Financial Statements 2011

Landsnet hf.
Gylfaflöt 9
112 Reykjavík

Reg. no. 580804-2410

Contents

Endorsement by the Board of Directors and the CEO

General

Landsnet hf was established in August 2004 on the basis of the Electricity Act passed by the Icelandic parliament, the Althingi, in the spring of 2003. The role of Landsnet is to administer the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003.

Results of the year 2011

According to the income statement, profit and total profit for the year amounted to ISK 0.8 billion. According to the balance sheet, the Company's equity at year end amounted to ISK 12.5 billion, including share capital in the amount of ISK 5.9 billion.

Share capital at year end 2011 is divided between four shareholders as at the beginning of the year:

	Share
Landsvirkjun	64.73%
Rarik ohf.	22.51%
Orkuveita Reykjavíkur	6.78%
Orkubú Vestfjarða ohf.	5.98%

Accumulated deficit amounts to ISK 5.7 billion at year end and therefore not permitted to pay dividend to shareholders.

Under the current Electricity Act, the National Energy Authority is charged with setting a revenue cap for Landsnet hf. At year-end 2011, no confirmation had been received from the Authority regarding the revenue-cap-based settlement for the period 2006-2010. In addition, a decision is still pending on the revenue cap for the years 2011-2015. This creates some uncertainty with regard to the Company’s operating results. It is clear that the Company’s revenue exceeded its revenue cap in the past few years, which must be taken into account when setting tariff rates. Note 29 provides a detailed account of the status of this issue, including the uncertainty it generates.

Corporate governance

The Board of Directors of Landsnet hf. emphasizes maintaining good management practices. The Board of Directors has laid down comprehensive guidelines wherein the competence of the Board is defined and its scope of work vis-à vis the CEO. These rules include i.e. rules regarding order at meetings, comprehensive rules on the competence of Directors to participate in the discussion and decision of issues presented to the Board, rules on secrecy, rules on information disclosure by the CEO to the Board and other issues. The Coporate Governance Statement, which is a part of the Financial Statements, provides further information.

Statement of the Board of Directors and the CEO

According to the best of our knowledge, the financial statements are in accordance with the International Financial Reporting Standards as adopted by the EU and it is our opinion that the annual financial statements give a true and fair view of the financial performance of the Company for the financial year 2011, its assets, liabilities and financial position as at 31 December 2011 and its cash flows for the financial year 2011.

Further, in our opinion the financial statements and the endorsement by the Board of Directors and the CEO give a fair view of the development and performance of the Company's operations and its position and describes the principal risks and uncertainties faced by the Company.

The Board of Directors and the CEO have today discussed the annual financial statements of Landsnet hf. for the year 2011 and confirmed them by means of their signatures.

Reykjavik, 23 February 2012.

The Board of Directors:

Geir A. Gunnlaugsson
Svana Helen Björnsdóttir
Agnar Olsen

CEO:

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 statement of financial position as at December 31, 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on the Board of Directors report

Pursuant to the legal requirement under Article 106, Paragraph 1, Item 5 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Reykjavik, 23 February 2012.

KPMG ehf.

Matthías Þór Óskarsson

Income Statement for the year 2011

	Notes	2011	2010
Operating revenue			
Transmission	5	11,804,961	12,781,452
Other income	6	98,259	65,009
		11,903,220	12,846,461
Operating expenses			
Energy procurement costs	7	1,369,140	1,563,765
Transmission costs	8,9	3,447,850	3,377,678
System operation	8,9	941,087	815,552
Other operating expenses	8,9	704,726	748,794
		6,462,803	6,505,789
Operating profit		5,440,417	6,340,672
Financial income		84,509	1,121,405
Financial expenses		(4,480,655)	(3,276,008)
Net financial expenses	10	(4,396,146)	(2,154,603)
Share in net earnings of associated company	15	5,516	8,851
Profit before income tax		1,049,787	4,194,920
Income tax	11	(209,957)	(632,336)
Profit		839,830	3,562,584
Earnings per share:			
Basic and diluted earnings per each ISK 1 share	20	0.14	0.60

Notes no. 1 to 31 are an integral part of these financial statements.

Financial Statements of Landsnet hf. 2011 5 Amounts are in ISK thousand

Statement of Comprehensive Income for the year 2011

	Notes	2011	2010
Profit		839,830	3,562,584
Items under total profit recognised among equity:			
Effect of changed tax rate on the revaluation of transmission		0	(262,515)
Total items under total profit recognised among equity		0	(262,515)
Total profit of the year		839,830	3,300,069

Notes no. 1 to 31 are an integral part of these financial statements.

Financial Statements of Landsnet hf. 2011 6 Amounts are in ISK thousand

Balance Sheet as at 31 December 2011

	Notes	2011	2010
Assets			
Fixed assets in operation	12	60,187,407	62,155,955
Projects under construction	12	276,275	425,541
Intangible assets	13	1,275,937	1,401,758
Investment in subsidiary	14	500	500
Investment in associates	15	676,777	51,167
Long-term note	15	34,929	0
Fixed assets		62,451,825	64,034,921
Inventories	16	490,949	499,251
Assets available for sale	12	0	374,000
Receivable from parent company	30	578,827	498,720
Trade and other receivables	17	646,425	849,833
Cash and cash equivalents	18	10,510,666	4,255,901
Current assets		12,226,867	6,477,705
Total assets		74,678,692	70,512,626
Equity			
Share capital		5,902,733	5,902,733
Revaluation account		12,293,653	12,863,228
Accumulated deficit		(5,734,504)	(7,143,909)
Equity	19	12,461,882	11,622,052
Liabilities			
Long term liabilities from parent company	21	40,828,055	42,136,902
Other long-term liabilities	21	12,319,241	12,115,701
Deferred income tax liability	22	1,607,613	1,397,656
Deferred income	23	129,008	0
Provision due to site restoration	24	696,081	752,523
Long-term liabilities and obligations		55,579,998	56,402,782
Loans from parent company	21	1,347,270	1,297,882
Current maturities	21	4,073,121	119,067
Trade and other payables	26	1,216,421	1,070,843
Short-term liabilities		6,636,812	2,487,792
Total liabilities		62,216,810	58,890,574
Total equity and liabilities		74,678,692	70,512,626

Notes no. 1 to 31 are an integral part of these financial statements.

Financial Statements of Landsnet hf. 2011 7 Amounts are in ISK thousand

Statement of Changes in Equity for the year 2011

	Share capital	Revaluation account	Accumulated deficit	Total
Year 2010:				
Equity at 1 January 2010	5,902,733	13,709,886	(11,290,636)	8,321,983
Total comprehensive income		(262,515)	3,562,584	3,300,069
Depreciation on revaluation recognised under accumulated deficit		(584,143)	584,143	0
Equity at 31 December 2010	5,902,733	12,863,228	(7,143,909)	11,622,052
Year 2011:				
Equity at 1 January 2011	5,902,733	12,863,228	(7,143,909)	11,622,052
Total comprehensive income			839,830	839,830
Depreciation on revaluation recognised under accumulated deficit		(569,575)	569,575	0
Equity at 31 December 2011	5,902,733	12,293,653	(5,734,504)	12,461,882

Notes no. 1 to 31 are an integral part of these financial statements.

