Group

Consolidated Financial Statements 2011

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík

Reg. no. 420269-1299

Contents

Key figures

Management's presentation of the operation of Landsvirkjun - unaudited

Amounts are in USD thousand

	2011	2010	2009	2008	2007
Operation					
Operating revenues	419.708	383.991	299.788	452.027	368.824
Realised aluminium hedges, income (expenses)	16.488	(6.342)	42.526	(54.759)	(59.447)
Total operating revenues	436.196	377.649	342.314	397.268	309.377
Operating expenses	(90.993)	(79.564)	(70.655)	(100.512)	(105.800)
EBITDA	345.203	298.085	271.659	296.756	203.577
Depreciation and impairment loss	(108.200)	(107.258)	(114.321)	(105.532)	(81.960)
EBIT	237.003	190.827	157.338	191.224	121.617
Financial items	(130.891)	(100.856)	(107.295)	(146.552)	(62.408)
Profit before unrealised financial items	106.112	89.971	50.043	44.672	59.209
Unrealised financial items:					
Fair value changes in embedded derivatives	(93.197)	(55.583)	253.304	(497.167)	326.835
Fair value changes in other derivatives	6.959	(39.438)	(53.655)	186.284	35.337
Unrealised foreign exchange difference	22.711	87.619	(39.752)	(148.369)	205.321
	(63.527)	(7.402)	159.897	(459.252)	567.493
Profit (loss) before income tax	42.585	82.569	209.940	(414.580)	626.702
Income tax	(16.135)	(9.653)	(16.944)	70.048	(167.444)
Profit (loss)	26.450	72.916	192.996	(344.532)	459.258
Balance sheet					
Total assets	4.622.424	4.837.486	4.803.522	4.619.220	5.142.303
Equity	1.661.312	1.644.322	1.564.487	1.376.792	1.600.145
Liabilities	2.961.112	3.193.164	3.239.035	3.242.428	3.542.158
Net liabilities *	2.502.873	2.673.966	2.823.872	2.850.276	2.903.504
Cash Flow					
Funds from operation (FFO)	255.592	218.582	202.142	207.297	138.871
Cash flow from operating activities	267.172	229.595	197.023	184.350	138.522
Investing activities	(107.689)	(53.517)	(120.533)	(374.797)	(532.526)
Financing activities	(185.328)	(106.294)	(4.572)	168.586	506.937
Liquidity					
Cash and cash equivalents at year end	229.942	265.532	194.248	124.993	179.578
Undrawn loans	415.767	307.676	281.600	350.000	350.000
Total liquidity	645.709	573.208	475.848	474.993	529.578
Key ratios					
Return on equity	1,6%	4,7%	14,0%	(21,5%)	40,2%
Equity ratio	35,9%	34,0%	32,6%	29,8%	31,1%
Interest cover (EBITDA/net interest expenses)	3,06x	3,68x	3,14x	1,83x	2,37x
FFO / net liabilities	10,2%	8,2%	7,2%	7,3%	4,8%
FFO / interest expenses	2,19x	2,58x	2,19x	1,17x	1,51x
Net liabilities / EBITDA	7,25x	8,97x	10,39x	9,60x	14,26x
Credit rating at year end					
Standard & Poor's	BB	BB+	BB	BBB-	A+
Moody's	Baa3	Baa3	Baa3	Baa1	Aaa

* Net liabilities are interest bearing long-term liabilities less cash and restricted deposits

Quarterly statement 2011

Management's presentation of the operation of Landsvirkjun, contd.

	1. quarter	2. quarter	3. quarter	4. quarter	Total
Operating revenues					
Power sales	95.922	92.037	89.314	88.776	366.049
Realised aluminium hedges	(504)	4.019	10.701	2.272	16.488
Transmission	12.276	11.952	11.727	10.939	46.894
Other income	884	1.299	1.223	3.359	6.765
	108.578	109.307	112.965	105.346	436.196
Operating expenses					
Energy production costs	7.387	9.068	10.954	9.938	37.347
Transmission costs	3.705	3.238	4.303	8.063	19.309
Cost of general research	1.841	1.687	1.692	2.434	7.654
Other operating expenses	6.416	5.325	5.690	9.252	26.683
Depreciation and impairment loss	26.850	26.927	26.872	27.551	108.200
	46.199	46.245	49.511	57.238	199.193
Operating profit	62.379	63.062	63.454	48.108	237.003
Financial income and (expenses)					
Interest income	721	978	579	1.849	4.127
Interest expenses	(24.966)	(31.025)	(31.468)	(29.385)	(116.844)
Realised foreign exchange differences	(15.364)	(3.836)	5.573	(523)	(14.150)
Associated companies and other companies	(584)	(883)	(2.340)	(217)	(4.024)
	(40.193)	(34.766)	(27.656)	(28.276)	(130.891)
Profit before income tax and unrealised items	22.186	28.296	35.798	19.832	106.112
Unrealised financial items:					
Fair value changes in embedded derivatives	121.716	(62.716)	(138.798)	(13.399)	(93.197)
Fair value changes in other derivatives	18.422	3.395	(22.929)	8.071	6.959
Unrealised foreign exchange difference	(66.682)	(27.539)	73.733	43.199	22.711
	73.456	(86.860)	(87.994)	37.871	(63.527)
Profit (loss) before income tax	95.642	(58.564)	(52.196)	57.703	42.585
Income tax	(33.338)	19.663	18.605	(21.065)	(16.135)
Profit (loss)	62.304	(38.901)	(33.591)	36.638	26.450
Attributable to:					
Owners of the parent company	60.536	(36.737)	(36.008)	36.130	23.921
Subsidiaries minority interest	1.768	(2.164)	2.417	508	2.529
	62.304	(38.901)	(33.591)	36.638	26.450
From cash flow					
Cash flow from operating activities	66.235	66.434	73.961	60.542	267.172

Other key metrics for Landsvirkjun (parent company)	2011	2010	2009	2008	2007
Installed power at year end (MW)	1.860	1.860	1.860	1.860	1.860
Average price for industrial users (incl. transm.)USD/MWh	28,7	25,7	19,5	30,8	29,9
Average price for retail sales comp. (excl. transm.)ISK/kWh	3,6	3,4	3,2	3,0	3,1
Sales in Gwh	12.778	12.926	12.546	12.746	8.903
Research and development	17.203	19.575	23.601	48.363	32.877
Accident frequency: H200*	0,4	1,4	1,1	0,4	0,7

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

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Endorsement by 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 consolidated financial statements include, in addition to the parent company, six subsidiaries, Landsnet hf., Orkufjarskipti hf. (previously Fjarski ehf.), Hraunaveita ehf., Icelandic Power Insurance Ltd., Theistareykir ehf. and Landsvirkjun Power ehf., in addition to three subsidiaries of Landsvirkjun Power ehf.

The financial statements of Landsvirkjun for the year 2011 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The functional currency of the Company is USD and amounts in the financial statements are rounded to the nearest thousand USD.

The Group's operating income amounted to USD 436.2 million in the year 2011 compared to USD 377.6 million in the previous year. Income thus increased by USD 58.6 million, which is mainly explained by higher energy price to aluminium smelters due to increase in the world market aluminium price, and inflation. Realised aluminium hedges amounted to USD 16.5 million in the year 2011 compared to USD 6.3 million expensed in the previous year. It must be taken into account that realised aluminium hedges are now recognised among revenue whereas previously they were recognised among financial items. Changed presentation does not affect the results or the financial standing of the Group. Operating expenses amounted to USD 199.2 million in the year 2011 compared to USD 186.8 million in the year 2010. The Company's operating profit thus amounted to USD 237 million in the year 2011 compared to USD 190.8 million the previous year.

