293,384)	(293,384)	(51,148)	(344,532)
Total loss of the year.....		118,006	(32,982)	(293,384)	(208,360)	(7,161)	(215,521)
Depreciation transferred.....		(1,738)		1,738	0		0
Dividends paid.....				(7,831)	(7,831)		(7,831)
Equity at 31 December 2008.....	586,512	116,268	(33,670)	686,384	1,355,494	21,298	1,376,792
Changes in equity year 2009							
Equity at January 1 2009	586,512	116,268	(33,670)	686,384	1,355,494	21,298	1,376,792
Translation difference			(1,033)		(1,033)	(794)	(1,827)
Change in tax ratio		(2,276)			(2,276)	(1,198)	(3,474)
Profit of the year				188,801	188,801	4,195	192,996
Total profit of the year		(2,276)	(1,033)	188,801	185,492	2,203	187,695
Depreciation transferred.....		(3,436)		3,436	0		0
Equity at 31 December 2009	586,512	110,556	(34,702)	878,621	1,540,987	23,500	1,564,487

Notes 1 to 60 are an integral part of these financial statements.

Statement of Cash Flows for 2009

	Notes	2009	2008
Operating activities			
Cash received from customers		311,182	455,977
Cash expenses .....	(	68,249)	(112,499)
From operation excluding interest		242,933	343,478
Interest income received		4,632	17,049
Interest expenses and foreign exchange difference paid .....	(	95,884)	(115,800)
Hedge disbursements		45,342	(60,377)
Cash flow from operating activities		<u>197,023</u>	<u>184,350</u>
Investing activities			
Kárahnjúkar project - hydropower station .....	(	30,236)	(189,457)
Transmission .....	(	21,303)	(12,084)
Development costs .....	(	14,997)	(55,134)
Purchased shares .....	(	1,791)	(11,334)
Sold shares		68	0
Other capital expenditure .....	(	13,377)	(15,220)
Assets sold		94	8,119
Unpaid construction cost, change .....	(	14,075)	(70,646)
	(	95,617)	(345,756)
Other receivables, change .....	(	24,916)	(29,041)
Investing activities	(	<u>120,533</u>	<u>(374,797)</u>
Financing activities			
Cash dividends		0	(7,831)
New loans		195,698	449,882
Currency swaps		4,818	54,425
Amortization of long-term debt .....	(	205,088)	(288,535)
Short term loans, change		0	(39,355)
Financing activities	(	<u>4,572</u>	<u>168,586</u>
Increase (decrease) in cash		71,918	(21,861)
Effect of exch. diff. on cash and cash equivalents .....	(	2,663)	(32,724)
Cash and cash equivalents at the beginning of the year		124,993	179,578
Cash and cash equivalents at end of year		<u>194,248</u>	<u>124,993</u>
Financing and investing activities not affecting cash flow:			
Assets available for sale		0	(12,560)
Finance lease agreements		0	12,560

Notes 1 to 60 are an integral part of these financial statements.

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Reporting entity

1. Landsvirkjun

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

2. Basis of preparation

Significant accounting policies used in the preparation of these financial statements are identified below.

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The Company's Board of Directors approved the presentation of the financial statements on 19 March 2010.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which have been measured at fair value: derivative financial instruments, long term receivables, transmission, telecommunications system, trading financial assets and liabilities and shares in other companies.

Fixed operating assets of the subsidiaries, Landsnet hf. and Fjarski ehf., were revalued in the year 2008.

Fixed assets and asset groups available for sale are recognised at the lower of the book value and the net fair value.

c. Presentation and functional currency

The financial statements are presented in USD, which is the parent Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise stated.

d. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised and the effect of the changes are entered in the periods that the changes are made and in subsequent periods if the change also affects those periods.

Information on management's estimates and decisions made in relation to the application of accounting methods that significantly affect the financial statements are presented in the following notes:

- note 31 property, plant and equipment
- note 32 intangible assets
- note 34 derivative financial instruments
- note 46 pension fund obligation
- note 52 aluminium price risk

Significant accounting methods

Accounting policies set out below have been consistently applied to all periods presented in these financial statements, and to all companies within the group.

Notes, contd.:

3. Basis of consolidation

a. Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Financial statements of subsidiaries have been taken into account. When the Company's share of losses exceeds its interest in a subsidiary, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the subsidiary. In case of a profit on the operation of a subsidiary in a subsequent period, a share in their profit is not recognised until a share in a loss has been fully set off.

b. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c. Subsidiaries with other functional currency

Assets and liabilities of a subsidiary with other functional currency than the parent company are translated to USD at the exchange rate ruling at the accounting date. Income and expenses of that operation are translated to USD at the average exchange rate of the period. The exchange rate difference arising from the translation is entered as a specific item under equity. Amounts in the statement of cash flows are translated to USD at the average exchange rate of the period. The exchange rate difference arising from the translation to USD is entered as a specific item in the statement of cash flows.

4. Associated companies

Associated companies are those companies in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity, including any other possible voting power.

The financial statements include the Group's share in the income and expenses of associated companies according to the method of association, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the book value of an associated company the book value is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associated company. If in subsequent periods there is a profit on the operation of associated companies, the share in the profit is not recognised until previous share in losses has been balanced.

5. Operating revenues

Revenues from sales and transmission of electricity consists of sales supplied to power intensive industries and public utilities based on delivery during the period. Other service income is also recognised when earned or upon delivery.

6. Interest income and expenses

Interest income and expenses are recognised in the income statement as they accrue using the effective interest method. Interest income and expenses include bank rates, premium, realised interest rate swaps and other difference arising on initial book value of financial instruments and amounts on the date of maturity using the effective interest method.

Effective interest is the imputed rate of interest used in determining the current value of estimated cash flow over the estimated useful life of a financial instrument or a shorter period if applicable, so that it equals the book value of the financial asset or liability in the balance sheet. When calculating effective interest rate the Company estimates cash flow taking into account all contractual aspects of the financial instrument.

Notes, contd.:

7. Net income (expenses) on financial assets and liabilities

Net income (expenses) on financial assets and liabilities include profit and loss on current assets and liabilities and all redeemed and unredeemed fair value changes, dividends and changes in foreign exchange difference. Dividend income is recognised in the income statement when distribution of dividends has been approved.

8. Foreign currency transactions

Transactions in foreign currencies are recognised at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate ruling at the end of the period. The foreign currency gain or loss thereon is recognised in the income statement. Non-monetary assets and liabilities measured at cost value in a foreign currency are translated to USD at the exchange rate ruling at the date of the transactions. Tangible assets and liabilities recognised in foreign currencies at fair value are translated to USD at the exchange rate ruling at the date of determination of fair value.

9. Impairment

a. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Impairment loss on financial assets is recognised in the income statement. Accumulated loss on available for sale financial assets, previously recognised among equity, is recognised in the income statement when the impairment loss has been incurred.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised in the statement of comprehensive income.

b. Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment tests are carried out at least once a year on intangible assets with undetermined useful life.

Impairment loss is recognised when the book value of the asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest distinguishable asset group that generates cash, which is mostly independent from other units or unit groups. Impairment loss is expensed in the income statement and later proportionally as reduction in the book value of other assets pertaining to the unit.

The recoverable amount of non-financial assets or its cash generating unit is the greater of its sales value or its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of non-financial assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes, contd.:

10. Income tax

Income tax on the results for the year consists of current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against the asset.

A deferred tax asset is recognised in the financial statements. Its calculation is based on the difference in balance sheet items, according to the tax return, on the one hand, and the consolidated financial statements on the other. The difference thus arising is due to the fact that the tax assessment is based on other premises than the Group's financial statements and is in main respect a temporary difference as expenses are in general entered in the financial statement in an another period than in the tax return.

11. Intangible assets

Intangible assets are recognised at cost value, less impairment loss and amortization.

Expenditure for general research cost is expensed in the period it incurs. Development cost for future power projects is capitalised among fixed assets. The development cost is only capitalised if there is probability of future economic benefit and the Company intends and is able to conclude, use or sell it. The cost is not depreciated at this stage but account is taken for possible impairment loss if a project changes.

Water and geothermal rights are capitalised in the balance sheet at cost value as intangible assets with unlimited useful life.

Other intangible assets are stated at cost less accumulated amortization and impairment loss.

