

Group

Condensed Interim Financial Statements

January 1 to June 30, 2014

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík
Iceland

Reg. no. 420269-1299

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Key figures

Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2014 1.1.-30.6.	2013 1.1.-30.6.	2012 1.1.-30.6.	2011 1.1.-30.6.	2010 1.1.-30.6.
Operation					
Operating revenues	196,877	199,266	193,454	214,370	186,005
Realised aluminium hedges	6,363	7,447	9,426	3,515	(4,812)
Total operating revenues	203,240	206,713	202,880	217,885	181,193
Operating and maintenance expenses	(48,381)	(41,460)	(38,932)	(38,667)	(37,398)
EBITDA	154,859	165,253	163,948	179,218	143,795
Depreciation and impairment loss	(55,831)	(60,603)	(52,391)	(53,777)	(52,634)
EBIT	99,028	104,650	111,557	125,441	91,161
Financial items	(44,601)	(37,577)	(63,905)	(74,959)	(43,667)
Profit before unrealised financial items	54,427	67,073	47,652	50,482	47,494
Unrealised financial items:					
Fair value changes in embedded derivatives	(5,650)	(169,459)	(67,420)	59,000	(183,236)
Fair value changes in other derivatives	(6,566)	564	12,239	21,817	(21,777)
Unrealised foreign exchange difference	8,779	16,510	22,018	(94,221)	178,686
	(3,437)	(152,385)	(33,163)	(13,404)	(26,327)
Profit (loss) before income tax	50,990	(85,312)	14,489	37,078	21,167
Income tax	(16,443)	33,089	(5,470)	(13,675)	(5,479)
Profit (loss) for the period	34,547	(52,223)	9,019	23,403	15,688
Balance sheet					
	30.6. 2014	30.6. 2013	30.6. 2012	30.6. 2011	30.6. 2010
Total assets	4,455,652	4,389,289	4,541,882	4,792,271	4,590,184
Total equity	1,681,003	1,635,705	1,651,834	1,670,073	1,579,686
Total liabilities	2,774,649	2,753,584	2,890,048	3,122,198	3,010,498
Net liabilities*	2,376,422	2,405,474	2,428,898	2,684,795	2,561,291
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)	118,962	134,112	118,974	129,637	114,177
Cash flow from operating activities	114,226	134,430	118,087	132,669	109,984
Investing activities	(48,533)	(75,363)	(36,414)	(26,226)	(24,664)
Financing activities	(139,227)	(89,290)	(63,106)	(178,161)	(97,567)
Liquidity					
	30.6. 2014	30.6. 2013	30.6. 2012	30.6. 2011	30.6. 2010
Cash and cash equivalents	215,248	158,800	244,961	193,332	178,763
Undrawn loans	293,036	400,105	411,182	351,672	281,600
Total liquidity	508,284	558,905	656,143	545,004	460,363
Key ratios					
Return on equity **	2.9%	(0.4)%	0.7%	5.1%	11.4%
Equity ratio	37.7%	37.3%	36.4%	34.8%	34.4%
Interest cover (EBITDA/net interest expenses) .	3.27x	3.59x	2.96x	3.30x	3.94x
FFO / net liabilities**	10.2%	10.7%	10.1%	8.7%	8.3%
FFO / interest expenses	2.42x	2.80x	2.07x	2.32x	2.90x
Net liabilities / EBITDA**	7.46x	7.48x	7.38x	8.05x	9.44x
Credit rating at the end of June					
Standard & Poor's	BB	BB	BB	BB	BB
Moody's	Baa3	Baa3	Baa3	Baa3	Baa3