Financial expenses in excess of financial income amounted to USD 194.4 million in the year 2011, compared to USD 108.3 million the previous year. The change between years amounts to USD 86.1 million. The main reason for this difference between years is less foreign exchange gain and increased interest expenses. Loss on fair value changes of derivatives is for the most part unrealised which must be taken into account in the evaluation of the Company's return for the year. According to the income statement, profit of the year amounted to USD 26.5 million compared to USD 72.9 million in the previous year.

Landsvirkjun has entered into derivative agreements in order to manage risk. Agreements have been made due to interest rate risk and foreign currency risk. In addition, derivative agreements have been made in order to hedge risk due to fluctuations of aluminium prices in the global market as part of revenues is based thereon. Positive fair value of aluminium hedges amounted to USD 23.9 million at year end 2011. Fair value of currency and interest rate swap derivative agreements at year end 2011 was negative by USD 82.4 million. Fair value of embedded derivatives in Landsvirkjun's electric power sales agreements with aluminium companies after deducting the fair value of embedded derivatives in electric power purchase agreements is positive and their fair value is measured at USD 274.2 million at year end 2011.

Equity at year end 2011 amounted to USD 1,661 million compared to USD 1,644 million at year end 2010 according to the balance sheet and the Company's Board of Directors proposes that the profit of the year will be recognised as increase in equity. The Company's Board of Directors will during the Annual General Meeting propose a dividend payment to the owners of the company in the amount of ISK 1.8 billion or the equivalent of USD 14.7 million for the year 2011, but otherwise refers to the notes to the financial statements and statement of equity for further changes in equity. Landsvirkjun is a partnership owned by the State and Eignarhlutir ehf. The State owns 99.9% in the Company and Eignarhlutir ehf. 0.1%.

The financial position of the Company is acceptable and its liquidity position solid due to cash balance and undrawn loans. Cash and cash equivalents at year end amounted to USD 230 million and undrawn Revolving Credit Facilities to USD 286 million. Furthermore, undrawn long term loans amount to USD 130 million. Liquid assets amounted thus to USD 646 million at year end. Drawn loans and bonds amounted to USD 311 million during the year, the Company paid down debt by USD 484 million and cash and cash equivalents decreased by USD 36 million. It is the evaluation of the management of Landsvirkjun that access to liquid assets is ensured until year end 2013. The project at Budarhals is going according to plan and the financing of the project has been concluded.

Endorsement by the Board of Directors and CEO, contd.:

Following the purchase by the State of a share in Landsvirkjun held by the city of Reykjavik and the town of Akureyri an agreement was reached stipulating that the city of Reykjavík and the town of Akureyri would provide a guarantee of collection together with the State for all of Landsvirkjun's obligations entered into before the end of year 2006. From the beginning of year 2007, the State and Eignarhlutir ehf. provide a guarantee of collection for all of Landsvirkjun's obligations entered into after that date. According to the agreement, the State guarantees the city of Reykjavík and the town of Akureyri indemnity after 1 January 2012 with respect to a guarantee of obligations entered into before 1 January 2007. The Company's payments due to guarantees for long-term loans amounted to USD 7 million in the year 2011.

Corporate governance

The Board of Directors of Landsvirkjun endeavours to maintain good corporate governance. The Board of Directors has established detailed working procedures for the Board wherein its competences and purview with respect to the CEO is defined. The Board of Directors has appointed an Audit Committee. In the year 2011, 13 Board meetings were held and 5 meetings in the Audit Committee. Meetings have been attended by the majority of the Board of Directors and the majority of the Audit Committee. Landsnet hf. has disclosed information on corporate governance in its financial statements. Further information on the parent company's corporate governance is included in notes 47 and 56.

Statement of 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 December 31, 2011 and the Company's results and changes in cash in the year 2011.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and the Endorsement by the Board of Directors for the year 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 financial statements with their signature.

Reykjavik, 16 March 2012.

The Board of Directors:

Bryndís Hlödversdóttir

Sigurbjörg Gísladóttir

Arnar Bjarnason

Ingimundur Sigurpálsson

Stefán Arnórsson

CEO:

Hördur Arnarson

Independent Auditor's Report

To the Board of Directors and owners of Landsvirkjun

We have audited the accompanying financial statements of Landsvirkjun, which comprise the balance sheet as at December 31, 2011, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Landsvirkjun as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Confirmation of the Endorsement by the Board of Directors and the CEO

In accordance with provisions of Article 1, Para. 5 of Act no. 3/2006 on Financial Statements, we confirm according to our best knowledge that the Endorsement by the Board of Directors and the CEO accompanying these financial statements include the information that according to the Financial Statements Act shall be provided.

Reykjavik, 16 March 2012.

KPMG ehf.

Árni Claessen

Audur Thórisdóttir

Income Statement for 2011

	Notes	2011	2010
Operating revenues			
Power sales		366.049	331.498
Realised aluminium hedges		16.488	(6.342)
Transmission		46.894	47.696
Other income		6.765	4.797
		436.196	377.649
Operating expenses			
Energy production costs		122.261	114.625
Transmission costs		39.128	37.448
Cost of general research		7.654	4.062
Other operating expenses		30.150	30.687
		199.193	186.822
Operating profit		237.003	190.827
Financial income and (financial expenses)			
Interest income		4.127	3.893
Interest expenses		(116.844)	(84.847)
Foreign exchange difference		8.561	69.627
Fair value changes in embedded derivatives	49	(93.197)	(55.583)
Fair value changes in other derivatives		6.959	(39.438)
Associated companies and other companies		(4.024)	(1.910)
	25	(194.418)	(108.258)
Profit before taxes		42.585	82.569
Income tax	26	(16.135)	(9.653)
Net profit for the year		26.450	72.916
Attributable to:			
Owners of the parent company		23.921	62.625
Subsidiaries minority interest		2.529	10.291
		26.450	72.916

Notes 1 to 58 are an integral part of these financial statements.

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Statement of Comprehensive Income for the year 2011

	2011	2010
Profit for the year	26.450	72.916
Operating items moved to equity		
Translation difference due to functional currency	(9.461)	9.518
Revaluation of non-current assets	0	(426)
Change in tax ratio	0	(2.328)
Total operating items moved to equity	(9.461)	6.764
Total Comprehensive Income for the year	16.989	79.680
Profit attributable to:		
Owners of the parent Company	16.831	67.550
Subsidiaries minority interest	158	12.130
	16.989	79.680

Notes 1 to 58 are an integral part of these financial statements.

