Landsvirkjun

Group

Condensed Interim Financial Statements January 1 to June 30 2010

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík

Reg. no. 420269-1299

Contents

Key figures

Management's presentation of the operation of Landsvirkjun

Amounts are in thousands of USD

	2010 1.1.-30.6	2009 1.1.-30.6	2008 1.1.-30.6	2007 1.1.-30.6
Operation *				
Operating revenues	184,585	139,009	239,623	173,427
Realised aluminium hedges, (expenses) income	(4,812)	40,074	(35,721)	(34,027)
Total operating revenues	179,773	179,083	203,902	139,400
Operating expenses	(35,978)	(34,849)	(50,250)	(48,079)
EBITDA	143,795	144,234	153,652	91,321
Depreciation and impairment loss	(52,634)	(54,801)	(51,333)	(37,142)
EBIT	91,161	89,433	102,319	54,179
Financial items	(69,994)	(27,901)	32,107	365,436
Income tax	(5,479)	(14,274)	(50,977)	(111,032)
Profit	15,688	47,258	83,449	308,584
Balance sheet	**30.06. 2010**	**30.06. 2009**	**30.06. 2008**	**30.06. 2007**
Total assets	4,584,038	4,555,338	5,505,319	4,734,247
Total equity	1,579,686	1,421,455	1,758,031	1,632,894
Total liabilities	3,004,352	3,133,883	3,747,288	3,101,353
Net liabilities **	2,561,291	2,797,642	3,020,832	2,563,081
Cash flow	**1.1.-30.6**	**1.1.-30.6**	**1.1.-30.6**	**1.1.-30.6**
Working capital from operation (FFO)	114,177	103,696	108,585	63,805
Cash flow from operation	109,984	103,644	76,356	64,932
Investment activities	(24,664)	(59,640)	(213,623)	(191,053)
Financing activities	(97,567)	(35,815)	97,071	242,097
Liquidity	**30.06. 2010**	**30.06. 2009**	**30.06. 2008**	**30.06. 2007**
Cash and cash equivalents at the end of the period	178,763	128,844	137,459	190,265
Undrawn Revolving Credit Facility	281,600	350,000	350,000	400,000
Total liquidity	460,363	478,844	487,459	590,265
Key ratios				
Return on equity	2.0%	6.9%	10.4%	46.3%
Equity ratio	34.5%	31.2%	31.9%	34.5%
EBITDA/interest expenses	3.65x	3.14x	1.68x	2.46x
FFO / net liabilities	8.9%	7.4%	7.2%	5.0%
FFO / interest expenses	2.90x	2.26x	1.19x	1.72x
Net liabilities / EBITDA	8.91x	9.70x	9.83x	14.03x
Credit ratings at the end of June				
Standard & Poor's	BB	BBB-	A	A+
Moody's	Baa3	Baa1	Aa1	Aaa

* Hedges 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

Endorsement by the Board of Directors and the CEO

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

According to the income statement the profit for the period January to June 2010 amounted to USD 15.7 million while the Group's profit during the same period in 2009 amounted to USD 47.3 million. The Group's operating revenues amounted to USD 185 million during the period compared to USD 139 million during the same period in the previous year. It must be noticed that included in financial items for the period is recognised USD 4.8 million realised loss on hedges related to aluminium price while recognised profit on comparable hedges amounted to USD 40.1 million during the same period in the previous year. Cash flow from operation amounted to USD 110 million during the period compared to USD 103.6 million during the same period in the previous year. The Group's equity at the end of June amounted to USD 1,579.7 million compared to USD 1,564.5 million at year end 2009.

At the end of June 2010, the Group's cash and cash equivalents amounted to USD 179 million and an undrawn Revolving Credit Facility amounted to USD 282 million, total of USD 461 million. The Revolving Credit Facility expires in December 2012. Taking cash flow from operation into account the Company estimates that it has sufficient liquidity throughout 2012. The Company continues to work on the refinancing of existing debt and management is certain that refinancing will be finalized within that time.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the Group's interim 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 CEO that the interim financial statements give a fair view of the Company's assets, liabilities and financial position as at 30 June 2010, the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2010.

Furthermore, it is the opinion of the Board of Directors and the CEO that the interim financial statements and the Endorsement by the Board of Directors for the period from January to June 2010 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 CEO hereby confirm these consolidated interim financial statements with their signature.

Reykjavík, 30 August 2010.