* Net liabilities are interest bearing long-term liabilities less cash

** Key ratios based on the past 12 months

Endorsement and Statement of the Board of Directors and CEO

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

According to the income statement, the Group's profit in the period from January to June 2014 amounted to USD 34.5 million while during the same period in 2013 the Group's loss amounted to USD 52.2 million. The change between periods is USD 86.7 million, mainly due to negative fair value changes of embedded derivatives, which amounted to USD 5.7 million compared to USD 169.5 million during the same period in 2013. The Group's operating revenues amounted to USD 203.2 million during the period compared to USD 206.7 million during the same period in the previous year. Cash flow from operations amounted to USD 114.2 million during the period compared to USD 134.4 million during the same period in the previous year. At the end of June 2014, the Group's cash and cash equivalents amounted to USD 215.2 million and undrawn loans amounted to USD 293.0 million, total of USD 508.2 million. The Group's equity at the end of June amounted to USD 1,681.0 million according to the balance sheet compared to USD 1,658.1 million at year end 2013. At the annual general meeting, 2 April, 2014, it was approved to pay a dividend to the owners of the company amounting to ISK 1.5 billion or USD 13 million.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors' and the CEO, the financial statements are in accordance with IAS 34, Interim financial statements, as adopted by the EU and it is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of the Company's assets, liabilities and financial position as at 30 June, 2014 and the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2014.

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 2014 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, August 29, 2014.

The Board of Directors:
Jónas Þór Guðmundsson
Jón Björn Hákonarson
Helgi Jóhannesson
Þórunn Sveinbjarnardóttir
Álfheiður Ingadóttir

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, 2014 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of directors and CEO's responsibility for the Interim Financial Statements

The Board of directors and CEO are responsible for the preparation and fair presentation of this interim financial statements in accordance with International Financial Reporting Standard, IAS 34, as adopted by the EU.

Auditor's Responsibility

Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is 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 does not give a true and fair view of the financial position of the entity as at 30 June 2014, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standard, IAS 34, as adopted by the EU.

Reykjavik, August 29, 2014.

Deloitte ehf.

Þorsteinn Pétur Guðjónsson
Lárus Finnbogason

Income Statement January 1 to June 30, 2014

	Notes	2014 1.1.-30.6.	2013 1.1.-30.6.
Operating revenues			
Power sales		165,488	172,722
Realised aluminium hedges		6,363	7,447
Transmission		29,529	24,696
Other income		1,860	1,848
		203,240	206,713
Operating expenses			
Energy production costs		61,907	57,513
Transmission costs		21,467	17,558
Cost of general research		3,220	11,657
Other operating expenses		17,618	15,335
		104,212	102,063
Operating profit		99,028	104,650
Financial income and (expenses)			
Interest income		1,854	1,949
Interest expenses		(49,166)	(47,930)
Foreign exchange difference		12,636	26,723
Fair value changes in embedded derivatives		(5,650)	(169,459)
Fair value changes in other derivatives		(6,566)	564
	6	(46,892)	(188,153)
Share in loss of associates		(1,146)	(1,809)
Profit (loss) before income tax		50,990	(85,312)
Income tax		(16,443)	33,089
Net profit (loss) for the period		34,547	(52,223)
Attributable to:			
Owners of the parent company		30,728	(56,458)
Subsidiaries minority interest		3,819	4,235
		34,547	(52,223)

Notes 1 to 22 are an integral part of these interim financial statements.

Statement of Comprehensive Income January 1 to June 30, 2014

	2014		2013
	1.1.-30.6.		1.1.-30.6.
Profit (loss) for the period	34,547	(	52,223)
Items that will not be reclassified subsequently to profit or loss			
Pension liability after income tax, change	(647)	(	551)
Items that may be reclassified subsequently to profit or loss:			
Translation difference due to subsidiaries and associated companies	2,362		4,148
Total operating items moved to equity	1,715		3,597
Total Comprehensive Income (loss) for the period	36,262	(	48,626)
Attributable to:			
Owners of the parent company	31,507	(	54,490)
Subsidiaries minority interest	4,755		5,864
	36,262	(	48,626)

Notes 1 to 22 are an integral part of these interim financial statements.

