Group

Condensed Interim Financial Statements
January 1 to June 30 2011

Landsvirkjun
Háaleitisbraut 68
103 Reykjavik, Iceland

Reg. no. 420269-1299

Contents

Key figures

Management's presentation of the operation of Landsvirkjun

Amounts are in thousands of USD

	2011 1.1.-30.6	2010 1.1.-30.6	2009 1.1.-30.6	2008 1.1.-30.6	2007 1.1.-30.6
Operation *					
Operating revenues	214,370	186,005	139,009	239,623	173,427
Realised aluminium hedges	3,515	(4,812)	40,074	(35,721)	(34,027)
Total operating revenues	217,885	181,193	179,083	203,902	139,400
Operating expenses	(38,667)	(37,398)	(34,849)	(50,250)	(48,079)
EBITDA	179,218	143,795	144,234	153,652	91,321
Depreciation and impairment loss	(53,777)	(52,634)	(54,801)	(51,333)	(37,142)
EBIT	125,441	91,161	89,433	102,319	54,179
Financial items	(74,959)	(43,667)	(56,629)	(65,943)	(22,966)
Profit before unrealised financial items	50,482	47,494	32,804	36,376	31,213
Unrealised financial items:					
Fair value changes in embedded derivatives	59,000	(183,236)	47,692	414,919	79,196
Fair value changes in other derivatives	21,817	(21,777)	(9,345)	(155,256)	20,304
Unrealised foreign exchange difference	(94,221)	178,686	(9,619)	(161,613)	288,903
	(13,404)	(26,327)	28,728	98,050	388,403
Profit before income tax	37,078	21,167	61,532	134,426	419,616
Balance sheet	**30.06. 2011**	**30.06. 2010**	**30.06. 2009**	**30.06. 2008**	**30.06. 2007**
Total assets	4,779,918	4,584,038	4,555,338	5,505,319	4,734,247
Total equity	1,670,073	1,579,686	1,421,455	1,758,031	1,632,894
Total liabilities	3,109,845	3,004,352	3,133,883	3,747,288	3,101,353
Net debt **	2,684,795	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**	**1.1.-30.6**
Funds from operation (FFO)	129,637	114,177	103,696	108,585	63,805
Cash flow from operating activities	132,669	109,984	103,644	76,356	64,932
Investing activities	(26,226)	(24,664)	(59,640)	(213,623)	(191,053)
Financing activities	(178,161)	(97,567)	(35,815)	97,071	242,097
Liquidity	**30.06. 2011**	**30.06. 2010**	**30.06. 2009**	**30.06. 2008**	**30.06. 2007**
Cash and cash equiv. at the end of the period ...	193,332	178,763	128,844	137,459	190,265
Undrawn Revolving Credit Facilities	351,672	281,600	350,000	350,000	400,000
Total liquidity	545,004	460,363	478,844	487,459	590,265
Key ratios					
Return on equity ***	5.1%	11.4%	(21.7)%	14.3%	46.3%
Equity ratio	34.9%	34.5%	31.2%	31.9%	34.5%
EBITDA / interest expenses	3.20x	3.65x	3.14x	1.68x	2.46x
FFO / net debt ***	8.7%	8.3%	7.2%	6.1%	5.0%
FFO / interest expenses	2.32x	2.90x	2.26x	1.19x	1.72x
Net debt / EBITDA ***	8.05x	9.44x	9.74x	11.36x	14.03x
Credit ratings at the end of June					
Standard & Poor's	BB	BB	BBB-	A	A+
Moody's	Baa3	Baa3	Baa1	Aa1	Aaa

* In the following presentation, calculated unrealised fair value changes in derivatives and calculated unrealised foreign exchange difference are specified

** Net debt is long term loans including current maturities less cash

*** Key ratios are based on the past 12 months

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., Theistareykir ehf. and Landsvirkjun Power ehf., in addition to three subsidiaries of Landsvirkjun Power ehf.

According to the income statement, the Group's profit for the period January to June 2011 amounted to USD 23.4 million while the profit during the same period in 2010 amounted to USD 15.7 million. The Group's operating revenues amounted to USD 217.9 million during the period compared to USD 181.2 million during the same period in the previous year. It must be noted that included in the income for the period is recognised realised aluminium hedges, which previously was recognised among financial items. Change in presentation has no effect on the results or financial standing of the Group. Cash flow from operation amounted to USD 132.7 million during the period compared to USD 110.0 million during the same period in the previous year. The Group's equity at the end of June amounted to USD 1,670 million compared to USD 1,644 million at year end 2010.