Subsequent cost is only capitalised if it increases the estimated future economic benefit of the asset it relates to. All other cost is expensed in the income statement when incurred.

Depreciation is calculated on a straight line basis, based on the estimated useful lives of intangible assets from the date that they become applicable. Estimated useful life is specified as follows:

Software	25%	4 years
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12. Fixed assets

Fixed assets are initially measured at cost.

The Group's transmission and telecommunication systems are recognised at a revalued cost in the balance sheet, which is their fair value less depreciation from the date of revaluation in 2008. The revaluation of those assets will be carried out on a regular basis. All value increase due to the revaluation is recognised in the revaluation account among equity after income tax effect. Depreciation of the revalued cost is recognised in the income statement. Upon sale or disposal of an asset, the part of the revaluation account pertaining to the asset is transferred to retained earnings.

Other operating assets are capitalised at cost less accumulated depreciation and impairment.

Notes, contd.:

12. Fixed assets, contd.:

Initial value of fixed assets includes the estimated cost of demolition following their use. Estimated demolition cost of power lines has been measured at discounted value based on the useful life and an obligation in relation thereto has been recognised among long-term liabilities. An increase in the obligation due to the discounted value is expensed through the income statement in addition to depreciation of demolition cost.

Cost value consists of all cost incurred due to the acquisition of the asset. Cost value of fixed assets constructed in own account is the aggregate cost of construction, such as cost of material and salaries in addition to all other cost the Company incurs in making the asset operative.

If single items of fixed assets have different estimated useful lives they are divided in accordance with their different useful lives.

Interest expense on loans used to finance the cost value of projects are capitalised at the time of construction. Interest is not calculated on development cost. After the assets have been taken into use, interest expense is recognised in the income statement.

Depreciation

Depreciation is calculated as a fixed annual percentage based on the estimated useful lives of the operating assets.

Depreciation method, estimated useful life and residual value are reassessed at each accounting date.

Depreciation ratios and useful life are specified as follows:

	Depreciation	Useful life
Power stations:		
Powerhouses and other structures	1,67%	60 years
Machinery	2,5-6,67%	15-40 years
Dams and waterways	1,67-3,33%	30-60 years
Thermal stations	1,67-6,67%	15-60 years
Substations	2,5%-5%	20-40 years
Power lines	2,00%	50 years
Office buildings	2,00%	50 years
Equipment	10-25%	4-10 years
Vehicles	10-20%	5-10 years
Optical fibre	5,00%	20 years
Masts	7,00%	15 years
Telecommunication buildings	6,00%	17 years
Other telecommunication equipment	14-15%	7 years

13. Financial instruments

a. Non-derivative financial instruments

Non-derivative financial instruments consist of investments in shares and bonds, accounts receivable, other receivables, cash and cash equivalents, borrowings, accounts payable and other short-term liabilities.

Non-derivative financial instruments are recognised at fair value at initial recognition. In case of financial instruments, not measured at fair value through income statement, all direct transaction cost is entered as increase in the fair value at their initial recognition, with the exceptions described here below. Following an initial registration non-derivative financial instruments are recognised as follows.

Notes, contd.:

13. Financial instruments, contd.:

Non-derivative financial instruments, contd.:

Financial instruments are entered in the consolidated financial statements when the Company becomes a part of contractual provisions of the relevant financial instrument. Financial assets are derecognized if the Company's contractual right to cash flow due to the asset expires or the Company transfers the assets to another party without holding back control or almost all the risk and gain involved in the ownership. Conventional purchase and sale of financial assets are recognised at the transaction date, i.e. the date the Company enters into obligation to purchase or sell the asset. Financial obligations are derecognized from the consolidated financial statements if the obligations of the Company defined in an agreement are paid, expire, disallowed or are invalidated.

Cash and cash equivalents consist of cash, short term market securities and demand deposits.

Note no. 6 includes information on accounting methods used for financial income and expenses.

Financial assets and liabilities at fair value through income statement

A financial instrument is recognised at fair value and fair value changes through income statement in case of current financial assets or if it is, at initial registration, determined as financial instrument at fair value through income statement. A financial instrument is denominated at fair value through income statement if the Company manages such investments and decisions of purchase and sale are based on their fair value. Financial assets and liabilities at fair value through income statement are recognised at fair value in the balance sheet and fair value changes are recognised in the income statement. Direct transaction cost is entered in the income statement as it incurs.

Other financial instruments

Other non-derivative financial instruments are recognised at amortised cost value using the effective interest method, less impairment loss, if any.

Off-setting of financial assets and liabilities

Financial assets and liabilities are set off and the net amount is recognised in the balance sheet when the legal right exists on off-setting and the Company intends to account for financial assets and liabilities by off-setting.

b. Derivative financial instruments

The Company enters into derivative financial instruments to hedge its foreign currency, interest rate and aluminum price risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related and another instruments with the same provisions as the embedded derivative would be defined as derivative and the hybrid contract is not stated at fair value in the income statement.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of net income (expenses) on financial assets and liabilities.

Separable embedded derivatives

Fair value changes of embedded derivatives separable from the host contract are recognised when the fair value change takes place, see notes on risk management.

Notes, contd.:

14. Fair value measurement

Some of the Company's accounting standards and notes require that the fair value be measured, both for financial assets and liabilities and other assets and liabilities. The fair value has been determined due to assessments and/or notes according to the following methods. Where applicable, further information is made available on methods used to find the fair value of assets and liabilities in the note relevant to the asset or the liability in question.

The fair value of financial assets and liabilities listed in an active market is the same as their listed value. Evaluation methods are applied to all other financial instruments in calculating their fair value. A financial asset or liability is considered to be listed on an active market if the official price can be obtained from a stock exchange or another independent party and the price reflects real and regular market transactions between unrelated parties.

Evaluation methods can involve the use of recent transaction prices between unrelated parties. The methods take note of the value of other financial instruments similar to the instrument in question, and methods are used to determine the discounted cash flow or other evaluation methods that can be applied in order to measure in a reliable way the real market value. When applying evaluation methods all factors that market parties would use in price assessment are used and the methods are in accordance with generally accepted methods for rating financing instruments. The Company verifies its evaluation methods on an ongoing basis and tests them by using prices obtained from transactions in an active market with the same instrument, without adjustments or changes, or based on information from an active market.

The most reliable verification of the initial fair value of derivative financial instruments is the purchase value, unless the fair value of the instrument can be verified by comparison with other recent listed market transactions with the same instrument, or based on an evaluation method where variables are exclusively based on market data. When such market data can be obtained the Company recognises profit and loss at the initial recognition date of the instruments.

15. Fixed assets

Fair value of revalued property, plant and equipment has been determined on the basis of the discounted cash flow of the asset in question.

16. Inventories

Inventories are stated at the lower of the cost value or the net sales value. Cost value of inventories is based on "the First In First Out method" and includes cost incurred upon the purchase of the inventories and in bringing them to the sales location and in a saleable state.

17. Cash and cash equivalents

Cash and cash equivalents consist of cash, short term market securities and demand deposits.

18. Equity

The Group's equity is divided into owners' contribution, revaluation account, translation difference, other equity and minority interest. The parent company's initial capital amounts to USD 587 million.

19. Employees' benefits

a. Defined contribution plan

Cost due to contribution to defined benefit plans is expensed in the income statement when incurred.

b. Defined benefit plan

The Company's obligation due to defined benefit plans is calculated by estimating the future value of defined pension benefits accrued by current and former employees in current or previous periods. The benefits are discounted in order to determine their present value. An actuary has calculated the obligation on the basis of a method, which is based on accrued benefits. Changes in the obligation are recognised in the income statement when incurred.

Notes, contd.:

20. Obligations

Obligations are recognised when the Company has entered into obligations due to past events, it is likely that they will be settled and they can be reliably measured. The obligation can be assessed on the basis of estimated cash flow, discounted on the basis of interests reflecting market interests and the risk inherent with the obligation.

21. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (operating segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's main segment is based on operating segments. Geographical segments are not disclosed as almost the entire operation of the group is carried out in Iceland.

Inter-segment pricing is determined on an arm's length basis.

Segment operating results, assets and liabilities consist of items that can be directly linked to each segment, in addition to the items that can be reasonably divided into segments. Items not classified with single segments are mainly investments and related income, borrowings and related cost, collective assets and related cost, in addition to deferred income tax.