The Board of Directors:

Bryndís Hlöðversdóttir

Sigurbjörg Gísladóttir

Ingimundur Sigurpálsson

Páll Magnússon

Stefán Arnórsson

The CEO:

Hörður Arnarson

Independent Auditor's Review Report

To the Board of Directors and owners of Landsvirkjun

We have reviewed the accompanying condensed interim financial statements of Landsvirkjun, which comprise the endorsement by the board of directors and the CEO, the consolidated statement of financial position as at 30 June, 2010 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards for interim financial statements, IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not in main respect according to IAS 34 ,,Interim Financial Statements".

Reykjavík, 30 August 2010.

KPMG hf.

Reynir S. Gylfason

Árni Claessen

Income Statement January 1 to June 30, 2010

	Notes	2010 1.1.-30.6.	2009 1.1.-30.6.
Operating revenues			
Power sales		160,739	115,594
Transmission		23,088	21,257
Other income		758	2,158
		184,585	139,009
Operating expenses			
Energy production costs		54,452	54,431
Transmission costs		16,840	15,045
Cost of general research		1,693	4,495
Other operating expenses	8	15,627	15,679
		88,612	89,650
Operating profit		95,973	49,359
Financial income and (financial expenses)			
Interest income		2,854	3,139
Interest expenses		(39,355)	(45,889)
Net income (expenses) on financial assets and liabilities		149,706	(32,417)
Fair value changes of embedded derivatives		(183,236)	47,692
Realised aluminium hedges		(4,812)	40,074
Associated companies		37	(427)
	9	(74,806)	12,173
Profit before taxes		21,167	61,532
Income tax		(5,479)	(14,274)
Profit for the period		15,688	47,258
Profit attributable to:			
Owners of the parent company		12,852	46,779
Subsidiaries minority interest		2,836	479
		15,688	47,258

Notes 1 to 27 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2010 5 Amounts in USD thousand

Statement of Comprehensive Income
January 1 to June 30, 2010

	2010 1.1.-30.6.	2009 1.1.-30.6.
Profit for the period	15,688	47,258
Operating items moved to equity		
Translation difference due to functional currency	(1,597)	(2,596)
Total operating items moved to equity	(1,597)	(2,596)
Total comprehensive income for the period	14,091	44,662
Total comprehensive income attributable to:		
Owners of the parent company	11,772	45,222
Subsidiaries minority interest	2,319	(560)
	14,091	44,662

Notes 1 to 27 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2010 6 Amounts in USD thousand

Balance Sheet June 30, 2010

Assets	Notes	30.6. 2010	31.12. 2009
Non-current assets			
Property, plant and equipment	10	3,701,633	3,737,504
Projects under construction		2,798	12,441
Intangible assets	11	171,459	141,523
Derivative financial instruments	13	276,454	431,822
Other non-current assets	15	1,040	2,949
Deferred tax asset		107,266	112,472
Total non-current assets		4,260,650	4,438,711
Current assets			
Inventories		4,144	4,159
Accounts receivables and other receivables		104,134	108,858
Derivative financial instruments	13	36,347	57,546
Cash and cash equivalents		178,763	194,248
Total current assets		323,388	364,811
Total assets		4,584,038	4,803,522
Equity and liabilities			
Equity			
Owners' contributions	16	586,512	586,512
Revaluation account	17	108,967	110,556
Translation difference	17	(35,781)	(34,702)
Other equity		893,063	878,621
Equity of the owners of the parent company		1,552,761	1,540,987
Minority interest		26,925	23,500
Total equity		1,579,686	1,564,487
Long-term liabilities			
Long-term debt	18	2,446,623	2,750,923
Accrued pension liabilities		21,855	21,978
Obligation due to demolition		5,600	4,663
Derivative financial instruments	13	97,910	96,113
		2,571,988	2,873,677
Current liabilities			
Accounts payable and other payables		57,427	65,115
Current maturities of long-term debt	19	293,431	267,197
Derivative financial instruments	13	81,506	33,046
		432,364	365,358
Total liabilities		3,004,352	3,239,035
Total equity and liabilities		4,584,038	4,803,522

Notes 1 to 27 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2010 7 Amounts in USD thousand

