ANNUAL REPORT **2010**

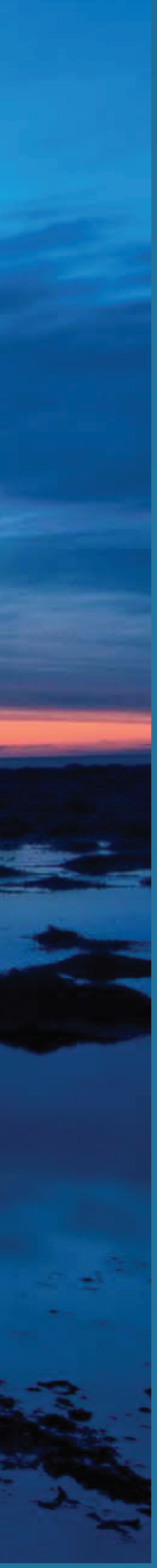
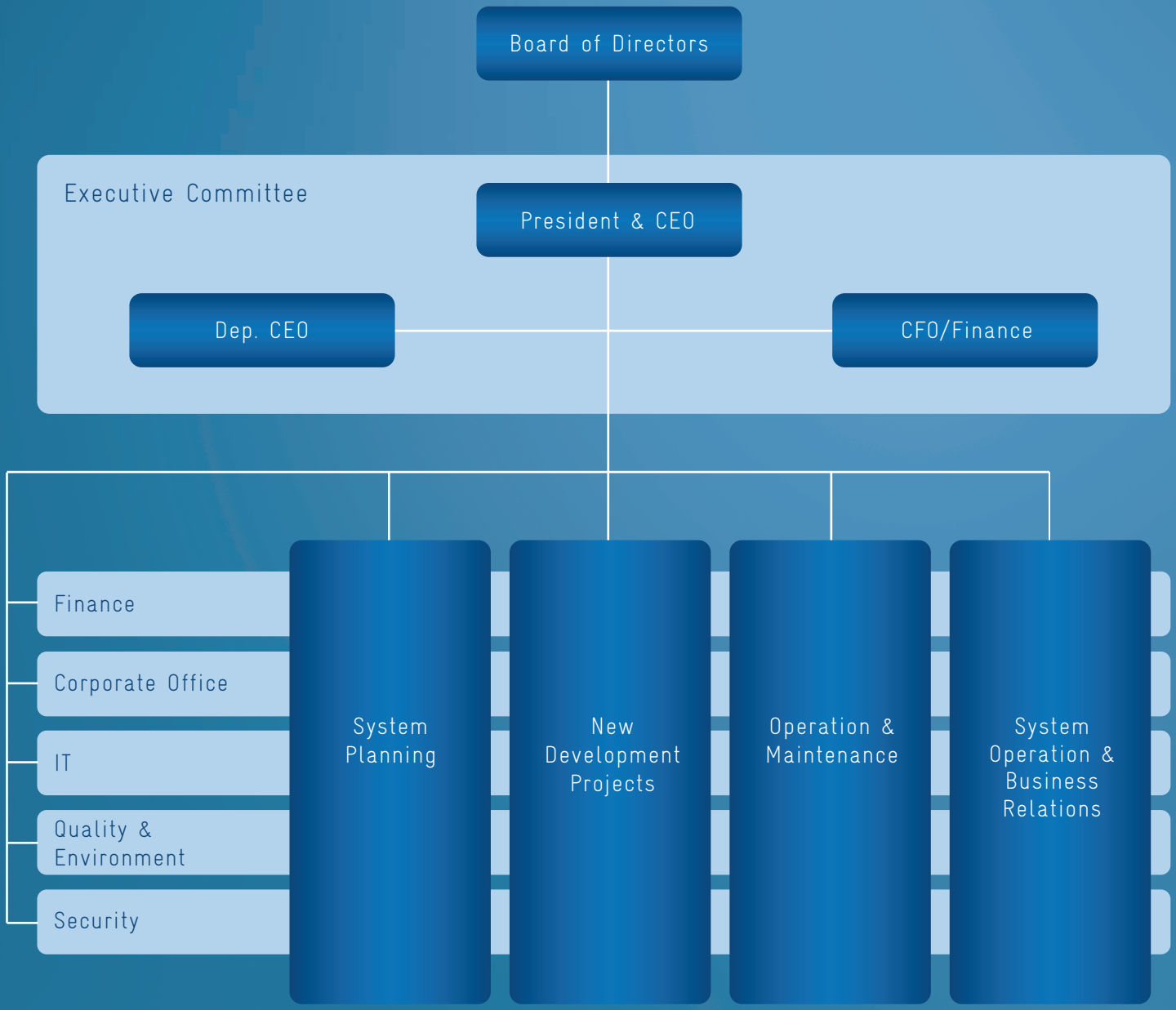


TABLE OF CONTENTS

ORGANISATION CHART



Executive Committee 2010

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

Board of Directors 2010

- Friðrik Már Baldursson, Chairman
- Katrín Helga Hallgrímsdóttir
- Svana Helen Björnsdóttir
- Guðrún Ragnarsdóttir, Alternate

OWNERSHIP

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

Landsvirkjun	64.73%
RARIK	22.51%
Reykjavik Energy	6.78%
Westfjord Power Company	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 transmission system has undergone extensive development in recent years. This is primarily due to rapid growth in the aluminium industry, both at the Norðurál plant at Grundartangi and at the Fjarðaál plant in Reyðarfjörður. In addition, we have devoted considerable effort to system design, environmental impact assessments and negotiations with local authorities and other stakeholders in prospective large-scale infrastructure projects at Helguvík, Straumsvík, Þorlákshöfn, Akureyri and Bakki. In the wake of Iceland's economic collapse in the autumn of 2008, however, most planned transmission infrastructure projects for new power-intensive consumers were suspended.

The suspension of projects has afforded us more scope to review the grid's long-term development. Landsnet has thus adopted a policy of starting the consultation process with stakeholders in infrastructure projects far sooner than was previously the case. We thereby aim to better integrate future transmission facilities within the municipal planning process and to minimise our environmental footprint. We have also adopted a policy of starting basic preparations for infrastructure projects even when the time of construction is as yet undecided. This enables us to better meet demands to connect new power stations and industrial sites to the grid. The policy is all the more important as our preparations for grid development projects take significantly longer than those of any other parties involved, due to the larger numbers of stakeholders in our preparation process. A strengthened focus on long-term strategic planning and a clear future vision are of central importance for our activities.

Landsnet is committed to minimising the visual impact of future transmission infrastructure. To this end, we recently partnered with the Norwegian transmission system operator Statnett to develop new types of transmission line towers that better meet environmental standards. This work is based on award-winning proposals in international competitions held by both companies in the past few years. Landsnet will also seek to design substations that integrate into their natural settings as seamlessly as possible, and has already tasked architects with formulating new proposals to this end.

In recent years, we have achieved considerable success in optimising the grid's transmission capacity through creative solutions. This has enabled us to postpone cost-intensive investment, which in turn has had a positive effect on our financial position after the 2008 economic crisis and facilitated repayments of short-term loans. However, the transmission system is reaching its optimisation limits, so is due for an upgrade, not least in order to lift the trans-

Landsnet's Board of Directors, from left to right:
Katrín Helga Hallgrímsdóttir, Friðrik Már Baldursson and Svana Helen Björnsdóttir

mission limits that are restricting market players' ability to operate their power plants in the most efficient manner possible. System constraints have increased in particular between North and South Iceland, the most effective solution to which would be a transmission line through the highlands. Other options, such as doubling the capacity of the Regional Line Network, are many times costlier, although we are looking at the possibility of raising the voltage of a section of it.

Increased electricity generation on the Reykjanes peninsula, south-west Iceland, requires a new connection to the grid network, independently of electricity use in the area. Accordingly, we have started preparations for such a transmission line. If electricity consumption in the area grows extensively, as has been envisaged, the grid network will require further strengthening from the Hellisheiði moor onto the Reykjanes peninsula – a project named South-west Lines.

The 66 kV transmission network that connects rural areas and smaller municipalities throughout Iceland to the main grid has been under review in recent years, particularly its sections that are without a ring connection. To step up operational security for users connected to such networks, we have been considering installing our own back-up power generators, which would switch on automatically in the event of interrupted power supply. The reason for so doing is that in many places operational security cannot be enhanced in a more cost-effective manner due to the prohibitive cost of constructing new transmission lines. It also provides an opportunity to renew distributor-owned diesel generators, most of which are nearing the end of their lifetime. As Landsnet would thus be venturing into somewhat uncharted territory, the National Energy Authority has been asked to adopt a position on the matter.

Efficiency gains

Landsnet is solely responsible for all electricity transmission in Iceland's wholesale market. This includes developing the transmission system in a cost-effective manner and ensuring security of supply. We therefore place a premium on building knowledge and co-ordinating the way in which projects' profitability is assessed. The transmission system is extensive and it is important to foster awareness of its operating and maintenance costs. Of particular importance is having an overview of how maintenance costs and the system's lifecycle evolve over time to facilitate decisions on the timing of and need for renewal.

Against the backdrop of Iceland's economic downturn in the past few years, we have placed a major emphasis on efficiency savings and streamlining. Thanks to these efforts, operating expenses have remained nearly flat at constant price levels since the company's inception, despite a near-doubling of our activities over the same period.

Revenue cap

Amidst the economic turmoil of recent years, flaws emerged in Landsnet's revenue cap regime under the 2003 Electricity Act. This legislation stipulated that the revenue cap should be set in Icelandic krónur (ISK) with certain tolerance limits. When the tariff for transmission to power-intensive consumers was converted to USD in 2007, the tolerance limits were assumed to cover any exchange-rate fluctuations. The ISK's subsequent dramatic depreciation has shown, however, that it would clearly have been more advantageous to value the assets that serve power-intensive consumers in USD in order for revenues and assets to remain in line with the revenue cap. In March 2011, Iceland's parliament passed amendments to the Electricity Act to address this issue. As of 2011, our asset base for power-intensive consumers, which forms the basis for the largest part of the revenue cap applicable to them, is denominated in the same currency as the tariff, i.e. USD. This change largely eliminates the exchange-rate risk of the tariff for power-intensive consumers.

Recorded system disturbances in 2010 showed some improvement from previous years in the number of interruptions and the amount of energy not supplied, which was at a muted level compared with the past two decades. Nonetheless, disturbances over the course of the year indicate certain weaknesses in the electricity system. Some disturbances highlighted significant limitations of the Regional Line Network. Power fluctuations following disturbances were common. With the introduction of new protection equipment, the system was divided into three discrete sections to prevent power fluctuations and limit their resulting outages. Considerable discussion took place about these disturbances, in particular when an interruption in one part of the country had repercussions elsewhere in the grid. System protection responses are inherently complex and most often focused on the disturbance itself rather than being regarded as structured procedures to mitigate impact. The Regional Line Network has clearly reached its maximum capacity, making it necessary to construct new lines if transmission is to be stepped up in this extensive region.

Electricity transmission and tariff

A total of 16,496 GWh were fed directly into the Landsnet grid in the year, up 1.45% year-on-year. Electricity transmission to general consumers accounted for 18% of total transmission, down 1% year-on-year. Transmission to power-intensive consumers accounted for 82%, up 2% year-on-year. Transmission losses totalled 330 GWh in 2010, down 7% from the preceding year despite increased transmission, thanks largely to more efficient power flows in the grid. Landsnet's tariff for transmission to general consumers remained un-

changed in 2010 since August 2009. Increases in the tariff for general consumers have been well below inflation for several years. In fact, measured against the Consumer Price Index (CPI) in July 2011, the real reduction of the tariff since Landsnet's inception had been almost 35%.

The transmission tariff for power-intensive consumers was reduced by 7% on 1 January 2010. 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 due to more favourable purchasing terms, increased transmission and reduced losses. The year saw the renewal of our transmission contract with Alcan Iceland, securing continued and even increased transmission for the coming years. The contract is important in maintaining a steady source of revenue.

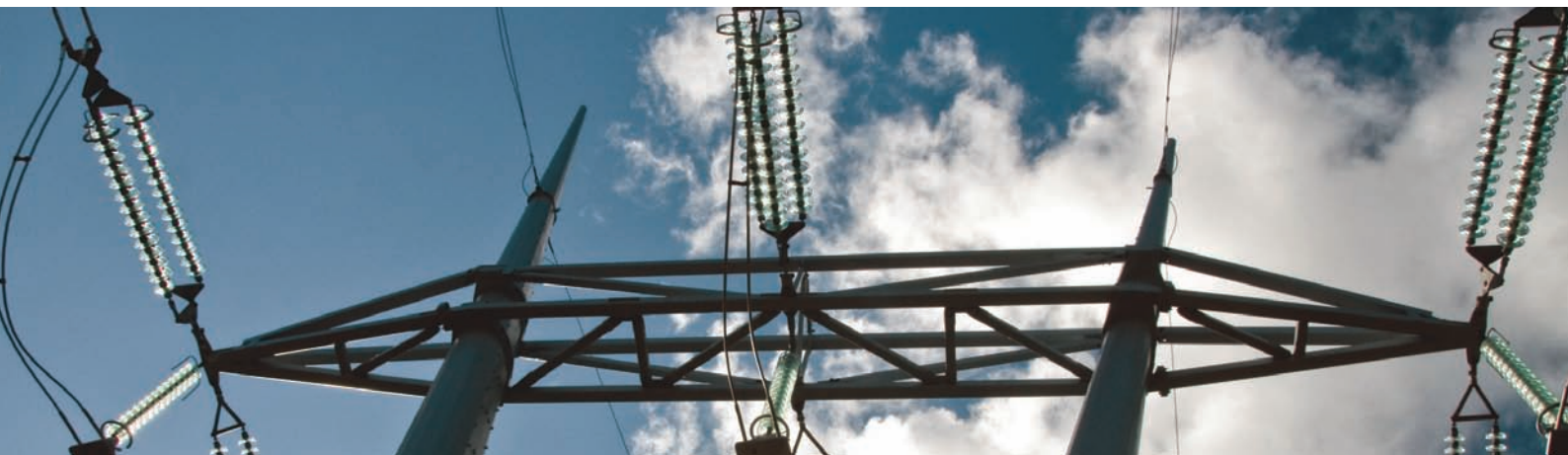
Performance

Landsnet's profit for the year amounted to ISK 3,563 million, compared with a profit of ISK 1,471 million in 2009. Earnings before interest, taxes, depreciation and amortisation (EBITDA) were ISK 8,678 million, compared with ISK 9,331 million in the preceding year, down by ISK 653 million year-on-year. The improved year-on-year performance was mostly due to changes in financial items, primarily driven by lower inflation in 2010 and a net exchange rate gain after a net exchange rate loss for the previous year. Net financial expenses totalled ISK 1,951 million in 2010, compared with ISK 5,629 million in 2009, down by ISK 3,678 million year-on-year.