Financial Statements of Landsnet hf. 2011 8 Amounts are in ISK thousand

Statement of Cash Flows for the year 2011

	Notes	2011	2010
Cash flow from operating activities			
Operating profit		5,440,417	6,340,672
Adjustments for:			
(Profit) loss from sales of fixed assets		(24,864)	(1,016)
Depreciation and amortisation		2,566,448	2,541,336
Impairment of assets available for sale		0	44,597
Working capital from operation before financial items		7,982,001	8,925,589
Operating assets, decrease		131,604	95,438
Operating liabilities, increase		131,450	142,315
Net Cash from operating activities before financial items		8,245,055	9,163,342
Interest income received		84,509	146,880
Interest expenses paid and foreign exchange difference		(2,050,296)	(1,949,853)
Net cash from operating activities		6,279,268	7,360,369
Cash flow from investing activities			
Investment in transmission infrastructures	12	(672,393)	(1,015,273)
Other investments	12	(374,360)	(271,214)
Proceeds from sale of property, plant and equipment		460,037	1,373
Decrease in shares in an associated company		7,741	7,742
Change in unpaid construction costs, increase (decrease)		16,798	(60,358)
Net cash to investment activities		(562,177)	(1,337,730)
Cash flow from financing activities			
Change in loans from parent company		0	(5,756,880)
Payments of long-term liabilities and provisions		(129,294)	(1,749,333)
Change in deferred income		129,008	0
Net cash to financing activities		(286)	(7,506,213)
Net increase (decrease) in cash and cash equivalents		5,716,805	(1,483,574)
Effect of exchange rate changes on cash and cash equivalents		537,960	(124,399)
Cash and cash equivalents at 1 January		4,255,901	5,863,874
Cash and cash equivalents at 31 December		10,510,666	4,255,901
Investment and financing activities without cash flow effect:			
Proceeds from the sale of operating assets	15	662,764	0
Aquisition of shares in an associated company	15	(627,835)	0
Long-term note	15	(34,929)	0

Notes no. 1 to 31 are an integral part of these financial statements.

Financial Statements of Landsnet hf . 2011 9 Amounts are 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, and the financial statement of Landsnet hf. is included in the consolidated financial statements of Landsvirkjun. Landsnet was established in 2004 on the basis of the Electricity Act passed by the Icelandic parliament, the Althingi, in the spring of 2003. The role of Landsnet is to administer the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003, which stipulates that the Company must not engage in any activities other than necessary to perform its duties under the Act.

2. Basis of preparation

a. Statement of compliance

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

The financial statements were approved by the Board of Directors on 23 February 2012.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for:

- The Company's transmission system is recognised at a revalued amount.
- Financial assets at fair value through profit and loss are recognised at fair value.

The methods to measure fair value are discussed further in Note 4.

c. Functional and presentational currency

These financial statements are presented in Icelandic krónur (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 the financial statements in conformity with IFRS standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in 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 3c and 12 - Fixed assets in operation
- Note 3d and 13 - Intangible assets
- Note 3j (i) and 24 - Estimation of provision due to site restoration
- Note 22 - Income tax

3. Significant accounting policies

The following accounting methods have been consistently applied to all disclosed periods in the financial statements, except for changes in provision due to site restoration is disclosed in financial expenses instead of operating expenses. Comparison figures have been restated accordingly.

a. Foreign currency

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

3. Significant accounting policies, contd.:

b. Financial instruments

(i) Non-derivative financial instruments

The Company initially recognises loans, receivables and cash and cash equivalents on the date that they are originated. All other financial assets (including assets designanted as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest is such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifes non-deravative financial assets into the following catagories: financial assets at fair value through profit or loss and loans and receivables.

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 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.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.
Cash and cash equivalents comprise cash balances, call deposits and market securities.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fari valure through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Derivative financial instruments

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value. Fair value changes on such derivatives are recognised among net income and expenses on financial assets and liabilities in the statement of comprehensive income.

(iv) Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity.

3. Significant accounting policies, contd.:

c. Property, plant and equipment

(i) Fixed assets in operation

Items of fixed assets in operation other than transmission lines and substations are measured at cost less accumulated depreciation and impairment losses.

The cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes 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 as well as 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.

In accordance with the provisions of the International Accounting Standard IAS 16, the Company's transmission lines and substations are recognised on the basis of the revaluation method. The Company's transmission lines and substations are thus stated at a revalued cost in the balance sheet, which is their fair value on the revaluation date less revalued depreciation from the assets' acquisition date. The revaluation of those assets will be performed on a regular basis and when the management believes that their fair value has changed significantly, among other things due to external factors. All value increases due to the revaluation are entered in a revaluation account among equity after income tax. Depreciation of the revalued price is recognised in the income statement. Upon sale or disposal of an asset, the part of the revaluation account pertaining to that asset is recognised in retained earnings.

The most recent revaluation of transmission lines and substations was carried out at year-end 2008.

Any gain on disposal of an item of fixed assets in operating (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss as other income but any loss on disposal of an item of fixed assets in operation is recognised in profit or loss as other operating expenses.

(ii) Transmission structures under construction

Projects under construction are capitalised 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 capitalised in the period that the asset is being constructed and is considered a part of the cost of the asset. Capitalised cost of capital is the Company's weighted average cost of capital.

(iii) Leased assets

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

(iv) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future 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 fixed assets in operation are recognised in profit or loss when 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 are as follows:

Substations	20 - 40 years
Transmission lines	20 - 50 years
Fibre-optic cables	20 years
Buildings	50 years
Other assets	4 - 10 years

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

Notes, continued

3. Significant accounting policies, contd.:

d. Intangible assets

(i) Developement cost

Developement cost is capitalised within fixed assets. This cost consists largely of expenses relating to exploration for transmission line sites, preparation for transmission structures and environmental impact assessments of proposed projects. The Company has concluded agreements whereby the prospective buyers of electricity shall bear all expenses of the project if it is cancelled. Cost of capital attributable to developement costs is capitalised except when there is a extended delay on the projects. Developement cost is not depreciated at this stage, but possible impairment losses have been considered, as discussed in Note 3h.

When the decision to construct a transmission structure has been made and all neccessary approvals have been obtained, the development cost of the transmission structure is capitalised in fixed assets as a project under construction.
At each accounting date, capitalised development cost is reviewed by management and impairment is recognised if premises for the recognition of development cost no longer exist.
Expenditure on research activities is recognised in profit or loss when incurred.

(ii) Software and other intangible assets

Software and 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. The estimated useful lives of software for the current and comparative periods are 4 years.

e. Investment in subsidiaries

The Company has one subsidiary, Landsnet ehf. The financial statements of the two companies are not consolidated and the holding is recognised at historical cost. The subsidiary has had insubstantial activity since its establishment. The share capital of the subsidiary is ISK 500 thousand.

f. Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over 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-accounted 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 undertaken an obligation for or made payments on behalf of the investee.

g. 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.

h. 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.

3. Significant accounting policies, contd.:

(ii) Other assets

The carrying amount of the Company's other assets, except for inventories and deferred tax assets, is reviewed at each reporting date to determine whether there is any indication of an impairment loss. If any such indication exists, the asset'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. An impairment loss of revalued assets is recognised in revaluation account amongst retained earnings.

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

i. Employee benefits

(i) Defined contribution plans

The Company pays a contribution for part of 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 under salary and salary related expenses as incurred.

(ii) Defined benefit plans

Under an agreement between the Company and the Pension Fund for State Employees (LSR), the Company's obligations regarding employees who are members of LSR shall be settled yearly. LSR estimates specifically at year-end the present value of the pension obligation accrued during the year and deducts from that amount the contributions paid by employees and the Company to LSR due to pension rights accrued during the year. The difference is recognised in profit or loss and settled on a yearly basis. The actuarial estimation shall assume that the obligation accrued for the year is calculated to the present value at year-end using the interest rate normally used to estimate the obligations of pension funds, which is currently 3.5% per annum.

j. 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 of 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. The discounted value is entered, on the one hand, as an increase for the relevant asset and, on the other hand, as an obligation in the balance sheet. Estimated demolition cost is discounted by the nominal yield of state-guaranteed securities, which is currently 6.9% (2010: 5.9%) and is recognised as financial expenses.

k. Revenue

Income from the transmission of electricity is recognised 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 opinion. On the basis of Article 12 of the Electricity Act No. 65/2003, the National Energy Authority sets an annual limit on the Company's revenue from transmission of electricity to distribution system operators on the one hand and industrial users on the other hand. Article 12 of the Electricity Act states, among other things, the following:

3. Significant accounting policies, contd.:

The National Energy Authority must establish an income possibility curve (revenue cap) for the transmission system operator with regard to the expense of transmitting electricity to distribution system operators, on the one hand, and to large-scale (industrial) users, on the other hand. In the establishment of an income possibility curve, account shall be taken of whether the connection of large-scale users will lead to, or has led to, increased efficiency in the development and use of the system.