Balance Sheet June 30, 2014

Assets	Notes	30.6. 2014	31.12. 2013
Non-current assets			
Property, plant and equipment	7	3,698,657	3,495,611
Projects under construction	8	14,484	221,820
Intangible assets	9	246,518	239,038
Derivative financial instruments	11	99,848	112,451
Associated companies		19,386	20,717
Other non-current assets		135	3,610
Deferred tax asset		76,705	89,536
Total non-current assets		<u>4,155,733</u>	<u>4,182,783</u>
Current assets			
Inventories		4,796	4,827
Accounts receivables and other receivables		65,626	67,630
Derivative financial instruments	11	14,249	25,738
Cash and cash equivalents		215,248	287,987
Total current assets		<u>299,919</u>	<u>386,182</u>
Total assets		<u><u>4,455,652</u></u>	<u><u>4,568,965</u></u>
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		93,171	94,898
Translation difference		(27,105)	(28,531)
Other equity		976,260	957,845
Equity of the owners of the parent company		<u>1,628,838</u>	<u>1,610,724</u>
Minority interest		52,165	47,410
Total equity		<u>1,681,003</u>	<u>1,658,134</u>
Long-term liabilities			
Interest bearing liabilities	12	2,449,496	2,541,806
Accrued pension liabilities		28,164	27,007
Deferred income tax liability		22,905	21,076
Obligation due to demolition		7,067	6,739
Prepaid income		3,205	3,210
Derivative financial instruments	11	44,732	50,029
		<u>2,555,569</u>	<u>2,649,867</u>
Current liabilities			
Accounts payable and other payables		72,845	75,701
Interest bearing liabilities	13	142,174	175,357
Derivative financial instruments	11	4,061	9,906
		<u>219,080</u>	<u>260,964</u>
Total liabilities		<u>2,774,649</u>	<u>2,910,831</u>
Total equity and liabilities		<u><u>4,455,652</u></u>	<u><u>4,568,965</u></u>

Notes 1 to 22 are an integral part of these interim financial statements.

Statement of Equity June 30, 2014

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
January 1 to June 30, 2013							
Equity at January 1, 2013....	586,512	98,281	(37,233)	1,013,216	1,660,776	36,376	1,697,152
Translation difference.....			2,519		2,519	1,629	4,148
Pension obligation, change.				(551)	(551)	0	(551)
Loss for the period.....				(56,458)	(56,458)	4,235	(52,223)
Total loss for the period.....			2,519	(57,009)	(54,490)	5,864	(48,626)
Dividend to owners.....				(12,821)	(12,821)	0	(12,821)
Revaluation transferred to other equity.....		(1,568)		1,568	0		0
Equity at June 30, 2013.....	586,512	96,713	(34,714)	944,954	1,593,465	42,240	1,635,705
January 1 to June 30, 2014							
Equity at January 1, 2014....	586,512	94,898	(28,531)	957,845	1,610,724	47,410	1,658,134
Translation difference.....			1,426		1,426	936	2,362
Pension obligation, change.				(647)	(647)	0	(647)
Profit for the period.....				30,728	30,728	3,819	34,547
Total profit for the period...			1,426	30,081	31,507	4,755	36,262
Dividend to owners.....				(13,393)	(13,393)	0	(13,393)
Revaluation transferred to other equity.....		(1,727)		1,727	0		0
Equity at June 30, 2014.....	586,512	93,171	(27,105)	976,260	1,628,838	52,165	1,681,003

Notes 1 to 22 are an integral part of these interim financial statements.