Statement of Changes in Equity
January 1 to June 30, 2010

	Owners' contribution	Revaluation account	Translation difference	Other equity	Total	Minority interest	Total equity
January 1 to June 30, 2009							
Equity at 1 January 2009..	586,512	116,268	(33,670)	686,384	1,355,494	21,298	1,376,792
Translation difference			(1,557)		(1,557)	(1,039)	(2,596)
Profit for the period...........				46,779	46,779	479	47,258
Total profit.........................		0	(1,557)	46,779	45,222	(560)	44,662
Depreciation transferred...		(1,570)		1,570	0		0
Equity at June 30, 2009....	586,512	114,698	(35,227)	734,734	1,400,717	20,738	1,421,455
January 1 to June 30, 2010							
Equity at 1 January 2010..	586,512	110,556	(34,702)	878,621	1,540,987	23,500	1,564,487
Translation difference			(1,080)		(1,080)	(517)	(1,597)
Profit for the period...........				12,852	12,852	2,836	15,688
Total profit.........................		0	(1,080)	12,852	11,772	2,319	14,091
Other changes						1,107	1,107
Depreciation transferred...		(1,589)		1,589	0		0
Equity at June 30, 2010 ...	586,512	108,967	(35,781)	893,063	1,552,761	26,925	1,579,686

Notes 1 to 27 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2010 8 Amounts in USD thousand

Statement of Cash Flows
January 1 to June 30, 2010

	Notes	2010 1.1.-30.6.	2009 1.1.-30.6.
Operating activities			
Operating profit		95,973	49,359
Depreciation and impairment loss		52,634	54,801
Pension obligation, change		344	834
Obligation due to demolition, change		1,296	105
Other changes		3	18
Working capital from operation before financial items		150,250	105,117
Operating assets, change		2,091	25,988
Operating liabilities, change		2,791	(6,283)
Cash flow from operating activities before financial items		155,132	124,822
Interest income received		2,231	2,757
Interest expenses and foreign exchange difference paid		(41,282)	(64,420)
Hedge disbursements		(6,097)	40,485
Cash flow from operating activities	20	109,984	103,644
Investing activities			
Hydropower station in operation		(5,038)	(14,072)
Transmission		(4,017)	(5,700)
Development cost		(4,251)	(11,468)
Purchased shares		(4,650)	(1,428)
Sold shares		95	8
Other capital expenditure		(2,516)	(2,565)
Assets sold		108	49
Unpaid construction cost, change		(2,839)	(12,040)
		(23,108)	(47,216)
Other receivables, change		(1,556)	(12,424)
Investing activities		(24,664)	(59,640)
Financing activities			
Paid in share capital in a subsidiary		234	0
New loans		48,844	45,953
Currency swaps		(5,035)	4,818
Amortization of long-term debt		(141,610)	(86,586)
Financing activities		(97,567)	(35,815)
(Decrease) increase in cash and cash equivalents		(12,247)	8,189
Effect of exchange difference on cash and cash equivalents		(3,238)	(4,338)
Cash and cash equivalents at beginning of the year		194,248	124,993
Cash and cash equivalents at the end of the period		178,763	128,844

Notes 1 to 27 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2010 9 Amounts in USD thousand

Notes

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 interim financial statements include the consolidated interim financial statements of the Company and its subsidiaries.

2. Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2009.

The Company's Board of Directors approved the presentation of the interim financial statements on 30 August 2010.

3. Significant accounting policies

The accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009. The Company's financial statements can be found at its website www.landsvirkjun.is and at the website of the Icelandic Stock Exchange; www.omxnordicexchange.com.

The interim financial statements are prepared in USD. Amounts are presented in USD thousand unless otherwise stated. The interim 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, transmission system, telecommunications system, trading financial assets and liabilities, contingent liabilities and shares in other companies.

4. Use of estimates and judgements

The preparation of interim financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

5. Segment reporting

A segment is a separable part of the Group, which is obtained by either providing a specific product or service (operating segment) or by providing products or services within a certain economic environment (geographical segment) and is subject to risk factors and return unlike those related to other segments. The Group's main segment is based on operating segments. Geographical segments are not presented as almost the entire operation of the Group is carried out in Iceland.

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

Operating return of segments, their assets and liabilities consist of items that may be directly linked to each segment, in addition to those items that may reasonably divided on segments. Items not classified with single segments are mainly investments and related income, loans and related expenses, collective assets and related expenses, in addition to deferred income tax.

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 structure and internal reporting.

Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Assets and liabilities of the Group are allocated to segments based on the aforementioned premises.

Notes, contd.:

Landsvirkjun Group's segments are the following:

Electricity production

The parent company's and Þeistareykir's operation falls under the segment of electricity production but Landsvirkjun's objectives according to law is to engage in operations in the energy sector in addition to other business and financial operations in accordance with decisions by the Company's Board of Directors at each time. Landsvirkjun's energy production is entirely based on hydroelectric and geothermal power. Landsvirkjun sells all its electric power production in Iceland wholesale to electricity retailers and also in great quantity to power intensive industries. Furthermore, the operation of Icelandic Power Insurance Ltd falls under this segment as that Company handles insurance of Landsvirkjun's power stations.

