

Group

Condensed Interim Financial Statements

January 1 to June 30, 2013

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík
Iceland

Reg. no. 420269-1299

Contents

Key Figures, Management's Presentation of the Operation of Landsvirkjun	3
Endorsement and Statement of the Board of Directors and CEO	4
Independent Auditors' Review Report	5
Income Statement	6
Statement of Comprehensive Income	7
Balance Sheet	8
Statement of Equity	9
Statement of Cash Flows	10
Notes	11

Key figures

Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2013	2012	2011	2010	2009
	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.
Operation					
Operating revenues	199,266	193,454	214,370	186,005	139,009
Realised aluminium hedges	7,447	9,426	3,515	(4,812)	40,074
Total operating revenues	206,713	202,880	217,885	181,193	179,083
Operating expenses	(41,460)	(38,932)	(38,667)	(37,398)	(34,849)
EBITDA	165,253	163,948	179,218	143,795	144,234
Depreciation and impairment loss	(60,603)	(52,391)	(53,777)	(52,634)	(54,801)
EBIT	104,650	111,557	125,441	91,161	89,433
Financial items	(37,577)	(63,905)	(74,959)	(43,667)	(56,629)
Profit before unrealised financial items	67,073	47,652	50,482	47,494	32,804
Unrealised financial items:					
Fair value changes in embedded derivatives	(169,459)	(67,420)	59,000	(183,236)	47,692
Fair value changes in other derivatives	564	12,239	21,817	(21,777)	(9,345)
Unrealised foreign exchange difference	16,510	22,018	(94,221)	178,686	(9,619)
	(152,385)	(33,163)	(13,404)	(26,327)	28,728
Profit (loss) before income tax	(85,312)	14,489	37,078	21,167	61,532
Income tax	33,089	(5,470)	(13,675)	(5,479)	(14,274)
Profit (loss) for the period	(52,223)	9,019	23,403	15,688	47,258
Balance sheet					
	30.6. 2013	30.6. 2012	30.6. 2011	30.6. 2010	30.6. 2009
Total assets	4,389,289	4,541,882	4,792,271	4,590,184	4,557,646
Total equity	1,635,705	1,651,834	1,670,073	1,579,686	1,421,455
Total liabilities	2,753,584	2,890,048	3,122,198	3,010,498	3,136,191
Net liabilities *	2,405,474	2,428,898	2,684,795	2,561,291	2,797,642
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)	134,112	118,974	129,637	114,177	103,696
Cash flow from operating activities	134,430	118,087	132,669	109,984	103,644
Investing activities	(75,363)	(36,414)	(26,226)	(24,664)	(59,640)
Financing activities	(89,290)	(63,106)	(178,161)	(97,567)	(35,815)
Liquidity					
	30.6. 2013	30.6. 2012	30.6. 2011	30.6. 2010	30.6. 2009
Cash and cash equivalents	158,800	244,961	193,332	178,763	128,844
Undrawn loans	400,105	411,182	351,672	281,600	350,000
Total liquidity	558,905	656,143	545,004	460,363	478,844
Key ratios					
Return on equity**	(0.4)%	0.7%	5.1%	11.4%	(21.7)%
Equity ratio	37.3%	36.4%	34.8%	34.4%	31.2%
Interest cover (EBITDA/net interest expenses) ..	3.59x	2.96x	3.30x	3.94x	3.37x
FFO / net liabilities**	10.7%	10.1%	8.7%	8.3%	7.2%
FFO / interest expenses	2.80x	2.07x	2.32x	2.90x	2.26x
Net liabilities / EBITDA**	7.48x	7.38x	8.05x	9.44x	9.74x
Credit rating at the end of June					
Standard & Poor's	BB	BB	BB	BB	BBB-
Moody's	Baa3	Baa3	Baa3	Baa3	Baa1

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

** Key ratios are 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 loss in the period from January to June 2013 amounted to USD 52.2 million while during the same period in 2012 the Group's profit amounted to USD 9.0 million. The change between periods is USD 61.2 million, mainly due to negative fair value changes of embedded derivatives during the period, which amounted to USD 169.5 million compared to USD 67.4 million during the same period in 2012. The Group's operating revenues amounted to USD 206.7 million during the period compared to USD 202.9 million during the same period in the previous year. Cash flow from operation amounted to USD 134.4 million during the period compared to USD 118.1 million during the same period in the previous year. At the end of June 2013, the Group's cash and cash equivalents amounted to USD 158.8 million and undrawn loans amounted to USD 400.1 million, total of USD 558.9 million. The Group's equity at the end of June amounted to USD 1,635.7 million according to the balance sheet compared to USD 1,697.2 million at year end 2012.

