Financial Statements 2007

Landsnet hf.
Gylfaflöt 9
112 Reykjavík

Reg no. 580804-2410

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Endorsement by the Board of Directors and the Managing Director

General

Landsnet hf. was established in August 2004 on the basis of the Electricity Act that the Icelandic congress, Althingi, passed in the spring 2003. The objective of Landsnet is to administer the transmission of electricity and system management according to provisions found in chapter III in the Electricity Act no. 65/2003.

Results of the year 2007

According to the income statement, loss for the period amounted to 798 million ISK. According to the balance sheet, equity at the year end amounted to ISK 4,987 million including share capital in the amount of ISK 5,903 million. Regarding other changes in equity is referred to the statement of changes in equity.

Share capital and articles of association

During the year, share capital was increased by ISK 400 million. Registered share capital at year end amounted to ISK 5,903 million and the number of shareholders was increased by one during the year.

Share capital at year end is owned by four shareholders. They are:

	Share
Landsvirkjun	64,73%
Rafmagnsveitur rikisins ohf	22,51%
Orkuveita Reykjavikur	6,78%
Orkubu Vestfjarða hf	5,98%

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the company's first IFRS financial statements. IFRS 1 First-time adoption of International Financial Reporting Standards has been applied.

Statement of the Board of Directors and the Managing Director

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

According to our best knowledge it is our opinion that the financial statements give a true and fair view of the financial performance of the Company during the year 2007, assets, debt and the Company's financial position as at 31 December 2007 and changes in cash during the year 2007.

At the same time, it is our opinion that the financial statements and the endorsement by the Board of Directors and the Managing Directors shows a clear overview of the developement and success of the Company's financial performance, its position and describes the primary risk- and uncertainty factors that the Company faces.

The Board of Directors and the Managing Director of Landsnet hf. hereby confirm the financial statements for the year 2007 with their signatures.

Reykjavík, February 26, 2008.

Board of Directors:
Páll Harðarson
Auður Finnbogadóttir
Kristján Jónsson

Managing Director:
Þórður Guðmundsson

Independent Auditor's Report

To the Board of Directors and Shareholders of Landsnet hf.

We have audited the accompanying financial statements of Landsnet hf., which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Landsnet hf. as at December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, February 26 2008.

KPMG hf.
Matthías Þór Óskarsson

Income Statement
for the year ended 31 December 2007

	Note	2007	2006
Operating revenue:			
Transmission	6	6.880.030	5.577.720
Other income	7	83.179	834.490
		6.963.208	6.412.210
Operating expenses:			
Energy production costs		1.313.717	910.030
Transmission costs		2.150.113	2.006.788
System management		560.682	542.070
Other operating expenses		662.525	625.394
		4.687.037	4.084.282
Operating profit		2.276.171	2.327.928
Financial income		46.055	28.072
Financial expenses		(3.295.931)	(2.566.737)
Net financial expenses	10	(3.249.876)	(2.538.665)
Loss before income tax		(973.705)	(210.737)
Income tax	11	175.252	39.446
Loss for the year		(798.452)	(171.291)
Loss per share:			
Loss per share of ISK 1	19	(0,14)	(0,03)
Basic loss - diluted loss per share of ISK 1	19	(0,14)	(0,03)

Notes 1 to 30 are an integral part of these financial statements

Amounts in ISK thousand

Balance Sheet as at 31 December 2007

Assets

	Note	2007	2006
Assets			
Fixed assets in operation	12	44.236.105	30.319.400
Projects under construction	12	1.506.006	9.833.104
Intangible assets	12	551.603	215.731
Shares in other companies	13	41.595	32.000
Deferred tax asset	14	229.363	54.110
Fixed assets		46.564.672	40.454.345
Inventories	15	302.331	328.216
Derivatives		369.732	0
Receivable from related companies		354.589	0
Accounts receivable and other receivables	16	725.283	748.501
Cash and bank deposits	17	984.259	307.813
Current assets		2.736.194	1.384.530
Total assets		49.300.866	41.838.875
Equity			
Share capital	18	5.902.733	5.502.733
Retained earnings		(916.179)	(117.726)
Equity		4.986.554	5.385.006
Liabilities			
Long-term loans from related companies	20	29.915.095	34.210.115
Loans and borrowings	20	3.238.789	0
Derivatives		215.108	0
Other obligations	21	447.154	420.441
Long-term liabilities and obligations		33.816.147	34.630.556
Loans from related companies		6.034.415	934.791
Derivatives		150.539	0
Accounts payable and other payables	23	4.313.212	888.522
Short-term liabilities		10.498.166	1.823.313
Total liabilities		44.314.313	36.453.869
Total equity and liabilities		49.300.866	41.838.875

Notes 1 to 30 are an integral part of these financial statements

Amounts in ISK thousand

Statement of Changes in Equity
for the year ended 31 December 2007

	Share Capital	Legal reserve	Retained earnings	Total
Changes in equity 1 January - 31 December 2006:				
Equity 31 December 2005	5.502.733	12.037	108.331	5.623.101
Effects of IFRS..			(66.804)	(66.804)
Equity 1 January 2006, IFRS.......................................	5.502.733	12.037	41.527	5.556.297
Loss for the year...			(171.291)	(171.291)
Legal reserve set off against loss..................................		(12.037)	12.037	0
Equity 31 December 2006, IFRS.................................	5.502.733	0	(117.727)	5.385.006
Changes in Equity 1 January - 31 December 2007:				
Equity 31 December 2006	5.502.733	0	(53.112)	5.449.621
Effects of IFRS..			(64.615)	(64.615)
Equity 1 January 2007, IFRS.......................................	5.502.733	0	(117.727)	5.385.006
Loss for the period..			(798.452)	(798.452)
Paid in Share Capital...	400.000			400.000
Equity 31 December 2007, IFRS.................................	5.902.733	0	(916.179)	4.986.554