Transmission

The operation of Landsnet hf. falls under the segment energy transmission, but that company was established in August 2004 on the basis of the Energy Act approved by the parliament in spring 2003. Landsnet hf.'s role is to handle energy transmission and system control in Iceland according to provisions of chapter III of the Energy Act no. 65/2003 and is therefore unauthorized to carry out other operation than necessary in order to be able to meet with 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. sells 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 1.1. - 30.6 2010	**Electricity production**	**Electricity transmission**	**Other segments**	**Adjustments**	**Total**
Income from third party	159,909	23,150	1,526		184,585
Income within the Group	7,478	28,550	3,074	(39,102)	0
Segment income	167,387	51,700	4,600	(39,102)	184,585
Segment operating expenses	(55,813)	(15,376)	(3,891)	39,102	(35,978)
EBITDA	111,574	36,324	709		148,607
Depreciation and impairment loss	(42,943)	(9,392)	(509)	210	(52,634)
Segment earnings, EBIT	68,631	26,932	200	210	95,973
Segment assets 30.6.2010	4,447,752	560,562	11,596	(436,496)	4,583,414
Shares in associated companies	0	346	278		624
Total assets 30.6.2010	4,447,752	560,908	11,874	(436,496)	4,584,038
Segment liabilities 30.6.2010	2,870,604	487,595	4,463	(358,310)	3,004,352
Total liabilities 30.6.2010	2,870,604	487,595	4,463	(358,310)	3,004,352
Investments	12,323	6,161	196		18,680

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Notes, contd.:

Operating segments 1.1. - 30.6 2009	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	116,485	21,280	1,244		139,009
Income within the Group	7,151	32,170	3,154	(42,475)	0
Segment income	123,636	53,450	4,398	(42,475)	139,009
Segment operating expenses	(58,102)	(15,357)	(3,865)	42,475	(34,849)
EBITDA	65,534	38,093	533		104,160
Depreciation and impairment loss	(45,053)	(9,527)	(384)	163	(54,801)
Segment earnings, EBIT	20,481	28,566	149	163	49,359
Segment assets 31.12.2009	4,664,694	585,451	13,815	(462,805)	4,801,155
Shares in associated companies	1,553	401	413		2,367
Total assets 31.12.2009	4,666,247	585,852	14,228	(462,805)	4,803,522
Segment liabilities 31.12.2009	3,102,368	519,223	4,888	(387,444)	3,239,035
Total liabilities 31.12.2009	3,102,368	519,223	4,888	(387,444)	3,239,035
Investments	35,300	10,268	277		45,845

6. Purchase of a subsidiary

Landsvirkjun acquired from Norðurorka hf. a 32% share in Þeistareykir ehf. at the end of December 2009 subject to certain conditions which were fulfilled in the first six months of year 2010. Following the acquisition, Landsvirkjun owns a 64% share in the company. The amount of USD 4.5 million was paid for the share following a due diligence and the amount of USD 11 million will be paid when energy production begins in the area of Þeistareykir ehf., though not until after 10 years. Landsvirkjun's share at year end 2009 was recognised in the financial statements based on the equity method. Þeistareykir ehf. has become Landsvirkjun's subsidiary and a part of the Group, and the owners have taken over a guarantee due to the company's loans. Further acquisition of an additional share in the company is being negotiated.

7. Salaries and salary related expenses

Total salaries of employees are specified as follows:

	2010 1.1.-30.6.	2009 1.1.-30.6.
Salaries	10,847	11,355
Retirement pension and pension increase	911	1,448
Other salary related expenses	3,227	2,770
	14,985	15,573

Salaries are divided as follows in the income statement:

	2010	2009
Energy production costs	4,824	4,969
Transmission costs	4,062	4,062
Other operating expenses	6,099	6,542
	14,985	15,573

8. Other operating expenses

Other operating expenses are specified as follows:

	2010	2009
Corporate office	1,393	1,443
Finance	1,333	1,473
Human resources	430	457
Information technology	1,008	1,067
Engineering and construction	116	222
Retirement pension and pension increase	847	1,347
Other shared costs	1,034	963
	6,161	6,972
Other cost - relating to subsidiaries	5,152	5,231
Assets available for sale, impairment	2,669	1,595
Depreciation and impairment loss	1,645	1,881
	15,627	15,679