Statement of Cash Flows January 1 to June 30, 2014

	Notes	2014 1.1.-30.6.	2013 1.1.-30.6.
Operating activities			
Operating profit		99,028	104,650
Depreciation and impairment loss		55,831	60,603
Pension obligation, change .....	(	374)	(327)
Obligation due to demolition, change		189	162
Other changes		35	(15)
Working capital from operation before financial items		154,709	165,073
Operating assets and liabilities, change .....	(	3,217)	242
Cash flow from operating activities before financial items		151,492	165,315
Interest income received		1,875	1,634
Interest expenses and foreign exchange difference paid .....	(	39,102)	(32,417)
Taxes paid .....	(	39)	(102)
Cash flow from operating activities	14	114,226	134,430
Investing activities			
Hydropower stations in operation .....	(	5,426)	(811)
Transmission .....	(	12,057)	(21,931)
Development costs for power plants .....	(	7,852)	(12,082)
Hydropower stations in construction .....	(	20,996)	(40,992)
Purchased shares .....	(	104)	0
Dividend received		102	0
Other capital expenditure .....	(	7,567)	(3,966)
Assets sold		306	54
Other receivables, change		5,061	4,365
Investing activities	(	48,533)	(75,363)
Financing activities			
Dividends paid to owners .....	(	6,696)	(12,822)
New loans		8,979	14,931
Amortisation of long-term debt .....	(	141,510)	(91,399)
Financing activities	(	139,227)	(89,290)
Change in cash and cash equivalents .....	(	73,534)	(30,223)
Effect of exchange difference on cash and cash equivalents		795	1,107
Cash and cash equivalents at the beginning of the year		287,987	187,916
Cash and cash equivalents at the end of the period		215,248	158,800

Notes 1 to 22 are an integral part of these interim financial statements.

Notes

Reporting entity

1. Landsvirkjun

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

2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (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 December 31, 2013.

3. Significant accounting policies

The interim financial statements are prepared using the same accounting policies as for the year 2013. 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 presented in USD, which is the parent Company's functional currency. 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, trading financial assets and shares in other companies.

4. Use of estimates and judgements

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

5. Segment information

Operating segments 1.1.-30.6. 2014	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	172,267	29,795	1,178		203,240
Income within the Group	7,977	31,346	1,995	(41,318)	0
Segment income	180,244	61,141	3,173	(41,318)	203,240
Segment operating expenses	(65,158)	(22,190)	(2,351)	41,318	(48,381)
EBITDA	115,086	38,951	822		154,859
Depreciation and impairment loss	(43,610)	(11,921)	(524)	224	(55,831)
Segment earnings, EBIT	71,476	27,030	298	224	99,028
Segment assets 30.6.2014	4,260,029	685,777	19,573	(529,113)	4,436,266
Shares in associated companies	18,997	6,015	389	(6,015)	19,386
Total assets 30.6.2014	4,279,026	691,792	19,962	(535,128)	4,455,652
Segment liabilities 30.6.2014	2,629,771	544,020	4,471	(403,613)	2,774,649
Total liabilities 30.6.2014	2,629,771	544,020	4,471	(403,613)	2,774,649

Notes, contd.:

5. Segment information, contd.:

Operating segments 1.1.-30.6. 2013	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	180,495	24,983	1,235		206,713
Income within the Group	6,504	32,035	1,646	(40,185)	0
Segment income	186,999	57,018	2,881	(40,185)	206,713
Segment operating expenses	(61,612)	(18,040)	(1,994)	40,185	(41,460)
EBITDA	125,387	38,978	887		165,253
Depreciation and impairment loss	(50,283)	(10,016)	(509)	205	(60,603)
Segment earnings, EBIT	75,104	28,962	378	205	104,650
Segment assets 31.12.2013	4,386,118	668,862	19,354	(526,085)	4,548,248
Shares in associated companies	20,224	5,815	492	(5,815)	20,717
Total assets 31.12.2013	4,406,342	674,677	19,846	(531,900)	4,568,965
Segment liabilities 31.12.2013	2,769,722	540,397	4,743	(404,031)	2,910,831
Total liabilities 31.12.2013	2,769,722	540,397	4,743	(404,031)	2,910,831

6. Financial income and (expenses)

	2014	2013
Financial income and (expenses) are specified as follows:	1.1.-30.6.	1.1.-30.6.
Interest income	1,854	1,949
Interest expenses	(40,311)	(36,640)
Guarantee fee	(6,299)	(6,159)
Indexation	(4,215)	(8,885)
Capitalised interest costs	1,659	3,754
Total interest expenses	(49,166)	(47,930)
Realised foreign exchange difference	3,857	10,213
Unrealised foreign exchange difference	8,779	16,510
Total foreign exchange difference	12,636	26,723
Fair value changes in embedded derivatives	(5,650)	(169,459)
Fair value changes in other derivatives	(6,566)	564
Financial income and (expenses)	(46,892)	(188,153)

