



# Landsvirkjun

**The National Power Company**

(established under the laws of Iceland)

## **U.S.\$2,500,000,000 Euro Medium Term Note Programme**

(with the benefit of a guarantee of collection provided by the  
Republic of Iceland and Eignarhlutir ehf.)

Under this U.S.\$2,500,000,000 Euro Medium Term Note Programme (the "Programme"), Landsvirkjun, The National Power Company, Iceland (the "Issuer") may from time to time issue notes (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). This Prospectus supersedes and replaces all previous prospectuses and supplemental prospectuses. Any Notes issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein. This does not affect any Notes already in issue. This Prospectus can only be used for the purposes for which it has been published.

The maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed U.S.\$2,500,000,000 (or its equivalent in other currencies calculated as described herein). A description of the restrictions applicable at the date of this Prospectus relating to the maturity of certain Notes is set out on page 7.

The Notes may be issued on a continuing basis to one or more of the Dealers specified on page 7 and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). References in this Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to the Luxembourg Stock Exchange to approve this document as a simplified prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a final terms supplement (the "Final Terms") which, with respect to Notes to be listed on the Luxembourg Stock Exchange will be delivered to the Luxembourg Stock Exchange on or around the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes of each Tranche will initially be represented by a temporary global Note which will be deposited on the issue date thereof with a common depository on behalf of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking société anonyme ("Clearstream, Luxembourg") and/or any other agreed clearance system and which will be exchangeable, as specified in the applicable Final Terms, for either a permanent global Note or Notes in definitive form, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. The applicable Final Terms will specify that a permanent global Note either (i) is exchangeable (in whole but not in part) for definitive Notes upon not less than 60 days' notice or (ii) is only exchangeable (in whole but not in part) for definitive Notes following the occurrence of an Exchange Event (as defined on page 11), all as further described in "Form of the Notes" below.

The Programme has been rated by Moody's Investors Service Limited ("Moody's") and by Standard and Poor's Rating Services, a division of The McGraw Hill Companies Inc. ("Standard and Poor's").

Tranches of Notes issued under the Programme may be rated or unrated. When a tranche of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

**Arranger  
Citi  
Dealers**

**Barclays Capital  
J.P. Morgan**

**Citi  
Merrill Lynch International**

**Société Générale Corporate & Investment Banking**

The date of this Prospectus is 29 May 2009

This document (the “Prospectus”) constitutes a simplified base prospectus for the purposes of Chapter 2 of Part III of the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the “Law of Prospectuses for Securities”). It does not constitute a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”). This Prospectus has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

The Dealers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, *inter alia*, the most recently published documents deemed incorporated herein by reference when deciding whether or not to purchase any Notes.

The Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes outside Luxembourg or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom, Japan, the Netherlands and Iceland (see “Subscription and Sale” below).

The Notes have not been and will not be registered under the United States Securities Act 1933, as amended, (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see “Subscription and Sale” below).

All references in this document to “U.S. dollars”, “U.S.\$”, “\$” refer to United States dollars, those to “Icelandic krónur” and “ISK” refer to the currency of Iceland, those to “Japanese Yen” and “Yen” refer to the currency of Japan, those to “Sterling” and “£” refer to the currency of the United Kingdom and those to “EUR”, “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be incorporated in, and form part of, this Prospectus:

- (a) the most recently published audited annual financial statements of the Issuer and, if published later, the most recently published interim financial statements of the Issuer; and
- (b) all supplements and amendments to this Prospectus circulated by the Issuer from time to time.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the Luxembourg Stock Exchange in accordance with Part III, Chapter 2, Article 55 of the Law on Prospectuses for Securities. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in its Prospectus or in a document which is incorporated by reference in the Prospectus. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg. Any supplements or amendments to this Prospectus circulated by the Issuer from time to time will be published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of the Notes.

If the terms of the Programme are modified or amended in a manner which would make this Prospectus, as supplemented, inaccurate or misleading, a new prospectus will be prepared.

### Cross Reference List

#### *Financial Statements*

	<u>Annual Report 2008</u>	<u>Annual Report 2007</u>
Independent Auditors' letter	Page 23	Page 21
Income Statements	Page 24	Page 22
Balance Sheets	Page 25	Page 23
Statement of Equity	Page 26	Page 24
Statement of Cash Flows	Page 27	Page 25
Summary of Accounting Policies and Explanatory Notes	Pages 29-51	Pages 27-50

## GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency (including euro) and having a minimum maturity of one month, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “Form of the Notes” below.

This Prospectus and any supplement will only be valid for listing Notes on the Luxembourg Stock Exchange during the period of 12 months from the date of this Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$2,500,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Indexed Notes and Partly Paid Notes (each as specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## **RISK FACTOR**

Landsvirkjun's income is to a great part dependent on world market price of aluminium and there is considerable risk inherent with a possible decrease in the price of aluminium. The company's sales revenues in USD for the first quarter of 2009 have lowered considerably compared to 2008, even though sales quantity and production are virtually the same. In order to reinforce the income base related to aluminium price, the risk management may hedge up to 100% of next year's aluminium price risk and proportionally less for the following ten years. This has partly been done with derivative contracts, which are aimed at reducing effects of aluminium price downturns on operating income. Such contracts consist, in most cases, in fixing aluminium price at a certain level. This means sacrificing some of the upside against protecting the downside. For instance, the company missed out on income for 2008 since aluminium price increased rapidly and was on average quite high. During the first quarter of 2009 aluminium price has, on the other hand, decreased considerably and now the same contracts provided net cash inflow, which realised higher price than the market price of aluminium. In this respect it's worth to point out that these aluminium hedges are not included along with sales under operating revenues and are consequently not in the item "operating profit". However, they are included, as in 2008, along with other hedges that are recorded under the item financial income and financial expenses. This means that in order to see the whole picture of the EBITDA for the first quarter of 2009, net affect of the aluminium hedges must be added to the financial item "operating revenues."

## DESCRIPTION OF THE PROGRAMME AND TERMS AND CONDITIONS OF THE NOTES

The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes”, or used in “Form of Final Terms” below shall have the same meanings in this summary.

Issuer:	Landsvirkjun – The National Power Company (Iceland)
Description:	Euro Medium Term Note Programme
Arranger:	Citigroup Global Markets Limited
Dealers:	Barclays Bank PLC Citigroup Global Markets Limited Merrill Lynch International J.P. Morgan Securities Ltd. Société Générale and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	<p>Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale” below) including the following restrictions applicable at the date of this Prospectus.</p> <p>Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “Subscription and Sale”.</p>
Issuing and Principal Paying Agent:	Citibank, N.A., London Branch
Size:	Up to U.S.\$2,500,000,000 (or its equivalent in other currencies calculated as described herein on page 6) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer, including, without limitation, euro, Icelandic krónur, Japanese Yen and United States dollars (as indicated in the applicable Final Terms).
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro.



The relevant provisions applicable to any such redenomination will be set out in full in the applicable Final Terms.

**Maturities:** Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

At the date of this Prospectus, the minimum maturity of all Notes is one month.

**Issue Price:** Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

**Form of Notes:** The Notes will be in bearer form and will on issue be represented by either a temporary global Note or a permanent global Note as specified in the applicable Final Terms. Temporary global Notes will be exchangeable either for (i) interests in a permanent global Note or (ii) for definitive Notes as indicated in the applicable Final Terms. Permanent global Notes will be exchangeable for definitive Notes upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event as described under "Form of the Notes".

**Fixed Rate Notes:** Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption and will be calculated on the basis of such Fixed Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

**Floating Rate Notes:** Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer,

as indicated in the applicable Final Terms.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

**Indexed Notes:** Payments of principal in respect of Indexed Redemption Amount Notes or of interest in respect of Indexed Interest Notes will be calculated by reference to such index and/or formula or to changes in

	<p>the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).</p>
Other provisions in relation to Floating Rate Notes and Indexed Interest Notes:	<p>Floating Rate Notes and Indexed Interest Notes may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms).</p> <p>Interest on Floating Rate Notes and Indexed Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates specified in, or determined pursuant to, the applicable Final Terms and will be calculated on the basis of the relevant Day Count Fraction unless otherwise indicated in the applicable Final Terms.</p>
Dual Currency Notes:	<p>Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).</p>
Zero Coupon Notes:	<p>Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.</p>
Redemption:	<p>The Final Terms relating to each Tranche of Notes will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.</p> <p>The Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.</p> <p>Notes issued on terms that they must be redeemed before their first anniversary may be subject to restrictions on their denomination and distribution, see "Certain Restrictions" above.</p>
Denomination of Notes:	<p>Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Final Terms save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "Certain Restrictions" above.</p>
Taxation:	<p>All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within Iceland, subject as provided in Condition 7.</p>
Negative Pledge:	<p>The terms of the Notes will contain a negative pledge provision as further described in Condition 3.</p>

Cross Default:	The terms of the Notes will contain a cross-default provision as further described in Condition 9.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Guarantee:	The Notes will be issued under a guarantee of collection provided by the Republic of Iceland and Eignarhlutir ehf. as further described in “Summary of Guarantee” below.
Rating:	This Programme has been rated by Moody’s and by Standard and Poor’s. Notes issued under the Programme may be rated or unrated. When a tranche of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Listing:	<p>Application has been made to the Luxembourg Stock Exchange to approve this document as a simplified prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges or markets.</p>
Governing Law:	The Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are selling restrictions in relation to the United States, the United Kingdom, Japan and the Netherlands and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “Subscription and Sale” below.
United States Selling Restrictions:	Regulation S, Category 2. TEFRA D/TEFRA not applicable, as specified in the applicable Final Terms.