22. Reporting standards

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement an income statement and a statement of comprehensive income. Comparative figures have been changed accordingly. The change only affects the presentation of the financial statements.

The Group applies IFRS 8 Operating segments, which became effective as of 1 January 2009. The Group's operating segments are presented in accordance with information used by management in its evaluation thereof and they have changed from the previous year.

The Group has adopted International Financial Reporting Standards, amendments thereto and interpretations confirmed by the EU at year end 2009 and that apply to its operation. The Group has not adopted standards, amendments to standards or interpretations entering into effect after year end 2009, which may be adopted earlier. The effect thereof on the Group's financial statements have not been fully determined but are considered to be insubstantial.

23. Management's evaluation and assumption in relation to the application of accounting methods

The Group's management makes judgements, estimates and assumptions that may affect items in the Group's balance sheet for the next period. The management reevaluates on an ongoing basis its judgements and estimates based on previous experience and other relevant factors, such as estimated future events when decisions on judgements and estimates are made.

Fair value of derivative agreements

The fair value of derivative agreements not listed in effective markets is determined by using evaluation methods, which are reviewed on an ongoing basis by qualified independent employees. All evaluation models used must be approved and tested in order to ensure that the results reflect the documents used. Management's evaluation pertains mainly to embedded derivatives. Further information on the evaluation of derivative agreements is included in note 52.

Notes, contd.:

24. Statement of segments

Segment information is presented by sectors. The primary segment statement is presented according to the nature of the operation and is based on the Group's organisation and internal disclosure.

Inter-segment pricing is determined on an arm's length basis.

Segment operating income includes the segments pertaining directly to specific segments and the items that can be logically divided between the segments. Assets and liabilities of the Group are in the same manner divided between segments based on the beforementioned premises.

Landsvirkjun Group's operating segments are specified as follows:

Electricity production

The operation of the parent company falls under the segment electricity production but Landsvirkjun's objectives according to law is to operate in the energy sector and operate other business and financial operations according to the decision of the Board of Directors at each time. Landsvirkjun's electricity production is based on hydroelectric power and geothermal heat. Landsvirkjun sells all its electricity production to retail consumers and in great quantity to industrial users. Furthermore, the operation of Icelandic Power Insurance Ltd. falls under this segments but the purpose of the company is to take care of insurances of Landsvirkjun's power stations.

Electricity transmission

The operation of Landsnet hf. falls under the segment electricity transmission, but the company was established in August 2004 on the basis of the Energy Act approved by the Parliament in spring 2003. The purpose of Landsnet hf. is to operate electricity transmission and system management in Iceland according to provisions of Chapter III of the Energy Act no. 65/2003 and may thus not carry on other operation than that is necessary in order to carry out its obligations according to the Energy Act.

Other segments

Other segments include the operation of the companies Fjarski ehf. and Landsvirkjun Power ehf. together with Landsvirkjun Power ehf.'s subsidiaries. The purpose of Fjarski ehf. is to own and operate a telecommunications system throughout the country and to rent access thereto in addition to other related operation. Landsvirkjun Power ehf. takes care of sale of technical and operational advisory services to third parties and manages general research work, harnessing researches and projects for Landsvirkjun and related companies.

Almost all the operation of the Group is based in Iceland.

Operating segments year 2009	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	252,831	44,382	2,575		299,788
Income within the Group	15,767	63,183	6,752	(85,702)	0
Segment income	268,598	107,565	9,327	(85,702)	299,788
Segment operating expenses	(116,342)	(32,067)	(7,948)	85,702	(70,655)
EBITDA	152,256	75,498	1,379		229,133
Depreciation and impairment loss	(94,617)	(19,258)	(799)	353	(114,321)
Segment earnings, EBIT	57,639	56,240	580	353	114,812
Segment assets 2009	4,664,694	585,451	13,815	(462,805)	4,801,155
Shares in associated companies	1,553	401	413		2,367
Total assets 2009	4,666,247	585,852	14,228	(462,805)	4,803,522
Segment liabilities 2009	3,102,368	519,223	4,888	(387,444)	3,239,035
Total liabilities 2009	3,102,368	519,223	4,888	(387,444)	3,239,035
Investments	66,970	27,447	657	(1,085)	93,989

Notes, contd.:

24. Statement of segments, contd.:

Operating segments year 2008	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	395,993	53,483	2,551		452,027
Income within the Group	17,153	69,745	8,668	(95,566)	0
Segment income	413,146	123,228	11,219	(95,566)	452,027
Segment operating expenses	(144,041)	(42,002)	(10,035)	95,566	(100,512)
EBITDA	269,105	81,226	1,184		351,515
Depreciation and impairment loss	(82,576)	(22,563)	(704)	311	(105,532)
Segment earnings, EBIT	186,529	58,663	480	311	245,983
Segment assets 2008	4,509,047	571,818	13,495	(488,482)	4,605,878
Shares in associated companies	12,270	400	672		13,342
Total assets 2008	4,521,317	572,218	14,167	(488,482)	4,619,220
Segment liabilities 2008	3,144,622	512,032	5,416	(419,642)	3,242,428
Total liabilities 2008	3,144,622	512,032	5,416	(419,642)	3,242,428
Investments	311,948	30,129	1,994	(1,530)	342,541

25. Other income

Other income is specified as follows:	2009	2008
Service sale, rent and other income	3,967	10,391

26. Salaries and salary related expenses

Total number of employees is specified as follows:	2009	2008
Average number of employees during the year full-time equivalents	376	357
Full-time equivalent units at year-end	318	317

27. Total salaries of employees are specified as follows:

Salaries	23,206	32,775
Pension premium payments	2,756	3,736
Defined pension benefit payments	1,192	1,662
Increase in pension obligation	603	3,876
Other salary related expenses	3,103	2,623
	<u>30,860</u>	<u>44,672</u>

Salaries are divided as follows in the income statement:

Energy production costs	11,386	14,490
Transmission costs	8,210	11,276
Cost of general research	0	201
Other operating expenses	11,264	18,705
	<u>30,860</u>	<u>44,672</u>

Friðrik Sophusson resigned as the Managing Director (CEO) of the Company in October 2009 and Hörður Arnarson was appointed as Managing Director (CEO).

Notes, contd.:

27. Total salaries of employees are specified as follows, contd.:

Salary of the Board of Directors, Managing Director, Deputy and Executive Directors are specified as follows:

	2009	2008
Salaries of the Board of Directors of the parent company	76	115
Salaries of Boards of Directors of three subsidiaries	92	131
Salaries and benefits of the CEO of the parent company, Friðrik Sophusson	215	244
Salaries and benefits of the CEO of the parent company, Hörður Arnarson	32	0
Salaries of the Deputy CEO and Directors of the parent company	676	950
Salaries and benefits of the CEO and Directors of subsidiaries	907	1,070

28. Other operating expenses

Other operating expenses are specified as follows:

Corporate office	2,902	3,627
Finance	2,953	4,051
Human resources	921	1,171
Information technology	2,167	2,903
Engineering and construction	296	516
Pension	1,625	5,255
Other shared cost	2,060	2,284
	12,924	19,807
Other cost - relating to subsidiaries	11,020	13,978
Assets available for sale, impairment	2,595	4,148
Depreciation	2,992	2,893
	29,531	40,826

Auditors' fees are specified as follows:

Auditing of financial statements	220	266
Reviewing of interim financial statements	53	100
Other services	70	58
	343	424

29. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2009	2008
Interest income	5,907	15,390
Interest expenses	(85,260)	(178,060)
Guarantee fee paid to owners	(7,233)	(6,970)
Capitalised interest costs	0	7,288
Total interest expenses	(92,493)	(177,742)
Exchange rate difference	(48,834)	(128,612)
Fair value changes of derivatives	(53,655)	186,284
Fair value changes of shares	(438)	(13)
Sales profit on shares	4	156
Net income (expenses) on financial assets and liabilities	(102,923)	57,815
Fair value changes of embedded derivatives	253,304	(497,167)
Aluminium hedges, income(expenses)	42,526	(54,759)
Effects through associated companies	(11,193)	(4,100)
Financial income and (expenses)	95,128	(660,563)

Notes, contd.:

30. Income tax

Income tax is specified as follows:

	2009	2008
Change in income tax asset	(20,937)	26,860
Current tax	(101)	(361)
Liability due to revaluation recognised in equity	3,518	30,751
Foreign exchange difference	575	12,694
Other items	0	105
Recognised as income (expense) in the income statement	<u>(16,944)</u>	<u>70,048</u>