The income possibility curve shall be determined based on the following criteria:

1. Expenses relating to the company's operation, including expenses relating to maintenance, leasing costs relating to transmission facilities, general operating expenses and expenses incurred by system management.
2. The profitability of the transmission system operator shall be as close as possible to weighted average cost of capital (WACC), after allowing for income tax and excluding any price index effects. Profitability is calculated as the ratio of earnings before financial income, financial expenses and taxes (EBIT) to the carrying value of fixed assets plus 20% of the preceding year's revenue cap to cover expenses of current assets.
3. Depreciation of fixed assets, cf. to paragraph 2.
4. Taxes.

The revenue cap must be decided for a five-year period at a time, but reviewed annually. Each review must include consideration of whether any of the premises on which the revenue cap decision was based have changed. Over- or under-collected revenue with reference to the revenue cap may be transferred between years when the annual revenue-cap-based settlement is made. However, accumulated over- or under-collected revenue shall never exceed more than 10% of the updated revenue cap for each settlement year. Should it transpire upon the revenue-cap-based settlement that the accumulated over-collection of revenue has exceeded this limit, measures shall be taken to lower the percentage below the specified limit no later than by the end of the following year. Under-collected revenue in excess of the limit specified above is not allowed to be carried over between years.

The transmission company shall establish tariffs for its service in accordance with the revenue cap pursuant to paragraph 2. The tariff shall apply to distribution system operators on the one hand and industrial users on the other hand.

No later than six weeks before the tariff enters into force, it shall be submitted to the National Energy Authority. If the National Energy Authority believes that the presented tariff is in breach of the provisions of this Act or the of regulations, it shall send comments thereon to the transmission company within three weeks from the date it received the tariff. The tariff does not become valid until it has been adjusted on the basis of the National Energy Authority's assessment. The transmission company shall publish the tariff publicly.

Act No. 19/2011 contains a transitional provision on the treatment of accumulated over-collected revenue from previous years, which reads as follows: “In the event that accumulated over-collected revenue exceeds 10% of the updated revenue cap at year-end 2010, the transmission system operator or distribution system operator, as applicable, shall set its tariff each year, as of 2011, at a level reducing the percentage of accumulated over-collected revenue until it is lower than 10%. Accumulated over-collected revenue shall not exceed 10% of the updated revenue cap at year-end 2020. In the event that accumulated under-collected revenue exceeds 10% of the updated revenue cap at year-end 2010, the tariff may be set at a level reducing the percentage below 10% by year-end 2020, whilst ensuring that each year’s revenue does not exceed the updated revenue cap for that year by more than 3% as a result. Accumulated over-collected revenue at year-end 2010 shall be converted to USD at the exchange rate on the date when the total amount of over-collected revenue becomes known.”
Landsnet will be obliged to repay the difference between its revenue and the revenue cap for previous years in accordance with this provision, cf. Note 29.

The Company's tariff is denominated partly in ISK and partly in USD.

l. 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, the amount of which corresponds to financing cost and depreciation during the year, in relation to the use of electricity companies' transmission structures. The lease charge is regulated by the National Energy Authority.

3. Significant accounting policies, contd.:

m. 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.

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.

Foreign currency gains and losses are reported on a net basis.

n. 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 recognised 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. The income tax rate is 20%.

o. 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 to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is the same as basic EPS, as the Company has not issued any call options or convertible bonds.

p. Segment reporting

Under the Electricity Act, the Company may only administer the transmission of electricity and system management in Iceland and operate an electricity trading market. The Company has not begun operating an electricity trading market and considers its present operation as one single segment, for which reason it does not provide segment reporting.

q. New standards and interpretations thereof

The Company has implemented all International Financial Reporting Standards, amendments thereto and interpretations confirmed by the EU at year-end 2011 and that apply to its operations. The Company has not implemented standards, amendments thereto or interpretations entering into effect after year-end 2011 but allowed to be implemented sooner. The effect thereof on the Company's financial statements has not been fully determined but is considered to be insubstantial.

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. Trade and other receivables

The fair value of trade and other receivables is measured at the estimated discounted cash flow, based on market interests on the reporting 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. Revenue

Transmission revenue consist of:

	2011	2010
Energy transmission	10,325,878	11,261,469
Transmission losses and ancillary services	1,377,923	1,419,108
Service income	19,127	18,842
Input fees	82,033	82,033
Transmission revenue total	11,804,961	12,781,452

6. Other income

Other income consist of:

Income from work sold	66,366	54,239
Rental income	7,029	9,754
Sales profit from fixed assets	24,864	1,016
Other income total	98,259	65,009

7. Energy procurement costs

Energy procurement costs consist of:

Electricity purchases due to transmission losses	887,062	1,101,812
Purchase of ancillary services	459,163	445,350
Other energy purchases	22,915	16,603
Energy procurement costs total	1,369,140	1,563,765

8. Personnel expenses

Salaries and other personnel expenses consist of:

Salaries	973,906	892,422
Defined contribution plan payments	114,182	97,922
Defined benefit plan payments	16,215	17,902
Other payroll expenses	113,359	102,835
Personnell expenses total	1,217,662	1,111,081

Personnel expenses are specified as follows:

Transmission costs	477,104	431,502
System operation	436,362	388,926
Other operating expenses	304,196	290,653
	1,217,662	1,111,081

Average number of employees	109	102
Full-time equivalent units at year-end	94	95

Remuneration of the Board of Directors, CEO and two Executive Directors were as follows:

Remuneration of the Board of Directors	5,040	5,066
Remuneration and benefits of the CEO	21,181	15,145
Remuneration of two Excecutive Directors	33,892	32,728

Financial Statements of Landsnet hf 2011 18 Amounts are in ISK thousand

9. Depreciation and amortisation

Depreciation and amortisation are specified as follows:

	2011	2010
Depreciation of fixed assets in operation, see Note 12	2,428,630	2,395,282
Amortisation and impairment losses, see Note 13	137,818	146,054
Depreciation and amortisation recognised in the income statement	2,566,448	2,541,336

Depreciation and amortisation are allocated as follows to operating items:

	2011	2010
Transmission costs	2,398,162	2,352,942
System operation	40,149	44,024
Other operating expenses	128,137	144,370
Depreciation and amortisation recognised in the income statement	2,566,448	2,541,336

10. Financial income and expenses

Financial income and expenses are specified as follows:

	2011	2010
Interest income	27,079	129,061
Net gain in fair value of market securities	57,430	17,819
Exchange rate difference	0	974,525
Total financial income	84,509	1,121,405
Interest expenses	(2,202,114)	(2,334,422)
Indexation	(2,294,596)	(1,002,536)
Exchange rate difference	(98,623)	0
Changes in fair values of derivatives	0	236,644
Change in present value of the provision due to site restoration	56,442	(203,622)
Capitalised interest expense due to projects under construction	58,236	27,928
Total financial expenses	(4,480,655)	(3,276,008)
Net financial expenses	(4,396,146)	(2,154,603)

Net financial expenses due to the construction of a transmission infrastructure amounting to ISK 58 million (2010: 28 million) is capitalised and has been reported as a reduction in financial expenses.

Capitalised financial expenses were 8.0% of capital tied in transmission structures under construction during the year (2010: 5.3%). This is the Company's average finance cost in the year 2011.

11. Income tax

Income tax recognised in the income statement is specified as follows:

	2011	2010
Calculated income tax for the year	(209,957)	(755,086)
Effect of changed tax rate	0	122,750
Income tax recognised in the income statement	(209,957)	(632,336)
Income tax recognised in equity:		
Effect of increased tax rate on income tax liability due to revaluation	0	(262,515)
Change in income tax liability	(209,957)	(894,851)

Change in deferred income tax liability is specified as follows:

	2011	2010
Change in temporary differences	211,626	122,306
Change in carry-forward losses	(421,583)	(877,391)
Effect of changed income tax rate	0	(139,766)
Change in deferred tax assets	(209,957)	(894,851)

Financial Statements of Landsnet hf 2011 19 Amounts are in ISK thousand

11. Income tax, contd.:

Reconciliation of effective tax rate

		2011		2010
Profit before income tax		1,049,787		4,194,920
Income tax according to the current tax rate	18.0%	(209,957)	18.0%	(755,086)
Difference due to change in tax rate	0.0%	0	(2.9%)	122,750
Effective tax rate	18.0%	(209,957)	15.1%	(632,336)

12. Fixed assets in operation:

Basis of revaluation of fixed assets in operation

In accordance with the International Accounting Standard IAS 16, the Company's lines and substations are recognised according to the revaluation method. A revaluation was conducted on those assets in the year 2008. The revaluation was based on two methods. First, it was based on the estimated reconstruction cost of the transmission system, which was calculated by independent experts at the beginning of year and projected to year-end 2008. Second, the operating value was measured using a cash flow analysis. The valuation period was from 2009 to 2013, with the future operating value calculated thereafter. The year's revaluation was based on the operating value, the main premises of which were the Company's operating budgets for the years 2009-2013, a 30% equity ratio and that Landsnet's tariff for transmission to distributors would reflect price developments in Iceland while the tariff for industrial users would reflect price level changes in the United States. The estimation of weighted-average cost of capital (WACC) was based on comparable companies abroad. It is the opinion of the Company's management that nothing gives reason for a revaluation in the year 2011.

