

Landsvirkjun's Dividend Policy

1. Introduction

The Act on Landsvirkjun, No. 42/1983 states that dividends shall be determined, based on the financial performance of the company and profit carried forward from previous years.

The state's General Ownership Policy states that publicly owned companies should be guided by long-term objectives on development and operations and should ensure adequate maintenance of income-generating assets. The policy also stresses that publicly owned companies should generate acceptable profits and provide the State Treasury with normal returns on their equity in the organisations.

The dividend policy dictates Landsvirkjun's dividend payments and the subsequent effect on the company's financial performance. The dividend policy is therefore an important consideration in the company's dialogue with its owner, and with creditors and credit rating agencies in connection with financing activities.

Landsvirkjun's Board of Directors refer to the dividend policy when proposing a dividend payment at the Annual General Meeting.

The Board of Directors approves the dividend policy, based on the CEO's proposal.

2. Scope

The dividend policy applies to any proposal from Landsvirkjun's Board of Directors on dividend payments from the company; cf. the Act on Landsvirkjun No. 42/1983, with subsequent amendments.

3. Dividend Policy

Dividend payment decisions are made at Landsvirkjun's Annual General Meeting, held in April of each year; cf. Article 7: The Act on Landsvirkjun. This dividend policy specifies the maximum annual dividend payment. The maximum amount is based on cash flow from operating activities (CFO) in the previous year, the scope of investments in the previous year and the company's debt at year end of the previous year. In this context all numbers are based on Landsvirkjun's consolidated financial statements. The maximum limit is obtained as follows:

$$\text{Maximum dividend payment} = (\text{CFO}_{\text{previous financial year}} - \text{Investments}_{\text{previous financial year}} \times k) \times H$$

Where the values of k and H are determined as follows:

$\frac{\text{FFO}_{\text{previous financial year}}}{\text{Net debt}_{\text{year-end of previous financial year}}}$	k	H
<10%	100%	10%
10-15%	80%	20%
15-20%	60%	30%
20-30%	40%	60%
>30%	20%	80%

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4. Implementation, amounts and reporting

4.1. Implementation

Landsvirkjun's Board of Directors presents its dividend payment proposal at the Company's Annual General Meeting. The amount shall not exceed the maximum amount as described in Section 3 above.

4.2. Reporting

The dividend policy shall be made public via the company website.

5. Review

The Board of Directors shall review the dividend policy no less than every three years.

6. Ratification

This policy becomes effective once approved by the Board of Directors.

April 20, 2020

Board of Directors