At the end of June 2011, the Group's cash and cash equivalents amounted to USD 193 million and undrawn Revolving Credit Facilities amounted to USD 352 million, total of USD 545 million. Taking cash flow from operation and current obligations into account the Company estimates that sufficient liquidity is ensured for the next years.

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 2011, the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2011.

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 2011 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.

Reykjavik, 16 August 2011.

The Board of Directors:

Bryndís Hlöðversdóttir

Sigurbjörg Gísladóttir

Arnar Bjarnason

Ingimundur Sigurpálsson

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 consolidated interim financial statements of Landsvirkjun, which comprise the endorsement by the board of directors and the CEO, the consolidated statement of financial position as at 30 June, 2011 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".

Reykjavik, 16 August 2011.

KPMG ehf.

Árni Claessen

Auður Þórisdóttir

Income Statement January 1 to June 30, 2011

	Notes	2011 1.1.-30.6.	2010* 1.1.-30.6.
Operating revenues			
Power sales		187,959	160,739
Realised aluminium hedges		3,515	(4,812)
Transmission		24,228	23,088
Other income		2,183	2,178
		217,885	181,193
Operating expenses			
Energy production costs		58,922	55,499
Transmission costs		16,823	16,840
Cost of general research		3,528	1,693
Other operating expenses		13,171	16,000
		92,444	90,032
Operating profit		125,441	91,161
Financial income and (financial expenses)			
Interest income		1,699	2,854
Interest expenses		(55,991)	(39,355)
Exchange rate difference		(113,421)	171,684
Fair value changes in embedded derivatives		59,000	(183,236)
Fair value changes in other derivatives		21,817	(21,777)
Other financial income and expenses		(1,467)	(164)
	6	(88,363)	(69,994)
Profit before taxes		37,078	21,167
Income tax		(13,675)	(5,479)
Net profit for the period		23,403	15,688
Profit attributable to:			
Owners of the parent company		23,799	12,852
Subsidiaries minority interest		(396)	2,836
		23,403	15,688

Notes 1 to 20 are an integral part of these interim financial statements.

* Changed presentation, see note 3.

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Statement of Comprehensive Income January 1 to June 30, 2011

	2011 1.1.-30.6.	2010 1.1.-30.6.
Profit for the period	23,403	15,688
Operating items moved to equity		
Translation difference due to subsidiaries and associated companies	2,348	(1,597)
Total operating items moved to equity	2,348	(1,597)
Total comprehensive income for the period	25,751	14,091
Total comprehensive income attributable to:		
Owners of the parent company	25,974	11,772
Subsidiaries minority interest	(223)	2,319
	25,751	14,091

Notes 1 to 20 are an integral part of these interim financial statements.

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Balance Sheet June 30, 2011

Assets	Notes	30.6. 2011	31.12. 2010
Non-current assets			
Property, plant and equipment	7	3,665,549	3,709,732
Projects under construction		41,634	3,699
Intangible assets	8	193,918	205,819
Derivative financial instruments	10	411,179	363,694
Associated companies		21,891	21,860
Other non-current assets		114	143
Deferred tax asset		90,694	104,141
Total non-current assets		4,424,979	4,409,088
Current assets			
Inventories		4,721	4,685
Accounts receivables and other receivables		83,880	92,086
Derivative financial instruments	10	73,006	66,095
Cash and cash equivalents		193,332	265,532
Total current assets		354,939	428,398
Total assets		4,779,918	4,837,486
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		103,313	105,056
Translation difference		(25,654)	(27,829)
Other equity		970,339	944,797
Equity of the owners of the parent company		1,634,510	1,608,536
Minority interest		35,563	35,786
Total equity		1,670,073	1,644,322
Long-term liabilities			
Long-term debt	11	2,681,324	2,569,699
Accrued pension liabilities		23,609	23,442
Obligation due to demolition		5,458	6,541
Derivative financial instruments	10	81,710	96,133
		2,792,101	2,695,815
Current liabilities			
Current maturities of long-term debt	12	196,803	369,799
Accounts payable and other payables		87,295	86,344
Derivative financial instruments	10	33,646	41,206
		317,744	497,349
Total liabilities		3,109,845	3,193,164
Total equity and liabilities		4,779,918	4,837,486

Notes 1 to 20 are an integral part of these interim financial statements.

