October 20th 2008

Executive Summary

- Successful completion of the Kárahnjúkar Hydro Power Project
- Sound financial and liquidity position
- USD functional currency as of January 1st 2008
- State Ownership and Guarantee of Collection
- Zero-Risk Weighting, the same as the Republic of Iceland
- Foreign revenues based on long term Take or Pay power contracts
- A1 (Negative) rating from Moody's and BBB (Negative) from S&P´s
- Cash flow is steadily improving going forward
- Capex is much reduced
- Landsvirkjun remains strategically important for Iceland

General information

Landsvirkjun, the national power company of Iceland, is a leader in the production of electricity from emission-free renewables in Iceland and a successful competitor internationally in attracting power-intensive industries to Iceland. Landsvirkjun has over 40 years experience of design, construction and operation of power systems built on hydropower and geothermal energy.

Landsvirkjun produces, sells and distributes wholesale electricity to local distributors and provides electricity-intensive industry with power under long-term take-or-pay contracts. The company provides about 75% of Iceland's electric power generation using low marginal cost and environmentally friendly hydropower and geothermal power. It's 64.73% owned subsidiary Landsnet, owns and operates the National Transmission grid.

The company is by far the dominant electricity producer in Iceland and operates eleven hydroelectric power plants and two geothermal plants, backed up by two fossil-fuel reserve plants. Total installed capacity is 1,902 MW since the Kárahnjúkar Hydro Power Project is fully operational. The reservoir-based and glacial-fed hydropower plant in Eastern Iceland supplies a new 345,000-ton aluminum plant, owned by Fjardaal, an Alcoa subsidiary.

Landsvirkjun´s PII (Power Intensive Industry) contracts are long-term take-or-pay contracts, which provide revenue security over the contract period. Two major customers are Rio Tinto Alcan and Alcoa, both industries leaders in producing and selling aluminium products. Iceland's electricity prices are competitive by international standards and given there is limited generation overcapacity there is no downward pressure on prices. In addition, given Iceland's geographical isolation, small market and no cross-border interconnection capacity, the threat of competition from non-domestic new entrants is limited.

Ownership, State Guarantee and Credit Rating

As of 1 January 2007, the State took over the ownership shares of Akureyri and Reykjavík in Landsvirkjun, turning it into a public partnership, fully owned by the State and controlled by the Ministry of Finance.

The City of Reykjavik and the Township of Akureyri provide a guarantee of collection along with the State Treasury of Iceland on all obligations of the company entered into before the end of 2006. The State Treasury and Eignarhlutir (a ”shelf” company fully owned by the state, holding 0.1% share of Landsvirkjun to withheld the partnership agreement) provide a guarantee of collection for all obligations entered into after January 1, 2007.

Landsvirkjun has a zero-risk weighting, the same weighting as the Republic of Iceland, from the Financial Supervisory Authority in Iceland and also in most other jurisdictions. Landsvirkjun´s credit rating is as follows:

Landsvirkjun´s credit rating in international markets		
	Moody´s	Standard & Poor´s
Short term	P-1	A-3
Long term	A1 (Negative)	BBB (Negative)

Financials

Landsvirkjun has adopted IFRS accounting standards, the year 2007 being the first year the standard is applied. According to IFRS the US dollar will be the functional currency from the beginning of 2008. The decision regarding the functional currency is one of the basic items in the implementation of the accounting standards.

The year 2008 is Fjardaál´s in Reydarfjördur first full operating year, which will mean that the USD will take a predominant role in the composition of the company’s income. Up to 70% of total revenues are in USD, where the two main customers are Alcoa and Rio Tinto Alcan. The US dollar’s role in the company’s expenses is also substantial. The company’s operations are more closely linked to the US dollar than to the Icelandic krona. The Icelandic krona accounts for approx. 25% of revenues and the Norwegian krona accounts for approx. 5% of revenues. Therefore, the company is much less dependant on the economic situation in Iceland.