The equity ratio at year-end was 16.5%, up from 11.3% at the end of the previous year. Our liquidity position is strong, with cash at year-end at ISK 4,256 million. Net cash provided by operating activities was ISK 7,360 million in 2010, compared with ISK 7,519 million in 2009. Landsnet thus remains a very strong going concern.

Human resources

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. The year saw the appointment of a Human Resources Manager in an aim to enhance HR services to management and employees, an area formerly handled by the parent company, Landsvirkjun. All HR services have been transferred to Landsnet, with the exception of payroll, which is still administered elsewhere. Landsnet is highly committed to staff training and development. In 2010, we placed particular focus on needs analysis to develop more targeted staff training.



Systems development and research

We undertook a wide range of activities in 2010 devoted to individual projects' system design, checks in response to inquiries by customers and stakeholders, general studies of the transmission grid and analysis of potential future solutions. We concluded the definition and clarification of the preparation process for infrastructure projects right from the needs analysis to a decision to undertake such a project. This is part of our new policy to start the selection of transmission line routes, associated organisational work and even environmental impact assessments earlier in the process than has hitherto been the case. This applies not least to long-term projects to develop the transmission system. These focus areas are important for shortening the time that can elapse from identifying a need for refurbishment in the transmission system until commencing on-site works. Through these efforts, we are striving to be better prepared to meet the needs of customers requesting a connection on short notice.

Grid Plan – the current and future transmission system

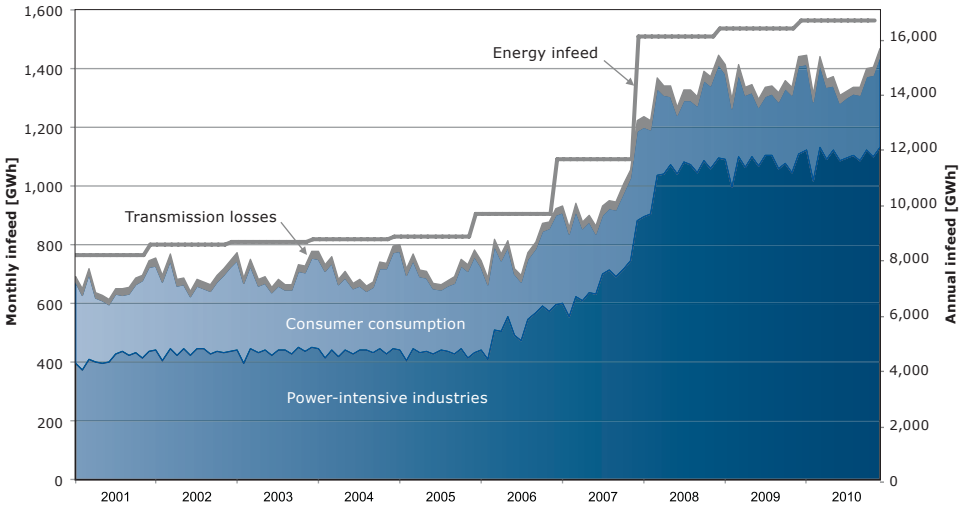
Landsnet publishes an annual Grid Plan. The 2010 plan provides an analysis of potential strengths and weaknesses in the grid, outlines the infrastructure projects scheduled for the plan period and summarises the projects in preparation. The objective of the report and the plans on which it is based is to set out how we aim to meet the following key objectives in the coming years:

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

Any prediction of future trends in electricity consumption and generation is subject to some uncertainty. Therefore, key importance is attached to utmost precision in forecasting such trends and providing effective solutions that are both robust and flexible in a timely manner. The main uncertainties regarding our Grid Plan pertain to, e.g., the dimensions and locations of geothermal power stations and potential changes in the consumption of power-intensive industries, as the consumption of an average industrial user may be equivalent to several years' growth in the general consumer market.

The 2010 Grid Plan outlines all our grid development projects, whether in the preparatory, design or construction stage. Projects in the preparatory stage are fairly prominent in this report. These are projects whose time horizons are as yet undecided but are being developed based on a memorandum of understanding or the potential future development of the electricity system, even in the absence of any time-specific requirement for grid strengthening. All things being equal, the necessary preparation time for Landsnet is longer than that for customers. Hence, having completed part of the preparatory phase shortens the time span between the decision and construction stage of the project. The purpose of the Grid Plan report is to provide an overall picture of our grid development projects and plans for the coming years.

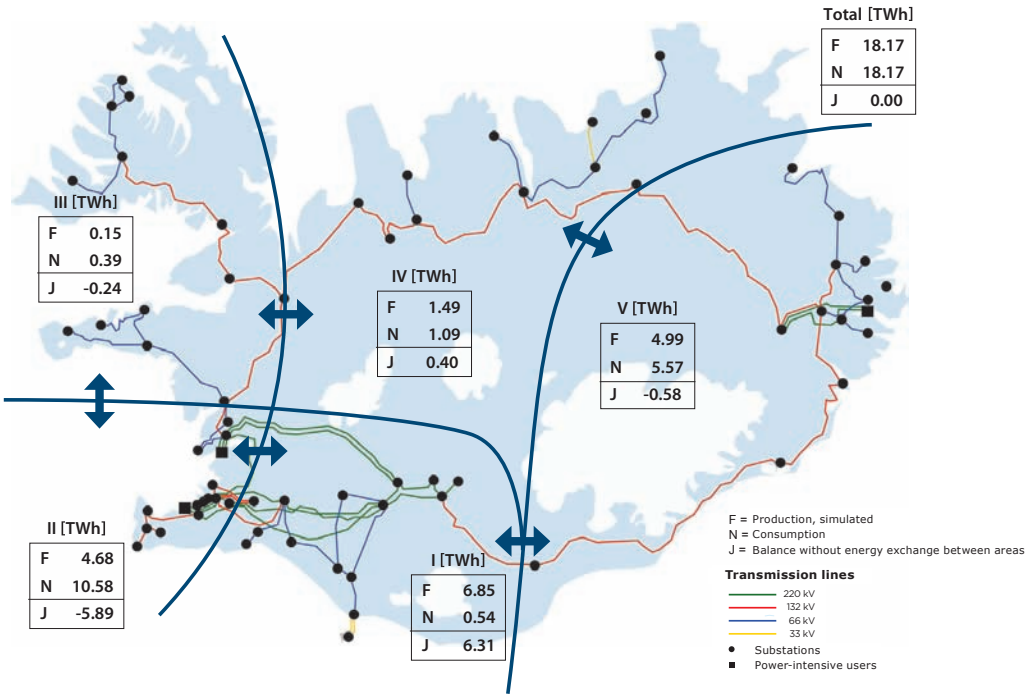
The graph shows trends in the volume of power fed monthly and annually into the grid in the past 10 years.



Energy balance 2013 and power balance 2013/14

We issued our yearly report on forecast energy and power balances for the next three years to inform market participants about load and generation trends. The report forecasts electricity consumption growth of 1.6 TWh from 2010 to 2013, a smaller increase than previously projected over a three-year period. The maximum possible electricity generation exceeds forecast demand in all load circumstances, including on a particularly cold winter's day and when all power-intensive industries are temporarily running at maximum allowable load at the same time. The probability of a power shortage is within the reference limits, both at forecast general load levels and at increased general load levels in particularly cold conditions. The calculations do not include the possibility of curtailing secondary load.

Regions' forecast energy balance in 2013 based on premises published in the report Energy Balance 2013 and Power Balance 2013/14



Research and feasibility studies for new line routes

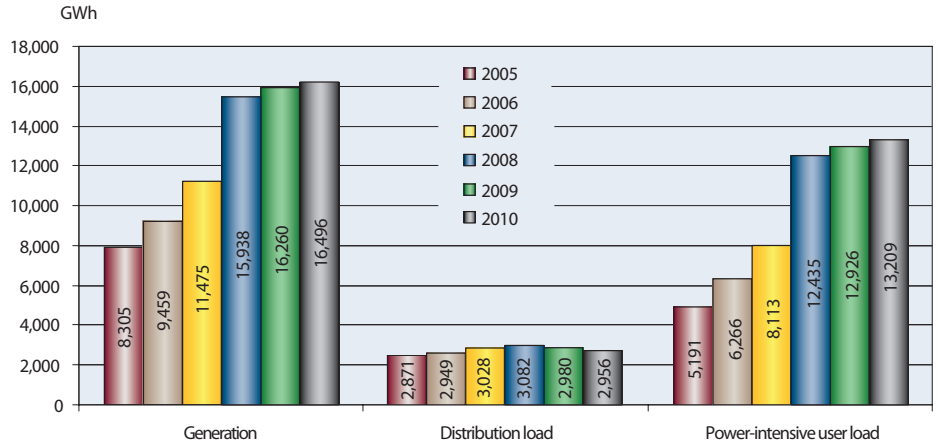
Our System Planning division engages in a broad range of basic research to support decision-making regarding routes for new transmission lines and the formulation of natural-environment-related load criteria for transmission facilities. More than thirty measuring stations are operated on existing and prospective line routes throughout Iceland, where measurements of icing, wind load and other weather conditions are performed. We also keep an organised record of icing events on all transmission lines in operation. Other research activities include measurements of conductor vibration and salt accumulation on insulator chains and studies of volcanic ash fall impacts on transmission infrastructure. In addition, we collaborate 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. Furthermore, Landsnet is an active participant in international co-operation on icing research.

In 2010, 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.

System Operation & Business Relations

A total of 16,496 GWh were fed directly into the Landsnet grid in the year, up 1.45% year-on-year. Thereof, 2,956 GWh went to general consumption, down 0.79% from the preceding year. The overall increase was driven by transmission to power-intensive consumers, which was up 2.20% from 12,926 GWh to 13,209 GWh. Transmission losses totalled 330 GWh in 2010, down by 25 GWh or 7.0% from the preceding year despite increased transmission, mostly due to more efficient power flows in the grid. The highest peak in power fed into the transmission grid was measured on 6 December at 2,108 MW, up on the previous year by 1.69%.

Energy transmitted over Landsnet's grid 2005–2010



Average price and tariff developments

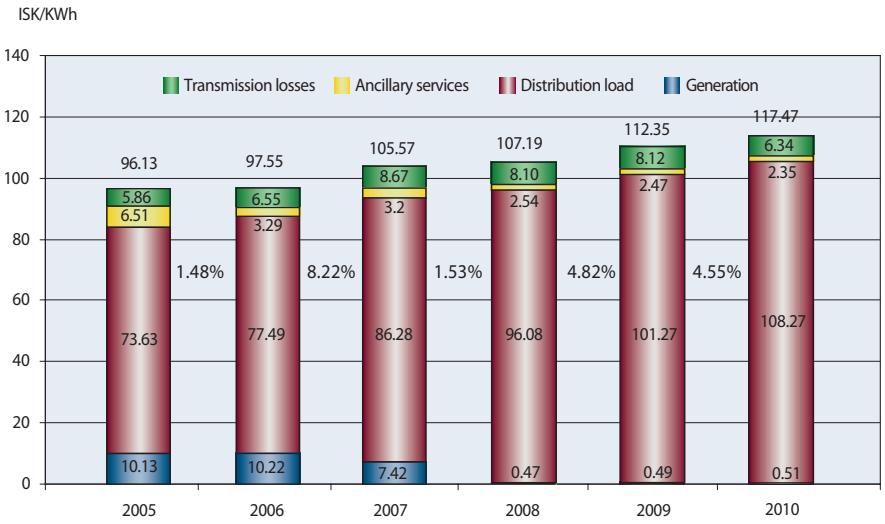
Transmission cost to distributors (including ancillary services and transmission losses) averaged ISK 1.1747/kWh, up 4.55% from ISK 1.1235/kWh in the preceding year.

The appreciation of the USD against the ISK has pushed up revenues from transmission to power-intensive consumers as measured in ISK. This led to the revenue cap under the Electricity Act being fully reached. We therefore reduced the transmission tariff for power-intensive consumers by 7% on 1 January 2010.

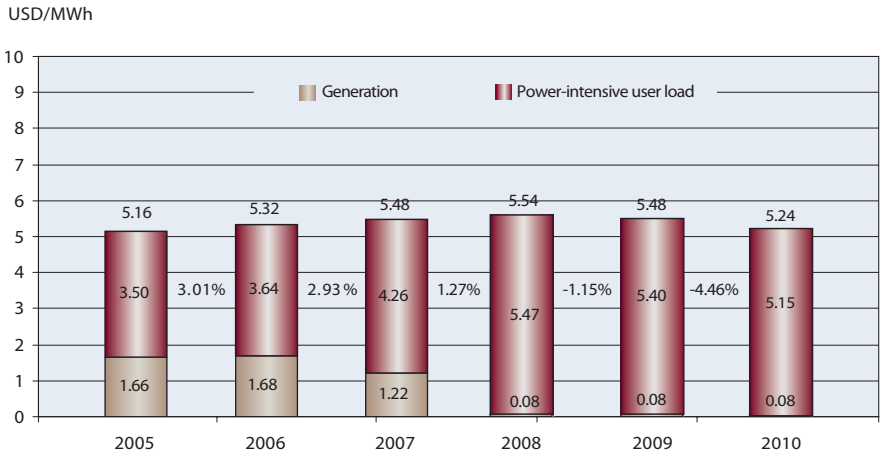
The transmission charge for power-intensive consumers is USD 5.24/MWh. The charge in USD has held fairly steady from the start.

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 due to more favourable purchasing terms and increased transmission. There was no measurable change between 2009 and 2010.