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global Note without receipts, interest coupons or talons, or, if so specified in the applicable Final Terms, a permanent global Note which in either case, will:

- (i) if the Global Notes are intended to be issued in new global Note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”); and
- (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on a prior to the original issue date of the Tranche to a common depository (the “Common Depository”) for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary global Note if the temporary global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section “Form of the Notes” to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer and the Agent and/or specified in the applicable Final Terms.

On and after the date (the “Exchange Date”) which is 40 days after the date on which any temporary global Note is issued, interests in such temporary global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a permanent global Note without receipts, interest coupons or talons or for definitive Notes with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the temporary global Note is improperly withheld or refused. Pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Notes” below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer or, in the case of a syndicated issue, the lead manager) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the permanent global Note if the permanent global Note is not intended to be issued in NGN form) without any requirement for certification. The applicable Final Terms will specify that either (i) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event as described therein. “Exchange Event” means (i) an Event of Default has occurred and is continuing, (ii) the Issuer has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 7 which would not be required were the Notes represented by the permanent global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) may give notice to the Agent requesting exchange and in the event of the occurrence of an Exchange

Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent.

Global Notes and definitive Notes will be issued pursuant to the Agency Agreement.

The following legend will appear on all Notes, which have an original maturity of more than 365 days and on all, receipts, interest coupons and talons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

Notes which are represented by a global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

In the event that a global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of the Notes or that the Maturity Date has occurred and, in either case, payment in full of the amount due has not been made in accordance with the provisions of the global Note then, unless within the period of seven days commencing on the relevant due date payment in full of the amount due in respect of the global Note is received by the bearer in accordance with the provisions of the global Note, the global Note will become void at 8.00 p.m. (London time) on such seventh day and the bearer will have no further rights under the global Notes. At the same time, holders of interests in such global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and Clearstream, Luxembourg, on and subject to the terms of a deed of covenant (the “Deed of Covenant”) dated 30 May 2008 executed by the Issuer.

## FORM OF FINAL TERMS

Set out below is the form of Final Terms applicable to each Tranche of Notes issued under the Programme:

### Landsvirkjun – The National Power Company (Iceland)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Note]  
**under the U.S.\$2,500,000,000**

#### **Euro Medium Term Note Programme**

(with the benefit of a guarantee of collection provided by the Republic of Iceland and Eignarhlutir ehf.)

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 29 May 2009 which constitutes a simplified prospectus for the purposes of Chapter 2 of Part III of the Law on Prospectuses for Securities dated 10 July 2005. This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. Copies of such Prospectus are available for viewing at the specified office of the Paying Agent for the time being in Luxembourg and will also be published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Prospectus dated [*original date*]. This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Prospectus dated [*current date*] which constitutes a simplified prospectus for the purposes of Chapter 2 of Part III of the Law on Prospectuses for Securities dated 10 July 2005, save in respect of the Conditions which are extracted from the Prospectus dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated [*current date*] and the Prospectus dated [*original date*]. Copies of the Prospectuses are available for viewing at the specified office of the Paying Agent for the time being in Luxembourg and will also be published on the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms].*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: [ ]
2. [(i)] Series Number: [ ]  
 [(ii)] Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
 [(i)] Tranche: [ ]  
 [(ii)] Series: [ ]
5. (i) Issue Price of Tranche: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [ ] (if applicable)]  
 (ii) Net Proceeds: [ ] *(Required only for listed issues)*
6. (a) Specified Denominations: [ ]  
 (b) Calculation Amount: *(If only one Specified Denomination, insert the Specified Denomination.*  
*If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*  
 [ ]
7. [(i)] Issue Date: [ ]  
 [(ii)] Interest Commencement Date (if different from the Issue Date) [specify/Issue Date/Not Applicable]  
*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes).*
8. Maturity Date: *[Fixed rate – specify date/Floating rate – Interest Payment Date falling in [specify month]]*
9. Interest Basis: [[ ] per cent. Fixed Rate]  
 [[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]  
 [Zero Coupon]  
 [Indexed Interest]  
 [specify other]  
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
 [Indexed Redemption Amount]  
 [Dual Currency Redemption]  
 [Partly Paid]  
 [Instalment]  
 [specify other]
11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
12. Put/Call Options: [Investor Put]  
 [Issuer Call]  
 [(further particulars specified below)]

13. Status of the Notes: Senior
14. Listing: [The regulated market of the Luxembourg Stock Exchange/specify other/None]
15. Method of distribution: [Syndicated/Non- syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Rate [(s)] of Interest: [ ] per cent. per annum [payable [annually/semi- annually/quarterly]/ other (specify) in arrear]  
(if payable other than annually, consider amending Condition 4)
- (ii) Interest Payment Date(s): [ ] in each year up to and including the Maturity date/[specify other] (N.B. this will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [ ] per Calculation Amount  
(Applicable to Notes in definitive form)
- (iv) Broken Amount(s): per Calculation Amount, payable on the Interest  
(Applicable to Notes in definitive form) Payment Date Falling [in/on] [ ]
- (v) Day Count Fraction: [30/360 or Actual/ Actual (ICMA) or specify other]  
(Note that if interest is not payable on a regular basis (for example, if there are Broken Amounts specified) Actual/ Actual (ICMA) may not be a suitable Fixed Day Count Fraction)
- (vi) Determination Date(s): [ ] in each year  
[Insert regular interest payment dates ignoring issue date or maturity date in the case of a long or short first or last coupon]  
(NB: Only relevant where Fixed Day Count Fraction is Actual/ Actual (ICMA))
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
17. Floating Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ [specify other]]
- (iii) Additional Business Centre(s): [ ]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined [Screen Rate Determination/ISDA Determination/specify other]]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (vi) Screen Rate Determination:



- Reference Rate: [            ]  
(Either LIBOR, EURIBOR or other, although additional information is required if other – including to fallback provisions in the Agency Agreement)
  - Interest Determination Date(s): [            ]  
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
  - Relevant Screen Page: [            ]  
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: [            ]
  - Designated Maturity: [            ]
  - Reset Date: [            ]
- (viii) Margin(s): [+/-] [            ] per cent. per annum
- (ix) Minimum Rate of Interest: [            ] per cent. per annum
- (x) Maximum Rate of Interest: [            ] per cent. per annum
- (xi) Day Count Fraction: [[Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
Other]  
(See Condition 4(b) for alternatives)]
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [            ]
18. Zero Coupon Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Accrual Yield: [            ] per cent. per annum
  - (ii) Reference Price: [            ]
  - (iii) Any other formula/basis of determining amount payable: [            ]  
(Consider applicable day count fraction if euro denominated)
  - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6(e) (iii) and (j) apply/specify other]  
(consider applicable day count fraction if not U.S. dollar denominated)
19. Indexed Interest Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub paragraphs of this paragraph)

- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent: [give name]
- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [ ]
- (iv) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [ ]
- (v) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ *specify other*]
- (vii) Additional Business Centre(s): [ ]
- (viii) Minimum Rate of Interest: [ ] per cent. per annum
- (ix) Maximum Rate of Interest: [ ] per cent. per annum
- (x) Day Count Fraction: [ ]
20. Dual Currency Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [ ]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

#### PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/ *specify other/see Appendix*]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [ ]
- (b) Higher Redemption Amount: [ ]
- (iv) Notice period (if other than as set out in the Conditions): [ ]
22. Investor Put: [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [ ] per Calculation Amount/*specify other/ see Appendix*]

- (iii) Notice period (if other than as set out in the Conditions) [            ]
23. Final Redemption Amount [            ] per Calculation Amount/*specify other/ see Appendix*
24. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(e)) [[            ] per Calculation Amount/ *specify other/see Appendix*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. (a) Form: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].  
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]  
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/ at any time at the request of the Issuer]]
- (b) New Global Note: [Yes] [No]  
*(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Prospectus and the Notes themselves)*
- (c) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]  
  
[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[include this text if "yes" selected in which case the Notes must be issued in NGN form]*
26. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/*give details*]  
*(Note that this paragraph relates to the place of payment and not Interest Period end dates to which subparagraphs 17(iii) and 19(vi) relate)*
27. Talons for future Coupon or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, if different from those specified in the Temporary Global Note, consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]

29. Details relating to Instalment Notes: [Not Applicable/give details]  
 (i) Instalment Amount(s):  
 (ii) Instalment Date(s):
30. Redenomination applicable: Redenomination [not] applicable  
 [(If Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)]
31. Other final terms: [Not Applicable/give details]  
 [ ]

**DISTRIBUTION**

32. (i) If syndicated, names of Managers: [Not Applicable/give names]  
 (ii) Stabilising Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: [Not Applicable/give name and address]
34. U.S. selling restrictions: [Reg S Compliance Category; TEFRA D/ TEFRA C/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/give details]

**OPERATIONAL INFORMATION**

36. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
37. Delivery: Delivery [against/free of] payment
38. Additional Paying Agent(s) (if any): [ ]
- 
- ISIN: [ ]
- Common Code: [ ]
-

**[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required for issue and admission to trading on the Luxembourg Stock Exchange’s regulated market and listing on the Official List of the Luxembourg Stock Exchange of Notes described herein pursuant to the U.S.\$2,500,000,000 Euro Medium Term Note Programme of Landsvirkjun – The National Power Company (Iceland)]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By .....  
*Duly authorised*

.....  
*Duly authorised*

If the applicable Final Terms specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6 (except Condition 6(b)), 10, 11, 12, 13 (insofar as such Notes are not listed on any stock exchange) or 15, they will not necessitate the preparation of a supplement to this Prospectus. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Prospectus will be prepared, if appropriate.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note. Reference should be made to "Form of Final Terms" above for the form and content of Final Terms which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Landsvirkjun - The National Power Company (Iceland) (the "Issuer") pursuant to the Agency Agreement (as defined below).