7. Property, plant and equipment

Property, plant and equipment is specified as follows:

Cost	Power stations	Trans- mission	Communicat. equipment	Other assets	Total
Total value at 1.1.2013	4,857,421	531,044	16,486	70,399	5,475,350
Effect of exchange rate changes	0	66,761	2,031	3,411	72,203
Additions during the year	4,719	5,527	1,050	5,320	16,616
Moved from development costs	4,065	0	0	0	4,065
Moved from projects under constructions	0	49,882	0	0	49,882
Sold and disposed of	0	0	0	(7,642)	(7,642)
Total value at 31.12.2013	4,866,205	653,214	19,567	71,488	5,610,474
Effect of exchange rate changes	0	12,606	380	660	13,646
Additions during the period	7,310	4,136	550	3,802	15,798
Moved from projects under constructions	229,637	3,028	0	0	232,665
Sold and disposed of	0	0	0	(600)	(600)
Total value at 30.6.2014	5,103,152	672,984	20,497	75,350	5,871,983

Notes, cont.:

7. Property, plant and equipment, cont.:	Power stations	Trans- mission	Communicat. equipment	Other assets	Total
Depreciation and impairment loss					
Total value at 1.1.2013	1,856,852	110,400	3,806	28,009	1,999,067
Effect of exchange rate changes	0	14,351	519	913	15,783
Depreciation of the year	81,974	18,587	1,058	2,953	104,572
Sold and disposed of	0	0	0	(4,559)	(4,559)
Total value at 31.12.2013	1,938,826	143,338	5,383	27,316	2,114,863
Effect of exchange rate changes	0	2,826	107	183	3,116
Depreciation during the period	42,693	10,746	537	1,630	55,606
Sold and disposed of	0	0	0	(259)	(259)
Total value at 30.6.2014	1,981,519	156,910	6,027	28,870	2,173,326
Book value					
1.1.2013	3,000,569	420,644	12,680	42,390	3,476,284
31.12.2013	2,927,379	509,876	14,184	44,172	3,495,611
30.6.2014	3,121,633	516,074	14,470	46,480	3,698,657

8. Projects under construction

Projects under construction are specified as follows:

Cost

Total value at 1.1.2013	151,509
Effect of exchange rate changes	1,289
Additions during the year	118,501
Moved from development costs	403
Moved to property, plant and equipment	(49,882)
Total value 31.12.2013	221,820
Effect of exchange rate changes	213
Moved from development costs	611
Additions during the period	24,505
Moved to property, plant and equipment	(232,665)
Total value 30.6.2014	14,484

9. Intangible assets

Intangible assets are specified as follows:

	Capitalised development cost	Water and geothermal rights	Software	Total
Cost				
Total value at 1.1.2013	247,051	45,611	7,137	299,799
Effect of exchange rate changes	1,408	0	381	1,789
Additions during the year	20,747	0	1,012	21,759
Moved to property, plant and equipment	(4,468)	0	0	(4,468)
Total value 31.12.2013	264,738	45,611	8,530	318,879
Effect of exchange rate changes	262	0	75	337
Additions during the period	7,471	0	606	8,077
Moved to property, plant and equipment	(611)	0	0	(611)
Total value 30.6.2014	271,860	45,611	9,211	326,682

Notes, contd.:

9. Intangible assets, cont.:

	Capitalised development cost	Water and geothermal rights	Software	Total
Amortisation and impairment				
Total value at 1.1.2013	61,038	0	5,199	66,237
Effect of exchange rate changes	243	0	263	506
Amortisation during the year	0	0	421	421
Impairment loss during the year	12,678	0	0	12,678
Total value at 31.12.2013	73,959	0	5,883	79,842
Effect of exchange rate changes	49	0	49	98
Amortisation during the period	0	0	225	225
Total value at 30.6.2014	74,008	0	6,157	80,165
Book value				
1.1.2013	186,013	45,611	1,938	233,563
31.12.2013	190,779	45,611	2,647	239,038
30.6.2014	197,852	45,611	3,054	246,518