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Statement of Changes in Equity January 1 2010 to June 30, 2011

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the parent company	Minority interest	Total equity
January 1 to June 30, 2010							
Equity at January 1 2010.	586,512	110,556	(34,702)	878,621	1,540,987	23,500	1,564,487
Total profit........................			(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
January 1 to June 30, 2011							
Equity at January 1 2011	586,512	105,056	(27,829)	944,797	1,608,536	35,786	1,644,322
Total profit........................			2,175	23,799	25,974	(223)	25,751
Depreciation transferred		(1,743)		1,743	0		0
Equity at June 30, 2011 ..	586,512	103,313	(25,654)	970,339	1,634,510	35,563	1,670,073

Notes 1 to 20 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2011 9 Amounts in USD thousand

Statement of Cash Flows January 1 to June 30 2011

	Notes	2011 1.1.-30.6.	2010 1.1.-30.6.
Operating activities			
Operating profit		125,441	91,161
Depreciation and impairment loss		53,777	52,634
Pension obligation, change		52	344
Obligation due to demolition, change		(1,108)	1,296
Other changes		(118)	3
Working capital from operation before financial items		178,044	145,438
Operating assets and liabilities, change		1,727	3,597
Cash flow from operating activities before financial items		179,771	149,035
Interest income received		1,643	2,231
Interest expenses and foreign exchange difference paid		(48,745)	(41,282)
Cash flow from operating activities	13	132,669	109,984
Investing activities			
Hydropower stations in operation		(4,413)	(5,038)
Transmission		(1,970)	(4,017)
Development costs		(6,110)	(4,251)
Power stations under construction		(18,259)	0
Purchased shares		(118)	(4,650)
Sold shares		74	95
Other capital expenditure		(2,072)	(2,516)
Assets sold		4,299	108
Unpaid construction cost, change		(6,112)	(2,839)
Other receivables, change		8,455	(1,556)
Investing activities		(26,226)	(24,664)
Financing activities			
Paid in share capital in a subsidiary		0	234
New loans		104,129	48,844
Currency swaps		7,478	(5,035)
Amortization of long-term debt		(289,768)	(141,610)
Financing activities		(178,161)	(97,567)
Decrease in cash and cash equivalents		(71,718)	(12,247)
Effect of exchange rate difference on cash and cash equivalents		(482)	(3,238)
Cash and cash equivalents at the beginning of the year		265,532	194,248
Cash and cash equivalents at the end of the period		193,332	178,763

Notes 1 to 20 are an integral part of these interim financial statements.

Consolidated Interim Financial Statements of Landsvirkjun, June 30, 2011 10 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 2010.

The Company's Board of Directors approved the presentation of the interim financial statements on 16 August 2011.

3. Significant accounting policies

The accounting policies applied by the Group in these consolidated interim 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 2010. The presentation has been changed and realised aluminium hedges are now recognised among operating income. Comparative figures have been adjusted accordingly. The change in presentation does not affect the results or financial standing of the Group. The Company's financial statements can be found at its website www.landsvirkjun.is and at the website of NASDAQ OMX Iceland; www.nasdaqomxnordic.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, 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

Operating segments 1.1.-30.6. 2011	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	192,221	24,233	1,431		217,885
Income within the Group	5,944	28,273	1,502	(35,719)	0
Segment income	198,165	52,506	2,933	(35,719)	217,885
Segment operating expenses	(57,638)	(14,672)	(2,077)	35,719	(38,667)
EBITDA	140,527	37,834	856		179,219
Depreciation and impairment loss	(42,962)	(10,710)	(346)	242	(53,777)
Segment earnings, EBIT	97,565	27,124	510	242	125,441
Segment assets 30.6.2011	4,626,179	611,351	12,479	(491,982)	4,758,027
Shares in associated companies	21,147	400	344		21,891
Total assets 30.6.2011	4,647,326	611,751	12,823	(491,982)	4,779,918
Segment liabilities 30.6.2011	2,984,236	511,398	4,211	(389,999)	3,109,845
Total liabilities 30.6.2011	2,984,236	511,398	4,211	(389,999)	3,109,845