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a "Global Note"), units of the lowest Specified Denomination in the Specified Currency;
- (ii) definitive Notes issued in exchange for a Global Note; and
- (iii) any Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (as modified and/or amended and/or supplemented and/or restated from time to time and as most recently amended and restated on 30 May 2008 (the "Agency Agreement") dated 19 May 1998 made between the Issuer, Morgan Guaranty Trust Company of New York, London Office (now, Citibank, N.A., London Branch) as issuing and principal paying agent and agent bank (the "Agent", which expression shall include any successor agent specified in the applicable Final Terms) and the other paying agents named therein (together with the Agent, the "Paying Agents", which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons ("Coupons") and, if indicated in the applicable Final Terms, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "applicable Final Terms" are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to "Noteholders" or "holders" shall mean the holders of the Notes, and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "Receiptholders" shall mean the holders of the Receipts and any reference herein to "Couponholders" shall mean the holders of any Coupons, and shall, unless the context otherwise requires, include any holders of the Talons.

As used herein, "Tranche" means Notes which are identical in all respects (including as to listing and admission to trading) and "Series" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the "Deed of Covenant") dated 30 May 2008 and made by the Issuer. The original of the Deed of Covenant is held by a common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Agent and the other Paying Agents. Copies of the applicable Final Terms may be obtained from the specified office of each of the Agent and the Paying Agents. If the Note is a listed Note of any series, copies of the applicable Final Terms may be obtained during normal business hours at the specified office of The Luxembourg Paying Agent. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. Form, Denomination and Title**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Interest Note or a combination of any of the foregoing or any other type of Note, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Indexed Redemption Amount Note, an Instalment Note, a Dual Currency Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/ Payment Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Replacement Agent (as defined in the Agency Agreement) and any Paying Agent may deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("Euroclear") and/or Clearstream Banking société anonyme ("Clearstream, Luxembourg"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Agent and any other Paying Agent as the holder of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly. Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall whenever the context so permits be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

## **2. Status of the Notes and Statutory Guarantee**

- (a) The Notes and the relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

- (b) Save as provided in Condition 9(h), the Notes and the relative Receipts and Coupons are entitled to the benefit of a statutory guarantee (the “Guarantee”) of the Republic of Iceland and Eignarhlutir ehf. (the “Guarantors”) as provided in Act No. 42 dated 23 March 1983 (the “Act”) of the Parliament of the Republic of Iceland. The Act and the partnership agreement between the Guarantors provides that the Guarantors are liable jointly and severally, as guarantors of collection for the obligations of the Issuer, including, but not limited to, borrowings.

### 3. Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not, and will procure that none of its Subsidiaries (as defined in the Agency Agreement) shall, create or permit to be outstanding, any mortgage, lien (other than solely by operation of law), charge, pledge or other security interest upon the whole or any part of its undertaking or assets, present or future, to secure any liability (including any contingent liability) in respect of any Relevant Indebtedness without at the same time according to the Notes either the same security as is granted to or is outstanding in respect of such liability or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders. “Relevant Indebtedness” means any present or future indebtedness in respect of bonds, notes, debentures, loan stock or other securities which are, or are capable of being, quoted, listed or ordinarily traded on any stock exchange, automated trading system, over-the-counter or other securities market.

### 4. Interest

#### (a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on a Fixed Interest Date.

If the Notes are in definitive form except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

In these Conditions, “*Fixed Day Count Fraction*” means:

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or



- (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates as specified in the applicable Final Terms that would occur in one calendar year (as specified in the applicable Final Terms); and
  - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year (as specified in the applicable Final Terms); and
- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360.

In these Conditions:

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes and Indexed Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Indexed Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open. In these Conditions, “TARGET2 System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Indexed Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions and as amended and updated as at the Issue Date of the first Tranche of Notes, published by the International Swaps and Derivatives Association, Inc. (the “ISDA Definitions”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or the Euro-zone interbank offered rate (“EURIBOR”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), (i) “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than the LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum and/or Maximum Interest Rate*

If the applicable Final Terms specifies a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate.

If the applicable Final Terms specifies a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Indexed Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Indexed Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

“Floating Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the

Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction =

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (v) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction =

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vi) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction =

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, any stock exchange on which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and, in the case of Notes listed on the Luxembourg Stock Exchange, the Luxembourg Paying Agent and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error or proven error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

*(e) Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given in accordance with Condition 13.

**5. Payments**

*(a) Method of Payment*

Subject as provided below:

- (i)* payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (ii)* payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7. References to “Specified Currency” will include any successor currency under applicable law.

*(b) Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph *(a)* above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph *(a)* above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph *(a)* above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Indexed Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Indexed Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of the Agent. A record of each payment made against presentation or surrender of such Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Agent and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(c) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (A) the relevant place of presentation;
  - (B) London;
  - (C) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

*(d) Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i)* any additional amounts which may be payable with respect to principal under Condition 7;
- (ii)* the Final Redemption Amount of the Notes;
- (iii)* the Early Redemption Amount of the Notes;
- (iv)* the Optional Redemption Amount(s) (if any) of the Notes;
- (v)* in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi)* in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6(e)); and
- (vii)* any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

**6. Redemption and Purchase**

*(a) At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

*(b) Redemption for Tax Reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Indexed Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if:

- (i)* on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the Republic of Iceland or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and
- (ii)* such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

*(c) Redemption at the Option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i)* not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13; and
- (ii)* not less than 15 days before the giving of the notice referred to in (i), notice to the Agent;



(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than the Higher Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least 5 days prior to the Selection Date.

*(d) Redemption at the Option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days’ notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must deliver at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition accompanied by if this note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 9.

*(e) Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 9 each Note will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount; or
- (iii) in the case of Zero Coupon Notes, at an amount ( the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP5}(1+\text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

<sup>y</sup> is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

*(f) Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

*(g) Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

*(h) Purchases*

The Issuer, or any of its Subsidiaries may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

*(i) Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

*(j) Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 13.

## **7. Taxation**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of The Republic of Iceland or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some

connection with The Republic of Iceland other than the mere holding of such Note, Receipt or Coupon; or

- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(c)); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or law; or
- (iv) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

## **8. Prescription**

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

## **9. Events of Default**

If any one or more of the following events (each an “Event of Default”) shall occur:

- (a) if default is made in the payment of any principal, premium (if any) or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal or premium (if any) and 15 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if any present or future Indebtedness of the Issuer or any of its Subsidiaries (as defined in the Agency Agreement) or any External Indebtedness of the Republic of Iceland or Eignarhlutir ehf. becomes due and repayable prior to the stated maturity thereof by reason of an event of default (however described) or if the Issuer or any of its Subsidiaries defaults in the repayment of any such Indebtedness or, as the case may be, the Republic of Iceland or Eignarhlutir ehf. defaults in the repayment of any such External Indebtedness, upon the maturity thereof or within any grace period originally applicable thereto (or in the case of any such Indebtedness or, as the case may be, External Indebtedness due on demand, defaults in the payment thereof on demand) or if any guarantee or indemnity given by the Issuer or any of its Subsidiaries in respect of any Indebtedness of any person or, as the case may be, given by the Republic of Iceland or Eignarhlutir ehf. in respect of any External Indebtedness of any person, is not honoured when due and called upon or a general moratorium shall be declared by the Issuer or any of its Subsidiaries on the repayment of any Indebtedness or by the Republic of Iceland or Eignarhlutir ehf. on the payment of any External Indebtedness, provided that no such event shall constitute an Event of Default unless the relevant Indebtedness or, as the case may be, External Indebtedness either (a) alone, shall amount to at least U.S.\$15,000,000 (or its equivalent in any other currency), or (b) when aggregated with other Indebtedness or, as the case may be, External Indebtedness of, or guaranteed by, the same party in respect of all (if any) other such events which shall have occurred shall amount to at least U.S.\$25,000,000 (or its equivalent in any other currency); or

- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Subsidiaries, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders; or
- (e) if the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, unless either (i) such cessation is for the purposes of amalgamation, merger, consideration, reorganisation or other similar arrangement (“Reorganisation”) not involving the insolvency of the Issuer, the Guarantors or such Subsidiary and under which the whole or a substantial part of its relevant business is transferred to the Issuer, the Guarantor or a Subsidiary or a transferee which upon acquiring the relevant business thereupon becomes a Subsidiary; or (ii) for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders, or (iii) the Issuer or any of its Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (i) proceedings are initiated against the Issuer or any of its Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Subsidiaries or, as the case may be, in relation to the whole or a part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets of any of them and (ii) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- (g) if the Issuer or any of its Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (h) if either of the Guarantors shall cease to be liable without limitation as a guarantor of collection for all the obligations of the Issuer under the Notes, Receipts or Coupons,

then any Noteholder may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare the Note held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount (as described in Condition 6(e)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of this Condition 9:

“Indebtedness” means any present or future indebtedness in respect of bonds, notes, debenture, loan stock or other securities or in respect of moneys borrowed or raised; and “External Indebtedness” means (i) any indebtedness in respect of bonds, notes, debentures, loan stock or other securities which are denominated in a currency other than Icelandic krónur or, if denominated in Icelandic krónur, under the terms of which payment of principal, premium (if any) or interest can be or is required to be made in or by reference to any other currency and which are, or are at the time of issue intended to be, quoted or listed on any stock exchange or ordinarily dealt in on any stock exchange or in any other securities market outside the Republic of Iceland; and/or (ii) any present or future borrowing, debt or other obligation, whether actual or contingent, which is payable to non-residents of the Republic of Iceland or, if in the form of bonds, notes, debentures, loan stock or other securities, at least 50 per cent. in principal amount of which is initially offered to non-residents of the Republic of Iceland; and

## **10. Replacement of Notes, Receipts, Coupons and Talons**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Replacement Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the

Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 11. Agent and Paying Agents

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) there will at all times be an Agent;
- (ii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or any other relevant authority;
- (iii) there will at all times be a Paying Agent with a specified office in a city in continental Europe; and
- (iv) there will at all times be a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 5(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

## 12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

## 13. Notices

All notices regarding the Notes shall be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London and, (ii) if and for so long as the Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange website ([www.bourse.lu](http://www.bourse.lu)). It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in each such newspaper or where published in such newspapers on different dates, the last date of such first publication.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange, the rules of such stock exchange permits), so long as the Global Note(s) is or are held in its/their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for as long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange (or relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/ or Clearstream, Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the

Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

#### **14. Meetings of Noteholders, Modification and Waiver**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

#### **15. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

#### **16. Contracts (Rights of Third Parties) Act 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any Condition of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

#### **17. Governing law and submission to jurisdiction**

- (a) The Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.
- (b) The Issuer irrevocably agrees, for the benefit of the Paying Agents, the Noteholders, the Receiptholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes, the Receipts and/or the Coupons and accordingly submit to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceedings (together referred to as “**Proceedings**” arising out of or in

connection with the Notes, the Receipts and the Coupons, against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

The Issuer appoints the Ambassador of the Republic of Iceland to the Court of St. James at his official residence in England for the time being (currently 1 Eaton Terrace, London SW1) as its agent for service of process, and undertakes that, in the event of the said Ambassador ceasing so to act, it will appoint another person as its agent for service of process in England in respect of any Proceedings.

Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

The Issuer hereby irrevocably and unconditionally waives with respect to the Agency Agreement, the Notes, the Receipts and/or the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes.



## GENERAL DESCRIPTION OF THE ISSUER

### Board of Directors

New appointments were made to the Board of Directors. Mr. Gylfi Árnason, and Ms. Jóna Jónsdóttir stepped down.

### Board of Directors from 13 April 2009

Ms. Bryndís Hlöðversdóttir, *Chairman*  
Mr. Ingimundur Sigurpálsson  
Mr. Páll Magnússon  
Ms. Sigurbjörg Gísladóttir, *Deputy Chairman*  
Mr. Stefán Arnórsson

### The Executive Board, Landsvirkjun

*Managing Director* – Mr. Friðrik Sophusson  
*Deputy Managing Director* – Mr. Agnar Olsen

### Executive Management

*Finance* – Mr. Stefán Pétursson  
*Energy* – Mr. Einar Mathiesen  
*Human Resources* – Ms. Sigthruður Guðmundsdóttir  
*Information* – Mr. Bergur Jónsson  
*Head of Corporate Communications* – Mr. Thorsteinn Hilmarsson

### Incorporation, Location, Duration

Landsvirkjun, The National Power Company (the “Company” or “Landsvirkjun”) is an enterprise of the Republic of Iceland, and was established on 1 July 1965. The Company is an independent juristic person having independent finances and accounting. It is registered in the commercial register of Reykjavik as from 28 April 1966. The registered head office is located at Håaleitisbraut 68, 103 Reykjavik, Iceland.

### Objective

According to the Act No. 42, 23 March 1983 on Landsvirkjun, the objective of the Company is to engage in operations in the energy sector and any other business and financial activities pursuant to the decisions of the board of directors at any time.

### Fiscal Year

The fiscal year of the Company begins on 1 January of each year and ends on 31 December of the same year.

### Annual meeting

An Annual Meeting of Landsvirkjun shall be held in April of each year.

### Dividends

The Board of Directors of Landsvirkjun puts before the Company’s Annual General Meeting a proposal of payment of dividends to the owners. It was approved that no dividends would be paid out in the year 2009. Reference is otherwise made to the notes to the financial statements on further allocation of profit and other changes in the Company’s book value of equity.

Landsvirkjun has paid the following dividends:

Year ended as of 31 December,	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total dividend ISK millions	52	66	73	79	–	–	–	0	204	235	250	285	321	350	358	394	427	500	500	600

## Voting Rights

The Board of Directors of the Company has supreme authority in the operations of the Company, its project developments and the preparation thereof. The Board consists of five members that are appointed by the Ministry of Finance.

## Auditor

KPMG hf. The auditor in charge is Jón Eiríksson, State Authorised Public Accountant.

## Owners of the Company

The Republic of Iceland is 100 per cent. owner of the Company.

The State Treasury has rendered capital contributions to Landsvirkjun, as reflected in the Act on the Company and Partnership Agreement of 16 January 2007.

## Outstanding Public Issues of the Company

Landsvirkjun also has outstanding approximately USD 1,950 million of private placements under its EMTN Programme. The Company requires a minimum double AA- rating from its counterparties when entering into swaps for liability management purposes or when making use of structured borrowings.

## Subsidiaries

At the end of 2008, the Company owned five subsidiary companies. The Consolidated Accounts comprise the accounts of the parent company and four subsidiaries.

The following subsidiaries of the Company are included in the consolidated financial statements (USD thousands):

	<u>Percent- age share</u>	<u>Par Value</u>	<u>Book Value</u>
1) Fjarski	100%	2.068	3.515
2) Hraunaveita ehf.	100%	4	21
3) Landsnet	64,7%	31.611	38.959
4) Landsvirkjun Power hf	100%	4.137	5.165
5) Icelandic Power Insurance ehf.	100%	120	5.124

The operation of Landsnet hf. commenced on 1 January 2005, when the Company purchased the transmission system of Landsvirkjun.

## OPERATING DESCRIPTION OF THE ISSUER

### Overview

In this document the following expressions bear the following meanings:

kV	=	kilovolt	=	1,000 volts
kW	=	kilowatt	=	1,000 watts
MW	=	megawatt	=	1,000 kW
kWh	=	kilowatthour	=	1,000 watthours
MWh	=	megawatthour	=	1,000 kWh
GWh	=	gigawatthour	=	1,000 MWh

Hydro-electric and geothermal energy resources in Iceland are vast in relation to the size and population of the country. Harnessable electric power from rivers and geothermal sources is estimated by the National Energy Authority to be no less than 50,000 GWh per annum. Present annual production of electric energy in Iceland is approximately 16.467 GWh, representing 32.93 per cent. of the country's estimated potential. Today, electricity is available throughout Iceland. All towns and villages and over 99 per cent. of farms are connected to the national power grid.

### History

Landsvirkjun was established on 1 July 1965, on the basis of plans to step up harnessing of hydropower through development of power-intensive industries as well as meeting rapidly growing demand from the ordinary market. Initially owned jointly by the City of Reykjavik and the Icelandic state, its task was to supply electricity to south and west Iceland. A new law was enacted in 1983, entrusting it with the task of supplying electricity to the whole of Iceland. In the same year the Town of Akureyri, the largest town in north Iceland, acquired a share in the Company. Landsvirkjun's owners were the Icelandic state (50 per cent.), Reykjavik (44.525 per cent.) and Akureyri (5.475 per cent.) until the end of the year 2006. In the year 2006, the Icelandic State bought the shares of Reykjavík and Akureyri. The change of ownership was announced on 1 January 2007.

Before 1965 Iceland had no inter-regional power supply or distribution network covering the whole of the country. The creation of the nationwide transmission network started in 1972. Landsvirkjun took over this task from the State Electric Power Works in 1983 to complete the main transmission line encircling the country. This work was completed in 1984.

