LANDSNET

Financial Statements 2018

Landsnet hf.
Gylfaflöt 9
112 Reykjavík

Reg. no. 580804-2410

Contents

Endorsement by the Board of Directors and the CEO

Landsnet hf. was established in 2004 and 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 2018

Profit of the year amounted to 37 million USD and total profit amounted to 36 million USD. The Company's equity at year end amounted to 370 million USD, including share capital in the amount of 46 million USD. Average number of employees was 126.

Share capital at year end 2018 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%

The Board of Directors of the Company is composed of three women and two men. The Board thus meets the requirement of Article 63 of the Public Limited Companies Act that the ratio of each gender on the Board of Directors shall not be lower than 40%.

The Company's Board of Directors will during the Annual General Meeting propose a dividend payment to the owners of the Company but otherwise refer to the notes to the financial statements and statement of equity for further changes in equity.

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 Corporate Governance Statement, which is appendix 1 in the Financial Statements, provides further information.

Non-financial information

Further discussion about non-financial information is in appendix 2 in the Financial Statements.

Statement of the Board of Directors and the CEO

According to the best of the Board of Director's and the CEO's knowledge, the financial statements are in accordance with the International Financial Reporting Standards as adopted by the EU and it is the Board's and CEO's opinion that the annual financial statements give a true and fair view of the financial performance of the Company for the financial year 2018, its assets, liabilities and financial position as at 31 December 2018 and its cash flows for the financial year 2018.

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 2018 and confirmed them by means of their signatures.

Reykjavik, 15 February 2019

The Board of Directors:

Sigrún Björk Jakobsdóttir
Svana Helen Björnsdóttir
Ólafur Rúnar Ólafsson
Ómar Benediktsson
Svava Bjarnadóttir

CEO:

Guðmundur Ingi Ásmundsson

Independent Auditor's Report

To the Shareholder of Landsnet hf.

Opinion

We have audited the financial statements of Landsnet hf. for the year ended December 31, 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Landsnet hf. as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Landsnet hf. in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on key audit matters.

Key Audit Matters	How the matter was addressed in our audit
Valuation of transmission lines and substations	
Transmission lines and substrations are the companies most valuable assets and its valuation is based on management estimations, therefore we consider it to be a key audit matter. Transmission lines and substrations are recognised according to the revaluation method. At the year-end 2018 its carrying amount was USD 700 million or 83% of total assets. Revaluation is performed on a regular basis, when management assesses that its fair value has changed significantly. Operating value was measured using a cash flow analysis. The assets were revaluated at year-end 2015 and it is management estimation that there is no basis for revaluation at year-end 2018. As to the valuation of the assets, we refer to fixed assets in operation note 13 and accounting policies notes 33c and 33h.	Our audit was focused on management estimations of operating value of transmission lines and substations at the year-end 2018. We examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included.: • Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used. We assessed if the valuation´s calculations were in accordance with IFRSs and assessed that the discloures were appropriate. We have also examined management judgement related to additions and depreciation methods in accordance with IFRS.

Other information

Management is responsible for the other information. The other information comprises the report of board of directors, non-financial reporting and corporate governance statement which is an appendix in the Financial Statement. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, 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.

In preparing the financial statements, management is responsible for assessing Landsnet hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Landsnet hf.'s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Landsnet hf.'s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Reykjavik, 15 February 2019

Deloitte ehf.

Páll Grétar Steingrímsson
State Authorized Public Accountant

Rúnar Dór Daníelsson
State Authorized Public Accountant

Income Statement for the year 2018

	Notes	2018	2017
Operating revenue			
Transmission	5	152,073	145,533
Other income	6	2,066	1,793
		154,139	147,326
Operating expenses			
Energy procurement costs	7	26,533	24,826
Transmission costs	9,10	48,522	45,536
System operation	9,10	9,193	9,005
Other operating expenses	9,10	8,839	8,621
		93,087	87,988
Operating profit		61,052	59,338
Financial income		4,641	943
Financial expenses		(19,624)	(25,383)
Net financial expenses	11	(14,983)	(24,440)
Share in net earnings of associated company	16	217	164
Profit before income tax		46,286	35,062
Income tax	12,23	(9,152)	(7,049)
Profit		37,134	28,013
Profit earnings per share:			
Basic and diluted earnings profit per each 1 share	21	0.82	0.62

Notes no. 1 to 33 are an integral part of these financial statements.

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Statement of Comprehensive Income for the year 2018

	Notes	2018	2017
Profit		37,134	28,013
Items under total (loss) profit recognised among equity:			
Translation difference due to subsidiaries and associated companies ...		(770)	540
Total items under total (loss) profit recognised among equity		(770)	540
Total profit of the year		36,364	28,553

Notes no. 1 to 33 are an integral part of these financial statements.

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Balance Sheet as at 31 December 2018

	Notes	31.12.2018	31.12.2017
Assets			
Fixed assets in operation	13	724,047	731,133
Projects under construction	13	22,573	17,485
Intangible assets	14	26,205	20,180
Investments in subsidiary and associates	15,16	6,819	7,372
Long-term note		909	1,044
Fixed assets		780,553	777,214
Inventories	17	5,150	5,111
Receivable from parent company	30	5,394	5,131
Trade and other receivables	18	16,456	14,671
Cash and cash equivalents	19	38,779	49,175
Current assets		65,779	74,088
Total assets		846,332	851,302
Equity			
Share capital		45,549	45,549
Statutory reserve		7,961	6,104
Restricted equity		586	369
Revaluation account		192,714	200,766
Foreign currency translation		619	1,389
Retained earnings		122,874	82,787
Equity	20	370,303	336,964
Liabilities			
Long term liabilities from parent company	22	68,234	135,054
Other interest bearing long-term liabilities	22	294,747	274,947
Deferred income tax liability	23	55,126	51,090
Deferred income	24	2,847	3,043
Provision due to site restoration	25	9,011	8,551
Long-term liabilities and obligations		429,965	472,685
Loans from parent company	30	866	1,609
Current maturities	22	23,240	18,604
Income tax payable	12,23	5,182	4,978
Trade and other payables	27	16,776	16,462
Short-term liabilities		46,064	41,653
Total liabilities		476,029	514,338
Total equity and liabilities		846,332	851,302

Notes no. 1 to 33 are an integral part of these financial statements.

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Statement of Changes in Equity for the year 2018

	Share capital	Statutory reserve	Restricted equity	Foreign currency translation	Revaluation account	Retained earnings	Total
Year 2017:							
Equity at 1 January 2017	45,549	4,703	205	849	210,520	46,585	308,411
Foreign currency translation				540			540
Profit of the year						28,013	28,013
Total comprehensive profit				540		28,013	28,553
Share in net earnings of associated company			164			(164)	0
Transfer to statutory reserve		1,401				(1,401)	0
Depreciation on revaluation recognised under accumulated deficit					(9,754)	9,754	0
Equity at 31 December 2017	45,549	6,104	369	1,389	200,766	82,787	336,964
Year 2018:							
Equity at 1 January 2018	45,549	6,104	369	1,389	200,766	82,787	336,964
Foreign currency translation				(770)			(770)
Profit of the year						37,134	37,134
Total comprehensive profit				(770)		37,134	36,364
Share in net earnings of associated company			217			(217)	0
Transfer to statutory reserve		1,857				(1,857)	0
Dividends paid to shareholders						(3,025)	(3,025)
Depreciation on revaluation recognised under accumulated deficit					(8,052)	8,052	0
Equity at 31 December 2018	45,549	7,961	586	619	192,714	122,874	370,303

Notes no. 1 to 33 are an integral part of these financial statements.