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Balance Sheet as at 31 December 2011

Assets	Notes	2011	2010
Non-current assets			
Property, plant and equipment	27	3.585.637	3.709.732
Projects under construction	27	71.883	3.699
Intangible assets	28	207.415	205.819
Derivative financial instruments	30	289.569	363.694
Associated companies	31	22.406	21.860
Other non-current assets	32	106	143
Deferred tax asset	34	87.151	104.141
Total non-current assets		4.264.167	4.409.088
Current assets			
Inventories	35	4.096	4.685
Accounts receivables and other receivables	36	75.077	92.086
Derivative financial instruments	30	40.891	66.095
Restricted deposits	37	8.251	0
Cash and cash equivalents	37	229.942	265.532
Total current assets		358.257	428.398
Total assets		4.622.424	4.837.486
Equity and liabilities			
Equity			
Owners' contributions	38	586.512	586.512
Revaluation account	39	101.983	105.056
Translation difference	39	(34.919)	(27.829)
Other equity		971.791	944.797
Equity of the owners of the parent company		1.625.367	1.608.536
Minority interest		35.945	35.786
Total equity		1.661.312	1.644.322
Long-term liabilities			
Interest bearing liabilities	40	2.612.256	2.569.699
Accrued pension liabilities	42	23.238	23.442
Obligation due to demolition	43	5.673	6.541
Prepaid income		1.051	0
Derivative financial instruments	30	86.018	96.133
		2.728.236	2.695.815
Current liabilities			
Accounts payable and other payables	44	75.388	86.344
Interest bearing liabilities	41	128.810	369.799
Derivative financial instruments	30	28.678	41.206
		232.876	497.349
Total liabilities		2.961.112	3.193.164
Total equity and liabilities		4.622.424	4.837.486

Notes 1 to 58 are an integral part of these financial statements.

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Statement of Equity from January 1, 2010 to December 31, 2011

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
Changes in equity year 2010							
Equity at January 1 2010..	586.512	110.556	(34.702)	878.621	1.540.987	23.500	1.564.487
Translation difference			6.874		6.874	2.644	9.518
Change in revaluation		(426)			(426)	0	(426)
Change in tax ratio		(1.523)			(1.523)	(805)	(2.328)
Profit for the year.............				62.625	62.625	10.291	72.916
Total profit for the year.....		(1.949)	6.874	62.625	67.550	12.130	79.680
Revaluation transferred to other equity..................		(3.550)		3.550	0	0	0
Other changes.................						157	157
Equity at 31 December 2010................................	586.512	105.056	(27.829)	944.797	1.608.536	35.786	1.644.322
Changes in equity year 2011							
Equity at January 1 2011..	586.512	105.056	(27.829)	944.797	1.608.536	35.786	1.644.322
Translation difference			(7.090)		(7.090)	(2.371)	(9.461)
Profit for the year.............				23.921	23.921	2.529	26.450
Total profit for the year.....			(7.090)	23.921	16.831	158	16.989
Revaluation transferred to other equity..................		(3.072)		3.072	0	0	0
Equity at 31 December 2011	586.512	101.983	(34.919)	971.791	1.625.367	35.945	1.661.312

Notes 1 to 58 are an integral part of these financial statements.

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Statement of Cash Flows for 2011

	Notes	2011	2010
Operating activities			
Operating profit		237.003	190.827
Adjusted for:			
Depreciation and impairment loss		108.200	107.258
Pension obligation, change		1.303	(456)
Obligation due to demolition, change		(486)	1.668
Other changes		915	703
Working capital from operation before financial items		346.935	300.000
Operating assets and liabilities, change		6.797	443
Cash flow from operating activities before financial items		353.732	300.443
Interest income received		4.847	3.611
Interest expenses and foreign exchange difference paid		(91.407)	(74.459)
Cash flow from operating activities	46	267.172	229.595
Investing activities			
Hydropower stations in operation		(6.012)	(13.448)
Hydropower stations in construction		(51.158)	0
Transmission		(5.793)	(8.319)
Development costs		(25.793)	(13.925)
Purchased shares		(6.965)	(11.324)
Dividend received from associated company		78	100
Other capital expenditure		(7.711)	(8.844)
Assets sold		4.857	180
Unpaid construction cost, change		(5.873)	2.852
Other receivables, change		(3.319)	(789)
Investing activities		(107.689)	(53.517)
Financing activities			
New loans		310.557	167.988
Amortization of long-term debt		(483.807)	(234.136)
Currency swaps		(13.559)	(34.307)
Short term loans, change		370	(5.921)
Prepaid income, change		1.111	0
Paid in share capital of minority interest in subsidiary		0	82
Financing activities		(185.328)	(106.294)
Change in cash and cash equivalents		(25.845)	69.784
Effect of exchange difference on cash and cash equivalents		(9.745)	1.500
Cash and cash equivalents at the beginning of the year		265.532	194.248
Cash and cash equivalents at end of year		229.942	265.532

Financing and investing activities not affecting cash flow:

Purchased shares	0	(21.336)
New loans	0	21.336

Notes 1 to 58 are an integral part of these financial statements.

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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 financial statements include the consolidated financial statements of the Company and its subsidiaries and share in the return of associated companies.

2. Basis of preparation

a. Statement of compliance

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

The Company's Board of Directors approved the financial statements on 16 March 2012.

b. Basis of measurement

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

Fixed operating assets of the subsidiaries, Landsnet hf. and Orkufjarskipti hf. (previously Fjarski ehf.) were revalued in 2008.

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

c. Presentation and functional currency

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

d. Use of estimates and judgements

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

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

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

- note 27 property, plant and equipment
- note 28 intangible assets
- note 30 derivative financial instruments
- note 34 deferred tax asset
- note 42 pension fund obligation
- note 49 aluminium price risk

Significant accounting methods

Accounting policies set out below have been consistently applied to all periods presented in these financial statements, and to all companies within the group. The presentation has been changed to the effect that realised aluminium hedges are now recognised among operating revenue and comparative figures have been changed accordingly. Changed presentation does not affect the return or financial standing of the Group.

Notes, contd.:

3. Basis of consolidation

a. Subsidiaries

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

b. Transactions eliminated on consolidation

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

c. Subsidiaries with other functional currency

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

4. Associated companies

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

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

5. Operating revenues

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

6. Interest income and expenses

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

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

7. Other financial income and expenses

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

8. Foreign currency transactions

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

9. Impairment

a. Financial assets

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

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

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

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

b. Non-financial assets

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

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

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

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

10. Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, in addition to adjustments made to current tax of previous years.

Notes, contd.:

10. Income tax, contd.:

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against the asset. The tax asset is calculated at each reporting date and decreased to the extent that is considered likely that it will be utilised against future taxable profit.

11. Intangible assets

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

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

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

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

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

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

	Amortization ratio	Useful life
Software	25%	4 years

12. Fixed assets

Fixed assets are initially measured at cost.

The cost of renewing single items of fixed asset is capitalised if it is considered likely that the proceeds on the asset will revert to the Company and the cost can be measured reliably. All other cost is expensed in the income statement as it is incurred.

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

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

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

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

12. Fixed assets, contd.:

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

Interest expense on loans used to finance the cost value of projects are capitalised at the time of construction. Interest is not calculated on development cost.

Profit or loss on the sale of fixed assets is the difference between the sales value and the book value of the asset and is recognised in the income statement among other revenue. When a revalued fixed asset is sold its revaluation among equity is moved to retained earnings.

Depreciation

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

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

Depreciation ratios and useful life are specified as follows:

	Depreciation	Useful life
Power stations:		
Powerhouses and other structures	1,67%	60 years
Machinery	2.5-6.67%	15-40 years
Dams and waterways	1.67-3.33%	30-60 years
Thermal stations	1.67-6.67%	15-60 years
Substations	2.5%-5%	20-40 years
Power lines	2.00%	50 years
Optical fibre	5.00%	20 years
Masts	7.00%	15 years
Telecommunication buildings	6.00%	17 years
Other telecommunication equipment	14-15%	7 years
Office buildings	2.00%	50 years
Equipment	10-25%	4-10 years
Vehicles	10-20%	5-10 years

13. Financial instruments

a. Non-derivative financial instruments

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

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

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

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

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13. Financial instruments, contd.:

Non-derivative financial instruments, contd.:

Financial assets and liabilities at fair value through income statement

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

Other financial instruments

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

Off-setting of financial assets and liabilities

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

b. Derivative financial instruments

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

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

Economic hedges

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

Separable embedded derivatives

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

14. Fair value measurement

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

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

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

14. Fair value measurement, contd.:

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

15. Inventories

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

16. Cash and cash equivalents

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

17. Equity

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

18. Employees' benefits

a. Defined contribution plan

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

b. Defined benefit plan

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

19. Obligations

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

20. Segment reporting

A segment is a distinguishable component of the Group, which is subject to risks and returns that are different from those of other segments. In determining distribution of resources to segments and evaluating the results the return of the segments is reviewed on regular basis.