Distribution load
Average Transmission Tariff

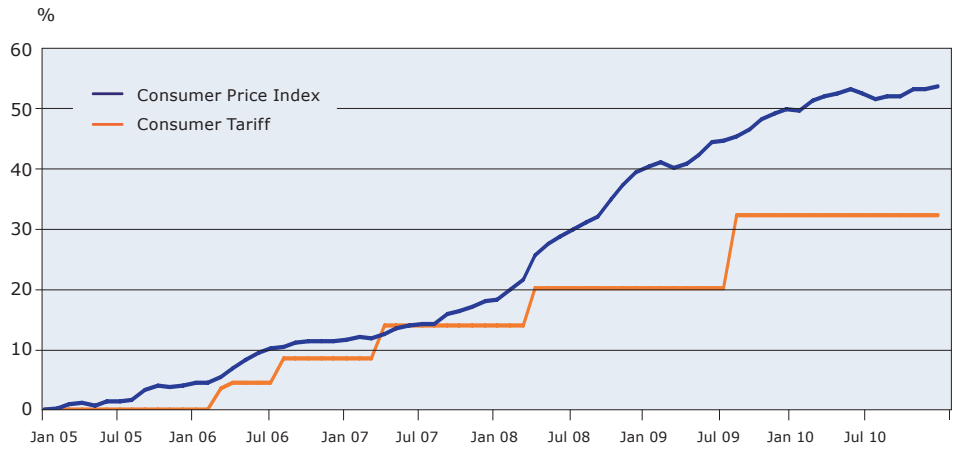


Power Intensive Users
Average Transmission Tariff USD/MWh



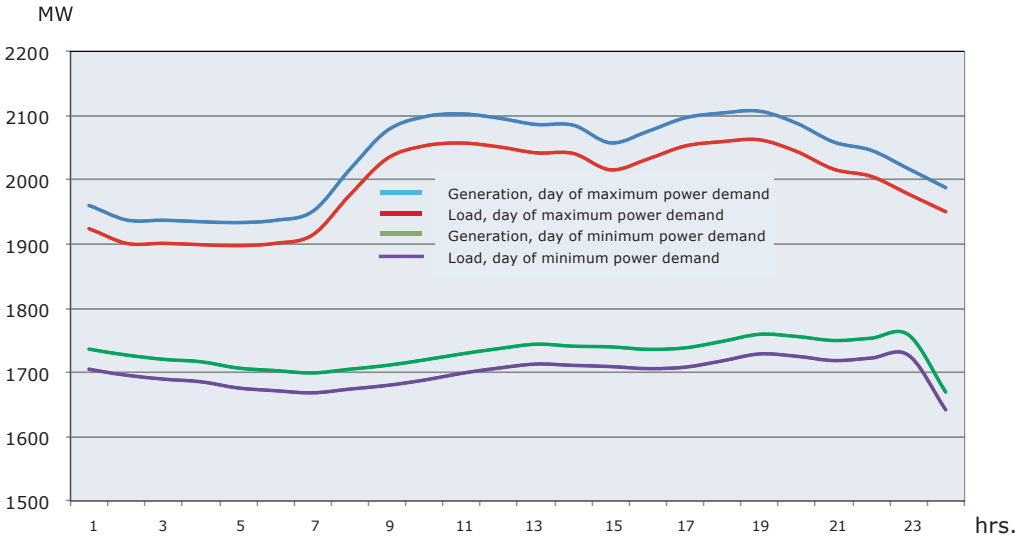
In the autumn of 2007, Landsnet changed the currency of its tariff for power-intensive users from ISK to USD. The weighted exchange rate for the conversion was ISK 60.99. Calculations of the average transmission fee for 2005-2010 are based on this exchange rate.

Changes in the tariff for general consumption compared with the consumer price index in 2005–2010



The above graph shows that Landsnet's tariff for the general public has risen far less than the increase in the Consumer Price Index ever since the company's founding.

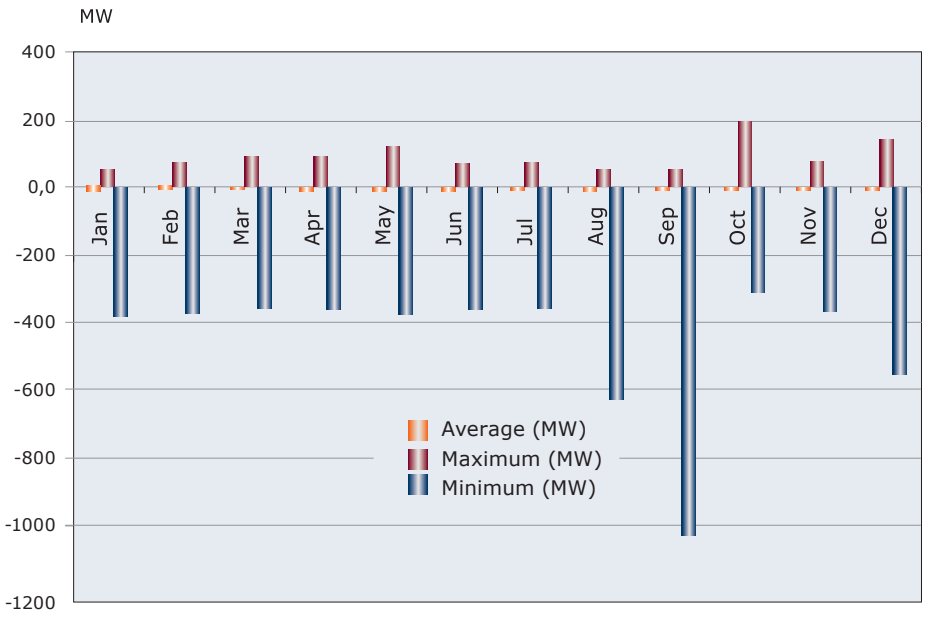
Intra-day load curves for generation and consumption on the peak day of transmission (7 Dec. 2010) and the lowest day (1 Aug. 2010)



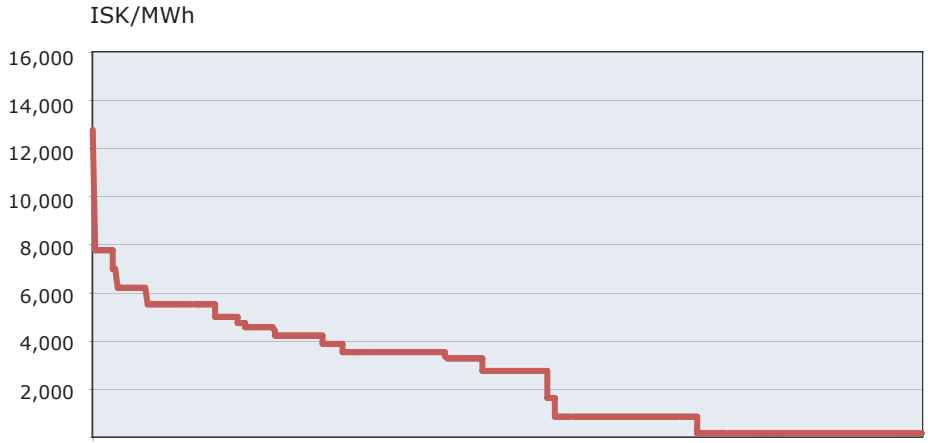
Ancillary services and regulating power

In keeping with our legally prescribed duties, we ensure the availability of sufficient spinning reserves at any given time, control frequency and voltage and ensure a minimum supply of regulating power. The following three agreements with Landsvirkjun (The National Power Company) ensure the availability of 100 MW of spinning reserves: (i) an agreement, in effect throughout 2015, for 10 MW from the Blanda Power Station and 30 MW from the River Þjórsá area, (ii) an agreement, in effect throughout 2018, for 30 MW from the River Þjórsá area, and (iii) an agreement, in effect throughout 2018, for 30 MW from the Fljótsdalur Power Station. Landsnet has agreements with Landsvirkjun to provide 40 MW in guaranteed regulating power for up- and down-regulation throughout 2011.

Monthly averages and extremes for regulating power



Duration curve of balancing energy price for 2010



The balancing energy market's turnover was ISK 238 million, the average price was ISK 2,505/MWh, the peak price ISK 13,000/MWh and the lowest price ISK 0.

Control and protection systems

Our key focus for control and protection systems in 2010 was to improve the functions of protection equipment in the 66 kV part of the grid in the West Fjords. We also continued to revamp system protections brought into service when the Fljótsdalur Power Station and the aluminium plant in Reyðarfjörður came on stream. New protection equipment was put into use for the 132 kV NE2 transmission line running from the Nesjavellir Power Station to our substation at Geitháls, on Reykjavík's outskirts.

A project to upgrade protection equipment in east Iceland was launched in 2010 and is scheduled for completion in 2011. This will complete the upgrade of all protections for 66 kV transmission lines in east Iceland. In continuation of this project, plans are afoot to install under-frequency protections in east Iceland to better ensure supply to general consumers in the event of faults in the transmission system or in special operating circumstances, for instance if part of the 66 kV system is disconnected from the central grid.

Much fewer operational disturbances occurred than in the previous year, with outage minutes due to grid interruptions totalling about 11, the best performance since 2003. Energy not supplied due to disturbances totalled 347 MWh.

Our Wide Area Monitoring System (WAMS) demonstrated its usefulness at Landsnet's Control Centre during the year, in particular during disturbances that led to significant and rapid load changes in the power system. WAMS is a software solution that collects and analyses data and measurements from high-precision recorders at key points across the grid. It uses the data to assess the power system's stability in real time, thereby providing operators with important information, such as whether power fluctuations are forming in the system. WAMS is also useful for post-event troubleshooting and a powerful tool for analysing series of events where the time span between them is measured in milliseconds.

Grid Code

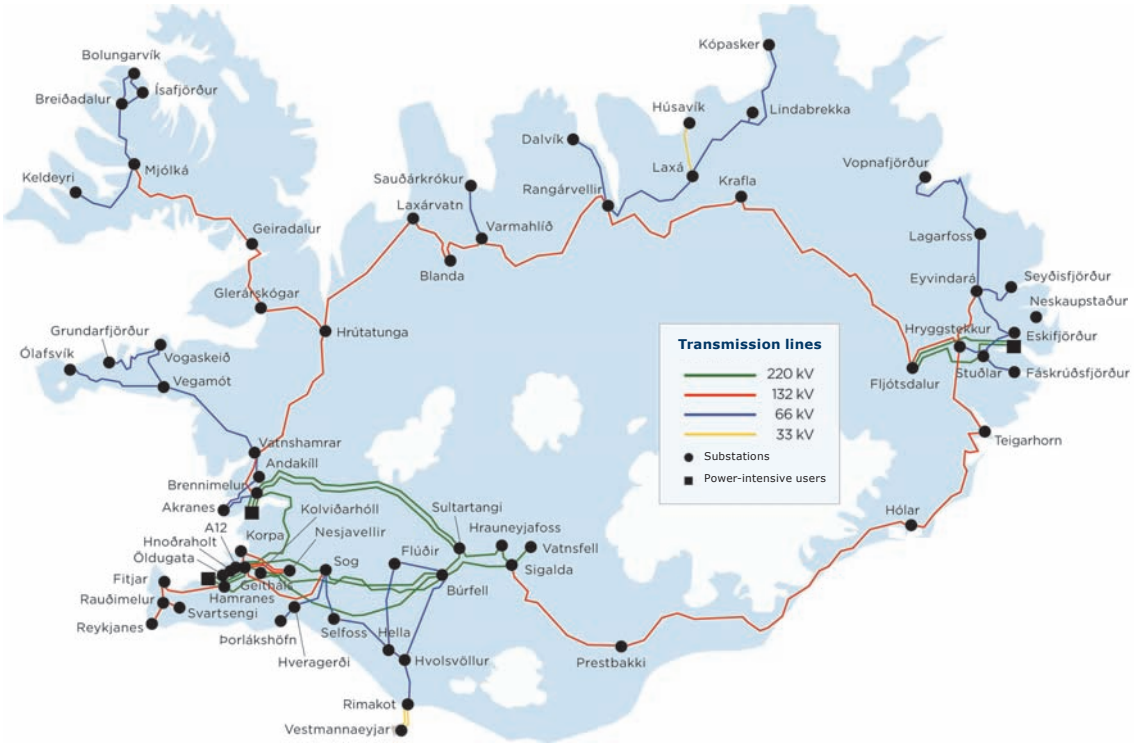
We added one set of terms and conditions to our Grid Code during the year: the Terms for Outage Scheduling (C1), which took effect on 1 March 2010.
The year saw work on a number of sets of terms and conditions. The Terms for Power-Intensive Industries at Voltages Lower than 132 kV and the Terms for the Design of the Transmission System (E1) were drafted and submitted to an approval process around mid-year. These are due to take effect in early 2011.
The Terms for Electricity Delivery to Power-Intensive Users (B4) are also due to be issued in 2011.

ISBAS – power trading market

We continued to gauge interest among market players in the opening of an Icelandic power trading market. Preparations for such a market were completed in 2008 and it was ready to be launched in November that year.

Market participants are yet to show the level of interest sufficient to ensure the power trading market's successful operation. Hence, its launch was further postponed in 2010.

Landsnet's grid at year-end 2010



Operation and maintenance

Landsnet operates under a 20-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 1,170km of transmission lines as per the maintenance schedule. Additional checks were performed on 227km of lines due to disturbances.

Increased focus was placed on analysing the maintenance of equipment at substations using the methodology of Reliability Centred Maintenance (RCM II). Accordingly, we launched a project using RCM II analysis to assess the need for maintenance of substation equipment, which is scheduled for completion in 2016. Concurrently, we began a review of the maintenance needs of gas-insulated substations (GIS), which is due for completion in 2011.

We continued condition assessment and lifecycle analysis of our substations, with particular focus on 66 kV substations. We also worked on developing condition assessment and lifecycle analysis of transmission lines, and continued checks and detailed inspections of 66 kV transmission lines owned by Landsnet.

Maintenance and repairs of transmission lines were carried out following checks. Emphasis was placed on monitoring and checking the FL3 and FL4 lines, which connect the aluminium plant at Reyðarfjörður, east Iceland, to the substation at the Fljótsdalur Power Station. Monitoring focused on, e.g., icing on conductors and avalanche risk. Over the winter months each year, a specially equipped device is mounted to de-ice conductors on the Hallormsstaðaháls ridge.

The condition of power transformers, bus connecting parts and auxiliary systems was examined, in addition to timing and resistance measurements on circuit breakers and measurements on capacitor structures. Oil samples were taken from power transformers and thermographic images obtained of high-voltage equipment.

Equipment acceptance tests were carried out at five Landsnet substations due to changes during the year, i.e. at the Nesjavellir, Geitháls, Kolviðarhóll, Rangárvellir and Bolungarvík substations. Acceptance tests were also performed on the new NE2 and BV1 underground cables.

Other projects

The NE1 underground cable was moved due to road works in the Álafoss area of Mosfellsbær town, just outside Reykjavík. We worked on undergrounding the Westman Islands Submarine Cables 1 and 2 at the Landeyjasandur sand flats on Iceland's south coast, as in some places the sand covering the cables had been swept off by wind erosion.

In the West Fjords, towers on the TA1 transmission line were strengthened in an icing area near to the Mjólká Power Station. We started preparing the replacement of a conductor extending over the Þorskafjörður fjord on the MJ transmission line. The HT1 transmission line was raised over Highway 1 in Hrútafjörður fjord and the RA1 line was raised over a road to the Lýtingsstaðahreppur area in Skagafjörður fjord, north Iceland.

