LANDSNET

ANNUAL REPORT 2008

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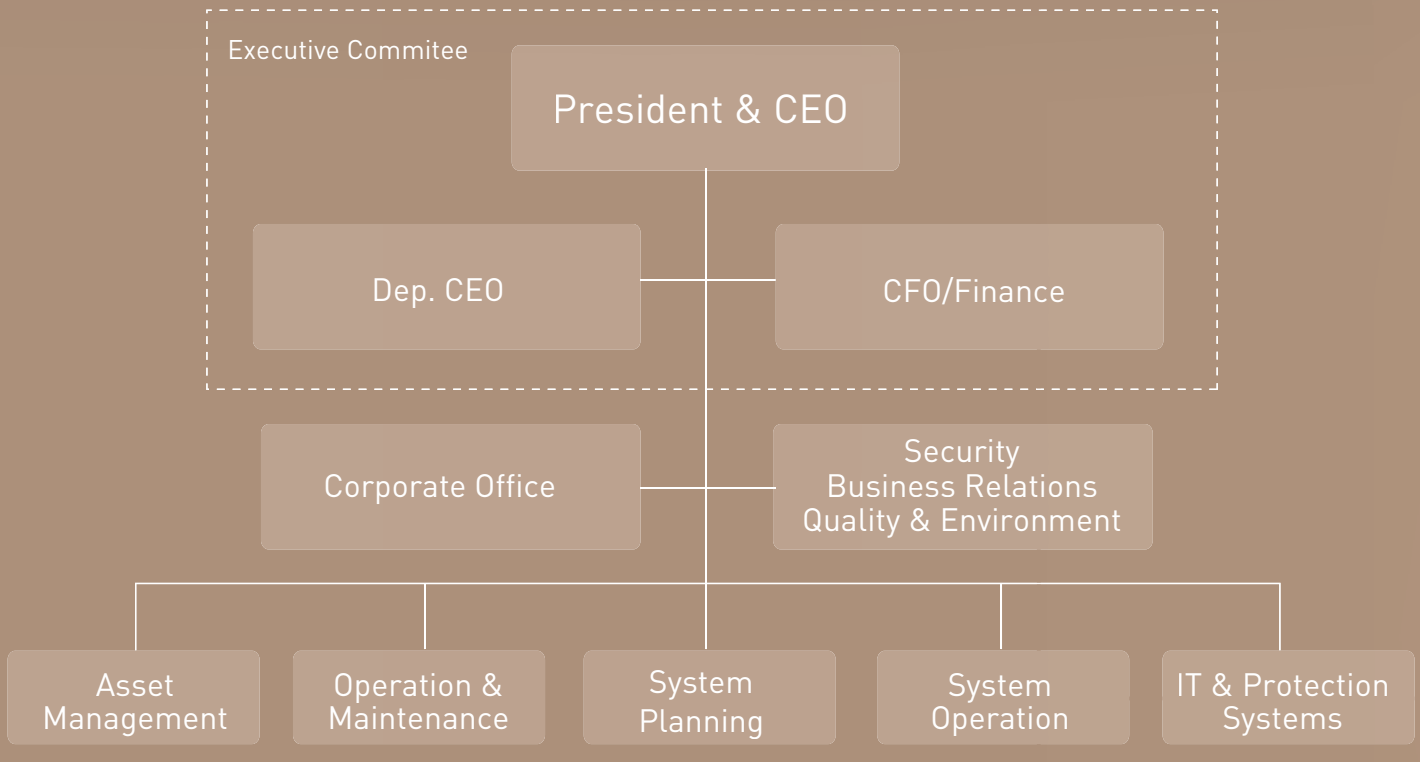
Organisation Chart



Board of Directors

Board of Directors 2008:

- Páll Harðarson, Chairman
- Auður Finnbogadóttir
- Kristján Jónsson

Alternates

- Guðrún K. Guðmannsdóttir
- Jóhanna Harpa Árnadóttir
- Þorlákur Karlsson

Executive Committee 2008:

- Þórður Guðmundsson, President & CEO
- Guðlaug Sigurðardóttir, CFO/Finance
- Guðmundur Ingi Ásmundsson, Dep. CEO

Ownership

Share capital at year-end is owned by the following four shareholders:

Landsvirkjun	64,73%
RARIK	22,51%
Orkuveita Reykjavíkur	6,78%
Orkubú Vestfjarða	5,98%

Our role

Landsnet's role is defined in the Electricity Act No. 65/2003 as operating the electricity transmission system and administering its system operations. This includes:

- Ensuring and maintaining the transmission system's capacities on a long-term basis
- Ensuring the electricity system's operational security
- Maintaining a balance between electricity supply and demand
- Managing the settlement of electricity flows countrywide
- Promoting an active electricity market

Our vision

Landsnet's future vision is to be a responsible and cutting-edge service company at the global forefront in our industry, with a strong team of professionals and a high level of community awareness.

Our values

Our values form the basis of all our activities. They reflect Landsnet's role and vision and provide the foundation for the corporate culture we strive for.

Reliability

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

Economy

- We maintain prudent stewardship of our funds and other resources
- We are guided by profitability targets

Progress

- We take initiative, seek out opportunities and strive for continual improvement
- We are creative in developing methods and solutions that stimulate competition
- We pride ourselves on completing tasks and projects promptly and methodically

Respect

- Our customers come first
- We respect the natural environment and seek to minimise any undesirable effects of our operations
- We respect our colleagues and their views

From the Chairman and the President & CEO

The year 2008 was a unique one in Landsnet's history and for the Icelandic economy. Firstly, the international financial crisis and the collapse of Iceland's largest banks had a substantial impact on our results. Exchange rate losses coupled with loans' inflation-indexation produced a greater loss for the company than envisaged in our projections. Secondly, the start-up of the Alcoa Fjarðaál aluminium plant was completed in the first quarter of the year, as a result of which the volume of electricity transmitted by the Landsnet grid increased by nearly 40% to a record level of almost 16 TWh. Thirdly, the Minister of Industry launched a review of the 2003 Electricity Act in an aim to better ensure the electricity system's macro-economic efficiency.

Profitability and revenue cap

The Electricity Act's provisions governing Landsnet's revenue cap regime and maximum allowable profitability have been under scrutiny of late. As part of the Act's revision, Landsnet will propose extensive changes to the company's operating conditions as regards its allowed income generation and profitability. We have had the Act reviewed comprehensively, with particular focus on the regulation of electricity transmission falling under concession activities. The amended Act needs to ensure that operating conditions and the incentives they create promote prudent investment as well as effective rationalisation of the transmission system operator's activities.

Performance in 2008

Landsnet made a loss of ISK 12,780 million in 2008. This was primarily owing to the ISK's extremely sharp depreciation in tandem with Iceland's economic crisis. Operating revenue amounted to ISK 10,853 million, of which transmission revenue was ISK 10,744 million. The company derives part of its income in foreign currency, which to some extent offset the year's foreign currency exchange difference. Operating expenses came to ISK 5,686 million, of which purchased system services and transmission losses were ISK 1,551 million, transmission costs ISK 2,831 million, system management costs ISK 576 million and other operating expenses ISK 729 million. Net financial expenses were

Landsnet's Board of Directors, from left to right:
Auður Finnbogadóttir, Páll Harðarson, Chairman of the Board, and Kristján Jónsson.

ISK 20,164 million, driven mainly by the ISK weakening and price level changes, with about half of the company's loans denominated in foreign currencies. Despite the negative net earnings for 2008, we posted a record EBIT result of ISK 5,167 million and net cash from operating activities of ISK 5,760 million. Even with the year's setbacks, the company's operating fundamentals remain very sound. Cash from operating activities more than covered the year's investing and financing activities, resulting in a net increase in cash year-on-year to ISK 2,701 million at year-end.

Operations

Landsnet operates under a 10-year maintenance programme for its entire transmission infrastructure. In 2008, legally prescribed electrical safety and operational checks were performed in accordance with the maintenance schedule, including extensive checks of transmission lines and substations. A series of checks following the South Iceland Earthquakes in May confirmed that the transmission system had come through that trial with flying colours. Particular focus was placed on monitoring and checking the Fljótsdalur transmission lines, which connect the new Alcoa Fjarðaál aluminium plant in east Iceland to the Fljótsdalur Power Station.

The results of the 2007 International Transmission, Operation and Maintenance Study (ITOMS) were published in 2008, with Landsnet's performance proving consistent with our goal to be a global frontrunner in this field.

Early 2008 saw a number of weather-related transmission interruptions. Significant disturbances occurred at the end of January, causing substantial power outages. In early February, a violent storm hit the country, causing sizeable grid disturbances, which our staff repaired through perseverance in difficult circumstances.

New facilities were opened at Egilsstaðir town for Landsnet's operations in east Iceland. A new warehouse facility for hard commodities was also brought into use at Geitháls on the outskirts of Reykjavík. We opened the top floor of our new Reykjavík headquarters for business, the plan being to fully complete these premises next year. Landsnet's current Control Centre in Reykjavík will be sold as soon as the property market picks up sufficiently.

Executive Committee:
Þórður Guðmundsson, President & CEO, Guðmundur I. Ásmundsson, Deputy CEO, and Guðlaug Sigurðardóttir, VP Finance.



Development of transmission infrastructure

The construction of transmission facilities for the new Alcoa Fjarðaál aluminium plant was largely completed in 2007. The laying of a fibre-optic cable extending from the substation at Rangárvellir in northern Iceland to the substation in Fljótsdalur valley in east Iceland was mostly completed in December 2007. In 2008, we concluded various finishing work, settlements with contractors and an environmental audit. A new 66 kV substation was built at the Lagarfoss Power Station and work commenced on the expansion of the substation at Rangárvellir in north Iceland and the laying of a 132 kV underground cable for the planned Becromal aluminium foil plant in that region.

Funding

Landsnet's activities in 2008 were funded solely by cash from operating activities. No new loans were taken out for investment during the year, with only partial refinancing of a short-term loan taken in 2007. No loan refinancing will be required in 2009, while the situation of an interest rate and currency swap with Kaupthing Bank maturing in 2013 is as yet uncertain.

We have started preparations for the financing of investment projects planned for the next few years. Clearly, funding will be a challenge over the coming months, particularly in international markets. For this reason, amongst others, we will also seek funding in the domestic market in the coming years.

Negotiations with energy-intensive industries

Extensive negotiations took place in 2008 with energy-intensive industries on increased power transmission. An agreement was concluded on transmission for the Becromal aluminium foil plant in Akureyri in north Iceland. Memoranda of understanding were signed for a number of other projects, including in relation to data bank farms and silicon refineries. One company that was considering development at Þorlákshöfn, south Iceland, eventually opted on a location in another country. However, preparations continued for development in the Reykjanes region in south-west Iceland and in the Þingeyjar counties in north Iceland. Agreements were also reached with smaller developers. The Icelandic banking collapse in the autumn changed the premises of the negotiations substantially, however, leaving much uncertainty about their progress at year-end. The negotiations continued, but the assumption must be made that development will be much slower than originally envisaged, and in some cases renegotiation will be needed owing to the shift in circumstances.

Systems development and research

The year witnessed a wide range of activities devoted to individual projects' system design, analysis relating to inquiries by customers and stakeholders, general studies of the transmission system and analysis of potential future solutions.

In November, Landsnet held a stakeholders' conference titled "Developing the Power Grid", which addressed three key topics: (1) comparison of the advantages and disadvantages of overhead and underground lines, (2) the 2008 Grid Plan together with energy and power balances in the next three years and (3) Landsnet's position in the current economic environment. This second presentation of this type was well attended.

Preparation of new projects

Due to plans to build an aluminium plant at Bakki near Húsavík in north Iceland, Landsnet has been preparing the development of a network to transmit electricity from prospective geothermal power stations and their connection to the main grid.

Following a ruling by the Minister of the Environment that a joint environmental impact assessment should be carried out for the overall development project, Landsnet, Landsvirkjun, Þeistareykir ehf and Alcoa joined forces to launch such an assessment of the proposed Krafla and Þeistareykir Power Stations, transmission lines and the aluminium plant at Bakki.

The year also saw work on land planning and negotiations with municipalities in south-west Iceland on the strengthening of transmission infrastructure extending from the Hellisheiði heath on Reykjavík's outskirts to Hafnarfjörður town and westward over the Reykjanes peninsula, as part of reinforcing south-west Iceland's transmission network. Because of plans to develop an industrial area at Þorlákshöfn town in south Iceland, we also worked on land use planning and an environmental impact assessment for two 220 kV transmission lines extending from Hellisheiði to Þorlákshöfn. The National Planning Agency approved the project's scoping document towards the end of the year.

Work continued on bolstering power supply to the Westman Islands, installing a new connection between the Nesjavellir Power Station and the Geitháls substation near Reykjavík, revamping the connection between Bolungarvík and Hnífsdalur in west Iceland and constructing a new 220 kV line between

the Blanda Power Station and Akureyri town. This last project marked a milestone in refurbishing the regional transmission line and will boost development of energy-intensive industry in the Eyjafjörður region in north Iceland.

Research and feasibility studies for new line routes

We conducted feasibility studies for new line routes and prepared planned new installations and refurbishments around the country, both for power intensive industries and general electricity use. In connection with the Public Road Administration's plans to construct new tunnels at various locations around the country, we examined the advantages of employing the tunnels to install lines. Various other research was carried out, including measurements of conductor vibration, salt accumulation on insulators and soil thermal conductivity on planned underground cable routes. Landsnet also collaborates with other companies on lightning research and meteorological modelling to predict and map out weather factors important to the design of structures.

Market and tariff

A total of 15,938 GWh were fed directly into the Landsnet grid in the year, up about 39% year-on-year. The increase was 1.8% in the general market and 53% for power-intensive industries.

The general tariff for electricity transmission was raised by 5.5% and the USD-denominated tariff for power-intensive industries by 2.5%, both as of 1 February. Despite these increases in unit prices, the transmission costs to distributors rose on average from ISK 1.0557/kWh to ISK 1.0719/KWh, or by only 1.5%, between 2007 and 2008. The corresponding increase for power-intensive industries was 1.3% when calculated in USD. Clearly, the transmission system's cost-effective operation and increased use are delivering a substantial benefit to customers.

Landsnet has not raised its tariff since 1 February 2008 despite an 18% increase in Iceland's consumer price index.

Preparations for an organised electricity market continued in the year. In February, we held a stakeholders' conference titled "The Icelandic Electricity Market – Opportunities or Constraints?" An auction system was adapted to the needs of the Icelandic environment and was ready for launching in the autumn of 2008, but due to the economic crisis that then gripped Iceland, Landsnet decided to postpone the market's opening until 2009.

Quality and environmental management

Landsnet's employees are mindful of the company's responsibility for quality and environmental matters. We are committed to treating Iceland's nature with respect, avoiding all unnecessary land disturbance and taking due account of environmental aspects in all our activities. This applies equally to new development projects and routine operations. We are dedicated to operating in harmony with all main interest groups, municipalities, landowners and the communities through which our transmission lines run.

Landsnet has formulated its own Environmental Policy for development projects and defined the necessary criteria for implementing it. The policy's principles are incorporated into our tender documents, with all our consultants and contractors required to comply with the policy and take due account of environmental considerations in all respects.

We continued our partnership with the Soil Conservation Service of Iceland on revegetation and combating soil erosion in the common pastures south of the Langjökull glacier. This collaboration has been ongoing since 2006.

Safety and employee welfare

Landsnet employed 90 permanent staff in 2008, adding one employee year-on-year.

We place a high premium on employee safety and health, which applies to each and every employee. One of our key mottos is "No compromises on personal safety."

Landsnet established a Safety Policy in 2006 based on our key values of reliability, progress, economy and respect. We aim to run our company without injuries, making every effort to ensure that all our staff and all others working on Landsnet projects return safe and sound to their homes after each day's work. This progressive policy helped Landsnet achieve an excellent safety performance in 2008, with not a single reported lost-time injury.