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Statement of Cash Flows for the year 2018

	Notes	2018	2017
Cash flow from operating activities			
Operating profit		61,052	59,338
Adjustments for:			
(Profit) loss from sales of fixed assets	6	(9)	2
Depreciation and amortisation	10	29,643	28,484
Working capital from operation before financial items and taxes		90,686	87,824
Operating assets, increase		(1,961)	(7,362)
Operating liabilities, increase		379	4,158
Net Cash from operating activities before financial items and taxes		89,104	84,620
Interest income received		1,344	943
Interest expenses paid and foreign exchange difference		(15,164)	(12,546)
Taxes paid		(4,911)	(4,291)
Net cash from operating activities		70,373	68,726
Cash flow from investing activities			
Investment in transmission infrastructures		(26,330)	(71,559)
Other investments		(7,949)	(3,163)
Proceeds from sale of property, plant and equipment		47	30
Long-term note, payments		60	65
Net cash to investment activities		(34,172)	(74,627)
Cash flow from financing activities			
Payment of loans from parent company	22	(67,602)	(65,602)
New long-term liabilities	22	40,000	109,737
Payments of long-term liabilities	22	(13,073)	(7,724)
Dividends paid to shareholders		(3,025)	0
Net cash to financing activities		(43,700)	36,411
Net (decrease) increase in cash and cash equivalents		(7,499)	30,510
Effect of exchange rate changes on cash and cash equivalents		(2,897)	412
Cash and cash equivalents at 1 January		49,175	18,253
Cash and cash equivalents at 31 December	19	38,779	49,175

Notes no. 1 to 33 are an integral part of these financial statements.

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Notes to the Financial Statements

1. Reporting entity

Landsnet hf. 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

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 15 February 2019.

Details of the Company's accounting policies are included in note 33.

3. Functional and presentational currency

The financial statements are presented in USD, which is the Company's functional currency. Amounts are presented in USD thousand unless otherwise stated. The financial statements have been prepared on the historical cost basis, except for the Company's transmission system is recognised at a revalued amount.

4. 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 13 and 33c - Fixed assets in operation
- Note 14 and 33d - Intangible assets
- Note 25 and 33j - Estimation of provision due to site restoration
- Note 23 and 33n - Income tax

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. Landsnet revaluates part of fixed assets to fair value, as stated in note 13. Other assets and liabilities are not recognised at fair value.

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.

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 interest at the reporting date.

5. Revenue

See accounting policies in note 33k

Transmission revenue consist of:	**2018**	**2017**
Energy transmission to power-intensive consumers	73,558	69,522
Energy transmission to distribution system operators	50,466	47,675
Transmission losses and ancillary services	26,276	26,613
Input fees	1,148	1,161
Service income	625	562
Transmission revenue total	152,073	145,533

5. Revenue, contd.:

Landsnet's largest customers are also shareholders in the company. Further information on revenues from shareholders is provided in Note 30 on related parties.

6. Other income

Other income consist of:

	2018	2017
Income from work sold	664	675
Rental income	585	284
Income from guarantees of origin and certification	648	752
Sales profit from fixed assets	9	0
Other income	160	82
Other income total	2,066	1,793

7. Energy procurement costs

Energy procurement costs consist of:

	2018	2017
Electricity purchases due to transmission losses	17,842	16,513
Purchase of ancillary services	8,691	8,313
Energy procurement costs total	26,533	24,826

8. Fee to auditors

Fee to auditors consist of:

	2018		2017	
	Audit of Financial Statement	Other service	Audit of Financial Statement	Other service
Deloitte ehf.	63	44	91	50

Other services in 2018 consists of costs relating to a review of interim financial statements and other purchased services.

9. Personnel expenses

See accounting policies in note 33c and 33i

Salaries and other personnel expenses consist of:

	2018	2017
Salaries	15,021	14,177
Defined contribution plan payments	2,129	1,971
Defined benefit plan payments	33	170
Other payroll expenses	1,318	1,284
Capitalised salaries	(2,111)	(2,159)
Personnell expenses total	16,390	15,443

Personnel expenses are specified as follows:

	2018	2017
Transmission costs	7,006	6,353
System operation	4,155	4,145
Other operating expenses	5,229	4,945
Salaries and other personnel expenses total	16,390	15,443
Average number of employees	126	127
Full-time equivalent units at year-end	120	120

Personnel expenses in Icelandic krona increases about 6.7% but in US dollars the increase is about 5.1%.

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9. Personnel expenses, contd.:

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

	Thousand ISK		Thousand USD	
	2018	2017	2018	2017
Remuneration of the Board of Directors	12,878	11,928	119	112
Remuneration and benefits of the CEO	29,856	22,912	275	215
Remuneration of Excecutive Directors	109,289	104,564	1,009	979

10. Depreciation and amortisation

See accounting policies in notes 33c and 33d

Depreciation and amortisation are specified as follows:

	2018	2017
Depreciation of fixed assets in operation, see Note 13	28,849	27,926
Amortisation and impairment losses, see Note 14	794	558
Depreciation and amortisation recognised in the income statement	29,643	28,484

Depreciation and amortisation are allocated as follows to operating items:

	2018	2017
Transmission costs	28,462	27,339
System operation	450	346
Other operating expenses	731	799
Depreciation and amortisation recognised in the income statement	29,643	28,484

11. Financial income and expenses

See accounting policies in note 33m

Financial income and expenses are specified as follows:

	2018	2017
Interest income	763	769
Net gain in fair value of marketable securities	580	174
Exchange rate difference	3,298	0
Total financial income	4,641	943
Interest expenses	(19,326)	(20,336)
Indexation	(1,450)	(798)
Exchange rate difference	0	(5,606)
Change in present value of the provision due to site restoration	(460)	(1,467)
Capitalised interest expense	1,612	2,824
Total financial expenses	(19,624)	(25,383)
Net financial expenses	(14,983)	(24,440)

Net financial expenses due to the construction of a transmission infrastructure and capitalised development cost amounting to 1.6 million USD (2017: 2.8 million USD) is capitalised and has been reported as a reduction in financial expenses.

Capitalised financial expenses were 5.1% of capital tied in transmission structures under construction during the year (2017: 5.2%). This is the Company's average finance cost.