Segment operating results, assets and liabilities consist of items that can be directly linked to each segment, in addition to the items that can be reasonably divided into segments.

21. Reporting standards

The Group has adopted all International Financial Reporting Standards, amendments thereto and interpretations confirmed by the EU at year end 2011 and that apply to its operation. The Group has not adopted standards, amendments to standards or interpretations entering into effect after year end 2011, which may be adopted earlier. The effect thereof on the Group's financial statements have not been fully determined but are considered to be insubstantial.

22. Statement of segments

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

Landsvirkjun Group's operating segments are specified as follows:

Electricity production

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

Electricity transmission

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

Other segments

Other segments include the operation of the companies Orkufjarskipti hf. and Landsvirkjun Power ehf. together with Landsvirkjun Power ehf.'s subsidiaries. The purpose of Orkufjarskipti hf. is to own and operate a telecommunications system throughout the country and to rent access thereto in addition to other related operation. Landsvirkjun Power ehf. takes care of sale of technical and operational advisory services to third parties and manages general research work, harnessing researches and projects for Landsvirkjun and related companies. At the beginning of the year 2011, the majority of the employees of Landsvirkjun Power ehf. were transferred to Landsvirkjun's research and development division.

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

Operating segments year 2011	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	385.412	47.123	3.662	0	436.196
Income within the Group	10.514	55.477	3.168	(69.159)	0
Segment income	395.926	102.600	6.830	(69.159)	436.196
Segment operating expenses	(121.970)	(33.130)	(5.053)	69.159	(90.993)
EBITDA	273.956	69.470	1.777	0	345.203
Depreciation and impairment loss	(85.883)	(22.112)	(657)	452	(108.200)
Segment earnings, EBIT	188.073	47.358	1.120	452	237.003
Segment assets 2011	4.489.237	589.963	17.979	(497.160)	4.600.018
Shares in associated companies	21.657	5.515	349	(5.116)	22.406
Total assets 2011	4.510.894	595.478	18.328	(502.276)	4.622.424
Segment liabilities 2011	2.859.760	493.922	3.963	(396.533)	2.961.112
Total liabilities 2011	2.859.760	493.922	3.963	(396.533)	2.961.112
Investments	97.219	8.873	2.384	0	108.476

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Notes, contd.:

22. Statement of segments, contd.:

Operating segments year 2010	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	326.492	47.793	3.364	0	377.649
Income within the Group	13.293	57.513	6.810	(77.616)	0
Segment income	339.785	105.306	10.174	(77.616)	377.649
Segment operating expenses	(114.396)	(34.197)	(8.587)	77.616	(79.564)
EBITDA	225.389	71.109	1.587	0	298.085
Depreciation and impairment loss	(85.939)	(20.823)	(978)	482	(107.258)
Segment earnings, EBIT	139.450	50.286	609	482	190.827
Segment assets 2010	4.681.746	600.294	12.979	(479.392)	4.815.626
Shares in associated companies	21.032	445	382	0	21.860
Total assets 2010	4.702.778	600.739	13.361	(479.392)	4.837.486
Segment liabilities 2010	3.066.327	499.722	5.168	(378.053)	3.193.164
Total liabilities 2010	3.066.327	499.722	5.168	(378.053)	3.193.164
Investments	30.292	11.036	377	0	41.705

23. Salaries and salary related expenses

Total number of employees is specified as follows:

	2011	2010
Average number of employees during the year, full-time equivalents	396	380
Full-time equivalent units at year-end	334	325

24. Total salaries of employees are specified as follows:

	2011	2010
Salaries	29.720	26.420
Pension premium payments	3.524	2.905
Defined pension benefit payments	1.295	1.262
Change in pension obligation	1.303	(456)
Other salary related expenses	3.461	2.998
	39.303	33.129

Salaries are divided as follows in the income statement:

	2011	2010
Energy production costs	12.713	11.911
Transmission costs	10.629	9.104
Other operating expenses	15.961	12.114
	39.303	33.129

Salaries of the Board of Directors, CEO, Deputy and Executive Directors are specified as follows:

	2011	2010
Salaries of the Board of Directors of the parent company	82	72
Salaries of Boards of Directors of four subsidiaries	84	105
Salaries and benefits of the CEO of the parent company, Hördur Arnarson	179	175
Salaries and benefits of the former Deputy 2011 and the former CEO 2010	70	48
Salaries of seven Directors and the Deputy (2010: 7)	1.148	894
Salaries and benefits of the CEO (2010: 2) and five Man. Directors of subsid.	750	961

The number of Directors is stated as at year end. During the years 2010 and 2011 divisions of the parent company were increased by three and directors increased therefore by three. Directors were 6 in the year 2010 but 8 in the year 2011.

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25. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2011	2010
Interest income	4.127	3.893
Interest expenses	(90.481)	(69.839)
Guarantee fee	(7.014)	(7.089)
Indexation	(21.179)	(8.147)
Capitalised interest costs	1.830	229
Total interest expenses	(116.844)	(84.847)
Realised foreign exchange difference	(14.150)	(17.992)
Unrealised foreign exchange difference	22.711	87.619
Total foreign exchange difference	8.561	69.627
Fair value changes in embedded derivatives	(93.197)	(55.583)
Fair value changes in other derivatives	6.959	(39.438)
Associated companies	(4.014)	(1.581)
Fair value changes of shares	(9)	(337)
Profit on the sale of shares	0	8
Total other financial income and (expenses)	(4.024)	(1.910)
Net financial income and (expenses)	(194.418)	(108.258)

Capitalised finance cost amounted to 3.1% of restricted cash in hydropower stations in construction and 8% of restricted cash in transmission under construction in the year 2011. (2010: 5.3%).

26. Income tax

Income tax is specified as follows:

	2011	2010
Change in income tax asset	(16.990)	(8.331)
Current tax	(207)	(121)
Liability due to revaluation recognised in equity	0	2.092
Foreign exchange difference	1.061	(2.250)
New subsidiary in the Group	0	(1.043)
Expensed income tax in the income statement	(16.135)	(9.653)

Change in income tax asset is specified as follows:

	2011	2010
Change in temporary difference	(3.027)	(10.948)
Effect of changed income tax ratio	0	9.722
Carry forward loss utilised	(12.902)	(10.398)
Foreign exchange difference	(1.061)	2.250
New subsidiary in the Group	0	1.043
Change in deferred tax asset	(16.990)	(8.331)

Effective tax rate:

		2011		2010
Profit for the year		26.450		72.916
Income tax for the year		16.135		9.653
Profit before income tax		42.585		82.569
Income tax acc. to the parent company's curr. tax rate	36,0%	15.331	32,7%	27.000
Effect of different tax rates within the Group	(4,5%)	(1.900)	(6,7%)	(5.516)
Effect of change in tax rate	0,0%	0	(14,4%)	(11.917)
Non-deductible items	3,6%	1.516	(0,9%)	(737)
Other items	2,8%	1.188	1,0%	823
Effective income tax	37,9%	16.135	11,7%	9.653