Operating segments 1.1.-30.6. 2010	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	156,517	23,150	1,526		181,193
Income within the Group	7,478	28,550	3,074	(39,102)	0
Segment income	163,995	51,700	4,600	(39,102)	181,193
Segment operating expenses	(57,233)	(15,376)	(3,891)	39,102	(37,398)
EBITDA	106,762	36,324	709		143,795
Depreciation and impairment loss	(42,943)	(9,392)	(509)	210	(52,634)
Segment earnings, EBIT	63,819	26,932	200	210	91,161
Segment assets 31.12.2010	4,681,746	600,294	12,979	(479,392)	4,815,626
Shares in associated companies	21,032	445	382		21,860
Total assets 31.12.2010	4,702,778	600,739	13,361	(479,392)	4,837,486
Segment liabilities 31.12.2010	3,066,327	499,722	5,168	(378,053)	3,193,164
Total liabilities 31.12.2010	3,066,327	499,722	5,168	(378,053)	3,193,164

6. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2011 1.1.-30.6.	2010 1.1.-30.6.
Interest income	1,699	2,854
Interest expenses	(39,909)	(27,487)
Guarantee fee	(3,585)	(3,485)
Indexation	(13,101)	(8,531)
Capitalised interest costs	604	148
Total interest expenses	(55,991)	(39,355)
Realised exchange rate difference	(19,200)	(7,002)
Unrealised exchange rate difference	(94,221)	178,686
Total exchange rate difference	(113,421)	171,684
Fair value changes in embedded derivatives	59,000	(183,236)
Fair value changes in other derivatives	21,817	(21,777)
Effects through associated companies	(1,467)	37
Fair value changes in shares	0	(197)
Loss on sale of shares	0	(4)
Other financial income and (expenses)	(1,467)	(164)
Total financial income and (expenses)	(88,363)	(69,994)

7. Property, plant and equipment

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

Cost value	Power stations	Trans-mission	Communicat. equipment	Other assets	Total
Total value at 1.1.2010	4,827,835	524,865	10,310	68,928	5,431,938
Effect of exchange rate changes	0	46,018	900	1,986	48,904
Additions during the year	16,357	3,622	287	3,099	23,365
Moved to assets available for sale	0	0	(869)	75	(794)
Assets from construction	0	14,172	0	0	14,172
Sold and disposed of	0	0	0	(588)	(588)
Total value at 31.12.2010	4,844,192	588,677	10,628	73,500	5,516,997
Effect of exchange rate changes	0	2,884	38	129	3,051
Additions during the period	4,413	792	162	1,412	6,779
Sold and disposed of	0	0	(2,477)	(306)	(2,783)
Total value at 30.6.2011	4,848,605	592,353	8,351	74,735	5,524,044

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Notes, contd.:

7. Property, plant and equipment, contd.:

Depreciation and impairment loss	Power stations	Trans-mission	Communicat. equipment	Other assets	Total
Total value at 1.1.2010	1,605,761	61,252	4,020	23,404	1,694,437
Depreciation of the year	84,200	18,008	943	2,520	105,671
Effect of exchange rate changes	0	6,367	400	390	7,157
Change in revaluation	0	0	533	0	533
Sold and disposed of	0	0	0	(534)	(534)
Total value at 31.12.2010	1,689,961	85,627	5,896	25,780	1,807,264
Depreciation of the period	42,209	9,635	345	1,235	53,424
Effect of exchange rate changes	0	479	15	29	523
Sold and disposed of	0	0	(2,609)	(108)	(2,717)
Total value at 30.6.2011	1,732,170	95,741	3,647	26,936	1,858,494
Book value					
1.1.2010	3,222,074	463,614	6,291	45,524	3,737,501
31.12.2010 and 1.1.2011	3,154,231	503,050	4,732	47,720	3,709,732
30.6.2011	3,116,435	496,612	4,703	47,799	3,665,549

8. Intangible assets

Intangible assets are specified as follows:

Cost value	Capitalised development cost	Water and geothermal rights	Software	Total
Total value at 1.1.2010	155,254	40,568	6,028	201,850
Effect of exchange rate changes	1,783	0	260	2,043
Additions during the year	28,709	4,259	239	33,207
Addition upon acquisition of subsidiary	34,236	0	0	34,236
Moved to assets in construction during the year	(3,411)	0	0	(3,411)
Total value at 31.12.2010	216,571	44,827	6,527	267,925
Effect of exchange rate changes	317	0	16	333
Additions during the period	6,603	0	6	6,609
Moved to assets in construction during the year	(18,473)	0	0	(18,473)
Total value at 30.6.2011	205,018	44,827	6,549	256,394
Amortization and impairment loss				
Total value at 1.1.2010	56,988	0	3,341	60,329
Amortization during the year	0	0	918	918
Impairment loss during the year	669	0	0	669
Sold and disposed of	0	0	120	120
Effect of exchange rate changes	72	0	0	72
Total value at 31.12.2010	57,729	0	4,379	62,108
Amortization during the period	0	0	354	354
Effect of exchange rate changes	5	0	11	16
Total value at 30.6.2011	57,734	0	4,744	62,478
Book value				
1.1.2010	98,266	40,568	2,687	141,521
31.12.2010 and 1.1.2011	158,842	44,827	2,148	205,819
30.6.2011	147,285	44,827	1,805	193,918

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Notes, contd.:

9. Depreciation and impairment

The Group's depreciation and impairment is specified as follows:

	2011 1.1.-30.6.	2010 1.1.-30.6.
Power stations	42,209	42,064
Transmission	9,635	8,360
Other assets	1,579	1,737
Depreciation of assets in operation	53,423	52,162
Amortization of software	354	473
	53,777	52,634

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

	2011	2010
Energy production costs	42,467	42,342
Transmission costs	9,880	8,647
Other operating expenses	1,431	1,645
	53,777	52,634

10. Derivative financial instruments

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

	30.6. 2011	31.12. 2010
Assets:		
Embedded derivatives in electricity sales agreements	452,053	391,332
Aluminium hedges	23,002	28,752
Currency swaps	0	7,846
Interest rate swaps	0	1,613
Other derivatives	9,130	246
	484,185	429,789
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	411,179	363,694
Short-term component of derivative agreements	73,006	66,095
	484,185	429,789
Liabilities:		
Embedded derivatives in electricity sales agreements	25,629	23,908
Aluminium hedges	13,267	13,507
Currency swaps	28,422	28,789
Interest rate swaps	39,811	35,972
Other derivatives	8,227	35,163
	115,356	137,339
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	81,710	96,133
Short-term component of derivative agreements	33,646	41,206
	115,356	137,339

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11. Liabilities

Long-term debt is specified as follows by currencies:

	Maturity date	30/06/2011 Average interest	Remaining balance	31/12/2010 Average interest	Remaining balance
Liabilities in ISK, indexed	2011-2034	4.0%	461,190	4.0%	444,387
Liabilities in ISK, non-indexed	2011	6.5%	1,941	6.9%	66,490
Liabilities in CHF	2011-2022	0.6%	72,513	2.8%	108,387
Liabilities in EUR	2011-2028	1.7%	1,178,709	1.5%	1,208,957
Liabilities in GBP	2014-2016	11.4%	14,774	11.4%	14,334
Liabilities in JPY	2011-2033	2.4%	37,102	1.3%	62,213
Liabilities in USD	2011-2026	2.9%	1,111,898	2.4%	1,034,730
			2,878,127		2,939,498
Current maturities of long-term debt			(196,803)		(369,799)
Total long-term debt			2,681,324		2,569,699

Interest terms on the parent company's loans are from 0.3-14.5%. Nominal interests for the period were on average approximately 3.03% compared to approximately 2.57% 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.

12. Current maturities of long-term debt

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

	2011
1.7.2011-30.06.2012	196,803
1.7.2012-31.12.2012	116,666
2013	160,710
2014	159,091
2015	248,333
2016	266,384
Later	1,730,140
	2,878,127

13. Cash flow

Cash flow from operation is an indicator for the Company's ability to meet its payment obligations. Following, operating activities are presented according to the direct method for comparison.

Operating activities:	2011 1.1.-30.6.	2010 1.1.-30.6.
Cash received from customers	219,294	181,930
Cash expenses	(39,523)	(32,894)
Cash flow from operation excluding interest	179,771	149,036
Interest income received	1,643	2,230
Interest expenses and foreign exchange difference paid	(48,745)	(41,282)
Cash flow from operating activities	132,669	109,984

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Notes, contd.:

14. 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 risk
- That effective management is applied in accordance with authorisations
- That effective monitoring of 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 a regular 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 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 objective of Risk Management is to analyse, manage and monitor Landsvirkjun's risks in order to stabilise operating return by reducing operating fluctuations due to exchange rates, interest rates 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
- Foreign exchange risk due to liabilities and cash flow
- Interest rate risk due to the Company's liabilities

New derivative transactions at Landsvirkjun are currently being carried out without any insurances or credit support agreements and are exclusively for hedging purposes.

