



Group

Condensed Interim Financial Statements
January 1 to June 30 2012

Landsvirkjun
Háaleitisbraut 68
103 Reykjavík

Reg. no. 420269-1299

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Key figures

Management's presentation of the operation of Landsvirkjun

Amounts are in USD thousand

	2012	2011	2010	2009	2008
	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.
Operation					
Operating revenues	193,454	214,370	186,005	139,009	239,623
Realised aluminium hedges	9,426	3,515	(4,812)	40,074	(35,721)
Total operating revenues	202,880	217,885	181,193	179,083	203,902
Operating expenses	(39,729)	(38,667)	(37,398)	(34,849)	(50,250)
EBITDA	163,151	179,218	143,795	144,234	153,652
Depreciation and impairment loss	(52,391)	(53,777)	(52,634)	(54,801)	(51,333)
EBIT	110,760	125,441	91,161	89,433	102,319
Financial items	(63,905)	(74,959)	(43,667)	(56,629)	(65,943)
Profit before unrealised financial items	46,855	50,482	47,494	32,804	36,376
Unrealised financial items:					
Fair value changes in embedded derivatives	(67,420)	59,000	(183,236)	47,692	414,919
Fair value changes in other derivatives	12,239	21,817	(21,777)	(9,345)	(155,256)
Unrealised foreign exchange difference	22,018	(94,221)	178,686	(9,619)	(161,613)
	(33,163)	(13,404)	(26,327)	28,728	98,050
Profit before income tax	13,692	37,078	21,167	61,532	134,426
Income tax	(5,183)	(13,675)	(5,479)	(14,274)	(50,977)
Profit for the period	8,509	23,403	15,688	47,258	83,449
Balance sheet					
	30.6. 2012	30.6. 2011	30.6. 2010	30.6. 2009	30.6. 2008
Total assets	4,528,177	4,779,918	4,584,038	4,555,338	5,505,319
Total equity	1,651,834	1,670,073	1,579,686	1,421,455	1,758,031
Total liabilities	2,876,343	3,109,845	3,004,352	3,133,883	3,747,288
Net liabilities *	2,428,898	2,684,795	2,561,291	2,797,642	3,020,832
Cash Flow					
	1.1.-30.6	1.1.-30.6	1.1.-30.6	1.1.-30.6	1.1.-30.6
Funds from operation (FFO)	118,974	129,637	114,177	103,696	108,585
Cash flow from operating activities	118,087	132,669	109,984	103,644	76,356
Investing activities	(36,414)	(26,226)	(24,664)	(59,640)	(213,623)
Financing activities	(63,106)	(178,161)	(97,567)	(35,815)	97,071
Liquidity					
	30.6. 2012	30.6. 2011	30.6. 2010	30.6. 2009	30.6. 2008
Cash and cash equivalents	244,961	193,332	178,763	128,844	137,459
Undrawn loans	411,182	351,672	281,600	350,000	350,000
Total liquidity	656,143	545,004	460,363	478,844	487,459
Key ratios					
Return on equity **	0.7%	5.1%	11.4%	(21.7)%	14.3%
Equity ratio	36.5%	34.9%	34.5%	31.2%	31.9%
Interest cover (EBITDA/net interest expenses) ...	2.96x	3.30x	3.94x	3.37x	1.87x
FFO / net liabilities **	10.1%	8.7%	8.3%	7.2%	6.1%
FFO / interest expenses	2.07x	2.32x	2.90x	2.26x	1.19x
Net liabilities / EBITDA **	7.38x	8.05x	9.44x	9.74x	11.36x
Credit rating at the end of June					
Standard & Poor's	BB	BB	BB	BBB-	A
Moody's	Baa3	Baa3	Baa3	Baa1	Aa1