10. Depreciation and impairment

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

	2014 1.1.-30.6.	2013 1.1.-30.6.
Power stations	42,693	40,920
Transmission	10,746	9,015
Other assets	2,167	1,940
Depreciation of assets in operation	55,606	51,875
Impairment loss on development cost	0	8,561
Amortisation of software	225	167
	55,831	60,603

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

	2014	2013
Energy production costs	42,991	41,174
Transmission costs	11,232	9,387
Cost of general research	0	8,561
Other operating expenses	1,608	1,481
	55,831	60,603

11. Derivative financial instruments

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

	30.6. 2014	31.12. 2013
Assets:		
Embedded derivatives in electricity agreements	100,015	109,465
Aluminium hedges	8,970	14,833
Currency swaps	3,336	4,303
Other derivatives	1,776	9,588
	114,097	138,189
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	99,848	112,451
Short-term component of derivative agreements	14,249	25,738
	114,097	138,189
Liabilities:		
Embedded derivatives in electricity agreements	9,470	13,271
Aluminium hedges	3,108	4,786
Interest rate swaps	36,104	38,124
Other derivatives	111	3,754
	48,793	59,935

Notes, contd.:

11. Derivative financial instruments, contd.

	30.6. 2014	31.12. 2013
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	44,732	50,029
Short-term component of derivative agreements	4,061	9,906
	<u>48,793</u>	<u>59,935</u>

12. Liabilities

Interest bearing long-term debt is specified as follows by currencies:

	30/06/2014			31/12/2013	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2014-2034	3.7%	390,995	3.8%	380,002
Liabilities in CHF	2014-2022	0.3%	52,659	0.3%	55,951
Liabilities in EUR	2014-2028	0.9%	686,436	1.1%	796,182
Liabilities in GBP			0	10.4%	4,961
Liabilities in JPY			0	4.0%	12,380
Liabilities in USD	2014-2032	2.9%	1,461,580	3.0%	1,467,687
			<u>2,591,670</u>		<u>2,717,163</u>
Current maturities of long-term debt			(142,174)		(175,357)
Total long-term debt			<u>2,449,496</u>		<u>2,541,806</u>

Interest terms on the parent company's loans are from 0.3-7.9%. Nominal interest rates for the period were on average approximately 3.5%, taking into account the state guarantee fee, which is virtually the same as the previous year.

13. Current maturities of long-term debt

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

	30/06/2014
1.7.2014-30.6.2015	142,174
1.7.2015-31.12.2015	95,264
2016	250,196
2017	263,132
2018	327,862
2019	215,826
Later	1,297,216
	<u>2,591,670</u>

14. Cash flow

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

	2014	2013
	1.1.-30.6.	1.1.-30.6.
Operating activities:		
Cash received from customers	205,351	208,095
Cash paid for expenses	(53,859)	(42,780)
Cash flow from operation excluding interest	<u>151,492</u>	<u>165,315</u>
Interest income received	1,875	1,634
Interest expenses and foreign exchange difference paid	(39,102)	(32,417)
Taxes paid	(39)	(102)
Cash flow from operating activities	<u>114,226</u>	<u>134,430</u>

Notes, contd.:

15. Aluminium price risk

At the end of June 2014, fair value of the aluminium price hedges was positive by 5.9 million USD. Around 50% of estimated cash flow for the year 2014 has been hedged and around 35% for the year 2015.

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 income tax.

30/06/2014

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	6,555	31 (	7,502)
	0%	6,467	- (	7,468)
	1%	6,381 (	31) (	7,434)

31/12/2013

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	7,806	55 (	8,793)
	0%	7,676	- (	8,760)
	1%	7,547 (	54) (	8,728)

Embedded derivatives

Landsvirkjun has defined the part of electric power sales and purchase agreements related to aluminium prices as embedded derivatives, which are recognised in the Company's financial statements.