Fixed assets in operation:

	Substations	Transmission lines	Other	Total
Cost				
Balance at 1.1.2010	21,829,651	45,793,896	2,753,105	70,376,652
Additions	201,071	240,960	141,221	583,252
Transferred from projects under construction and intangible assets	235,504	1,552,384	0	1,787,888
Sold and disposed of	0	0	(986)	(986)
Effects of assets available for sale	0	0	9,095	9,095
Balance at 31.12.2010	22,266,226	47,587,240	2,902,435	72,755,901
Additions	108,022	101,794	220,552	430,368
Transfer	(196,372)	196,372	0	0
Transferred from projects under construction and intangible assets	488,231	179,844	0	668,075
Sold and disposed of	0	(732,960)	(987)	(733,947)
Balance at 31.12.2011	22,666,107	47,332,290	3,122,000	73,120,397
Depreciation				
Balance at 1.1.2010	2,517,384	5,226,940	460,967	8,205,291
Depreciation	746,592	1,509,976	138,714	2,395,282
Sold and disposed of	0	0	(628)	(628)
Balance at 31.12.2010	3,263,976	6,736,916	599,053	10,599,945
Depreciation	751,760	1,544,455	132,415	2,428,630
Transfer	(7,579)	7,579	0	0
Sold and disposed of	0	(94,916)	(670)	(95,586)
Balance 31.12.2011	4,008,157	8,194,034	730,798	12,932,989

Financial Statements of Landsnet hf 2011 20 Amounts are in ISK thousand

12. Fixed assets in operation, contd.:

Fixed assets in operation:

	Substations	Transmission lines	Other	Total
Carrying amount				
1.1.2010	19,312,267	40,566,956	2,292,138	62,171,361
31.12.2010	19,002,250	40,850,324	2,303,382	62,155,955
31.12.2011	18,657,950	39,138,256	2,391,202	60,187,407
Carrying amount without revaluation				
1.1.2010	16,448,685	26,802,708	2,292,138	45,543,531
31.12.2010	16,254,195	27,682,918	2,303,382	46,240,495
31.12.2011	16,025,423	26,567,291	2,391,202	44,983,916

Assets available for sale

In the year 2011 the Company sold its property at Bústaðavegur. The property previously housed, among other things, the Company's Control Centre. At year-end 2010 the property was recognised as asset available for sale.

Rateable value and insurance value

The rateable value of the Company's real property amounts to upwards of ISK 2.5 billion (2010: ISK 3.0 billion). Assessed value for the same property's fire insurance amounts to ISK 4.6 billion (2010: ISK 5.1 billion) and book value amounts to ISK 3.9 billion (2010: ISK 4.5 billion). The insurance value of the Company's assets amounts to ISK 37.3 billion (2010: ISK 36.2 billion), excluding transmission lines and cables, which are insured by an emergency insurance fund. The Company's emergency insurance amounts to ISK 99.8 billion (2010: ISK 91.3 billion).

Projects under construction:

	Projects under construction
Cost	
Balance at 1.1.2010	1,612,158
Additions	539,741
Transferred to fixed assets in operation	(1,726,358)
Balance at 31.12.2009	425,541
Additions	518,809
Transferred to fixed assets in operation	(668,075)
Balance at 31.12.2010	276,275

13. Intangible assets:

	Capitalised development cost	Software	Total
Cost			
Balance at 1.1.2010	1,277,786	375,195	1,652,981
Additions	123,412	6,579	129,991
Transferred to projects under construction	(61,529)	0	(61,529)
Balance at 31.12.2010	1,339,669	381,774	1,721,443
Additions	149,317	4,490	153,807
Transferred to projects under construction	(56,233)	0	(56,233)
Sold and disposed of	(85,577)	0	(85,577)
Balance at 31.12.2011	1,347,176	386,264	1,733,440

Financial Statements of Landsnet hf 2011 21 Amounts are in ISK thousand

13. Intangible assets, contd.:

Amortisation and impairment losses

Balance at 1.1.2010	45,324	128,307	173,631
Amortisation and impairment losses	81,626	64,428	146,054
Balance at 31.12.2010	126,950	192,735	319,685
Amortisation and impairment losses	85,464	52,354	137,818
Balance at 31.12.2011	212,414	245,089	457,503

Carrying amount

1.1.2010	1,232,462	246,888	1,479,350
31.12.2010	1,212,719	189,039	1,401,758
31.12.2011	1,134,762	141,175	1,275,937

14. Investment in subsidiary

The breakdown of investment in subsidiary is as follows:

	2011		2010	
	Share	Carrying amount	Share	Carrying amount
Landsnet ehf	100.00%	500	100.00%	500

The Company's share in Landsnet ehf is stated at cost as the firm has not conducted any operations from its establishment.

15. Investment in associates

The breakdown of investment in associates is as follows:

	2011		2010	
	Share	Carrying amount	Share	Carrying amount
Orkufjarskipti hf.	50.00%	627,835	-	-
Netorka ehf	38.71%	48,942	36.58%	51,167
Total investment in other companies		676,777		51,167

At year-end, the Company took part in a share capital increase of Orkufjarskipti hf. (previously Fjarski ehf.). Landsnet hf. acquired a 50% stake in Orkufjarskipti; another 50% stake is held by Landsvirkjun. The payment for the shares was in the form of delivery of the Company's telecommunications property. The assets delivered were valuated at a total of ISK 662.8 billion, whereas the share capital increase amounted to ISK 627.8 billion at purchase price. Orkufjarskipti paid the ISK 34.9 billion difference with a bond issued to Landsnet.

At the time of preparing Landsnet hf's financial statements, the financial statements of Netorka ehf were not available. However, the estimated share in Netorka's profit amounts to ISK 6 million for the year 2011 (2010: ISK 9 million).

16. Inventories

Inventories are spare parts and material inventories. The expensed write-down of inventories amounted to ISK 10 million (2010: ISK 0).

17. Trade and other receivables

Trade and other receivables:

	2011	2010
Trade receivables	500,695	807,150
Other receivables	145,730	42,683
Trade and other receivables total	646,425	849,833

Financial Statements of Landsnet hf 2011 22 Amounts are in ISK thousand

18. Cash and cash equivalents

Cash and cash equivalent is specified as follows:

	2011	2010
Bank balances	10,242,916	3,658,587
Market securities	267,750	597,314
Cash and cash equivalent total	10,510,666	4,255,901

19. Equity

Share capital

The Company's total share capital according to its Articles of Association was ISK 5,903 million at year-end. The Company holds no treasury shares. Each share of ISK in the Company carries one vote. All share capital has been paid.

Revaluation account

The Company's revaluation account consists of the revaluation increase of the Company's fixed assets after income tax effects. Depreciation of the revalued price is entered in the income statement and transferred from the revaluation account to unadjusted loss.

Dividends

The Company paid no dividends in 2011 for the financial year 2010, nor in the year 2010 for the financial year 2009. Accumulated deficit amounts to ISK 5.7 billion at year end and therefore not permitted to pay dividend to shareholders.