Notes 1 to 30 are an integral part of these financial statements

Financial Statements of Landsnet hf. 2007 7 Amounts in ISK thousand

Statement of Cash Flows
for the year ended 31 December 2007

	Note	2007	2006
Cash flow from operating activities:			
Cash received from customers		6.502.694	5.452.477
Cash expenses		(3.369.208)	(2.856.087)
From operations excluding interest		3.133.486	2.596.390
Interest income received		32.280	28.072
Interest expenses paid		(1.084.696)	(217.789)
Net cash from operating activities		2.081.069	2.406.673
Cash flow from investing activities:			
Investments in substations	12	(5.996.104)	(6.909.159)
Fixed assets sold	12	4.345	1.275.015
Other investments	12	(741.017)	(976.074)
Investments in equity securities		(15.000)	0
Change in unpaid construction costs		57.175	(270.465)
Net cash from investment activities		(6.690.601)	(6.880.683)
Cash flows from financing activities:			
Change in loans from related companies		(1.068.290)	4.632.208
Proceeds from long-term loans		3.033.654	0
Proceeds from short-term loans due to construction		3.320.614	0
Net cash from financing activities		5.285.978	4.632.208
Net increase in cash		676.446	158.198
Cash at 1 January		307.813	149.615
Cash at 31 December		984.259	307.813

Investing- and financing activities not affecting cash:

		2007	2006
Investment in substations		(400.000)	0
Paid in share capital		400.000	0

Notes 1 to 30 are an integral part of these financial statements

Amounts in ISK thousand

Notes to the financial statements

Notes to the Financial Statements

1. Reporting entity

Landsnet hf. has its headquarters in Iceland and is domiciled at Gylfaflöt 9 in Reykjavik, Iceland. The Company is a subsidiary of Landsvirkjun. Landsnet hf. was established in the year 2004 on the basis of the Electricity Act that the Icelandic congress, Althingi, passed in the spring 2003. The objective of Landsnet is to administer the transmission of electricity and system management according to provisions found in chapter III in the Electricity Act no. 65/2003 and is unauthorized to engage in activities other than are neccessary to carry out its duties.

2. Basis of preparation

a. ***Statement of compliance***

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

The financial statements were approved by the Board of Directors on 26 February 2008.

These are the Company's first IFRS financial statements. IFRS 1 First-time adoption of International Financial Reporting Standards has been applied.

The preparation of the financial statements according to International Financial Reporting Standards leads to changes in accounting policies that were used in the preparation of the last annual financial statements of the Company, but they were prepared according to IS GAAP. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They have furthermore been applied in the preparation of the Company's IFRS opening balance sheet. An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Company is provided in note 30. This note includes reconciliations of equity and profit or loss for comparative periods reported under IS GAAP (previous GAAP) to those reported for those periods under IFRSs.

b. ***Basis of measurement***

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and financial instruments at fair value through profit or loss are measured at fair value through profit or loss. The methods to measure fair value are discussed further in note 4.

c. ***Functional and presentational currency***

These financial statements are presented in ISK, which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand.

d. ***Use of estimates and judgements***

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

d. ***Use of estimates and judgements (continued)***

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 3d - Intangible assets
- Note 3m (i) - Estimation of provision due to site restoration
- Note 14 - Income tax

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They have furthermore been applied in the preparation of the Company's IFRS opening balance sheet.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

a. ***Foreign currency***

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

b. ***Financial Instruments***

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial asset and liability is recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Loans and receivables are recognised on the date that they are originated. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(p).

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company's manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

(ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if:

(a) economic characteristics and risks of the host contract and the embedded derivative are not closely related.
(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and

(c) the combined instrument is not measured at fair value through profit or loss.

3. Significant accounting policies, continued

(ii) Derivative financial instruments, continued

The Company holds a foreign currency and interest rate swaps in the purpose of managing exchange rate and interest rate risks.

Economic hedges

Hedge accounting is not applied to derivative financial instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Change in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains or losses.

The Company uses derivative financial instruments to hedge interest rate risk. Hedge accounting is not applied. Changes in fair values of such derivative financial instruments is recognised in profit or loss.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(iii) Share capital

Share capital is classified as equity.

c. *Property, plant and equipment*

(i) Fixed assets in operation

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.
Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.
When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Other fixed assets

Projects under construction are capitalized on the basis of the cost of purchased services, materials, direct wages and other costs directly attributable to the property. Assets that have not been put to use are not depreciated. Cost of capital for financing the cost of projects under construction is capitalized in the period that the asset is being constructed and is considered a part of the cost of the asset. Capitalized cost of capital is the Company's weighted average cost of capital. Projects under construction are mainly due to Hryggstekk power station facility and installation of optic fiber cable. At year end, switching stations in Fljotsdalur, in addition to Fljotsdalur line 3 and 4 were taken into use.

(iii) Leased assets

The leases the Company holds are operating leases and the leased assets are not recognised in the Company's balance sheet.

(iv) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the futurue economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(v) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant or equipment until the salvage value is reached. The estimated useful lives for the current and comparative periods are as follows:

3. Significant accounting policies, continued

(v) Depreciation, continued

Substations	20 - 40 years
Power lines	50 years
Buildings	50 years
Other assets	4-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

d. *Intangible assets*

(i) Developement cost

Expenditure on research activities is recognised in profit or loss when incurred. Developement cost is capitalized within fixed assets. This is largely expenses related to exploration of power lines sites, preparation for power line masts and estimation of environmental effects of the proposed project. According to a contractual binding the buyers of electricity benefiting from this project will bear all expenses related to the project if it will be cancelled. Cost of capital attributable to developement costs is not capitalized. Developement cost is not depreciated on this stage, but possible impairment losses have been considered as discussed in note j.

When the decision of construction of a transportation structure has been made and all neccessary approvals have been acquired, developement cost of the transportation structure is capitalized among fixed assets as a project under construction.

(ii) Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software	4 years

e. *Subsidiaries*

The Company has one subsidiary, Landsnet ehf. The financial statements of the two companies are not consolidated and the share is measured at cost. The subsidiary has not had any activity since its establishment.

f. *Investment in associates*

Associates are those entities in which the company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the company holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The financial statements include the company's share of the total recognised gains and losses of equity movements of associates on an equity acconted basis, from the date that significant influence commences until the date that the significant influence ceases. When the company's share of losses exceeds its interest in an associate, the company's carrying amount including any long-term investments is reduced to nil and recognition of further losses is discontinued except to the extent that the company has an obligation or made payments on behalf of the investee.