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27. Property, plant and equipment

Property, plant and equipment 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	(36.816)	(956)	(1.689)	(39.461)
Additions during the year	6.012	1.808	8.983	3.981	20.784
Moved to assets available for sale	0	0	0	(5.690)	(5.690)
Moved from other items	0	5.756	0	0	5.756
Sold and disposed of	0	(6.315)	(3.185)	(844)	(10.344)
Total value at 31.12.2011	4.850.204	553.110	15.470	69.258	5.488.042
Depreciation and impairment loss					
Total value at 1.1.2010	1.605.761	61.252	4.020	23.404	1.694.437
Effect of exchange rate changes	0	6.367	400	390	7.157
Depreciation of the year	84.200	18.008	943	2.520	105.671
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
Effect of exchange rate changes	0	(6.372)	(224)	(390)	(6.986)
Depreciation of the year	84.387	19.331	645	2.475	106.838
Sold and disposed of	0	(818)	(3.315)	(579)	(4.712)
Total value at 31.12.2011	1.774.348	97.768	3.002	27.286	1.902.404
Book value					
1.1.2010	3.222.074	463.614	6.291	45.524	3.737.504
31.12.2010	3.154.231	503.050	4.732	47.720	3.709.732
31.12.2011	3.075.856	455.342	12.468	41.972	3.585.637

If subsidiaries had not revalued transmission and telecommunication systems their book value would have been around USD 125 million lower at year end 2011 (2010: USD 140 million).

At year end an impairment test was performed on the Company's assets. The result of the test did not show indication of impairment.

Official assessment of fixed assets and insurance value

The official assessment of the Company's real estates amounted to USD 289 million at year end 2011. Insurance value of the Company's assets amounts to USD 3,948 million and emergency fund amounts to USD 813 million.

Assets in construction

Cost value	2011
Total value at 1.1.2011	3.699
Effect of foreign exchange rate changes	(161)
Moved from development costs	18.473
Additions during the year	55.628
Moved to property, plant and equipment	(5.756)
Total value at 31.12.2011	71.883

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28. Intangible assets are specified as follows:

	Capitalised development cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2010	155.254	40.568	6.028	201.850
Effect of foreign 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 foreign exchange rate changes	(4.705)	0	(209)	(4.914)
Additions during the year	27.079	0	249	27.328
Moved to assets in construction during the year	(18.957)	0	0	(18.957)
Sold and disposed of	(737)	0	0	(737)
Total value at 31.12.2011	219.251	44.827	6.567	270.645
Amortization and impairment loss				
Total value at 1.1.2010	56.988	0	3.341	60.329
Effect of foreign exchange rate changes	72	0	120	192
Amortization during the year	0	0	918	918
Impairment loss during the year	669	0	0	669
Total value at 31.12.2010	57.729	0	4.379	62.108
Effect of foreign exchange rate changes	(109)	0	(129)	(238)
Amortization during the year	0	0	625	625
Impairment loss during the year	736	0	0	736
Total value at 31.12.2011	58.356	0	4.875	63.231
Book value				
1.1.2010	98.266	40.568	2.687	141.523
31.12.2010	158.842	44.827	2.148	205.819
31.12.2011	160.895	44.827	1.692	207.415

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

	2011	2010
Power stations	84.387	84.200
Transmission	19.331	18.008
Telecommunication equipment	645	943
Other assets	2.475	2.520
Depreciation of assets in operation	106.838	105.671
Impairment loss on development cost	736	669
Amortization of software	625	918
	108.200	107.258

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

	2011	2010
Energy production costs	84.914	84.752
Transmission costs	19.819	18.490
Other operating expenses	3.467	4.016
	108.200	107.258

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

	2011	2010
Assets:		
Embedded derivatives in electricity sales agreements	291.156	391.332
Aluminium hedges	36.946	28.752
Currency swaps	0	7.846
Interest rate swaps	0	1.613
Other derivatives	2.358	246
	330.460	429.789
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	289.569	363.694
Short-term component of derivative agreements	40.891	66.095
	330.460	429.789
Liabilities:		
Embedded derivatives in electricity sales agreements	16.928	23.908
Aluminium hedges	13.010	13.507
Currency swaps	17.279	28.789
Interest rate swaps	46.292	35.972
Other derivatives	21.187	35.163
	114.696	137.339
Derivative financial instruments are divided as follows:		
Long-term component of derivatives	86.018	96.133
Short-term component of derivatives	28.678	41.206
	114.696	137.339

The accounting policy for embedded derivatives is discussed in note 49.

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

		2011	
	Share	**Share in return**	**Book value**
Farice ehf., Kópavogur, Iceland	28,9%	(4.126)	21.640
Netorka hf., Hafnarfjördur, Iceland	42,5%	47	416
Hecla SAS, France	29,4%	64	350
		(4.014)	22.406

		2010	
	Share	**Share in return**	**Book value**
Farice ehf., Kópavogur, Iceland	26,7%	(1.756)	20.949
Netorka hf., Hafnarfjördur, Iceland	36,5%	73	529
Hecla SAS, France	29,4%	103	382
		(1.581)	21.860

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32. Other long term assets

	2011	2010
Other long-term assets in the balance sheet are specified as follows:		
Shares in other companies	106	54
Long-term receivables	0	89
	106	143

33. Landsvirkjun's subsidiaries are specified as follows:

	Share	
Hraunaveita ehf., Reykjavík, Iceland	100,0%	100,0%
Icelandic Power Insurance Ltd., Bermuda	100,0%	100,0%
Landsnet hf., Reykjavík, Iceland	64,7%	64,7%
Landsvirkjun Power ehf., Reykjavík, Iceland	100,0%	100,0%
Orkufjarskipti hf. (previously Fjarski ehf.), Reykjavík, Iceland	100,0%	100,0%
Theistareykir ehf., Thingeyjarsveit, Iceland	96,7%	96,7%

34. Tax asset

	2011	2010
Changes in the tax asset during the year is specified as follows:		
Calculated tax asset at the beginning of the year	104.141	112.472
New subsidiary in the Group	0	1.044
Calculated income tax	(16.135)	(9.653)
Current income tax	207	121
Liability due to revaluation of fixed assets transferred to equity	0	(2.222)
Foreign exchange and translation difference due to tax asset	(1.061)	2.379
Deferred tax asset at year-end	87.151	104.141

	2011	2010
The Company's deferred tax asset is specified as follows:		
Carry forward taxable loss	37.517	56.500
Non-current assets and intangible assets	133.922	161.050
Derivative financial instruments	(84.254)	(115.299)
Other items	(34)	1.891
Deferred tax asset at year-end	87.151	104.141

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

	2011	2010
Carry forward loss of the year 2006, usable until the year 2016	1.981	38.033
Carry forward loss of the year 2008, usable until the year 2018	86.439	110.728
Carry forward loss of the year 2009, usable until the year 2019	42.087	45.461
Carry forward loss of the year 2010, usable until the year 2020	914	598
Carry forward loss of the year 2011, usable until the year 2021	898	0
Carry forward loss at year end	132.319	194.820

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

35. Inventories

Inventories are specified as follows:

	2011	2010
Oil	38	314
Spareparts and consumables	4.058	4.371
	4.096	4.685

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36. Accounts receivables and other receivables

Accounts receivables and other receivables are specified as follows:

	2011	2010
Accounts receivables	42.428	51.431
Other short term receivables	27.813	34.871
Assets available for sale	4.836	5.784
	75.077	92.086

At year-end 2011, 97% of accounts receivables were under 30 days old (2010: 96%).

37. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2011	2010
Bank deposits	161.602	260.340
Market securities	68.340	5.192
	229.942	265.532

Restricted deposits in the amount of USD 8.3 million will be cashed out in September 2012.

38. Equity

The parent company is a partnership owned by the State and Eignarhlutir ehf. The State owns a 99.9% share in the Company and Eignarhlutir ehf. holds 0.1%. Eignarhlutir ehf. are owned by the State. The Company is an independent taxable entity. The Group's equity ratio at year end 2011 was 35.9% but was 34% at year end 2010.

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

40. Liabilities

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

	Maturity date	2011 Average interests	2011 Remaining balance	2010 Average interests	2010 Remaining balance
Liabilities in ISK, indexed	2011-2034	4,1%	444.948	4,0%	444.387
Liabilities in ISK, unindexed			0	6,9%	66.490
Liabilities in CHF	2012-2022	0,5%	64.070	2,8%	108.387
Liabilities in EUR	2011-2028	1,5%	1.027.733	1,5%	1.208.957
Liabilities in GBP	2014-2016	11,4%	14.202	11,4%	14.334
Liabilities in JPY	2011-2033	2,5%	38.137	1,3%	62.213
Liabilities in USD	2011-2026	3,0%	1.151.976	2,4%	1.034.730
			2.741.066		2.939.498
Current maturities of long-term debt			(128.810)		(369.799)
Total long-term debt			2.612.256		2.569.699

Interest terms on loans are from 0.5-14.5%. Nominal interests for the period were on average approximately 3.48%, compared to approximately 2.57% the previous year.

Following the purchase by the State of shares in Landsvirkjun held by the city of Reykjavik and the town of Akureyri an agreement was reached stipulating that the city of Reykjavík and the town of Akureyri would provide a guarantee of collection together with the State for all of Landsvirkjun's obligations entered into before the end of year 2006. From the beginning of year 2007, the State and Eignarhlutir ehf. provide a guarantee of collection for all of Landsvirkjun's obligations entered into after that date. According to the agreement, the State guarantees the city of Reykjavík and the town of Akureyri indemnity after 1 January 2012 with respect to a guarantee of obligations entered into before 1 January 2007. The Company's payments due to guarantees for long-term loans are calculated according to Regulation no. 237/1998.

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

	2011	2010
2011	-	369.799
2012	128.810	240.900
2013	141.589	154.438
2014	163.324	156.060
2015	187.858	247.522
2016	251.023	-
Later	1.868.462	1.770.779
	2.741.066	2.939.498

42. Pension fund obligation

The Company's obligation to refund the indexation charges on retirement payments to current and former employees, which hold pension rights with state and communal pension funds amounted to USD 23.2 million at year end 2011 according to an actuary's evaluation, which is based on estimated future changes in salaries and prices. Interest in excess of price increase are assessed at 3.5% and salary increase in excess of price increase is assessed at 1.5% per year on average. Premises on life expectancy and death rate are in accordance with provisions of Regulation no 391/1998 on obligatory pension benefits and operation of pension funds. The retirement age is 68 years for current employees and 65 years for non-employees with vested benefits and this is consistent with the relevant pension funds' regulation.

Change in the obligation is specified as follows:	2011	2010
Balance at 1.1.	23.442	21.978
Expensed during the year	2.462	581
Payments during the year	(1.159)	(1.037)
Effect of foreign exchange rate differences	(1.507)	1.920
Balance at 31.12.	23.238	23.442

Pension fund obligation, 5 year statem.	2011	2010	2009	2008	2007
Present value of the obligation	23.238	23.442	21.978	22.118	38.153

43. Obligation due to demolition

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

	2011	2010
Balance at 1.1.	6.541	4.663
Recognised in the income statement	(486)	1.668
Decrease in obligation	0	(268)
Effect of foreign exchange rate differences	(382)	478
Balance at 31.12.	5.673	6.541

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

44. Accounts payable and other payables

Accounts payable and other payables are specified as follows:

	2011	2010
Accounts payable	27.648	30.993
Accrued interest	26.952	27.703
Other short term liabilities	20.788	27.648
	75.388	86.344

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45. Related parties

Definition of related parties

Associated companies, Boards of directors, key management and companies owned by them are among the Company's related parties.

Transactions with related parties	**2011**	**2010**
Expenses		
Associated companies	7	6

Related party transactions are an insignificant part of the Group's operation.

46. 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:

Operating activities

Cash received from customers	441.595	369.842
Cash expenses	(87.863)	(69.399)
Cash flow from operation excluding interest	353.732	300.443
Interest income received	4.847	3.611
Interest expenses and foreign exchange difference paid	(91.407)	(74.459)
Cash flow from operating activities	267.172	229.595

47. 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 on risk factors is ensured
- That information provided to the risk committee and the Board of Directors is accurate and provided on a regular basis

Decisions and 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 objectives of risk management are to analyse, manage and monitor Landsvirkjun's risks in order to stabilise operating return by reducing operating fluctuations. Landsvirkjun's risk management strategy defines a benchmark in each risk category with respect to hedging limits. Financial risk is divided into market risk, liquidity risk and counterparty risk. The Company's market risk consists mainly of three risk categories:

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

48. Financial risk

In the year 2011, Landsvirkjun's financial risk was systematically reduced.

During the year, Landsvirkjun entered into agreements in order to hedge against currency and aluminium price risks and its access to derivative transactions has improved. There is currently good balance between assets, liabilities and payment flow and the Company's overall risk is in accordance with its benchmarks.

New long term borrowings and settlement of short term loans has extended the loan terms for the company's loan portfolio. Weighted average loan term of the loan portfolio was 7.03 at year end 2010 but 7.6 years at year end 2011.

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48. Financial risk, contd.:

Positive cash flow and favourable borrowings have ensured continued strong liquidity for the Company. At year end 2011, the Company signed an agreement on a Revolving Credit Facility in the amount of USD 200 million and ISK 10,500 million. Both Revolving Credit Facilities have a three year term with the possibility of extending the term for one year twice. Furthermore, undrawn long term loans amount to USD 130 million. Relatively low debt burden, strong liquidity and access to loans secures the Company's liquidity until year end 2013.

49. Aluminium price risk

The Company is exposed to substantial risk due to possible aluminium price fluctuations as about 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 price of aluminium decrease in the markets. Risk management may hedge up to 100% of aluminium price risk for next year and proportionally less over the next 10 years but is not limited by minimum hedges. At year end 2011, 60% of 2012 cash flow has been hedged. For the years 2013 and 2014 there are minor hedges. At the end of December 2011, fair value of the hedges in question was positive by USD 23.9 million but the agreements are effective over the next three 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.

2011

Interest Rates	Aluminium Price -10%	0%	10%
-1%	6,737	136	(7,252)
0%	6,553	-	(7,332)
1%	6,372	(134)	(7,410)

2010

Interest Rates	Aluminium Price -10%	0%	10%
-1%	16,401	1,996	(12,832)
0%	14,514	-	(14,926)
1%	12,639	(1,981)	(17,002)

Embedded derivatives

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

	2011	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 year	(93.197)	(55.583)
Fair value of embedded derivatives at year end	274.227	367.424
Division of embedded derivatives is specified as follows:		
Long term components of embedded derivatives	258.107	322.954
Short term component of embedded derivatives	16.120	44.470
Total embedded derivatives	274.227	367.424

49. Aluminium price risk, contd.:

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 taxes.