In east Iceland, a number of towers on the VP transmission line were guyed to the ground and suspension equipment was strengthened on the Hellisheiði moor where one tower had burned when an insulator broke due to icing last winter. A number of towers on the ES transmission line were also guyed to the ground and suspension equipment was strengthened on the Eskifjarðarheiði moor, where a conductor had fallen to the ground when an insulator also broke due to icing. Improvements were made to the SE1 transmission line at Selfoss town, south Iceland, including strengthening of the line to better prevent it from falling over a connecting road.

Inspection of Submarine Cable 2 from Landeyjasandur to the Westman Islands revealed deterioration of the cable's insulation over a stretch of about 250m, making it necessary to protect the cable against friction from sand in constant motion. We launched a project to protect the cable, which is expected to be completed in 2011.

During the year, the section of the KR2 transmission line in east Iceland connecting the Bessastaðir substation to the grid was removed. Checking and repairs of damper fasteners on the FL3, FL4 and SU3 transmission lines continued. Changes were made to phase fasteners and connectors on lattice towers on the FL3 and FL4 transmission lines on the Hallormsstaðaháls ridge.

Measurements following a fault in the NE1 transmission line revealed extensive sheath damage. Work is ongoing to map out the damage and carry out temporary repairs.

Following an audit of sulphur emissions around the Hellisheiði Power Station, we started improvements to the ventilation systems at the Geitháls and Hamranes substations to prevent deposition on cable ends and on substation control equipment. We worked on connecting Remote Terminal Units (RTUs) in substations to our Control Centre. These are substations acquired by Landsnet in recent years. Work continued on reducing SF6 gas leakage in gas-insulated substations (GIS) at Kolviðarhóll and Hrauneyjafoss.

Battery sets were renewed at the Hella, Rimakot and Hvolsvöllur substations. A circuit breaker for the HE2 transmission line was replaced. Lightning detectors at the Vegamót substation were renewed. The year also saw the overhaul of busbar protections at the Geitháls substation on Reykjavík's outskirts.

Work for external parties

Our Operation & Maintenance division provides assistance to our customers and parent company as and when requested. In 2010, we assisted Elkem Iceland with bypass connections in its substation and overhauled its circuit breakers. We also assisted Norðurál – Century Aluminum with transporting a power transformer and the repair of a circuit breaker at its 30 kV gas-insulated substation (GIS).

Landsnet's substations at year-end 2010

Substation	KKS Code	Co-owner	Voltage [kV]	First year in service
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
Breiðadalur	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 in service
Lagarfoss	LAG	RA	66	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
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
Öldugata	OLD		132	1989

RA=Rarik, OV=Westfjord Power Company, HS=Sudurnes Regional Heating, LV=Landsvirkjun, OR=Reykjavik Energy

Landsnet's transmission lines at year-end 2010

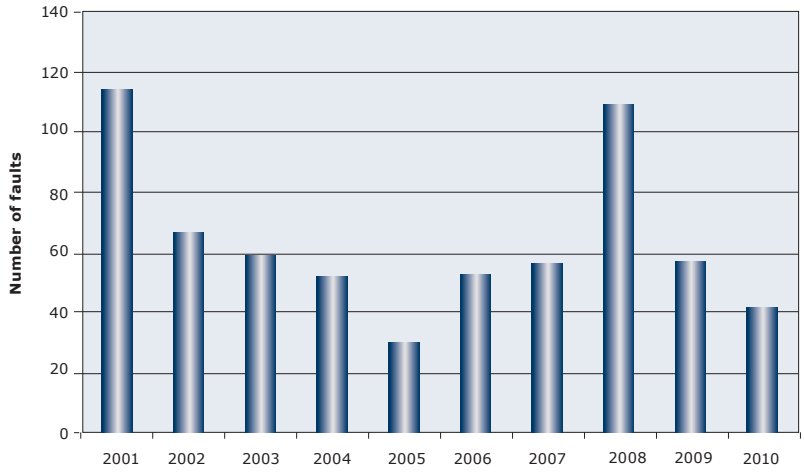
Voltage [kV]	Transmission line	KKS Code	First Year	Connected substations	Length [km]
220	**Brennimelslína 1**	BR1	1977	Geithals - Brennimelur	59
	Búrfellslína 1	BU1	1969	Búrfell - Írafoss	61
	Búrfellslína 2	BU2	1973	Búrfell - Kolviðarhóll	86
	Búrfellslína 3	BU3	1992	Búrfell - Hamranes	119
	Fljótsdalslína 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 (line/underground cable)**	AD7	1990	Hamranes - Hnoðraholt	10
	Blöndulína 1	BL1	1977	Blanda - Laxárvatn	33
	Blöndulína 2	BL2	1977	Blanda - Varmahlíð	32
	Eyvindarárlína 1	EY1	1977	Hryggstekkur - Eyvindará	28
	Fitjalína 1	MF1	1991	Rauðimelur - Fitjar	7
	Fljótsdalslína 2 (line/underground cable)	FL2	1978	Fljótsdalur - Hryggstekkur	25
	Geiradalslína 1	GE1	1980	Glerárskógar - Geiradalur	47
	Glerárskógalína 1	GL1	1983	Hrútatunga - Glerárskógar	34
	Hafnarfjörður 1 (underground cable)	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 (line/underground cable)	NE1	1998	Nesjavellir - Korpa	32
	Nesjavallalína 2 (underground cable)	NE2	2010	Nesjavellir - Geithals	25
	Prestbakkalína 1	PB1	1984	Hólar - Prestbakki	171
	Rangárvallalína 1	RA1	1974	Rangárvellir - Varmahlíð	88
	Rangárvallalína 2 (underground cable)	RA2	2009	Rangárvellir - Krossanes	5
	Rauðamelslína 1	RM1	2006	Reykjanes - Rauðimelur	15
	Rauðavatnslína 1 (line/underground cable)	RV1	1953	Geithals - A12	3

Voltage [kV]	Transmission line	KKS Code	First Year	Connected substations	Length [km]
	Sigöldulína 4	SI4	1984	Sigalda - Prestbakki	78
	Sogslína 2	SO2	1953	Írafoss - Geithals	44
	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	**1301**
66	**Akraneslína 1 (underground cable)**	AK1	1996	Brennimelur - Akranes	17
	Andakílslína 1	AN1	1966	Andakíll - Akranes	35
	Bolungarvíkurlína 1	BV1	1979	Breiðadalur - Bolungarvík	17
	Bolungarvíkurlína 2 (underground cable)	BV2	2010	Ísafjörður - Bolungarvík	12
	Breiðadalslína 1	BD1	1975	Mjólká - Breiðadalur	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 (line/underground cable)	IF1	1959	Breiðadalur - Ísafjörður	15
	Kópaskerslína 1	KS1	1983	Laxá - Kópasker	83
	Lagarfosslína 1	LF1	1971	Lagarfoss - Eyvindará	27
	Laxárlína 1	LA1	1953	Laxá - Rangárvellir	58
	Ljósafosslína 1 (underground cable)	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 (line/underground cable)	ST1	2003	Steingrímsstöð - Ljósifoss	3
	Stuðlalína 1 (underground cable)	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	**991**
33	**Húsavíkurlína 1**	HU1	1964	Laxá - Húsavík	26
	Vestmannaeyjalína 1 (submarine cable)	VM1	1978	Vestmannaeyjar - Rimakot	15
	Vestmannaeyjalína 2 (submarine cable)	VM2	1966	Vestmannaeyjar - Rimakot	16
				Total 33 kV	**57**
				Total	**3200**

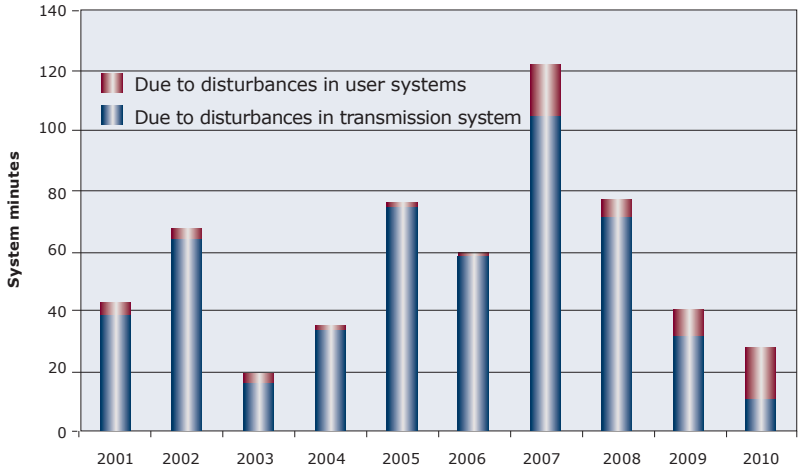
Grid disturbances

Disturbances in the transmission system totalled 29 in the year, fewer than in the preceding year. Disturbance-related faults numbered 41, which means that more than one fault occurred during some disturbances. Energy not supplied due to grid disturbances totalled 316 GWh, which corresponds to 10 outage minutes, a record low in the last decade. Energy not supplied due to disturbances in non-Landsnet systems totalled 536 MWh.

Number of disturbances in the transmission system 2001–2010



System minutes due to disturbances in the transmission system 2001–2010



Main disturbances causing outages

The main grid disturbances causing outages and unsupplied energy in 2010 were as follows:
On 26 February, the HF1 transmission line was switched off due to human error. Energy not supplied to consumers as a result was approximately 4 MWh.
On 15 March, the FU1 transmission line tripped when one phase conductor broke. Following this, a transformer at the Flúðir substation tripped due to incorrect configuration of protection equipment. Energy not supplied as a result of these disturbances was 22 MWh.
On 24 March, a conductor in the VP transmission line tripped, causing a transmission tower to catch fire. Energy not supplied as a result was 76 MWh.
On 7 May, following a disturbance at the Norðurál aluminium plant, a large part of the Regional Line Network between the Brennimelur and Teigarhorn substations tripped. Energy not supplied as a result is assessed at a total of 157 MWh.
On 1 and 9 September, tripping at a power-intensive plant triggered a potline shutdown at the plant of another consumer. Energy not supplied as a result is assessed at 10 MWh for each case.
On 12 October, the MF1 transmission line was switched off due to a technical error during work at the Fitjar substation. Start-up was delayed due to problems with remote and local control of switches. This caused a power outage in the Suðurnes region in south-west Iceland and load loss at the Norðurál plant at Grundartangi. Energy not supplied as a result is assessed at 22 MWh.
On 14 October, a conductor came loose on the OL1 transmission line and fell down on a tower, causing it to burn. A transformer at Grundarfjörður also tripped non-selectively during this disturbance. Energy not supplied totalled 25 MWh.
On 18 October, tripping at a power-intensive plant caused system protection equipment to reduce loads for other power-intensive consumers. Energy not supplied as a result is assessed at 10 MWh.
On 1 November, an iceberg from a glacier flood from the Grímsvötn volcano (which lies mostly beneath the Vatnajökull ice cap) broke a tower on the PB1 transmission line in south-east Iceland. Energy not supplied as a result was negligible.
On 17 December, the SU1 transmission line tripped due to clashing between conductors. This was followed by tripping of all load at the Norðurál plant, which then led to tripping in northern Iceland and in the East Fjords. Outage duration was limited and energy not supplied totalled around 4 MWh.

New development projects

Preparation of new projects

The year saw preparations for connecting the planned Búðarháls Power Station to the grid. A substation is envisaged at Búðarháls, south Iceland, and there are plans to build a 6km transmission line (220 kV), named Búðarháls Line 1 (BH1), which will connect to the HR1 line at Langalda. Preparations are also underway to connect prospective power stations on the Lower Þjórsá River to the grid.

Due to plans to step up electricity generation and industrial activity in southwest Iceland, we have been preparing a project named Southwest Lines. The National Planning Agency (NPA) approved the environmental impact assessment (EIA) for the project on 17 September 2009, but appeals were filed against this decision. On 28 January 2010, the Ministry for the Environment upheld the NPA's decision and confirmed that the Southwest Lines project was not subject to a joint EIA together with other related infrastructure projects. Because of exchange-rate movements, the project's budget had risen substantially, but this was met by efficiency savings. The project is on hold, however, due to uncertainty about power generation and the development of power-intensive industry in the Reykjanes peninsula.

We continued preparations for the construction of a 220 kV transmission line to run from the Blanda Power Station to the town of Akureyri, north Iceland, which is a milestone in reconstructing the Regional Ring Network as well as having significance for plans to develop power-intensive industry in the Eyjafjörður region. The year saw the near-completion of the project's construction design and EIA.
In the past few years, Landsnet has been preparing to develop a network to transmit electricity from prospective geothermal power stations in north-east Iceland and their connection to the main grid. The EIA for the transmission facilities and a joint EIA for the Krafla and Þeistareykir Power Stations, transmission lines and aluminium plant at Bakki were completed in 2010. The NPA delivered its opinion on 25 November, to the effect that licensing for the transmission infrastructure projects should be subject to five conditions:

- Measures must be taken to ensure that the projects do not increase destruction of vegetation.
- A wetland area at least equal in size to that possibly impacted must be reclaimed.

- It must be ensured that rare plants at Þeistareykir are protected to the extent possible, taking the location of such plants into account when deciding the location of transmission towers and tracks. It must be ensured that the project does not impact on the nesting of falcons in the area.
- It must also be ensured that five archaeological sites at Þeistareykir and eight such sites at Bakki are not disturbed.
- A research plan on the extent to which birds will fly into transmission lines must be submitted to the Environment Agency of Iceland.

Our parent company, Landsvirkjun, is currently preparing the construction of a new geothermal power station at Bjarnarflag, north Iceland. During the year, we completed the construction design for its grid connection. This project includes the construction of a new substation at Bjarnarflag, improvements to the substation at Krafla and the installation of an underground cable between them. The cable will run through a geothermal area, so will be enclosed within a conduit over a stretch of 500 metres. A decision is yet to be made on whether to proceed with the project.

Due to plans to develop an industrial area at Þorlákshöfn town in south Iceland, we also worked on land use planning and EIA for two 220 kV transmission lines to run from the Hellisheiði moor to the industrial site. A Preliminary EIA Report has been presented and the NPA is expected to deliver its opinion in early 2011.

The reconstruction of the substation at Akranes town, west Iceland, has been under preparation for some time. This collaborative project with Reykjavik Energy was on hold well into the year. Towards the end of the year, the decision was made to resume the preparations, the aim being to start construction in 2011. The new substation will be built in a new industrial district of Akranes.