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9. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2010 1.1.-30.6.	2009 1.1.-30.6.
Interest income	2,854	3,139
Interest expenses	(36,018)	(42,814)
Guarantee fee paid to owners	(3,485)	(3,505)
Capitalised interest costs	148	430
Total interest expenses	(39,355)	(45,889)
Exchange rate difference	171,684	(22,759)
Fair value changes of other derivatives	(21,777)	(9,345)
Fair value changes of shares	(197)	(317)
(Loss) profit on the sale of shares	(4)	4
Net income (expenses) on financial assets and liabilities	149,706	(32,417)
Fair value changes of embedded derivatives	(183,236)	47,692
Aluminium hedges, income (expenses)	(4,812)	40,074
Effects through associated companies	37	(427)
Financial income and (expenses)	(74,806)	12,173

10. Property, plant and equipment

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

Cost value	Power stations	Trans-mission	Communic. equipment	Other assets	Total
Total value at 1.1.2009	4,821,420	520,832	10,112	62,810	5,415,174
Effect of foreign exch. rate changes	0	(17,024)	(332)	(765)	(18,121)
Additions during the year	39,237	3,413	530	11,338	54,518
Transferred to assets for sale	0	0	0	(3,424)	(3,424)
Transf. from buildings u. construction	0	17,644	0	0	17,644
Sold and disposed of	(32,822)	0	0	(1,031)	(33,853)
Total value at 31.12.2009	4,827,835	524,865	10,310	68,928	5,431,938
Effect of foreign exch. rate changes	0	(11,158)	(219)	(466)	(11,843)
Additions during the period	7,946	1,708	196	1,628	11,478
Transf. from buildings u. construction	0	11,887	0	0	11,887
Transferred from assets for sale	0	0	0	3,344	3,344
Sold and disposed of	0	0	0	(244)	(244)
Total value at 30.6.2010	4,835,781	527,302	10,287	73,190	5,446,560

Depreciation and impairment loss	Power stations	Trans-mission	Communic. equipment	Other assets	Total
Total value at 1.1.2009	1,554,787	46,030	3,356	21,871	1,626,044
Depreciation of the year	83,796	16,886	779	2,587	104,048
Effect of foreign exch. 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	4,019	23,404	1,694,436
Depreciation of the period	42,064	8,360	495	1,242	52,161
Effect of foreign exch. rate changes	0	(1,287)	(85)	(78)	(1,450)
Sold and disposed of	0	0	0	(220)	(220)
Total value at 30.6.2010	1,647,825	68,325	4,429	24,348	1,744,927

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Notes, contd.:

	Power stations	Trans-mission	Communic. equipment	Other assets	Total
Book value					
1.1.2009	3,266,633	474,802	6,756	40,939	3,789,130
31.12.2009 and 1.1.2010	3,222,074	463,613	6,291	45,524	3,737,504
30.6.2010	3,187,956	458,977	5,858	48,842	3,701,633

11. Intangible assets are specified as follows:

	Capitalised development cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2009	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	23,106
Sold and disposed of	0	0	(432)	(432)
Transferred to buildings under construction	(8,939)	0	0	(8,939)
Total value at 31.12.2009	155,254	40,568	6,028	201,850
Effect of foreign exchange rate changes	(189)	0	(64)	(253)
Additions during the period	30,925	0	189	31,114
Transferred to buildings under construction/operation	(481)	0	0	(481)
Total value at 30.6.2010	185,509	40,568	6,153	232,230
Amortization and impairment loss				
Total value at 1.1.2009	47,613	0	2,898	50,511
Amortization of 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
Amortization during the period	0	0	473	473
Effect of foreign exchange rate changes	(8)	0	(21)	(29)
Total value at 30.6.2010	56,976	0	3,793	60,769
Book value				
1.1.2009	94,682	40,568	2,828	138,078
31.12.2009 and 1.1.2010	98,270	40,568	2,687	141,523
30.6.2010	128,533	40,568	2,359	171,459

12. The Group's depreciation and impairment is divided as follows:

	2010 1.1.-30.6.	2009 1.1.-30.6.
Power stations	42,064	41,105
Transmission	8,647	8,470
Other assets	1,450	1,615
Depreciation of assets in operation	52,161	51,191
Impairment loss on development cost	0	3,184
Amortization of software	473	427
	52,634	54,801

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

Energy production costs	42,342	41,377
Transmission costs	8,647	8,470
Cost of general research	0	3,073
Other operating expenses	1,645	1,881
	52,634	54,801