2011

Interest Rates	Aluminium Price -10%	Aluminium Price 0%	Aluminium Price 10%
-1%	(119,043)	15,770	151,001
0%	(128,037)	-	128,515
1%	(136,522)	(14,868)	107,325

2010

Interest Rates	Aluminium Price -10%	Aluminium Price 0%	Aluminium Price 10%
-1%	(122,773)	17,634	156,327
0%	(133,774)	-	132,060
1%	(144,224)	(16,705)	109,105

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 price of aluminium, as disclosed in the LME stock exchange, discounted at USD zero-coupon rates according to Bloomberg.

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 on energy buyers' purchase obligation the calculation is based on secured minimum purchase of 85%.

50. 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, assets and liabilities in addition to all general transactions in other currencies than the functional currency.

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

The Company's reporting risk related to exchange rate changes arises mainly due to its debts in EUR, which are mainly long term loans. There is also limited risk related to the JPY, CHF and GBP due to outstanding loans. The open balance in the loan portfolio against the USD is around 24% of assets. The following table shows Landsvirkjun's open balance in other currencies than the functional currency.

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

2011	EUR	ISK	JPY	Other currencies
Accounts receivables and other receivables..................	491	14.009	0	2.470
Restricted deposits..	0	8.251	0	0
Cash..	2.957	93.447	438	6.781
Derivatives...	518.361	0	(49.981)	0
Interest bearing liabilities...	(1.027.733)	(444.948)	(38.137)	(78.272)
Accounts payable and other payables...........................	(4.979)	(51.842)	(803)	(1.509)
Risk in balance sheet..	(510.903)	(381.083)	(88.483)	(70.530)

50. Foreign exchange risk, contd.:

2010	EUR	ISK	JPY	Other currencies
Accounts receivables and other receivables	200	24.420	0	5.471
Cash	4.785	36.861	380	4.617
Derivatives	672.039	43.459	(25.431)	0
Interest bearing liabilities	(1.208.957)	(510.787)	(62.213)	(122.721)
Accounts payable and other payables	(4.482)	(65.806)	(876)	(1.898)
Risk in balance sheet	(536.415)	(471.853)	(88.140)	(114.531)

Exchange rate of the main currencies against the USD, (USD/currency) for the years 2011 and 2010 is specified as follows:

	Average rate		Rate at year end	
	2011	2010	2011	2010
EUR	0,72	0,75	0,77	0,75
GBP	0,62	0,65	0,65	0,64
CHF	0,88	1,04	0,94	0,94
JPY	79,59	87,63	77,40	81,35
NOK	5,61	6,04	6,01	5,85
ISK	116,07	122,04	122,71	115,05

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 36% income tax. The analysis is based on that all variables, especially interest rates, remain unchanged. Sensitivity to changes in ISK exchange rate has been updated for 2010 to include ISK netting due to subsidiaries with reporting currency ISK.

	Profit after tax	
	2011	2010
EUR	24.549	41.485
ISK	(1.402)	(922)
JPY	5.663	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 17.3 million at the end of December 2011. The underlying principal amount is USD 32.4 million. The fair value of currency options was negative by USD 18.8 million and the underlying principal amount was approx. USD 658,2 million.

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Notes, contd.:

51. Interest rate risk

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

At year end 2011, the proportion of loans with floating interest rates was 73% 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 20 million in the year 2011 (USD 22 million in the year 2010). The Company's financial instruments with fixed interests are not sensitive to interest rate changes. At year end 2011, the estimated market value of the Company's long term liabilities was USD 122 million higher than their book value (USD 196 million lower in the year 2010). At year end the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	2011	2010
Financial instruments with fixed interests		
Financial liabilities	(751.052)	(734.875)
	(751.052)	(734.875)
Financial instruments with floating interests		
Financial assets	238.193	265.621
Financial liabilities	(1.990.014)	(2.204.624)
	(1.751.821)	(1.939.003)
Derivatives		
Embedded derivatives	274.227	367.424
Other derivatives	(58.463)	(74.973)
	215.764	292.451

Landsvirkjun has in limited extent entered into interest rate swaps, which are aimed at fixing interest rates and reducing the Company's risk exposure. The agreements are not specified as hedges but fair value changes of these agreements are recognised in the income statement. At the end of December 2011, the fair value of interest rate swaps was negative by USD 46.3 million and the underlying principle amounted to USD 185 million. The following tables show the effect of changes in interest rates on fair value of the derivatives in USD thousand before tax.

2011

Interest Rates			
-0.2%	0.0%	1.0%	2.0%
(1,306)	-	5,717	10,171

2010

Interest Rates			
-0.2%	0.0%	1.0%	2.0%
(1,150)	-	4,890	8,480

Interest rate changes in the US have considerable effect on the value of embedded derivatives. Sensitivity analysis of embedded derivatives at year end is included in note 49, which states the effect interest rates and aluminium prices have on embedded derivatives in the Company's electric power agreements.

52. Liquidity risk

Liquidity risk consists of risk of losses should the Company not be able to meet its obligations at maturity date. The company limits liquidity risk with effective liquidity management consisting in ensuring that there is sufficient cash flow at each time in order to be able to meet with the company's obligations. 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 Company's cash and cash equivalents amounted to USD 230 million at year end 2011 but when taken into account undrawn credit facilities (USD 200 million USD and ISK 10,500 million) and undrawn long term loans in the amount of USD 130 million the company has access to a total of approx. USD 646 million. Taken into consideration cash flow from operation the Company believes that access to liquid assets is ensured until year end 2013.

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 Program (EMTN). At year end the balance of loans under the EMTN was USD 1.86 billion but the total amount that the Company can borrow under the program is USD 2.5 billion.

The Company's risk related to refinancing is reduced with an even maturity profile of outstanding loans. Weighted average life of the loan portfolio was 7.6 years at year end and the proportion of loans with maturity within 12 months was 4.7%.

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

2011	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
Non-derivative financial instruments						
Cash	229.942	229.942	229.942			
Restricted deposits	8.251	8.251	8.251			
Short term receivables	75.077	75.077	75.077			
Long-term loans	(2.741.066)	(3.384.434)	(173.087)	(200.559)	(808.248)	(2.202.540)
Short term payables	(75.388)	(75.388)	(75.388)			
	(2.503.184)	(3.146.552)	64.795	(200.559)	(808.248)	(2.202.540)
Derivative financial instruments						
Currency swaps	(36.107)	(23.946)	(6.348)	(17.598)		
Interest rate swaps	(46.292)	(45.712)	(3.904)	(4.390)	(35.536)	(1.882)
Aluminium derivatives	23.936	28.910	15.801	7.483	5.626	
Embedded derivatives	274.227	300.680	16.187	20.666	83.799	180.028
	215.764	259.932	21.736	6.161	53.889	178.146

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52. Liquidity risk, contd.:

2010	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
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

53. 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. If credit rating is not available a special insurance agreement is made between parties limiting Landsvirkjun's risk. Before energy contracts are made the financial standing of the relevant companies and their parent companies are thoroughly reviewed, if applicable.