Landsnet's workforce was in robust health in 2008 compared with the rest of the population, with the rate of absences due to illness at 1.85%. Our target is to maintain this rate within 2%. By comparison, the average rate for the Icelandic labour market has been around or upwards of 4% in recent years.

Landsnet's management structure

Quality management

2008 was Landsnet's first entire operating year as an ISO 9001:2000 certified company. This international certification of quality management systems covers our entire operations, i.e. power transmission, development and operation and maintenance of Iceland's electricity network.

Two external maintenance audits were performed in 2008 by the certification agency Vottun hf, in addition to 30 internal audits of our quality management system. Another annual external audit of the system's electrical safety management component was carried out by an accredited inspection body on behalf of the Icelandic Consumer Agency (ICA), one of Landsnet's regulators under law. The ICA regulates electrical safety in Iceland, including electricity infrastructure and power utilities' safety systems.

All of Landsnet's procedures and processes are designed to ensure secure transmission of bulk electricity from where it is generated to distributors and some major industrial users. Distributors then distribute the electricity onwards to towns and rural communities. Landsnet's activities thus have a direct bearing on the entire Icelandic economy, making it vital that our company is managed effectively and responsibly.

Environmental management

Our employees are conscious of Landsnet's responsibility for quality and environmental matters. We are committed to treating Iceland's nature with respect, avoiding all unnecessary land disturbance and taking due account of environmental aspects in all our activities. This applies equally to new development projects and routine operations. We are also dedicated to operating in harmony with the views of all main interest groups, municipalities, landowners and the communities through which our transmission lines run.

Ever since Landsnet's inception, the transmission system has undergone much development and revamping due to rising levels of power generation and consumption. Extensive development of the network inevitably causes some land disturbance. To minimise such impact, we undertake extensive consultation with key stakeholders at the preparatory stage, both at the land planning level and when preparing new transmission lines subject to official environmental impact assessment.

Landsnet has formulated its own Environmental Policy for development projects and has defined criteria for its implementation. The policy's principles are incorporated into our tender documents, with our consultants and contractors required to comply with the policy and take due account of environmental considerations in all aspects. During the construction phase, compliance with these principles, contracts and other provisions, such as conditions imposed by public bodies, is monitored. Compliance monitoring is performed by both Landsnet and public bodies.

To ensure that the level of finishing at construction sites accords with our Environmental Policy, we have adopted a procedure whereby a special environmental audit is carried out at the end of each project. The representatives of major stakeholders – such as municipalities, landowners and public authorities – participate in these audits. Any proposals for remedies are processed and implemented, as appropriate. This new procedure has been well received and the results have been satisfactory and mutually beneficial to the parties involved.

We continued our partnership with the Soil Conservation Service of Iceland on revegetation and combating soil erosion in the common pastures south of the Langjökull glacier. This collaboration was launched in 2006. We continued urgent efforts at Mt Tjaldafell in south-west Iceland, as well as along the line road west of Kaldadalsvegur road in west Iceland. Fertiliser was distributed over more than 200 hectares of land in 2008, a third of which had been fertilised previously. While most of Iceland is not easily traversed, making soil conservation challenging, this particular, badly eroded piece of land responds very well too seeding and fertilising.

Safety management

Landsnet places a high priority on employee safety and health, which applies to each and every staff member. One of our key mottos is "No compromises on personal safety."

We established a Safety Policy in 2006 based on Landsnet's key values of reliability, progress, economy and respect. We aim to run our company without injuries and make every effort to ensure that all our staff and others working on Landsnet projects return safe and sound to their homes after each day's work.

This progressive policy helped us achieve an excellent safety performance in 2008, with not a single lost-time injury reported. Landsnet boasts a so-called "H factor" of 0. The H factor is an international performance indicator for the

frequency of injuries at a company per the total number of hours worked. This excellent success is a tribute to the vigilance, knowledge and determination of all our staff as well as our effective registration system for accidents, incidents and injuries, plus follow-up on comments received.

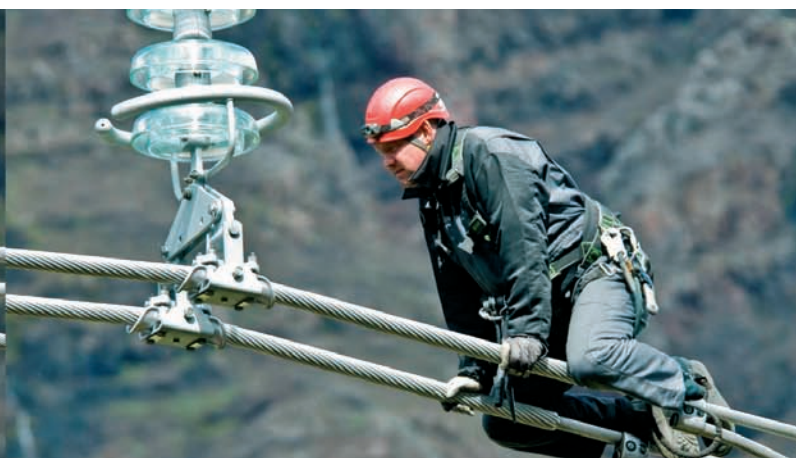
A total of 14 incidents were recorded in Landsnet's database of work environment reports in 2008, down from 22 in the year before. None of the 2008 incidents resulted in lost-time injuries, compared with four in 2007. Only one injury was reported, which was minor and did not result in any absence. Other such reports dealt with suggested improvements and requests for preventive measures. The year saw the publication of an attractively designed Landsnet Safety Manual, which was delivered to each member of staff together with two well-equipped first-aid kits. In parallel, detailed information on safety, health and the work environment was added to Landsnet's intranet and website.

A review of how Landsnet's safety culture can be further enhanced and maintained was carried out in the year. This led to a definition of our safety culture being presented to staff. Our safety culture encourages active involvement and responsibility. The company's safety management procedures will also be restructured to enable department heads to take a more targeted and co-ordinated approach to such issues. In addition, specific measures will be taken to promote increased participation by general staff members.

A strong and systematic effort was made to sharpen and clarify our safety requirements in tender documents. More targeted instructions for requirements in this area during the preliminary design and preparation of projects as well as for Landsnet's requirements regarding its infrastructure are in the final drafting stages. Such requirements will be made available at the start of each project's design phase.

Our risk analysis of projects has been fairly slow in getting started but has gradually picked up steam. Landsnet's good safety performance is partly thanks to such analysis. The risk assessment of individual job roles will be completed for the company as a whole in the coming year.

Landsnet's workforce was in robust health in 2008 compared with the general population. However, the rate of recorded absences due to illness grew slightly year-on-year, or from 1.67% to 1.85%. Our target is to maintain this rate within 2%. By comparison, the average rate for the Icelandic labour market has been around or upwards of 4% in recent years.



Emergency management

The routine activities of our emergency management team proceeded well in the year. One table exercise was held in 2008. Work is constantly ongoing to improve our emergency management capabilities.

In November 2008, the decision was made to establish a formal partnership between key electricity industry players under the auspices of the NSR. This is an Icelandic forum for joint contingency planning by electricity generators, transmission system operators, energy-intensive users and civil defence authorities.

Landsnet's emergency management team is an active participant in the NSR partnership, whose key aims are to enable the partners to act in concert when an emergency strikes, build a joint consultative forum with mutual information sharing and put in place procedures to prevent serious incidents in the electricity sector. Landsnet and the National Energy Authority of Iceland are also NordBER partners. NordBER is the Nordic contingency planning and crisis management forum for transmission system operators and energy authorities. Landsnet holds the rotating NordBER chairmanship for the next two years.

Information technology

Since its founding, Landsnet has placed a major emphasis on information technology and its implementation. A particular focus is placed on clearly identifying the IT needs of customers and staff, whilst striving to disseminate relevant information to the general public, other companies and public authorities. As progress is rapid in the IT field, our general operating systems are in continuous development and renewal. More specialised IT systems are brought in to facilitate specific activities, including control systems to mitigate power fluctuations in the electricity system, a special module to purchase regulating power, an access control-and-CCTV system for surveillance and other special-purpose systems.

The key to secure real-time information systems is secure communications. We invested much time in the year in analysing our telecommunications systems and identifying ways of improving them. Co-operation with various stakeholders in Iceland was established to specify requirements for our future telecommunications strategy and systems. Landsnet operates in all parts of Iceland, making reliable communications doubly important.
One of our strategic aims is to be a cutting-edge high-tech company with powerful IT systems as well as highly skilled IT professionals.

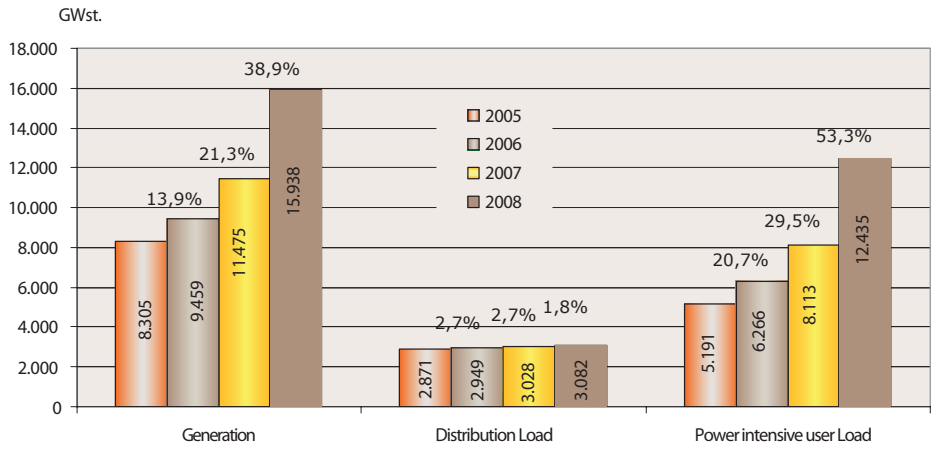
Market developments

Electricity transmission

A total of 15,938 GWh were fed directly into Landsnet's grid in the year, an increase of about 39% from the previous year. 3,082 GWh went to the general consumption, an increase of 1.8% from the preceding year. In contrast, electricity consumption by power-intensive industsries increased 53% in the year, from 8,113 GWh to 12,435 GWh. Consumption by power-intensive users has been increasing steadily in the past few years and currently accounts for 80% of all transmission by Landsnet's grid, an increase of 60% from when the company was established. The largest contributor to this increase is the Alcoa Fjarðaál aluminium plant, which completed its start-up in the year. The runner-up was Norðurál, another aluminium producer. Transmission losses in the year totalled 400 GWh.

The balancing energy market's turnover was ISK 315.5 million, the average price was ISK 2,738/MWh, the peak price ISK 13,500/MWh and the lowest price ISK 0.

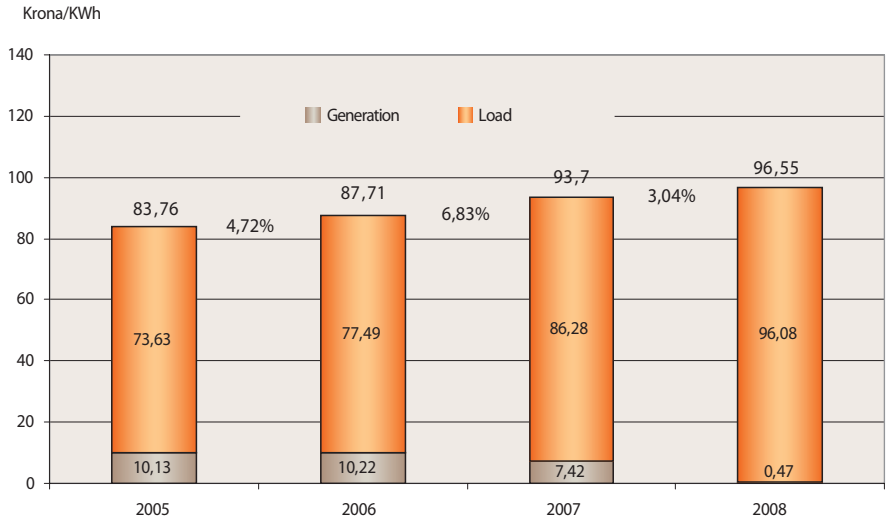
Energy transmitted over Landsnet's grid 2005-2008
Change in percentage between years



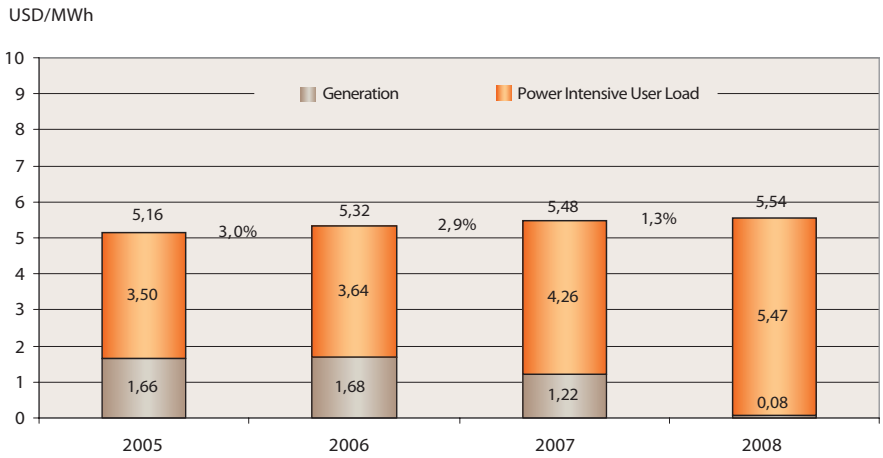
Average price and tariff developments

Transmission cost to distributors (including ancillary services and transmission losses) averaged ISK 1.0719/kWh, up from ISK 1.0557 in the previous year. Although the tariff was raised by 5.5% in February 2008, transmission costs rose on average by only 1.5%, which must be considered modest given that inflation in the year was 18%.

Distibution load
Average Transmission Tariff 0,01 krona/KWh

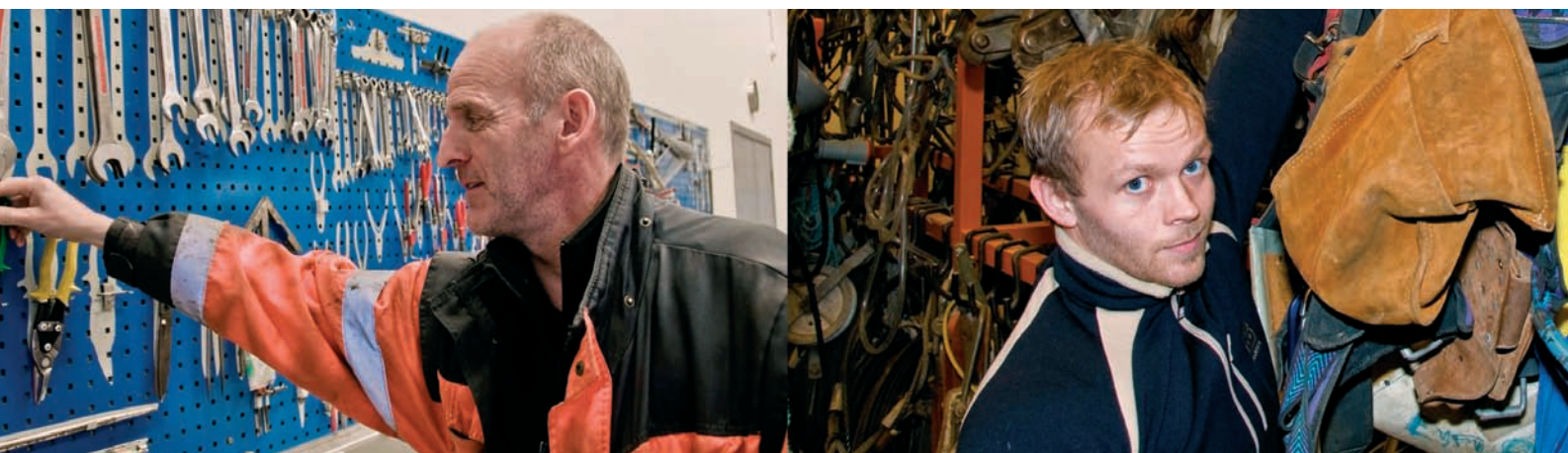


Power Intensive Users
Average Transmission Tariff USD/MWh



In 2007 Landsnet's Tariff for power intensive industries was changed from being in ISK to USD.
The average currency exchange rate for 2005 to 2007 was 60,99 ISK/USD.