12. Income tax

See accounting policies in note 33n

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

	2018	2017
Deferred income tax for the year	(3,970)	(2,071)
Income tax payable	(5,182)	(4,978)
Income tax recognised in the income statement	(9,152)	(7,049)
Effective tax rate	19.8%	20.1%

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13. Fixed assets in operation:

See accounting policies in note 33c

Fixed assets in operation:

	Substations	Transmission lines	Other	Total
Cost				
Balance at 1.1.2017	358,729	546,663	33,815	939,207
Additions	3,861	7,491	981	12,333
Transferred from projects under construction	54,507	27,168	0	81,675
Sold	0	0	(140)	(140)
Balance at 31.12.2017	417,097	581,322	34,656	1,033,075
Additions	4,054	2,059	4,044	10,157
Transferred from projects under construction	10,914	730	0	11,644
Sold	0	0	(189)	(189)
Balance at 31.12.2018	432,065	584,111	38,511	1,054,687
Depreciation				
Balance at 1.1.2017	97,232	164,668	12,223	274,123
Depreciation	12,070	14,659	1,197	27,926
Sold	0	0	(107)	(107)
Balance at 31.12.2017	109,302	179,327	13,313	301,942
Depreciation	12,268	15,220	1,361	28,849
Sold	0	0	(151)	(151)
Balance 31.12.2018	121,570	194,547	14,523	330,640
Carrying amount				
1.1.2017	261,497	381,995	21,592	665,084
31.12.2017	307,795	401,995	21,343	731,133
31.12.2018	310,495	389,564	23,988	724,047
Carrying amount without revaluation				
1.1.2017	164,310	216,031	21,592	401,933
31.12.2017	215,543	243,287	21,343	480,173
31.12.2018	222,241	236,924	23,988	483,153

Basis of revaluation of fixed assets in operation

In accordance with the International Accounting Standard, the Company's lines and substations are recognised according to the revaluation method. These assets were revalued at year-end 2015 and information of it´s premises is in note 33c. Each year the Company´s management assess the premises for revaluation and it´s the assessment of the Company´s management, a revaluation of fixed assets in operation in 2018 is not necessary. The revaluation has been categorised as level 3 fair value.

Projects under construction:	2018	2017
Balance at 1.1.	17,485	51,615
Additions	19,503	54,850
Transferred to fixed assets in operation	(11,644)	(81,675)
Transferred to intangible assets	(2,771)	(7,305)
Balance at 31.12.	22,573	17,485

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13. Fixed assets in operation, contd.:

Rateable value and insurance value

The rateable value of the Company's real property amounts to upwards of 61.7 million (2017: 54.1 million). Assessed value for the same property's fire insurance amounts to 117.8 million (2017: 101.3 million) and book value amounts to 82.2 million (2017: 51.2 million). The insurance value of the Company's assets amounts to 639.8 million (2017: 591.9 million), excluding transmission lines and cables, which are insured by an emergency insurance fund. The Company's emergency insurance amounts to 1,218.3 million (2017: 1,207.7 million).

14. Intangible assets:

See accounting policies in note 33d and 33h

	Capitalised development cost	Software	Total
Cost			
Balance at 1.1.2017	14,025	4,894	18,919
Additions	2,302	128	2,430
Transferred to projects under construction	7,305	0	7,305
Balance at 31.12.2017	23,632	5,022	28,654
Additions	4,048	0	4,048
Transferred to projects under construction	2,771	0	2,771
Balance at 31.12.2018	30,451	5,022	35,473
Amortisation and impairment losses			
Balance at 1.1.2017	4,968	2,948	7,916
Amortisation and impairment losses	226	332	558
Balance at 31.12.2017	5,194	3,280	8,474
Amortisation and impairment losses	523	271	794
Balance at 31.12.2018	5,717	3,551	9,268
Carrying amount			
1.1.2017	9,057	1,946	11,003
31.12.2017	18,438	1,742	20,180
31.12.2018	24,734	1,471	26,205

Development costs are reviewed each year by the management of Landsnet hf. and are examined for any indications of impairment. If the management believes that impairment has occurred, that development cost is expensed as impairment.

15. Investment in subsidiary

See accounting policies in note 33e

The breakdown of investment in subsidiary is as follows:

	31.12.2018 Share	31.12.2018 Carrying amount	31.12.2017 Share	31.12.2017 Carrying amount
Landsnet ehf.	100.00%	4	100.00%	5

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

16. Investment in associates

See accounting policies in note 33f

The breakdown of investment in associates is as follows:

	2018 Share in net earnings	2017 Share in net earnings	31.12.2018 Carrying amount	31.12.2017 Carrying amount
Orkufjarskipti hf. 50%	217	164	6,815	7,367

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17. Inventories

See accounting policies in note 33g

Inventories are spare parts and material inventories. Depreciation of inventories during the year 2018 amounted to 0.2 million USD (2017: 0) and are expensed at transmission costs.

18. Trade and other receivables

See accounting policies in note 33b

Trade and other receivables:

	31.12.2018	31.12.2017
Trade receivables	15,767	11,154
Other receivables	689	3,517
Trade and other receivables total	16,456	14,671

At the year-end 85.6% of trade receivables were less than 30 days (2017: 92.4%).

19. Cash and cash equivalents

See accounting policies in note 33b

Cash and cash equivalents:

	31.12.2018	31.12.2017
Bank deposits in USD	19,793	32,785
Bank deposits in other currency	7,647	7,631
Money market funds in ISK	11,339	8,759
Cash and cash equivalents total	38,779	49,175

20. Equity

See accounting policies in note 33b

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 retained earnings (unadjusted loss).

Statutory reserve

Under the Public Limited Companies Act, 25% of the nominal value of the Company’s share capital must be held in a statutory reserve, which is not permitted to be used to pay dividends to shareholders. 10% of each year’s profit must be deposited in the reserve until it amounts to 10% of the nominal value of the share capital, when the percentage deposited becomes 5%. 5% of the year´s profit was deposited in the reserve in 2018.

Foreign currency translation

Foreign currency translation is the foreign exchange difference arising due to subsidiary and associated company with other functional currencies.

Restricted equity

Under the Annual Accounts Act, the Company must transfer its share in the profit or loss of associates exceeding received dividends, or dividend payouts that have been decided, into a restricted reserve account among equity. The Company has neither received dividends nor has been assigned dividends from its associates and therefore has all share in their earnings been transfered to restricted reserve account among equity.

Dividends

Dividends in the amount of ISK 300 million (3.0 million USD) were paid out in 2018 for the financial year 2017. By comparison the Company did not pay out any dividends in 2017 for the financial year 2016.

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21. Profit earnings per share

See accounting policies in note 33o

Basic and diluted profit earnings per share:

	2018	2017
Profit to shareholders	37,134	28,013
Weighted average number of ordinary shares at 31 December	45,549	45,549
Basic and diluted earnings per share	0.82	0.62

22. Interest-bearing loans and borrowings

See accounting policies in note 33b

This Note provides information on the contractual terms of the Company's interest-bearing loans and borrowings:

	31.12.2018	31.12.2017
Long-term liabilities		
Loan from parent company in USD, fixed interest	78,836	144,921
Loan agreement and notes in USD, fixed interest	243,797	208,638
Loan agreement in CHF, LIBOR + margin	20,849	27,044
Listed indexed bond loan in NASDAQ OMX in ISK, fixed interest	42,740	48,002
	386,221	428,605
Current maturities on long-term liabilities	(23,240)	(18,604)
Interest-bearing long-term liabilities total	362,981	410,001

As at year-end 2018, the Company meets all current requirements of loan agreements regarding financial strength.