Change in income tax asset is specified as follows:

Change in temporary difference	(58,378)	14,483
Effect of changed income tax ratio	32,148	(10,345)
Carry forward loss utilised	5,868	35,416
Foreign exchange difference	(575)	(12,694)
Change in deferred tax asset	<u>(20,937)</u>	<u>26,860</u>

Effective tax rate

	2009	2008
Profit (loss) for the year	192,996	(344,532)
Income tax for the year	<u>16,944</u>	<u>(70,048)</u>
Profit (loss) before income tax	<u>209,940</u>	<u>(414,580)</u>
Income tax acc. to the parent company's curr. tax rate	23.5% 49,336	23.5% (97,426)
Effect of different tax rates within the Group	-0.5% (1,008)	-3.5% 14,435
Effect of change in tax rate	-17.0% (35,659)	-2.5% 10,345
Non-deductible cost	0.1% 154	-0.7% 3,074
Other items	2.0% 4,121	0.1% (476)
Effective income tax	<u>8.1% 16,944</u>	<u>16.9% (70,048)</u>

31. Property, plant and equipment

Property, plant and equipment, their initial value and depreciation is specified as follows:

	Power stations	Trans- mission	Communicat. equipment	Other assets	Total
Cost value					
Total value at 1.1.2008	4,413,840	686,724	12,734	77,057	5,190,355
Effect of exchange rate changes	0	(406,714)	(6,546)	(19,411)	(432,671)
Additions during the year	143,159	10,484	1,210	5,771	160,624
Revaluation of fixed assets	0	230,338	2,715	0	233,053
Assets from construction	264,421	0	0	0	264,421
Sold and disposed of	0	0	0	(607)	(607)
Total value at 31.12.2008	<u>4,821,420</u>	<u>520,832</u>	<u>10,112</u>	<u>62,810</u>	<u>5,415,174</u>
Effect of exchange rate changes	0	(17,024)	(332)	(765)	(18,121)
Additions during the year	39,237	3,413	530	11,338	54,518
Assets from construction	0	17,644	0	0	17,644
Moved to assets available for sale	0	0	0	(3,424)	(3,424)
Sold and disposed of	(32,822)	0	0	(1,031)	(33,853)
Total value at 31.12.2009	<u>4,827,835</u>	<u>524,865</u>	<u>10,310</u>	<u>68,928</u>	<u>5,431,938</u>

Notes, contd.:

31. Property, plant and equipment, contd.:

	Power stations	Trans- mission	Communicat. equipment	Other assets	Total
Depreciation					
Total value at 1.1.2008	1,477,090	34,474	5,579	21,550	1,538,693
Depreciation of the year	77,697	19,422	700	2,780	100,599
Revaluation of depreciation	0	20,054	0	0	20,054
Effect of exchange rate changes	0 (	27,921) (	2,923) (	1,935) (	32,778) (
Sold and disposed of	0	0	0	(524)	(524)
Total value at 31.12.2008	1,554,787	46,030	3,357	21,871	1,626,044
Depreciation of the year	83,796	16,886	779	2,587	104,048
Effect of exchange rate changes	0 (	1,664) (	116) (	97) (	1,877) (
Sold and disposed of	(32,822)	0	0	(957)	(33,779)
Total value at 31.12.2009	1,605,761	61,252	4,020	23,404	1,694,436
Book value					
1.1.2008	2,936,750	652,250	7,155	55,507	3,651,660
31.12.2008 og 1.1.2009	3,266,633	474,802	6,756	40,939	3,789,129
31.12.2009	3,222,074	463,614	6,291	45,524	3,737,504

Official assessment of fixed assets and insurance value

The official assessment of the Company's real estates amounted to USD 268 million at year end 2009. Insurance value of the Company's assets amounts to USD 3,607 million.

32. Intangible assets are specified as follows:

	Capitalised development cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2008	93,760	40,568	5,691	140,019
Effect of foreign exchange rate changes	(6,599)	0	(1,650)	(8,249)
Additions during the year	55,134	0	1,685	56,819
Total value at 31.12.2008	142,295	40,568	5,726	188,589
Effect of foreign exchange rate changes	(379)	0	(95)	(474)
Additions during the year	22,277	0	829	23,105
Sold and disposed of	0	0	(432)	(432)
Moved to assets in construction/ in operation	(8,939)	0	0	(8,939)
Total value at 31.12.2009	155,254	40,568	6,028	201,850
Amortization and impairment loss				
Total value at 1.1.2008	43,515	0	2,389	45,904
Amortization during the year	0	0	824	824
Impairment loss during the year	4,108	0	0	4,108
Effect of foreign exchange rate changes	(10)	0	(315)	(325)
Total value at 31.12.2008	47,613	0	2,898	50,511
Amortization during the year	0	0	897	897
Impairment loss during the year	9,375	0	0	9,375
Sold and disposed of	0	0	(432)	(432)
Effect of foreign exchange rate changes	(4)	0	(22)	(26)
Total value at 31.12.2009	56,984	0	3,341	60,325
Book value				
1.1.2008	50,245	40,568	3,302	94,113
31.12.2008 og 1.1.2009	94,682	40,568	2,828	138,077
31.12.2009	98,270	40,568	2,687	141,523

Notes, contd.:

33. The Group's depreciation and impairment is specified as follows:	2009	2008
Power stations	83,796	77,697
Transmission	16,886	19,422
Telecommunication equipment	779	700
Other assets	2,587	2,780
Depreciation of assets in operation	104,048	100,600
Impairment loss on development cost	9,375	4,108
Amortization of software	897	824
	<u>114,321</u>	<u>105,532</u>

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

Energy production costs	84,386	78,258
Transmission costs	17,569	20,273
Cost of general research	9,375	4,108
Other operating expenses	2,991	2,893
	<u>114,321</u>	<u>105,532</u>

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

	2009	2008
Assets:		
Embedded derivatives in electricity sales agreements	446,569	195,944
Aluminium hedges	36,050	98,032
Currency swaps	3,335	11,035
Interest rate swaps	1,911	0
Other derivatives	1,503	0
	<u>489,368</u>	<u>305,011</u>
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	431,822	287,513
Short-term component of derivative agreements	57,546	17,498
	<u>489,368</u>	<u>305,011</u>
Liabilities:		
Embedded derivatives in electricity sales agreements	23,562	26,242
Aluminium hedges	31,157	0
Currency swaps	53,118	63,396
Interest rate swaps	12,379	10,754
Other derivatives	8,943	45,176
	<u>129,159</u>	<u>145,568</u>
Derivative financial instruments are divided as follows:		
Long-term component of derivatives	96,113	123,971
Short-term component of derivatives	33,046	21,597
	<u>129,159</u>	<u>145,568</u>

Notes, contd.:

35. Shares in associated companies recognised according to the equity method within the Group are specified as follows:

		2009	
	Share	Share in return	Book value
Eignarhaldsfélagið Farice ehf.	29.5%	(6,175)	0
Þeistareykir ehf.	32.0%	(382)	1,524
Netorka hf.	40.8%	74	430
Hecla SAS	29.4%	198	413
Sipenco GmbH	29.6%	(25)	0
		<u>(6,310)</u>	<u>2,367</u>

In addition, the Company's holding in Eignarhaldsfélagið Farice ehf. has been written down by USD 4.9 million due to impairment losses in relation to the financial restructuring of Eignarhaldsfélagið Farice ehf. Landsvirkjun entered into an agreement on the acquisition of Norðurorka ehf.'s 32% in Þeistareykir ehf. at year end 2009 subject to certain conditions and the agreement has therefore not been recognised in the financial statements, see note 59.