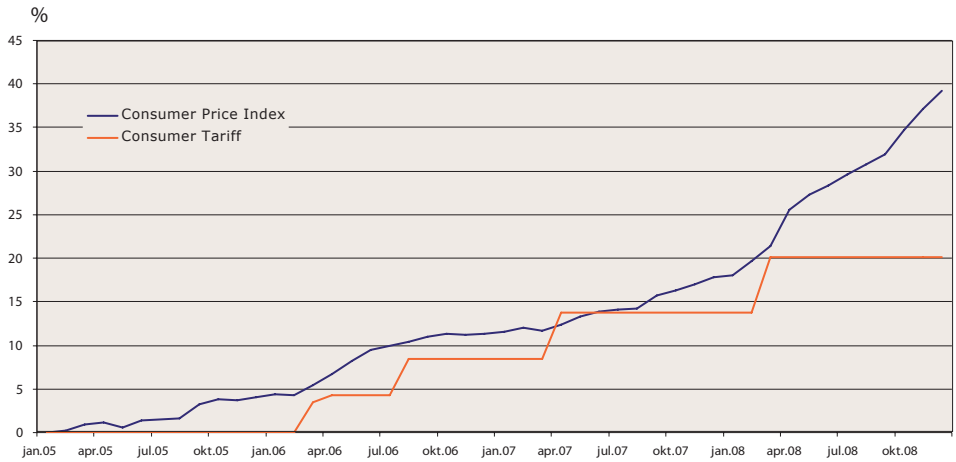
The average transmission charge for power-intensive industries, excluding ancillary services and transmission losses, was USD 5.54/MWh, the charge in USD having kept fairly steady from the start.



Charges for ancillary services and transmission losses are based on purchase prices at any given time. The average price for these items has been on a downward trend. Between 2007 and 2008, it decreased by a total of 9.3%, or from ISK 0.118/kWh to ISK 0.107/kWh.

Landsnet's tariff was raised by 5.5% for general consumption and 2.5% for power-intensive industries on 1 February 2008. This increase led to a merely 3% increase in the average price for transmission (i.e. excluding ancillary services and transmission losses) during the remainder of the year and a 1.3% increase in USD for power-intensive industries. Clearly, the transmission system's cost-effective operation and increased use are delivering a substantial benefit to customers.

Changes in the tariff for general consumption compared with the consumer price index in 2005-2008



The above graph illustrates that increases in Landsnet's tariff have been considerably smaller than increases in the consumer price index ever since the company's founding, with a particularly pronounced divergence between the two as of early 2008.

The rising exchange rate of the USD against the ISK has pushed up revenues from transmission to power-intensive industries when measured in ISK. This increase led to the revenue cap under the Electricity Act being fully reached, a change from the previous year when the cap for transmission to power-intensive industries was not fully utilised.

Grid Code

During the year, two sets of terms and conditions were added to Landsnet's Grid Code, which lays down fundamental rules, guidelines and standards governing the electricity system's development and use. These were the Terms for Generation Plans (C4) and Terms for Technical Requirements for Generating Units (D1). In addition, the Terms for the Procurement of and Settlement for Reserve Power (C3) were updated, as were the General Terms on Electricity Transmission and System Management (A1), which were also issued in English translation.

Numerous other sets of terms are being drafted and are scheduled to be issued in 2009. Chief among these are terms on congestion management, the design of the transmission system, connections to the transmission system and curtailable energy.

Organised electricity market – ISBAS

Work continued on the preparation of an organised market for electricity in Iceland in collaboration with the Nordic power exchange Nord Pool. In February, Landsnet held a large conference on this issue for stakeholders in electricity generation and sale titled "The Icelandic Electricity Market – Opportunities or Constraints?" The speakers at the conference were unanimous that such a market would be advantageous and could expedite the marketisation of Iceland's electricity system as well as more efficient price formation.

In co-operation with consultants from Nord Pool, the decision was made to model the Icelandic market on the Nordic ELBAS market. In the Icelandic market, however, it will be possible to trade in electricity one week prior to delivery, which is a much longer time span than allowed in the ELBAS market, where power can be traded up to 36 hours before delivery.

Measures were taken to adapt the Nordic auction system to Icelandic needs. The Icelandic power market, named ISBAS, was ready to be launched in late autumn 2008, but as a result of the economic crisis that then hit Iceland, Landsnet postponed its opening.

Systems development

We undertook a wide range of activities in 2008 devoted to individual projects' system design, analysis in response to inquiries by customers and stakeholders, general studies of the transmission grid and analysis of potential future solutions.

In November, we held a stakeholders' conference titled "Developing the Power Grid", covering three key topics: (1) comparison of the advantages and disadvantages of overhead and underground lines, (2) the 2008 Grid Plan together with energy and power balances in the next three years and (3) Landsnet's position in the current economic environment. This second conference of this type was well attended.

Data collection for and analysis of Landsnet's 66 kV networks in north Iceland were completed, marking a milestone in data collection for the simulation of all of our 66 kV systems. We took over the operation of 66 kV transmission systems in 2005 and have since been systematically examining each of these systems, with focus on their limitations and capacity to meet projected load growth over the next 15 years. In 2008, we examined the West Fjords transmission system in particular with a view to improving its reliability of supply in collaboration with the Westfjord Power Company.

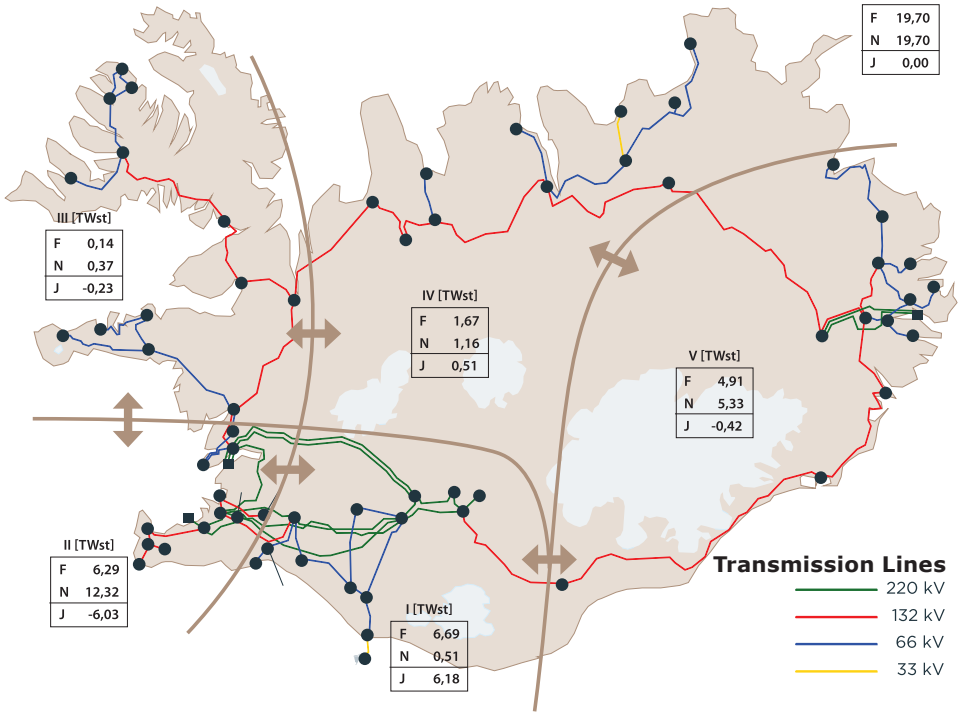
Reliability indicators for transmission system were recalculated in 2008 based on recorded interruptions in 1998-2007. The reliability of supply was first calculated in 2005 based on recorded interruptions in 1995-2004. Since then, the load for energy-intensive industries has risen substantially and new power stations have come on stream at Hellisheiði, Reykjanes and Kárahnjúkar. The results of the recalculations show that the electricity system's expansion since the last analysis has increased the reliability of supply. The methodology used in this re-assessment was partly based on the minimal cut-set approach by Roy Billington.

In the year, Landsnet received updated software that enables us to analyse the transmission system's reliability in closer detail and in a more automated manner. The software uses probability models and makes it possible to calculate the security of supply in meshed systems, taking into account factors such as the size and location of spinning reserves. It also enables easy monitoring and identification of the interruptions in the system that causes the greatest impact on reliability for each supply point.

Energy and power balances 2011/12

For the third consecutive year, Landsnet issued a report on energy and power balances over the next three years. Such a report is issued annually to inform market participants about load and generation trends. The 2007 report forecast electricity consumption growth of approximately 7.4 TWh in 2007-2011, which corresponds to annual growth of 13.3%. Electricity generation in Iceland is sufficient to meet peak demand in all circumstances until 2011/12. However, the probability of a power shortage on an annual basis is not within the reference limits, neither under maximum load in particularly cold conditions nor at forecast load levels unless secondary load is curtailed. For the probability of a power shortage to be within the reference limits, generation would have to increase by about 10-40 MW or load to drop correspondingly.

Areas' forecast energy balance in 2011 is based on premises published in the report Energy Balance 2011 and Power Balance 2011/12.



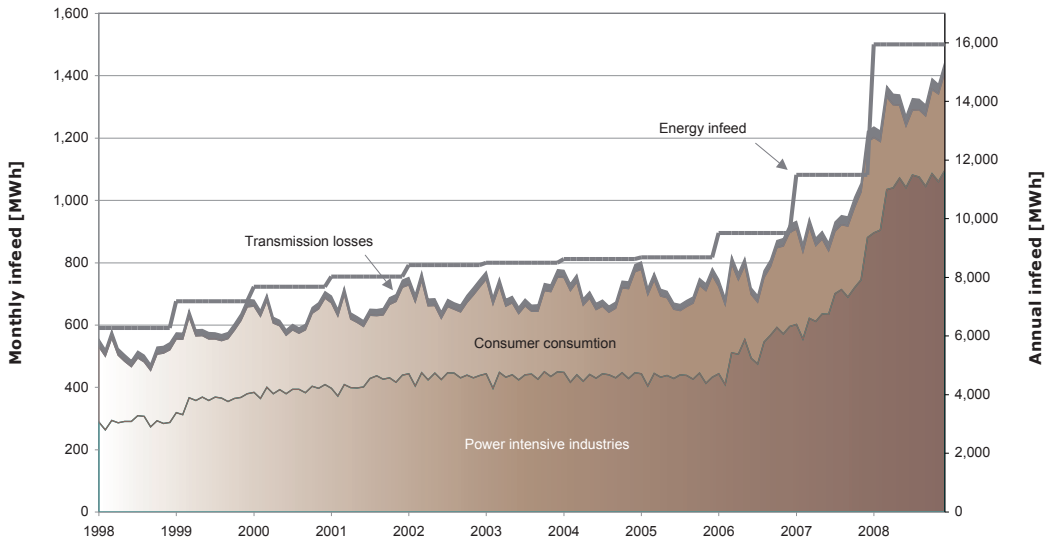
Grid Plan – scheduled development to step up supply security and strengthen the transmission system

Landsnet's 2008 Grid Plan provides an overview of major development projects under preparation or scheduled to be carried out in 2009-2013. This year's report was distributed to all customers and numerous stakeholders and published on the Landsnet website. The purpose of the Grid Plan report and the plans on which it is based is to set out how Landsnet aims to meet the following key objectives in the coming years:

- Meeting client needs and forecasted demand
- Ensuring that the grid has sufficient capacity to satisfy the minimum requirements
- Taking due account of the cost-efficiency and macroeconomic principles stipulated in the Electricity Act

The main uncertainties regarding the Grid Plan pertain to the dimensions and locations of geothermal power stations and potential changes in the amount of power fed to power intensive industries. This can have a significant impact on the plan's results as an average industrial user is equivalent to 10-year growth of the general market (100 MW). Consequently, these plans are reviewed on a continual basis and issued annually in similar form.

The graph shows trends in the volume of power fed monthly and annually into Landsnet's grid in the past 11 years



Two key projects presented in the 2008 Grid Plan are "Southwest Lines" and "Blanda Line 3". The former project involves extensive development, including the transmission network's refurbishment from the Hellisheiði heath to the Geitháls substation on Reykjavík's outskirts and Hafnarfjörður town and onwards onto the Reykjanes peninsula. This project has been ongoing since 2005 and affects 12 municipalities comprising a large part of the Icelandic population. The network's refurbishment is a pressing issue because the system is fully utilised and currently neither meets security of supply requirements nor foreseeable demand in the area in the near future. Once the project is complete, however, the system will be able to supply the region with power in decades to come. The latter project, Blanda Line 3, is the first milestone in refurbishing the regional transmission network, the aim being to boost inter-regional transmission capacity and reliability of supply. Preparations are underway to install this line from the Blanda Power Station to the town of Akureyri in north Iceland. Reference is made to the Grid Plan for further details on upcoming projects.

The aim of the Grid Plan report is to provide an overall view of Landsnet's projects and plans for the coming years.

System Operations

The highest peak in power fed into the transmission grid was measured at 2,060 MW on 18 December, a 17% increase from the previous year. Total system demand in 2008 was 15,538 GWh, up 39% year-on-year. Transmission losses totalled 400 GWh, or 2.51% of generation. The scope of System Operations activities for the grid's control and monitoring continued to grow in 2008, maintaining the trend of the preceding year. At the start of the year, Landsnet took over control and monitoring of the 66 kV substations that had been operated by Iceland State Electricity (RARIK), totalling about 20 substations.

The total amount of electricity transmitted rose year-on-year due to the continuing start-up of the Alcoa Fjarðaál aluminium plant which increased load by approximately 260 MW from January to mid-April, when the plant was fully operational. The sixth and last generating unit of the Fljótsdalur Power Station came online in February.

Early 2008 saw a number of weather-related interruptions in the transmission system. The end of January brought significant disturbances, causing

substantial power outages. In early February, a violent storm hit the country, causing extensive operating interruptions, where one and the same line tripped a total of 15 times.

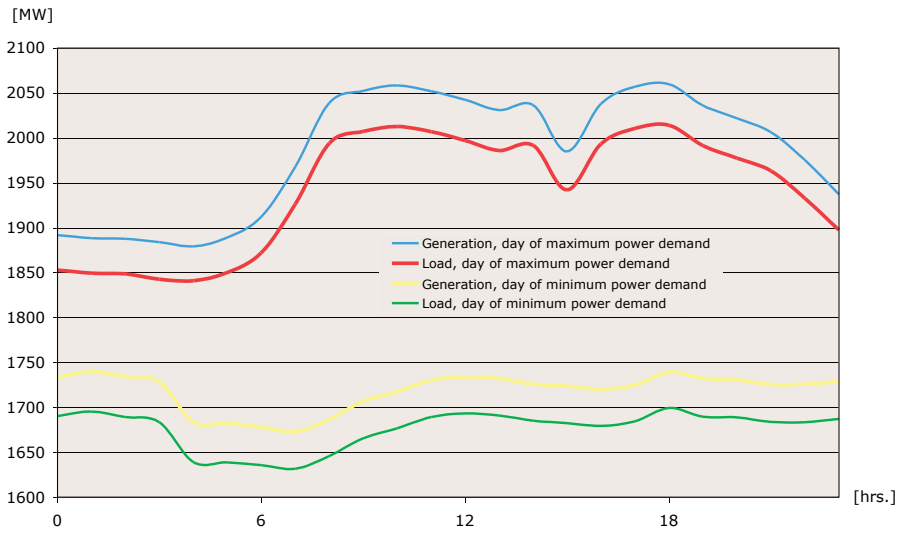
In the year's first half, a power shortage occurred in south-west Iceland, requiring temporary curtailment of secondary power supply. The shortage was caused by a shutdown of the Sultartangi Power Station due to failures in both of its generator transformers. As there was sufficient power capacity in north and east Iceland, as much electricity as possible had to be transmitted to south-west Iceland via the 132 kV regional ring network.