We prepared a tender procedure for a 100 MVA 220/132 kV standby transformer scheduled for tendering in 2011.

Preparations for a new thyristor-controlled reactive power compensator at the Grundartangi facility began towards the end of the year. The compensator will enable a further load increase at Grundartangi, potentially up to a certain limit without new transmission line structures, as well as enhancing voltage control and quality in the system.

New development for transmission infrastructure

We worked on the last phase of the expansion of the Rangárvellir substation for the connection of the planned Becromal aluminium foil plant to the grid. This phase consisted of the refurbishment and expansion of a reactive power compensator, the first part of which was brought into service in December. The new compensator will have a reactive power capacity of 60 MVAr. Its refurbishment and expansion are scheduled for completion in the first quarter of 2011.

A new underground cable was installed between the Nesjavellir Power Station and the Geitháls substation in 2009 and entered into service on 8 February 2010. In this project, we placed a major emphasis on minimising disturbance to geological formations in the Hengill geothermal area, which included drilling a number of holes through the Dyrfjöll Mountains. The stakeholders were very satisfied with the results of a subsequent environmental audit of the project, and with the project in general.

We completed the installation of the BV2 transmission line – a 12km, 66 kV underground cable between the towns of Ísafjörður and Bolungarvík in the West Fjords. The cable came into service at the beginning of December, shortening the connection between Ísafjörður and Bolungarvík by approximately 4.5km and stepping up the security of supply in the northern West Fjords. In January 2010, we started installing the 5.5km section of the cable running through the new Bolungarvík Tunnel, which connects the towns of Bolungarvík and Hnífsdalur. The laying of the cable's section external to the tunnel began in June 2010 and was completed at the turn of November. At the same time, a walking/hiking path was constructed between Ísafjörður and Hnífsdalur.

When the Lagarfoss Power Station in east Iceland was expanded in 2007, the conductors in the LF1 transmission line were replaced except for the section nearest to the Eyvindará substation at the town of Egilsstaðir. This section is now due to be demolished and undergrounded. In 2010, we worked on the tender documents for this project, in addition to which a new road to the Eyvindará site was built and improvements to the site's appearance were prepared. The undergrounding is scheduled to begin in the summer of 2011 and to be completed the following November.

Reykjavik Energy is expanding the Hellisheiði Power Station, where generating units 5 and 6 are to be brought into service in 2011. Landsnet will have charge of connecting these units to the grid. The decision was made to jointly connect two older generating units, number 3 and 4, to a single switch in order to be able to connect units 5 and 6. The joint connection of units 3 and 4 was completed in June 2010, with the project as a whole due for completion in 2011.

The construction of transmission facilities for the Alcoa Fjarðaál aluminium plant in east Iceland is mostly complete. Work on these facilities in 2010 was mostly devoted to finishing touches. We completed the demolition of the Bessastaðir substation used during the Kárahnjúkar hydropower project as well as of the KR2 transmission line's older section that was connected to the substation. Persistent problems in a reactive power compensator at the Hryggstekkur substation remained unresolved, with faults once again rearing their head. As a result, final testing of the compensator and the project's formal delivery from the contractor have yet to take place.

Support services

Quality Management

Landsnet has been certified under the international quality management standard ISO 9001 since 2007. Our procedures and processes aim to ensure secure delivery of all electricity from generating companies to distribution system operators and power-intensive industries. Furthermore, we operate under a government-approved electricity safety management system in accordance with the Regulation on Electrical Installations.
Two external maintenance audits of our quality management system were performed by a certification agency in 2010, in addition to 23 internal audits. An external audit of the functionality of our electrical safety management system was also carried out by an accredited inspection body in the electrical field on behalf of the Iceland Fire Authority, which had overall responsibility for electrical safety in Iceland.
A key focus area for the year was an overall review of the structure of work processes in Landsnet's operational handbook.

Environmental management

We began implementing an environmental management system that meets the requirements of the international standard ISO 14001. The system's implementation and functionality are scheduled to be certified in 2012.
In October, the Icelandic parliament adopted a Commission Regulation aiming to reduce emissions of certain fluorinated greenhouse gases. This Regulation is of some importance for Landsnet as the transmission system includes a number of substations whose electrical equipment is insulated with the greenhouse gas sulphur hexafluoride (SF6), an inorganic compound that serves as an excellent flame retardant but is also a potent greenhouse gas. The new Regulation imposes increased demands on our activities, including with respect to the training of employees who carry out installation and maintenance

of electrical equipment. Our preparations for the Regulation's enactment were made at the initiative of our employees, who organised and prepared training materials meeting the Regulation's requirements. Training of Landsnet staff and contractors in this field is scheduled to be completed in 2011.

Since 2006, we have worked with the State Soil Conservation Service to combat soil erosion and revegetate areas in the common pastures south of the Langjökull glacier, more specifically around the Uxahryggur road and near Mt Tjaldfell, just north-east of Mt Skjaldbreiður. Both areas are in the vicinity of transmission lines. This was the fifth summer that we worked on revegetation in this region, the results of which are already very visible as the soil has been improving well. Our revegetation efforts are spread over a land area totalling 200 hectares ranging from rocky flats to sand flats to brown earths. Where machines could not be used, we employed teams of students to carry out manual seeding and fertilising.

Safety management

From its inception, Landsnet has placed a high priority on operational security and personal safety in all its activities. Our commitment to occupational health and safety is reflected in our Environment, Health and Safety (EHS) Policy, which is based on our key values of reliability, progress, economy and respect.

Our key EHS aims include ensuring that all our staff and others working on our projects return safe and sound to their homes after each day's work. This progressive policy has helped us achieve an excellent safety performance in recent years. Two lost-time injury events nevertheless occurred in 2010, one minor and one fairly major. Our H factor, which indicates the frequency of injuries, was 1.63 at year-end based on 200,000 hours worked. For 2011, we are placing a special emphasis on achieving an accident-free workplace though targeted staff meetings and risk analysis of our activities as well as by stepping up requirements for the use of personal protective equipment in all our work. Our excellent safety record is a tribute to the vigilance and knowledge of our staff and our effective registration system for accidents, incidents and injuries as well as follow-up. Our key safety deliverables for 2010 were implementing the occupational health and safety standard OHSAS 18001 and reviewing all our quality control documents relating to safety with a view to simplifying them and making them accessible to all staff.

We are well positioned to adopt the standard, since all our safety management work in recent years has been aimed to meet its criteria. The OHSAS 18001 is based on an older standard from the British Standards Institution, the BS 8800.

A total of 18 incidents were recorded in our database of safety-related reports in 2010, up from 15 in 2009. Two of these were lost-time injury events, compared with one in 2009. Other safety-related reports dealt with suggested improvements. Our workforce was in good health in 2010 compared with national averages. However, our sickness absence rate has been slowly rising since Landsnet's founding, with no apparent straightforward explanation. The 2010 sickness absence rate was 2%, slightly up year-on-year but still two percentage points below the national average, which must be regarded a fairly good performance. We kept a close watch on the H1N1 virus and took targeted measures to reduce infection risk at Landsnet, which appears to have paid dividends.

Landsnet Emergency Management

The routine activities of Landsnet Emergency Management (LEM) proceeded well in 2010. The activities of the Electricity Sector Emergency Partnership (ESEP) were as scheduled for the year, with two joint meetings of the partners held. ESEP's key aims are to enable the partners to act in concert when an emergency strikes, build a joint consultative forum and mutual information sharing and put in place procedures to mitigate serious incidents in the electricity sector. This partnership was put to the test during the volcanic eruption under the Eyjafjallajökull glacier, which it passed with flying colours. Two ESEP representatives together with advisers took part in regular meetings of the Icelandic Civil Protection Department during the Eyjafjallajökull episode.

NordBER is the Nordic contingency planning and crisis management forum for transmission system operators and energy authorities. Its central aim is to conduct a dialogue between the partner countries, provide cross-border assistance in serious emergencies and analyse problems within the Nordic power sector. Landsnet and the National Energy Authority of Iceland (Orkustofnun) are NordBER partners. NordBER's activities take place in working groups, with emphasis placed on, e.g., risk and sensitivity analysis, crisis management exercises, telecommunications security and natural hazards.

Information technology

Landsnet's IT division operates all of the company's information and telecommunication systems. The year saw strengthening and expansion of the IT division, which took over a range of activities formerly managed elsewhere. This included the start of an effort to double central IT systems and bring user services in-house. The division began preparations for upgrading Energy Management System (EMS) equipment, with an aim to upgrade software and hardware over the next quarters. Landsnet's EMS manages the largest part of

Iceland's generation and transmission of electricity, so there is much at stake in maintaining the equipment in prime shape.

The secure operation of real-time information systems is vital to ensuring secure communications. Like in recent years, much time was invested in analysing our communications systems and identifying ways of improving them. The current Electricity Act permits Landsnet to operate communications systems to meet the company's own needs. Under an amendment to the Act passed in February 2011, Landsnet may, after receiving authorisation by the Competition Authority, hold a stake together with other shareholders in a telecommunications company whose role is to operate the security communications system of the electricity system. This amendment opens up new possibilities of co-operating with other parties on communications. Landsnet has operations in all parts of Iceland, making reliable communications doubly important.

General telecommunication services were tendered out in the year, followed by a contract with a new supplier. Preparations began to improve telecommunications connections at key grid connection points. Adding to the number of such connection options lays the foundation for increased and more varied use of IT to operate the electricity system.

Landsnet's role carries substantial responsibility with regard to information security in connection with electricity generation and transmission and in operating the electricity market. Mindful of this, we started to implement an information security standard, ISO 27001, whose adoption will be a particular focus area in the coming quarters.

One of our strategic aims is to be a cutting-edge high-tech company that draws on powerful IT systems as well as highly skilled IT professionals. Our general operating systems as well as the Energy Management System undergo continuous development and renewal, in keeping with the rapid pace of progress in these fields. Our employees keep a close watch on such developments and attend training courses and conferences to update their skills and knowledge.

Human resources

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. The year saw the appointment of a Human Resources Manager. The aim of this appointment was to enhance

HR services both to management and other employees, an area previously handled by our parent company, Landsvirkjun. All HR services have now been transferred to Landsnet, with the exception of payroll, which is still administered elsewhere. Landsnet is highly committed to staff training and development. In 2010, we placed particular focus on needs analysis to develop more targeted staff training.

Full-time equivalent positions numbered 97 at year-end, with permanent employees totalling 98. About 81% of our employees were men and 19% women. The gender balance is more equal among senior management, of which 33% are women and 67% men.

Landsnet maintains a focus on recruiting highly qualified personnel. Our employees have a wide range of educational backgrounds. Most commonly, they hold degrees in engineering, in particular electrical engineering, or are certified electricians or powerline technicians. Eight new staff were added in 2010, thereof two for temporary positions. A total of 39 teenagers and 14 university students were employed in summer jobs. Staff turnover in the year was 3%.

Training and development

Landsnet places a high premium on staff training and development. In 2010, the focus was on analysing training needs to develop more targeted training. A range of training options was designed and presented in a new way, with a training course schedule provided ahead of time. A total of 52 courses were offered during the year. Training/educational meetings numbered approximately 2500. Staff also attended specialised training overseas through participation in courses and conferences.

Team cohesion and employee welfare

A Gallup Workplace Audit (GWA) is carried out regularly at Landsnet. Employee satisfaction increased from the previous audit, thus remaining at a high level. Our employees are very satisfied with their work-life balance, reflecting the company's emphasis on this area. Our staff are also very likely to recommend Landsnet as a workplace, whilst feeling that their job comes with some stress.

We focused on building team cohesion during the year. As well as having a strong Staff Association, Landsnet strongly supports staff initiatives in this area, which is in turn conducive to high employee satisfaction levels.

Finance

Revenue cap and tariff

In March 2011, the Icelandic parliament passed a bill amending the Electricity Act. Among the bill's key provisions is an amendment to Article 12 of the Act concerning revenue caps. The key changes are that revenue caps are set for a period of five years, the asset base for power-intensive consumers is denominated in USD, profitability is tied to weighted-average cost of capital (WACC), return on current assets is defined and more specific requirements are made regarding timing and regulation.

In 2007, we changed the currency of our tariff for power-intensive consumers from ISK to USD. The revenue cap remained unchanged, however. On the back of the ISK's sharp depreciation in 2008, revenues from power-intensive consumers jumped in line with the USD appreciation against the ISK. This tipped the balance of the revenue cap regime and account was not taken of Landsnet's increased costs due to exchange-rate movements. To counteract this discrepancy, the revenue cap for power-intensive consumers is now based on the same currency as that of the tariff.

Under the Act as in force up to and throughout 2010, the National Energy Authority determined the revenue cap for three years at a time on the basis of operating expenses, depreciation and profitability. Landsnet was required to manage its funding and return a profit to its owners on the basis of defined profitability thresholds. These thresholds were based on the asset base of fixed assets in operation and the yield on five-year government bonds. The Authority set the revenue cap for the years 2007-2009 at year-end 2006 but has yet to determine the cap for 2010-2012. We have been working with the Authority on a settlement for the 2006-2009 revenue cap and have submitted a proposal thereon. The conclusion of these negotiations remains unclear due to a difference in interpretation in some respects. The Authority has emphasised the need to review the way in which assets are divided between the general public and power-intensive consumers to better reflect changes in the system when new generating companies and consumers are connected to it.

Over the years, we have pursued a conservative approach to transmission tariff increases. The tariff for distribution system operators was raised by 10% as of 1 August 2009 and has remained unchanged since then. The USD-denominated tariff for power-intensive consumers was reduced by 7% at the start of 2010. The tariff for ancillary services and transmission losses was reduced at the turn of 2010, having generated excess revenue. Charges for ancillary services were lowered by 5% and charges for transmission losses by

25%. Landsnet has set itself the target to resell these services at a 1% premium so a lower price for Landsnet is reflected in a lower tariff. The real reduction in Landsnet's transmission tariff rates for the general public has been approximately 35% since the company was founded. A further change in the transmission tariff may be expected in the first half of 2011 in light of the aforesaid amendments to the Electricity Act.

Performance in 2010

Landsnet generated a profit of ISK 3,563 million in 2010 according to the income statement, compared with a profit of ISK 1,471 million in 2009. Earnings before interest, taxes, depreciation and amortisation (EBITDA) were ISK 8,678 million, down from ISK 9,331 million in 2009. Earnings before interest and taxes (EBIT) were ISK 6,137 million, down from ISK 6,951 million in 2009. The improved year-on-year performance was mostly due to changes in financial items, primarily driven by lower inflation in 2010 and a net exchange rate gain following a net exchange rate loss for the previous year.