20. Earnings per share

	2011	2010
Basic and diluted earnings per share:		
Profit to shareholders	839,830	3,562,584
Weighted average number of ordinary shares at 31 December	5,902,733	5,902,733
Basic and diluted earnings per share	0.14	0.60

21. Interest-bearing loans and borrowings

This Note provides information on the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

Long-term liabilities

	2011	2010
Indexed bond loan from parent company in ISK, fixed interest of 4.21%	40,828,055	38,800,453
Loan agreement with parent company in USD, LIBOR + margin	3,558,590	3,336,450
Loan agreement in CHF, LIBOR + margin	7,657,983	7,203,755
Indexed bond loan in ISK, fixed interest of 5%	5,175,789	5,031,012
	57,220,417	54,371,670
Current maturities on long-term liabilities	(4,073,121)	(119,067)
	53,147,296	54,252,603

Short-term liabilities

Short-term loans from parent company specifies as follows:

	2011	2010
Accrued interest of long-term liabilities with parent company	1,347,270	1,297,882
Loan agreement with the parent company in USD as part of current maturities on long-term liabilities	3,558,590	0
Total interest-bearing short-term liabilities	4,905,860	1,297,882
Current maturities on long-term liabilities	(3,558,590)	0
Short-term loans from parent company total	1,347,270	1,297,882

Financial Statements of Landsnet hf 2011 23 Amounts are in ISK thousand

21. Loans and borrowings, contd.:

The bond from the parent company is an inflation-indexed bullet bond maturing in 2020 with interest payable once per year. Indexed bond loans from third parties consist of a 25-year superannuation loan. The loan agreement with the parent company is denominated in USD amounted to ISK 3.6 billion and will be fully paid in October 2012.

Terms of interest-bearing loans and borrowings

Debts in foreign currencies:

		2011		2010	
	Final maturity	Interest rate	Carrying amount	Interest rate	Carrying amount
Debt in CHF	2022	0.28%	7,657,983	0.46%	7,203,755
Debt in USD	2012	4.07%	3,558,590	3.79%	3,336,450
			11,216,573		10,540,205
Debt in ISK:					
Indexed	2020 - 2034	4.21 - 5%	46,003,844	4.21 - 5%	43,831,465
Total interest-bearing loans and borrowings			57,220,417		54,371,670

Maturities by year of interest-bearing loans and borrowings:

	2011	2010
Year 2012/2011	4,073,121	119,067
Year 2013/2012	904,094	3,821,733
Year 2014/2013	911,096	851,804
Year 2015/2014	918,451	858,457
Year 2016/2015	926,179	865,448
Later	49,487,476	47,855,161
	57,220,417	54,371,670

22. Deferred tax liability

The breakdown of deferred tax liability is as follows:

	2011	2010
Deferred tax liability at 1 January	1,397,656	502,804
Calculated income tax for the year	209,957	632,336
Effect of changed tax rate on previous revaluation on transmission	0	262,515
Deferred tax liability at 31 December	1,607,613	1,397,656

The breakdown of deferred tax liability was as follows at year-end:

	2011	2010
Fixed assets in operation	2,945,402	3,130,833
Intangible assets	154,274	131,702
Investment in companies	5,072	3,969
Other obligations	(153,417)	(103,547)
Tax losses carried forward	(1,343,718)	(1,765,301)
Deferred tax liability at 31 December	1,607,613	1,397,656

The carry-forward taxable loss amounted to ISK 6.7 billion. The loss is utilisable against taxable income over ten years from when the loss is incurred. The management believes that the Company's operation over the next years will generate taxable income and that the accumulated carry-forward taxable loss will be fully utilised. Carry-forward taxable loss at year-end 2011 will be utilisable as follows:

Loss for the year 2008, applicable until year 2018	6,718,590	8,826,507
Total unadjusted taxable loss	6,718,590	8,826,507

Financial Statements of Landsnet hf 2011 24 Amounts are in ISK thousand

23. Deferred income

Deferred income is recognised with regard to connection charges paid by electricity buyers to the Company during the year. At year-end, deferred income amounted to ISK 136 millon (2010:0). The part of deferred income that will be recognised in the income statement next year is recognised in current liabilities. Connection charges recognised in profit or loss for 2011 amounted to ISK 1 million (2010: 0).

24. Provision due to site restoration

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

Balance at 1.1.	752,523	582,404
Present value for the year reversed	(56,442)	203,622
(Decrease) increase in provision	0	(33,503)
Balance at year-end	696,081	752,523

Under IAS 16, the initial value of property, plant and equipment shall include their estimated cost of demolition after use. The estimated cost of demolition of lines has been assessed and then discounted based on assessed useful life. In return, an obligation has been written up under 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.

25. Pension fund obligation

The Pension Fund for State Employees calculates at the end of each year the benefit plan obligation accrued for the year. Actuary assessment is based on the accrued obligation for the year being discounted at year-end on the basis of the annual interest rate generally used to assess pension fund obligations. The present annual rate is 3.5%. A total of ISK 16 million is expensed in relation thereto for 2011 (2010: 18 million).

26. Trade and other payables

Trade and other payables are specified as follows:	**2011**	**2010**
Trade payables	770,410	843,715
Other payables	446,011	227,128
Trade and other payables total	1,216,421	1,070,843

27. Financial instruments

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 its 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 regarding financial risk both from its employees and external consultants and discusses it regularly at Board meetings.

The Company's objective is to discover and analyse the risks it faces, set a benchmark for 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 owing to the failure of a customer or counterparty to a financial instrument to meet its contractual obligations. The Company's credit risk is mainly due to trade receivables.

Financial Statements of Landsnet hf 2011 25 Amounts are in ISK thousand

27. Financial instruments, contd.:

Trade and other receivables

In general, the Company's customers are financially strong energy companies, which have conducted business with the Company since its establishment. The Company's largest customers are also shareholders in the Company. Approximately 85% (2010: 85%) of the Company's transmission income derives from the Company's shareholders.

Highest possible loss due to credit risk

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

	2011	2010
Receivables from parent company	578,827	498,720
Trade and other receivables	646,425	849,833
Cash and cash equivalents	10,510,666	4,255,901
Highest possible loss due to credit risk total	11,735,918	5,604,454

Impairment losses

No impairment loss has been recognised in relation to accounts receivable at year-end; nor has loss on receivables been expensed during the year, which is based on the management's experience. As of its establishment, the Company has not incurred losses on accounts receivable and its representatives have assessed its credit risk as insubstantial based on current operations. 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 endeavours to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has a revolving credit facility with the parent company, Landsvirkjun, in the amount of USD 50 million. At year-end, credit drawn under the facility amounted to USD 29 million. In 2012 the Company will repay the USD 29 million in credit drawn under the facility, which will then terminate.

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

2011

	Carrying amount	Contractual cash flow	Within 12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities:						
Long-term liabilities from parent comp.	45,733,915	60,031,225	5,452,282	1,718,861	5,156,583	47,703,499
Long-term liabilities	12,833,772	17,012,224	805,305	1,190,909	3,632,129	11,383,881
Trade and other payables	1,216,421	1,216,421	1,216,421	0	0	0
	59,784,108	78,259,870	7,474,008	2,909,770	8,788,712	59,087,380

2010

	Carrying amount	Contractual cash flow	Within 12 months	1-2 years	2-5 years	After 5 years
Long-term liabilities from parent comp.	43,434,784	58,882,712	1,848,071	5,166,196	4,900,497	46,967,948
Long-term liabilities	12,234,768	16,252,621	409,083	769,457	3,370,997	11,703,084
Trade and other payables	1,070,843	1,070,843	1,070,843	0	0	0
	56,740,395	76,206,176	3,327,997	5,935,653	8,271,494	58,671,032

Financial Statements of Landsnet hf 2011 26 Amounts are in ISK thousand

27. Financial instruments, contd.:

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 holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Company's functional currency. The Company's functional currency is the Icelandic króna (ISK). However, the Company derives substantial part of its income in US dollars. In 2011, 62.1% (2010: 64.5%) of the Company's total revenue was in USD while purchases were mainly in ISK but a portion of its purchases is made in other currencies than Icelandic króna (ISK), mainly in euro (EUR) and USD. The main currencies posing a foreign exchange risk are the USD and the Swiss Francs (CHF). In 2011, it is estimated that 63.6% of the Company's total revenue will be in USD.

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

The Company's currency risk on borrowings denominated in foreign currencies, USD and CHF, is partly hedged against its revenues. The interest rates on these borrowings are on average lower than those on the Company's ISK-denominated borrowings.