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

** Key ratios are based on the past 12 months

Endorsement and Statement of the Board of Directors and CEO

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

According to the income statement, the Group's profit for the period January to June 2012 amounted to USD 8.5 million while the profit during the same period in 2011 amounted to USD 23.4 million. The Group's operating revenues amounted to USD 202.9 million during the period compared to USD 217.9 million during the same period in the previous year. Cash flow from operation amounted to USD 118.1 million during the period compared to USD 132.7 million during the same period in the previous year. At the end of June 2012, the Group's cash and cash equivalents amounted to USD 245 million and undrawn loans amounted to USD 411 million, total of USD 656 million. The Group's equity at the end of June amounted to USD 1,652 million according to the balance sheet compared to USD 1,661 million at year end 2011.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the Group's interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Company's assets, liabilities and financial position as at 30 June 2012, the Group's operating results and changes in cash flow during the period from 1 January to 30 June 2012.

Furthermore, it is the opinion of the Board of Directors and the CEO that the interim financial statements and the Endorsement by the Board of Directors for the period from January to June 2012 give a fair view of the Company's results, financial position and development and describe the main risk factors faced by the Company.

The Board of Directors and the CEO hereby confirm these consolidated interim financial statements with their signature.

Reykjavik, August 24, 2012.

The Board of Directors:

Bryndís Hlöðversdóttir

Sigurbjörg Gísladóttir

Arnar Bjarnason

Ingimundur Sigurpálsson

Stefán Arnórsson

The CEO:

Hörður Arnarson

Independent Auditor's Review Report

To the Board of Directors and owners of Landsvirkjun

We have reviewed the accompanying condensed consolidated interim financial statements of Landsvirkjun, which comprise the endorsement by the board of directors and the CEO, the consolidated statement of financial position as at 30 June, 2012 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards for interim financial statements, IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

Reykjavik, August 24, 2012.

KPMG ehf.

Árni Claessen

Auður Þórisdóttir

Income Statement January 1 to June 30, 2012

	Notes	2012 1.1.-30.6.	2011 1.1.-30.6.
Operating revenues			
Power sales		168,267	187,959
Realised aluminium hedges		9,426	3,515
Transmission		22,205	24,228
Other income		2,982	2,183
		202,880	217,885
Operating expenses			
Energy production costs		57,416	58,922
Transmission costs		17,579	16,823
Cost of general research		3,329	3,528
Other operating expenses		13,796	13,171
		92,120	92,444
Operating profit		110,760	125,441
Financial income and (financial expenses)			
Interest income		2,347	1,699
Interest expenses		(57,515)	(55,991)
Foreign exchange difference		14,820	(113,421)
Fair value changes in embedded derivatives		(67,420)	59,000
Fair value changes in other derivatives		12,239	21,817
Associated companies and other companies		(1,539)	(1,467)
	6	(97,068)	(88,363)
Profit before taxes		13,692	37,078
Income tax		(5,183)	(13,675)
Net profit for the period		8,509	23,403
Attributable to:			
Owners of the parent company		7,848	23,799
Subsidiaries minority interest		661	(396)
		8,509	23,403

Notes 1 to 19 are an integral part of these interim financial statements.

Statement of Comprehensive Income January 1 to June 30, 2012

	2012	2011
	1.1.-30.6.	1.1.-30.6.
Profit for the period	8,509	23,403
Operating items moved to equity		
Translation difference due to subsidiaries and associated companies	(3,679)	2,348
Total operating items moved to equity	(3,679)	2,348
Total Comprehensive Income for the period	4,830	25,751
Profit attributable to:		
Owners of the parent Company	5,033	25,974
Subsidiaries minority interest	(203)	(223)
	4,830	25,751

Notes 1 to 19 are an integral part of these interim financial statements.