A failure in the 132 kV underground cable linking the Nesjavellir Geothermal Power Plant to the grid caused the plant to be out of service for nine days in April while a repair was carried out.

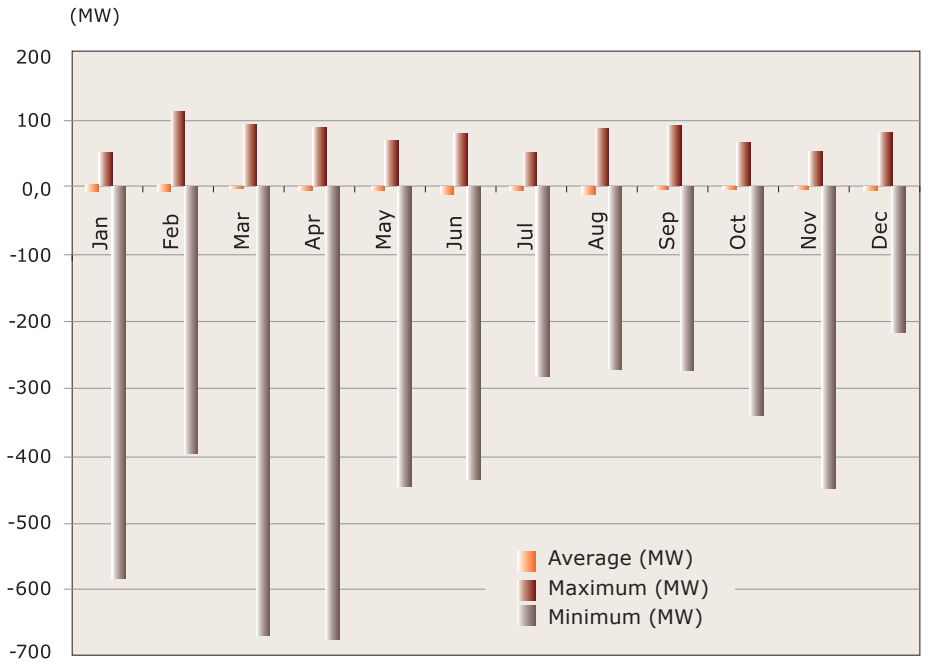
Earthquakes struck south-west Iceland at the end of May, causing serious damage to property for the general public. The power system withstood the earthquakes well, sustaining only very minor damage. Negligible interruptions occurred when two small generating units tripped from the grid as a result of the quakes.

Two new generating units at the Hellisheiði Power Station came online to the grid in the autumn.

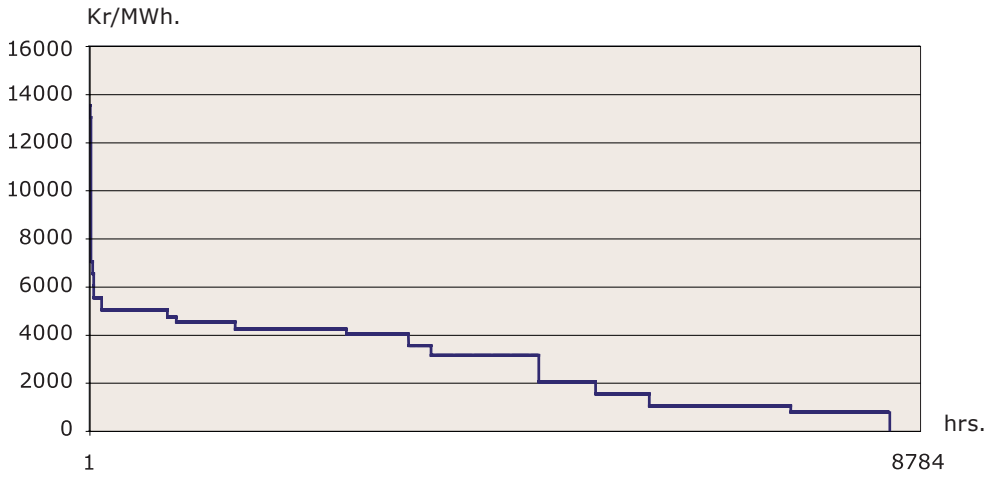
Generation and load curves at day of max. (02.12.2008) and min. (04.08.2008) demand



Regulation Power 2008



Duration curve of balance energy price for 2008



Ancillary services and regulating power

In keeping with its legally prescribed duties, Landsnet ensures the availability of sufficient spinning reserve at any given time, controls frequency and voltage and ensures a minimum supply of regulating power. At the beginning of 2006, agreements were concluded with Landsvirkjun (The National Power Company)

to ensure 70 MW of spinning reserve and 40 MW of regulating power for up- and down-regulation.

These agreements have terms of three and ten years and thus remained in effect in 2008. Landsnet entered into an additional agreement with Landsvirkjun in 2008 on the provision of 30 MW of spinning reserve from the Fljótsdalur Power Station, thereby ensuring the availability of a minimum of 100 MW of spinning reserve in total at any given time. An effort is underway to redesign equipment to enable the operation of a regulating power market. This work and related software development is scheduled for completion in March 2009, when it should be available for immediate use.

Control and protection systems

As in the previous years, the key focus for control and protection systems was on enhancing data communication between sites in order to boost the power network's remote-control capacities and protection equipment functionality.

Targeted work was devoted to increasing the number of Remote Terminal Units (RTUs) in east, south and west Iceland to improve overview and control of power transmission in all of Iceland's four main regions. The installation of equipment in north Iceland and the West Fjords is scheduled for the next few quarters. Landsnet's Energy Management System (EMS) is now much better equipped to satisfy stringent requirements for the security and quality of transmission and supply.

In 2008, far-reaching improvements were made to the transmission system's protection equipment. Continual review and recalibration of the equipment's functions are central to improving supply security. A special effort was devoted to upgrading protection equipment in the West Fjords, which was largely renewed in the year, a process that will continue in 2009. Through projects such as these, Landsnet has succeeded in stepping up the region's security of supply and power quality considerably.

As with other information systems, control and protection systems' effectiveness is determined largely by available communications technology. In 2008, emphasis was placed on redefining requirements regarding the telecommunications needs of such systems. Stringent demands are made on our communications systems and focus is given to ensuring clear and well-defined requirements for service providers. Effective telecommunications are obviously a key factor in improving the electricity network's operational security.

Landsnet's grid at year-end 2008

Operation of the transmission system

Operation and maintenance

Landsnet operates under a 10-year maintenance programme for all transmission system infrastructure. We carried out legally prescribed power security and operational checks in the year in keeping with our maintenance programme.

We inspected 1,300km of transmission lines as per the maintenance schedule. We also performed additional checks of 340km of lines because of frequent interruptions due to weather, particularly in the south-west region of the country. Further additional checks of 220 kV lines in south Iceland were conducted following the May earthquakes.

Particular emphasis was placed on monitoring and checking the Fljótsdalur lines 3 and 4, which connect the aluminium plant at Reyðarfjörður in east Iceland to the substation at the Fljótsdalur Power Station. The key objective was to monitor icing on conductors as well as avalanche risk. Maintenance and repairs of transmission lines were carried out following such checks.
Routine maintenance was performed on switchgear units listed on the maintenance programme. The condition of bus connecting parts, battery sets

and chargers was examined, in addition to timing and resistance measurements on circuit breakers as well measurements on capacitor structures.

Oil samples were taken from power transformers and thermographic images obtained of high-voltage equipment. Following training in the use of new equipment, we began analysing the condition of gas-insulated substations (GIS) using sound measurements, as well as analysing lightning arrestors using specialised equipment. Reliability-and-lifetime analysis of Landsnet's 66 kV infrastructure also commenced.
Acceptance tests of two substations were carried out at Kolviðarhóll and Rangárvellir.
The results of the International Transmission, Operation and Maintenance Study (ITOMS) 2007 were published in 2008, with Landsnet's performance proving consistent with our goals.

The staff of our Operation and Maintenance division received training in Sweden in the installation of emergency masts.

Other projects

Capacitor structures at Mt Lyklafell near Reykjavík and at Rangárvellir were demolished. Preventive measures were taken to increase the operational security of the Vatnshamrar line 1 and the Geiradalur line 1. Damper fasteners on the Fljótsdalur lines 3 and 4 were repaired, and the condition of the fasteners on the Sultartangi line 3 was checked. A repair of the foundations under the frame towers at Grjóthláls and Holtavörðuheiði heath were completed in the year.

Changes to the Korpa line 1 at Reynisvatnsás were made at the request of the City of Reykjavík in connection with construction activity in the area. On the Rangárvellir line 1, slanting foundations on the Öxnadalsheiði heath were straightened and the firmness of poles checked.

On the Geiradalur line 1, the finishing of an underground cable at Glerárskógar was changed and cross-supports were added to 12 foundations at Saurbær.

A number of Landsnet employees visited Greenland in the year to change a conductor where it crosses the Eiriksfjord and set up measuring equipment to monitor weather-related stress on the line.

New facilities in Egilsstaðir town for Landsnet's operations in east Iceland and a new warehouse for hard commodities at Geithals on Reykjavík's outskirts were opened.

Landsnets Substations End of Year 2008

Substation	KKS-Code	Co-owner	Voltage [kV]	First Year of Usage
Aðveitustöð 12	A12	OR	132	2006
***Akranes**	AKR	OR	66	1987
Andakíll	AND	OR	66	1974
Bessastaðir	BES		132/33	2003
Blanda	BLA	LV	132	1991
Bolungarvík	BOL	OV	66/11	1977
Breiðidalur	BRD	OV	66/33/19/11	1959
Brennimelur	BRE	RA	220/132/66/11	1978
Búrfell	BUR		220/66	1999
Dalvík	DAL	RA	66/33/11	1981
Eskifjörður	ESK	RA	66/33/11	1993
Eyvindará	EYV	RA	132/66/33/11	1975
Fáskrúðsfjörður	FAS	RA	66/33/11	1998
Fitjar	FIT	HS	132	1990
Fljótsdalur	FLJ		220/132	2007
Flúðir	FLU	RA	66/11	1995
Geiradalur	GED	OV	132/33/19	1983
Geithals	GEH		220/132	1969
Glerárskógar	GLE	RA	132/19	1980
Grundarfjörður	GRU	RA	66/19	1987
Hamranes	HAM		220/132/11	1989
Hella	HLA	RA	66/11	1995
Hnoðraholt	HNO	OR	132	1990
Hólar	HOL	RA	132/19/11	1984
Hrauneyjafoss	HRA	LV	220	1981
Hrútatunga	HRU	RA	132/19	1980
Hryggstekkur	HRY	RA	132/66/11	1978
Húsavík	HUS	RA	33/11/6	1978
Hveragerði	HVE	RA	66/11	1983
Hvolsvöllur	HVO	RA	66/11	1995
Írafoss	IRA	LV	220/132/66/11	1953
Ísafjörður	ISA	OV	66/11	1959
Keldeyri	KEL	OV	66/33/11	1959
Kolviðarhóll	KOL		220	2006
Korpa	KOR	OR	132/33/11	1976
Kópasker	KOP	RA	66/33/11	1980
Krafla	KRA	LV	132/11	1977

Substation	KKS-Code	Co-owner	Voltage [kV]	First Year of Usage
Lagarfoss	LAG	RA	66/11/6	2007
Laxá	LAX		66/33/11	1937
Laxárvatn	LAV	RA	132/33/11	1977
Lindarbrekka	LIN	RA	66/11	1985
Ljósifoss	LJO	LV	66/11	1937
Mjólká (neðra virki)	MJO	OV	66/33/11	1980
Mjólká (efra virki)	MJO	OV	132/66	1980
Nesjavellir	NES	OR	132	1998
Neskaupstaður	NKS	RA	66/11	1994
Ólafsvík	OLA	RA	66/19	1980
Prestbakki	PRB	RA	132/19	1984
Rangárvellir	RAN	RA	132/66/11	1974
Rauðimelur	RAU		132	2006
Reykjanes	REY	HS	132	2006
Rimakot	RIM	RA	66/33/11	1990
Sandskeið	SAN		220	1998
Sauðárkrókur	SAU	RA	66/33/11	1977
Selfoss	SEL	RA	66/11	2005
Seyðisfjörður	SEY	RA	66/11	1957
Sigalda	SIG	LV	220/132	1977
Silfurstjarnan	SIL	RA	66/11	1992
Steingrímsstöð	STE	LV	66/11	1959
Stuðlar	STU	RA	66/11	1980
Sultartangi	SUL		220/11	1999
Svartsengi	SVA	HS	132	1997
Teigarhorn	TEH	RA	132/33/11	2005
Varmahlíð	VAR	RA	132/66/11	1977
Vatnsfell	VAF		220/11	2001
Vatnshamrar	VAT	RA	132/66/19	1976
Vegamót	VEG	RA	66/19	1975
Vestmannaeyjar	VEM	RA	33	2002
Vogaskeið	VOG	RA	66/19	1975
Vopnafjörður	VOP	RA	66/11	1982
Þorlákshöfn	TOR	RA	66/11	1991
Öldugata	OLD		132	1989

HS=Hitaveita Suðurnesja, LV=Landsvirkjun, OR=Orkuveita Reykjavíkur, OV=Orkubú Vestfjarða, RA=RARIK