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 International Financial Reporting Standards 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, 2013 and the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2013.

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 2013 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, 23 August 2013.

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, 2013 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, 23 August 2013.

KPMG ehf.

Árni Claessen

Auður Þórisdóttir

Income Statement January 1 to June 30, 2013

	Notes	2013	2012	
		1.1.-30.6.	1.1.-30.6.	
Operating revenues				
Power sales		172,722	168,267	
Realised aluminium hedges		7,447	9,426	
Transmission		24,696	22,205	
Other income		1,848	2,982	
		206,713	202,880	
Operating expenses				
Energy production costs		57,513	57,416	
Transmission costs		17,558	17,579	
Cost of general research		11,657	3,329	
Other operating expenses		15,335	12,999	
		102,063	91,323	
Operating profit		104,650	111,557	
Financial income and (expenses)				
Interest income		1,949	2,350	
Interest expenses	(47,930)	(57,515)
Foreign exchange difference		26,723	14,820	
Fair value changes in embedded derivatives	(169,459)	(67,420)
Fair value changes in other derivatives		564	12,239	
	6	(188,153)	(95,526)
Associated companies	(1,809)	(1,542)
Profit (loss) before income tax	(85,312)		14,489
Income tax		33,089	(5,470)
Net profit (loss) for the period		(52,223)		9,019
Attributable to:				
Owners of the parent company	(56,458)		8,358
Subsidiaries minority interest		4,235		661
	(52,223)		9,019

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

Statement of Comprehensive Income

January 1 to June 30, 2013

	2013	2012
	1.1.-30.6.	1.1.-30.6.
Profit (loss) for the period	(52,223)	9,019
Operating items moved to equity		
Translation difference due to subsidiaries and associated companies	4,148	(3,679)
Pension liability after income tax, change	(551)	(510)
Total operating items moved to equity	<u>3,597</u>	<u>(4,189)</u>
Total Comprehensive Income (loss) for the period	<u>(48,626)</u>	<u>4,830</u>
Attributable to:		
Owners of the parent company	(54,490)	5,033
Subsidiaries minority interest	5,864	(203)
	<u>(48,626)</u>	<u>4,830</u>

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

Balance Sheet June 30, 2013

Assets	Notes	30.6. 2013	31.12. 2012	
Non-current assets				
Property, plant and equipment	7	3,451,586	3,476,284	
Projects under construction	8	218,446	151,509	
Intangible assets	9	234,502	233,563	
Derivative financial instruments	11	115,310	270,076	
Associated companies		20,449	20,103	
Other non-current assets		3,369	3,224	
Deferred tax asset		93,353	56,218	
Total non-current assets		4,137,015	4,210,977	
Current assets				
Inventories		4,913	4,186	
Accounts receivables and other receivables		65,705	72,896	
Derivative financial instruments	11	22,856	41,591	
Restricted deposits		0	968	
Cash and cash equivalents		158,800	187,916	
Total current assets		252,274	307,557	
Total assets		4,389,289	4,518,534	
Equity and liabilities				
Equity				
Owners' contributions		586,512	586,512	
Revaluation account		96,713	98,281	
Translation difference	(34,714)	(37,233)
Other equity		944,954	1,013,216	
Equity of the owners of the parent company		1,593,465	1,660,776	
Minority interest		42,240	36,376	
Total equity		1,635,705	1,697,152	
Long-term liabilities				
Interest bearing liabilities	12	2,388,909	2,416,004	
Accrued pension liabilities		24,790	23,228	
Deferred income tax liability		18,169	14,550	
Obligation due to demolition		6,119	5,704	
Prepaid income		2,360	2,336	
Derivative financial instruments	11	50,625	60,232	
		2,490,972	2,522,054	
Current liabilities				
Accounts payable and other payables		74,738	71,845	
Interest bearing liabilities	13	175,365	208,451	
Derivative financial instruments	11	12,509	19,032	
		262,612	299,328	
Total liabilities		2,753,584	2,821,382	
Total equity and liabilities		4,389,289	4,518,534	