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

	EUR	CHF	USD
2011			
Trade and other receivables	963	0	225,536
Long term liabilities from parent company	0	0	(3,558,590)
Other long-term liabilities	0	(7,657,983)	0
Trade and other payables	(72,975)	(6,945)	(2,497)
Net currency risk	(72,012)	(7,664,928)	(3,335,551)
2010			
Trade and other receivables	0	23,867	931,145
Long term liabilities from parent company	0	0	(3,336,450)
Other long-term liabilities	0	(7,203,755)	0
Trade and other payables	(35,196)	(35,224)	(1,977)
Net currency risk	(35,196)	(7,215,112)	(2,407,282)

	Av. exch. rate for the year		Year-end exch. rate	
	2011	2010	2011	2010
Currency risk				
EUR	161.42	161.89	158.84	153.80
CHF	131.20	117.24	130.66	122.91
USD	116.07	122.04	122.71	115.05

Sensitivity analysis

A 10% strengthening of the ISK against the following currencies at 31 December would have increased (decreased) after-tax profit or loss 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 2010.

	2011	2010
EUR	5,761	2,886
CHF	613,194	591,639
USD	266,844	197,397

Financial Statements of Landsnet hf 2011 27 Amounts are in ISK thousand

27. Financial instruments, contd.:

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, given that all other variables remain constant.

Interest rate risk

The Company's borrowings bear both variable and fixed interest. The majority of the Company's borrowings bear fixed interest, cf. Note 21.

The breakdown of the Company's interest-bearing financial instruments at year-end was as follows:

	Carrying amount 2011	2010
Financial instruments with floating interest rate		
Financial liabilities	11,216,573	10,540,205
Financial instruments with fixed interest rate		
Financial liabilities	46,003,844	43,831,465

Cash-flow sensitivity analysis for fixed-interest-rate instruments

The Company's liabilities carrying fixed interest rates are, on the one hand, an indexed bullet bond repayable in a single payment in 2020 to its parent company and, on the other, a 25-year superannuation bond loan. These liabilities are not recognised at fair value. Therefore, interest changes on the settlement date should not affect the Company's income statement.

Cash-flow sensitivity analysis for floating interest rate instruments

An increase in interest rates of 100 basis points at the reporting date would have increased (decreased) equity and profit or loss after tax by the amounts stated below. 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 assumes that all other variables, in particular the exchange rates, remain constant. The analysis was performed in the same manner for the year 2010.

	Earnings 100bp increase	100bp decrease
31 December 2011		
Financial instruments with floating interest rates	(87,027)	53,988
Cash flow sensitivy (net)	(87,027)	53,988
31 December 2010		
Financial instruments with floating interest rates	(110,760)	83,255
Cash flow sensitivy (net)	(110,760)	83,255

Fair value

Fair value versus carrying amounts

The fair values and carrying amounts of financial assets and liabilities as reported in the balance sheet are specified as follows:

	2011 Carrying amount	Fair value	2010 Carrying amount	Fair value
Loans and receivables	1,225,252	1,225,252	1,348,553	1,348,553
Cash and cash equivalents	10,510,666	10,510,666	4,255,901	4,255,901
Long-term liabilities from parent company	44,386,645	49,935,197	42,136,902	47,892,715
Other long-term liabilities	12,833,772	13,282,842	12,115,701	12,937,796
Loans from parent company, short-term	1,347,270	1,347,270	1,297,882	1,297,882
Trade and other payables	1,216,421	1,216,421	1,070,843	1,070,843
	71,520,026	77,517,648	62,225,782	68,803,690

Financial Statements of Landsnet hf 2011 28 Amounts are in ISK thousand

27. Financial instruments, contd.:

Interest rate in valuation of fair value

Where applicable, expected contractual cash flow is discounted using the interest rate on government bonds plus a 0.4% margin on the reporting date.

Classification and fair value of financial assets and liabilities

The following table shows the Company's classification of financial assets and liabilities and their fair value (before accrued interest).

	Financial assets and liabilities designated at fair value	Loans and receivables	Financial liabilities at amortised cost	Carrying amount
2011				
Receivables from parent company		578,827		578,827
Trade and other receivables		646,425		646,425
Cash and cash equivalents	267,750	10,242,916		10,510,666
	267,750	11,468,168	0	11,735,918
Loans from parent company			44,386,645	44,386,645
Other long-term liabilities			12,833,772	12,833,772
Trade and other payables		1,216,421		1,216,421
	0	1,216,421	57,220,417	58,436,838
2010				
Receivables from parent company		498,720		498,720
Trade and other receivables		849,833		849,833
Cash and cash equivalents	597,314	3,658,587		4,255,901
	597,314	5,007,140	0	5,604,454
Loans from parent company			42,136,902	42,136,902
Other long-term liabilities			12,115,701	12,115,701
Trade and other payables		1,070,843		1,070,843
	0	1,070,843	54,252,603	55,323,446

Other market price risk

Other market price risk is limited because investment in bonds and shares is an insubstantial part of the Company's operations.

Capital management

Under Act No. 65/2003, the Company’s profitability must be determined on the basis of weighted average cost of capital (WACC). The National Energy Authority appointed three experts in a committee to determine the WACC for the transmission system operator. The committee has delivered a temporary decision with a target of a 45% equity ratio for the framework for power-intensive consumers and 30% for the framework for distribution system operators (the general public).

The Company is not subject to external rules on minimum capital requirements.

28. Operating leases

The Company as lessee

The Company leases a part of the transmission structures it uses from domestic energy companies. The lease agreements have an indeterminate lease term and the lease price is determined by the National Energy Authority. Expensed lease payments in 2011 amounted to ISK 74 million (2010: ISK 150 million).

Financial Statements of Landsnet hf 2011 29 Amounts are in ISK thousand

29. Pending revenue-cap-based settlement

Under the Electricity Act No. 65/2003, the National Energy Authority shall set a revenue cap for Landsnet hf in advance and for specified periods. The revenue cap was initially set for only a single year at a time for 2005 and 2006. In 2006, the revenue cap was set for a three-year period, 2007-2009, for the first time as prescribed by the then current Act. The 2010 revenue cap was not set by the Authority until August 2011, and for only a single year owing to amendments made to the Electricity Act in the latter year.

Act No. 19/2011 introduced a number of major amendments to the Electricity Act with respect to the revenue cap regime. These amendments apply to the setting of the revenue cap as of 2011. The most important changes are that the revenue cap period has been lengthened to five years, profitability is now defined on the basis of weighted average cost of capital (WACC), the asset base for power-intensive consumers has been converted to USD and account is now taken of the return on current assets. Previously, the company's profitability was tied to the yield on five-year non-indexed government bonds and determined as the same for both revenue frameworks, i.e. power-intensive consumers and distribution system operators. Under the current Act, different profitability limits apply to the revenue cap for power-intensive consumers and distribution system operators. The revenue cap must be set no later than 15 September of the year prior to the year in which the new revenue cap takes effect.

A temporary decision on the profitability criteria was recently submitted by a special committee appointed by the National Energy Authority on the basis of the Act, and will apply as of 1 January 2011. The profitability criteria are a fundamental determinant of the revenue cap, i.e. the Company's allowed revenue.

Article 12a of the Electricity Act states that: "The transmission system operator shall establish a tariff for its services in accordance with the income possibility curve [revenue cap] pursuant to Article 12. The tariff shall apply to, on the one hand, the consumption of distribution system operators from the transmission system and, on the other hand, the consumption of power-intensive consumers, which shall be determined in United States dollars." The Company's revenue cap has yet to be set for the period 2011-2015. As a result of this and owing to delays in determining the profitability criteria, uncertainty has surrounded the Company's tariffs for 2011 and, consequently, the revenue-cap balance at year-end 2011. The same applies to the 2012 revenue cap and tariff to date. This creates some uncertainty as regards the year's operating results.

Settlement for 2006-2010

Under the Electricity Act, the National Energy Authority's decision on the updated revenue cap and the settlement for the preceding year must be submitted no later than 1 August each year, together with reasoning for any changes. Despite this provision, no confirmation of the settlements for the period 2006-2010 had been received on the signing date of the Company's 2011 annual financial statements. The delays in effecting a settlement for this period have caused some uncertainty with regard to the Company's performance measurement for 2011 and previous years.