Balance Sheet June 30, 2012

Assets	Notes	30.6. 2012	31.12. 2011
Non-current assets			
Property, plant and equipment	7	3,527,860	3,585,637
Projects under construction	7	103,297	71,883
Intangible assets	8	216,943	207,415
Derivative financial instruments	10	222,290	289,569
Associated companies		20,418	22,406
Other non-current assets		3,285	106
Deferred tax asset		81,875	87,151
Total non-current assets		4,175,968	4,264,167
Current assets			
Inventories		3,986	4,096
Accounts receivables and other receivables		69,275	75,077
Derivative financial instruments	10	33,987	40,891
Restricted deposits		0	8,251
Cash and cash equivalents		244,961	229,942
Total current assets		352,209	358,257
Total assets		4,528,177	4,622,424
Equity and liabilities			
Equity			
Owners' contributions		586,512	586,512
Revaluation account		100,424	101,983
Translation difference		(37,734)	(34,919)
Other equity		966,976	971,791
Equity of the owners of the parent company		1,616,178	1,625,367
Minority interest		35,656	35,945
Total equity		1,651,834	1,661,312
Long-term liabilities			
Interest bearing liabilities	11	2,502,408	2,612,256
Accrued pension liabilities		23,203	23,238
Obligation due to demolition		5,686	5,673
Prepaid income		999	1,051
Derivative financial instruments	10	64,336	86,018
		2,596,632	2,728,236
Current liabilities			
Accounts payable and other payables		77,299	75,388
Interest bearing liabilities	12	171,451	128,810
Derivative financial instruments	10	30,961	28,678
		279,711	232,876
Total liabilities		2,876,343	2,961,112
Total equity and liabilities		4,528,177	4,622,424

Notes 1 to 19 are an integral part of these interim financial statements.

Statement of Equity June 30, 2012

	Owners' contribution	Revaluation account	Translation difference	Other equity	Equity attributable to the owners of the company	Minority interest	Total equity
January 1 to June 30, 2011							
Equity at January 1, 2011...	586,512	105,056	(27,829)	944,797	1,608,536	35,786	1,644,322
Translation difference			2,175		2,175	173	2,348
Profit for the period.....				23,799	23,799	(396)	23,403
Total profit for the period....			2,175	23,799	25,974	(223)	25,751
Revaluation transferred to other equity.....		(1,743)		1,743	0		0
Equity at June 30, 2011.....	586,512	103,313	(25,654)	970,339	1,634,510	35,563	1,670,073
January 1 to June 30 2012							
Equity at January 1, 2012...	586,512	101,983	(34,919)	971,791	1,625,367	35,945	1,661,312
Translation difference			(2,815)		(2,815)	(864)	(3,679)
Profit for the period.....				7,848	7,848	661	8,509
Total profit for the period....			(2,815)	7,848	5,033	(203)	4,830
Dividend payment				(14,221)	(14,221)	0	(14,221)
Other changes						(86)	(86)
Revaluation transferred to other equity.....		(1,559)		1,559	0		0
Equity at June 30, 2012.....	586,512	100,424	(37,734)	966,976	1,616,178	35,656	1,651,834

Notes 1 to 19 are an integral part of these interim financial statements.

Statement of Cash Flows January 1 to June 30, 2012

	Notes	2012	2011
Operating activities			
Operating profit		1.1.-30.6. 110,760	1.1.-30.6. 125,441
Depreciation and impairment loss		52,391	53,777
Pension obligation, change		525	52
Obligation due to demolition, change		150	(1,108)
Other changes		(33)	(118)
Working capital from operation before financial items		163,793	178,044
Operating assets and liabilities, change		(531)	1,727
Cash flow from operating activities before financial items		163,262	179,771
Interest income received		2,654	1,643
Interest expenses and foreign exchange difference paid		(47,829)	(48,745)
Cash flow from operating activities	13	118,087	132,669
Investing activities			
Hydropower stations in operation		(1,359)	(4,413)
Transmission		(6,164)	(1,970)
Development costs		(9,455)	(6,110)
Hydropower stations in construction		(26,435)	(18,259)
Purchased shares		(1,736)	(118)
Dividend received from associated company		12	0
Sold shares		12	74
Other capital expenditure		(3,050)	(2,072)
Assets sold		144	4,299
Unpaid construction cost, change		3,568	(6,112)
Other receivables, change		8,049	8,455
Investing activities		(36,414)	(26,226)
Financing activities			
Cash dividends		(14,221)	0
New loans		4,379	104,129
Currency swaps		0	7,478
Amortization of long-term debt		(53,264)	(289,768)
Financing activities		(63,106)	(178,161)
Increase (decrease) in cash and cash equivalents		18,567	(71,718)
Effect of exchange difference on cash and cash equivalents		(3,548)	(482)
Cash and cash equivalents at the beginning of the year		229,942	265,532
Cash and cash equivalents at the of the period		244,961	193,332

Notes 1 to 19 are an integral part of these interim financial statements.