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Notes, contd.:

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

	30.6. 2010	31.12. 2009
Assets:		
Embedded derivatives in electricity sales agreements	256,735	446,569
Aluminium hedges	49,067	36,050
Currency swaps	4,878	3,335
Interest rate swaps	2,121	1,911
Other derivatives	0	1,503
	312,801	489,368
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	276,454	431,822
Short-term component of derivative agreements	36,347	57,546
	312,801	489,368
Liabilities:		
Embedded derivatives in electricity sales agreements	16,964	23,562
Aluminium hedges	8,095	31,157
Currency swaps	80,084	53,118
Interest rate swaps	16,695	12,379
Other derivatives	57,578	8,943
	179,416	129,159
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	97,910	96,113
Short-term component of derivative agreements	81,506	33,046
	179,416	129,159

14. Landsvirkjun's subsidiaries are specified as follows:

	Share	
	30.6. 2010	31.12. 2009
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%
Þeistareykir ehf.	63.9%	32.0%

Þeistareykir ehf. was an associated company at year end 2009 but a subsidiary at the end of June 2010.

15. Other non-current assets in the balance sheet are specified as follows:

Shares in associated companies	624	2,367
Shares in other companies	194	248
Other non-current receivables	222	334
	1,040	2,949

16. 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 the end of the period was 34.5%, compared to 32.6% at year end 2009.

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

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18. Liabilities

Long-term debt is specified as follows by currencies:

	Maturity date	30/06/2010 Average interests	Remaining balance	31/12/2009 Average interests	Remaining balance
Liabilities in ISK, indexed	2010-2034	3.6%	441,302	3.6%	438,023
Liabilities in CHF	2012-2022	2.5%	93,974	2.5%	96,233
Liabilities in EUR	2010-2028	1.5%	1,196,797	1.8%	1,465,843
Liabilities in GBP	2014-2016	10.8%	13,898	11.0%	15,270
Liabilities in JPY	2010-2013	1.2%	57,130	1.6%	85,052
Liabilities in USD	2010-2026	2.4%	936,953	2.7%	917,699
			2,740,054		3,018,120
Current maturities of long-term debt			(293,431)		(267,197)
Total long-term debt			2,446,623		2,750,923

Interest terms on the parent company's loans range from 0.75-14.5%. On average, nominal interests for the period were 2.22% but they were 2.46% 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.

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

	2010
1.7.2010-30.06.2011	293,431
1.7.2011-31.12.2011	135,219
2012	236,776
2013	147,716
2014	163,976
2015	96,562
Later	1,666,374
	2,740,054

20. Cash flow

Cash flow from operation is an indicator for the Company's ability to meet its payment obligations. The Company's cash flow has been presented according to the direct method, but is now presented on the basis of a mixed method in the statement of cash flow. Following, operating activities are presented according to the direct method for comparison.

Operating activities:

	2010 1.1.-30.6.	2009 1.1.-30.6.
Cash received from customers	187,223	165,753
Cash expenses	(32,090)	(40,931)
Cash flow from operation excluding interest	155,133	124,822
Interest income received	2,230	2,757
Interest expenses and foreign exchange difference paid	(41,282)	(64,420)
Hedge disbursements	(6,097)	40,485
Cash flow from operating activities	109,984	103,644

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21. Risk management

The Board of Directors of Landsvirkjun 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 assessing 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 management 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 risks 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 CEO, his deputy and the CFO. The CEO is the chairman of the risk management committee. The Head of Risk Management is responsible for risk management on a daily basis.

The main objectives of risk management are to monitor, analyse and manage 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 rate risk due to liabilities and income in foreign currencies

Access to new hedges has increased in 2010. Landsvirkjun has now access to new hedges in all risk groups. Cost of hedging is however higher than before the financial crisis and the tenor of individual agreements is now shorter.

Collateral requirements from financial institutions have been reduced considerably and Landsvirkjun has a policy of not entering into credit support agreements.

Landsvirkjun's primary focus is currently limiting liquidity risk and decisions regarding new hedging agreements are based on that strategy.

22. 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 and proportionally less over the next 10 years but is not limited by minimum hedges. At the end of June fair value of the hedges in question was positive by USD 41 million while the agreements are effective over the next five years.

The following table shows changes in the fair value of aluminium hedges upon aluminium price and/or interest rate changes. The amounts are stated in USD thousand before tax.