Terms of interest-bearing long-term liabilities

		31.12.2018		31.12.2017	
	Final maturity	Weighted avg. rate	Carrying amount	Weighted avg. rate	Carrying amount
Liabilities in USD	2020-2029	4.32%	322,633	4.26%	353,559
Liabilities in CHF	2022	0.00%	20,849	0.00%	27,044
Liabilities in ISK, indexed	2034	5.00%	42,740	5.00%	48,002
Total interest-bearing loans and borrowings			386,221		428,605

Maturities by year of interest-bearing loans and borrowings:

	2018	2017
Year 2018	-	18,604
Year 2019	23,240	18,795
Year 2020	80,970	134,038
Year 2021	17,840	9,054
Year 2022	14,983	21,167
Year 2023	23,121	-
Later	226,067	226,947
	386,221	428,605

Change in interest-bearing long-term liabilities are as follows:

	2018	2017
Interest-bearing long-term liabilities at the beginning of the year	428,605	383,312
New long-term liabilities	40,000	109,737
Payment of long-term liabilities	(80,675)	(73,326)
Exchange rate difference on long-term liabilities	(4,840)	4,911
Indexation and changes of discount on long-term liabilities	3,131	3,971
Interest-bearing long-term liabilities at the end of the year	386,221	428,605

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23. Deferred tax liability

See accounting policies in note 33n

The breakdown of deferred tax liability is as follows:

	2018	2017
Deferred tax liability at 1 January	51,090	49,019
Calculated income tax for the year	9,218	7,049
Income tax payable	(5,182)	(4,978)
Deferred tax liability at 31 December	55,126	51,090

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

	31.12.2018	31.12.2017
Fixed assets in operation	54,756	54,957
Intangible assets	2,437	1,754
Other assets	445	495
Provision due to site restoration	(1,802)	(1,710)
Other obligations	(776)	(644)
Unrealized exchange rate difference	66	(3,762)
Deferred tax liability at 31 December	55,126	51,090

24. Deferred income

Deferred income is recognised mostly with regard to connection charges paid by electricity buyers to the Company during the year. At year-end, deferred income amounted to 3.0 million USD (2017: 3.1 million USD). 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 2018 amounted to 0.2 million USD (2017: 0.1 million USD).

25. Provision due to site restoration

See accounting policies in note 33j

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

	2018	2017
Balance at 1.1.	8,551	7,023
Present value for the year reversed	460	1,466
Increase in provision	0	62
Balance at 31.12.	9,011	8,551

The initial value of property, plant and equipment includes the estimated cost of the demolition thereof after use. The estimated demolition cost of lines has been valuated and discounted based on life-cycle criteria. The discounted value is recognised as a provision under long-term liabilities. In the income statement, the change in the discounting provision, which is based on a 5.4% interest rate (2017: 5.2%), is reported under financial expenses, in addition to depreciation under operating expenses.

26. Pension fund obligation

See accounting policies in note 33i

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 3.46%. A total of 33 thousand USD is expensed in relation thereto for 2018 (2017: 170 thousand USD), but the accrued benefit plan obligation is paid in full each year.

27. Trade and other payables

See accounting policies in note 33b

Trade and other payables are specified as follows:

	31.12.2018	31.12.2017
Trade payables	10,094	10,729
Other payables	6,682	5,733
Trade and other payables total	16,776	16,462

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28. 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 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.

a. 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 and is dependant on the financial condition and operations of each customer and also cash and cash equivalent.

Trade and other receivables

The Company’s main customers are electricity generating companies, distribution system operators and power-intensive consumers. The Company's largest customers are also shareholders in the Company. Approximately 80% (2017: 83%) 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:

	31.12.2018	31.12.2017
Long-term note	968	1,107
Receivables from parent company	5,394	5,131
Trade and other receivables	16,397	14,609
Cash and cash equivalents	38,779	49,175
Highest possible loss due to credit risk total	61,538	70,022

Impairment losses

Write-down of receivables during the year amounted to USD 322 thousand. Loss on receivables expensed amounted to USD 8 thousand in 2017. The write-down of receivables is based on the management's assessment and experience. The Company's collection issues are reviewed on a regular basis.

b. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial commitments as they fall due. Landsnet´s aim is to manage its cash position so as to ensure that it has sufficient cash at all times to meet its commitments. During the year, the Company obtained a credit line facility from Landsbankinn hf. in the amount of USD 50 million. This facility is as yet undrawn.

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28. Financial instruments, contd.:

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

31.12.2018	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.	79,702	83,169	13,597	69,572	0	0
Long-term liabilities	309,586	412,072	25,889	25,696	92,263	268,225
Trade and other payables	9,351	9,351	9,351	0	0	0
	398,639	504,593	48,837	95,268	92,263	268,225
31.12.2017						
Non-derivative financial liabilities:						
Long-term liabilities from parent comp.	146,530	157,650	14,094	15,839	127,717	0
Long-term liabilities	285,707	394,095	16,257	20,829	69,164	287,844
Trade and other payables	11,088	11,088	11,088	0	0	0
	443,325	562,833	41,439	36,668	196,881	287,844

c. 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. Market risk consist of currency risk, interest rate risk and indexaton risk.

(i) Currency risk

Currency risk is the risk of a loss because of unfavorable changes in the rate of currencies. 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 US dollars and therefore a currency risk arises from the net cash flow and opening balance in currencies other than USD. Substantial part of the Company´s income derives from USD, but other income is in Icelandic króna (ISK). Currency risk regarding income in ISK is limited by being almost offset by purchasing in ISK, on the basis of cash flow. Two currencies in particular, the ISK and the Swiss franc (CHF), posed balance sheet currency risk during the year. At year-end, 83.5% of the Company´s long-term debt was denominated in USD, with 16.5% denominated in other currencies.

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 loan denominated in Swiss francs (CHF) poses a currency risk, but the interest rate on this loan is lower than on USD-denominated loans taken out by the Company.

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28. Financial instruments, contd.:

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

	EUR	CHF	ISK
31.12.2018			
Cash and cash equivalent	253	79	18,331
Trade and other receivables	18	0	7,723
Other long-term liabilities	0	(20,849)	(42,740)
Trade and other payables	(200)	0	(13,532)
Net currency risk	71	(20,770)	(30,218)
31.12.2017			
Cash and cash equivalent	324	199	15,431
Trade and other receivables	110	0	11,388
Other long-term liabilities	0	(27,044)	(48,002)
Trade and other payables	(2,805)	0	(11,871)
Net currency risk	(2,371)	(26,845)	(33,054)

	Av. exch. rate for the year		Year-end exch. rate	
	2018	2017	31.12.2018	31.12.2017
Currency risk				
EUR	0.85	0.84	0.87	0.83
CHF	0.98	0.98	0.98	0.97
ISK	0.01	0.01	0.01	0.01

Sensitivity analysis

A 10% strengthening of the USD 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 2017.

	31.12.2018	31.12.2017
EUR	6	(190)
CHF	(1,662)	(2,148)
ISK	(2,417)	(2,644)

A 10% weakening of the USD 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.

(ii) Interest rate risk

The Company´s interest rate risk arises from interest bearing assets and liabilities. The Company's borrowings bear both floating interest and fixed inflation-indexed interest. The majority of the Company's borrowings bear fixed interest, cf. Note 22. At year end 2018, the proportion of liabilities with floating interest rates was 5.4% (2017: 6.3%).

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

	Carrying amount	
	31.12.2018	31.12.2017
Financial instruments with floating interest rate		
Financial assets	38,779	49,175
Financial liabilities	(20,849)	(27,044)
	17,930	22,131
Financial instruments with fixed interest rate		
Financial assets	968	1,107
Financial liabilities	(365,373)	(401,561)
	(364,405)	(400,454)

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28. Financial instruments, contd.:

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

The Company's liabilities all carry fixed interest rates except for liability in Swiss franc (CHF). 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. The analysis was performed in the same manner for the year 2017.