Notes

Reporting entity

1. Landsvirkjun

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

2. Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2011.

The Company's Board of Directors approved the presentation of the interim financial statements on 24 August 2012.

3. Significant accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year 2011. The Company's financial statements can be found at its website www.landsvirkjun.is and at the website of NASDAQ OMX Iceland; www.nasdaqomxnordic.com.

The interim financial statements are prepared in USD which is the parent Company's functional currency. Amounts are presented in USD thousand unless otherwise stated. The interim financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which have been measured at fair value: derivative financial instruments, long term receivables, trading financial assets and liabilities and shares in other companies.

4. Use of estimates and judgements

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

5. Segment reporting

Operating segments 1.1.-30.6. 2012	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	178,821	22,223	1,836		202,880
Income within the Group	5,065	26,738	1,434	(33,237)	0
Segment income	183,886	48,961	3,270	(33,237)	202,880
Segment operating expenses	(54,514)	(15,873)	(2,558)	33,217	(39,729)
EBITDA	129,372	33,088	712		163,151
Depreciation and impairment loss	(42,295)	(9,812)	(505)	221	(52,391)
Segment earnings, EBIT	87,077	23,276	207	221	110,760
Segment assets 30.6.2012	4,404,043	554,773	17,685	(468,742)	4,507,759
Shares in associated companies	19,754	5,334	296	(4,966)	20,418
Total assets 30.6.2012	4,423,797	560,107	17,981	(473,708)	4,528,177
Segment liabilities 30.6.2012	2,783,271	459,125	3,828	(369,881)	2,876,343
Total liabilities 30.6.2012	2,783,271	459,125	3,828	(369,881)	2,876,343

Notes, contd.:

5. Statement of segments, contd.:

Operating segments 1.1.-30.6. 2011	Electricity production	Electricity transmission	Other segments	Adjustments	Total
Income from third party	192,221	24,233	1,431		217,885
Income within the Group	5,944	28,273	1,502	(35,719)	0
Segment income	198,165	52,506	2,933	(35,719)	217,885
Segment operating expenses	(57,638)	(14,672)	(2,077)	35,719	(38,667)
EBITDA	140,527	37,834	856		179,219
Depreciation and impairment loss	(42,962)	(10,710)	(346)	242	(53,777)
Segment earnings, EBIT	97,565	27,124	510	242	125,441
Segment assets 31.12.2011	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 31.12.2011	4,510,894	595,478	18,328	(502,276)	4,622,424
Segment liabilities 31.12.2011	2,859,760	493,922	3,963	(396,533)	2,961,112
Total liabilities 31.12.2011	2,859,760	493,922	3,963	(396,533)	2,961,112

6. Financial income and (expenses)

	2012	2011
Financial income and (expenses) are specified as follows:	1.1.-30.6.	1.1.-30.6.
Interest income	2,347	1,699
Interest expenses	(40,644)	(39,909)
Guarantee fee	(3,373)	(3,585)
Indexation	(15,168)	(13,101)
Capitalised interest costs	1,670	604
Total interest expenses	(57,515)	(55,991)
Realised foreign exchange difference	(7,198)	(19,200)
Unrealised foreign exchange difference	22,018	(94,221)
Total foreign exchange difference	14,820	(113,421)
Fair value changes in embedded derivatives	(67,420)	59,000
Fair value changes in other derivatives	12,239	21,817
Associated companies	(1,542)	(1,467)
Profit on the sale of shares	3	0
Associated companies and other companies	(1,539)	(1,467)
Net financial income and (expenses)	(97,068)	(88,363)