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

Statement of Equity June 30, 2013

	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, 2012							
Equity at January 1, 2012....	586,512	101,983	(34,919)	971,791	1,625,367	35,945	1,661,312
Translation difference			(2,815)		(2,815)	(864)	(3,679)
Pension obligation, change				(510)	(510)	0	(510)
Profit for the period.....				8,358	8,358	661	9,019
Total profit for the period.....			(2,815)	7,848	5,033	(203)	4,830
Dividend paid to owners				(14,221)	(14,221)	0	(14,221)
Other changes						(86)	(86)
Revaluation transferred to other equity.....		(1,559)		1,559	0		0
Equity at June 30, 2012.....	586,512	100,424	(37,734)	966,976	1,616,178	35,656	1,651,834
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 paid 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

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

Statement of Cash Flows January 1 to June 30, 2013

	Notes	2013 1.1.-30.6.	2012 1.1.-30.6.
Operating activities			
Operating profit		104,650	111,557
Depreciation and impairment loss		60,603	52,391
Pension obligation, change .....	(	327)	(272)
Obligation due to demolition, change		162	150
Other changes .....	(	15)	(33)
Working capital from operation before financial items		165,073	163,793
Operating assets and liabilities, change		242	(531)
Cash flow from operating activities before financial items		165,315	163,262
Interest income received		1,634	2,654
Interest expenses and foreign exchange difference paid .....	(	32,519)	(47,829)
Cash flow from operating activities	14	134,430	118,087
Investing activities			
Hydropower stations in operation .....	(	1,056)	(1,359)
Transmission .....	(	24,729)	(6,164)
Development costs for power plants .....	(	8,800)	(9,455)
Hydropower stations in construction .....	(	45,206)	(26,435)
Purchased shares		0	(1,736)
Dividend received from associated company		0	12
Sold shares		0	12
Other capital expenditure .....	(	2,819)	(3,050)
Assets sold		54	144
Unpaid construction cost, change		2,828	3,568
Other receivables, change		4,365	8,049
Investing activities		(75,363)	(36,414)
Financing activities			
Dividends paid to owners .....	(	12,822)	(14,221)
New loans		14,931	4,379
Amortisation of long-term debt .....	(	91,399)	(53,264)
Financing activities		(89,290)	(63,106)
Change in cash and cash equivalents .....	(	30,223)	18,567
Effect of exchange difference on cash and cash equivalents		1,107	(3,548)
Cash and cash equivalents at the beginning of the year		187,916	229,942
Cash and cash equivalents at the end of the period		158,800	244,961

Notes 1 to 20 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 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 31 December 2012.

3. Significant accounting policies

The interim financial statements are prepared using the same accounting policies as for the year 2012 with the exception noted below. 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.

The Group has implemented the following accounting principles and changes in accounting standards as of 1 January 2013.

- IFRS 10, *Consolidated Financial Statements*
- IFRS 11, *Joint Arrangements*
- IFRS 13, *Fair Value Measurement*
- *Presentation of items of other comprehensive income (amendments to IAS 1)*
- *IAS 19 Employee Benefits*
- *Annual amendments to IFRS 2009-2011*

The effect of individual amendments, if any, is specified as follows.

a) Fair value changes

IFRS 13 provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. The standard also applies to and expands the disclosure requirement on fair value measurement in other standards, including IFRS 7, *Financial Instruments: Disclosures*. Certain disclosure requirements are made for interim financial statements and accordingly the Group discloses additional notes.

b) Defined benefit plan

The Group has changed its accounting policy for defined benefit plans parallel to the adoption of amendments to IAS 19.

The Group now recognises actuarial change in pension liabilities among other comprehensive income. Comparative figures for 2012 have been changed accordingly. The effect on comparative figures is as follows: Operating expenses decreased by USD 0.8 million and expensed income tax in the income statement increased by USD 0.3 million. Other comprehensive income decreased by USD 0.5 million.