Landsvirkjun produces, distributes and sells wholesale electricity to local public utilities and, under special agreements, to power-intensive industries, including the Icelandic Aluminium Company Ltd., a wholly-owned subsidiary of Alcan Inc, Icelandic Alloys Ltd., a company owned jointly by Elkem a/s (a leading Norwegian ferro-alloys producer) and Nordic Aluminium, a wholly owned subsidiary of Century Aluminium Corporation. Landsvirkjun's task is to promote greater utilization of Iceland's energy resources and ensure that electricity supply is always sufficient to meet demand.

The River Sog Power Stations, the Ellidaárdalur steam-power station and accompanying transmission systems, along with harnessing rights in the Thjórsá and Tungnaá river basin were part of the shareholders' original capital contribution to Landsvirkjun. Landsvirkjun has since constructed the six largest power stations in Iceland together with their reservoirs, and completed an integrated national grid. Landsvirkjun now produces 75 per cent. of all Iceland's electricity. It is financially independent and has been able to finance development of the power system with its own cash generation and borrowing.

Over the period 1995 – 1997, Landsvirkjun concluded new power sales agreements with three power intensive industrial users, which entailed a 50 per cent. increase in the Companies electricity production between 1996 and 2000. A sales agreement was concluded in 1999 and again in 2003 when Landsvirkjun finished a major expansion programme to meet this new demand.

In 2003 Landsvirkjun and Fjardaál, a subsidiary of Alcoa, entered into contracts on the supply of electricity for an aluminium plant in Reydarfjörður from the Kárahnjúkar Power Plant. The aluminium plant started in 2007 and has a production capacity of 322 thousand tons, powered by electricity from the Kárahnjúkar Power Plant, which was fully operational in 2008. The Kárahnjúkar Power Plant increased the total production capacity of Landsvirkjun by 60 per cent. from the current level.

## **Electricity Production, Procurement and Distribution**

At present Landsvirkjun has a total installed capacity of 1,895 MW. The Company operates twelve hydro-electric power plants with a total installed production capacity of 1,797 MW representing approximately 95 per cent. of the total capacity. In addition, the Company operates two geothermal power stations with an installed power capacity of 63 MW. Furthermore, the Company owns two oil-fired plants with a capacity of 35 MW, that are kept on a stand-by basis.

The Company is by far the dominant electricity producer in Iceland. In 2008 the Company produced 12,346 GWh which was approximately 75 per cent. of the electricity produced in the country as a whole. This constitutes a 87.66 per cent. increase in the Company's production from 2000.

## **Power Prices**

Restrictions were in effect during the years 1971 to 1982 regulating the electricity prices the Company could charge local utilities. Following the abolition of price controls in 1982, the Company has periodically increased its tariff rates. Currently, Landsvirkjun is selling electricity on a deregulated market in full competition. However, a large amount of its power contracts are long term contracts securing a substantial amount of the revenues over the contract period.

In 1965 the Company entered into a fixed price contract with the Icelandic Aluminium Company Ltd (ISAL) for the supply of electricity to its smelter on the southwestern coast of Iceland. The contract came into effect in 1969 when the smelter began operation and was amended in 1974 for the price of electricity to be partially linked to the market price of aluminium. In 1984 the contract was further amended for the price of electricity to be fully linked to the market price of aluminium, with a floor and ceiling on aluminium prices. In November of 1995 Landsvirkjun signed a contract with Icelandic Aluminium ("ISAL") concerning the sale of power to ISAL in connection with a 60,000 tons expansion of their smelter thus increasing its capacity to 162,000 tonnes per annum (t. pa.). From 2004 the new formula for the extension took effect for all purchases by the smelter and will as before fluctuate with the price of aluminium. In 2003, Landsvirkjun and ISAL, now Alcan in Iceland, signed a contract on incremental power available to Alcan. This contract enables Alcan in Iceland to take power to produce additional approximately 20,000 tons, making their production close to 180,000 tons of aluminium per year. The contract expires in 2014 with an option for extending it for a further ten years if the parties do not agree otherwise. For information purposes The Company and Alcan in Iceland have during years 2008 and 2009 been negotiating a new power contract for all the power delivery to ISAL in which a 24,000 tons expansion of the smelter. This new contract has not been fully negotiated but the aim is to extend the power delivery to ISAL to year 2038.

Landsvirkjun entered into a "take or pay" supply contract with the ferro-silicon plant, Icelandic Alloys Ltd., in 1976. The plant began operations in 1979. This contract was amended on 13 September 1984, to adopt a profit-sharing arrangement and expired on 1 April 1999. The new power contract that came into affect at the same time is a 20 year contract and was signed in January 1997. It provides for electricity prices to be adjusted every year on the basis of changes in wholesale and consumer prices in Norway. The new contract gave Icelandic Alloys the option of purchasing electricity for a third furnace at its plant in Grundartangi and in March 1997 the Company decided to exercise the option.

In August 1997 Landsvirkjun signed a "take or pay" power contract with Nordic Aluminium, now a wholly owned subsidiary of Century Aluminium Company, for a new 60,000 t.p.a. aluminium smelter at Grundartangi. The smelter came on stream in June 1998. In October 1999 a contract supplement was signed for a 30,000 t.p.a. expansion of the smelter. Power deliveries for the new potline came on stream in September 2001.

## **Electricity Transmission**

Landsnet was founded in accordance with the new Electricity Act set by Althingi in the spring of 2003. The law stipulates the following about Landsnet:

The role of Landsnet is to conduct power transmission and power system management in accordance with chapter III of the Electricity Act no. 65/2003. The company is not authorised to practise any other activity than those necessary to fulfil its duty in accordance with the Law. However, the company is allowed to establish and manage an electrical power market. Landsnet's board shall be independent from other companies who produce, distribute or sell power or further as stated in its Articles of Association.

Landsnet operates in specially licensed environment and therefore will be under the surveillance of the National Energy Authority (Orkustofnun). The National Energy Authority will assign a budget to Landsnet,

which will be reconsidered on a regular basis. Landsnet will publish a tariff, which enables the company to receive an income in accordance with the assigned budget.

The owners of Landsnet are Landsvirkjun (64,73%), RARIK (Iceland State Electricity – 24%), Orkureita Reykjavíkur (Reykjavík Energy – 6,78%) and Orkubú Vestfjarda (Westfjord Power Company – 5,98%) but these companies released all their transmission systems and equipment to Landsnet as equity. Reykjavík Energy and Suðurnes Regional Heating Corporation have decided to lease their transmission systems and equipment to Landsnet as required by the Electricity Act.

All distributors and power intensive consumers are connected to Landsnet's power transmission system. The transmission system includes all transmission structures and equipment for 66 kV and higher. A few 33 kV transmission systems are also included in the transmission system. All power plants larger than 7.0 MW shall be connected to the transmission system.

Electricity transmitted through the transmission grid reached a total of 15,938 GWh in 2008. Transmission losses amounted to 400 GWh, or 2.5% of the total transmitted power. Landsnet operated 72 substations, 61 outfeeds and 3,175 km of transmission lines in 2008, at voltages of 33 kV to 220 kV. Company success in operating and maintaining the transmission system is in part measured by participating in international bench marking. The latest results clearly indicate that Landsnet hf has achieved its goal of being one of the leading transmission firms in the world.

## **Operations**

### **Corporate Governance**

Companies create value by producing goods and providing services on demand. In this way their activities benefit their owners, employees and the community at large. Landsvirkjun's vision is to be at the forefront of progressive companies where operations are conducted in a responsible manner under the banners of sustainability and sound environmental policy. Responsible operation must be grounded in a comprehensive vision, long-term interests and sensitivity to different perspectives.

### **Quality management**

Landsvirkjun is certified according to the ISO 9001 quality standard, the ISO 14001 environmental management standard and OHSAS (Occupational Health and Safety Assessment Series) standard for health and safety Assessment. In addition action is being taken to attain certification according to the ISO 27001 standard on information security. In recent years, internal work at Landsvirkjun has been carried out with regard to targeted policy formulation, recorded work procedures and good work practices. Working towards these goals makes Landsvirkjun more flexible and better prepared to address the company's future challenges and growth targets.

Landsvirkjun received the 2007 Icelandic Quality Award, an annual award presented by the Icelandic Quality Management Association, the Office of the Prime Minister, the University of Iceland and the Reykjavík Commercial Workers Union, for excellence in systematic work practices based on quality management.

The Awards Committee for the Quality Award describes Landsvirkjun as an energetic and objective knowledge-based company that compares favourably with overseas companies of same size and type. Information systems are used in an efficient and practical manner, which lends effective support to objectives and work procedures, and is a good example of information utilisation for other companies. The company's executives and directors have a clear vision, which is moulded in a highly systematic and efficient manner, with the active participation of personnel. Company strategy is presented and implemented in every department, and the needs of clients and community are paramount. The company is actively involved in social projects in a positive and constructive manner.

This was a great achievement for our staff, as this is one of the most sought-after awards available to Icelandic companies and institutions. The award is presented in recognition of tangible management results, and is an encouragement to Companies to set clear objectives and regularly monitor progress. The Iceland Quality Award is based on the EFQM<sup>1</sup> model "The Fundamental Concepts of Excellence".