Adjusting for the effects of income tax changes on the revaluation of the transmission system, total profit for 2010 according to the statement of comprehensive income was ISK 3,300 million, up from ISK 1,047 million for 2009. Operating revenue amounted to ISK 12,852 million, of which transmission income was ISK 12,787 million and other income ISK 65 million. Operating revenue was down by ISK 442 million year-on-year, mostly owing to the reduced tariff for power-intensive consumers.

Operating expenses were ISK 6,715 million, up by ISK 372 million year-on-year. Operating expenses are broken down into costs relating to electricity purchases due to transmission losses and ancillary services of ISK 1,569 million, operating and management costs of ISK 2,251 million, depreciation and amortisation of ISK 2,541 million and leasing and obligations of ISK 354 million. The increase in operating expenses was principally from depreciation, amortisation and obligations, which were up by ISK 303 million. General operating expenses were up 5.8% year-on-year.

Net financial expenses were ISK 1,951 million in 2010, compared with ISK 5,629 million in 2009. Interest expenses for 2010 were ISK 2,334 million, up from ISK 2,107 million in 2009. Inflation-indexation amounted to ISK 1,003 million, down from ISK 2,600 million in 2009. Exchange rate differences were positive by ISK 975 million, compared with an ISK 1,212 million net exchange rate loss in 2009. Interest income was ISK 147 million, down from ISK 157 million in 2009. Capitalised interest amounted to ISK 28 million, down from ISK 135 million in 2009.

Balance sheet

Total assets stood at ISK 70,513 million at year-end, down from ISK 73,676 million at the end of 2009. Of this total, fixed assets accounted for ISK 64,035 million, compared with ISK 65,313 million at year-end 2009. This year-on-year decrease of ISK 1,278 million was due to depreciation exceeding investment. Fixed assets in operation were ISK 62,156 million at year-end, slightly down from ISK 62,171 million at the end of 2009. Current assets were ISK 6,478 million, down from ISK 8,362 million at year-end 2009. This ISK 1,884 million decrease was mostly due to a decrease in cash by ISK 1,608 million.

Long-term liabilities and obligations stood at ISK 56,403 million at year-end and short-term liabilities at ISK 2,488 million. At the end of 2009, by comparison, long-term liabilities and obligations were ISK 63,039 million and short-term liabilities ISK 2,315 million. No new borrowings were undertaken during the year, while significant loan repayments were made. The company's derivative agreement was settled in the autumn, payments in respect of which totalled ISK 7,506 million.

Equity at year-end 2010 stood at ISK 11,622 million, including share capital of ISK 5,903 million, as stated in the balance sheet. By comparison, equity at the end of 2009 was ISK 8,322 million. The equity ratio was 16.5% at year-end 2010, up from 11.3% at the end of 2009.

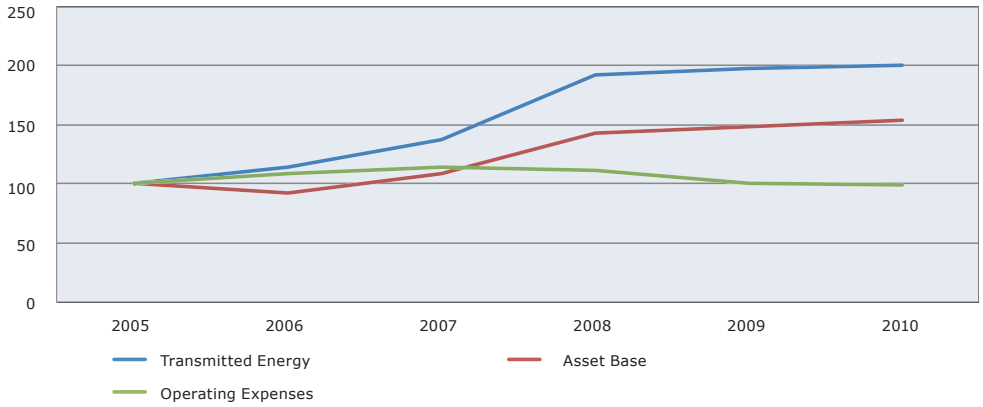
Cash flow

Net cash from operating activities was ISK 7,360 million, compared with ISK 7,519 million in 2009. Cash at year-end was ISK 4,256 million, down by ISK 1,608 million during the year. Net cash from investment activities was ISK 1,338 million, down from ISK 3,385 million in 2009. Loan repayments totalled ISK 7,506, compared with ISK 5,909 million in the previous year. No new loans were raised during the year.

Efficiency gains

The trend in operating expenses during Landsnet's six years in operation clearly indicates that substantial efficiency savings have been achieved. This is perhaps most apparent from the graph below, which shows how Landsnet's operating costs measured at constant 2010 price levels have developed compared with the amount of electricity transmitted and the book value of assets. The figures have been converted to an index with the base value of 100 in 2005.

Trend in key figures



As the graph clearly shows, operating expenses have remained practically unchanged while electricity transmission has doubled and the asset base grown more than 50%.

Funding

No new loans were raised in 2010. Refinancing was insubstantial and investment projects were funded exclusively by cash provided by operating activities. We repaid debts that would, all things being equal, have been payable over the next two years, thereby reducing our refinancing needs in the coming years considerably. In early October, a settlement regarding a derivative agreement with the insolvent Kaupthing Bank was finalised.

We have a USD-denominated revolving credit facility from our parent company maturing at year-end 2012. This facility's total contractual amount in 2010 was USD 100 million. At year-end, USD 29 million had been drawn from the facility. The facility amount was reduced to USD 50 million at year-end 2010 and will remain unchanged throughout its term.

Long-term liabilities were 92% of total liabilities at the close of the year. Of interest-bearing debt, ISK-denominated loans now account for 81%, CFH-denominated loans for 13% and USD-denominated loans for 6%. No loan refinancing will be required in 2011.

Treasury Policy

Our Treasury Policy sets out a framework for financial risk management, the segregation of duties, authorisations, limits and other criteria. The Board of Directors regularly receives reports on financial risks, while monitoring of risk management is in the hands of a Risk Committee.

The key financial risk factors have been defined as interest-rate risk, currency risk and liquidity risk. Aluminium prices are not a risk factor as our revenues are determined purely by the amount of power transmitted and the tariff in force, which does not reflect aluminium prices.

Interest-rate risk – Interest-bearing liabilities far exceed interest-bearing assets. Current ISK-denominated debts carry fixed interest rates, whereas foreign-denominated debts have variable rates. This entails the risk that variable rates on debts may increase. A total of 19% of our interest-bearing debts have variable rates.

Currency risk – The company faces currency risk with respect to revenues, procurement and borrowing in currencies other than its operating currency, i.e. the ISK. Currency risk management with respect to counterparty risk aims to minimise the impact of exchange-rate fluctuations on our financial performance and budgets. Regarding settlement risk, the key principle of the Treasury Policy is to preserve the company's equity. The main currencies posing currency risk are the USD and CHF.

Liquidity risk – Liquidity risk is the risk that the company will not be able to meet its financial commitments as they fall due. Landsnet aims to have sufficient liquid assets in the form of cash and/or contractual revolving credit facilities amounting to at least three-months' operating expenses and loan-and-interest repayments. The company has a strong liquidity position. Cash at year-end amounted to ISK 4,256 million and the undrawn portion of the revolving credit facility amounted to USD 21 million, which translates to ISK 2,416 million. Liquid assets thus totalled ISK 6,672 million at year-end.

Financial ratios and key figures

Financial ratios	**2010**	**2009**	**2008**
EBIT margin	47.8%	52.3%	47.6%
EBIT interest coverage ratio	3.15	3.55	4.30
Return on equity	42.8%	20.2%	-107.7%
Equity ratio	16.5%	11.3%	10.5%
Current ratio	2.6	3.61	0.26
Asset turnover ratio	0.18	0.18	0.16

Key figures	**2010**	**2009**	**2008**
	ISK million	*ISK million*	*ISK million*
Profit (loss)	3,563	1,471	-12,780
Cash from operating activities	7,360	7,519	5,760
Total assets	70,513	73,676	69,384
Equity	11,622	8,322	7,275

Financial Statements

2010

Contents

Endorsement by the Board of Directors and the CEO

General

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

Results of the year 2010

According to the income statement, profit for the year amounted to ISK 3.6 billion and total profit for the year amounted to ISK 3.3 billion. According to the balance sheet, the Company's equity at year end amounted to ISK 11.6 billion.

Share capital at year end 2010 is divided between four shareholders as at the beginning of the year:

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

The Board of Directors proposes that no dividend be paid to shareholders in the year 2011. Reference is made to the Statement of Changes in Equity regarding information on changes in equity.

Corporate governance

The Board of Directors of Landsnet hf. emphasizes maintaining good management practices. The Board of Directors has laid down comprehensive guidelines wherein the competence of the Board is defined and its scope of work vis-à vis the CEO. These rules include i.e. rules regarding order at meetings, comprehensive rules on the competence of Directors to participate in the discussion and decision of issues presented to the Board, rules on secrecy, rules on information disclosure by the CEO to the Board and other issues. The Company´s Board of Directors meets regularly with the Company´s auditors.

Statement of the Board of Directors and the CEO

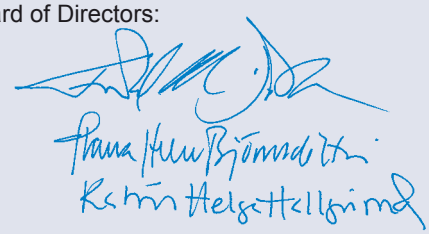
According to the best of our knowledge, the financial statements are in accordance with the International Financial Reporting Standards as adopted by the EU and it is our opinion that the annual financial statements give a true and fair view of the financial performance of the Company for the financial year 2010, its assets, liabilities and financial position as at 31 December 2010 and its cash flows for the financial year 2010.

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

The Board of Directors and the CEO have today discussed the annual financial statements of Landsnet hf. for the year 2010 and confirmed them by means of their signatures.

Reykjavik, 24 February 2011.

The Board of Directors:



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 statement of financial position as at December 31, 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Landsnet hf. as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

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

Reykjavik, 24 February 2011.

KPMG hf.

Income Statement for the year 2010

	Notes	2010	2009
Operating revenue			
Transmission	6	12,786,747	13,233,789
Other income	7	65,009	60,595
		12,851,756	13,294,384
Operating expenses			
Energy procurement costs		1,569,060	1,626,571
Transmission costs	8,9	3,581,300	3,282,830
System operation	8,9	815,552	640,432
Other operating expenses	8,9	748,794	793,627
		6,714,706	6,343,460
Operating profit		6,137,050	6,950,924
Financial income		1,121,405	157,093
Financial expenses		(3,072,386)	(5,786,569)
Net financial expenses	10	(1,950,981)	(5,629,476)
Share in net earnings of associated company	13	8,851	9,162
Profit before income tax		4,194,920	1,330,610
Income tax	11	(632,336)	140,625
Profit		3,562,584	1,471,235
Earnings per share			
Basic and diluted earnings per each ISK 1 share	18	0.60	0.25

Notes no. 1 to 29 are an integral part of these financial statements.

Statement of Comprehensive Income for the year 2010

	Notes	2010	2009
Profit		3,562,584	1,471,235
Items under total profit recognised among equity:			
Effect of changed tax rate on the revaluation of transmission		(262,515)	(424,017)
Total items under total profit recognised among equity		(262,515)	(424,017)
Total profit of the year		3,300,069	1,047,218

Notes no. 1 to 29 are an integral part of these financial statements.

Balance Sheet as at 31 December 2010

	Notes	2010	2009
Assets			
Fixed assets in operation	12	62,155,955	62,171,360
Projects under construction	12	425,541	1,612,157
Intangible assets	12	1,401,758	1,479,350
Shares in other companies	13	51,667	50,558
Fixed assets		64,034,921	65,313,425
Inventories	14	499,251	483,285
Assets available for sale	12	374,000	427,693
Receivable from parent company		498,720	587,604
Trade and other receivables	15	849,833	999,859
Cash and cash equivalents	16	4,255,901	5,863,874
Current assets		6,477,705	8,362,315
Total assets		70,512,626	73,675,740
Equity			
Share capital	17	5,902,733	5,902,733
Revaluation account	17	12,863,228	13,709,886
Accumulated deficit		(7,143,909)	(11,290,636)
Equity		11,622,052	8,321,983
Liabilities			
Long term liabilities from parent company	20	42,136,902	47,180,690
Other long-term liabilities	20	12,115,701	12,003,482
Derivatives	22	0	2,769,177
Deferred income tax liability	19	1,397,656	502,804
Other obligations	21	752,523	582,404
Long-term liabilities and obligations		56,402,782	63,038,557
Loans from parent company		1,297,882	1,241,102
Current maturities		119,067	110,446
Trade and other payables	24	1,070,843	963,652
Short-term liabilities		2,487,792	2,315,200
Total liabilities		58,890,574	65,353,757
Total equity and liabilities		70,512,626	73,675,740

Notes no. 1 to 29 are an integral part of these financial statements.

Statement of Changes in Equity for the year 2010

	Share capital	Revaluation account	Accumulated deficit	Total
Year 2009:				
Equity at 1 January 2009	5,902,733	14,743,274	(13,371,242)	7,274,765
Profit for the year			1,471,235	1,471,235
Effect of changed tax rate on revaluation		(424,017)		(424,017)
Total comprehensive income		(424,017)	1,471,235	1,047,218
Depreciation on revaluation recognised under accumulated deficit		(609,371)	609,371	0
Equity at 31 December 2009	5,902,733	13,709,886	(11,290,636)	8,321,983
Year 2010:				
Equity at 1 January 2010	5,902,733	13,709,886	(11,290,636)	8,321,983
Profit for the year			3,562,584	3,562,584
Effect of changed tax rate on revaluation		(262,515)		(262,515)
Total comprehensive income		(262,515)	3,562,584	3,300,069
Depreciation on revaluation recognised under accumulated deficit		(584,143)	584,143	0
Equity at 31 December 2010	5,902,733	12,863,228	(7,143,909)	11,622,052

Notes no. 1 to 29 are an integral part of these financial statements.