Notes, contd.:

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. Statement of segments

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 30.6.2013	4,211,957	612,069	17,280	(472,466)	4,368,840
Shares in associated companies	20,106	5,305	343	(5,305)	20,449
Total assets 30.6.2013	4,232,063	617,374	17,623	(477,771)	4,389,289
Segment liabilities 30.6.2013	2,614,097	497,732	3,961	(362,207)	2,753,584
Total liabilities 30.6.2013	2,614,097	497,732	3,961	(362,207)	2,753,584

Operating segments 1.1.-30.6. 2012

Income from third party	178,821	22,223	1,836		202,880
Income within the Group	5,065	26,738	1,434	(33,237)	0
Segment income	183,886	48,961	3,270	(33,237)	202,880
Segment operating expenses	(53,718)	(15,873)	(2,558)	33,217	(38,932)
EBITDA	130,168	33,088	712		163,948
Depreciation and impairment loss	(42,295)	(9,812)	(505)	221	(52,391)
Segment earnings, EBIT	87,873	23,276	207	221	111,557
Segment assets 31.12.2012	4,348,535	576,581	16,392	(443,076)	4,498,431
Shares in associated companies	19,734	5,001	368	(5,001)	20,103
Total assets 31.12.2012	4,368,269	581,582	16,760	(448,077)	4,518,534
Segment liabilities 31.12.2012	2,683,744	478,562	3,788	(344,712)	2,821,382
Total liabilities 31.12.2012	2,683,744	478,562	3,788	(344,712)	2,821,382

Notes, contd.:

6. Financial income and (expenses)

	2013	2012
	1.1.-30.6.	1.1.-30.6.
Financial income and (expenses) are specified as follows:		
Interest income	1,949	2,350
Interest expenses	(36,640)	(40,644)
Guarantee fee	(6,159)	(3,373)
Indexation	(8,885)	(15,168)
Capitalised interest costs	3,754	1,670
Total interest expenses	(47,930)	(57,515)
Realised foreign exchange difference	10,213	(7,198)
Unrealised foreign exchange difference	16,510	22,018
Total foreign exchange difference	26,723	14,820
Fair value changes in embedded derivatives	(169,459)	(67,420)
Fair value changes in other derivatives	564	12,239
Financial income and (expenses)	(188,153)	(95,526)

7. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Power stations	Trans- mission	Communicat. equipment	Other assets	Total
Cost value					
Total value at 1.1.2012	4,850,204	553,110	15,470	69,258	5,488,042
Effect of exchange rate changes	0	(26,020)	(776)	(1,280)	(28,076)
Additions during the year	7,217	3,954	1,832	7,534	20,537
Sold and disposed of	0	0	(40)	(5,113)	(5,153)
Total value at 31.12.2012	4,857,421	531,044	16,486	70,399	5,475,350
Effect of exchange rate changes	0	23,495	730	1,206	25,431
Additions during the period	1,056	1,652	285	1,762	4,755
Moved from transmission					
under construction	0	2,434	0	0	2,434
Sold and disposed of	0	0	0	(356)	(356)
Total value at 30.6.2013	4,858,477	558,625	17,501	73,011	5,507,614
Depreciation and impairment loss					
Total value at 1.1.2012	1,774,348	97,768	3,002	27,286	1,902,404
Effect of exchange rate changes	0	(5,100)	(168)	(315)	(5,583)
Depreciation of the year	82,504	17,732	972	2,591	103,799
Sold and disposed of	0	0	0	(1,553)	(1,553)
Total value at 31.12.2012	1,856,852	110,400	3,806	28,009	1,999,067
Effect of exchange rate changes	0	4,925	170	309	5,404
Depreciation during the period	40,920	9,015	524	1,416	51,875
Sold and disposed of	0	0	0	(318)	(318)
Total value at 30.6.2013	1,897,772	124,340	4,500	29,416	2,056,028
Book value					
1.1.2012	3,075,856	455,342	12,468	41,972	3,585,637
31.12.2012	3,000,569	420,644	12,680	42,390	3,476,284
30.6.2013	2,960,705	434,285	13,001	43,595	3,451,586

Notes, contd.:

8. Projects under construction

Projects under construction are specified as follows:

Cost value

Total value at 1.1.2012	71,883
Effect of exchange rate changes	(447)
Additions during the year	80,182
Moved to property, plant and equipment / development costs	(65)
Sold and disposed of	(44)
Total value at 31.12.2012	151,509
Effect of exchange rate changes	711
Moved from / to development costs	377
Additions during the period	68,283
Moved to property, plant and equipment	(2,434)
Total value at 30.6.2013	218,446

9. Intangible assets

Intangible assets are specified as follows:

	Capitalised development cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2012	219,251	44,827	6,567	270,645
Effect of exchange rate changes	(67)	0	(150)	(217)
Additions during the year	33,160	784	720	34,664
Sold and disposed of	(58)	0	0	(58)
Moved to other items	(5,235)	0	0	(5,235)
Total value at 31.12.2012	247,051	45,611	7,137	299,799
Effect of exchange rate changes	510	0	135	645
Additions during the period	9,313	0	257	9,570
Moved to transmission under construction	(377)	0	0	(377)
Total value at 30.6.2013	256,497	45,611	7,529	309,637
Amortisation and impairment				
Total value at 1.1.2012	58,356	0	4,875	63,231
Effect of exchange rate changes	(83)	0	(101)	(184)
Amortisation during the year	0	0	425	425
Impairment loss during the year	8,065	0	0	8,065
Moved to other items	(5,300)	0	0	(5,300)
Total value at 31.12.2012	61,038	0	5,199	66,237
Effect of exchange rate changes	76	0	96	172
Amortisation during the period	0	0	167	167
Impairment loss during the period	8,561	0	0	8,561
Total value at 30.6.2013	69,675	0	5,462	75,137
Book value				
1.1.2012	160,895	44,827	1,692	207,415
31.12.2012	186,013	45,611	1,938	233,563
30.6.2013	186,823	45,611	2,067	234,502

Notes, contd.:

9. Intangible assets, contd.:

Part of capitalised water rights are within public land and are therefore the property of the Icelandic State in accordance with Act no. 58/1998 on Public Land and determination of the confines of private property, public land and highland pasture. Landsvirkjun however holds the right to use the water rights under long-term agreement with the State in accordance with law at each time, and based thereon the rights are capitalised in the balance sheet in accordance with the International Financial Reporting Standards.

10. Depreciation and impairment

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

	2013	2012
	1.1.-30.6.	1.1.-30.6.
Power stations	40,920	41,568
Transmission	9,015	8,796
Other assets	1,940	1,774
Depreciation of assets in operation	51,875	52,138
Impairment loss on development cost	8,561	0
Amortisation of software	167	253
	<u>60,603</u>	<u>52,391</u>

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

Energy production costs	41,174	41,819
Transmission costs	9,387	9,082
Cost of general research	8,561	0
Other operating expenses	1,481	1,490
	<u>60,603</u>	<u>52,391</u>

11. Derivative financial instruments

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

	30.6. 2013	31.12. 2012
Assets:		
Embedded derivatives in electricity agreements	115,689	285,756
Aluminium hedges	15,523	13,243
Currency swaps	1,087	366
Other derivatives	5,867	12,302
	<u>138,166</u>	<u>311,667</u>
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	115,310	270,076
Short-term component of derivative agreements	22,856	41,591
	<u>138,166</u>	<u>311,667</u>
Liabilities:		
Embedded derivatives in electricity agreements	14,312	14,920
Aluminium hedges	1,694	3,246
Currency swaps	0	11,937
Interest rate swaps	40,078	44,588
Other derivatives	7,050	4,573
	<u>63,134</u>	<u>79,264</u>
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	50,625	60,232
Short-term component of derivative agreements	12,509	19,032
	<u>63,134</u>	<u>79,264</u>

Notes, contd.:

12. Liabilities

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

		30.6. 2013		31.12. 2012	
	Maturity date	Average interest	Remaining balance	Average interest	Remaining balance
Liabilities in ISK	2013-2034	4.0%	392,717	4.0%	367,724
Liabilities in CHF	2013-2022	0.4%	55,821	0.4%	60,826
Liabilities in EUR	2013-2028	1.1%	820,349	1.3%	861,009
Liabilities in GBP	2014-2016	11.4%	14,024	11.4%	14,875
Liabilities in JPY	2013-2033	3.6%	23,236	2.5%	26,709
Liabilities in USD	2013-2032	2.9%	1,258,127	3.1%	1,293,312
			<u>2,564,274</u>		<u>2,624,455</u>
Current maturities of long-term debt			(175,365)		(208,451)
Total long-term debt			<u>2,388,909</u>		<u>2,416,004</u>