	Earnings	
	100bp increase	100bp decrease
31.12.2018		
Financial instruments with floating interest rates	151	(332)
Cash flow sensitivy (net)	151	(332)
31.12.2017		
Financial instruments with floating interest rates	16	(576)
Cash flow sensitivy (net)	16	(576)

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:

	31.12.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term liabilities from parent company	(78,836)	(80,035)	(144,921)	(148,828)
Other long-term liabilities	(307,385)	(333,829)	(283,683)	(315,471)
	(386,221)	(413,864)	(428,604)	(464,299)

The fair values of other financial assets and liabilities are equivalent to its carrying amounts.

Interest rate in valuation of fair value

Where applicable, expected contractual cash flow is discounted using the interest rate on government bonds plus a 1% margin on the reporting date as in 2017.

Classification of financial assets and liabilities

The following table shows the Company's classification of financial assets and liabilities:

	Financial assets designated at fair value	Financial assets at amortised cost	Financial liabilities at amortised cost	Carrying amount
31.12.2018				
Long-term note		909		909
Receivables from parent company		5,394		5,394
Trade and other receivables		16,255		16,255
Cash and cash equivalents		38,779		38,779
	0	61,337	0	61,337
Loans from parent company			78,836	78,836
Other long-term liabilities			307,385	307,385
Trade and other payables			11,552	11,552
	0	0	397,773	397,773

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28. Financial instruments, contd.:

31.12.2017	Financial assets designated at fair value	Loans and receivables	Financial liabilities at amortised cost	Carrying amount
Long-term note		1,044		1,044
Receivables from parent company		5,131		5,131
Trade and other receivables		14,535		14,535
Cash and cash equivalents		49,175		49,175
	0	69,885	0	69,885
Loans from parent company			144,921	144,921
Other long-term liabilities			283,684	283,684
Trade and other payables			13,112	13,112
	0	0	441,717	441,717

As stated in the detailed note 33q(i), IFRS 9 retains most of the existing requirements of IAS 39 for the classification and measurement of financial liabilities. However, it eliminates previous categories of financial assets, i.e. held-to-maturity, loans and receivables and available-for-sale. Trade receivables and other receivables, which were previously classified as loans and receivables under IAS 39, are now classified as financial assets at amortised cost.

(ii) Indexation risk

Indexation risk is the risk of fluctuation in the Consumer Price Index (CPI) affecting the Company´s financial position and the cash flows of inflation-indexed financial instruments. At year-end, indexed liabilities comprised 11.1% of total long-term liabilities (2017: 11.2%).

An increase in the Consumer Price Index of 100 basis points at the reporting date would have (decreased) increased equity and profit or loss after tax by the amounts stated below. 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 2017.

	Earnings	
	100bp increase	100bp decrease
31.12.2018		
Inflation-indexed financial instruments	(367)	367
Cash flow sensitivy (net)	(367)	367
31.12.2017		
Inflation-indexed financial instruments	(395)	395
Cash flow sensitivy (net)	(395)	395

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

Landsnet places emphasis on maintaining a strong equtiy base that reflects the considerations underlying regulatory decisions on the Company´s profitability in the form of the revenue cap and supports the Company´s development.

29. 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 2018 amounted to 1.4 million USD (2017: 1.3 million USD).

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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 related parties are on the same basis as transactions with non-related parties. Landsnet applies an exemption from sidclosure requirements of IAS 24 as the Parent Company is owned by the State.

Payments to senior management

In addition to receiving salaries, the CEO and Managing Directors (Vice Presidents) of the Company receive a contribution to a defined benefit pension fund. They also receive a car allowance. Management's salaries are accounted for in Note 9.

Transactions with related parties

	2018	2017
Sale of goods and services:		
Landsnet's parent company and its subsidiaries	66,656	65,657
Landsnet's other shareholders	56,904	56,723
Sale of goods and services to related parties total	123,560	122,380
Cost of goods and services:		
Landsnet's parent company and its subsidiaries	17,275	21,939
Landsnet's other shareholders	5,067	3,878
Cost of goods and services to related parties total	22,342	25,817

In addition to the costs outlined above, the Company paid 4.8 million USD (2017: 4.9 million USD) in interest to its parent company. The Company also received minor interest income from a long-term receivable from an affiliated company.

Balance:

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

	31.12.2018		31.12.2017	
	Receivables	Payables	Receivables	Payables
Landsnet's parent company and its subsidiaries	5,394	0	5,131	0
Landsnet's other shareholders	6,040	0	7,194	0
	11,434	0	12,325	0

Other receivables and payables with related parties are as follows:

	31.12.2018	31.12.2017
Interest-bearing long-term note to associate	968	1,107
Interest-bearing liabilities to parent company, see note 22	(78,836)	(144,921)
Accrued interest payable to parent company	(866)	(1,609)
	(78,734)	(145,423)

31. Financial ratios

The company's key financial ratios:

Financial performance:	2018	2017
EBIT	61,052	59,338
EBITDA	90,695	87,822

Financial position:	31.12.2018	31.12.2017
Current ratio – current assets/current liabilities	1.43	1.78
Equity ratio – equity/total assets	43.8%	39.6%
Return on average equity	10.5%	8.7%

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32. 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, which was its fair value at revaluation date in the year 2015.
- Financial assets at fair value through profit and loss are recognised at fair value.

33. Accounting policies

The following accounting methods have been consistently applied to all disclosed periods in the financial statements.

The following table of contents shows the pages on which various accounting policies may be found.

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.

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 designated 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 provisions of the instrument.

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 financial assets at amortised cost.

33. Accounting policies, contd.:

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss are trading assets and financial assets that are at initial recognition designated at fair value through profit and loss in accordance with the 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.

Financial assets at amortised cost

Financial assets at amortised cost are debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are initially measured at fair value with any transaction costs directly attributable to the acquistion of the asset added to the fair value. Such assets are subsequently accounted for at amortised cost. The Company´s financial assets measured at amortised cost are non-current receivables, trade and other current receivables, bank balances and cash.

Cash and cash equivalents comprise cash balances and call deposits.

(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 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 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.

Borrowing costs are recognised as a deduction of the financial liability and amortised using the effective interest method.

(iii) Share capital

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

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 Standards, 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.

33. Accounting policies, contd.:

The Company's lines and substations were revalued at year-end 2015. 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 the year and projected to year-end 2015. Second, the operating value was measured using a cash flow analysis. The valuation period was 2016-2025, with the future operating value calculated thereafter. The year's revaluation was based on the operating value on the assumption that investment would equal the depreciation of the current asset base. The discounting of future cash flows was based on the weighted average cost of capital (WACC) determined for the Company with respect to power-intensive consumers and distribution system operators.

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 - 60 years
Buildings	50 years
Other assets	4 - 10 years

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

d. Intangible assets

(i) Developement cost

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. 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 33h.

The Company has concluded agreements whereby the prospective buyers of electricity shall bear all expenses of the project if it is cancelled.

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.

Financial Statements of Landsnet hf 2018 28 Amounts are in USD thousand

33. Accounting policies, contd.:

(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 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 no 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.

(ii) Other assets

The carrying amount of the Company's other assets, except for inventories, 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.