3. Significant accounting policies, continued

g. *Deferred tax asset*

Deferred tax asset is recognised in the financial statements. It's calculation is based on the difference between the carrying amount of assets for financial reporting purposes and the amounts used for taxation purposes. The difference stems from that the tax is calculated is on another basis than the financial statements and therefore a temporary difference arisies. The tax difference also stems from carry-forward losses.

h. *Inventories*

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the expected sales price in normal operation net of any cost of selling the product. The cost of inventories is based on the first-in-first-out (FIFO) principle of inventory valuation and includes cost incurred in acquiring the inventories and bringing them to their existing location and condition.

i. *Accounts receivable and other receivables*

Accounts receivable and other receivables are measured at cost net of any impairment losses.

j. *Impairment*

(i) Financial assets

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

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

(ii) Other assets

The carrying amount of the Company's other assets, except for inventories and deferred tax asset, is reviewed at each reporting date to determine whether there is any indication of an impairment loss. If any such indication exists then the assets's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the "cash-generating unit"). Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

k. *Employee benefits*

(i) Defined contribution plans

The Company pays a contribution for its employees to defined contribution pension funds. The company has no responsibility regarding the obligations of the pension funds. The contributions are recognised as an expense among salary and salary related expenses as incurred.

3. Significant accounting policies, continued

(ii) Defined benefit plans

According to the contract between the Company and Lifeyrissjodur starfsmanna rikisins (LSR), the obligation for the Company's employees who are members of LSR should be settled yearly. LSR estimates specially in the year end, the present value of the accrued pension obligation that has developed during the year and deducts from that amount the contributions from employees and the Company have paid to the fund due to accrued pension rights during the year. The difference is recognised in profit or loss and settled on an yearly basis. The actuarial estimation should be set against that the accrued obligation for the year is calculated to the present value in the year end using the interest rate that is normally used to estimate the obligation of pension funds, which is now 3.5% per annum.

l. *Share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

m. *Provisions*

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are estimated by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

(i) Site restoration

The Company has estimated the cost due to demolition of current line lots. The estimation is based on expert assessment. The demolition cost has been discounted based on the estimated useful life of the Company's power transmission lines and the discounted value is on the one hand entered as increase in the relevant asset and on the other, as obligation in the blance sheet. Estimated demolition cost is discounted by nominal yeld of state guaranteed securities, which now is around 9%.

n. *Revenue*

Income due to transmission of electricity is stated in the income statement on the basis of measured delivery during the period. Other revenue is recognised as earned or delivered.

The Company's tariff is subject to the National Energy Authority's statement. On the basis of Article 12 of the Electricity Act no. 65/2003, the National Energy Authority establishes annual income limit for the Company due to cost on transmission of electricity on the one hand, and due to transmission to industrial users on the other.

o. *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

An asset lease is expensed in the financial statements corresponding to financing cost and depreciation during the year in relation to the use of transmission structures of electricity companies. The lease charge is determined by the National Energy Authority.

p. *Finance income and expenses*

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign exchange rate differences recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

3. Significant accounting policies, continued

p. ***Finance income and expenses, continued***

Finance expenses comprise interest expense on borrowings, reversal of discounting of obligations, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

q. ***Income tax***

Income tax on the profit for the year is deferred income tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recgonised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Calculated tax asset, arising upon initial tax liability of the Company, is recognised, at the same time, in the income statement as income for the period.

r. ***Earnings per share***

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period. Diluted EPS is the same as basic EPS whereas the Company has not issued any call options or convertible bonds.

s. ***Segment reporting***

According to the Electricity Act, the Company may only take care of transmission of electricity and system management in Iceland, in addition to its authorisation to operate an electricity market. The Company has not begun operation of an electricity market and considers its present operation as one single segment and does thus not provide for segment reporting.

t. ***New standards and interpretations***

(i) New standards and interpretations adopted in the year 2007

- *IFRS 7 Financial Instruments*: *Disclosures and the Amendment to IAS 1 Presentation of Financial Statements:* Capital Disclosures became mandatory for the Company's 2007 financial statements. The adoption of IFRS. The adoption of IFRS 7 and the amendment to IAS 1 impacted the nature and extent of disclosures in the financial statements, but had no impact on the reported profits nor the fincancial position of the Company. Comparative amounts have been prepared in accordance

- *IFRIC 7 – 10* became mandatory for the Company's 2007 financial statements but their adoption had no impact on the Company's financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- *IFRS 8 Operating Segments* introduces the "management approach" to segment reporting. In the financial statements are provided information regarding operating segments in note t.

3. Significant accounting policies, continued

t. *New standards and interpretations, continued*

- *IAS 1 Presentation of Financial Statements* (revised in 2007) replaces IAS 1 Presentation of Financial statements (revised in 2003) as amended in 2005. IAS 1 (Revised 2007) sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for the Company's 2009 financial statements if endursed by the EU, is expected to impact the presentation of the Company's income statement and the statement of changes in equity.

- Revised *IAS 23 Borrowing costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acqusition, construction or production of qualifying assets as a part of the cost of that asset. If endorsed by the EU, the revised IAS 23 will become mandatory for the Company's 2009 financial statements and include changes in the financial reporting of the Company. The standard will be used when capitalising borrowing costs incurred after the standard will be adopted.

- The amendments to *IFRS 2 Share Based Payment – Vesting Conditions and Cancellations* (January 2008) clarify the definition of vesting conditions and the accounting treatment of cancellations. If endorsed by the EU, the amendments become mandatory for the Company's 2009 financial statements, with retrospective application required. The amendments are not expected to have any effect on the Company's financial statements.

- *IFRS 3 Business Combinations* (revised in 2008) and amended IAS 27 Consolidated and Separate Financial Statements introduce changes to accounting for business combinations and for non-controlling (minority) interest. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:
  • IFRS 3 (2008) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
  • The definition of a business combination has been revised to focus on control;
  • The definition of a business has been amended;
  • Transaction costs incurred by the acquirer in connection with the business combination do not form a part of the business combination transaction;
  • Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
  • Disposals of equity interests while retaining control are accounted for as equity transactions;
  • New disclosures are required.