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<sup>1</sup>The European Foundation For Quality Management (EFQM) is a membership based not for profit organisation, created in 1988 by fourteen leading European businesses, with a mission to be the driving force for sustainable excellence in Europe and a vision of a world in which European organisations excel.

## **Human resources**

Landsvirkjun has a clear focus on modern human resource management, emphasising knowledge management, a family-oriented working environment, equal rights, promotion of health and opportunities for career advancement. Employees are polled regularly, and the results are used to improve morale and working conditions. It is worth noting that job satisfaction at Landsvirkjun ranks among the best of the 60 Icelandic companies polled by Gallup.

## **Community**

In recent years Landsvirkjun has been focusing its efforts on various community issues. Underlying these efforts is the perception that it is reasonable for the Company to pay attention to the context in which its activities are conducted and to accept responsibility for the environment in keeping with its role and position at any time.

Landsvirkjun is a pioneer in the development of the Icelandic highlands and has opened access to the interior of Iceland by improving lines of communication. Also, the activities of the Company are spread across the country and they represent an important element at the core of many small communities. In many of these places, tourist services represent the principal potential for growth. The Company has emphasised co-operation on the creation of an infrastructure for outdoor activities and tourism and on developing the Landsvirkjun facilities into points of investment for travellers.

Numerous measures were taken to enable the general public to observe the progress in the construction of the Kárahnjúkar Power Project. An information centre has been set up at the Végardur Community Centre in Fljótisdalur, signposts have been put up, scenic viewing points have been identified and made accessible and a tourist map of the area published. A competition was held among film makers for the production of a series of documentaries on the Kárahnjúkar Power Project. Two films will be aired annually on television during the development period depicting the progress of the work and discussing various aspects of this major undertaking and related community issues.

## **Communication**

Landsvirkjun has placed strong emphasis on publicising the preparations for and construction of Kárahnjúkar Power Plant. The project website, [www.karahnjukar.is](http://www.karahnjukar.is), reports regularly on progress of the principal aspects of the construction. At the Végardur community centre in Fljótisdalur valley, Landsvirkjun maintains a Visitor Centre, which around 13,500 people came to visit last year. More people still are likely to have made use of Landsvirkjun's new road connection across the highland expanses to Kárahnjúkar in order to observe the dam construction site and at the same time to acquaint themselves with the spectacular mountain views and nature on the highland plain north of Vatnajökull glacier.

## **Insurance**

In addition to the compulsory insurance on real estate, since 1985 Landsvirkjun has had an all-risk insurance policy with leading international insurance groups for its power stations, dams and waterways. The transmission lines are insured through the Icelandic Catastrophe Insurance Fund. The electric power contracts all have "force majeure" clauses which permit the Company to interrupt power supplies, under certain circumstances, without penalty.

## SUMMARY OF THE GUARANTEE

The Notes are issued under a guarantee of collection (the “Guarantee”) provided by the Republic of Iceland and Eignarhlutir ehf., a wholly owned subsidiary of the Republic of Iceland, being the owners (the “Owners”) of the Issuer. The State Treasury owns a 99.9 per cent. share in the Issuer, while Eignarhlutir ehf. owns 0.1 per cent. The Act of the Icelandic Parliament No. 42, dated 23 March 1983 (the “Act”) on the Issuer and the partnership agreement (the “Partnership Agreement”) among the Owners provide that the Owners are liable, jointly and severally, as guarantors of collection for the obligations of the Issuer, including, but not limited to borrowings. The division of liability among the owners shall be in proportion to their respective shares of ownership. Under the Act, the consent of the Owners is required for any new obligations incurred within any year in excess of 5 per cent. of the net worth of the Issuer as of the end of the previous year. The consent of the Owners has been obtained in respect of the establishment of, the increase in size of, and the issue of Notes under, the Programme. However, the borrowings of the Issuer must always remain within the scope permitted by the Budget Act or other Icelandic law relating to borrowings by entities enjoying the benefit of state guarantees.

The concept of a guarantee of collection is a matter of Icelandic common law and is also a common concept in the Scandinavian and Germanic countries. In Denmark, the guarantee of collection is known as “*simpel kaution*” while in Germany and in Switzerland, it is the “*Bürgschaft*”. The guarantee of collection is explicitly provided for in the Act and is irrevocable. However, the guarantee of collection is not an unconditional guarantee.

The Issuer has obtained opinions from external Icelandic counsel, which describe the obligations of the Owners with respect to the obligations of the Issuer. The following is a summary of these opinions as they pertain to the guarantee of collection.

The feature distinguishing the collection guarantee from the unconditional guarantee is in its execution, i.e., that in the case of default, the creditor must first proceed against the debtor to establish that (i) a due date has occurred without payment by the debtor, and (ii) the debtor is unable to pay the obligation due.

Among the judicial remedies conventionally available for proof of inability to pay, mention should be made of the preliminary attachment proceeding and the execution proceeding based on a preceding judgment. A proceeding of either kind showing the debtor to be without assets for satisfaction of the debt should suffice to activate the guarantee. In the case of bankruptcy proceedings, there is some question whether the guarantee of collection can be invoked immediately upon the commencement of such proceedings, or whether the outcome of such proceedings must be awaited to determine if there will be partial satisfaction of the debt.

Notwithstanding the above, the Guarantee will constitute general obligations of the Owners ranking *pari passu* with all other unsecured general obligations of the Owners. The Guarantee of the Owners derives from the Act and is such that each creditor will be entitled to proceed against any one of the Owners for the full amount of his outstanding claim. The creditor is not restricted to claiming only a *pro rata* share from each Owner. Accordingly, creditors may look to the Republic of Iceland, as Owner, as sole guarantor of the obligations of the Issuer within the context of the Guarantee.

Under Icelandic law, none of the Owners is entitled to any right of immunity from judicial proceedings, from attachment or from execution on a judgment, on the grounds of sovereignty or otherwise, in respect of their obligations as guarantors of collection pursuant to the Act, except that certain assets of the Owners which are necessary for their proper functioning as a sovereign power or as a municipality, are exempt from attachment and execution.

In 1990, the Central Bank of Iceland issued an opinion describing the guarantees of the Republic of Iceland. In this opinion, the Central Bank notes:-

“...The above general rules apply in the case of institutions with a guarantee of collection of the Republic of Iceland. However, the nature and standing of the guarantor tends to make a detailed discussion of the concept somewhat academic, as the Republic of Iceland has a very major interest in seeing that a guaranteed debtor’s obligations are promptly met when due .... In the case of a guarantee of collection the guarantor is liable for all costs incurred by the creditor in his pursuit to claim payments, including default interest, from the due date to the date of actual payment....”.

Due to the joint ownership ended 31 December 2006, Notes issued prior to 1 January 2007 continue to have the benefit of a guarantee of collection provided by the Republic of Iceland, the City of Reykjavik and the Town of Akureyri.

Notes issued after 1 January 2007 are issued under a guarantee of collection provided by the Republic of Iceland.



## DESCRIPTION OF THE GUARANTORS

### Geography and Population

Iceland is one of the Nordic countries, located in the North Atlantic between Norway, Scotland and Greenland. Iceland is the second largest island in Europe and the third largest in the Atlantic Ocean with a land area of some 103,000 square kilometres (39,768 square miles) and an exclusive 200 nautical mile economic zone of 758,000 square kilometres (292,680 square miles) in the surrounding waters. Because of the Gulf Stream, Iceland enjoys a warmer climate than its northerly location would indicate. Being of volcanic origin, Iceland consists of coastal lowlands and a mountainous interior with several glaciers, the highest of which is 2,119 metres (6,952 feet) high. Estimations indicate that 20 per cent. of the land is suitable for agriculture and the raising of livestock. Most of the arable land is situated along the coast and most of the population lives in the coastal regions. The coasts are rocky and of irregular outline, with numerous fjords and inlets, except for the south where there are sandy beaches with no natural harbours.

The population of Iceland is approximately 319 thousand at the end of 2008, which makes it one of the least densely populated countries in Europe with around 0.4 inhabitants per square kilometre (1.1 inhabitants per square mile). Between 1950 and 1965, the average annual rate of population growth was approximately 2 per cent. and then it declined gradually to about 0.9 per cent. in the period 1975 to 1980, but has risen again in recent years to about 1.1 per cent. Approximately 37 per cent. of the population lives in the capital city of Reykjavik and 63 per cent. in Reykjavik and its surrounding towns. Approximately 88 per cent. of the population lives in communities with a population in excess of 1,000 inhabitants. The largest towns are Kopavogur (30,000 inhabitants) and Hafnarfjörður (26,000), both neighbouring municipalities of Reykjavik, and Akureyri (18,000) in the north.

Iceland was first settled late in the 9th century. The majority of the settlers were undoubtedly of Scandinavian origin, but it is generally assumed that a certain element of the early settlers were of Celtic origin. In 930, a general legislative and judicial assembly, the Althing, was established, and a uniform code of laws for the entire country was adopted. In 1262, Iceland entered a treaty which established a union with the Norwegian monarchy. When Norway came under the rule of Denmark in 1380, Iceland became a Danish dominion. Iceland was granted limited home rule in 1874, which was extended in 1904. With the Act of Union in 1918, Iceland became an autonomous state in monarchical union with Denmark. In 1944 Iceland terminated its union with Denmark and became an independent republic.