	30/06/2014	31/12/2013
The fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	96,195	270,836
Fair value changes during the period	(5,650)	(174,641)
Fair value of embedded derivatives at the end of the period	<u>90,545</u>	<u>96,195</u>

Division of embedded derivatives is specified as follows:

Long term component of embedded derivatives	87,170	95,711
Short term component of embedded derivatives	3,375	485
Total embedded derivatives	<u>90,545</u>	<u>96,195</u>

The following tables show fair value changes of embedded derivatives in the case of changes in aluminium prices and/or interest rates. The amounts are in USD thousand before income tax.

30/06/2014

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	(105,938)	5,537	117,011
	0%	(106,088)	-	106,088
	1%	(106,255) (	5,255)	95,745

31/12/2013

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	(105,015)	6,114	117,243
	0%	(105,777)	-	105,777
	1%	(106,532) (	5,828)	94,876

The main assumptions Landsvirkjun uses in the evaluation of embedded derivatives are as follows:

Fair value of the agreements is calculated on the basis of forward prices of aluminium, as disclosed in the LME stock exchange.

Calculations are based on the maximum time length of official information on aluminium prices, or 123 months. 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 for that period.

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 on energy buyers' purchase obligation the calculation is based on a secured minimum purchase.

Notes, contd.:

15. Aluminium price risk, contd.:

Expected cash flow of agreements are discounted with USD interest without margin according to information from Bloomberg. At the end of June, the discount factors are between 0.2 - 2.8% (31.12.2013: 0.3 - 3.3%).

16. Foreign exchange risk

The fair value of currency swaps was positive by USD 3.3 million at the end of June 2014. The underlying principal amount is USD 78.3 million. The fair value of currency options was positive by USD 1.7 million and the underlying principal amount was USD 94.7 million.

17. Interest rate risk

At the end of June 2014, the proportion of loans with floating interest rates was 58% compared to 59% at year end 2013.

The fair value of interest rate swaps was negative by USD 36.1 million at the end of June 2014 and the underlying principle amount was USD 185 million.

18. Liquidity risk

The Company's cash and cash equivalents amounted to USD 215 million at the end of June 2014 but when taking into account undrawn credit facilities (USD 200 million and ISK 10,500 million) the company has access to a total of approximately USD 508 million.

In order to ensure access to capital and maintain flexible funding possibilities, Landsvirkjun has used different types of funding. In past years, financing has mostly taken place through a Euro Medium Term Note Programme (EMTN). At the end of June 2014, the balance of loans under the EMTN was USD 1.7 billion but the total amount that the Company can borrow under the programme is USD 2.5 billion.

In the year 2013, Landsvirkjun signed a new EMTN framework agreement on international bond issues, without a state guarantee. The total amount of the framework agreement is USD 1 billion. At June 30th 2014, the balance of loans under the EMTN without a state guarantee was around USD 30 million.

The Company's risk related to refinancing is reduced with an even maturity profile and longer loan terms of outstanding loans. Weighted average life of the loan portfolio was 6.0 years and the proportion of loans with maturity within 12 months was 5.5%.

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

30/06/2014	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Non-derivative financial instruments</i>						
Cash and cash equiv.	215,248	215,248	215,248	0	0	0
Short term receivables ..	65,626	65,626	65,626	0	0	0
Interest bearing liab.	(2,591,670)	(3,067,649)	(184,904)	(312,596)	(993,282)	(1,576,866)
Current liabilities	(72,845)	(72,845)	(72,845)	0	0	0
	<u>(2,383,641)</u>	<u>(2,859,620)</u>	<u>23,125</u>	<u>(312,596)</u>	<u>(993,282)</u>	<u>(1,576,866)</u>

Notes, contd.:

18. Liquidity risk, contd.:

	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Derivative financial instruments</i>						
Currency swaps	5,001	3,462	962 (	689)	3,189	0
Interest rate swaps	(36,104)	(36,079)	(4,518)	(27,528)	(4,033)	0
Aluminium derivatives ..	5,862	7,022	5,369	1,357	296	0
Embedded derivatives in electricity agreem.	90,545	103,684	3,382	5,689	29,548	65,065
	<u>65,304</u>	<u>78,089</u>	<u>5,195</u>	<u>(21,171)</u>	<u>29,000</u>	<u>65,065</u>