- If *IFRS 3* (revised in 2008) and amended IAS 27 will become mandatory for the Company's 2010 Financial Statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. This will not affect the financial statements of the Company.

- *IFRIC 11 IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Company's 2008 financial statements, with retrospective application required. IFRIC 11 is not expected to have any impact on the financial statements.

3. Significant accounting policies, continued

t. ***New standards and interpretations, continued***

- *IFRIC 13 Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Company's financial statements if endorsed by the EU. IFRIC 13 is not expected to have any impact on the financial statements.

- IFRIC 14 IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Company's 2008 financial statements if endorsed by the EU, with retrospective application required. The Company has not yet determined the potential effect of the interpretation on the financial statements.

4. Determination of fair values

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/ or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a. ***Derivatives***

The fair value of derivative contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated using accepted valuation techniques.

Valuation techniques include recent arm's lenght transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methologies for pricing financial instruments. Periodically, the Company calibrates the valuation technique and tests for validity using prices for many observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

Fair value of derivative agreements not listed in active markets is determined by use of evaluation methods, which are reviewed on a regular basis by qualified employees. All evaluation models used must be approved and tested in order to ensure that the results reflect those documents that were used.

The most reliable verification of the fair value of derivative agreements at the beginning is the purchase value, unless tha fair value of the instrument can by verified by comparison to other listed and recent market transactions of a comparable instrument or based on an evaluation method where variables are solely based on market documents. When such documents are available the Company recognises profit or loss at the initial registration date of the instruments.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date.

b. ***Non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of intest at the reporting date.

5. Financial risk management

Overview

The company has exposure to the following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors seeks consultation due to financial risk both to its employees and external consultants and it is regularily discussed during board meetings.

The Company's objective is to discover and analyse the risks it faces, set a benchmark of risk exposure and control it. The Company's risk management policy is regularily reviewed to analyse market changes and changes within the Company.

Credit risk

Credit risk is the risk of financial loss of the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk of the company is mainly due to trade receivable.

Trade and other receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approx. 84% of the Company's transmission income is generated with the Company´s shareholders.

In general, the Company's customers are financially strong energy companies, which have made transactions with the Company from its establishment. The Company's biggerst customers are also shareholders in the Comapny. As of the establishment of Landsnet, the Company has not incurred losses on accounts receivable and the Company's representatives have assessed the Company's credit risk as insubstantial based on current operation. The Company's collection issues are reviewed on a regular basis.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they will fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the company's reputation.

The Company has made an agreement on a loan promis with the parent company, Landsvirkjun, to the amount of ISK 15 billion.

Market risk

Market risk is the risk that changes in the market prices of foreign exchange rates and interest rates will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company enters into interest and currency swaps in order to manage the Company's market risk and hedge the currency combination of the Company's income.

5. Financial risk management, continued

Currency risk

The company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the company. The Company's functional currency is Icelandic kronas but a part of the Company's income is in US Dollars (USD) and a part of purchae is made in Us Dollars (USD) and euro (EUR). The currencies mainly creating a foreign exchange risk are the US Dollars (USD), euro (EUR) and Swiss Francs (CHF).

The Company does in general not hedge against foreign exchange risk but review on a regular basis the currency combination of the Company's liabilities against currency combination of income.

The Company's borrowings in foreign currencies, mainly in USD Dollars (USD) and Swiss Francs (CHF) create a foreign exchange risk, which is partly hedged. Interests on these loans are much lower than on loans that the Company has taken in Icelandic kronas.

In the year 2007, the Company issued a derivative commercial paper and at the same time the Company hedged itself against its embedded derivative.

Interest rate risk

The Company's borrowings bear both variable and fixed interests. The most part of the Company's borrowings bears fixed interests cf. note 24

Other market price risk

Other market price risk is limited as investments in bonds and shares are an insubstantial part of the Company's operation.

Capital management

It is the policy of the Company's Board of Directors to keep the Company's equity standing strong in order to support stable future development in the operation.

The Company is not subject to external rules on minimum equity ratio.

6. Revenue

Transmission revenue consists of:	2007	2006
Energy transmission	4.720.143	3.700.339
Transmission losses and system services	1.332.931	935.525
Input fees	826.956	941.856
	6.880.030	5.577.720

7. Other income

Other income consists of:

Income from worksale and rent	83.179	150.695
Profit from sale of fixed assets	0	683.795
	83.179	834.490

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8. Personel expenses

Salary and salary related expenses are specified as follows

	2007	2006
Salary	760.719	635.780
Pension contributions	88.282	66.471
Other salary related expenses	60.862	53.100
	909.863	755.351

Salary and salary related expenses consist of:

Transmission costs	427.624	309.920
System management	323.415	274.875
Other operating expenses	158.824	170.556

Average number of employees	94	84
Full time equivalent units	84	74

Salaries of the Board of Directors, CEO and two executive directors were as follows:

Salary of the Board of Directors	3.640	2.840
Salary and benefits of the CEO	19.139	16.421
Salaries of two excecutive directors	28.569	25.757

9. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

Depreciation of fixed assets in operation, see note 12	1.187.583	1.160.843
Amortization and impairment losses, see note 12	19.766	5.653
Depreciation and amortisation recognised in the income statement	1.207.349	1.166.496

Depreciation and amortisation is allocated as follows to operating items:

Transmission costs	1.088.654	1.080.915
System management	58.592	50.195
Other operating expenses	60.100	35.386
Depreciation and amortisation recognised in the income statement	1.207.346	1.166.496

10. Finance income and expenses

Finance income and expenses are specified as follows:

Interest income	46.055	28.072
Total finance income	46.055	28.072

Interest expenses	(2.090.692)	(1.534.428)
Indexation	(1.656.052)	(1.836.519)
Foreign currency exchange difference	(387.854)	(31.194)
Changes in fair values of derivatives	(210.129)	0
Share of loss in equity accounted investee	(5.405)	0
Capitalised interest expense due to projects under construction	1.054.201	835.404
Finance expenses total	(3.295.931)	(2.566.737)

Net finance expense	(3.249.876)	(2.538.665)

Amounts in ISK thousand

10. Finance income and expenses, continued

Finance income and expenses are specified as follows:

Net financing expenses due to the construction of a transmission structure to the amount of ISK 1,054 million is capitalised and has been entered as reduction in financing expenses.