7. Property, plant and equipment

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

Cost value	Power stations	Trans-mission	Communicat. equipment	Other assets	Total
Total value at 1.1.2011	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
Effect of exchange rate changes	0	(13,328)	(373)	(617)	(14,318)
Additions during the period	1,359	1,089	607	3,092	6,147
Sold and disposed of	0	0	0	(266)	(266)
Total value at 30.6.2012	4,851,563	540,871	15,704	71,467	5,479,605

Notes, contd.:

7. Property, plant and equipment, contd.:

	Power stations	Trans-mission	Communicat. equipment	Other assets	Total
Depreciation and impairment loss					
Total value at 1.1.2011	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
Effect of exchange rate changes	0	(2,353)	(72)	(143)	(2,568)
Depreciation of the period	41,568	8,796	519	1,255	52,138
Sold and disposed of	0	0	0	(229)	(229)
Total value at 30.6.2012	1,815,916	104,211	3,449	28,169	1,951,745
Book value					
1.1.2011	3,154,231	503,050	4,732	47,720	3,709,732
31.12.2011 and 1.1.2012	3,075,856	455,342	12,468	41,972	3,585,637
30.6.2012	3,035,647	436,660	12,255	43,298	3,527,860

Projects under construction

Cost value

Total value at 1.1.2011	3,699
Effect of exchange rate changes	(161)
Moved from development costs	18,957
Additions during the year	55,144
Moved to property, plant and equipment	(5,756)
Total value 31.12.2011	71,883
Effect of exchange rate changes	(53)
Additions during the period	31,510
Sold and disposed of	(43)
Total value at 30.6.2012	103,297

8. Intangible assets

Intangible assets are specified as follows:

	Capitalised development cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2011	216,571	44,827	6,527	267,925
Effect of exchange rate changes	(4,705)	0	(209)	(4,914)
Additions during the year	27,079	0	249	27,328
Sold and disposed of	(737)	0	0	(737)
Moved to assets in construction during the year	(18,957)	0	0	(18,957)
Total value at 31.12.2011	219,251	44,827	6,567	270,645
Effect of exchange rate changes	(1,731)	0	(77)	(1,808)
Additions during the period	11,428	0	129	11,557
Sold and disposed of	(58)	0	0	(58)
Total value at 30.6.2012	228,890	44,827	6,619	280,336

Notes, contd.:

8. Intangible asset, contd.:

	Capitalised development cost	Water and geothermal rights	Software	Total
Amortization and impairment loss				
Total value at 1.1.2011	57,729	0	4,379	62,108
Effect of 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
Effect of exchange rate changes	(42)	0	(48)	(90)
Amortization during the period	0	0	253	253
Total value at 30.6.2012	58,314	0	5,080	63,394
Book value				
1.1.2011	158,842	44,827	2,148	205,819
31.12.2011 and 1.1.2012	160,895	44,827	1,692	207,415
30.6.2012	170,577	44,827	1,539	216,943

9. Depreciation and impairment

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

	2012 1.1.-30.6.	2011 1.1.-30.6.
Power stations	41,568	42,209
Transmission	8,796	9,635
Other assets	1,774	1,579
Depreciation of assets in operation	52,138	53,423
Amortization of software	253	354
	52,391	53,777

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

	2012 1.1.-30.6.	2011 1.1.-30.6.
Energy production costs	41,819	42,467
Transmission costs	9,082	9,880
Other operating expenses	1,490	1,431
	52,391	53,777

10. Derivative financial instruments

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

	30.6. 2012	31.12. 2011
Assets:		
Embedded derivatives in electricity sales agreements	220,554	291,156
Aluminium hedges	32,162	36,946
Other derivatives	3,561	2,358
	256,277	330,460
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	222,290	289,569
Short-term component of derivative agreements	33,987	40,891
	256,277	330,460
Liabilities:		
Embedded derivatives in electricity sales agreements	13,747	16,928
Aluminium hedges	10,988	13,010
Currency swaps	17,042	17,279
Interest rate swaps	45,851	46,292
Other derivatives	7,669	21,187
	95,297	114,696