33. Accounting policies, contd.:

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. Pension payments

(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 3.46% 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.

k. Transmission revenues

Landsnet is responsible for the transmission of electricity and system management under the provisions of Chapter III of the Electricity Act No. 65/2003. Income from transmission is recognised on the basis of measured delivery of electricity and the tariff in force at any given time. The tariff is subject to a revenue cap set for the Company on the basis of Article 12 of the Electricity Act and regulated by the National Energy Authority. Income relating to transmission losses and ancillary services is also recognised on the basis of measured delivery and the tariff in force. The tariff is based on purchase prices determined by tendering processes. It is external to the revenue cap but subject to regulation by the National Energy Authority. The criteria for recognition as income and for billing for transmission are met once the electricity is transmitted and delivered.

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.

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. Borrowing costs are recognised in income statement using the effective interest method.

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

33. Accounting policies, contd.:

n. Income tax

Income tax on the results for the year consists of current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised among those items.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, in addition to adjustments made to current tax of previous years. The income tax rate is 20%.

A deferred tax asset (liability) is recognised in the financial statements. It´s calculation is based on the difference in balance sheet items, according to the tax return, on the one hand, and the financial statements, on the other hand. The difference thus arising is due to the fact that the tax assessment is based on premises other than the Company´s financial statements an is in main respect a temporary difference as expenses are entered in the financial statement in another period than in the tax return. Calculation of deferred tax is based on the expected tax ration when temporary differences are estimated to be reversed based on current law at the reporting date.

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 2018 and that apply to its operations. The Company has not implemented standards, amendments thereto or interpretations entering into effect after year-end 2018 but allowed to be implemented sooner. The standards adopted in 2018 were IFRS 9 and IFRS 15, in addition to which the IFRS 16 Leases standard is scheduled for adoption, taking effect on 1 January 2019.

(i) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments became effective as at 1 January 2018 and replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company´s accounting policies related to financial liabilities. Under IFRS 9, on initial recognition, given certain condition, it is allowed to classify financial assets at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVOCI). After that the classification cannot be changed.

Accounts receivable and other receivables, which were under IAS 39 classified as loan and receivables, are now classified at amortised cost.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 39, credit losses are recognised earlier than under IAS 39.

This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability weighted basis. Under IFRS 9, loss allowances will be measured as either 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date or lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

33. Accounting policies, contd.:

The Company´s asset classified at amortised cost consist of accounts receivable and contract assets, other receivables, cash and cash equivalents as well as an immaterial long-term note. Accounts receivable and other receivables are without material financing component, the risk is immaterial and the loss allowances will be measured as lifetime ECLs.

Financial assets measured at amortised cost according to IFRS 9 are either short-term receivables with expected life less than 12 months or receivables with low credit risk. Therefore the expected credit loss is proportionally low and the effect of the adoption of the standard on the Company´s financial statements immaterial, except that the standard requires more extensive disclosures, as applicable.

(ii) IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers became effective as at 1 January 2018 and replaced various standards and interpretations on revenue recognition related to sale of goods and services. The standard establishes a comprehensive framework about revenue recognition of information on nature, amounts, timing and uncertainty of revenue and cash flows from contracts with customers. The new revenue recognition model is different from prior rules as revenue shall be recognised in a way that reflects the transfer of goods and service to customers, i.e. transfer of control, but according to prior rules the revenue recognition was based on transfer of the risk and rewards. The standard´s impact on the Company´s financial reporting has been assessed as minor.

(iii) IFRS 16 Leases

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements. The actual impacts of adopting the standard on 1 January 2019 may change.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liabilitiy representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces the previous IAS 17 Leases standard and various interpretations regarding leases.

I. Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its leases of transmission infrastructure, real property and plots of land. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Company estimates that it will recognise about 2.0 million USD as at 1 January 2019. The Company does not expect the adoption of IFRS 16 to impact its ability to comply with loan convenants.

II.Leases in which the Company is a lessor

No significant impact is expected for other leases in which the Company is a lessor.

III. Transition

The Company will apply IFRS 16 initially on 1 Januar 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 is recognised in the financial statements on 1 January 2019 with no restatement of comparative information.

The Company plans to apply the option to apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases according to previous rules.

Appendix 1: 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 from June 1st 2015. 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 15 February 2019 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. The Board of Directors monitors the Company's financial risk. Information on risk management is provided in Note 28 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: respect, cooperation and responsible.

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.

Future vision and policy focus areas

Landsnet's future vision is an "electrified future in tune with society". Modern societies increasingly rely on a secure supply of electricity, making it necessary to strengthen the transmission system. Landsnet is committed to ensuring a secure supply of electricity in the future and maintaining a balance between generation and consumption. We will work to form as broad a consensus as possible on the way ahead, with due consideration for societal needs at any given time. We will treat the natural environment responsibly. Landsnet places priority on fostering a healthy electricity market environment and efficient use of financial resources.

Landsnet's corporate policy is based on the Company's role and future vision. The policy is reflected in our organisational and policy focus areas, which will guide our activities for the coming years.

Policy focus areas

Landsnet has defined a fourfold promise to society in the form of policy focus areas. These reflect our corporate policy and the milestones that must be achieved along the way to reach our future vision. The promises are:

We work for you

We are a service company - we work for you in tune with society. Our overriding aim is to ensure a secure supply of electricity. To this end, we have set ourselves the target of maintaining the grid´s reliability at a level higher than 99.99%

Aiming for an electrified future

We seek to build a grid for the future and deliver equal access to a secure eletricity supply for our communities, whilst maintaining efficient operations and investment as part of our commitment to ensure that transmission charges do not increase over the long term.

We take responsibility

To us, climate issues go hand in hand with electricity issues - we support new technologies and competitive trade that are prerequisite for renewable energy´s competitiveness against polluting energy sources. To further that aim, Landsnet will examine whether the preconditions exist for launching a spot market in Iceland.

We listen

We are in tune with society at any given time and treat the natural environment responsibly through better use of existing power stations and by reducing the environmental impact of infrastructure. To that end, Landsnet has set itself the target to be carbon-free by 2030.

Organisational focus areas

Landsnet has defined a twofold promise in the form of organisational focus areas, which are key prerequisites and drivers of our corporate social policy. The promises are:

An attractive workplace

We strive to create a sought-after workplace where priority is placed on care and staff safety. This includes providing our employees with opportunities to engage in exciting work and develop their skills in a professional environment.

A culture of improvement and risk management

We place emphasis on risk management and continual improvement, new process thinking and business continuity planning.

Landsnet's management structure

The main units of Landsnet’s management structure are the Board of Directors and the Executive Committee. The Executive Committee is composed of CEO and five Executive Vice Presidents. The Board has one sub-committee, the Audit Committee, and also serves as 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. All members of the board of directors are independent of the Company and the shareholders in accordance with article 8 of the Electicity Act No. 65/2003.

Landsnet’s Board of Directors consists of the following five members:

Sigrún Björk Jakobsdóttir, Chairman of the Board

Sigrún Björk Jakobsdóttir was born in 1966. She has been a member of the board of many companies, institutions and committees and has extensive experience in the field of tourism and in local government. She was a member of the Town Council for Akureyri between 2002 and 2010, Chairman of the council between 2006 and 2007 and the Mayor of Akureyri between 2007 and 2009. She is Director of Regional Airports at Isavia. Sigrún Björk Jakobsdóttir was appointed Chairman of the Board at Landsnet’s Annual General Meeting on the 7th of April, 2016.