2010

		Aluminium price		
		-10%	0%	10%
Interest rates	-1%	14.604	2.055	(10.482)
	0%	12.609	-	(12.589)
	1%	10.639	(2.029)	(14.667)

2009

		Aluminium price		
		-10%	0%	10%
Interest rates	-1%	21.766	575	(21.071)
	0%	20.903	-	(21.344)
	1%	20.065	(558)	(21.608)

22. Aluminium price risk, contd.:

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 period 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 based on market information. Fair value of the agreements is calculated on the basis of the forward price of aluminium over 123 months according to the LME Stock Exchange, discounted at zero-coupon in the USA allowing for volatility. The calculations are based on a 77-85% purchase obligation of energy buyers, in addition to review provisions and lifetime of the agreements.

	30/06/2010	31/12/2009
The fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	423,007	169,702
Fair value changes during the period	(183,236)	253,305
Fair value of embedded derivatives at the end of the period	239,771	423,007
Division of embedded derivatives is specified as follows:		
Long-term components of embedded derivatives	216,681	374,946
Short-term component of embedded derivatives	23,090	48,061
Total embedded derivatives	239,771	423,007

The following table shows changes in the fair value of embedded derivatives upon aluminium price and/or interest rates, but the effects due to volatility is insubstantial. The amounts are in USD thousand before taxes.

2010

		Aluminium price		
		-10%	0%	10%
Interest rates	-1%	(139.725)	11.936	159.007
	0%	(145.076)	-	140.206
	1%	(150.076)	(11.184)	122.592

2009

		Aluminium price		
		-10%	0%	10%
Interest rates	-1%	(145.312)	20.728	184.529
	0%	(158.659)	-	156.415
	1%	(171.157)	(19.424)	130.061

23. 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 on 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 reporting currency for up to three years in advance with forward agreements and options.

Risk due to changes in the loan portfolio is limited compared to risk benchmarks determined by the Board at each time. For that purpose, the Company uses currency swaps, forward agreements and options.

The strengthening of the USD by 10% against the following currencies at June 30, would have increased the Group's profit and equity by the following amounts before 32.7% tax rate. The analysis assumes that all other variables, especially interest rates, remain unchanged. The analysis was made in the same way for the year 2009 but income tax for that year was 23.5%.

Notes, contd.:

	Profit after tax		Equity	
	30/06/2010	31/12/2009	30/06/2010	31/12/2009
EUR	71,625	61,361	71,625	61,361
ISK	(375)	3,711	(375)	3,711
JPY	7,146	8,116	7,146	8,116

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 remain unchanged.

The fair value of currency swaps was negative by USD 75 million at the end of June 2010. The underlying principal amount was USD 325 million. The fair value of forwards currency agreements was negative by USD 12 million, the underlying principal amount being USD 78 million. The fair value of currency option contracts was negative by USD 46 million, the underlying principal amount being USD 302 million.

24. 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 interests and interest rate derivatives are used in order to hedge risk. Interest bearing liabilities are much higher than interest bearing assets and the Company's risk exposure thus consists in a possible interest rate increase accompanied with increased finance cost.

At the end of June 2009, the proportion of loans with floating interest rates was 81% compared to 84% at year end 2009. A change in interest rates by one percent would have led to a change in interest cost by USD 14 million in the first six months of the year 2010 (USD 29 million for the year 2009). The Company's financial instruments on fixed interests are not affected by interest rate changes.

Landsvirkjun has to a limited extent 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 June 2010, the fair value of interest rate swaps was negative by USD 15 million. The underlying amount is approx. USD 137 million.

Interest changes in the US have had considerable effect of the value of Landvirkjun's embedded derivatives. Note 22 includes information on a sensitivity analysis of embedded derivatives, as at the end of June, which shows the effect of changes in interest rates on aluminium prices on embedded derivatives in the Company's energy sale agreements.

25. Liquidity risk

Liquidity risk consists of the risk of losses should the Company not be able to meet its obligations on due dates. 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 control on liquidity ensures sufficient access to cash at each time. At the end of June 2010, the Group's cash and cash equivalents amounted to USD 179 million, and an undrawn Revolving Credit Facility amounted to USD 282 million, or a total of USD 461 million. Taking cash flow from operation into account the Company estimates that it has secured liquidity throughout the year 2012.

In order to enhance liquidity even further Landsvirkjun, the State Treasury and the Central Bank of Iceland have entered into a Credit Contingent Facility. The terms of the agreement are that the Icelandic Central Bank will provide the Company with foreign currency, for which Landsvirkjun will pay in ISK or in bonds, provided though that the Company has previously fully exhausted all other financing options. The contract amounts to a maximum of USD 300 million and expires on 1 July 2011.