Revenue in excess of revenue cap

Between 2005 and August 2007, Landsnet's revenue and revenue cap for distribution system operators and power-intensive consumers were denominated in ISK. In August 2007, after obtaining the National Energy Authority's approval, the tariff currency for power-intensive consumers was changed to USD, in accordance with the interests of consumers operating mostly in that currency. At the time, the decision was made not to change the revenue cap for power-intensive consumers to reflect the changed tariff base.

In May 2011, the National Energy Authority sent Landsnet its decisions regarding the setting and settlement of the revenue cap for the period 2006-2009. In November 2011, the Authority again sent Landsnet its decisions regarding the revenue-cap-based settlement for the years 2006-2010, without withdrawing the previous decisions from May. Landsnet objected to the latter settlement and appealed the decisions regarding the period 2006-2009 to the Appeals Committee on Electricity. Negotiations have since been ongoing between Landsnet and the Authority in an aim to reach a conclusion on the revenue cap settlement.

Power-intensive consumers

Following the 2008 economic collapse and the ISK depreciation, Landsnet's USD-denominated revenue from power-intensive consumers increased substantially in ISK. The legislator showed willingness to address the problem that this presented regarding the revenue cap regime and to amend the legal framework so that the revenue cap for power-intensive consumers would be denominated in the same currency as the tariff. With Act No. 19/2011, the asset base from which profitability and depreciation are derived as determinants of the revenue cap for power-intensive consumers was converted to USD. Based on the available information, Landsnet's debt relating to the revenue-cap framework for power-intensive consumers amounts to ISK 3.5 billion.

29. Pending revenue-cap-based settlement, contd.:

Distribution system operators

At year-end 2011, a dispute remained to be resolved between Landsnet and the National Energy Authority regarding the profitability criteria used to determine the revenue cap for distribution system operators for the period 2006-2009 and the interpretation of a transitional provision of the Electricity Act in this respect. Since the final decision in this matter is still pending, the level of the revenue cap for distribution system operators during this period remains unclear. Based on the available information, the amount ranges between no liability to a debt of ISK 1.5 billion. Landsnet has initiated legal proceedings before the Reykjavík District Court to determine the interpretation of the said transitional provision, which applies to the period 2006-2009.

Amounts

A transitional provision of Act No. 19/2011 provides that, in the event of over-collection of revenue for previous years, Landsnet shall set its tariff at a level ensuring that over-collected revenue does not exceed 10% of the revenue cap at year-end 2020. The balance in question is not subject to interest calculation or inflation-indexation. On the basis of the above, Landsnet reduced its tariff rates for power-intensive consumers at the beginning of June 2011 by 5%.

As mentioned, the total amount of revenues in excess of the revenue cap for 2006-2011 remains uncertain. Based on the available information, it ranges between ISK 3.5 billion and ISK 5.0 billion, excluding discounting, which would reduce the liability to some extent. Adjusting for the profitability criteria put forward, the amount of the corresponding liability discounted to present value, based on a 10-year linear repayment profile, ranges between ISK 2.4 billion and ISK 3.3 billion. There are a number of uncertainties, such as the settlement of amounts for 2006-2010, the amount of the revenue cap for 2011, the effects of discounting and the method of tariff reduction, i.e. linear or otherwise. The provisions of Act No. 19/2011 do not require Landsnet to deliver cash or other assets in repayment of over-collected revenue, nor does the legislator require the Company to provide

On the basis of the above information, the provisions of law concerning the repayment of over-collected revenue and the provisions of the International Financial Reporting Standards, no effects of revenue-cap-based settlements for 2006-2011 are recognised in Landsnet's 2011 annual financial statements.

30. Related parties

Definition of related parties

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

Transactions with senior management

(i) Payments to senior management

In addition to receiving salaries, the Chief Executive Officer and Managing Directors (Vice Presidents) 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

	2011	2010
Sale of goods and services:		
Landsnet's parent company and its subsidiaries	6,425,860	7,029,305
Landsnet's other shareholders	3,876,713	3,875,086
Sale of goods and services to related parties total	10,302,573	10,904,391
Cost:		
Landsnet's parent company and its subsidiaries	1,162,453	1,391,220
Landsnet's other shareholders	573,704	741,964
Landsnet's associate	471	649
	1,736,628	2,133,833

In addition the costs outlined above, the Company paid ISK 1,855 million (2010: ISK 1,980 million) in interest to its parent company.

Financial Statements of Landsnet hf 2011 31 Amounts are in ISK thousand

30. Related parties, contd.:

Balance:

Trade receivables and trade payables with related parties are as follows:

	2011		2010	
	Receivables	**Payables**	**Receivables**	**Payables**
Landsnet's parent company and its subsidiaries	578,827	0	498,720	0
Landsnet's other shareholders	313,717	(6,491)	477,237	(204,507)
	892,544	(6,491)	975,957	(204,507)

Other receivables and payables with related parties are as follows:

	2011	2010
Interest-bearing liabilities to parent company, see note 21	44,386,645	42,136,903
Accrued interest payable to parent company	1,347,270	1,297,882
	45,733,915	43,434,785

31. Financial ratios

The company's key financial ratios:

Financial performance:

	2011	2010
EBITDA	8,006,865	8,882,008

Financial position:

	2011	2010
Current ratio – current assets/current liabilities	1.84	2.60
Equity ratio – equity/total assets	16.7%	16.5%
Return on equity	7.2%	42.8%

Financial Statements of Landsnet hf 2011 32 Amounts are in ISK thousand

Corporate Governance Statement

Role of Landsnet hf.

Under the Electricity Act No. 65/2003, Landsnet's role is to operate an electricity transmission system and administer its system management. The Company must ensure and maintain the capabilities of the transmission system on a long-term basis and ensure the electricity system's operational security. Landsnet's role is also to maintain a balance between electricity supply and demand at all times and manage the settlement of electricity flows countrywide. In addition, the Company is charged with promoting an efficient electricity market.

Corporate governance

The Board of Directors of Landsnet hf is committed to maintaining good corporate governance and complying with the Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers on 18 June 2009. The Board adopts Rules of Procedure defining the scope of its powers and duties vis-à-vis the President & CEO. The current Rules of Procedure were confirmed at the Annual General Meeting of Landsnet held on 31 March 2010 and are available for inspection at the Company's head office.

Internal control and risk management

To ensure that Landsnet's financial statements accord with generally accepted accounting practice, the Company has emphasised well-defined areas of responsibility, proper segregation of duties, regular reporting and transparency in its activities. The process of monthly reporting and reviews for individual departments is an important part of monitoring financial performance and other key performance indicators. Monthly financial results are produced and submitted to the Company's Board of Directors. The Board of Directors monitors the Company's financial risk and receives regular reports thereon. Information on risk management is provided in Note 27 to the annual financial statements.

Corporate values and Code of Ethics

Landsnet's employees are obliged to abide by the Company's values in all their activities. Its corporate values are informed by its role and future vision and provide the foundation for the corporate culture for which the Company strives. Landsnet's values are: reliability, progress, economy and respect. These values are further defined as follows:

• Reliability. We show independence whilst maintaining due confidentiality and equal treatment of our customers. We show integrity and diligence in our behaviour and work methods.

• Progress. We take initiative, seek out opportunities and strive for continual improvement. We are creative and develop methods and solutions that stimulate competition. We pride ourselves on completing tasks and projects promptly and methodically.

• Economy. We maintain prudent stewardship of our funds and other resources and are guided by profitability targets.

• Respect. Our customers come first. We respect the natural environment and seek to minimise any undesirable effects of our operations. We respect our colleagues and their views and do not compromise on personal safety.

Landsnet's Code of Conduct was approved at a meeting of the Board of Directors on 25 July 2005 and is designed to encourage honesty, justice and fairness among staff towards each other, the Company and its customers. The Code is also intended to promote the trust and confidence of customers and the general public in Landsnet, as well as to limit the risk of reputational damage. The Board of Directors is of the view that a clear Code of Conduct that is duly observed in the Company's day-to-day activities forms the basis of its success and future growth. Landsnet's Code of Conduct applies to all its employees, including the Directors and the President & CEO. The Code of Conduct is available for inspection at Landsnet's head office.