Notes, contd.:

10. Derivative financial instruments, contd.:	30.6. 2012	31.12. 2011
Derivative financial instruments are divided as follows:		
Long-term component of derivatives	64,336	86,018
Short-term component of derivatives	30,961	28,678
	<u>95,297</u>	<u>114,696</u>

11. Liabilities

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

		30/06/2012		31/12/2011	
	Maturity date	Average interests	Remaining balance	Average interests	Remaining balance
Liabilities in ISK	2012-2034	4.1%	447,712	4.1%	444,948
Liabilities in CHF	2012-2022	0.5%	63,024	0.5%	64,070
Liabilities in EUR	2012-2028	1.6%	822,952	1.5%	1,027,733
Liabilities in GBP	2014-2016	11.4%	14,353	11.4%	14,202
Liabilities in JPY	2012-2033	2.5%	37,135	2.5%	38,137
Liabilities in USD	2012-2026	3.1%	1,288,683	3.0%	1,151,976
			<u>2,673,859</u>		<u>2,741,066</u>
Current maturities of long-term debt			(171,451)		(128,810)
Total long-term debt			<u>2,502,408</u>		<u>2,612,256</u>

Interest terms on the parent company's loans are from 0.3-14.5%. Nominal interests for the period were on average approximately 3.29%, compared to approximately 3.48% 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 Reykjavik 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 and in accordance with the Act on Landsvirkjun. According to the agreement, the State guarantees the city of Reykjavik and the town of Akureyri indemnity after 1 January 2012 with respect to a guarantee of obligations entered into before 1 January 2007.

12. Current maturities of long-term debt

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

	30/06/2012
1.7.2012-30.6.2013	171,451
1.7.2013-31.12.2013	55,561
2014	165,473
2015	187,768
2016	247,612
2017	246,490
Later	1,599,504
	<u>2,673,859</u>

13. Cash flow

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

	2012	2011
	1.1.-30.6.	1.1.-30.6.
Operating activities:		
Cash received from customers	206,828	219,294
Cash expenses	(43,566)	(39,523)
Cash flow from operation excluding interest	163,262	179,771
Interest income received	2,654	1,643
Interest expenses and foreign exchange difference paid	(47,829)	(48,745)
Cash flow from operating activities	<u>118,087</u>	<u>132,669</u>

Notes, contd.:

14. Aluminium price risk

At the end of June 2012, fair value of the aluminium price hedges was positive by USD 21.2 million. Around 55% of estimated cash flow for the year 2012 has been hedged but hedges for the years 2013 and 2014 are insubstantial.

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

30/06/2012				31/12/2011					
		Aluminium Price					Aluminium Price		
		-10%	0%	10%			-10%	0%	10%
Interest rates	-1%	4.497	204	(5.034)	Interest rates	-1%	6.737	136	(7.252)
	0%	4.262	-	(5.195)		0%	6.553	-	(7.332)
	1%	4.029	(201)	(5.354)		1%	6.372	(134)	(7.410)

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.

	30/06/2012	31/12/2011
The fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	274,227	367,424
Fair value changes during the period	(67,420)	(93,197)
Fair value of embedded derivatives at the end of the period	206,807	274,227

Division of embedded derivatives is specified as follows:

Long term components of embedded derivatives	197,393	258,107
Short term component of embedded derivatives	9,414	16,120
Total embedded derivatives	206,807	274,227

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

30/06/2012				31/12/2011					
		Aluminium Price					Aluminium Price		
		-10%	0%	10%			-10%	0%	10%
Interest rates	-1%	(116.946)	11.976	140.899	Interest rates	-1%	(119.043)	15.770	151.001
	0%	(122.515)	-	122.515		0%	(128.037)	-	128.515
	1%	(127.925)	(11.516)	104.892		1%	(136.522)	(14.868)	107.325

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%.