Interest terms on the parent company's loans are from 0.4-14.5%. Nominal interest rates for the period were on average approximately 3.3%, 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:

	30.6. 2013
1.7.2013-30.6.2014	175,365
1.7.2014-31.12.2014	117,842
2015	188,401
2016	252,613
2017	251,945
2018	322,526
Later	1,255,582
	<u>2,564,274</u>

14. 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.

	2013	2012
	1.1.-30.6.	1.1.-30.6.
Operating activities:		
Cash received from customers	208,095	206,828
Cash expenses	(42,780)	(43,566)
Cash flow from operation excluding interest	165,315	163,262
Interest income received	1,634	2,654
Interest expenses and foreign exchange difference paid	(32,519)	(47,829)
Cash flow from operating activities	<u>134,430</u>	<u>118,087</u>

Notes, contd.:

15. Aluminium price risk

At the end of June 2013, fair value of the aluminium price hedges were positive by USD 13.8 million. Around 35% of estimated cash flow for the year 2013 has been hedged but hedges for the year 2014 are insubstantial.

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.

30/06/2013

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	5,272	80	(5,765)
	0%	5,153	-	(5,798)
	1%	5,034	(79)	(5,830)

31/12/2012

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	5,901	59	(6,583)
	0%	5,789	-	(6,580)
	1%	5,679	(59)	(6,578)

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.

	30.6. 2013	31.12. 2012
The fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	270,836	274,227
Fair value changes during the period	(169,459)	(3,391)
Fair value of embedded derivatives at the end of the period	<u>101,377</u>	<u>270,836</u>

Division of embedded derivatives is specified as follows:

Long term component of embedded derivative	101,358	253,322
Short term component of embedded derivative	19	17,514
Total embedded derivatives	<u>101,377</u>	<u>270,836</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.

30/06/2013

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	(107,004)	6,522	120,047
	0%	(107,985)	-	107,985
	1%	(108,944)	(6,208)	96,528

31/12/2012

		Aluminium Price		
		-10%	0%	10%
Interest Rates	-1%	(120,802)	14,703	150,207
	0%	(128,910)	-	128,910
	1%	(136,952)	(14,406)	108,141

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, discounted at USD zero-coupon rates according to Bloomberg.

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.:

16. Foreign exchange risk

The fair value of currency swaps was positive by USD 1.1 million at the end of June 2013. The underlying principal amount is USD 110.6 million. The fair value of currency options was negative by USD 1.2 million and the underlying principal amount was USD 355.8 million.

17. Interest rate risk

At the end of June 2013, the proportion of loans with floating interest rates was 60% compared to 64% at year end 2012.

The fair value of interest rate swaps was negative by USD 40.1 million at the end of June 2013 and the underlying principle amount was USD 185 million.

18. Liquidity risk

The Company's cash and cash equivalents amounted to USD 158.8 million at the end of June 2013 but when taking into account undrawn credit facilities (USD 200 million and ISK 10,500 million) and undrawn long-term loans in the amount of USD 115 million the company has access to a total of approx. USD 558.9 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 2013, the balance of loans under the EMTN was USD 1.78 billion but the total amount that the Company can borrow under the programme is USD 2.5 billion.

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 6.4 years and the proportion of loans with maturity within 12 months was 6.8%.