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25. Liquidity risk, contd.:

Landsvirkjun has used different sources of financing to ensure access to liquidity and maintain flexibility in financing. In recent years the funding of the company has mostly been based on the EMTN (Euro Medium Term Note) programme. At the end of June the balance of loans under the EMTN programme amounted to USD 1,83 billion but the total programme amount is USD 2,5 billion.

The Company's refinancing risk is reduced with evenly spread maturities of existing loans over longer term. The weighted average life of the loan portfolio was 7.72 years at the end of June and the proportion of loans due within 12 months was 9,8%.

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

30/06/2010	**Book value**	**Contractual cash flow**	**Within the year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial instruments						
Long-term loans	(2,740,054)	(3,105,563)	(332,011)	(210,973)	(708,365)	(1,854,214)
Accounts receivables	104,134	104,134	104,134			
Accounts payables	(57,427)	(57,427)	(57,427)			
	(2,693,347)	(3,058,856)	(285,304)	(210,973)	(708,365)	(1,854,214)
Derivative financial instruments						
Currency swaps	(120,906)	(92,783)	(29,318)	(24,334)	(39,131)	
Interest rate swaps	(14,575)	(30,608)	(3,801)	(3,876)	(12,165)	(10,766)
Forward agreements	(11,878)	(11,798)	(11,798)			
Aluminium derivatives ...	40,973	45,779	7,054	23,445	15,280	
Embedded derivatives ..	239,771	271,070	23,187	26,095	85,037	136,751
	133,385	181,660	(14,676)	21,330	49,021	125,985

31/12/2009	**Book value**	**Contractual cash flow**	**Within the year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial instruments						
Long-term loans	(3,018,120)	(3,615,600)	(305,252)	(332,348)	(682,438)	(2,295,562)
Accounts receivables	108,858	108,858	108,858			
Accounts payables	(65,115)	(65,115)	(65,115)			
	(2,974,377)	(3,571,857)	(261,509)	(332,348)	(682,438)	(2,295,562)
Derivative financial instruments						
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
	360,210	396,930	33,018	48,150	83,018	232,745

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26. 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 by 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. Before energy contracts are made, the financial standing of the relevant companies and their parent companies are thoroughly reviewed, if applicable.

The Company's counterparty risk is specified as follows at the end of the period:

	30/06/2010	31/12/2009
Derivative financial instruments	312,801	489,368
Other long-term receivables	222	334
Accounts receivables and other short-term receivables	104,134	108,858
Cash and cash equivalents	178,763	194,248
	595,920	792,808

27. Other issues

On 22 August 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 USD 13 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 22 February 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, Landvirkjun 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 against the USD in the year 2008, unrealised foreign exchange loss was created, which has been recognised as negative fair value to the amount of USD 46 million in the Group's interim financial statements. A claim was made to the bankruptcy estate of another financial institution due to default of payments and both agreements have been unilaterally rescinded without the acknowledgement of the counterparty. The agreements are recognised in the interim financial statements as a conclusion on their settlement is unavailable but the Company does not approve the aforementioned evaluation in the present situation. Receivables past due from the financial institutions amounting to USD 8.6 million are recognised among short-term receivables.

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. However the State and municipalities are allowed to give to companies owned by them the right of use of the resources for up to 65 years at a time. The conclusion of a statutory committee on the arrangement of forward agreements in this field is now available. Formal negotiations between Landsvirkjun and the State have not begun.

On 15 June 2010, Landsvirkjun and Alcan á Íslandi signed a new agreement on the sale of electricity to the aluminium plant in Straumsvík. The agreement is stipulated on the basis of conventional provisions, among others the approval of the Board of Directors of both companies, which are expected to be fulfilled no later than 31 August 2010. The agreement is divided into two parts. On the one hand, renegotiation of the price of current energy sale to the aluminium plant (2,932 GWst) and on the other, the delivery of additional energy (658 GWst) due to the planned production increase of the aluminium plant. Delivery of additional electricity will be carried out in stages in the years 2012 to 2014. The agreement replaces an older power sales agreement, which was signed on 28 June 1966. The new electricity price enters into force on 1 October 2010. It will be in USD, indexed with the US consumer price index and the earlier used aluminium price linkage will be abolished. The agreement will be in force until the year 2036, which is a 12 year extension of the current agreement.

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Notes, contd.:

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.