The native language is Icelandic, which belongs to the Nordic group of the Germanic languages. The standard of education is high, and public education is compulsory between the ages of six to sixteen. Command of English and the Scandinavian languages is widespread.

### Constitution, Government and Political Parties

Iceland has a parliamentary system of government. Legislative power is vested in the Althing, a legislature consisting of 63 members, elected from eight constituencies on the basis of proportional representation for a term of four years. A parliamentary bill becomes a law if it is passed by the Althing and then signed by the President. The Prime Minister and the other Ministers exercise the executive power and constitute the Government which must be supported by a majority of the members of the Althing in order to remain in power. The President is the head of state and is elected for a term of four years by a direct vote of the electorate. The President of Iceland is Mr Olafur Ragnar Grimsson, elected in 1996 and re-elected in 2000, 2004 and 2008.

The constitution of Iceland was adopted on 17 June 1944, when the Republic was established. Iceland has a long tradition of political stability. Since gaining autonomy from Denmark in 1918, Governments have normally been formed by a coalition of two or more political parties. After a general election in April 2009, a centre-left coalition government of the Social Democrats and the Left Green Party was formed with Ms. Jóhanna Sigurðardóttir, chairman of the Social Democrats, as Prime Minister. The next general election will be held in April 2013.

### Membership of International Organisations and Foreign Policy

Iceland became a member of the United Nations in 1946 and is an active participant in most of its affiliated agencies. Iceland was a founding member of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank), both established in 1945. Iceland is a founding member of the European Bank for Reconstruction and Development which was established in 1990. Iceland is one of the original members of the Organisation of European Economic Cooperation which later

became the Organisation for Economic Cooperation and Development (OECD). It joined the Council of Europe in 1950 and has participated in the Conference on Security and Cooperation in Europe (CSCE) since it was initiated in Europe in 1975. Iceland became a contracting party to the General Agreement on Tariffs and Trade (GATT) in 1964, and joined the European Free Trade Association (EFTA) in 1970. Iceland entered into a free-trade agreement with the European Community (EC) in 1972. In May 1992, a wide-ranging Agreement on a European Economic Area was signed by the EFTA States and the Member States of the EC. By its entering into force, on 1st January, 1994, the EFTA States (apart from Switzerland) became participants in the Internal Market of the EU. Iceland ratified the agreement establishing the World Trade Organisation (WTO) on 28 December 1994, and thus became a founding member of the WTO.

Iceland has close ties with the other Nordic countries and is a member of the Nordic Council and the Nordic Investment Bank (NIB). The Nordic nations have established a wide-ranging cooperation in a variety of fields, including economic affairs and international representation.

Iceland is a founding member of the North Atlantic Treaty Organisation (NATO) which was established in 1949. Since 1951, when Iceland concluded a defence treaty with the United States, a NATO military base staffed by United States military personnel has been operated at Keflavik in the south-west of Iceland. In 1992, Iceland became an associate member of the Western European Union (WEU).

### **The Economy**

The Icelandic economy is primarily based on the use of renewable natural resources, the most important of which are the coastal fishing banks, hydro-electric and geothermal power and the grasslands which support the livestock industry. Although the economy has traditionally been based on fisheries and agriculture, it has, in the last decades, diversified into manufacturing, processing and service industries, while at the same time diversifying its marine sector. While the size of the economy is small in absolute terms, the per capita GDP of approximately U.S.\$52,088 is very high in international standards and the total economic growth in 2008 is estimated to be -2,2 per cent.

The estimated contribution of the various economic sectors to the total GDP in 2008 was approximately 6.1 per cent. by agriculture, hunting, forestry and fishing, 16,4 per cent. by industry, including energy, 10,6 per cent. by construction, 19,4 per cent. by wholesale and retail trade, hotels and restaurants, transport and communication, 26,6 per cent. by financial, real-estate, renting and business activities and 20,9 per cent. by other service activities .

## Treasury Revenue

Million krónur, year-end values	Estimate												
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Gross debt</b>	<b>241 566</b>	<b>237 764</b>	<b>225 968</b>	<b>228 530</b>	<b>298 314</b>	<b>281 108</b>	<b>277 186</b>	<b>252 989</b>	<b>196 146</b>	<b>292 528</b>	<b>311 011</b>	<b>932 100</b>	<b>1485 100</b>
Treasury bonds	84 424	82 865	82 618	68 898	64 243	50 818	47 402	37 910	26 063	17 664	17 410	20 300	23 000
Treasury notes	11 258	15 846	11 018	11 430	19 588	32 482	41 074	55 400	67 047	89 829	94 987	216 000	290 200
Treasury bills	12 296	15 209	9 899	5 970	12 003	12 004	20 504	14 504	14 004	6 254	13 550	73 600	45 000
Other domestic liabilities	6 960	6 526	4 297	2 907	4 191	3 799	3 977	3 888	3 624	3 604	30 713	34 400	37 500
Foreign debt	126 628	117 318	118 136	139 325	173 638	160 363	142 477	126 466	85 408	80 567	63 151	96 200	101 900
Borrowing to strengthen foreign exchange reserves	-	-	-	-	24 651	21 642	21 752	14 822	-	94 610	91 200	221 600	227 500
Loans from the Nordic countries and other countries	-	-	-	-	-	-	-	-	-	-	-	-	338 900
Recapitalization of CBI	-	-	-	-	-	-	-	-	-	-	-	270 000	307 300
Loan for recapitalization of commercial banks <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	-	113 800
<b>Total claims</b>	<b>69 309</b>	<b>86 496</b>	<b>107 160</b>	<b>101 172</b>	<b>129 562</b>	<b>130 267</b>	<b>118 024</b>	<b>97 019</b>	<b>136 485</b>	<b>242 715</b>	<b>253 656</b>	<b>551 100</b>	<b>610 200</b>
Long term credit	65 278	64 739	69 347	70 919	93 049	79 539	76 381	51 633	71 496	169 678	174 441	471 600	536 900
Indexed to domestic prices	52 885	53 215	57 699	59 262	63 517	59 409	59 409	47 698	69 959	73 614	81 845	79 700	85 200
In foreign currency	12 393	11 524	11 648	11 657	13 532	8 630	5 472	3 935	1 537	1 454	1 396	2 200	2 100
For the foreign exchange reserves of the Central Bank <sup>2</sup>	-	-	-	-	16 000	11 500	11 500	-	-	94 610	91 200	214 000	-
Loans from the Nordic countries and other countries	-	-	-	-	-	-	-	-	-	-	-	-	338 900
Securities lending taken over <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-	175 700	110 700
Short-term claims <sup>3</sup>	4 031	21 757	37 813	30 253	36 513	50 728	41 643	45 386	64 989	73 037	79 215	79 500	73 300
<b>Cash at hand <sup>4</sup>, net</b>	<b>4 553</b>	<b>13 044</b>	<b>15 354</b>	<b>16 830</b>	<b>18 046</b>	<b>16 468</b>	<b>16 848</b>	<b>24 384</b>	<b>50 814</b>	<b>92 384</b>	<b>104 299</b>	<b>186 300</b>	<b>86 300</b>
<b>Shares and other equity <sup>2,5</sup></b>	<b>66 844</b>	<b>66 340</b>	<b>68 394</b>	<b>74 657</b>	<b>92 778</b>	<b>93 323</b>	<b>90 825</b>	<b>94 607</b>	<b>87 423</b>	<b>102 671</b>	<b>191 880</b>	<b>194 900</b>	<b>580 800</b>
<b>Net debt</b>	<b>172 257</b>	<b>151 268</b>	<b>118 808</b>	<b>127 358</b>	<b>168 752</b>	<b>150 841</b>	<b>159 162</b>	<b>155 970</b>	<b>59 661</b>	<b>49 813</b>	<b>57 355</b>	<b>381 000</b>	<b>874 900</b>
Claims as a percentage of debt	28.7	36.4	47.4	44.3	43.4	46.3	42.6	38.3	69.6	83.0	81.6	59.1	41.1
<b>Net financial position (based on narrow financial assets) <sup>6</sup></b>	<b>-167 704</b>	<b>-138 224</b>	<b>-103 454</b>	<b>-110 528</b>	<b>-150 706</b>	<b>-134 373</b>	<b>-142 314</b>	<b>-131 586</b>	<b>-8 847</b>	<b>42 571</b>	<b>46 944</b>	<b>-194 700</b>	<b>-788 600</b>
<b>Net financial position (based on broad financial assets) <sup>6</sup></b>	<b>-100 860</b>	<b>-71 884</b>	<b>-35 060</b>	<b>-35 871</b>	<b>-57 928</b>	<b>-41 050</b>	<b>-51 489</b>	<b>-36 979</b>	<b>78 576</b>	<b>145 242</b>	<b>238 824</b>	<b>200</b>	<b>-207 800</b>
<b>Percentage of GDP <sup>7</sup></b>													
<b>Gross debt</b>	<b>45.8</b>	<b>40.2</b>	<b>35.7</b>	<b>31.8</b>	<b>37.0</b>	<b>35.5</b>	<b>32.8</b>	<b>28.1</b>	<b>19.2</b>	<b>23.9</b>	<b>23.4</b>	<b>55.3</b>	<b>102.9</b>
of which: foreign debt	24.2	19.9	19.1	19.0	24.5	23.5	19.5	16.3	8.6	14.1	11.7	16.7	45.4
<b>Total claims</b>	<b>12.3</b>	<b>10.9</b>	<b>10.7</b>	<b>10.1</b>	<b>11.5</b>	<b>9.8</b>	<b>9.0</b>	<b>5.5</b>	<b>6.8</b>	<b>13.9</b>	<b>13.1</b>	<b>27.4</b>	<b>37.0</b>
of which: In foreign currency	2.4	2.0	1.9	1.6	3.7	2.6	2.0	0.5	0.2	7.7	7.0	11.4	23.2
<b>Short term credit, net <sup>3</sup></b>	<b>0.8</b>	<b>3.7</b>	<b>5.8</b>	<b>4.4</b>	<b>4.5</b>	<b>6.2</b>	<b>4.9</b>	<b>4.8</b>	<b>6.2</b>	<b>6.1</b>	<b>5.9</b>	<b>5.0</b>	<b>5.2</b>
<b>Net debt</b>	<b>32.7</b>	<b>25.6</b>	<b>19.1</b>	<b>17.4</b>	<b>20.9</b>	<b>19.5</b>	<b>18.9</b>	<b>17.8</b>	<b>6.2</b>	<b>3.9</b>	<b>4.4</b>	<b>22.9</b>	<b>60.8</b>
<b>Assets</b>	<b>26.6</b>	<b>28.1</b>	<b>29.7</b>	<b>27.8</b>	<b>30.3</b>	<b>29.4</b>	<b>26.7</b>	<b>23.0</b>	<b>26.4</b>	<b>36.5</b>	<b>41.5</b>	<b>57.4</b>	<b>89.5</b>
<b>Net financial position <sup>6</sup></b>	<b>-31.9</b>	<b>-23.4</b>	<b>-16.8</b>	<b>-15.0</b>	<b>-18.6</b>	<b>-17.5</b>	<b>-16.9</b>	<b>-15.2</b>	<b>-1.3</b>	<b>3.8</b>	<b>3.4</b>	<b>-11.2</b>	<b>-54.7</b>
<b>Net financial position based on broad financial assets <sup>6</sup></b>	<b>-19.2</b>	<b>-12.1</b>	<b>-6.0</b>	<b>-4.0</b>	<b>-6.6</b>	<b>-6.1</b>	<b>-6.1</b>	<b>-5.0</b>	<b>7.2</b>	<b>12.6</b>	<b>18.2</b>	<b>2.1</b>	<b>-13.4</b>