Capitalised financing expense was 10.94% of bound capital in transmission structures in construction during the period.

11. Income tax

Income tax recognised in the income statement is specified as follows:	2007	2006
Increase in deferred tax asset	175.252	39.446
Income tax recognised in the income statement	175.252	39.446

Change in deferred tax asset is specified as follows:

Change in temporary differences	(301.370)	(116.868)
Change in carry-forward losses	476.622	170.978
Change in deferred tax asset	175.252	54.110

Reconciliation of effective tax rate:

		2007		2006
Loss before income tax		(973.705)		(210.737)
Income tax according to the current tax rate	18,0%	175.266	18,0%	37.933
Non-deductible expenses and other items	(0,0%)	(13)	0,7%	1.514
Effective tax rate	18,0%	175.252	18,7%	39.446

12. Property, plant and equipment

Property, plant and equipment are specified as follows:

Fixed assets in operation:

	Substations	Power lines	Other	Total
Cost				
Balance at 1 January 2006	9.541.564	13.962.620	1.778.300	25.282.484
Effects of adopting IFRS	0	397.222	(17.588)	379.634
Balance at 1 January 2006	9.541.564	14.359.842	1.760.712	25.662.118
Additions	5.513	3.469	806.896	815.878
Transferred from projects under construction	2.011.304	3.672.959	750	5.685.013
Sold and disposed of	(52.132)	0	(628.262)	(680.394)
Balance at 31 December 2006	11.506.249	18.036.270	1.940.096	31.482.615
Balance at 1 January 2007	11.506.249	18.036.270	1.940.096	31.482.615
Additions	1.344.198	1.709.486	385.379	3.439.063
Transferred from projects under construction	3.162.389	8.507.129	0	11.669.518
Sold and disposed of	0	0	(6.943)	(6.943)
Balance at 1 January 2007	16.012.836	28.252.885	2.318.532	46.584.253

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12. Property, plant and equipment, continued

Fixed assets in operation:

	Substations	Power lines	Other	Total
Depreciation and impairment losses				
Balance at 1 January 2006	262	291	7.775	8.328
Effects of adopting IFRS	0	0	(514)	(514)
Balance at 1 January 2006	262	291	7.261	7.814
Depreciation and impairment losses	429.968	642.789	88.086	1.160.843
Sold and disposed of	0	0	(5.443)	(5.443)
Balance at 31 December 2006	430.230	643.080	89.904	1.163.214
Balance at 1 January 2007	430.230	643.080	89.904	1.163.214
Depreciation and impairment losses	461.124	615.347	111.112	1.187.583
Sold and disposed of	0	0	(2.649)	(2.649)
Balance at 31 December 2007	891.354	1.258.427	198.367	2.348.148

Fixed assets in operation:

	Substations	Power lines	Other	Total
Net book value				
1.1.2006	9.541.564	14.359.842	1.760.712	25.662.118
31.12.2006 and 1.1.2007	11.076.019	17.393.190	1.850.192	30.319.401
31.12.2007	15.121.482	26.994.458	2.120.165	44.236.105

Intangible assets and projects under construction:	Intangible assets	Projects under construction
Cost		
Balance at 1 January 2006	117.348	7.855.966
Effects of adopting IFRS	(38.760)	0
Balance at 1 January 2006	78.588	7.855.966
Additions	143.309	7.662.151
Transferred from projects under construction	0	(5.685.013)
Balance at 31 December 2006	221.897	9.833.104
Balance at 1 January 2007	221.897	9.833.104
Additions	355.638	3.342.420
Transferred from projects under construction	0	(11.669.518)
Balance at 31 December 2007	577.535	1.506.006
Amortisation and impairment losses		
Balance at 1 January 2006	0	0
Effects of adopting IFRS	514	0
Balance at 1 January 2006	514	0
Amortisation and impairment losses for the year	5.653	0
Balance at 31 December 2006	6.167	0

Financial Statements of Landsnet hf. 2007 Amounts in ISK thousand

12. Property, plant and equipment, continued

	Intangible assets	Projects under construction
Balance at 1 January 2007	6.167	0
Amortisation for the year	18.499	0
Impairment losses	1.266	0
Balance at 31 December 2007	25.932	0
Net book value		
1.1.2006	117.348	7.855.966
31.12.2006 and 1.1.2007	215.731	9.833.104
31.12.2007	551.603	1.506.006

Rateable value and insurance value

Rateable value of the properties of the Company that are valued with rateable value is about ISK 2.4 billion. Assessed value for fire insurance for the same properties is about ISK 2.9 billion. Insurance value of the properties of the Company is about ISK 23.7 billion, other than power lines and strings that are insured with emergency insurances like other properties. The Company has an emergency insurance at the value of ISK 61.2 billion.

13. Investments in other companies

Investments in other companies are as follows:

	2007		2006	
	Share	Carrying amount at	Share	Carrying amount at
Landsnet ehf.	100,00%	500	100,00%	500
Netorka ehf.	37,18%	41.095	35,00%	31.500
Total value of investments in other companies		41.595		32.000

14. Deferred tax asset

Deferred tax asset is as follows:

	2007	2006
Deferred tax asset on 1 January	54.110	0
Calculated income tax for the year	175.253	39.927
Effects of adopting IFRS	0	14.183
Deferred tax asset on 31 December	229.363	54.110

Deferred tax asset is as follows at the year end:

	2007	2006
Property, plant and equipment	(487.367)	(197.828)
Intangible assets	(12.333)	5.280
Investments in other companies	973	0
Other obligations	80.488	75.679
Tax losses carried forward	647.602	170.979
Deferred tax asset on 31 December	229.363	54.110

Amounts in ISK thousand

14. Deferred tax asset, continued

The Company's carry forwards taxable loss amounts to ISK 647.6 million, which arose in the years 2006 and 2007. The loss can be used against taxable income for ten years from when it is incurred. It is the management's opinion that the Company's operation will in the next years generate taxable income and accumulated taxable loss will be fully used.