*** Rent from OR**

Landsnets Transmission Lines
End of Year 2008

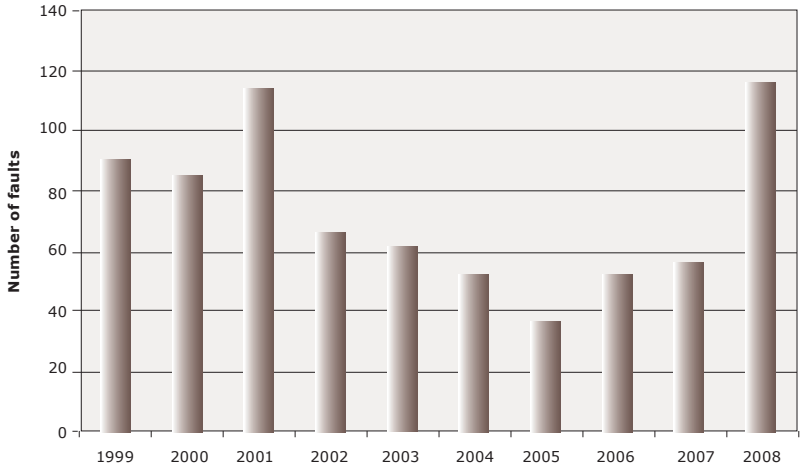
Voltage [kV]	Transmissionline	KKS-Code	First Year of Usage	Connected Substations	Length [km]
220	**Brennimelslína 1**	BR1	1977	Geithals - Brennimelur	59
	Búrfellslína 1	BU1	1969	Búrfell - Írafoss	61
	Búrfellslína 2	BU2	1973	Búrfell - Kolviðarhóll	86
	Búrfellslína 3	BU3	1992	Búrfell - Hamranes	119
	Fljótsdalslína 3	FL3	2007	Fljótsdalur - Reyðarfjörður	49
	Fljótsdalslína 4	FL4	2007	Fljótsdalur - Reyðarfjörður	53
	Hamraneslína 1	HN1	1969	Geithals - Hamranes	15
	Hamraneslína 2	HN2	1969	Geithals - Hamranes	15
	Hrauneyjafosslína 1	HR1	1982	Hrauneyjafoss - Sultartangi	20
	Ísallína 1	IS1	1969	Hamranes - Ísal	2
	Ísallína 2	IS2	1969	Hamranes - Ísal	2
	Járnblendilína 1	JA1	1978	Brennimelur - Járnblendiv.	5
	Kolviðarhólslína 1	KH1	1973	Kolviðarhóll - Geithals	17
	Norðurálslína 1	NA1	1998	Brennimelur - Norðurál	4
	Norðurálslína 2	NA2	1998	Brennimelur - Norðurál	4
	Sigöldulína 2	SI2	1982	Sigalda - Hrauneyjafoss	9
	Sigöldulína 3	SI3	1975	Sigalda - Búrfell	37
	Sogslína 3	SO3	1969	Írafoss - Geithals	36
	Sultartangalína 1	SU1	1982	Sultartangi - Brennimelur	122
	Sultartangalína 2	SU2	1999	Sultartangi - Búrfell	13
	Sultartangalína 3	SU3	2006	Sultartangi - Brennimelur	119
	Vatnsfellslína 1	VF1	2001	Vatnsfell - Sigalda	6
				Total 220 kV	**851**
132	**Aðveitustöð 7 (lína/jarðstrengur)**	AD7	1990	Hamranes - Hnoðraholt	10
	Blöndulína 1	BL1	1977	Blanda - Laxárvatn	33
	Blöndulína 2	BL2	1991	Blanda - Varmahlíð	32
	Eyvindarárlína 1	EY1	1977	Hryggstekkur - Eyvindará	28
	Fitjalína 1	MF1	1991	Rauðimelur - Fitjar	7
	Fljótsdalslína 2 (lína/jarðstrengur)	FL2	1978	Fljótsdalur - Hryggstekkur	25
	Geiradalslína 1	GE1	1980	Glerárskógar - Geiradalur	47
	Glerárskógalína 1	GL1	1983	Hrútatunga - Glerárskógar	34
	Hafnarfjörður 1 (jarðstrengur)	HF1	1989	Hamranes - Hafnarfjörður	4
	Hólalína 1	HO1	1981	Teigarhorn - Hólar	75
	Hrútatungulína 1	HT1	1976	Vatnshamrar - Hrútatunga	77
	Korpulína 1	KO1	1974	Geithals - Korpa	6
	Kröflulína 1	KR1	1977	Krafla - Rangárvellir	82
	Kröflulína 2	KR2	1978	Krafla - Fljótsdalur	123
	Laxárvatnslína 1	LV1	1976	Hrútatunga - Laxárvatn	73
	Mjólkárlína 1	MJ1	1981	Geiradalur - Mjólká	81
	Nesjavallalína 1 (lína/jarðstrengur)	NE1	1998	Nesjavellir - Korpa	3
	Prestbakkalína 1	PB1	1984	Hólar - Prestbakki	171
	Rangárvallalína 1	RA1	1974	Rangárvellir - Varmahlíð	88
	Rauðamelslína 1	RM1	2006	Reykjanes - Rauðimelur	15
	Rauðavatnslína 1 (lína/jarðstrengur)	RV1	1953	Geithals - A12	3
	Sigöldulína 4	SI4	1984	Sigalda - Prestbakki	78
	Sogslína 2	SO2	1953	Írafoss - Geithals	44

Voltage [kV]	Transmissionline	KKS-Code	First Year	Connected Substations	Length [km]
	Suðurnesjalína 1	SN1	1991	Hamranes - Fitjar	31
	Svartsengislína 1	SM1	1991	Svartsengi - Rauðimelur	5
	Teigarhornslína 1	TE1	1981	Hyggstekkur - Teigarhorn	50
	Vatnshamralína 1	VA1	1977	Vatnshamrar - Brennimelur	20
				Total 132 kV	**1272**
66	**Akraneslína 1 (jarðstrengur)**	AK1	1996	Brennimelur - Akranes	17
	Andakílslína 1	AN1	1966	Andakíll - Akranes	35
	Bolungarvíkurlína 1	BV1	1979	Breiðidalur - Bolungarvík	17
	Bolungarvíkurlína 2	BV2	1959	Ísafjörður - Bolungarvík	17
	Breiðadalslína 1	BD1	1975	Mjólká - Breiðidalur	36
	Dalvíkurlína 1	DA1	1982	Rangárvellir - Dalvík	39
	Eskifjarðarlína 1	ES1	2001	Eyvindará - Eskifjörður	29
	Fáskrúðsfjarðarlína 1	FA1	1989	Stuðlar - Fáskrúðsfjörður	17
	Flúðalína 1	FU1	1978	Búrfell - Flúðir	27
	Grundarfjarðarlína 1	GF1	1985	Vogaskeið - Grundarfjörður	35
	Hellulína 1	HE1	1995	Flúðir - Hella	34
	Hellulína 2	HE2	1948	Hella - Hvolsvöllur	13
	Hveragerðislína 1	HG1	1982	Ljósifoss - Hveragerði	15
	Hvolsvallarlína 1	HV1	1972	Búrfell - Hvolsvöllur	45
	Ísafjarðarlína 1 (lína/jarðstrengur)	IF1	1959	Breiðidalur - Ísafjörður	15
	Kópaskerslína 1	KS1	1983	Laxá - Kópasker	83
	Lagarfosslína 1	LF1	1971	Lagarfoss - Eyvindará	27
	Laxárlína 1	LA1	1976	Laxá - Rangárvellir	58
	Ljósafosslína 1 (jarðstrengur)	LJ1	2002	Ljósifoss - Írafoss	1
	Neskaupstaðarlína 1	NK1	1985	Eskifjörður - Neskaupstaður	18
	Ólafsvíkurlína 1	OL1	1978	Vegamót - Ólafsvík	49
	Rimakotslína 1	RI1	1988	Hvolsvöllur - Rimakot	22
	Sauðárkrókslína 1	SA1	1974	Varmahlíð - Sauðárkrókur	22
	Selfosslína 1	SE1	1981	Ljósifoss - Selfoss	20
	Selfosslína 2	SE2	1947	Selfoss - Hella	32
	Seyðisfjarðarlína 1	SF1	1996	Eyvindará - Seyðisfjörður	20
	Steingrímsstöðvarlína 1 (lína/jarðstrengur)	ST1	2003	Steingrímsstöð - Ljósifoss	3
	Stuðlalína 1 (jarðstrengur)	SR1	2005	Hryggstekkur - Stuðlar	16
	Stuðlalína 2	SR2	1983	Stuðlar - Eskifjörður	18
	Tálknafjarðarlína 1	TA1	1985	Mjólká - Keldeyri	45
	Vatnshamralína 2	VA2	1974	Andakíll - Vatnshamrar	2
	Vegamótalína 1	VE1	1974	Vatnshamrar - Vegamót	64
	Vogaskeiðslína 1	VS1	1974	Vegamót - Vogaskeið	25
	Vopnafjarðarlína 1	VP1	1980	Lagarfoss - Vopnafjörður	58
	Þorlákshafnarlína 1	TO1	1991	Hveragerði - Þorlákhöfn	19
				Total 66 kV	**995**
33	**Húsavíkurlína 1**	HU1	1964	Laxá - Húsavík	26
	Vestmannaeyjalína 1 (sæstrengur)	VM1	1966	Vestmannaeyjar - Rimakot	16
	Vestmannaeyjalína 2 (sæstrengur)	VM2	1978	Vestmannaeyjar - Rimakot	15
				Total 33 kV	**57**
				Total	**3175**

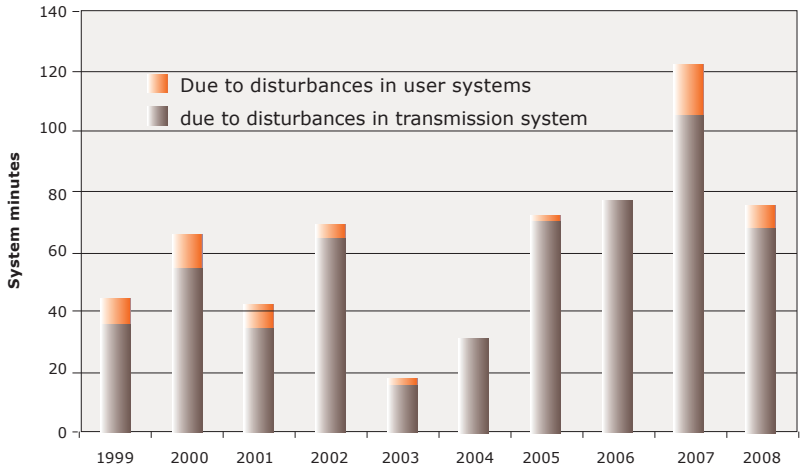
Grid disturbances

The year saw a rise in the number of unanticipated interruptions in the transmission system compared with the past few years. There were 83 grid disturbances and 117 faults, which means that more than one fault was behind some of the interruptions. Energy not supplied due to grid disturbances totalled 1.98 GWh, which corresponds to 67 system minutes.

Number of disturbances in the Transmission System 1999-2008



System minutes due to disturbances in the Transmission System 1999-2008



Main disturbances causing outages

The main grid disturbances causing outages and curtailment of power supply to customers were as follows:

On January 20, a violent storm swept through north-east Iceland, causing a number of 66 kV lines in east Iceland to trip. A 132/66 kV transformer at the Eyvindará substation also tripped. Energy not supplied to public users in the East Fjords as a result is assessed at 21 MWh.

On 22 January, the 132 kV line LV1 tripped due to weather. A protective shutdown was performed in the regional ring network at Blanda owing to high eastward transmission levels. Misconnected protections caused the potline at the Alcoa Fjarðaál aluminium plant to trip. Power-intensive industry at Grundartangi shed load due to under-frequency. Energy not supplied is assessed at a total of 181 MWh.

On 27 January, a short-circuit in the Sigalda substation caused isolation of all generating units of the Sigalda Power Station and the Vatnsfell Power Station. Following that, power-intensive industry at Grundartangi and Straumsvík lost substantial power. The reason for the disturbance is not fully known, while it is believed that snow falling from a steel mast at the substation triggered the short-circuit. Later that same day, the 132 kV line HT1 tripped, causing 220/132 kV transformers at Fljótsdalur, a potline in the Alcoa Fjarðaál plant and four generating units in the Fljótsdalur Power Station to trip as well. The reason for the line tripping is believed to have been a conductor's proximity to a load-bearing structure. Later, the 132 kV line MJ1 tripped because of weather, which led to a short power outage in the West Fjords. A fault in a 220 kV capacitor bank at Brennimelur caused the aluminium producer Norðurál to lose 300 MW in load. In addition, both generating units of the Krafla Power Station and all generating units of the Svartsengi Geothermal Power Plant tripped. The cause of the fault in the capacitor bank at Brennimelur was heavy salt accumulation on insulators. Energy not supplied is assessed at a total of 1306 MWh.

On 8 February, a fierce storm struck the entire country, causing widespread disruptions. The 132 kV line VA1 tripped repeatedly, or a total of 15 times. The 220 kV lines BÚ1/SO3 tripped a total of five times. A transformer at Írafoss also tripped. Power-intensive industry at Grundartangi and Straumsvík lost considerable load during the BÚ1/SO3 interruptions, and Krafla Power Station and Hellisheiði Power Station tripped from the grid. Subsequently, a transformer at Sigalda that connects the regional ring network to the 220 kV system in south-east Iceland tripped.

When the transformer tripped, Krafla Power Station and a transformer at Teigarhorn tripped from the grid. Later, the 132 kV line HT1 tripped because a tower on the line had broken. Two 66 kV lines tripped simultaneously when lightning struck in south Iceland. This caused a power outage at Hvolsvöllur and in the Westman Islands. The Seyðisfjörður line tripped due to a fault, causing an outage in Seyðisfjörður town. Energy not supplied owing to these disturbances is assessed at a total of 88 MWh.

On 31 March, the 132 kV radial line to the West fjords tripped, resulting in a brief power outage in the area. Later, generating units at the Fljótsdalur Power Station tripped without warning, causing a shutdown of the regional ring network at Blanda, and the 132 kV line HO1 and the 66 kV line LA1 to trip. Energy not supplied on that day is assessed at 28 MWh.

On 9 August, a human error during maintenance caused all generating units of the Sigalda Power Station to trip from the grid, resulting in load loss for power-intensive industry at Grundartangi. Energy not supplied is assessed at 44 MWh.

On 18 September, a powerful short-circuit in a 220 kV capacitor bank at Brennimelur resulted in substantial load loss for power-intensive industry. The cause of the short-circuit was salt pollution due to sharp south-westerly winds. Energy not supplied is assessed at 40 MWh.

On 22 October, a generating unit at the Fljótsdalur Power Station tripped, causing a potline at the Alcoa Fjarðaál aluminium plant to reduce load, after which power supply to the plant had to be curtailed. Energy not supplied owing to this interruption is assessed at a total of 219 MWh.

On 23 October, a fault occurred in the 66 kV line OL1 when a crossbar broke on one of its towers. Energy not supplied is assessed at a total of 119 MWh.

On 11 December, interruptions occurred on the 132 kV radial line to the West Fjords due to weather, causing some outage in the area. Energy not supplied is assessed at 31 MWh.

New development projects

Research and feasibility studies for new line routes

Landsnet engages in a broad range of research, among other things to support decision-making when selecting routes for new transmission lines and formulating natural-environment-related load criteria. More than thirty measuring stations are operated on existing and prospective line routes across Iceland, where measurements of ice and wind load and other weather conditions are performed. We also keep a systematic record of icing events on all transmission lines operated in the country. Other research activities include measurements of conductor

Vibration, salt accumulation on insulators and soil thermal conductivity on planned underground cable routes. Landsnet collaborates with other companies on lightning research and meteorological modelling to predict and map out weather factors important to the design of structures. Research is in progress on the use of webcams and tension recorders for real-time monitoring of important transmission lines in places where icing and much weather load can be expected. We are also an active participant in international co-operation on icing research and the design of switchgear and transmission lines.

We conducted feasibility studies for new line routes and made preparations for possible new installations and refurbishments around Iceland, both for industrial and public electricity consumption. In connection with the Public Road Administration's plans to construct new tunnels in various locations around the country, we examined the advantages of employing the tunnels to install lines. In some cases, this creates opportunities for simplifying the current transmission network and discontinuing the use of overhead lines along mountain roads where weather conditions are harsh.

Preparation of new projects

Due to plans to build an aluminium plant at Bakki near Húsavík in north Iceland, Landsnet has been preparing the development of a transmission network for the prospective geothermal power stations in the area and a connection to the main grid. In 2008, the focus was on the environmental impact assessment (EIA) and the construction design of lines and substations. The National Planning Agency approved the scoping document proposal for the transmission lines in the year. The Minister of the Environment ruled that a joint EIA should be conducted for the overall project, covering power generation development, the planned transmission installations and the

energy-intensive industry itself. In co-operation with Landsvirkjun, Þeistareykir ehf and Alcoa, work began towards the end of the year on the joint EIA of the Krafla and Þeistareykir power plants, transmission lines and the aluminium plant at Bakki.

The year also saw work on land planning and negotiations with municipalities in south-west Iceland on plans to strengthen transmission infrastructure from the Hellisheiði heath to Hafnarfjörður town and westward over the Reykjanes peninsula for the reinforcement of the transmission network in south-west Iceland. The working name of this project is Southwest Lines. The EIA scoping document was presented on 2 December 2008. There was also work on the construction design of transmission lines and substations.

We worked on the selection of line routes and related research on the seabed between Landeyjasandur on Iceland's south coast and Gjábakkafjara in the Westman Islands regarding plans to strengthen the transmission system to the Islands. Preparations continued on a new 132 kV cable connection from the Nesjavellir Power Plant to the Geitháls substation. Work also continued on preparing the refurbishment of the Bolungarvík line 2. The new connection will be in the form of an underground cable via the planned tunnel between Bolungarvík and Hnífsdalur.

Preparation commenced on the construction of a new 220 kV line between the Blanda Power Station and Akureyri in north Iceland. This project is connected with plans to develop energy-intensive industry in the Eyjafjörður region, as well as marking the first milestone in the regional ring network's reconstruction for increased power transmission. We also worked on land planning in collaboration with the municipalities in question, and commenced a range of research on the natural environment relating to the project. The line's construction design was also started. Towards the end of the year, the National Planning Agency approved the project's scoping document.