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

30/06/2013	Book value	Contractual cash flow			More than 5 years	
		Within one year	1 - 2 years	2 - 5 years		
<i>Non-derivative financial instruments</i>						
Long-term receivables ..	3,244	3,623	227	3,396	0	0
Cash and cash equiv. ...	158,800	158,800	158,800	0	0	0
Short term receivables ..	65,705	65,705	65,705	0	0	0
Interest bearing liab.	(2,564,274)	(3,062,952)	(212,216)	(275,658)	(1,000,042)	(1,575,036)
Current liabilities	(74,738)	(74,738)	(74,738)	0	0	0
	(2,411,263)	(2,909,562)	(62,222)	(272,262)	(1,000,042)	(1,575,036)
<i>Derivative financial instruments</i>						
Currency swaps	(96)	1,051	775	(358)	634	0
Interest rate swaps	(40,078)	(40,194)	(4,366)	(4,495)	(31,333)	0
Aluminium derivatives ...	13,830	14,793	11,503	3,290	0	0
Embedded derivatives in electricity agreem.	101,377	116,737	20	3,635	31,662	81,420
	75,032	92,387	7,932	2,072	963	81,420

Notes, contd.:

18. Liquidity risk, contd.:

31/12/2012	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Non-derivative financial instruments</i>						
Long-term receivables ..	3,107	3,577	217	217	3,143	0
Cash and cash equiv. ...	187,916	187,916	187,916	0	0	0
Restricted deposits	968	968	968	0	0	0
Short term receivables ..	72,896	72,896	72,896	0	0	0
Interest bearing liab.	(2,624,455)	(3,168,729)	(241,475)	(231,700)	(894,600)	(1,800,954)
Current liabilities	(71,845)	(71,845)	(71,845)	0	0	0
	<u>(2,431,413)</u>	<u>(2,975,217)</u>	<u>(51,323)</u>	<u>(231,483)</u>	<u>(891,457)</u>	<u>(1,800,954)</u>
<i>Derivative financial instruments</i>						
Currency swaps	(3,841)	(3,359)	(3,197)	(609)	447	0
Interest rate swaps	(44,588)	(42,655)	(4,213)	(4,848)	(33,002)	(592)
Aluminium derivatives ...	9,997	12,032	8,726	3,306	0	0
Embedded derivatives in electricity agreem.	270,836	290,999	17,549	20,987	85,318	167,145
	<u>232,403</u>	<u>257,017</u>	<u>18,865</u>	<u>18,836</u>	<u>52,763</u>	<u>166,553</u>

19. Counterparty risk

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

	30/06/2013	31/12/2012
Derivative financial instruments	138,166	311,667
Restricted deposits	0	968
Long-term receivables	3,244	3,107
Accounts receivables and other receivables	65,705	72,896
Cash and cash equivalents	158,800	187,916
	<u>365,915</u>	<u>576,554</u>

20. Fair value

Comparison of fair value and book value

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

	30/06/2013		31/12/2012	
	Book value	Fair value	Book value	Fair value
Derivative financial instruments	75,032	75,032	232,403	232,403
Other non-current assets	3,369	3,460	3,224	3,330
Accounts receivables and other receivables	65,705	65,705	72,896	72,896
Restricted deposits	0	0	968	968
Cash and cash equivalents	158,800	158,800	187,916	187,916
Interest bearing long term liabilities	(2,564,274)	(2,744,941)	(2,624,455)	(2,736,455)
Accounts payable and other payables	(74,738)	(74,738)	(71,845)	(71,845)
	<u>(2,336,106)</u>	<u>(2,516,682)</u>	<u>(2,198,893)</u>	<u>(2,310,787)</u>

Notes, contd.:

20. Fair value, contd.:

Interest rates in the evaluation of fair value

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

Interest rates are specified as follows:	30.6.2013	31.12.2012
Embedded derivatives in electric power agreements	0.3-2.9%	0.3-1.9%
Interest bearing liabilities in ISK	2.0-5.6%	5.5-6.4%
Interest bearing liabilities other than in ISK	0.0-3.5%	0.0-2.7%

Fair value classification:

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

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

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

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

	Level 2	Level 3	Total
30/06/2013			
Embedded derivatives		101,377	101,377
Other derivatives	(26,345)		(26,345)
Shares in other companies		124	124
	<u>(26,345)</u>	<u>101,501</u>	<u>75,156</u>
31/12/2012			
Embedded derivatives		270,836	270,836
Other derivatives	(38,433)		(38,433)
Shares in other companies		117	117
	<u>(38,433)</u>	<u>270,953</u>	<u>232,520</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 169.5 million expensed in the period January to June 2013 (USD 3.4 million in the year 2012) and is recognised among financial income and expenses.