Statement of Cash Flows for the year 2010

	Notes	2010	2009
Cash flow from operating activities			
Operating profit		6,137,050	6,950,924
Depreciation and amortisation		2,541,336	2,380,139
(Profit) loss from sales of fixed assets		(1,016)	1,379
Impairment of assets available for sale		44,597	0
Change in the provision due to site restoration		203,622	61,482
Working capital from operation before financial items		8,925,589	9,393,924
Operating assets, decrease (increase)		95,438	(143,532)
Operating liabilities, increase		142,315	67,860
Net Cash from operating activities before financial items		9,163,342	9,318,252
Interest income received		146,880	157,093
Interest expenses paid and foreign exchange difference		(1,949,853)	(1,956,438)
Net cash from operating activities		7,360,369	7,518,907
Cash flow from investing activities			
Investment in transmission infrastructures	12	(1,015,273)	(2,172,717)
Other investments	12	(271,214)	(950,234)
Proceeds from sale of property, plant and equipment		1,373	0
Proceeds from the sale of shares in an associated company		7,742	7,436
Change in unpaid construction costs, decrease		(60,358)	(269,288)
Net cash to investment activities		(1,337,730)	(3,384,803)
Cash flow from financing activities			
Change in loans from parent company		(5,756,880)	(5,908,690)
Proceeds from long-term liabilities		0	4,874,569
Payments of long-term liabilities		(1,749,333)	0
Net cash to financing activities		(7,506,213)	(1,034,121)
Net (decrease) increase in cash and cash equivalents		(1,483,574)	3,099,983
Effect of exchange rate changes on cash and cash equivalents		(124,399)	63,210
Cash and cash equivalents at 1 January		5,863,874	2,700,681
Cash and cash equivalents at 31 December		4,255,901	5,863,874

Notes no. 1 to 29 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, and the financial statement of Landsnet hf. is included in the consolidated financial statements of Landsvirkjun. Landsnet was established in 2004 on the basis of the Electricity Act passed by the Icelandic parliament, the Althingi, in the spring of 2003. The role of Landsnet is to administer the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003, which stipulates that the Company must not engage in any activities other than necessary to perform its duties under the Act.

2. Basis of preparation

a. Statement of compliance

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

The financial statements were approved by the Board of Directors on 24 February 2011.

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

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

c. Functional and presentational currency

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

d. Use of estimates and judgements

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

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

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

- Note 3c and 12 - Property, plant and equipment
- Note 3d and 12 - Intangible assets
- Note 3l (i) and 21 - Estimation of provision due to site restoration
- Note 19 - Income tax

3. Significant accounting policies

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

Notes, continued

3. Significant accounting policies, contd.:

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, 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, call deposits and market securities.

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

(ii) 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.

(iii) 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.

(iv) Derivative financial instruments

The Company uses derivatives in order to hedge against currency and interest rate risk.

The Company has entered into currency and inerest rate swaps in order to hedge against the Company's currency and interest rate risk. Hedge accounting is not applied. Fair value changes on such derivatives are recognised among net income and expenses on financial assets and liabilities in the statement of comprehensive income.

(v) Share capital

Share capital is classified as equity.

Notes, continued

3. Significant accounting policies, contd.:

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

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

(ii) Transmission structures under construction

Projects under construction are capitalised on the basis of the cost of purchased services, materials, direct wages and other costs directly attributable to the property. Assets that have not been put to use are not depreciated. Cost of capital for financing the cost of projects under construction is capitalised in the period that the asset is being constructed and is considered a part of the cost of the asset. Capitalised cost of capital is the Company's weighted average cost of capital.

(iii) Leased assets

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

(iv) Subsequent costs

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

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

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

Notes, continued

3. Significant accounting policies, contd.:

d. Intangible assets

(i) Developement cost

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

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

At each accounting date, capitalised development cost is reviewed by management and impairment is recognised if premises for the recognition of development cost no longer exist.

Expenditure on research activities is recognised in profit or loss when incurred.

(ii) Software and other intangible assets

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

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives 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 holding is recognised at historical cost. The subsidiary has had insubstantial 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.

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. Trade receivables and other receivables

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

Notes, continued

3. Significant accounting policies, contd.:

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 asset's recoverable amount is estimated.

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

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

j. Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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.

Notes, continued

3. Significant accounting policies, contd.:

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

m. Revenue

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

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

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

1. Expenses relating to the company's operation, including expenses relating to maintenance, depreciation of assets necessary for the operation of the system, leasing costs relating to transmission facilities, cost of energy losses, general operating expenses and expenses incurred by system management.
2. The profitability of the transmission system operator shall be as close as possible to the market yield on non-indexed 5-year government bonds or similar securities. Profitability is calculated as the ratio of earnings before financial income, financial expenses and taxes (EBIT) to the carrying value of fixed assets.
3. Efficiency requirements based on reasonable costs, as assessed by the National Energy Authority, taking account of the services provided by the company.

The revenue cap shall be decided for three years at a time but reviewed on an annual basis. The review shall take into consideration whether any changes have taken place regarding the basis on which the revenue cap is determined. Excess recognition or lack of recognition of revenue may be adjusted between years. A regulation must stipulate a limit on the authorisation for the accumulation of rights.

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

Two months before the tariff enters into force, it shall be submitted to the National Energy Authority. If the National Energy Authority believes that the presented tariff is in breach of the provisions of this Act or the of regulations, it shall send comments thereon to the transmission company within six weeks from the date it received the tariff. The tariff does not become valid until it has been adjusted on the basis of the National Energy Authority's assessment. The transmission company shall publish the tariff publicly.

Notes, continued

3. Significant accounting policies, contd.:

m. Revenue, contd.:

In the event that the transmission company's rate of return for the preceding three years is lower than 50% of the five-year market yield on non-indexed government bonds or comparable securities, and the company is not generating a profit, this shall be taken into account in the determination of the revenue cap and the following year's tariff. The same applies if the transmission company's return for the preceding three years was more than one-third higher than the same yield.

The Company's tariff is denominated partly in ISK and partly in 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 regulated by the National Energy Authority.

o. Finance income and expenses

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

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

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

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. The income tax rate will be 20% as of 1 January 2011 and the effect of the increase has been recognised in the financial statements.

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 trading market. The Company has not begun operating an electricity trading market and considers its present operation as one single segment, for which reason it does not provide segment reporting.

Notes, continued

3. Significant accounting policies, contd.:

s. New standards and interpretations thereof

The Company has implemented all International Financial Reporting Standards, amendments thereto and interpretations confirmed by the EU at year-end 2010 and that apply to its operations. The Company has not implemented standards, amendments thereto or interpretations entering into effect after year-end 2010 but allowed to be implemented sooner. The effect thereof on the Company's financial statements has not been fully determined but is considered to be insubstantial.

4. Determination of fair values

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

a. Trade and other receivables

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

b. 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 methodologies for pricing financial instruments.

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.

c. 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.

Notes, continued

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 85% (2009: 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 since 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 entered into an agreement on a revolving credit facility with the parent company, Landsvirkjun, in the amount of USD 100 million. At year-end, drawn credit under the facility amounted to USD 29 million. At year-end 2010, the facility will decrease to USD 50 million.

Market risk

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

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

Notes, continued

5. Financial risk management, contd.:

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) approx. 64.5% (2009: 65.1%) and a portion of its purchases is made in other currencies than ISK. The main currencies posing a foreign exchange risk are the USD and the 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 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 20.

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 Company's operating budget envisages that the Company's equity ratio shall be at least 20%.

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

Notes, continued

6. Revenue

Transmission revenue consists of:

	2010	2009
Energy transmission	11,261,469	11,438,387
Transmission losses and ancillary services	1,419,108	1,701,952
Service income and balancing energy	24,137	15,767
Input fees	82,033	77,683
	12,786,747	13,233,789

7. Other income

Other income consists of:

Income from work sold and rent	63,993	60,595
Sales profit from fixed assets	1,016	0
	65,009	60,595

8. Personnel expenses

Payroll expenses are specified as follows:

Salaries	892,422	822,727
Defined contribution plan payments	97,922	95,548
Defined benefit plan payments	17,902	21,058
Other payroll expenses	102,835	75,426
	1,111,081	1,014,759

Payroll expenses consist of:

Transmission costs	431,502	402,471
System operation	388,926	348,230
Other operating expenses	290,653	264,058
	1,111,081	1,014,759

Average number of employees	102	99
Full-time equivalent units at year-end	95	93

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

Remuneration of the Board of Directors	5,066	5,040
Remuneration and benefits of the CEO	15,145	19,827
Remuneration of two Excecutive Directors	32,728	32,760

9. Depreciation and amortisation

Depreciation and amortisation are specified as follows:

Depreciation of fixed assets in operation, see Note 12	2,395,282	2,271,781
Amortisation and impairment losses, see Note 12	146,054	108,358
Depreciation and amortisation recognised in the income statement	2,541,336	2,380,139

Depreciation and amortisation are allocated as follows to operating items:

Transmission costs	2,352,942	2,188,541
System operation	44,024	70,568
Other operating expenses	144,370	121,030
Depreciation and amortisation recognised in the income statement	2,541,336	2,380,139

Notes, continued

10. Financial income and expenses

Financial income and expenses are specified as follows:

	2010	2009
Interest income	146,880	157,093
Exchange rate difference	974,525	0
Total finance income	1,121,405	157,093
Interest expenses	(2,334,422)	(2,107,495)
Indexation	(1,002,536)	(2,599,908)
Exchange rate difference	0	(1,211,693)
Changes in fair values of derivatives	236,644	(3,017)
Capitalised interest expense due to projects under construction	27,928	135,544
Total financial expenses	(3,072,386)	(5,786,569)
Net financial expenses	(1,950,981)	(5,629,476)

Net financial expenses due to the construction of a transmission infrastructure amounting to ISK 28 million (2009: 136 million) is capitalised and has been reported as a reduction in financial expenses.

Capitalised financial expenses were 5.3% of capital tied in transmission structures under construction during the year (2009: 7.7%). This is the Company's average finance cost in the year 2010.

11. Income tax

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

	2010	2009
Calculated income tax for the year	(755,086)	(199,591)
Effect of changed tax rate	122,750	340,216
Income tax recognised in the statement of comprehensive income	(632,336)	140,625
Income tax recognised in equity:		
Effect of increased tax rate on income tax liability due to revaluation	(262,515)	(424,017)
Change in income tax liability	(894,851)	(283,392)

Change in deferred income tax liability is specified as follows:

Change in temporary differences	122,306	248,195
Change in carry-forward losses	(877,391)	(447,786)
Effect of changed income tax rate	(139,766)	(83,801)
Change in deferred tax assets	(894,851)	(283,392)

		2010		2009
Reconciliation of effective tax rate				
Profit before income tax		4,194,920		1,330,610
Income tax according to the current tax rate	18.0%	(755,086)	15.0%	(199,592)
Difference due to change in tax rate	(2.9%)	122,750	(25.6%)	340,216
Effective tax rate	15.1%	(632,336)	(10.6%)	140,625

12. Property, plant and equipment

Property, plant and equipment are specified as follows:

Fixed assets in operation:

	Substations	Transmission lines	Other	Total
Cost				
Balance at 1.1.2009	20,003,534	44,638,319	2,697,794	67,339,647
Additions	325,651	173,454	485,018	984,123
Transferred from projects under construction	1,500,466	982,123	0	2,482,589
Sold and disposed of	0	0	(2,014)	(2,014)
Transferred to assets available for sale	0	0	(427,693)	(427,693)
Balance at 31.12.2009	21,829,651	45,793,896	2,753,105	70,376,652
Additions	201,071	240,960	141,221	583,252
Transferred from projects under construction	235,504	1,552,384	0	1,787,888
Sold and disposed of	0	0	(986)	(986)
Transferred to assets available for sale	0	0	9,095	9,095
Balance at 31.12.2010	22,266,226	47,587,240	2,902,435	72,755,901
Depreciation and impairment losses				
Balance at 1.1.2009	1,808,856	3,804,771	320,517	5,934,144
Depreciation and impairment losses	708,528	1,422,169	141,084	2,271,781
Sold and disposed of	0	0	(634)	(634)
Balance at 31.12.2009	2,517,384	5,226,940	460,967	8,205,291
Depreciation and impairment losses	746,592	1,509,976	138,714	2,395,282
Sold and disposed of	0	0	(628)	(628)
Balance 31.12.2010	3,263,976	6,736,916	599,053	10,599,945

Fixed assets in operation:

Carrying amount				
1.1.2009	18,194,678	40,833,548	2,377,277	61,405,503
31.12.2009	19,312,267	40,566,956	2,292,138	62,171,360
31.12.2010	19,002,250	40,850,324	2,303,382	62,155,955

Basis of revaluation of fixed assets in operation

In accordance with the International Accounting Standard IAS 16, the Company's lines and substations are recognised according to the revaluation method. A revaluation was conducted on those assets in the year 2008. The revaluation was based on two methods. First, it was based on the estimated reconstruction cost of the transmission system, which was calculated by independent experts at the beginning of year and projected to year-end 2008. Second, the operating value was measured using a cash flow analysis. The valuation period was from 2009 to 2013, with the future operating value calculated thereafter. The year's revaluation was based on the operating value, the main premises of which were the Company's operating budgets for the years 2009-2013, a 30% equity ratio and that Landsnet's tariff for transmission to distributors would reflect price developments in Iceland while the tariff for industrial users would reflect price level changes in the United States. The estimation of weighted-average cost of capital (WACC) was based on comparable companies abroad. It is the opinion of the Company's management that nothing gives reason for a revaluation in the year 2010.

Had the Company not revalued lines and substations in the year 2008, the carrying amount of the same assets would have been approximately ISK 15.9 billion lower at year end 2010 (2009: 16.7 billion).

Notes, continued

12. Property, plant and equipment, contd.:

Assets available for sale

The Company put its real property at Bústaðavegur up for sale in the end of 2010. The property previously housed, among other things, the Company's Control Centre. The property was sold in January 2011 and is recognised at fair value less selling cost at year-end.

Rateable value and insurance value

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

Intangible assets and projects under construction:	Projects under construction	Intangible assets
Cost		
Balance at 1.1.2009	1,781,611	1,782,087
Additions	1,718,812	465,217
Transferred to fixed assets in operation	(1,888,265)	(594,323)
Balance at 31.12.2009	1,612,158	1,652,981
Additions	539,741	129,991
Transferred to fixed assets in operation	(1,726,358)	(61,529)
Balance at 31.12.2010	425,541	1,721,443
Amortisation and impairment losses		
Balance at 1.1.2009	0	65,273
Amortisation and impairment losses	0	108,358
Balance at 31.12.2009	0	173,631
Amortisation and impairment losses	0	146,054
Balance at 31.12.2010	0	319,685
Carrying amount		
1.1.2009	1,781,611	1,716,814
31.12.2009 and 1.1.2010	1,612,158	1,479,350
31.12.2010	425,541	1,401,758

The carrying amount of intangible assets at year-end 2010 is divided into software in the amount of ISK 189 million (2009:247 million) and capitalised development cost amounting to ISK 1,213 million (2009:1,232 million).