Notes, contd.:

15. Foreign exchange risk

In April this year, Landsvirkjun concluded an agreement with the Nordic Investment Bank (NIB) to convert two loans with the bank from EUR at floating interests to USD at fixed interests. The loans amounted to EUR 70 million respectively, with maturity in 2019 and 2028, or a total of EUR 140 million.

Following the rescheduling of the loans the proportion of EUR among Landsvirkjun's interest bearing liabilities decreased from 38% as at year end to 31%, and at the same time, the proportion of USD increased from 42% to 49%.

The fair value of currency swaps was negative by USD 17 million at the end of June 2012. The underlying principal amount is USD 48.6 million. The fair value of currency options was negative by USD 4.1 million and the underlying principal amount was USD 550.4 million.

16. Interest rate risk

Following the rescheduling of the loans with NIB (see note 15) the proportion of loans with floating interests in the company's loan portfolio was 66% compared to 73% at year end 2011. At the end of June 2012, the proportion of loans with floating interests was 67%.

The fair value of interest rate swaps was negative by USD 45.9 million at the end of June 2012. The underlying principal amount was approx. USD 185 million.

17. Liquidity risk

At the end of June 2012, the Company's cash and cash equivalents amounted to USD 245 million but when taken into account undrawn credit facilities (USD 200 million and ISK 10,500 million) and undrawn long term loans in the amount of USD 128 million the Company has access to a total of approx. USD 656 million.

In order to ensure access to capital and maintain flexible funding Landsvirkjun has used different types of loans. In past years, financing has mostly taken place through a Euro Medium Term Note Program (EMTN). At the end of June 2012, the balance of loans under the EMTN was USD 1.84 billion with the total amount that the Company can borrow under the program USD 2.5 billion.

The Company's risk related to refinancing is reduced with an even maturity profile of outstanding loans and longer loan terms. Weighted average life of the loan portfolio was 7.16 years and the proportion of loans with maturity within 12 months was 6.4%.

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

30/06/2012	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Non-derivative financial instruments</i>						
Cash	244,961	244,961	244,961			
Short term receivables ...	69,275	69,275	69,275			
Long-term loans	(2,673,859)	(3,240,427)	(212,847)	(169,097)	(972,391)	(1,886,092)
Short term payables	(77,299)	(77,299)	(77,299)			
	<u>(2,436,922)</u>	<u>(3,003,490)</u>	<u>24,090</u>	<u>(169,097)</u>	<u>(972,391)</u>	<u>(1,886,092)</u>

Notes, contd.:

17. Liquidity risk, contd.:

30/06/2012	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
<i>Derivative financial instruments</i>						
Currency swaps	(21,149)	(17,088)	(17,088)			
Interest rate swaps	(45,851)	(46,572)	(3,950)	(4,689)	(36,817)	(1,116)
Aluminium derivatives	21,173	24,021	12,355	7,558	4,108	
Embedded derivatives ...	206,807	223,738	9,444	13,619	63,248	137,427
	<u>160,980</u>	<u>184,099</u>	<u>761</u>	<u>16,488</u>	<u>30,539</u>	<u>136,311</u>

31/12/2011

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)			
	<u>(2,503,184)</u>	<u>(3,146,552)</u>	<u>64,795</u>	<u>(200,559)</u>	<u>(808,248)</u>	<u>(2,202,540)</u>

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
	<u>215,764</u>	<u>259,932</u>	<u>21,736</u>	<u>6,161</u>	<u>53,889</u>	<u>178,146</u>

18. Counterparty risk

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

	30/06/2012	31/12/2011
Derivative financial instruments	256,277	330,460
Restricted deposits	0	8,251
Accounts receivables and other receivables	69,275	75,077
Cash	244,961	229,942
	<u>570,513</u>	<u>643,730</u>

19. 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 Fljótisdalur 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.