		2008	
	Share	Share in return	Book value
Eignarhaldsfélagið Farice ehf.	29.5%	(1,668)	10,986
Þeistareykir ehf.	32.0%	(2,074)	1,251
Netorka hf.	40.8%	83	436
Hecla SAS	30.0%	81	209
Sipenco GmbH	25.0%	(38)	0
Isturk	30.0%	(44)	0
HydroKraft Invest hf.	50.0%	(440)	460
		<u>(4,100)</u>	<u>13,342</u>

36. Shares in other companies are specified as follows:

	2009		2008	
	Share	Book value	Share	Book value
Neyðarlínan hf.	7.9%	400	7.9%	414
Orkuvörður ehf.	11.1%	240	9.0%	165
DMM Lausnir ehf.	17.8%	286	17.8%	295
Vistorka hf.	12.0%	283	13.2%	292
Other companies (6/4)		645		162
Total shares in other companies		<u>1,854</u>		<u>1,328</u>
Fair value changes of shares		<u>(1,606)</u>		<u>(1,201)</u>
		<u>248</u>		<u>127</u>

Shareholding has been decreased by the impairment loss, or by USD 1.6 million, due to an uncertainty on the future standing of individual companies, but some of the companies are established around high-risk innovative projects.

Notes, contd.:

37. Landsvirkjun's subsidiaries are specified as follows:

	Share	
	2009	2008
Fjarski ehf.	100.0%	100.0%
Hraunaveita ehf.	100.0%	100.0%
Icelandic Power Insurance Ltd.	100.0%	100.0%
Landsnet hf.	64.7%	64.7%
Landsvirkjun Power ehf.	100.0%	100.0%

38. Tax asset

In December 2009, the Icelandic Parliament, Althingi, decided to increase the income tax ratio from 23.5% to 32.7% for partnerships and from 15% to 18% for limited liability companies as of 1 January 2010. The change comes into effect in the tax assessment in the year 2011. The effect thereof has been recognised in the financial statements and the increase in deferred tax asset amounts to USD 32.1 million.

	2009	2008
Changes in the tax asset during the year is specified as follows:		
Calculated tax asset at the beginning of the year	133,409	106,797
Calculated income tax	(16,944)	70,048
Current income tax	101	258
Liability due to revaluation of fixed assets transferred to equity	(3,482)	(31,950)
Foreign exchange loss and translation difference due to tax asset	(612)	(11,744)
Deferred tax asset at year-end	112,472	133,409

The Company's deferred tax asset is specified as follows:

Carry forward taxable loss	57,021	50,550
Non-current assets and intangible assets	176,262	140,516
Derivative financial instruments	(137,447)	(52,423)
Other items	17,547	7,460
Translation difference due to tax asset	(910)	(12,694)
Deferred tax asset at year-end	112,472	133,409

The Group's carry forward losses may be utilised for 10 years from when it is incurred.

Carry forward loss of the year 2006, usable until the year 2016	44,952	46,490
Carry forward loss of the year 2007, usable until the year 2017	0	7,528
Carry forward loss of the year 2008, usable until the year 2018	136,059	156,962
Carry forward loss of the year 2009, usable until the year 2019	40,191	0
Carry forward loss at year end	221,202	210,980

Deferred tax asset is calculated on all carry forward loss where it is considered likely that it will be utilised against future taxable profit. Carry forward loss is recognised in Icelandic krona and therefore the exchange rate of the USD affects carry forward loss at each year end.

39. Inventories

Inventories are specified as follows:	2009	2008
Oil	290	294
Spareparts and consumables	3,869	3,975
	4,159	4,269

Notes, contd.:

40. Accounts receivables and other receivables

Accounts receivables and other receivables are specified as follows:	2009	2008
Accounts receivables	44,542	52,949
Other short term receivables	54,742	37,013
Assets available for sale	9,574	8,412
	<u>108,858</u>	<u>98,374</u>

At year-end 2009, 97% of accounts receivables were under 30 days old.

41. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank deposits	194,248	113,940
Market securities	0	11,053
	<u>194,248</u>	<u>124,993</u>

42. Equity

The parent company is a partnership owned by the State and Eignarhlutir ehf. The State owns a 99.9% share in the Company and Eignarhlutir ehf. holds 0.1%. The Company is an independent taxable entity. The Group's equity ratio at year end 2009 was 32.6% but was 29.8% at year end 2008.

43. The revaluation account consists of revaluation of fixed assets of subsidiaries after income tax effect. Translation difference is the foreign exchange difference arising due to Landsvirkjun's subsidiaries with other functional currencies.

44. Liabilities

Long-term debt is specified as follows by currencies:

		2009		2008	
	Maturity date	Average interests	Remaining balance	Average interests	Remaining balance
Liabilities in ISK, indexed	2009-2034	4.0%	438,023	3.9%	333,592
Liabilities in ISK, unindexed	2009		0	6.8%	3,902
Liabilities in CHF	2012-2022	1.5%	96,233	2.5%	93,487
Liabilities in EUR	2009-2028	1.8%	1,465,843	2.7%	1,431,944
Liabilities in GBP	2014-2016	11.4%	15,270	11.4%	13,433
Liabilities in JPY	2009-2013	1.0%	85,052	1.1%	175,483
Liabilities in USD	2009-2026	1.7%	917,699	2.2%	923,428
			<u>3,018,120</u>		<u>2,975,269</u>
Current maturities of long-term debt			(267,197)		(186,008)
Total long-term debt			<u>2,750,923</u>		<u>2,789,261</u>

Interest terms on the parent company's loans are from 0.7-14.5%. Nominal interests for the period were on average approximately 2.46% compared to approximately 4.51% the previous year.

The city of Reykjavik and the town of Akureyri provide together with the State a guarantee of collection for all obligations of Landsvirkjun, entered into before the end of year 2006. From the beginning of year 2007 the State and Eignarhlutir ehf. provide such a guarantee for all of Landsvirkjun's obligations entered into after that date.

Notes, contd.:

45. According to loan agreements, current maturities of long-term debt are as follows:

	2009	2008
2009	-	186,008
2010	267,197	197,618
2011	293,232	285,758
2012	235,317	197,725
2013	156,492	146,759
2014	167,137	-
Later	1,898,745	1,961,401
	<u>3,018,120</u>	<u>2,975,269</u>

46. Pension fund obligation

The Company's obligation to refund the indexation charges on retirement payments to current and former employees, which hold pension rights with state and communal pension funds amounted to USD 22 million at year end 2009 according to an actuary's evaluation, which is based on estimated future changes in salaries and prices. Interest in excess of price increase are assessed at 3.5% and salary increase in excess of price increase is assessed at 1.5% per year on average. Premises on life expectancy and death rate are in accordance with provisions of Regulation no 391/1998 on obligatory pension benefits and operation of pension funds. The retirement age is 68 years for current employees and 65 years for non-employees with vested benefits and this is consistent with the relevant pension funds' regulation.

Change in the obligation is specified as follows:

	2009	2008
Balance at 1.1.	22,118	38,153
Expensed during the period	1,624	5,255
Payments during the period	(1,022)	(1,379)
Effect of foreign exchange rate differences	(742)	(19,911)
Balance at 31.12.	<u>21,978</u>	<u>22,118</u>

Pension fund obligation, 5 year statement:

	2009	2008	2007	2006	2005
Present value of the obligation	<u>21,978</u>	<u>22,118</u>	<u>38,153</u>	<u>35,168</u>	<u>31,419</u>

47. Obligation due to demolition

Change in the obligation due to demolition is specified as follows:

	2009	2008
Balance at 1.1.	3,936	7,212
Expensed during the period	497	324
Increase in obligation	366	0
Effect of foreign exchange rate differences	(136)	(3,601)
Balance at 31.12.	<u>4,663</u>	<u>3,936</u>

In accordance with IFRS, the initial value of fixed operating assets shall include estimated cost of their demolition after their use. Estimated demolition cost of power lines has been assessed and discounted on the basis of the useful life. In return, an obligation has been written up among long-term liabilities. An increase in the obligation is expensed in the income statement amounting to the discounted value in addition to depreciation of the demolition cost.

Notes, contd.:

48. Accounts payable and other payables

Accounts payable and other payables are specified as follows:	2009	2008
Accounts payable	28,033	41,095
Accrued interest	21,041	35,874
Other short term liabilities	16,042	18,567
	<u>65,115</u>	<u>95,537</u>

49. Related parties

Definition of related parties

Associated companies and key management are among the Company's related parties.

Transactions with related parties

Sale of goods and services

Associated companies	40	596
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Cost

Associated companies	27	41
----------------------------	----	----

Interest income

Associated companies	1,358	676
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Accounts receivables and other receivables

Associated companies	23,580	21,928
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Accounts payable and other payables

Associated companies	2	9
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Receivables from an associated company is mainly due to a loan to Eignarhaldsfélagið Farice ehf.