In relation to plans to develop an industrial area at Þorlákshöfn in south Iceland, Landsnet also worked on land planning and an environmental impact assessment for two 220 kV transmission lines extending from the Hellisheiði heath to Þorlákshöfn. The National Planning Agency approved the project's scoping document towards the end of the year.

The year saw preparations for connecting the planned Búðarháls Power Station on River Tungnaá and prospective power stations in the lower reaches of River Þjórsá to the national grid. Particular focus was placed on reviewing construction designs. The transmission infrastructure has been approved under the Environmental Impact Assessment Act.

We also prepared the relocation and reconstruction of the substation at Akranes town, west Iceland. This is a collaborative project with Reykjavik Energy. The new substation will be constructed in a new industrial district in Akranes. Plans are afoot to lay 66 kV cables both to the cable from Brennimelur and the line from the Andakílsá Power Station. Tenders were invited for the electrical works and the plan was to construct the substation in 2009. Due to the financial market situation and the ISK decline, however, development was postponed until 2010.

New development for transmission infrastructure

In connection with the Sultartangi line 3, Landsnet decided to establish procedures under which an environmental audit must be carried out upon completion of line construction projects. In 2008, environmental audits were completed for the construction of the Sultartangi line 3 and the Fljótsdalur lines 3 and 4. The objective of such audits is to:

- Follow up on Landsnet's environmental policy for construction projects, which emphasises minimising environmental impact and ensuring an optimal finishing level upon project completion
- Ensure consensus on the developer's activities with respect to the provisions of construction permits and any ruling regarding environmental impact assessment
- Follow up on Landsnet's requirements in tender documents regarding the finishing level delivered by contractors upon project completion
- Follow up on Landsnet's own plans regarding mitigating measures

The construction of transmission infrastructure for the new aluminium plant in Reyðarfjörður was largely completed in 2007. In 2008, the focus was on concluding various repairs and testing, exterior finishing and settlements with contactors. The installation of equipment for a reactive power compensator at the 132 kV Hryggstekkur substation began in October 2006 and was mostly completed in the spring of 2007. Due to repeated failures in the compensator equipment, the project remains incomplete. Part of the equipment had sustained damage at year-end 2007 and had to be changed, so the decision was made to build a shelter for part of the system. Negotiations are in progress with contractors on the project's continuation. The laying of a fibre-optic cable from the substation at Rangárvellir in north Iceland to the Fljótsdalur substation in east Iceland was mostly concluded in December 2007. Various finishing touches, settlements with contractors and an environmental audit were completed in 2008.

In relation to the expansion of the Lagarfoss Power Station, the decision was made to construct a new 66 kV substation there to replace the previous one, which had seen better days. The substation came on stream in July 2007. In 2008, the focus was on various repairs and testing, exterior finishing and settlements with contactors.

Work started on the expansion of the Rangárvellir substation and the installation of a 132 kV underground cable for the planned Becromal aluminium foil plant at Krossanes in Eyjafjörður fjord. This includes the expansion of the substation by two 132 kV bays, the installation of a 4.5km long 132 kV underground cable to the Krossanes substation and the refurbishment and enlargement of a capacitor bank to 60 MVAr. Power supply to the plant is scheduled to commence in August 2009 and the construction is due for completion in the year.

Finance

Revenue cap and tariff

In accordance with the Electricity Act, Landsnet operates under a three-year revenue cap determined by the National Energy Authority of Iceland (Orkustofnun), which has a regulatory role over the company. At year-end 2006, Orkustofnun set the revenue cap for the years 2007-2009 based on operating and management expenses in 2004 and 2005. On the basis of the revenue cap and the company's required rate of return on fixed assets in operation, Landsnet's Board of Directors decided, when approving the 2008 budget, to raise the tariff for electricity transmission to general consumers by 5.5% and the USD-denominated tariff for power-intensive industries by 2.5%. These changes took effect on 1 February 2008, with no further tariff adjustments during the year.

Performance in 2008

Landsnet generated a loss of ISK 12,779.6 million in 2008, compared with a loss of ISK 798.5 million in 2007. This is a substantially higher loss than forecast in the year's budget, which is primarily owing to the Icelandic economic crisis. The sharp depreciation of the ISK coupled with a rise in the consumer price index (CPI) exerted a significant negative impact on the company's debt portfolio and financing costs. The company derives part of its operating revenue in foreign currency, which to some extent offsets the year's foreign currency exchange difference.

Operating revenue amounted to ISK 10,852.7 million, of which transmission income was ISK 10,743.8 million and other income ISK 108.9 million. Operating expenses came to ISK 5,686.2 million, of which the costs of purchased system services and transmission losses accounted for ISK 1,550.6 million, operating and management costs for ISK 2,114.6 million, leasing and commitments for ISK 121.1 million and depreciation and amortisation for ISK 1,899.9 million.

Earnings before interest and taxes (EBIT) amounted to ISK 5,166.5 million, up from ISK 2,276.2 million in 2007. Net financial expenses in 2008 were ISK 20,163.6 million, which was owing to the sharp drop of the ISK and high inflation, as recounted above. The net exchange rate loss for the year was ISK 15,409.0 million, inflation-indexation amounted to ISK 4,036.4 million and interest on long-term loans to ISK 2,095.5 million. The after-tax loss for the year was ISK 12,779.6 million.

Balance sheet

Total assets stood at ISK 69,383.5 million at year-end, up from ISK 49,300.9 million at the end of 2007. Of this total, non-current assets accounted for ISK 64,952.8 million and current assets for ISK 4,430.7 million. By comparison, non-current assets were ISK 46,564.7 million and current assets ISK 2,736.2 million at year-end 2007. Fixed assets in operation were ISK 61,405.5 million at year-end, compared with ISK 44,236.1 million at the end of the previous year.

The company's assets were revalued in 2008. At the beginning of the year, independent experts were engaged to valuate the assets at the price levels as at 1 January 2008. At the end of the year, the decision was made to update this valuation due to changes in both price levels and the ISK exchange rate over the course of the year. Two methods were applied in the revaluation. First, it was based on the estimated reconstruction cost of the transmission system. Second, the company's operating value was estimated using discounted cash flow analysis. The valuation period was from 2009 to 2013, with the future operating value calculated thereafter. The resultant change in equity was ISK 17,726.9 million, as recognised in the Statement of Changes in Equity. The after-tax effect on equity was ISK 15,067.9 million.

Long-term liabilities and obligations stood at ISK 45,135.1 million at year-end, and short-term liabilities at ISK 16,973.6 million. By comparison, long-term liabilities and obligations were ISK 33,816.1 million and short-term liabilities ISK 10,498.2 million at year-end 2007. The increase in liabilities is owing to, firstly, the rise in the CPI during the year and, secondly, the weakening of the

ISK against foreign currencies, with the company's debts either indexed to the CPI or denominated in foreign currency. The CPI soared by 18.13% in the year and the ISK exchange rate plummeted 80.25%.

Equity at year-end 2008 stood at ISK 7,274.8 million, including share capital of ISK 5,902.7 million, as stated in the balance sheet. The equity ratio was 10.5%.

Cash flow

Net cash from operating activities was ISK 5,760.3 million in 2008 and cash at year-end was ISK 2,700.7 million. Net cash from investment activities amounted to ISK 2,652.8 million, of which investment in transmission infrastructure accounted for ISK 1,304.1 million. Other investment came to ISK 1,348.7 million.

Funding

Landsnet's funding in 2008 was solely through cash from operating activities. No new loans were taken out in the year for investment, with only partial refinancing of a short-term loan taken in 2007. The year-on-year increase in liabilities stems primarily from the rise in the CPI and the ISK depreciation, as recounted above. At year-end, ISK-denominated liabilities were 48% of total liabilities against 52% in other currencies after adjusting for derivative contracts.

Long-term liabilities were 73% of total liabilities at the close of the year. Short-term liabilities are mostly in the form of a revolving credit facility with the parent company, with all drawdowns in foreign currencies. This revolving credit facility has been available since 2006. No loan refinancing will be required in 2009, while the situation of an interest rate and currency swap with Kaupthing Bank maturing in 2013 is as yet uncertain.

Landsnet has started preparing the financing of investment projects planned for the next few years. Clearly, funding will be a challenge over the coming months, particularly in foreign markets. For this reason, amongst others, the company will also seek funding in the domestic market in the coming years.

Financial Statements

2008

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Endorsement by the Board of Directors and the President and CEO

General

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

Results of the year 2008

According to the income statement, loss for the year amounted to ISK 12.8 billion. According to the balance sheet, equity at year-end amounted to ISK 7.3 billion, including share capital in the amount of ISK 5.9 billion. Regarding other changes in equity, reference is made to the statement of changes in equity.

Share capital and articles of association

The Company's Board of Directors decided to exercise a provision in the International Accounting Standard IAS 16 to revaluate property, plant and equipment based on its revaluation model. The revaluation is based on estimated future cash flows in addition to the estimated reconstruction value, taking into account the useful lives of the assets. The result of the revaluation is an increase in the book value of the Company's transmission system to the amount of ISK 17.7 billion. The effect of the revaluation on equity is an increase of ISK 15.1 billion after income tax effects. Regarding other changes in equity, reference is made to the statement of changes in equity.

Share capital at year-end is owned by the following four shareholders:

	Share
Landsvirkjun	64.73%
Rafmagnsveitur rikisins ohf.	22.51%
Orkuveita Reykjavikur	6.78%
Orkubu Vestfjarða hf.	5.98%

Statement of the Board of Directors and the President and CEO

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

To the best of our knowledge and belief, the financial statements give a true and fair view of the Company's financial performance during the year 2008, assets, debt and financial position as at 31 December 2008 as well as changes in cash during the year.

It is also our opinion that the financial statements and the report of the Board of Directors and the President and CEO provide a clear overview of the Company's development, performance and position and describe the primary risks and uncertainty that the Company faces.

The Board of Directors and the President and CEO of Landsnet hf hereby confirm the financial statements for the year 2008 with their signatures.

Reykjavík, 3 March 2009.

Board of Directors:

President and CEO:

Independent Auditor's Report

To the Board of Directors and shareholders of Landsnet hf.

We have audited the accompanying financial statements of Landsnet hf, which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Landsnet hf as at 31 December 2008 and of its financial performance as well as cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Reykjavík, 3 March 2009.

KPMG hf

Income Statement
for the year ended 31 December 2008

	Note	2008	2007
Operating revenue:			
Transmission	6	10,743,814	6,880,030
Other income	7	108,897	83,179
		10,852,711	6,963,209
Operating expenses:			
Energy production costs		1,550,607	1,313,717
Transmission costs		2,831,349	2,150,113
System management		575,815	560,682
Other operating expenses		728,452	662,525
		5,686,223	4,687,037
Operating profit		5,166,488	2,276,172
Financial income		1,192,368	46,055
Financial expenses		(21,355,997)	(3,290,526)
Net financial expenses	10	(20,163,629)	(3,244,471)
Share in net earnings of associated company	13	7,237	(5,405)
Loss before income tax		(14,989,904)	(973,704)
Income tax	11	2,210,258	175,252
Loss for the year		(12,779,646)	(798,452)
Loss per share:			
Basic loss - diluted loss per share of ISK 1	19	(2.17)	(0.14)

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

Balance Sheet as at 31 December 2008

Assets

	Note	2008	2007
Assets			
Fixed assets in operation	12	61,405,502	44,236,105
Projects under construction	12	1,781,611	1,506,006
Intangible assets	12	1,716,814	551,603
Shares in other companies	13	48,832	41,595
Deferred tax assets	14	0	229,363
Fixed assets		64,952,759	46,564,672
Inventories	15	480,439	302,331
Derivatives		0	369,732
Receivables from related companies		396,605	354,589
Accounts receivable and other receivables	16	853,021	725,283
Cash and bank deposits	17	2,700,681	984,259
Current assets		4,430,746	2,736,194
Total assets		69,383,505	49,300,866
Equity			
Share capital		5,902,733	5,902,733
Revaluation account		14,743,274	0
Retained earnings		(13,371,242)	(916,179)
Equity	18	7,274,765	4,986,554
Liabilities			
Long-term loans from related companies	20	34,808,942	29,915,095
Loans and borrowings	20	6,676,851	3,238,789
Derivatives	22	2,954,197	215,108
Deferred income tax liability	14	219,412	0
Other obligations	21	475,723	447,154
Long-term liabilities and obligations		45,135,125	33,816,146
Loans from related companies		15,813,603	6,034,415
Derivatives		37,428	150,539
Accounts payable and other payables	23	1,122,584	4,313,212
Short-term liabilities		16,973,615	10,498,166
Total liabilities		62,108,740	44,314,312
Total equity and liabilities		69,383,505	49,300,866

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

Statement of Changes in Equity
for the year ended 31 December 2008

	Share Capital	Revaluation account	Accumulated deficit	Total
Changes in equity 1 January - 31 December 2007:				
Equity 1 January 2007	5,902,733	0	(117,727)	5,785,006
Loss for the year			(798,452)	(798,452)
Equity 31 December 2007	5,902,733	0	(916,179)	4,986,554
Changes in Equity 1 January - 31 December 2008:				
Equity 1 January 2008	5,902,733	0	(916,179)	4,986,554
Revaluation of transmission system		17,726,890		17,726,890
Income tax effect of total revaluation		(2,659,033)		(2,659,033)
Loss for the year			(12,779,646)	(12,779,646)
Depreciation on revaluation recognised under accumulated loss		(324,583)	324,583	
Total earnings for the year		14,743,274	(12,455,063)	2,288,211
Equity 31 December 2008	5,902,733	14,743,274	(13,371,242)	7,274,765

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

Statement of Cash Flows
for the year ended 31 December 2008

	Note	2008	2007
Cash flow from operating activities:			
Cash received from customers		10,683,265	6,502,694
Cash expenses		(3,839,947)	(3,369,208)
From operations excluding interest		6,843,318	3,133,486
Interest income received		118,478	32,280
Interest expenses paid		(1,201,543)	(1,078,966)
Net cash from operating activities		5,760,253	2,086,800
Cash flow from investing activities:			
Investments in substations	12	(1,304,077)	(5,996,104)
Fixed assets sold	12	700	4,345
Investment in substations under construction	12	(275,605)	(385,379)
Investment in intangible assets		(1,204,552)	(355,638)
Investments in equity securities		0	(15,000)
Change in unpaid construction costs		130,757	57,175
Net cash (to) from investment activities		(2,652,777)	(6,690,601)
Cash flows from financing activities:			
Change in loans from related companies		3,019,900	(1,068,290)
Proceeds from long-term loans		0	3,033,654
Proceeds from short-term loans due to construction		(4,891,728)	3,320,614
Net cash (to) from financing activities		(1,871,828)	5,285,978
Net increase in cash		1,235,648	682,177
Effect of exchange rate changes on cash		480,774	(5,731)
Cash at 1 January		984,259	307,813
Cash at 31 December		2,700,681	984,259
Investing and financing activities not affecting cash:			
Investment in substations		0	(400,000)
Paid in share capital		0	400,000

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

Notes to the financial statements

Notes to the Financial Statements

1. Reporting entity

Landsnet hf has its headquarters in Iceland and is domiciled at Gylfaflöt 9 in Reykjavik, Iceland. The Company is a subsidiary of Landsvirkjun, which holds a 64.73% share. Landsnet was established in 2004 on the basis of the Electricity Act passed by the Icelandic parliament, Althingi, in the spring of 2003. The role of Landsnet is to administer the transmission of electricity and system management in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003, which stipulates that the Company must not engage in any activities other than necessary to perform its duties under the Act.

2. Basis of preparation

a. ***Statement of compliance***

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

The financial statements were approved by the Board of Directors on 3 March 2009.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

b. ***Basis of measurement***

The financial statements have been prepared on the historical cost basis, except that derivative financial instruments are regognised at fair value and the Company's transmission system is recognised at a revalued amount. The methods to measure fair value are discussed further in Note 4.