Due to new loans and adequate cash flow during the first six months of the year the Company's liquidity is good. There is therefore more scope than before for Risk Management to apply active management in instable financial markets.

As before, Landsvirkjun's emphasis is on limiting liquidity risk and derivative agreements will be based thereupon.

15. Aluminium price risk

The Company is exposed to substantial risk due to possible aluminium price fluctuations as half of its income is linked to aluminium price. 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 can loose income if aluminium price increases considerably, but at the same time guarantees better cash flow should the market price of aluminium decrease. 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. At the end of June, fair value of the hedges in question was positive by USD 10 million with hedges in effect over the next four years.

The accompanying tables show fair value changes of aluminium hedges due to changes in aluminium prices and/or interest rates. The amounts are in USD thousand before taxes.

30/06/2011

Interest Rates	Aluminium Price -10%	Aluminium Price 0%	Aluminium Price 10%
-1%	16,932	1,836	(13,514)
0%	15,174	-	(15,423)
1%	13,426	(1,823)	(17,316)

30/06/2010

Interest Rates	Aluminium Price -10%	Aluminium Price 0%	Aluminium Price 10%
-1%	14,604	2,055	(10,482)
0%	12,609	-	(12,589)
1%	10,639	(2,029)	(14,667)

15. 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.

	30/06/2011	31/12/2010
The fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	367,424	423,007
Fair value changes during the period	59,000	(55,583)
Fair value of embedded derivatives at the end of the period	426,424	367,424
Division of embedded derivatives is specified as follows:		
Long term components of embedded derivatives	379,369	322,954
Short term component of embedded derivatives	47,055	44,470
Total embedded derivatives	426,424	367,424

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

30/06/2011

Interest Rates	Aluminium Price -10%	0%	10%
-1%	(125,179)	20,828	166,675
0%	(139,039)	-	138,877
1%	(152,214)	(19,753)	112,545

30/06/2010

Interest Rates	Aluminium Price -10%	0%	10%
-1%	(139,725)	11,936	159,007
0%	(145,076)	-	140,206
1%	(150,076)	(11,184)	122,592

It is the opinion of Landsvirkjun's management that the assumptions are in accordance with IFRSs. The assumptions are as follows:

Fair value of the agreements is calculated on the basis of forward price of aluminium, discounted at USD zero-coupon rates allowing for volatility.

The management's 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. Calculations are therefore based on the maximum time length of official information on aluminium prices, or 123 months.

The calculations are limited to the revision time of electric power sales agreements in terms of time. The time length can though never be more than the aforementioned 123 months.

According to provisions in energy buyers' purchase obligation the calculation is based on secured minimum purchase of 77% - 85%.

16. 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 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 open position 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 because of netting in cash flow in ISK and income in NOK being 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 debt in EUR, which is mainly long term loans. There is also limited risk related to the JPY, ISK and GBP due to outstanding loans. The foreign currency open balance in the loan portfolio is around 20% of assets, which is within the Company's limits and the risk is acceptable.

Sensitivity analysis

The strengthening of the USD by 10% against the following currencies, would have increased the Group's profit and equity by the following amounts after 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 2010.

	Profit after tax	
	30/06/2011	**31/12/2010**
EUR	43,383	41,485
ISK	23,737	24,239
JPY	5,454	4,234

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 28 million at the end of June 2011. The underlying principal amount is USD 142 million. The fair value of forward currency agreements was negative by USD 2 million and the underlying principal amount was USD 145 million. The fair value of currency options was positive by USD 3 million and the underlying principal amount was approx. USD 706 million.

17. 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 interest and increased interest expenses.

At the end of June, the proportion of loans with floating interest rates was 78% compared to 75% at year end 2010. Changes in interest rate by one percent would have led to a change in interest expenses by USD 11 million in the first six months of year 2011 (USD 14 million in the same period of year 2010). The Company's financial instruments with fixed interests are not sensitive to interest rate changes.

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17. Interest rate risk, contd.:

Landsvirkjun has entered into interest rate swaps, which are aimed at fixing interest rates and reducing the Company's risk exposure. Fair value changes of these agreements are recognised in the income statement as the Company does not do hedge accounting. At the end of June 2011, the fair value of interest rate swaps was negative by USD 40 million and the underlying principle amounted to USD 185 million.