50. Risk management

The Company's Board of Directors has approved a risk management policy, which is based on the following factors:

- That risk is defined and its origin is known
- That generally accepted methods are used in evaluating the risk
- That effective management is applied in accordance with authorisations
- That effective monitoring on risk factors is ensured
- That information provided to the risk committee and the Board of Directors is accurate and provided on a regular basis

Landsvirkjun's risk management strategy defines a benchmark in each risk category with respect to hedging limits. The Company's Board of Directors receives on an ongoing basis an overview of the Company's risk position and results of risk management.

Decisions and the supervision of how hedging is implemented are entrusted to a risk management committee. The risk management committee consists of the Managing Director, his deputy and the Financial Director. The Managing Director is the chairman of the risk management committee. The Head of Risk Management is responsible for risk management on a daily basis.

The objectives of risk management are to analyse, manage and monitor Landsvirkjun's risks in order to stabilise operating return by reducing operating fluctuations due to exchange rate, interest rate and aluminium price changes. Financial risk is divided into market risk, liquidity risk and counterparty risk.

The Company's market risk consists mainly of three risk categories:

- Risk due to fluctuations in world market price of aluminium
- Interest rate risk due to the Company's liabilities
- Foreign exchange risk due to liabilities and income in foreign currencies

Notes, contd.:

51. Market condition in 2009

Landsvirkjun's access to new hedges this year was limited due to the international financial crisis and the situation in Iceland. The Company's risk exposure due to changes in aluminium price, interest and foreign currency rates is though within reasonable limits as the Company has hedges from previous years. Cash position is strong and capital expenditure is at minimum level.

Risk management has had to adapt to changed environment and hedging activities have changed accordingly. Emphasis is placed on reducing liquidity risk in relation to derivative agreements, contractual terms have changed and use of options increased.

Derivative agreements with Rating Triggers were closed in the years 2008 and 2009. ISDA agreements have been renewed without such provisions and equality has been maintained towards Landsvirkjun's counterparties.

52. Aluminium price risk

The Company is exposed to substantial risk due to possible future aluminium price fluctuations. The Company has thus entered into derivative agreements in order to secure its income base and reduce fluctuations. Such agreements consist in most cases of fixing aluminium price at a certain level. The Company therefore loses income if aluminium price increases considerably, but at the same time guarantees better cash flow should the price of aluminium decrease in the markets. Risk management may hedge up to 100% of aluminium price risk for next year and proportionally less over the next 10 years but is not limited by minimum hedges. Part of the aforesaid derivative agreements was realised with profit in the year 2009. The Company aims at increasing hedges next year in order to reduce risk due to possible aluminium price changes as the Company's hedges from the year 2011 and onwards are limited. At the end of December, fair value of the hedges in question was positive by USD 5 million but the agreements are effective over the next five years.

The accompanying tables show the changes in the fair value of aluminium hedges due to changes in aluminium price and/or interest rates, but the effect of volatility is insubstantial. The amounts are in USD thousand before taxes.

2009				2008					
		Aluminium Price					Aluminium Price		
		-10%	0%	10%			-10%	0%	10%
Interest Rates	-1%	21.766	575 (	21.071)	Interest Rates	-1%	27.558	3.058 (	22.057)
	0%	20.903	0 (	21.344)		0%	23.884	0 (	24.483)
	1%	20.065 (	558) (	21.608)		1%	20.355 (	2.936) (	26.811)

Embedded derivatives

Landsvirkjun has defined the part of electric power sales and purchase agreements related to aluminium price as embedded derivatives, which are recognised in the Company's financial statements. Embedded derivatives in electric power sales agreements are capitalised in the balance sheet at fair value on the reporting date and in a comparable way electric power purchase agreements are charged. Fair value changes of the agreements during the year are recognised in the Company's income statement among financial income and expenses.

In evaluating the value of embedded derivatives generally accepted evaluation methods are used where market values are not available. Fair value of the agreements is calculated on the basis of the forward price of aluminium, discounted at USD zero-coupon rates allowing for volatility.

	2009	2008
The fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	169,702	665,158
Foreign exchange rate effect	0	1,712
Fair value changes during the year	253,305 (	497,167)
Fair value of embedded derivatives at year end	423,007	169,702

Notes, contd.:

52. Aluminium price risk, contd.:

Embedded derivatives, contd.:

	2009	2008
Division of embedded derivatives is specified as follows:		
Long term components of embedded derivatives	374,946	183,667
Short term component of embedded derivatives	48,061	(13,965)
Total embedded derivatives	<u>423,007</u>	<u>169,702</u>

The following tables show the change in the fair value of embedded derivatives in the case of changes in aluminium price and/or interest rates, but the effect due to volatility is insubstantial. The amounts are in USD thousand before taxes.

2009				2008					
		Aluminium Price					Aluminium Price		
		-10%	0%	10%			-10%	0%	10%
Interest Rates	-1%	(145.312)	20.728	184.529	Interest Rates	-1%	(218.097)	21.031	261.766
	0%	(158.659)	0	156.415		0%	(217.534)	0	219.117
	1%	(171.157)	(19.424)	130.061		1%	(217.161)	(17.944)	182.833

Landsvirkjun has made changes in the assumptions for evaluation of embedded derivatives in the financial statements as of 2009. It is the opinion of Landsvirkjun's management that the assumptions are in accordance with IFRSs and that they reflect Landsvirkjun's precautionary view. The changes are as follows:

The assumptions for take or pay obligations of electric power buyers are implemented and calculations are now based on the minimum purchase of 77% - 85%. Previously the calculations were based on a 100% energy use of buyers over the term of the agreements.

As before, an active market is defined up to 123 months and is based on prices of the LME. However, the management opinion is that aluminium price expectations in ten years will reflect the evaluation of Landsvirkjun's management as when the agreements were made and therefore fair value changes will not arise after active market. Previously, the calculations were based on a flat curve based on the last forward aluminium price throughout the term of the agreements.

The calculations are now limited to the revision time of electric power sales agreements in terms of time. Previously, revision time was limited in all other cases than for Fjarðaál, which was limited to the life term of the agreement.

The main reasons for the above mentioned changes are:

Where Landsvirkjun's electric power sale to aluminium factories has not been insured in excess of take or pay it is the Company's view that this shall be taken into account in the evaluation of embedded derivatives.

It is the opinion of Landsvirkjun's management that there is no reason to believe that the aluminium price for a longer time than 123 months is different from the basic assumptions in electric power sale agreements. It is therefore not an actual fair value change after the period of an active market.

Notes, contd.:

52. Aluminium price risk, contd.:

Embedded derivatives, contd.:

The effect of changed assumptions in the fair value of embedded derivatives is specified as follows:

	2009	2008
Fair value of embedded derivatives based on previous assumptions	660,962	169,702
Fair value change due to changed period length	(151,482)	(55,471)
Fair value changes due to assumptions on purchase obligation	(86,473)	(18,577)
Fair value of embedded derivatives based on new assumptions	<u>423,007</u>	<u>95,654</u>
Fair value changes based on previous assumptions ('09: before - '08: before)	491,260	
Fair value changes based on new assumptions ('09: now - '08: now)	327,353	
Fair value changes in the financial statements ('09: now - '08: before)	253,304	

Fair value is recognised in the Company's financial statements according to an evaluation based on new assumptions in the year 2009 but according to previous assumptions in the year 2008.

53. Foreign exchange risk

Foreign currency risk is the risk of loss due to unfavourable changes in foreign exchange rates. Landsvirkjun's foreign exchange risk is due to the payment flow, financial assets and liabilities in addition to all general transactions in other currencies than the functional currency.

The Company's functional currency is the USD and therefore a foreign exchange risk arises from the net cash flow and opening balance in the balance sheet in other currencies than the USD. The Company's income flow is mainly in USD. Other income is in ISK and NOK but foreign exchange risk due to those currencies is limited due to netting in the cash flow in ISK and income in NOK is relatively low. Currency risk due to amortization and interest payments in EUR over the next years has been limited with derivative agreements. Risk management has the authority to hedge foreign currency cash flows against the functional currency for up to three years in advance with forward agreements and options.