Note: At this stage, debt commitments arising from Icesave accounts are not included in Treasury debt. It has been estimated that, after assets of the bankrupt bank have been sold, 73 bn. krónur will have to be paid by the Treasury. Loans from IMF and Norway are to the Central Bank and are therefore not included here.

- Including accumulated and unpaid interest of the Treasury.
- The Treasury intends to finance a 385 bn. kr. equity contribution to the new banks with 65 bn. in market securities taken over by the Treasury and through the purchase of market securities from the Central Bank amounting to 320 bn. kr. This amount is being paid for by a takeover by the Central Bank of a loan from the Treasury to strengthen the foreign exchange reserves and with issuance of new Treasury paper.
- Includes tax receivables, other short-term claims net of short-term liabilities.
- Deposits of the Treasury and A-budget entities with the Central Bank and other deposit institutions plus deposits in foreign deposit institutions and Treasury foreign exchange deposits.
- Shares and other equity comprise assets in companies, agencies, partnerships and corporations, and capital contributions to international institutions.
- Defined as either narrow or broad financial assets net of total debt (narrow: total claims, cash at hand; broad: narrow + shares and other equity).
- Calculated at average values of each year with the consumer price index and the average exchange rate except the item shares and other equity.

Published on the Ministry of Finance website on May 12, 2009 as an appendix table to The Icelandic Economy – Spring 2009.

## EIGNARHLUTIR EHF

Eignarhlutir ehf., a private limited liability company, was established on 7 November 2006. The purpose of the company is to hold ownership and management of shares and parts in companies owned by the Republic of Iceland that Eignarhlutir has been consigned. Assignment or transfer of the ownership is unsanctioned to any third party unless agreed on by the Minister of Finance and with legal authority where applicable. The State Treasury owns 100% of Eignarhlutir ehf.

Eignarhlutir ehf. owns 0.1% part in Landsvirkjun, which is a partnership company, in order to maintain its legal form as such company. Eignarhlutir is managed in accordance with the Icelandic Act on Private Limited Liability Companies and its By-laws, dated 7 November 2006.

The paid in capital for Eignarhlutir ehf. is ISK 500,000, comprising 500,000 ordinary shares of ISK 1,000 each, all of which are fully paid up and the address is Eignarhlutir ehf., Arnarhvoli við Lindargötu, 150 Reykjavík, Iceland.

Eignarhlutir ehf. has no subsidiaries.

## TAXATION

### Iceland

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of Notes, Receipts and Coupons. They may not apply to certain classes of person such as dealers. Prospective holders of Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

1. There are no taxes or other governmental charges payable under the laws of Iceland or any authority of, or in Iceland in respect of payments of principal or interest on Notes by a holder who is not a resident of Iceland.
2. There are no estate or inheritance taxes, succession duties, gift taxes or capital gains taxes imposed by Iceland or any authority of or in Iceland in respect of Notes if, at the time of the death of the holder of the transfer of the Notes, such holder or transferor is not a resident of Iceland.
3. The Issuer is not required by the current laws of Iceland to make any deductions or withholding from any payment of principal or interest on any Notes.
4. No Icelandic issue tax or stamp duty will be payable in connection with the issue of any Notes.

### EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

### Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

### Withholding Tax

#### (i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the "Laws") mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "Territories"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying

agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied , at a rate of 20 per cent. and will be levied at a rate of 35 per cent. as of 1 July 2011 as of 1 July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

**(ii) Resident holders of Notes**

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the “Law”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

## SUBSCRIPTION AND SALE

The Dealers have in a programme agreement, originally dated 19 May 1998 (as modified and/or amended and/or supplemented and/or restated from time to time and as most recently amended and restated on 30 May 2008) (the “Programme Agreement”) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes”, “Form of Final Terms” and “Terms and Conditions of the Notes” above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part as determined and certified by the Agent to such Dealer(s), within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells Notes during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of any Series of, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each issue of Indexed Notes and Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer shall agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms. Each relevant Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

### United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (FSMA) by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue of any Notes in circumstances in which section 21 does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **The Netherlands**

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than €50,000 will only be offered in The Netherlands to professional market parties as defined in the Financial Supervision Act and the decrees issued pursuant thereto.

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 14 March 1998. The increases in size of the Programme were duly authorised by resolutions of the Board of Directors of the Issuer dated 5 May 2000, 10 March 2004 and 4 March 2008.

The consent of the Owners has been obtained in respect of the establishment of, the issue of Notes under and the increase in size of, the Programme. However, the borrowings of the Issuer must always remain within the scope permitted by the Budget Act or other Icelandic law relating to borrowings by entities enjoying the benefit of state guarantees.

### Listing of Notes on the Luxembourg Stock Exchange

Application has been made to the Luxembourg Stock Exchange to approve this document as a simplified prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange has allocated to the Programme No. 12054 for listing purposes.

### Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified offices of the Paying Agents (free of charge) for the time being in London and Luxembourg:

- (i) the constitutional documents (with an English translation thereof) of the Issuer and of Eignarhlutir;
- (ii) the consolidated and non-consolidated audited financial statements of the Issuer in respect of the financial years ended 2007 and 2008 (with an English translation thereof);
- (iii) the most recently published consolidated and non-consolidated audited annual financial statements of the Issuer and the most recently published semi-annual consolidated and non-consolidated interim financial statements of the Issuer and the most recently published semi-annual non-consolidated interim financial statements of Eignarhlutir (in each case with an English translation thereof (Eignarhlutir does not produce consolidated financial statements));
- (iv) the Programme Agreement, the Agency Agreement, the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Notes, the Receipts and the Coupons, the Talons and the Deed of Covenant;
- (v) a copy of this Prospectus (also available from the Luxembourg Stock Exchange website ([www.bourse.lu](http://www.bourse.lu)));
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note not admitted to trading on a regulated market in the European Economic Area will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to its holding and identity) to this Prospectus and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.



**Material Change**

There has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2008.

**Litigation**

Neither the Issuer nor the Guarantors are involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or either of the Guarantors is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Guarantors.

**Auditors**

The auditors of the Issuer are KPMG hf. State Authorised Public Accountants in Iceland who audited the Issuer's financial statements, on behalf of the Icelandic National Audit office who is bounded by law responsible for the audit of enterprises under ownership of the State. The audit was conducted in accordance with International Standards on Auditing and based on the auditors' audit, an opinion without qualification has been given on the financial statements for the financial periods ending 31 December 2007 and 2008.

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