15. Inventories

Inventories are specified as follows:

	2007	2006
Spare parts and material inventories	302.331	328.216

16. Trade and other receivables

Trade and othe receivables:

Nominal value of trade receivables	710.677	562.613
Other receivables	14.606	185.888
	725.283	748.501

17. Cash

Cash is specified as follows:

Bank balances	984.259	307.813

18. Equity

Share capital

The Company's total share capital according to its Articles of Association is ISK 5,903 million at year end. In September 2007, the share capital was increased by ISK 400 million at nominal value at the exchange rate of one. The Company has no treasury shares. Shareholders are entitled to one vote per share at meetings of the Company. All share capital has been paid.

19. Loss per share

Basic loss and diluted loss per share:	2007	2006
Loss to shareholders	(798.452)	(171.291)
Weighted average number of ordinary shares:		
Shares at 1 January	5.502.733	5.502.733
New shares	111.111	0
Weighted average number of ordinary shares as at 31 December	5.613.844	5.502.733
Basic and diluted loss per share	(0,14)	(0,03)

Financial Statements of Landsnet hf. 2007 25 Amounts in ISK thousand

20. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 24

Long-term liabilities is specified as follows:	31.12.2007	31.12.2006
Indexed bond loan from parent company in ISK, interest rate 4.21%	29.915.095	28.259.043
Loan agreement in Swiss Francs (CHF), Libor + levy	3.238.789	0
Debt with the parent company in Icelandic kronas, Reibor interests + levy	0	5.951.072
	33.153.884	34.210.115

The bond is an indexed bullet bond with maturity in the year 2020 and an interest payment once a year. Loan agreement in Swiss Francs and each interest term is 6 months.

Terms of interest-bearing loans and borrowings

This note includes information on contractual provisions of the Group's interest bearing debt, which is recognised at amortised cost value. Information on interest rate risk, foreign exchange risk and liquidity risk is stated in note 24.

Debt in foreign currency:

			31.12.2007		31.12.2006	
	Nominal interest rate	Final due date	Nominal value	Carrying amount	Nominal value	Carrying amount
Loans in CHF	3,10%	2022	3.238.789	3.238.789	0	0
Loans in ISK:						
Indexed loans in ISK	4,2%	2020	29.915.095	29.915.095	28.259.043	28.259.043
Un-indexed loans in ISK			0	0	5.951.072	5.951.072
			29.915.095	29.915.095	34.210.115	34.210.115
Total interest-bearing loans and borrowings			0	33.153.884	0	34.210.115

Annual maturities of interest bearing loans and borrowings are as follows:	31.12.2007	31.12.2006
Year 2008	0	0
Year 2009	0	0
Year 2010	0	0
Year 2011	0	0
Year 2012	161.939	0
Subsequent	32.991.946	34.210.115
	33.153.885	34.210.115

Amounts in ISK thousand

21. Provision due to site restoration

Change in the provision due to site restoration is specified as follows:

	2007	2006
Balance at 1 January	420.441	397.222
Present value for the year	26.713	23.219
Balance at 31 December	447.154	420.441

In accordance with IAS 16, initial value of property, plant and equipment shall consist of estimated cost of their demolition after their use. Estimated cost of demolition of lines has been assessed and then discounted based on information on the useful life. In return, an obligation has been written up among long term liabilities. An increase in the obligation due to the discounting in addition to depreciation of demolition cost is expensed in the income statement.

22. Pension fund commitment

The pension fund of state employees calculates at the end of each year accrued benefit plan obligation for the year. An actuary assessment is based on accrued obligation for the year discounted at year end based on the annual interests generally used in the assessment of pension fund obligations. Present annual interest is 3.5%. Expenses due to the year 2007 amounted to ISK 12.8 million compared to ISK 13.2 million in the year 2006. Accrued obligation is settled at the end of each year.

23. Trade and other payables

Trade and other payables are specified as follows:

	2007	2006
Trade payables	661.506	750.871
Notes payable	3.466.002	0
Other payables	185.704	137.651
Trade and other payables total	4.313.212	888.522

24. Financial instruments

Credit risk

Highest probable loss due to credit risk

The Company's highest probable loss due to financial assets is their book value, which was as follows at year end:

Receivables from related companies	354.589	0
Trade and other receivables	725.283	748.501
Cash	984.259	307.814
Derivatives	369.732	0
	2.433.863	1.056.315

The Company's most important customers are domestic energy companies. At year end, receivebles due to those companies amounted to ISK 1,023 million including receivable from Landsvirkjun, the parent company of Landsnet, to the amount of

Financial Statements of Landsnet hf. 2007 27 Amounts in ISK thousand

24. Financial instruments, continued

Impairment losses

No impairment loss has been recognised due to accounts receivable at year end nor expensed loss on receivables during the year.

Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments:

31 December 2007

	Carrying amount	Contractual cash flows	Within 12 months	1 - 2 years	2 - 5 years	After 5 years
Non-derivative financial liabilities						
Payable to related companies	35.949.511	52.322.042	7.293.841	1.259.426	3.778.275	39.990.500
Long-term liabilities	3.238.788	4.206.842	87.619	101.120	463.372	3.554.732
Trade and other payables	4.313.212	4.313.212	4.313.212	0	0	0
	43.501.511	60.842.096	11.694.672	1.360.546	4.241.647	43.545.232
Derivative financial liabilities:						
Foreign currency and interest rate swaps:						
Outflow	(4.767.674)	(174.337)	(169.293)	0	0	(463)
Inflow	4.402.027	5.054	19	67	73	108
	(365.647)	(169.283)	(169.274)	67	73	(355)