Svana Helen Björnsdóttir, Director
Svana Helen Björnsdóttir was born in 1960. She pursued studies in electrical engineering at the University of Iceland. She read electrical engineering at the Technische Universität Darmstadt in Germany, from which she earned a Dipl.-Ing./MSc degree in electrical power engineering in 1987. Ms Björnsdóttir also holds a diploma in operations management from the University of Iceland. She founded the information security company Stiki in 1992 and is the CEO of Stiki. She was chairman of the Federation of Icelandic Industries. Ms Björnsdóttir was at the same time chairman of Akkur SI. In addition, she was a member of the Executive Committee and a board member of the Confederation of Icelandic Employers. Ms Björnsdóttir 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. Ms Björnsdóttir has been a member of Landsnet´s Board of Directors from 31 March 2009.

Ómar Benediktsson, Director
Ómar Benediktsson was born in 1959. He holds a cand. oecon. degree in business administration from the University of Iceland. He served in managerial positions in tourism and aviation for 30 years. At the beginning of 2012, he became CEO of Farice ehf, which operates the submarine telecommunications network linking Iceland with the rest of the world. Farice is also a key player in developing Iceland's emerging data centre industry. Mr Benediktsson 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. Mr Benediktsson has been a member of Landsnet´s Board of Directors from 29 March 2012.

Ólafur Rúnar Ólafsson, Director
Ólafur Rúnar Ólafsson was born in 1975. He has been practising as an Attorney at Law since 2002 and was admitted to the bar as a Supreme Court Attorney in 2011. He was Regional Director of the debt collection agencies Lögheimtan ehf and Motus ehf in northern Iceland for 12 years until 2016, when he took over mid-term as Municipal Manager of the Eyjafjarðarsveit municipality. Mr Ólafsson owns and currently operates the law firm Legal North/Lögmannsstofa Norðurlands ehf, based in the town of Akureyri in northern Iceland. He sat on the Presiding Election Board of the North East Iceland Constituency in 2009-2017, served as Chairman of the fund management company Rekstrarfélag verðbréfasjóða ÍV hf and has supervised instruction in company law at the Faculty of Social Sciences and Law at the University of Akureyri in recent years. He has extensive experience in legal practice and legal advisory services to business and government clients. Mr Ólafsson joined Landsnet as Alternate Director at the start of 2018 and was elected to the Board at the Annual General Meeting on 23 March 2018.

Svava Bjarnadóttir, Director
Svava Bjarnadóttir was born in 1964. She has many years´experience in company administration, including financial management, HR management, strategic planning and numerous board memberships. She holds a master´s (cand.oecon.) degree in business administration from the University of Iceland, with focus on corporate finance, and is an Associate Certified Coach (ACC) with the International Coach Federation (ICF). Ms Bjarnadóttir has played an active role in Icelandic business, including as a shareholder in the engineering firm Mannvit, its chief financial officer in 2002-2012 and human resources manager in 2005-2007. She co-founded the management consultancy company Strategía ehf and currently owns and operates Kapituli ehf, a leadership and management coaching company for small and medium-sized enterprises. She previously served as Alternate Director and was elected to Landsnets´s Board as a full Director at the Annual General Meeting on 23 March 2018.

The Board of Directors held 12 meetings in 2018. All the meetings were attended by all Board members, except for three meetings where one member was absent at two meetings and two members were absent at one meetings.

Landsnet´s CEO and Executive Committee

Duties of the President & CEO

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.

Guðmundur Ingi Ásmundsson, CEO & President

Mr Ásmundsson was born in 1955. He took a degree in electrical engineering from the University of Iceland in 1980 and a master's degree in electrical power engineering from the Technical University of Denmark in 1982. He joined Landsvirkjun in 1982 as an engineer in the Operations department, later becoming chief engineer and Head of System Operations from 1993. He served as Landsnet's System Manager from the Company's founding on 1 January 2005 and Director of System Operations from 1 November 2005. Mr Ásmundsson became Deputy CEO of Landsnet on 1 January 2008 and CEO & President on 1 January 2015.

Members of Landsnet's Executive Committe in addition to CEO consists of:

Einar S. Einarsson, Head of Corporate Services & Communication
Guðlaug Sigurðardóttir, Head of Finance (CFO)
Íris Baldursdóttir, Head of System Operation
Nils Gustavsson, Head of Constructions & Grid Services
Sverrir Jan Norðfjörð, Head of Technology & Development

Audit Committee

The Board of Directors appoints the Audit Committee. The current Audit Committee of Landsnet consists of:
María Sólbergsdóttir, accountant, Chairman
Sigrún Björk Jakobsdóttir, Chairman of Landsnet's Board
Svava Bjarnadóttir, Director of Landsnet's Board

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 annually submits a proposal to the Board for a certified public accountant or audit firm for the Company.

A total of 4 meetings of the Committee were held in 2018, all of which were attended by all Committee members except for one meeting where one member was absent.

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.

Appendix 2: Non-financial information

Role, policy and business model

Our role is to ensure the cost-efficient development and operation of the grid as a secure and uninterrupted electricity supply is one of the main pillars of modern society. Landsnet is also responsible for the balance between supply and demand for electricity within the eletricity system at any given time. Landsnet plays a key role in ensuring a secure supply of electricity to the public and business sector.

Landsnet´s policy is based on the company´s role and future vision which is to develop an electricity transmission system, in tune with society, to ensure the secure supply of electricity in the future.

Landsnet is a public limited company responsible for the transmission of electricity and management of the electricity system under a concession arragement on the basis of the Electricity Act No. 65/2003. The Company is subject to regulation by the National Energy Authority, whose role under Article 12 of the Electricity Act also includes determining the Company´s allowed revenue from its concession activities, i.e. its revenue cap. The revenue cap is decided five years in advance at a time a for transmission to power-intensive consumers on the one hand and distribution system operators on the other hand. The Company´s electricity transmission tariff is based on the revenue cap and forecast transmission levels and power demand. The Company also collects a fee from consumers for, on the one hand, the electricity lost in the system, called transmission losses, and, on the other hand, services relating to the system´s management, called ancillary services. The Company´s revenue for transmission losses and ancillary services is based on the cost of the service plus a permitted margin. The Company´s tariffs are regulated by the National Energy Authority.

Landsnet has certified management systems in accordance with International Standards, including ISO9001 – Quality Management System, ISO14001 – Enviromental Management System and OHSAS – Occupational Health and Safety Management Certification.

Importance

The elecricity transmission system is among Iceland´s key infrastructures. The impacts of outages are considered to be extensive and can be serious, both for homes and businesses. It is important for the transmission system to ensure public access to secure energy and to have the capacity to transmit the electricity traded by market participants at any given time in the quantities and at the quality agreed. For the benefit of society at large, one of our key strategic policies is to ensure security of electricity supply. To this end, our key performance indicators include the number of outage minutes, which are measured annually. Our target is for outage minutes not to exceed 50 minutes per year. Outage minutes are persented in our Performance Report, which is published together with our annual report at www.landsnet.is.

Landsnet is responsible for the operation of the transmission system and manages the system, ensuring the balance between electricity usage and electricity generation. The role of the system operator is to coordinate response plans for operational unit breakdowns that affect the operation of the electricity system, to steer the development of the system after operational disruptions have occurred, to reduce the user load if the need arises and to respond to transmission constraints. Landsnet´s control centre is always active and its staff members are available around the clock.