The Company's reporting risk related to exchange rate changes arises mainly due to its debts in EUR, which are mainly long term loans. There is also limited risk related to the JPY, CHF and GBP due to outstanding loans. The open balance in the loan portfolio against the USD is around 21% of assets which is in excess of the Company's desirable long term balance. The reason for imbalance in the currency composition in the balance sheet is among others due to the closing of swaps in order to ensure liquidity and the Company's limited access to new hedges. The following table shows Landsvirkjun's open balance in other currencies than the functional currency.

The Group's foreign exchange risk is specified as follows in nominal value (USD thousand):

2009	EUR	ISK	JPY	Other currencies
Accounts receivables and other receivables.....	30,219	24,135	0	7,228
Cash.....	7,862	70,369	324	5,377
Derivatives.....	682,625	159,628	(26,922)	0
Bonds.....	(1,465,842)	(437,689)	(85,052)	(111,503)
Accounts payable and other payables.....	(10,401)	(42,408)	(1,627)	(1,951)
Risk in balance sheet.....	<u>(755,537)</u>	<u>(225,965)</u>	<u>(113,277)</u>	<u>(100,849)</u>

Notes, contd.:

53. Foreign exchange risk, contd.:

2008	EUR	ISK	JPY	Other currencies
Accounts receivables and other receivables.....	30,717	20,023	0	2,295
Cash.....	4,912	36,544	3	409
Derivatives.....	1,010,550	107,190	(22,931)	(3,864)
Bonds.....	(1,431,944)	(337,494)	(175,483)	(106,920)
Accounts payable and other payables.....	(30,802)	(45,269)	(2,859)	(3,993)
Risk in balance sheet.....	(416,567)	(219,006)	(201,270)	(112,073)

Exchange rate of the main currencies against the USD, (usd/currency) for the years 2009 and 2008 is specified as follows:

	Average rate		Rate at year end	
	2009	2008	2009	2008
EUR.....	0.72	0.69	0.69	0.71
GBP.....	0.64	0.55	0.62	0.69
CHF.....	1.08	1.09	1.03	1.06
JPY.....	93.31	102.03	92.41	90.22
NOK.....	6.24	5.71	5.76	6.99
ISK.....	123.59	88.07	124.90	120.87

Sensitivity analysis

The strengthening of the USD by 10% against the following currencies at December 31, would have increased the Group's profit by the following amounts after 23.5% income tax. The analysis is based on that all variables, especially interest rates, remain unchanged. The analysis was made in the same way for the year 2008.

	Profit after tax		Equity	
	2009	2008	2009	2008
EUR	61,361	95,600	61,361	95,600
ISK	3,711	23,168	3,711	23,004
JPY	8,116	18,000	8,116	18,000

The weakening of the USD by 10% against the aforementioned currencies would have the same effect in the opposite direction, provided that all other variables would remain unchanged.

The fair value of currency swaps was negative by USD 50 million at the end of December 2009. The underlying principal amount is USD 398 million. The fair value of forward currency agreements was positive by USD 1.4 million and the underlying principal amount was USD 90 million. The fair value of forward currency agreements was negative by USD 9 million and the underlying principal amount was approx. USD 371 million.

Notes, contd.:

54. Interest rate risk

Landsvirkjun faces interest rate risk as the Company has interest bearing assets and liabilities. The Company's liabilities carry both fixed and floating interest rates and interest rate derivatives are used in order to hedge against risk. Interest bearing financial liabilities are higher than interest bearing financial assets and the Company's risk consists therefore of possible increase in interests and increased interest expenses.

At the end of December, the proportion of loans with floating interest rates was 84% compared to 80% at year end 2008. Changes in interest rate by one percent would have led to a change in interest expenses by USD 29 million in the year 2009 (USD 26 million in the year 2008). The Company's financial instruments with fixed interests are not sensitive to interest rate changes. At year end 2009, the estimated market value of the Company's long term liabilities was USD 118 million lower than their book value (USD 149 million lower in the year 2008).

Landsvirkjun has entered into interest rate swaps, which are aimed at fixing interest rates and reducing the Company's risk exposure. The agreements are not denominated as hedges and fair value changes are thus recognised in the income statement. At the end of December 2009 the fair value of interest rate swaps was negative by USD 10 million and the underlying principle amounted to USD 140 million. The following table shows the effect of the interest rate increase and fluctuation in the fair value of the derivatives. The analysis decreases the interest rates only by 0.2% in which case rates will be 0%. The amounts are in USD thousand.

		Interest Rates			
		-0,20%	0,00%	1,00%	2,00%
Volatility	-1,00%	224	1.406	6.182	9.434
	0,00%	(1.190)	0	4.966	8.477
	1,00%	(2.549)	(1.364)	3.701	7.440

Interest rate changes in the US have considerable effect on the value of embedded derivatives with Landsvirkjun and the effect is greater as aluminium price increases. Sensitivity analysis of embedded derivatives at year end is included in note 52, which states the effect changes in interest rates and aluminium prices have on embedded derivatives in the Company's electric power agreements.

55. Liquidity risk

Liquidity risk consists of the risk of losses should the Company not be able to keep its obligations at maturity date. In order to limit such risk, the Company's liquidity balance is monitored by analysing the flow of revenues and expenses and the maturity dates of financial assets and liabilities. Effective liquidity management ensures sufficient access to cash at each time. At the end of December 2009, the Company's cash and cash equivalents amounted to USD 194 million and undrawn Revolving Credit Facility was USD 282 million, or in total USD 476 million. Taken into consideration cash flow from operation the Company believes that access to liquid assets is ensured into the year 2012.

In order to further reinforce Landsvirkjun's liquidity balance the Company has signed a Contingent Credit Facility with the Ministry of Finance and the Central Bank of Iceland. The Central Bank has according to the agreement the obligation to provide the Company with foreign currency and Landsvirkjun has to hand over to the bank Icelandic krona or bonds in exchange but though only to the extent that the Company has previously fully tried other financing resources. The amount of the agreement is a maximum of USD 300 million and expires on 1 July 2011.

In order to ensure access to capital and maintain flexible funding possibilities Landsvirkjun has used different loan types. In the past years, financing has mostly taken place through a Euro Medium Term Note Program (EMTN). At year end the balance of loans under the EMTN was USD 1.93 billion but the total amount that the Company can borrow under the program is USD 2.5 billion.

The Company's risk related to refinancing is reduced with an even maturity profile of outstanding loans. Weighted average life of the loan portfolio was 7.5 years at year end and the proportion of loans with maturity within 12 months was 8.9%.

Notes, contd.:

55. Liquidity risk, contd.:

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

2009	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Non-derivative financial instruments</i>						
Long-term loans	(3,018,120)	(3,615,600)	(305,252)	(332,348)	(682,438)	(2,295,562)
Trade receivables	108,858	108,858	108,858			
Trade payables	(65,115)	(65,115)	(65,115)			
	<u>(2,974,377)</u>	<u>(3,571,857)</u>	<u>(261,509)</u>	<u>(332,348)</u>	<u>(682,438)</u>	<u>(2,295,562)</u>
<i>Derivative financial instruments</i>						
Currency swaps	(58,653)	(82,437)	667	(1,637)	(81,467)	
Interest rate swaps	(10,468)	(21,468)	(4,289)	(3,874)	(8,229)	(5,076)
Forward agreements	1,431	1,660	0	1,660		
Aluminium derivatives ..	4,893	1,758	(11,590)	2,356	10,993	
Embedded derivatives .	423,007	497,417	48,230	49,645	161,721	237,821
	<u>360,210</u>	<u>396,930</u>	<u>33,018</u>	<u>48,150</u>	<u>83,018</u>	<u>232,745</u>

2008

Non-derivative financial instruments

Long-term loans	(2,975,269)	(3,766,341)	(267,387)	(275,446)	(831,726)	(2,391,782)
Trade receivables	98,374	98,374	98,374			
Trade payables	(95,537)	(95,537)	(95,537)			
	<u>(2,972,432)</u>	<u>(3,763,504)</u>	<u>(264,550)</u>	<u>(275,446)</u>	<u>(831,726)</u>	<u>(2,391,782)</u>

Derivative financial instruments

Currency swaps	(97,105)	(64,537)	1,049	(10,635)	(67,596)	12,645
Interest rate swaps	(10,754)	(12,598)	(1,309)	(1,246)	(3,738)	(6,305)
Forward agreements	(432)	(447)	(447)			
Aluminium derivatives ..	98,032	125,638	18,669	23,712	60,478	22,779
Embedded derivatives	169,702	438,669	(14,061)	(2,233)	75,642	379,321
	<u>159,443</u>	<u>486,725</u>	<u>3,901</u>	<u>9,598</u>	<u>64,786</u>	<u>408,440</u>

56. Counterparty risk

Counterparty risk is the risk that a counterparty to an agreement does not comply with provisions of the agreement. Landsvirkjun's counterparty risk arises first and foremost due to the Company's energy contracts and derivatives entered into for hedging purposes, but such contracts are only entered into with financial companies. Though the amounts involved are considerably high, the risk is limited with the Company's requirements for counterparty quality. Landsvirkjun has set a benchmark for derivatives which involves that no derivative agreements are made with financial companies that have a lower rating than A- from Standard and Poor's or a comparable rating from other recognised credit rating agencies. If credit rating is not available a special insurance agreement is made between parties limiting Landsvirkjun's risk. Before energy contracts are made the financial standing of the relevant companies and their parent companies are thoroughly reviewed, if applicable.