Landsnet is committed to a strong community awareness. The Company's policies include that the development of the transmission system aims to deliver macroeconomic benefits and minimise any undesirable environmental impact of its operations. They also include that Landsnet honours its obligations and supports projects that are of relevance to its activities and benefit society.

Landsnet's management structure

The main units of Landsnet's management structure are the Board of Directors and the Executive Committee. Key roles are also performed by two committees appointed by the Board of Directors: the Audit Committee and the Remuneration Committee..

Relations between shareholders and the Board of Directors/management

Under the provisions of Act No. 75/2004 on the Establishment of Landsnet and the Electricity Act No. 65/2003, the Company's Directors shall be independent in all respects from other companies engaging in the generation, distribution or sale of electricity, whether these companies are owners of the Company or not. The purpose of these provisions is to meet the statutory requirement that the transmission system operator maintains utmost impartiality and non-discrimination in its activities.

With respect to the Company's special status under Chapter III of the Electricity Act and its strict duties to maintain impartiality and non-discrimination, it should be reiterated that shareholders are not permitted to interfere in individual affairs relating to Landsnet's activities.

As a rule, the shareholders' involvement must be limited to general policy decisions taken at regular shareholders' meetings, e.g. on financial targets.

Board of Directors

The Board of Directors of Landsnet hf is the supreme authority in the Company's affairs between Annual General Meetings. The Board is responsible for the Company's policy-making and major decisions between shareholders' meetings, as specified in, e.g., the Rules of Procedure of the Board of Directors. The Board supervises all Company operations, and works to ensure that its activities are in proper and good order at all times. The Board ensures sufficient supervision of the Company's financial management and that its accounts and financial statements are in good order. The Board engages the Chief Executive Officer of the Company, whose salary and employment terms are decided by the Remuneration Committee.

Landsnet's Board of Directors consists of the following three members:

Geir A. Gunnlaugsson, Chairman of the Board

Geir A. Gunnlaugsson was born on 30 July 1943 and lives in Reykjavík. He read mechanical engineering at the University of Iceland, earned an MSc degree in mechanical engineering from the Technical University of Denmark and a PhD from Brown University, USA. He was professor of mechanical engineering at the University of Iceland in 1975-1986. He was chief executive of Icelandic Metals in 1983-1987, Marel in 1987-2002 and Hæfi in 2000-2006, chairman of Reyðarál in 2000-2003 and chief executive of Promens in 2003-2006. Mr Gunnlaugsson has served on government negotiating committees on power-intensive industry and on the board of the Marketing Office of the Ministry of Industry and the National Power Company in 1988-1997, including as chairman in 1989-1997. He has sat on the board of numerous businesses, both Icelandic and foreign, as well as other organisations and institutions, and has extensive experience in business management in Iceland and overseas. He is a member of the board of directors of the following companies: Polyform AS, Norway, chairman, 3X Technology ehf, chairman, Fálkinn hf, chairman, and Jarðboranir hf (Iceland Drilling), chairman. Mr Gunnlaugsson was elected to Landsnet's Board of Directors at the Annual General Meeting of the Company on 31 March 2011.

Agnar Olsen, Director

Agnar Olsen was born on 9 March 1943 and lives in Garðabær, Iceland. He read civil engineering at the University of Iceland and took an MSc degree in civil engineering from the Technical University of Denmark. After working at Landsvirkjun for one year, he joined the engineering firm Verkfræðistofa dr. Gunnars Sigurðssonar. He then rejoined Landsvirkjun, starting in the Line Department before becoming chief engineer in the Engineering Department and head of the Engineering and Construction Division. He was Director of the CEO's Office for three years until retiring in 2011. Mr Olsen has served on various boards and committees for Landsvirkjun and Samorka – Icelandic Energy and Utilities. Mr Olsen was elected to Landsnet's Board of Directors at the Annual General Meeting of the Company on 31 March 2011.

Svana Helen Björnsdóttir, Director

Svana Helen Björnsdóttir was born on 20 December 1960 and lives in Seltjarnarnes, Iceland. She holds a BSc degree in electrical engineering from the University of Iceland and an MSc in electrical power engineering from the Technische Universität Darmstadt in Germany. In recent years, she has worked mainly in the information technology sector. She is currently CEO of the information security company Stiki ehf. She also holds a diploma in operations management from the University of Iceland, is an IRCA-certified lead auditor of ISO/IEC 27001 information security management systems and has served on various boards and committees in Iceland and abroad. Ms Björnsdóttir is a member of the board of directors of Stiki ehf. She has extensive experience in business management, international co-operation and export activities. She was elected to Landsnet's Board of Directors at the Annual General Meeting of the Company on 31 March 2009.

The Alternate Director is Guðrún Ragnarsdóttir.

A total of 18 meetings of the Board of Directors were held in 2011, with one absence at a single meeting.

Landsnet´s Executive Committee

Þórður Guðmundsson, President & CEO, is a member of the Executive Committee.

Mr Guðmundsson was born on 2 October 1949 and lives in Garðabær, Iceland. Born in 1949, he pursued studies at the Industrial Vocational School in Reykjavík, the Technical College of Iceland and the Norwegian University of Science and Technology, from which he graduated with an MSc degree in electrical engineering in 1978. He joined Landsvirkjun in 1978, starting as an engineer and later becoming chief engineer in the Operations department until appointed managing director of Operations in 1992. Following organisational changes in 1997, he became managing director of the Transmission division until appointed Landsnet's President & CEO on 1 January 2005.

The President & CEO is responsible for the Company's day-to-day activities. He/she is empowered to make decisions on all Company affairs not entrusted to others under Act No. 2/1995 and/or the Company's Articles of Association. The President & CEO conducts the operations of the Company in accordance with rules and/or decisions of the Board of Directors, the Articles of Association and the law. The President & CEO's signature constitutes an obligation on the Company's part. He/she is an authorised signatory of the Company ("procuration holder"). The President & CEO may grant power of attorney to other employees of the Company to exercise designated powers of his/her duties of office, provided that prior approval is obtained from the Board of Directors. The President & CEO is responsible for detecting, measuring, monitoring and controlling risks relating to the Company's operations. The President & CEO must maintain an organisation chart of the Company that clearly delineates areas of responsibility, employees' powers and communication channels within the Company. The President & CEO shall set internal control targets in consultation with the Board and monitor the effectiveness of internal control mechanisms. The President & CEO prepares meetings of the Board of Directors together with its Chairman and reports regularly to the Board on the Company's activities and position. The President & CEO is the chairman of the board of Landsnet ehf and a director of Samorka.

Audit Committee

The current Audit Committee of Landsnet hf was appointed on 10 November 2011 and consists of:
Ólafur Nilsson, accountant, Chairman
Geir A. Gunnlaugsson, Chairman of the Board of Landsnet hf
Svana Helen Björnsdóttir, Director of Landsnet hf

The Audit Committee has adopted Rules of Procedure, which define the Committee's role as follows:
The Audit Committee shall, among other things, have the following role, regardless of the responsibilities of the Board of Directors, management staff or others in this area:

- Oversight of procedures for the preparation of financial statements.
- Oversight of the structures and functioning of the Company's internal controls, internal auditing, if applicable, and risk management.
- Oversight of the auditing of the annual financial statements and consolidated financial statements.
- Assessment of the independence of the Company's auditor or audit firm; monitoring of the work of the auditor or audit firm.

The Audit Committee also makes proposals for improvements and deliberates on matters at the Board's request.

The Audit Committee held two formal meetings in 2011 and one preparatory meeting in the autumn. The majority of Landsnet's Directors at the time were present at the Committee's meeting held in March 2011. A new Audit Committee was appointed at a Board meeting held on 10 November 2011. This newly appointed Committee held two meetings in 2011, which were attended by all Committee members, with one exception. The current Audit Committee has met regularly since its appointment, with four formal meetings and one preparatory meeting held between December 2011 and March 2012, all of which were attended by all Committee members, with one exception.

Remuneration Committee

The Board of Directors of Landsnet hf performs the role of the Company's Remuneration Committee. Landsnet hf has formulated a Remuneration Policy, which was approved at the Company's Annual General Meeting on 31 March 2011. The Remuneration Policy can be viewed on the Company's website. The business of the Remuneration Committee is transacted at meetings of the Board of Directors when applicable.