An emphasis is placed on regular maintenance and effective responses to disturbances in the system´s general operatons. Response exercises for outages and natural disasters are held regularly, usually in co-operation with clients and other key stakeholders. Landsnet leads the work of the Electicity System´s Emergency Partnership (ESEP), a co-operation forum for the transmission system operator, generators, distributors, power-intensive consumers and public bodies in Iceland to deal with emergencies affecting power generation, transmission or distribution and/or power-intensive consumers.

Plans for the development of the electricity transmission system are set out in a ´system plan´, where projects are assessed on the basis of a number of factors including the impact on customers, the environment and the local community. The company´s policy is to work in tune with society and efforts have therefore been made to increase public access to information and to improve communication with stakeholders. The year saw the formation of a Stakeholders Forum, whose main purpose is to facilitate dialogue between stakeholders in the electricity system´s development. Project teams have been launched for larger regional projects, which involves regular meetings between key stakeholders, with the exception of landowners. However, information and consultation meetings have been held with landowners and serve as a forum for the inhabitants, landowners and other groups, depending on the nature of the project in question.

Non-financial information, contd.:

The aim is to foster more active dialogue, understanding and better information flows between stakeholders in the run-up to decisions on Landsnet´s infrastructure projects. Focus is placed on efficiency in the grid´s development and operation for the benefit of clients and the general public. One of our key strategic policies is to work for our communities, with public confidence playing a very important in the grid´s development and operation. To this end, our key performance indicators include public confidence, which is measured annually. Our target is to remain above 33%. In 2018, our performance on this indicator came in at 34.9%.

The impact of power failure can be extensive and costly for society and the company has been involved in establishing a formal risk management process for assessing and managing the company´s main risks. Landsnets excecutives and key employees identify the financial and non-financial risks of the company and assess their importance. The company risk register is used to manage or reduce risk. The ÍST ISO31000 standard has been complied with for this work. The ÍST ISO31000 Standard is the basis for this work.

Safety issues

Landsnet has a certified safety management system and safety issues are at the forefront in all areas of Landsnets´s operations.

Landsnet is one of the few companies in Iceland with a safety management system implemented in accordance with the international framework for occupational health and safety, OHSAS 18001. Companies that operate according to the standard need to show continuous improvement and are more likely to succeed in their operations. The standard is designed to ensure the best possible working conditions and workplace health and safety and the framework should be an integral part of the assessment and decision-making process for investments, construction, operation, selection of contractors and purchase of goods and services for the business. All contractors and service providers are expected to follow these same safety requirements.

Construction and maintenance projects related to the electricity transmission system can often be extensive and located in difficult and isolated locations. Landsnet has a ´zero accident´ approach which imposes strict requirements on management and employees regarding work practices and procedures. The ´zero accident´ policy is based on the premise that all employees should return home safely after work, not just for their sake, but also for the sake of their families. This approach also requires the unconditional report of incidents, to identify what went wrong and for the purpose of preventing further incidents. One of our key strategic policies is to be a sought-after workplace where priority is placed on care and staff safety. To this end, our key performance indicators include the Lost-Time Injury Frequency Rate (LTIFR), which is measured annually. Our aim is to be injury-free, which was achieved in 2018.

Enviromental matters

Landsnet has a certified environmental management system in accordance with the International Standard ISO14001. The company has an environmental policy and has worked systematically to reduce the impact of its operations.

We monitor greenhouse gas emissions and waste generation in structured manner and have set ourselves the target to be carbon-neutral by 2030. A systematic effort has been initiated to reduce emissions in line with this target. Benchmarks have been set to monitor the development of our emissions and waste generation, following which great strides have already been made in waste sorting.

The company is committed to reducing the visibility of electrical power structures within the transmission system. Particular attention has been paid to the design of new substations and their surroundings to minimise the visibility of the structures. The aim is to ensure that these structures blend as closely as possible with the surrounding environment. A particular emphasis is placed on minimising any disturbance dureing the construction period. The completion of finishing work at the end of the construction period is also an important factor and materials such as soil and vegetation disturbed during the construction period are re-used to restore these areas.

Social issues

Landsnet has traditionally supported various charities. Many smaller grants are also awarded annually on the basis of applications. The award of these grants is based on the potential positive impact on the environment and society.

Non-financial information, contd.:

Human resources and human rights issues

Landsnet is concerned about the well-being of its employees. We place an emphasis on creating a positive corporate culture with a strong team spirit, where communication is characterised by Landsnet´s values. Our values are responsibility, cooperation and respect, open and honest debate and effective knowledge dissemination. A particular emphasis is plased on creating an environment free from bullying, prejudice and sexual harassment. One of our key strategic policies is to provide our employees with opportunities to engage in exciting work and develop their skills in a professional environment, thereby maintaining a sought-after workplace. To this end, our key performance indicators include staff satisfaction, which is measured annually. Our target is to retain a score above 4.3. In 2018, staff satisfaction was measured at 4.36.

Our human resources policy sets out guidelines for gender equality and human rights issues. The company attaches great importance to non-discrimination and the fact that everyone is entitled to human rights regardless of orgin, ethnicity, race, religion, political opinion, gender, sexual orientation, age, economic status, family association, disability, health or other status. Landsnet was awarded PwC´s Golden Badge Equal Pay Certification during the year.

The company vision is dedicated to ensuring the rights of its employees and service providers with regard to working facilities, health and safety and appropriate wages and benefits. Landsnet has established a responsible value chain to ensure compliance with standards, legislation and other obligations in these areas. Landsnet therefore assumes that all employees acting indirectly for the company receive their rights and benefits in accordance with collective agreements and laws. Landsnet´s chain liability was reviewed in 2018 in consultation with representatives of the Confederation of Labour and the trade unions Framsýn and Afl. The review was carried out having regard to the experience of large-scale construction projects in north-eastern Iceland in 2016-2017.

Suppliers shall ensure and guarantee that all employees, whether employed by suppliers, subcontractors or via temporary work agencies, receive salaries and terms of employment in accordance with current collective agreements and the law set out by their profession.

Corruption and bribery

Landsnet has adopted a code of conduct that defines financial standards, confidentiality, interests, competition and restrictions, environmental protection, use of the company´s assets and compliance with regulations. The Code of Ethics is accessible to all employees. Landsnet exercises social and moral responsibility in procurement by making extensive demands on employees and suppliers in the execution of procurement. A procurement process that forms part of a quality manual is intended to ensure that procedures are in accordance with laws and regulations that also apply to Landsnet´s procurement procedures. The company has implemented general requirements for suppliers where the basic requirements for suppliers are outlined. A more detailed supplier assessment systems is currently being implemented and a code of conduct for suppliers is being developed. Landsnet´s tendering process requires all suppliers to enforce any laws and regulations that apply to relations between parties in the labour market.

Non-financial key indicators

The ÍST ISO26000 Standard, Guidelines for Corporate Social Responsibility, has been the basis for the organisation of Landsnet´s social responsibility policy. Goal setting in Corporate Social Responsibility over the past two years has focused on climate change and waste issues and the results are published annually in the company´s Annual Report.

Measurable non-financial key indicators are:

Measurement	Promises	Goal 2018	Result 2018
Outage minutes	Reliable grid	< 50 min.	*1
Public confidence	We work for you	33%	34.9%
Staff satisfaction	Sought-after workplace	4.30	4.36
Lost-Time Frequency Rate	Sought-after workplace	0	0

*1 The results of the year 2018 will be presented in Landsnet´s Performance Report which will be published at www.landsnet.is in March 2019.

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