31. desember 2006

	Carrying amount	Contractual cash flows	Within 12 months	1 - 2 years	2 - 5 years	After 5 years
Non-derivative financial liabilities:						
Payable to related companies	35.144.906	45.849.715	2.124.497	1.189.706	3.569.118	38.966.394
Trade and other payables	888.522	888.522	888.522	0	0	0
	36.033.428	46.738.237	3.013.019	1.189.706	3.569.118	38.966.394

Currency risk

The Company's exposure to foreign currency risk, based on nominal amounts, was as follows:

31 December 2007	EUR	CHF	USD	NOK	ISK	JPY
Trade and other receivables			77.786	431	647.066	
Loans from related companies		(1.722.063)	(2.070.918)		(1.407.264)	(834.141)
Loans from related companies					(29.915.096)	
Other long-term liab.		(3.238.789)				
Trade and other payables	(4.354)	(19.259)	(6.266)	(3.612)	(4.279.721)	
Net currency risk	(4.354)	(4.980.111)	(1.999.398)	(3.181)	(34.955.015)	(834.141)

Amounts in ISK thousand

24. Financial instruments, continued

In the year 2008, it is estimated that 50% of the Company's income will be in USD Dollars (USD) but purchases will mainly be made in Icelandic kronas (ISK).

31 December 2006	EUR	CHF	USD	NOK	ISK	SEK
Trade and other receivables				381	748.120	
Loans from related companies					(35.144.906)	
Trade and other payables	(109.898)	(12.658)	(391)	(426)	(764.854)	(295)
Net currency risk	(109.898)	(12.658)	(391)	(45)	(35.161.640)	(295)

Currency risk

The following significant exchange rates applied during the year:

	Average exch. rate for the year		End of year exch. rate	
	2007	2006	2007	2006
EUR	87,60	87,72	91,45	94,87
CHF	53,34	55,75	55,26	59,30
USD	64,02	69,78	62,15	72,00

Sensitivity analysis

A 10% strengthening of the ISK against the following currencies at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	2007	2006
EUR	9.012	1.978
USD	83.342	1.038
CHF	1.038	32

A 10% weakening of the ISK against the above currencies at 31 December would have had the equal but opposite effect on profit or loss after tax to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest bearing financial instruments of the Company are as follows at the year end:

	Book value	
	2007	2006
Financial instruments with floating interest rate		
Financial liabilities	8.270.049	0
Financial instruments with fixed interest rate		
Financial liabilities	29.915.095	35.144.906

Amounts in ISK thousand

24. Financial instruments, continued

Interest rate risk

Cash flow sensitivity analysis for fixed interest rate instruments

The Company's liabilities that have fixed interest rates is an indexed bullet bond with one payment maturity in the year 2020.

Cash flow sensitivity analysis for floating interest rate instruments

An increase in interest rates of 100 basis points at the reporting date would have decreased equity and profit or loss after tax by 270 million ISK. If interest rates had decreased by 100 basis points, the effect would have had the equal but opposite effect on profit or loss after tax. This analysis is based on that all other variables, specially the foreign exchange rate remain constant.

Fair value

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	31 December 2007		31 December 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	1.079.872	1.079.872	748.501	748.501
Cash	984.259	984.259	307.813	307.813
Loans from related companies, long-term	29.915.096	25.649.462	34.210.115	32.878.284
Other long-term liabilities	3.238.789	3.238.789	0	0
Loans from related companies, short-term	6.034.415	6.034.415	934.791	934.791
Trade and other receivables	4.313.212	4.313.212	888.522	888.522
	45.565.643	41.300.009	37.089.742	35.757.911

25. Operating leases

The Company as lessee

The Company leases a part of the transmission structures from domestic energy companies. The lease agreements have an indeterminated lease term and the lease price is determined by the National Energy Authority.

The Company as lessor

The Company releases a part of its real estates on short term lease agreements.

26. Risk management

Interest rate risk

The Company has entered into interest rate swaps aimed at reducing interest cost. Interest rate swaps have reduced risk and the Company's financing expenses over a longer period. With an interest rate swap a loan in Icelandic kronas is swapped with a loan in foreign currencies at lower interest rates.

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27. Other information

The Company is a part of two litigations administered before the District Court of Austurland. The issues relate to the amount of an expropriation settlement due to a project on Fljótsdalur line 3 and 4 but the Company did not comply with the conclusion of the evaluation committee of the expropriation settlement. The ruling in the issues was available at the end of December and was in main respect in line with the committee's results. The litigating parties have still not decided whether a settlement will be negotiated or whether the case will be brought before courts of law in order to seek a solution to the disagreement. At year end, Landsnet hf. has paid to the relevant land owners a great part of the amount decided on by the committee, but it is the opinion of the management that probable additional payments will be insubstantial. The conclusion of these issues can affect settlement payments to other parties, which were not parties to the issues in question.

A disagreement between the Company and a constructor on an indemnification due to delay and unpaid invoices. The disagreement will most likely be settled before court of law. The total amount of those invoices is ISK 23.6 million.

In accordance with provisions of Article 12 of the Electricity Act no. 65/2003, the Company shall allow for that if connecting of new plants or industries to the transmission system causes increased cost for other users of the system and also if the transmission leads to more profitable construction or exploitation of the transmission system. At year end, the Company took into use Fljótdalur line 3 and 4, in addition to the appropriate connection plants. Settlement has not been made to the relevant industries but the Company will probably have to pay to the relevant party a system contribution where the transmission structure in question will lead to a more profitable construction and exploitation of the transmission system. At year end, information on the exact amount is not available but it is estimated that it will be available in April 2008 and will then on the one hand be expensed and on the other, recognised as increase in the book value of transmission structures.

28. Related parties

Identity of related parties

The Company has a related party relationship with its parent company, subsidiary, associates, directors, excecutive officers and companies in their possession.

Transactions with key management

(i) *Payment to key management*

In addition to receiving salaries, Directors and Managing Directors of the Company enjoy various benefits and a contribution to a defined benefit pension fund. Management's salaries are accounted for in note 8.