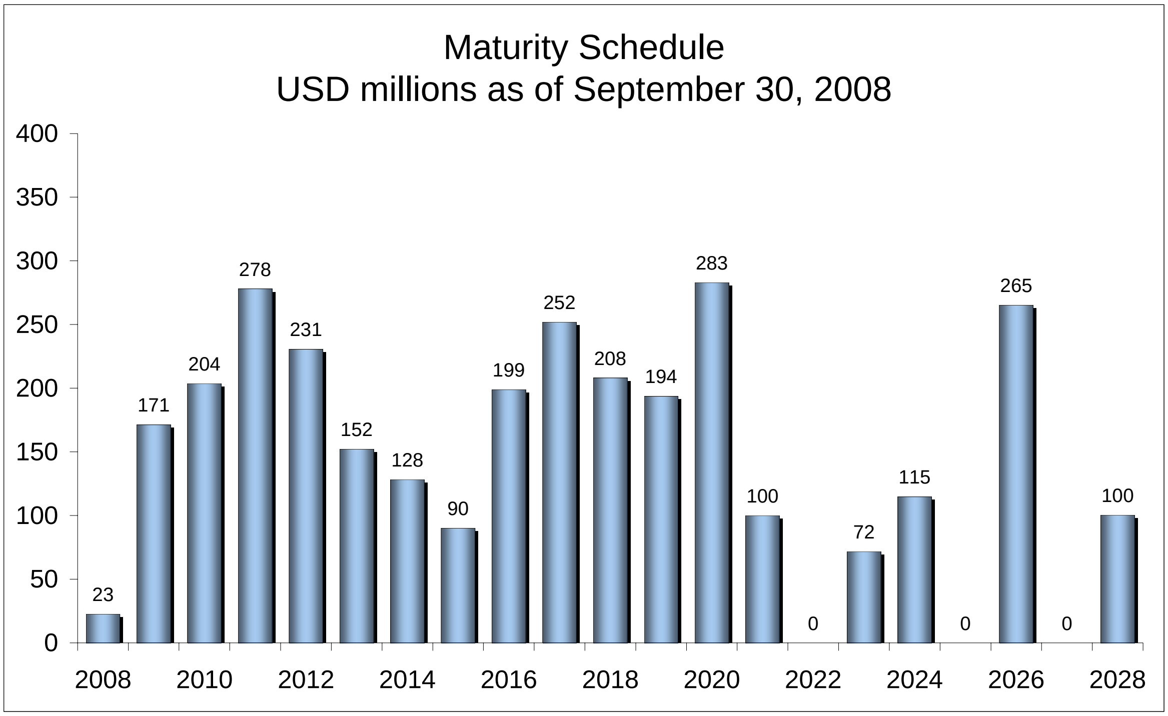
Landsvirkjun´s profit for the first six months of 2008 amounted to USD 83.5 million, and operating profit before financial items and taxes (EBIT) amounted to USD 138 million. Cash from operations amounted to approximately USD 76 million. The company’s total assets amounted to USD 5,505 million and equity amounted to USD 1,758 million. The equity ratio was 31.9%. The following table shows the consolidated results for the first six months of 2008 and for the full years 2006-2007.

	Consolidated			
		IFRS		
	Jan. - June 2008	2007	2007	2006
Functional currency	USD millions	USD millions	ISK millions	ISK millions
Operating revenues	239.6	356.4	22,867	21,298
Operating expenses				
Operating and maintenance expences	50.3	102.2	6,559	6,374
Depreciation and amortization	51.3	79.2	5,082	4,770
Total operating expenses	101.6	181.4	11,641	11,144
Profit from operations	138.0	174.9	11,226	10,154
Financial income (financial expenses)	-3.6	430.6	27,630	-16,333
Profit (loss) before taxes	134.4	605.5	38,856	-6,179
Income tax	-51.0	-161.8	-10,382	17,188
Net profit	83.4	443.7	28,474	11,009
Total assets	5,505.3	5,129.9	318,823	265,347
Equity	1,758.0	1,596.3	99,209	70,883
Liabilities	3,747.3	3,533.6	219,614	194,464
Net cash provided by operating activities	76.4	138.2	8,588	9,101
Investments	213.6	531.2	33,017	45,382
EBITDA	189.4	262.4	16,308	14,924
Equity ratio	31.9%	31,1%	31.1%	26.7%

Funding and liquidity

Landsvirkjun has access to a multi-currency revolving credit facility (RCF) to the amount of USD 400 million, maturing 2012. Currently, USD 350 million is undrawn. However, there is uncertainty about the Icelandic banks involvement in the revolver that is equivalent to USD 70 million. There are sixteen banks and financial institutions that are part of our revolver. Excluding the revolver, redemptions until the end of 2009 are approx. USD 195 million equivalent and capital expenditure are approx. USD 100 million. Landsvirkjun is therefore in a position of financial strength and with considerable liquidity.

Current maturity schedule shows that refinancing needs for next year is limited which goes hand in hand with less funding needs for possible new projects. The following histogram shows the maturity schedule for Landsvirkjun´s debt. As shown the maturity is quite evenly spread and the average maturity for new debt issued is approx. 12-13 years. A combination of cash, available RCF and ongoing cash flow is sufficient to cover 2009 capex and debt repayments.



New projects

Landsvirkjun has not committed to any new projects due to turmoil market conditions. Currently, Landsvirkjun has all licenses to proceed with work on Budarhals Hydro Power Plant (90MW). The Environmental Impact Assessment for the Project has been completed and approved by the National Planning Agency. Approved local plan has been issued by the local municipality. A special permit for Budarhals and a construction permit have been issued. Total investment cost is approx. USD 200M, which spreads over a four year period. Landsvirkjun has been discussing with EIB and NIB regarding funding the project. The project will only be undertaken if funding is secure.

For further information, please contact Davíð Ólafur Ingimarsson, Head of Funding.
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