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

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

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

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

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

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

- Note 3c - Property, plant and equipment
- Note 3d - Intangible assets
- Note 3m (i) - Estimation of provision due to site restoration
- Note 14 - Income tax

3. Significant accounting policies

The following accounting methods have been consistently applied to all disclosed periods in the financial statements, except that the Company has as of 1 January 2008 recognised its transmission network according to the revaluation method in accordance with IAS 16. Thus, the Company's power lines and substations are recognised at a revalued price in the balance sheet, which is their fair value at the revaluation date less revalued depreciation value from the date that the assets were acquired. Note 3c includes more details on the accounting policies applied in relation to the revaluation.

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

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

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

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

Cash and cash equivalents comprise cash balances and call deposits.

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

Financial assets at fair value through profit or loss

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

Other financial instruments

Financial instruments other than derivative financial instruments are recognised at the amortised cost value based on effective interest rates, less depreciation if detected.

(ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Notes, continued

3. Significant accounting policies, continued

(ii) Derivative financial instruments, continued

The Company holds foreign currency and interest rate swaps for the purpose of managing exchange rate and interest rate risks. Hedge accounting is not applied to derivative financial instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains or losses.

(iii) Share capital

Share capital is classified as equity.

c. ***Property, plant and equipment***

(i) Fixed assets in operation

Items of property, plant and equipment other than transmission lines and substations are measured at cost less accumulated depreciation and impairment losses.
The cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items as well as restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

In accordance with the provisions of the International Accounting Standard IAS 16, the Company's power lines and substations are recognised on the basis of the revaluation method. The Company's power 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.

(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 futurue economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss 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 for the current and comparative periods are as follows:

3. Significant accounting policies, continued

(v) Depreciation, continued

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

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

d. ***Intangible assets***

(i) Developement cost

Expenditure on research activities is recognised in profit or loss when incurred. Developement cost is capitalised within fixed assets. This cost consist largely of expenses relating to exploration of power line sites, preparation for power line masts and environmental impact assessments of proposed projects. The Company has concluded agreements whereby the prospective buyers of electricity shall bear all expenses of the project if it is cancelled. Cost of capital attributable to developement costs is not capitalised. Developement cost is not depreciated at this stage, but possible impairment losses have been considered, as discussed in Note (i).

When the decision to construct a transmission structure has been made and all neccessary approvals have been acquired, the development cost of the transmission structure is capitalised in fixed assets as a project under construction.

(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 from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software	4 years

e. ***Subsidiaries***

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

f. ***Investment in associates***

Associates are those entities in which the company has significant influence, but not control, over 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.

3. Significant accounting policies, continued

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. ***Accounts receivable and other receivables***

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

i. ***Impairment***

(i) Financial assets

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

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

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

All impairment losses are recognised in profit or loss.

(ii) Other assets

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

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

j. ***Employee benefits***

(i) Defined contribution plans

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

3. Significant accounting policies, continued

(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 now 3.5% per annum.

k. ***Share capital***

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

l. ***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 and. The discounted value is entered, on the one hand, as an increase for the relevant asset and, on the other hand, as an obligation in the balance sheet. Estimated demolition cost is discounted by the nominal yield of state-guaranteed securities, which is now around 9%.

m. ***Revenue***

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

The Company's tariff is subject to the National Energy Authority's opinion. On the basis of Article 12 of the Electricity Act No. 65/2003, the National Energy Authority sets an annual limit on the Company's revenue from transmission of electricity to distribution system operators on the one hand and industrial users on the other hand. Under the Act, the Company's authorised return on transmission to distributors is based on 50% of the five-year nominal yield on government bonds for the year 2005 but will increase progressively until full return is reached five years after the establishment of Landsnet. The Act permits full return on transmission to industrial users from the date of the Company's establishment.

The Company's tariff is denominated partly in the Icelandic króna (ISK) and partly in the US dollar (USD).

n. ***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 determined by the National Energy Authority.

3. Significant accounting policies, continued

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

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.

p. ***Income tax***

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

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

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

q. ***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.

r. ***Segment reporting***

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

s. ***New standards and interpretations***

(i) New standards and interpretations

The following new standards, amendments to standards and interpretations of them had not taken effect at year-end 2008, and have not been applied in preparing these financial statements:

- *IFRS 8 Operating Segments* introduces the “management approach” in relation to segment reporting, goods and services sold, geographical areas of operation and main customers. IFRS 8 becomes applicable for periods beginning on 1 January 2009 or later and will not have a significant effect on the Company's financial statements.

- *IAS 1 Presentation of Financial Statements (revised in 2007)* presents the concept of total return, which consists of changes in equity other than in relation to transactions with owners in their capacity as owners Total return may be presented in one or two statements: either a single statement of comprehensive income or an income statement plus a statement of comprehensive income. The revised IAS 1 will become mandatory for the Company's 2009 financial statements.

- The revised *IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Company's 2009 financial statements and will consitute a change in accounting policy for the Company. The changes are not expected to affect the Company's financial standing.

3. Significant accounting policies, continued

New standards and interpretations, continued

- The revised *IFRS 3 Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Company's operations:

  – The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  – Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  – Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  – Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  – Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  The revised IFRS 3 will be applied in the preparation of the Company's 2010 financial statements if approved by the EU.

- The revised *IAS 27 Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Company in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which will be applied in the preparation of the Company's 2010 financial statements if approved by the EU, are not expected to have a significant impact on the financial statements.

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

- The revised *IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Conmpany's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the Company's financial statements.

- The revised *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Company's 2010 consolidated financial statements if endorsed by the EU, with retrospective application required. The amendments are not expected to have any impact on the consolidated financial statements.

- *IFRIC 13 Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Company's 2009 financial statements if endorsed by the EU. IFRIC 13 is not expected to have any impact on the financial statements.

3. Significant accounting policies, continued

New standards and interpretations, continued

- *IFRIC 15 Agreements for the Construction of Real Estate* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Company's 2009 consolidated financial statements if endorsed by the EU, is not expected to have any impact on the financial statements.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* provides guidance on when and how a liability for certain distributions of non-cash assets to owners acting in their capacity as owners is recognised and measured, and how to account for settlement of that liability. IFRIC 17, which becomes mandatory for the Company's 2010 financial statements if endorsed by the EU, is not expected to have any impact on the financial statements.

One interpretation, *IFRIC 12 Service Concession Arrangements,* took effect for the year ended 31 December 2008 but has not been applied in preparing these financial statements as it has not yet been endorsed by the EU.

4. Determination of fair values

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

a. ***Derivatives***

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

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

The fair value of derivative agreements not listed in active markets is determined using valuation methods reviewed on a regular basis by qualified employees. All valuation models used must be approved and tested in order to ensure that the results reflect those documents that were used.

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

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

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

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

5. Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors seeks consultation regarding financial risk both from its employees and external consultants and discusses it regularly at Board meetings.

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

Credit risk

Credit risk is the risk of financial loss of the Company owing to the failure of a customer or counterparty to a financial instrument to meet its contractual obligations. The Company's credit risk is mainly due to trade receivables.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Approximately 87% of the Company's transmission income derives from the Company's shareholders.

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

Liquidity risk

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

The Company has made an agreement on a line of credit with the parent company, Landsvirkjun in the amount of ISK 15 billion.

Market risk

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

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

5. Financial risk management, continued

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Company's functional currency. The Company's functional currency is the Icelandic króna (ISK). However, the Company derives part of its income in US dollars (USD) and a portion of its purchases is made in USD and euros (EUR). The main currencies posing a foreign exchange risk are the USD, the Japanese Yens (JPY), Swiss Francs (CHF) and the Euros (EUR).

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 borrowings in foreign currencies, mainly in USD, JPY and CHF, represent a foreign exchange risk, which is partly hedged. Interests on these loans are much lower than on the Company's ISK-denominated loans.

Interest rate risk

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

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

It is the policy of the Company's Board of Directors to maintain a strong equity position in order to ensure stability in its operations' future development. The 2009 operating budget envisages that the Company's equity ratio will be 20% at year-end 2009.

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

6. Revenue

Transmission revenue consists of:	2008	2007
Energy transmission	8,990,365	4,720,143
Transmission losses and system services	1,680,689	1,332,931
Input fees	72,760	826,956
	10,743,814	6,880,030

7. Other income

Other income consists of:

Income from work sold and rent	108,897	83,179

8. Personnel expenses

Salary and salary-related expenses are specified as follows	2008	2007
Salary	813,133	760,719
Defined contribution plan payments	93,857	88,282
Defined benefit plan payments	21,712	15,277
Other salary related expenses	64,365	58,401
	993,067	922,679
Salary and salary-related expenses consist of:		
Transmission costs	442,226	427,624
System management	314,579	323,415
Other operating expenses	236,262	171,640
Average number of employees	96	94
Full-time equivalent units	90	84
Remuneration of the Board of Directors, CEO and two Executive Directors were as follows:		
Reumuneration of the Board of Directors	6,240	3,640
Remuneration and benefits of the CEO	19,166	19,139
Remuneration of two Excecutive Directors	32,021	28,569

9. Depreciation and amortisation

Depreciation and amortisation are specified as follows:		
Depreciation of fixed assets in operation, see Note 12	1,860,562	1,187,580
Amortisation and impairment losses, see Note 12	39,341	19,766
Depreciation and amortisation recognised in the income statement	1,899,903	1,207,346
Depreciation and amortisation are allocated as follows to operating items:		
Transmission costs	1,751,480	1,088,654
System management	61,248	58,592
Other operating expenses	87,175	60,100
Depreciation and amortisation recognised in the income statement	1,899,903	1,207,346

10. Financial income and expenses

Financial income and expenses are specified as follows:		
Interest income	118,477	46,055
Fair value changes of derivative financial instruments	1,073,891	0
Total finance income	1,192,368	46,055
Interest expenses	(2,095,549)	(2,090,692)
Indexation	(4,036,402)	(1,656,052)
Exchange rate difference	(15,408,950)	(387,854)
Changes in fair values of derivatives	0	(210,129)
Capitalised interest expense due to projects under construction	184,905	1,054,201
Total financial expenses	(21,355,996)	(3,290,526)
Net financial expenses	(20,163,628)	(3,244,471)

10. Financial income and expenses, continued

Financial income and expenses are specified as follows:

Net financial expenses due to the construction of a transmission infrastructure amounting to ISK 185 million is capitalised and has been reported as a reduction in financial expenses.

Capitalised financial expenses were 12.2% of capital tied in transmission structures under construction during the period (2007: 10.9%).

11. Income tax

In May 2008, the Icelandic parliament, Althingi, approved a decrease of the income tax rate from 18% to 15% as of 1 January 2008. The amended rate applies to 2009 tax assessment. Therefore, the Company's deferred tax assets have decreased by ISK 38 million from 31 December 2007. This effect is expensed in the income statement.

Income tax recognised in the income statement is specified as follows:	2008	2007
Increase in deferred tax asset	2,248,485	175,252
Effect of decrease of income tax rate from 18% to 15%	(38,227)	0
Income tax recognised in the income statement	2,210,258	175,252

Income tax recognised in equity:		
Income tax liability due to revaluation of fixed assets	2,659,033	0

Change in deferred tax assets is specified as follows:		
Change in temporary differences	(97,259)	(301,370)
Change in carry-forward losses	2,345,744	476,622
Decrease due to decrease of tax rate from 18% to 15%	(38,227)	0
Income tax liability due to revaluation of fixed assets	(2,659,033)	0
Change in deferred tax assets	(448,775)	175,252

Reconciliation of effective tax rate:

		2008		2007
Loss before income tax		(14,989,903)		(973,704)
Income tax according to the current tax rate	15.0%	2,248,485	18.0%	175,266
Non-deductible expenses and other items	0.0%		0.0%	(13)
Decrease due to change in tax rate	(0.3%)	(38,227)	0.0%	0
Effective tax rate	14.7%	2,210,258	18.0%	175,253

12. Property, plant and equipment

Property, plant and equipment are specified as follows:

Fixed assets in operation:

	Substations	Power lines	Other	Total
Cost				
Balance at 1 January 2007	11,506,249	18,036,270	1,940,096	31,482,615
Additions	1,344,198	1,709,486	385,379	3,439,063
Transferred from projects under construction	3,162,389	8,507,129	0	11,669,518
Sold and disposed of	0	0	(6,943)	(6,943)
Balance at 31 December 2007	16,012,836	28,252,885	2,318,532	46,584,253
Balance at 1 January 2008	16,012,836	28,252,885	2,318,532	46,584,253
Revaluation	3,311,377	16,027,312	0	19,338,689
Additions	664,892	258,444	380,741	1,304,077
Sold and disposed of	0	0	(1,479)	(1,479)
Balance at 31 December 2008	19,989,105	44,538,641	2,697,794	67,225,540

	Substations	Power lines	Other	Total
Depreciation and impairment losses				
Balance at 1 January 2007	430,230	643,080	89,904	1,163,214
Depreciation and impairment losses	461,124	615,347	111,112	1,187,583
Sold and disposed of	0	0	(2,649)	(2,649)
Balance at 31 December 2007	891,354	1,258,427	198,367	2,348,148
Balance at 1 January 2008	891,354	1,258,427	198,367	2,348,148
Revaluation	280,559	1,331,240	0	1,611,799
Depreciation and impairment losses	622,514	1,115,426	122,622	1,860,562
Sold and disposed of	0	0	(472)	(472)
Balance at 31 December 2008	1,794,427	3,705,093	320,517	5,820,037

Fixed assets in operation:

	Substations	Power lines	Other	Total
Net book value				
1.1.2007	11,076,019	17,393,190	1,850,192	30,319,401
31.12.2007 and 1.1.2008	15,121,482	26,994,458	2,120,165	44,236,105
31.12.2008	18,194,678	40,833,548	2,377,277	61,405,503

12. Property, plant and equipment, continued

The book value of substations and power lines without the revaluation would have amounted to ISK 41,683 million at year-end 2008, compared with ISK 59,028 million after revaluation.

Basis of revaluation of fixed assets in operation

In accordance with the International Accounting Standard IAS 16, the Company's lines and substations are recognised according to the revaluation method. A revaluation was conducted both at the beginning and the end of the year. The reason for the second revaluation is that Company's income premises changed considerably during the year, for which reason its management found that a review of the resultant effects on the transmission network's revaluation price was needed. The revaluation was based on two methods. First, it was based on the estimated reconstruction cost of the transmission system, which was calculated by independent experts at the beginning of year and projected to year-end 2008. Second, the operating value was measured using a cash flow analysis. The valuation period was from 2009 to 2013, with the future operating value calculated thereafter. The year's revaluation was based on the operating value, the main premises of which were the Company's operating budgets for the years 2009-2013, a 30% equity ratio and that Landsnet's tariff for transmission to distributors would reflect price developments in Iceland while the tariff for industrial users would reflect price level changes in the United States. The estimation of weighted-average cost of capital (WACC) was based on comparable companies abroad.

Ratable value and insurance value

The rateable value of the Company's real property amounts to upwards of ISK 3.3 billion. Assessed value for the same property's fire insurance amounts to ISK 4.9 billion. The insurance value of the Company's assets amounts to ISK 28.8 billion, excluding power lines and cables, which are insured by an emergency insurance fund. The Company's emergency insurance amounts to ISK 75.3 billion.

Intangible assets and projects under construction:	Intangible assets	Projects under construction
Cost		
Balance at 1 January 2007	221,897	9,833,104
Additions	355,638	3,342,420
Transferred from projects under construction	0	(11,669,518)
Balance at 31 December 2007	577,535	1,506,006
Balance at 1 January 2008	577,535	1,506,006
Additions	1,204,552	275,605
Balance at 31 December 2008	1,782,087	1,781,611
Amortisation and impairment losses		
Balance at 1 January 2007	6,167	0
Write-downs in the year	18,499	0
Depreciation in the year	1,266	0
Sold and disposed of	0	0
Balance at 31 December 2007	25,932	0

12. Property, plant and equipment, continued

	Intangible assets	Projects under construction
Balance at 1 January 2008	25,932	0
Amortisation for the year	39,341	0
Balance at 31 December 2007	65,273	0
Net book value		
1.1.2007	215,730	9,833,104
31.12.2007 and 1.1.2008	551,603	1,506,006
31.12.2008	1,716,814	1,781,611

The book value of intangible assets at year-end 2008 is divided into software in the amount of ISK 235 million and capitalised development cost amounting to ISK 1,482 million.