The Company's counterparty risk is specified as follows at year end:

	2011	2010
Derivative financial instruments	330.460	429.789
Restricted deposits	8.251	0
Other long-term receivables	0	89
Accounts receivables and other receivables	75.077	92.086
Cash	229.942	265.532
	643.730	787.496

54. 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:

	2011		2010	
	Book value	Fair value	Book value	Fair value
Derivative agreements	215.764	215.764	292.451	292.451
Other long term assets	106	106	143	143
Accounts receivables and other short term receivables ..	75.077	75.077	92.086	92.086
Restricted deposits	8.251	8.251	0	0
Cash and cash equivalents	229.942	229.942	265.532	265.532
Interest bearing liabilities	(2.741.066)	(2.863.013)	(2.939.498)	(2.743.713)
Accounts payable and other short term payables	(75.388)	(75.388)	(86.344)	(86.344)
	(2.287.314)	(2.409.261)	(2.375.630)	(2.179.845)

Note 14 includes further information on measurement of fair value.

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54. 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:	2011	2010
Embedded derivatives in electric power agreements	0,56-2,09%	0,11-4,00%
Interest bearing long term liabilities	0,09-2,75%	0,30-3,60%

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
2011			
Embedded derivatives		274.227	274.227
Other derivatives	(58.463)		(58.463)
Shares in other companies		106	106
	(58.463)	274.333	215.870
2010			
Embedded derivatives		367.424	367.424
Other derivatives	(74.973)		(74.973)
Shares in other companies		54	54
	(74.973)	367.478	292.505

Classification of financial assets between levels remains unchanged from previous year. Fair value changes of financial assets at level 3 amounted to USD 93.2 million expensed in the year 2011 (USD 55.9 million in the year 2010) and is recognised among financial income and expenses.

55. Classification of financial instruments

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

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

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55. Classification of financial instruments, contd.:

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 P & L	Loans and receivables	Financial liabilities recognised at amortised cost	Book value
2011					
Derivatives	330.460				330.460
Shares in other companies		106			106
Accounts receivables and other receivables			75.077		75.077
Restricted deposits			8.251		8.251
Cash			229.942		229.942
Total assets	330.460	106	313.270	0	643.836
Interest bearing liabilities				2.741.066	2.741.066
Derivatives	114.696				114.696
Accounts payable and other payables			75.388		75.388
Total liabilities	114.696	0	75.388	2.741.066	2.931.150
2010					
Derivatives	429.789				429.789
Shares in other companies		54			54
Long term receivables			89		89
Accounts receivables and other receivables			92.086		92.086
Cash			265.532		265.532
Total assets	429.789	54	357.707	0	787.550
Interest bearing liabilities				2.939.498	2.939.498
Derivatives	137.339				137.339
Accounts payable and other payables			86.344		86.344
Total liabilities	137.339	0	86.344	2.939.498	3.163.181

Consolidated Financial Statements of Landsvirkjun 2011 37 Amounts are in USD thousand

Notes, contd.:

56. Corporate governance

Organisation

Landsvirkjun's operation is subject to Act no. 42/1983, with later amendments. The Board of Directors of Landsvirkjun has established working procedures for the Board for further compliance with the law.

Values and social responsibility

Landsvirkjun's employees hold progress, prudence and trust as their guiding principles. Landsvirkjun's policy on social responsibility was approved and presented in November 2011. The policy aims at increasing the Company's positive effect on stakeholders and minimise negative effect on the environment and community. The policy sets the basis for the Company to obtain its goal of becoming a leading energy company in the field of renewable energy and aims at Landsvirkjun taking note of the economy, the environment and the community in its operation.

The Board of Directors

According to law, the Board of Directors of Landsvirkjun is appointed by the Minister of Finance for a one year term at a time and it is responsible for the financial matters and operation of the Company. The Board of Directors of Landsvirkjun consists of the following Directors: Bryndís Hlödversdóttir, President of the University of Bifröst, who is also the Chairman of the Board, Sigurbjörg Gísladóttir, chemist at the Environment Agency of Iceland and vice Chairman of the Board, Ingimundur Sigurpálsson, CEO of Íslandspóstur, Arnar Bjarnason, Managing Director of Reykjavík Capital and Stefán Arnórsson, Professor at the University of Iceland.

Audit committee

Chapter IX of Act no. 3/2006 on financial statements, cf. Act no. 80/2008 applies to the audit committee of Landsvirkjun. The working procedures for the committee are established by the Company's Board of Directors for further compliance with the law. The audit committee of Landsvirkjun exercises advisory functions for the Board and operates on the basis of the Board's authorisation. The committee has no executive power. The Company's audit committee consists of three individuals; two board members, Ingimundur Sigurpálsson and Sigurbjörg Gísladóttir. Stefán Svavarsson, Professor at the University of Bifröst is the Chairman of the committee.

CEO, Deputy and Executive Directors

The Board of Directors of Landsvirkjun hires a CEO. The CEO of the Company is Hördur Arnarson. The Board of Directors and the CEO exercise executive power in the Company. Landsvirkjun's Deputy is Ragna Árnadóttir. The Deputy's roles is to handle collective matters of the Company in addition to policy development, such as ensuring good corporate governance. At the end of the year the Company's executive directors were seven.

Finance division. The Company's CFO is Rafnar Lárusson. The role of the division is to create basis for profitable operation and contribute to maximum results in all units of the Group.

Project planning division. The Head of project planning division is Pálmar Óli Magnússon. The role of the division is to manage Landsvirkjun's power plant constructions from development to fully operative power plants. The division monitors costs, quality and work progress and ensures that projects are delivered fully operative in accordance with the Company's presumptions, estimates and needs.

Marketing and business development division. Head of marketing and business development is Magnús Bjarnason. The role of the division is to maximise the Company's revenue with the analysis of different business opportunities, product development, promotion and sales of products and services, and negotiations of new power contracts and follow up on the execution of existing contracts.

Energy division. Director of the energy division is Einar Mathiesen. The role of the division is to guarantee that energy production and distribution is in accordance with agreements with customers in a safe and an efficient way.

Human resource division. Head of human resource is Sigþrúður Guðmundsdóttir. The role of human resource division is development of Landsvirkjun's human resource for the benefit of both the employees and the company. The division ensures that the necessary knowledge and skills are available at each time in order for the Company to be able to meet with its role.

Notes, contd.:

56. Corporate governance, contd.:

Information division. Head of information is Bergur Jónsson. The role of the division is to provide other divisions of the Company with services in gathering, planning, processing and sharing information so that the relevant division can fulfil its role and to ensure safety in solutions concerning information technology.

Research and development division. Head of research and development is Óli Grétar Blöndal Sveinsson. The role of the division is to manage the preparation of new power projects and to conduct research and monitoring of the existing power system. The division shall ensure economic implementation of new power projects, increase flexibility and manage innovation, and to have a long term vision of utilization of energy resources.

57. 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 13 million. Most owners of water rights in Jökuldalur and three in Fljótsdalur announced that they would not accept the ruling of the committee and filed a case in court on 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 on arrears. Settlement to the holders of water rights has been made on the basis of the ruling, but settlement with the State has not been concluded. The case has now been appealed to the Supreme Court.

The Company has capitalised water rights amounting to USD 44.8 million, whereof water rights related to Kárahnjúkar weigh the most. With law no. 58/2008 on the change of law on the resource and energy sector, which entered into effect on 1 July 2009, restrictions are set for the State, municipalities and companies owned by them on the endorsement of ownership of water rights for waters containing harnessable power in excess of 10 MW. The State and municipalities are though allowed to give to companies owned by them the right of use of the resources for up to 65 years at a time. The conclusion of a committee appointed on the basis of the law is now available but the State has yet not decided how these issues will be managed in the future.

58. Subsequent events

Nothing has come forth after the balance sheet date, which would require adjustments or changes to the financial statement for the year 2011.