Other transactions with related parties

	Amounts during the year	
	2007	2006
Sale of goods and services:		
Landsnet's parent company and its subsidiaries	2.983.721	2.553.835
Cost:		
Landsnet's parent company and its subsidiaries	1.520.093	1.157.611
Landsnet's associate	866	1.520

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29. Financial ratios

The company's primary financial ratios:

Financial performance:	2007	2006
EBITDA	3.483.517	3.494.424
Financial position:	31.12.2007	31.12.2006
Current ratio - current assets/current liabilities	0,26	0,76
Equity ratio - equity/total assets	10,1%	12,9%
Return on equity	(14,5%)	(3,1%)

Financial Statements of Landsnet hf. 2007 32 Amounts in ISK thousand

Transition to IFRSs

30. As stated in note 2(a) on accounting policies, these are the Company's first financial statements prepared in accordance to IFRS.

The accounting policies in note 3 have been applied in preparing the financial statements for the year 2007, the comparative information for the year ended 31 December 2006 and the preparation of an opening IFRS balance sheet at 1 January 2006 or the Company's date of transition.

Amounts in the opening IFRS balance sheet of 1 January 2006 have been changed in accordance with IFRS, but were previously presented in accordance with Icelandic generally accepted accounting principles "IS GAAP". An explaination of how the transition from IS GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables and notes. No significant changes have been made on the Company's cash flows from IS GAAP to IFRS.

Changes in equity from IS GAAP to IFRS:

		Equity
Equity according to IS GAAP at 31 December 2006		5.449.621
Equity according to IFRS at 1 January 2007		5.385.006
Changes from IS GAAP to IFRS		(64.615)

Changes at the beginning of year 2006:

Site restoration cost of power lines	IAS 16	397.222
Intangible assets	IAS 38	(81.468)
Other long-term liabilities	IAS 16	(397.222)
Deferred tax asset	IAS 12	14.664
Total changes due to IFRS at 1 January 2006		(66.804)

Changes in profit for the year 2006:

Depreciation of demolition cost and increase in obligation	IAS 16	(38.064)
Impairment loss, decrease	IAS 38	40.734
Income tax effect	IAS 12	(481)
Total changes due to IFRS for the year 2006		2.189
Changes from IS GAAP to IFRS		(64.615)

Total effect of the transition to IFRSs on equity is a decrease amounting to ISK 64.6 million. Following is an explaination of the effect of the transition on the income statement and balance sheet.

Demolition cost of power transmission lines
In accordance with IAS 16, estimated discounted cost due to the demolition of transmission lines has been recognised on the one hand as increase in the relevant asset and on the other, as obligation in the balance sheet.

Intangible assets
When the international standards were adopted, the capitalization of intangible assets was reviewed with regard to IAS 38. The effect to reduction of equity is ISK 81 million.

Financial Statements of Landsnet hf. 2007 33 Amounts in ISK thousand

Transition to IFRSs, continued

30. continued

The following table is an overview of the transition to IFRS and is divided into changes in valuation and changes in presentation.

Income statement for the year 2006, changes from IS GAAP to IFRS

IS GAAP		Changes in estimates	Changes in presentation		IFRSs
Transmission.................................	5.577.720			5.577.720	Transmission
Other income.................................	150.695			150.695	Other income
Profit from sale of assets..............	683.795			683.795	Profit from sale of assets
Energy production costs................	(910.030)			(910.030)	Energy production costs
Transmission costs........................	(652.951)	2.670	(1.356.507)	(2.006.788)	Transmission costs
System management......................	(491.875)		(50.195)	(542.070)	System management
Other operating expenses..............	(590.009)		(35.385)	(625.394)	Other operating expenses
Lease of assets...............................	(249.702)		249.702	0	
Depreciation and impairment........ losses.................................	(1.192.385)		1.192.385	0	
			28.072	28.072	Financial income
Net financial expenses..................	(2.538.665)		(28.072)	(2.566.737)	Financial expenses
Income tax....................................	39.927	(481)		39.446	Income tax
Loss for the year	(173.480)	2.189	0	(171.291)	**Loss for the year**

Amounts in ISK thousand

30. continued

Balance Sheet, changes from IS GAAP to IFRSs

IS GAAP 31 December 2006		Matsbr.	Breyting á framsetn.		IFRSs 1 January 2007
Fixed assets					
Substations..................................	11.076.019		19.243.381	30.319.400	Fixed assets in operation
Power lines..................................	17.010.813	382.377	(17.393.190)	0	
Other fixed assets.........................	1.886.733	0	(1.886.733)	0	
Developement cost.......................	219.923	(40.734)	36.542	215.731	Intangible assets
Projects under construction..........	9.833.104	0		9.833.104	Transmission structure in construct
Shares in other companies............	32.000			32.000	Shares in other companies
Deferred tax asset.........................	39.927	14.183		54.110	Deferred tax asset
Total fixed assets	40.098.519	355.826	0	40.454.345	**Total fixed assets**
Current assets					
Inventories...................................	328.216			328.216	Inventories
Trade receivables..........................	562.613		185.888	748.501	Trade and other receivables
Other receivables..........................	185.888	0	(185.888)	0	
Cash and bank deposits................	307.813	0		307.813	Cash and bank deposits
Total current assets	1.384.530	0	0	1.384.530	**Total current assets**
Total assets	41.483.049	355.826	0	41.838.875	**Total assets**
Equity					
Share capital................................	5.502.733			5.502.733	Share capital
Retained earnings.........................	(53.112)	(64.615)		(117.727)	Retained earnings
Equity	5.449.621	(64.615)	0	5.385.006	**Equity**
Liabilities					
Long-term loans from related companies....................	34.210.115			34.210.115	Long-term loans from related companies
Obligation due to demolition........	0	420.441		420.441	Obligatio due to demolition
Total long-term liabilites	34.210.115	420.441	0	34.630.556	**Total long-term liabilities**
Trade and other payables.............	888.522			888.522	Trade and other payables
Loans from related companies......	934.791			934.791	Loans from related companies
Total short-term liabilities	1.823.313	0	0	1.823.313	**Total short-term liabilities**
Total equity and liabilities	41.483.049	355.826	0	41.838.875	**Total equity and liabilities**

Financial Statements of Landsnet hf. 2007 35 Amounts in ISK thousand