13. Investment in other companies

The breakdown of investment in other companies is as follows:

	2008		2007	
	Share	Carrying amount	Share	Carrying amount
Landsnet ehf.	100.00%	500	100.00%	500
Netorka ehf.	37.18%	48,332	37.18%	41,095
Total value of investment in other companies		48,832		41,595

The Company's share in Landsnet ehf is stated at cost as the firm has not conducted any operations from its establishment. At the time of preparing Landsnet hf's financial statements, the financial statements of Netorka ehf were not available. However, the estimated share in Netorka's profit amounts to ISK 7 million for the year 2008 (2007: a loss of ISK 5 million).

14. Deferred tax assets

The breakdown of deferred tax assets is as follows:

	2008	2007
Deferred tax assets on 1 January	229,363	54,110
Calculated income tax for the year	2,210,258	175,253
Revaluation of transmission system	(2,659,033)	0
Deferred tax assets on 31 December	(219,412)	229,363

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

Property, plant and equipment	(2,606,646)	(487,367)
Intangible assets	(57,206)	(12,333)
Investments in other companies	(275)	973
Other obligations	(38,233)	80,488
Tax losses carried forward	2,482,948	647,602
Deferred tax assets on 31 December	(219,412)	229,363

Notes, continued

14. Deferred tax assets, continued

The carry-forward taxable loss amounted to ISK 16.5 million. The loss is utilisable against taxable income over ten years from when the loss is incurred. The management believes that the Company's operation over the next ten years will generate taxable income and that the accumulated carry-forward taxable loss will be fully utilised. In 2008, an authorisation was obtained to decrease taxable depreciation of the transmission system with retrospective effect. The carry-forward losses for

Loss for the year 2006, applicable until year 2016	4,731	949,881
Loss for the year 2007, applicable until year 2017	909,954	2,647,908
Loss for the year 2008, applicable until year 2018	15,638,302	
Total unadjusted taxable loss	16,552,987	3,597,789

15. Inventories

Inventories are specified as follows:

	2008	2007
Spare parts and material inventories	480,439	302,331

16. Trade and other receivables

Trade and other receivables:

Nominal value of trade receivables	833,572	710,677
Other receivables	19,449	14,606
	853,021	725,283

17. Cash

Cash is specified as follows:

Bank balances	2,700,681	984,259

18. Equity

Share capital

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

Revaluation account

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

The Company's revaluation account must not be allocated in the form of dividends to the Company's shareholders.

Dividends

The Company did not pay dividends in 2008 for the financial year 2007.

Notes, continued

19. Loss per share

Basic loss and diluted loss per share:	2008	2007
Loss to shareholders	(12,779,646)	(798,452)
Weighted average number of ordinary shares:		
Shares at 1 January 2008	5,902,733	5,502,733
New shares	0	111,111
Weighted average number of ordinary shares as at 31 December 2008	5,902,733	5,613,844
Basic and diluted loss per share	(2.17)	(0.14)

20. Loans and borrowings

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

	31.12.2008	31.12.2008
Long-term liabilities		
Indexed bond loan from parent company in ISK, interest rate 4.21%	34,808,942	29,915,095
Loan agreement in Swiss Francs (CHF), LIBOR + margin	6,676,851	3,238,789
	41,485,793	33,153,884

The bond is an inflation-indexed bullet bond maturing in 2020 with interest payable once per year. The loan agreement is denominated in Swiss Francs and each interest period is six months.

Short term liabilities		
Short-term loan from parent company	14,673,803	5,031,260
Debt note	0	3,466,002
Total interest-bearing liabilities	14,673,803	8,497,262
Total interest-bearing liabilities	56,159,596	41,651,146

Terms of interest-bearing loans and borrowings

Debts in foreign currencies:

			31.12.2008		31.12.2007	
	Nominal interest rate	Final maturity	Nominal value	Carrying amount	Nominal value	Carrying amount
Debt in CHF	3.10%	2022	6,676,851	6,676,851	3,238,789	3,238,789
Debt in CHF	4.50%	2008-2009	3,556,943	3,556,943	1,713,060	1,713,060
Debt in JPY	2.70%	2008-2009	2,018,412	2,018,412	832,200	832,200
Debt in USD	4,0 - 5,7%	2008-2009	9,098,448	9,098,448	5,952,002	5,952,002
			21,350,654	21,350,654	11,736,051	11,736,051
Loans in ISK:						
Indexed loans in ISK	4.2%	2020	34,808,942	34,808,942	29,915,095	29,915,095
Total interest-bearing loans and borrowings			56,159,596	56,159,596	41,651,146	41,651,146

Notes, continued

20. Loans and borrowings, continued

Maturities by year of interest-bearing loans and borrowings are as follows:	31.12.2008	31.12.2007
Year 2012	333,843	161,939
Year 2013	667,685	323,879
Later	40,484,265	32,668,066
	41,485,793	33,153,884

21. Provision due to site restoration

Change in the provision due to site restoration is specified as follows:	2008	2007
Balance at 1 January	447,154	420,441
Present value for the year	28,568	26,713
Balance at 31 December	475,722	447,154

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

No new transmisssion systems were brought into use in 2008.

22. Derivative financial instruments

The Company has entered into a derivative agreement with Kaupthing Bank hf, which was taken over by the Icelandic government in October 2008. The agreement has a five-year term and provides for the exchange of inflation-indexed Icelandic krónas and US dollars at the end of term in addition to interest accrued during the contractual term. The agreement's term extends from the end of November 2007 to March 2013. Kaupthing Bank hf pays indexed krónas and Landsnet pays US dollars At-year end, considerable uncertainty prevails as to whether the bank will be able to meet its contractual obligations under the agreement, which would affect both its classification among liabilities and the debt amount. Therefore, the final settlement of the agreement is uncertain. The agreement is recognised at fair value at year-end 2008 in accordance with its terms, and the payment of principal and interest after 1 January 2010 is recognised in long-term liabilities, while the 2009 contractual payment is recognised under short-term liabilities. The total effect of the agreement on the income statement is a charge in the amount of ISK 2.8 billion under financial expenses, which is divided into fair value changes in derivative agreements, interest expenses and foreign exchange difference.

23. Pension fund obligation

The Pension Fund for State Employees calculates at the end of each year the benefit plan obligation accrued for the year. Actuary assessment is based on the accrued obligation for the year being discounted at year-end on the basis of the annual interest rate generally used to assess pension fund obligations. The present annual rate is 3.5%.

24. Trade and other payables

Trade and other payables are specified as follows:

	2008	2007
Trade payables	941,144	661,506
Notes payable	0	3,466,002
Other payables	181,441	185,704
Trade and other payables total	1,122,585	4,313,212

25. Financial instruments

Credit risk

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:

Receivables from related companies	396,605	354,589
Trade and other receivables	853,021	725,283
Cash	2,700,681	984,259
Derivatives	0	369,732
	3,950,307	2,433,863

The Company's most important customers are domestic energy companies. At year-end, receivebles from those companies amounted to ISK 1,398 million, including a receivable from Landsvirkjun, the parent company of Landsnet, in the amount of ISK 680 million.

Impairment losses

No impairment loss has been recognised in relation to accounts receivable at year-end; nor has loss on receivables been expensed during the year.

Liquidity risk

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

31 December 2008

	Carrying amount	Contractual cash flow	Within 12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities						
Payable to related companies	50,622,545	69,880,509	17,323,450	3,019,694	4,529,541	45,007,824
Long-term liabilities	6,676,851	9,503,651	155,119	94,052	1,028,167	8,226,312
Trade and other payables	1,122,585	1,122,585	1,122,585	0	0	0
	58,421,981	80,506,745	18,601,154	3,113,746	5,557,708	53,234,136
Derivative financial liabilities:						
Foreign currency and interest rate swaps:						
Outflow	(9,215,302)	(9,980,764)	(91,108)	(17,507)	(9,872,149)	0
Inflow	6,223,677	7,201,656	250,467	500,933	6,450,256	0
	(2,991,625)	(2,779,109)	159,359	483,426	(3,421,893)	0

31 December 2007

Non-derivative financial liabilities:						
Payable to related companies	35,949,511	52,322,042	7,293,841	1,259,426	3,778,275	39,990,500
Long-term liabilities	3,238,788	4,206,842	87,619	101,120	463,372	3,554,732
Trade and other payables	4,313,212	4,313,212	4,313,212	0	0	0
	43,501,511	60,842,096	11,694,672	1,360,546	4,241,647	43,545,232

Notes, continued

25. Financial instruments, continued

Derivative financial liabilities:

Foreign currency and interest rate swaps:						
Outflow	(4,767,674)	(5,838,809)	(215,954)	(134,124)	(371,755)	(5,111,932)
Inflow	4,402,027	6,162,166	65,962	212,020	636,060	5,248,125
	(365,647)	323,357	(149,992)	77,896	264,305	136,193

Currency risk

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

31 December 2008	EUR	CHF	USD	NOK	SEK	JPY
Trade and other receivables			675,784			
Loans from related companies		(3,556,943)	(9,098,448)			(2,018,412)
Other long-term liab.		(6,676,851)				
Derivative agreements			(9,764,725)			
Accounts payable and other payables	(26,016)	(157,187)	(4,330)	(2,037)	(8,210)	
Net currency risk	(26,016)	(10,390,981)	(18,191,719)	(2,037)	(8,210)	(2,018,412)

In the year 2009, it is estimated that 70% of the Company's transmission income will be in USD while purchases will be mainly in ISK and EUR.

31 December 2007	EUR	CHF	USD	NOK	SEK	SEK
Trade and other receivables			77,786	431		
Loans from related companies		(1,722,063)	(2,070,918)			(834,141)
Other long-term liabilities		(3,238,789)				
Derivative agreements			(5,044,277)			
Trade and other payables	(4,354)	(19,259)	(6,266)	(3,612)		
Net currency risk	(4,354)	(4,980,111)	(7,043,675)	(3,181)	0	(834,141)

Currency risk

	Av. exch. rate for the year		Year-end exch. rate	
	2008	2007	2008	2007
EUR	127.46	87.60	169.97	91.45
CHF	80.69	53.34	113.92	55.26
JPY	0.87	0.54	1.34	0.55
USD	88.07	64.02	120.87	62.15

Sensitivity analysis

A 10% strengthening of the ISK against the following currencies at 31 December would have increased (decreased) after-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

25. Financial instruments, continued

	2008	2007
EUR	2,211	357
CHF	883,233	408,369
JPY	171,565	68,400
USD	1,499,595	543,474

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

Interest rate risk

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

	Book value	
	2008	2007
Financial instruments with floating interest rate		
Financial liabilities	18,396,457	8,270,049
Derivative agreements	2,991,625	196,354
	21,388,082	8,466,403
Financial instruments with fixed interest rate		
Financial liabilities	34,808,942	29,915,095

Interest rate risk

Cash flow sensitivity analysis for fixed-interest-rate instruments

The Company's liabilities carrying fixed interest rates are an indexed bullet bond with a single repayment in 2020. 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 decreased equity and profit or loss after tax by amount stated below. If interest rates had decreased by 100 basis points, the effect would have had the equal but opposite effect on profit or loss after tax. This analysis assumes that all other variables, in particular the foreign exchange rate, remain constant. The analysis was performed in the same manner for the year 2007.

	Earnings		Equity	
	100 point increase	100 point decrease	100 point increase	100 point decrease
31 December 2008				
Financial instruments with floating interest rates	(110,815)	110,815	(110,815)	110,815
Cash flow sensitivy (net)	(110,815)	110,815	(110,815)	110,815
31 December 2007				
Financial instruments with floating interest rate	(23,270)	23,270	(23,270)	23,270
Cash flow sensitivy (net)	(23,270)	23,270	(23,270)	23,270

25. Financial instruments, continued

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 broken down as follows:

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	1,249,626	1,249,626	1,079,872	1,079,872
Cash	2,700,681	2,700,681	984,259	984,259
Loans from related companies, long-term	34,808,942	35,555,121	29,915,096	25,649,462
Derivative agreement, debt	2,991,625	2,991,625	365,647	365,647
Other long-term liabilities	6,676,851	6,676,851	3,238,789	3,238,789
Loans from related companies, short-term	15,813,603	15,813,603	6,034,415	6,034,415
Trade and other receivables	1,122,585	1,122,585	4,313,212	4,313,212
	65,363,913	66,110,092	45,931,290	41,665,656

26. Financial assets and liabilities

Classification and fair value of financial assets and liabilities

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

31 December 2008	Financial assets and liabilities designated at fair value	Fin.assets for sale	Loans and payables	Investments to maturity	Book value
Investment in subsidiary		500			500
Receivables from related companies			396,605		396,605
Acc. receivable and other sh. t. rec.			853,021		853,021
Cash			2,700,681		2,700,681
	0	500	3,950,307	0	3,950,807
Payables to related companies			50,622,545		50,622,545
Derivative contracts	2,991,625				2,991,625
Acc. payable and other s.t. payables			1,122,584		1,122,584
	2,991,625	0	51,745,129	0	54,736,754
31 December 2007					
Investment in subsidiary		500			500
Derivative contracts	369,732				369,732
Receivables from related companies			354,589		354,589
Acc. receivable and other sh. t. rec..			725,283		725,283
Cash			984,259		984,259
	369,732	500	2,064,131	0	2,434,363
Payables to related companies			35,949,510		35,949,510
Derivative contracts			365,647		365,647
Acc. payable and other s.t. payables			4,313,212		4,313,212
	0	0	40,628,369	0	40,628,369

27. 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.

28. Other information

The Company is a party to two litigations brought before the District Court of East Iceland. The cases relate to the amount of an expropriation settlement relating to development of the Fljótsdalur lines 3 and 4, as the Company did not accept the conclusion of an evaluation committee on the expropriation settlement. The rulings in the cases were delivered at the end of December and were broadly in line with the committee's results. The parties to the cases have still not decided whether to negotiate payments or bring a case before courts of law in order to settle the disagreement. At year-end, the Company had paid to the relevant land owners a large part of the amount determined by the committee. The Company's management finds it likely that any additional payments will be insubstantial. The conclusion of these issues can affect the amount of settlement payments to other parties, which were not parties to the cases in question.

In accordance with the provisions of Article 12 of the Electricity Act No. 65/2003, the Company shall take into account if the connecting of new power stations or industries to the transmission system increases cost for other users of the system, and if the connection leads to more profitable construction or utilisation of the transmission system. At year-end, the Company brought into use the Fljótdalur lines 3 and 4 in addition to the associated substations. Settlement has not been made to the relevant industries but the Company will probably be required to pay the relevant party a system contribution where the transmission infrastructure in question will lead to the transmission system's more cost-effective development and utilisation. At year-end 2008, information on the exact amount was not available, but the estimated amount for 2008 has been entered in the financial statements.

29. Related parties

Identity of related parties

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

Transactions with senior management

(i) Payments to senior management

In addition to receiving salaries, the Chief Executive Officer and Managing Directors (Vice Presidents) of the Company enjoy various benefits and a contribution to a defined benefit pension fund. Management's salaries are accounted for in Note 8.

Other transactions with related parties	Amounts during the year	
	2008	2007
Sale of goods and services:		
Landsnet's parent company and its subsidiaries	6,165,357	2,983,721
Cost:		
Landsnet's parent company and its subsidiaries	1,819,634	1,520,093
Landsnet's associate	977	866

Notes, continued

30. Financial ratios

The company's key financial ratios:

Financial performance:	2008	2007
EBITDA	7,066,391	3,483,518
Financial position:	31.12.2008	31.12.2007
Current ratio - current assets/current liabilities	0.26	0.26
Equity ratio - equity/total assets	10.5%	10.1%
Return on equity	(92.0%)	(14.5%)

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