Amortisation and impairment losses for 2010 are divided into the amortisation of software amounting to ISK 64 million and impairment loss on development cost amounting to ISK 82 million. Impairment loss on development cost is recognised with other operating expenses.

Notes, continued

13. Investment in other companies

The breakdown of investment in other companies is as follows:

	31.12.2010 Share	31.12.2010 Carrying amount	31.12.2009 Share	31.12.2009 Carrying amount
Landsnet ehf	100.00%	500	100.00%	500
Netorka ehf	36.50%	51,167	37.18%	50,058
Total investment in other companies		51,667		50,558

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 9 million for the year 2010 (2009: ISK 9 million).

14. Inventories

Inventories are specified as follows:	31.12.2010	31.12.2009
Spare parts and material inventories	499,251	483,285

No write-down due to the Company's inventories is recognised in the financial statements.

15. Trade and other receivables

Trade and other receivables:

Nominal value of trade receivables	807,150	815,472
Other receivables	42,683	184,387
	849,833	999,859

16. Cash and cash equivalents

Cash and cash equivalent is specified as follows:

Bank balances	3,658,587	5,863,874
Market securities	597,314	0
	4,255,901	5,863,874

17. Equity

Share capital

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

Revaluation account

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

Dividends

The Company paid no dividends in 2010 for the financial year 2009, nor in the year 2009 for the financial year 2008. No motion has been made regarding dividends to shareholders in the year 2011 for the financial year 2010.

Notes, continued

18. Earnings per share

	2010	2009
Basic and diluted earnings per share:		
Profit to shareholders	3,562,584	1,471,235
Weighted average number of ordinary shares		
Weighted average number of ordinary shares at 31 December	5,902,733	5,902,733
Basic and diluted earnings per share	0.60	0.25

19. Deferred tax liability

In December 2010, the Icelandic parliament decided to increase the income tax rate from 18% to 20% as of 1 January 2011. The change enters into effect for the tax assessment in the year 2012. The effect thereof has been recognised in the financial statements for 2010, with the increase in income tax liability amounting to ISK 139.8 million.

The breakdown of deferred tax liability is as follows:	31.12.2010	31.12.2009
Deferred tax liability at 1 January	502,804	219,411
Calculated income tax for the year	632,336	(140,625)
Effect of changed tax rate on previous revaluation on transmission	262,515	424,018
Deferred tax liability at 31 December	1,397,656	502,804

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

Property, plant and equipment	3,130,833	3,000,473
Development cost	131,702	90,473
Investment in other companies	3,969	1,979
Other obligations	(103,547)	(123,959)
Tax losses carried forward	(1,765,301)	(2,466,162)
Deferred tax liability at 31 December	1,397,656	502,804

The carry-forward taxable loss amounted to ISK 8.8 billion. The loss is utilisable against taxable income over ten years from when the loss is incurred. The management believes that the Company's operation over the next ten years will generate taxable income and that the accumulated carry-forward taxable loss will be fully utilised. Carry-forward taxable loss at year-end 2010 will be utilisable as follows:

Loss for the year 2008, applicable until year 2018	8,826,507	13,700,902
Total unadjusted taxable loss	8,826,507	13,700,902

20. Loans and borrowings

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

Long-term liabilities

Indexed bond loan from parent company in ISK, fixed interest of 4.21%	38,800,453	37,813,190
Loan agreement with parent company in USD, LIBOR + margin	3,336,450	9,367,500
Loan agreement in CHF, LIBOR + margin	7,203,755	7,107,049
Indexed bond loan in ISK, fixed interest of 5%	5,031,012	5,006,879
	54,371,670	59,294,618
Current maturities on long-term liabilities	(119,067)	(110,446)
	54,252,603	59,184,172

Notes, continued

20. Loans and borrowings, contd.:
Long-term liabilities, contd.:

	31.12.2010	31.12.2009
Short-term liabilities		
Short-term loan from parent company	1,297,882	1,241,102
Total interest-bearing liabilities	55,669,552	60,535,720

The bond from the parent company is an inflation-indexed bullet bond maturing in 2020 with interest payable once per year. Indexed bond loans from third parties consist of a 25-year superannuation loan. The loan agreement with the parent company is denominated in USD with a three-year maturity; the revolving credit facility amounts to USD 100 million, of which USD 29 million have been drawn. The facility decreased to USD 50 million at year-end 2010.

Terms of interest-bearing loans and borrowings

Debts in foreign currencies:

		31.12.2010		31.12.2009	
	Final maturity	Interest rate	Carrying amount	Interest rate	Carrying amount
Debt in CHF	2022	0.46%	7,203,755	0.65%	7,107,049
Debt in USD	2012	3.79%	3,336,450	3.77%	9,367,500
			10,540,205		16,474,549
Debt in ISK:					
Indexed	2020 - 2034	4.21 - 5%	43,831,465		42,820,069
Total interest-bearing loans and borrowings			54,371,670		59,294,618
Current maturities on long-term liabilities			(119,067)		(110,446)
			54,252,603		59,184,172

Maturities by year of interest-bearing loans and borrowings:	31.12.2010	31.12.2009
Year 2010	-	110,446
Year 2011	119,067	740,538
Year 2012	3,821,733	9,220,265
Year 2013	851,804	838,789
Year 2014	858,457	845,273
Year 2015	865,448	-
Later	47,855,161	47,539,307
	54,371,670	59,294,618

21. Provision due to site restoration

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

Balance at 1.1.	582,404	475,722
Present value for the year reversed	203,622	61,482
(Decrease) increase in provision	(33,503)	45,200
Balance at year-end	752,523	582,404

Notes, continued

21. Provision due to site restoration, contd.:

Change in provision due to site restoration is specified af follows, contd.:

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.

22. Derivative financial instruments

The Company had entered into a derivative agreement with Kaupthing Bank hf, which was taken over by the Icelandic government in October 2008. According to point 1 of the Ruling of the Financial Supervisory Authority on the allocation of the assets and liabilities of Kaupthing Bank hf to New Kaupthing Bank hf (now Arion Bank hf) dated 21 October 2008, obligations and rights under the derivative agreement were not transferred to the new bank. Kaupthing Bank hf, which is in receivership, therefore remained the counterparty to the agreement. The Company and Kaupthing Bank hf signed an agreement on 3 October on a final settlement of the derivative agreement. The effects of the agreement are recognised under Changes in fair values of derivatives in the income statement.

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%. A total of ISK 18 million is expensed in relation thereto for 2010 (2009: 18 million).

24. Trade and other payables

Trade and other payables are specified as follows:	31.12.2010	31.12.2009
Trade payables	843,715	746,092
Other payables	227,128	217,560
Trade and other payables total	1,070,843	963,652

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 parent company	498,720	587,604
Trade and other receivables	849,833	999,859
Cash and cash equivalents	4,255,901	5,863,874
	5,604,454	7,451,337

Notes, continued

25. Financial instruments, contd.:

Credit risk, contd.

Highest possible loss due to credit risk, contd.

The Company's most important customers are domestic energy companies. At year-end, receivebles from those companies amounted to ISK 1,495 million, including from Landsvirkjun, the parent company of Landsnet, in the amount of ISK 499 million.

No impairment loss has been recognised in relation to accounts receivable at year-end; nor has loss on receivables been expensed during the year, which is based on the management's experience.

Liquidity risk

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

31 December 2010

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

31 December 2009

	Carrying amount	Contractual cash flow	Within 12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities:						
Long-term liabilities from parent comp.	48,421,792	65,747,113	1,937,528	1,947,393	14,497,390	47,364,802
Long-term liabilities	12,113,928	16,439,853	422,238	412,255	3,002,369	12,602,991
Trade and other payables	963,652	963,652	963,652	0	0	0
	61,499,372	83,150,618	3,323,418	2,359,648	17,499,759	59,967,793

Notes, continued

25. Financial instruments, contd.:

Currency risk

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

	EUR	CHF	USD
31 December 2010			
Trade and other receivables		23,867	931,145
Long term liabilities from parent company			(3,336,450)
Other long-term liabilities		(7,203,755)	
Trade and other payables	(35,196)	(35,224)	(1,977)
Net currency risk	(35,196)	(7,215,112)	(2,407,282)

In 2010, 64.5% of the Company's total revenue was in USD while purchases were mainly in ISK and EUR. In 2011, it is estimated that 63% of the Company's total revenue will be in USD.

	EUR	CHF	USD
31 December 2009			
Trade and other receivables			1,259,939
Long term liabilities from parent company			(9,367,500)
Other long-term liabilities		(7,107,049)	
Trade and other payables	(10,161)		
Net currency risk	(10,161)	(7,107,049)	(8,107,561)

	Av. exch. rate for the year		Year-end exch. rate	
	2010	2009	2010	2009
Currency risk				
EUR	161.89	172.67	153.80	179.88
CHF	117.24	114.32	122.91	121.26
USD	122.04	123.59	115.05	124.90

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 2009.

	2010	2009
EUR	2,886	833
CHF	591,639	582,778
USD	197,397	664,820

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.

Notes, continued

25. Financial instruments, contd.:

Interest rate risk

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

	Carrying amount	
	31.12.2010	31.12.2010
Financial instruments with floating interest rate		
Financial liabilities	10,540,205	16,474,549
Financial instruments with fixed interest rate		
Financial liabilities	43,831,464	42,823,069

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

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

Cash-flow sensitivity analysis for floating interest rate instruments

An increase in interest rates of 100 basis points at the reporting date would have increased (decreased) equity and profit or loss after tax by the amounts stated below. If interest rates had decreased by 100 basis points, the effect would have had the equal but opposite effect on profit or loss after tax. This analysis assumes that all other variables, in particular the exchange rates, remain constant. The analysis was performed in the same manner for the year 2009.

	Earnings	
	100bp increase	100bp decrease
31 December 2010		
Financial instruments with floating interest rates	(110,760)	83,255
Cash flow sensitivy (net)	(110,760)	83,255
31 December 2009		
Financial instruments with floating interest rates	(285,060)	284,462
Cash flow sensitivy (net)	(285,060)	284,462

Fair value

Fair value versus carrying amounts

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

	31.12.2010		31.12.2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	1,348,553	1,348,553	1,587,463	1,587,463
Cash and cash equivalents	4,225,901	4,225,901	5,863,874	5,863,874
Long-term liabilities from parent company	42,136,902	47,892,715	47,180,690	50,352,953
Derivatives, debt	0	0	2,769,177	2,769,177
Other long-term liabilities	12,115,701	12,937,796	12,003,482	12,966,931
Loans from parent company, short-term	1,297,882	1,297,882	1,241,102	1,241,102
Trade and other payables	1,070,843	1,070,843	963,652	963,652
	62,195,782	68,773,690	71,609,440	75,745,152

Notes, continued

25. Financial instruments, contd.:

Interest rate in valuation of fair value

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

Classification and fair value of financial assets and liabilities

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

	Financial assets and liabilities designated at fair value	Financial assets available for sale	Loans and receivables	Carrying amount
31 December 2010				
Receivables from parent company			498,720	498,720
Trade and other receivables			849,833	849,833
Cash and cash equivalents	597,314		3,658,587	4,255,901
	597,314	0	5,007,140	5,604,454
Loans from parent company			42,136,902	42,136,902
Trade and other payables			1,070,843	1,070,843
	0	0	43,207,745	43,207,745
31 December 2009				
Receivables from parent company			587,604	587,604
Trade and other receivables			999,859	999,859
Cash and cash equivalents			5,863,874	5,863,874
	0	0	7,451,337	7,451,337
Loans from parent company			47,180,690	47,180,690
Derivatives			2,769,177	2,769,177
Trade and other payables			963,652	963,652
	0	0	50,913,519	50,913,519

26. Operating leases

The Company as lessee

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

Notes, continued

27. Uncertainties

Under the Electricity Act, the revenue cap for Landsnet is set for a three-year term at a time. The National Energy Authority sets the cap and regulates the Company. At year-end 2006, the National Energy Authority set Landsnet's revenue cap for the years 2007 to 2009 based on operating and administrative expenses in 2004 and 2005. The revenue cap for 2010–2012 has not yet been determined by the National Energy Authority. Work on revenue-cap-based settlements for the years 2006-2009 and the resolution of disputes regarding these settlements is in the final stages. Landsnet has submitted a settlement proposal to the National Energy Authority for a decision, which is expected in the first half of 2011. Under the current Electricity Act, the decision will affect the Company's tariff as of that time.

A bill has been introduced in the Icelandic parliament to amend the Electricity Act No. 65/2003, including a fundamental change in how the revenue cap for power-intensive consumers is determined. In 2007, the Company's tariff for power-intensive consumers was set in USD, while the asset base remained denominated in ISK. Following the sharp depreciation of Iceland's currency in 2008, revenue from power-intensive consumers increased in line with the higher exchange rate of the USD, creating an imbalance with respect to the revenue cap. Basing the revenue cap for power-intensive consumers on the same currency as that of the tariff would serve to prevent such discrepancies.

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 2007, 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, information on the exact amount was not available, but the estimated amount for 2010 has been entered in the financial statements.

28. Related parties

Definition of related parties

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

Transactions with senior management

(i) Payments to senior management

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

Other transactions with related parties

	2010	2009
Sale of goods and services:		
Landsnet's parent company and its subsidiaries	7,029,305	7,762,212
Landsnet's other shareholders	3,875,086	3,856,438
	10,904,391	11,618,650
Cost:		
Landsnet's parent company and its subsidiaries	1,391,220	1,733,741
Landsnet's other shareholders	741,964	467,915
Landsnet's associate	649	1,285
	2,133,833	2,202,941

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

Notes, continued

28. Related parties, contd.:

Balance:

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

	31.12.2010		31.12.2009	
	Receivables	**Payables**	**Receivables**	**Payables**
Landsnet's parent company and its subsidiaries	498,720	0	587,604	0
Landsnet's other shareholders	477,237	(204,507)	452,189	(129,981)
Landsnet's associate	0	0	0	(124)
	975,957	(204,507)	1,039,793	(130,105)

Other receivables and payables with related parties are as follows:

	31.12.2010	**31.12.2009**
Interest-bearing liabilities to parent company, see note 20	42,136,903	47,180,690
Accrued interest payable to parent company	1,297,882	1,241,102
	43,434,785	48,421,792

29. Financial ratios

The company's key financial ratios:

	2010	**2009**
Financial performance:		
EBITDA	8,678,386	9,331,062

	31.12.2010	**31.12.2009**
Financial position:		
Current ratio – current assets/current liabilities	2.60	3.61
Equity ratio – equity/total assets	16.5%	11.3%
Return on equity	42.8%	20.2%

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