Notes, contd.:

56. Counterparty risk

The Company's counterparty risk is specified as follows at year end:	31/12/2009	31.12.2008
Derivative financial instruments	489,368	305,011
Other long-term receivables	334	246
Accounts receivables and other receivables	108,858	98,374
Cash	194,248	124,993
	<u>792,808</u>	<u>528,624</u>

57. Fair value

Comparison of fair value and book value

The fair value and book value of financial assets and liabilities in the balance sheet is specified as follows:

	2009		2008	
	Book value	Fair value	Book value	Fair value
Shares in other companies	248	248	127	127
Derivative agreements	360,210	360,210	159,443	159,443
Bonds	334	334	246	246
Trade and other receivables	108,858	108,858	98,374	98,374
Cash and cash equivalents	194,248	194,248	124,993	124,993
Interest bearing long-term liabilities	(3,018,120)	(2,899,707)	(2,975,269)	(2,826,473)
Trade and other payables	(65,115)	(65,115)	(95,537)	(95,537)
	<u>(2,419,337)</u>	<u>(2,300,924)</u>	<u>(2,687,623)</u>	<u>(2,538,827)</u>

Note 14 includes further information on measurement of fair value.

Interest rates in the evaluation of fair value

Inter bank rates and swap rates were used without premium for the relevant currencies as at the reporting date when discounting the estimated cash flow.

Interest rates are specified as follows:	2009	2008
Embedded derivatives in electric power sales agreements (USD)	0,24 - 4,62%	1,31 - 2,70%
Interest bearing long term liabilities	0,24 - 4,23%	0,75 - 4,30%

Fair value classification:

The table here below shows financial instruments recognised at fair value according to price evaluation method. The methods are defined as follows:

Level 1: available price in an active market for the same type of assets and liabilities

Level 2: assumptions based on other variables than available price in an active market (level 1) that can be obtained for assets and liabilities, directly (for example price) or indirectly (derived from prices)

Level 3: assumptions for fair value of assets and liabilities are not based on market data

	Level 2	Level 3	Total
2009			
Embedded derivatives		423,007	423,007
Other derivatives	(62,797)		(62,797)
Shares in other companies		248	248
	<u>(62,797)</u>	<u>423,255</u>	<u>360,458</u>
2008			
Embedded derivatives		169,702	169,702
Other derivatives	(10,259)		(10,259)
Shares in other companies		127	127
	<u>(10,259)</u>	<u>169,829</u>	<u>159,570</u>

Notes, contd.:

58. Classification of financial instruments

According to the International Financial Reporting Standard IAS 39 Financial instruments: recognition and measurement, financial assets and liabilities are divided into defined groups. The classification affects how the evaluation of the relevant financial instrument is measured. Those groups to which the Company's financial assets and liabilities pertain and their basis for evaluation are specified as follows:

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

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

	Financial assets and liabilities		Financial liabilities		
	Trading assets and liabilities	at fair value through profit and loss	Loans and receivables	recognised at amortised cost	Book value
2009					
Shares in other companies		248			248
Bonds			334		334
Derivatives	489,368				489,368
Accounts receivables and other receivables			108,858		108,858
Cash			194,248		194,248
Total assets	489,368	248	303,440	0	793,056
Interest bearing liabilities				3,018,120	3,018,120
Derivatives	129,158				129,158
Accounts payable and other payables			65,115		65,115
Total liabilities	129,158	0	65,115	3,018,120	3,212,393
	Trading assets and liabilities	at fair value through profit and loss	Loans and receivables	recognised at amortised cost	Book value
2008					
Shares in other companies		127			127
Bonds			246		246
Derivatives	305,011				305,011
Accounts receivables and other receivables			98,374		98,374
Cash			124,993		124,993
Total assets	305,011	127	223,613	0	528,751
Interest bearing liabilities				2,975,269	2,975,269
Derivatives	145,568				145,568
Accounts payable and other payables			95,537		95,537
Total liabilities	145,568	0	95,537	2,975,269	3,216,374

Notes, contd.:

59. Other issues

On August 22, 2007, a special evaluation committee issued a ruling on a settlement amount for water rights due to Kárahnjúkar power station and the division between owners. The total amount amounted to in excess of USD 13.2 million. Most owners of water rights in Jökuldalur and three in Fljótsdalur announced that they would not accept the ruling of the committee and filed a case in court on February 22, 2008. Forty cases were confirmed in the District Court of Austurland on January 15, 2008. The parties involved are owners of one third of the water rights.

In the year 2007, Landsvirkjun and Landsnet hf. entered into two currency swaps with domestic financial institutions, which consist in a change from ISK to USD. Due to the weakening of the ISK in the year 2008, unrealised foreign exchange loss was created, which has been recognised as negative fair value to the amount of USD 39 million in the group's financial statements. A claim was made to the bankruptcy estate of one financial institution due to default in payments but the other agreement has been terminated. The agreements' fair value is recognised in the Group's financial statements as the final result on the settlement of the agreements is not concluded but the Company does not agree to the aforementioned fair value evaluation given the current situation.

The Company has capitalised water rights amounting to USD 40.6 million, whereof water rights related to Kárahnjúkar weigh the most. With law no. 58/2008 on the change of law on the resource and energy sector, which entered into effect on 1 July 2009, restrictions are set for the State, municipalities and companies owned by them on the endorsement of ownership of water rights for waters containing harnessable power in excess of 10 MW. The State and municipalities are though allowed to give to companies owned by them the right of use of the resources for up to 65 years at a time. Upon the adoption of this law, the Prime Minister shall nominate a committee to discuss the arrangement of leasing of water and geothermal heat rights owned by the State. The committee shall in its work discuss on lease amount, lease term, renewal of lease agreements and other issues related to parties' rights and obligations. The committee shall submit proposals in the first half of year 2010.

The ownership of Landsvirkjun in Þeistareykir ehf. is 32% and the owners have provided a guarantee on the company's loans. The owners carry responsibility in proportion to their ownership and Landsvirkjun total guarantee amount due to those loans at year end 2009 amounts to USD 1.6 million. Landsvirkjun acquired in addition Norðurorka hf.'s 32% share in Þeistareykir ehf. at the end of December 2009 with certain conditions to be fulfilled in the first half of year 2010. Following the acquisition, Landsvirkjun will own 64% in the company. The price for the share is USD 4.5 million following a due diligence and additional USD 11 million when energy production begins in the area of Þeistareykir ehf., though not until after ten years. Landsvirkjun's share at year end, 32%, is recognised according to the equity method in the financial statements. Þeistareykir ehf. will become a subsidiary of Landsvirkjun and a part of the Group when the conditions have been fulfilled.

On 8 July 2009, the EFTA Surveillance Authority (ESA) issued a ruling in relation to the institution's research on the arrangement of Landsvirkjun's owners' guarantee. ESA's opinion is that the unlimited guarantee that Landsvirkjun enjoys with its owners is not fully in accordance with provisions of the EEA agreement on state aid. However, ESA believes that a guarantee can be provided for loans, provided that a reasonable fee is paid for the guarantee. ESA's ruling is in the form of appropriate measures to the Icelandic Government and the Government has announced that ESA's decision will be reacted to by presenting bills of law that will meet with ESA's comments on the present arrangement. The bills of law concern an amendment to the law on Landsvirkjun.

60. Subsequent events

Nothing has come forth after the balance sheet date which would require adjustments or changes to the financial statement for the year 2009.