31/12/2013

Non-derivative financial instruments

Long-term receivables ...	3,477	3,761	243	3,518	0	0
Cash and cash equiv.	287,987	287,987	287,987	0	0	0
Short term receivables ..	67,630	67,630	67,630	0	0	0
Interest bearing liab.	(2,717,163)	(3,280,119)	(219,297)	(253,453)	(1,016,325)	(1,791,044)
Current liabilities	(75,701)	(75,701)	(75,701)	0	0	0
	<u>(2,433,770)</u>	<u>(2,996,442)</u>	<u>60,862</u>	<u>(249,935)</u>	<u>(1,016,325)</u>	<u>(1,791,044)</u>

Derivative financial instruments

Currency swaps	10,137	11,759	7,486 (	418)	4,691	0
Interest rate swaps	(38,124)	(38,776)	(4,496)	(29,214)	(5,066)	0
Aluminium derivatives ..	10,047	12,265	9,768	1,955	542	0
Embedded derivatives in electricity agreem.	96,195	113,116	487	4,011	31,062	77,556
	<u>78,255</u>	<u>98,364</u>	<u>13,245</u>	<u>(23,666)</u>	<u>31,229</u>	<u>77,556</u>

19. Counterparty risk

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

	30/06/2014	31/12/2013
Derivative financial instruments	114,097	138,189
Long-term receivables	0	3,477
Accounts receivables and other receivables	65,626	67,630
Cash and cash equivalents	215,248	287,987
	<u>394,971</u>	<u>497,283</u>

Notes, contd.:

20. Comparison of fair value and book value

	30/06/2014		31/12/2013	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	(2,591,670)	(2,762,702)	(2,717,163)	(2,904,201)

Book value of other financial instruments approximates their fair value.

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

Interest rates are specified as follows:

	30/06/2014	31/12/2013
Interest bearing liabilities in ISK	3,1-3,4%	2,2-3,0%
Interest bearing liabilities other than in ISK	0,0-3,3%	0,0-4,0%

21. Fair value classification

The table below shows information about items recognised at fair value:

	Level 2	Level 3	Total
30/06/2014			
Embedded derivatives		90,545	90,545
Other derivatives	(25,241)		(25,241)
Shares in other companies		135	135
	<u>(25,241)</u>	<u>90,680</u>	<u>65,439</u>
31/12/2013			
Embedded derivatives		96,195	96,195
Other derivatives	(17,940)		(17,940)
Shares in other companies		133	133
	<u>(17,940)</u>	<u>96,328</u>	<u>78,388</u>

Classification of financial assets between the levels remains unchanged from the previous year. Fair value changes of financial assets at level 3 amounted to USD 5.6 million expensed in the period January to June 2014 (USD 174.6 million expensed in the year 2013) and is recognised among financial income and expenses.

Notes, contd.:

22. Categories of financial instruments

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

	Trading assets and liabilities	Financial assets and liabilities at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Book value
30/06/2014					
Derivatives	114,097				114,097
Shares in other companies		135			135
Accounts receivables and other receivables			65,626		65,626
Cash and cash equivalents			215,248		215,248
Total assets	114,097	135	280,874	0	395,106
Interest bearing liabilities				2,591,670	2,591,670
Derivatives	48,793				48,793
Accounts payable and other payables ...				72,845	72,845
Total liabilities	48,793	0	0	2,664,515	2,713,308
31/12/2013					
Derivatives	138,189				138,189
Shares in other companies		133			133
Long-term receivables		3,477			3,477
Accounts receivables and other receivables			67,630		67,630
Cash and cash equivalents			287,987		287,987
Total assets	138,189	3,610	355,617	0	497,416
Interest bearing liabilities				2,717,163	2,717,163
Derivatives	59,935				59,935
Accounts payable and other payables ...				75,701	75,701
Total liabilities	59,935	0	0	2,792,864	2,852,799