Interest rate changes in the US have considerable effect on the value of Landsvirkjun's embedded derivatives and the effect increases as aluminium price increases. Sensitivity analysis of embedded derivatives at the end of June is included in note 15, which states the effect interest rates and aluminium prices have on embedded derivatives in the Company's electric power agreements.

18. Liquidity risk

Liquidity risk consists of risk of losses should the Company not be able to meet its obligations at maturity date. In order to limit such risk, the Company's liquidity balance is monitored and emphasis is on sufficient cash position and access to Revolving Credit Facilities. The undrawn amount in USD was 308 million at the end of June 2011. Furthermore, Landsvikjun has ensured access to contractual credit facility in Icelandic kronas. The credit facility amounts to ISK 5 billion with final maturity date in March 2014, which was undrawn at the end of the period.

At the end of June, the Company's cash and cash equivalents amounted to USD 193 million and undrawn credit facilities amounted to USD 352 million, total of USD 545 million. Taking into consideration cash flow from operation the Company believes that access to liquid assets is ensured for the next years.

In order to ensure access to capital and maintain flexible funding Landsvirkjun has used different types of loans. In past years, financing has mostly taken place through a Euro Medium Term Note Program (EMTN). At the end of June, the balance of loans under the EMTN was USD 1.84 billion with the total amount that the Company can borrow under the program 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 the end of June and the proportion of loans with maturity within 12 months was 6%. Calculation of the contractual cash flow of long-term debt at year end 2010 was based on the interest rate ruling from the last payment date of the year. On the other hand, in the interim financial statements, implied forward rates were used. Landsvirkjun will from now apply that method, which is in accordance with the Company's internal work procedures.

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

30/06/2011	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
Non-derivative financial instruments						
Cash	193,332	193,332	193,332			
Short term receivables ..	83,880	83,880	83,880			
Long-term debt	(2,878,127)	(3,784,651)	(247,834)	(303,105)	(926,884)	(2,306,827)
Short term payables	(87,295)	(87,295)	(87,295)			
	(2,688,210)	(3,594,734)	(57,917)	(303,105)	(926,884)	(2,306,827)

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18. Liquidity risk, contd.:

30/06/2011	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
Derivative financial instruments						
Currency swaps	(25,359)	(24,338)	(13,067)	(11,271)		
Interest rate swaps	(39,811)	(36,793)	(4,370)	(4,151)	(28,518)	246
Forward agreements	(2,161)	(2,161)	(2,161)			
Aluminium derivatives ...	9,735	10,675	7,450	(1,329)	4,553	
Embedded derivatives ..	426,424	480,876	47,158	47,412	150,347	235,959
	368,829	428,258	35,010	30,661	126,382	236,205
31/12/2010						
Non-derivative financial instruments						
Cash	265,532	265,532	265,532			
Short term receivables ..	92,086	92,086	92,086			
Long-term loans	(2,939,498)	(3,439,107)	(443,134)	(293,037)	(723,681)	(1,979,256)
Short term payables	(86,344)	(86,344)	(86,344)			
	(2,668,224)	(3,167,833)	(171,860)	(293,037)	(723,681)	(1,979,256)
Derivative financial instruments						
Currency swaps	(50,338)	(43,640)	(10,908)	(18,711)	(14,021)	
Interest rate swaps	(34,359)	(32,165)	(4,205)	(4,209)	(14,147)	(9,604)
Forward agreements	(5,522)	(4,905)	(4,905)			
Aluminium derivatives ...	15,246	20,034	14,892	(2,191)	7,333	
Embedded derivatives ..	367,424	416,613	44,584	43,576	127,710	200,743
	292,451	355,937	39,458	18,465	106,875	191,139

19. 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. 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. 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 period end:

	30/06/2011	31/12/2010
Derivative financial instruments	484,185	429,789
Other long-term receivables	0	89
Accounts receivables and other receivables	83,880	92,086
Cash	193,332	265,532
	761,397	787,496

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20. 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 USD 14 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. The District Court of Austurland ruled in the matter on 25 January 2011 and confirmed the conclusion of the evaluation committee, and that the Company shall pay general interests and interests in arrears. Settlement with water right holders has taken place on the basis of the evaluation and the ruling but settlement to the State in relation to the public lands act has not been finalised. The ruling by the District Court of Austurland has been appealed to the Supreme Court.