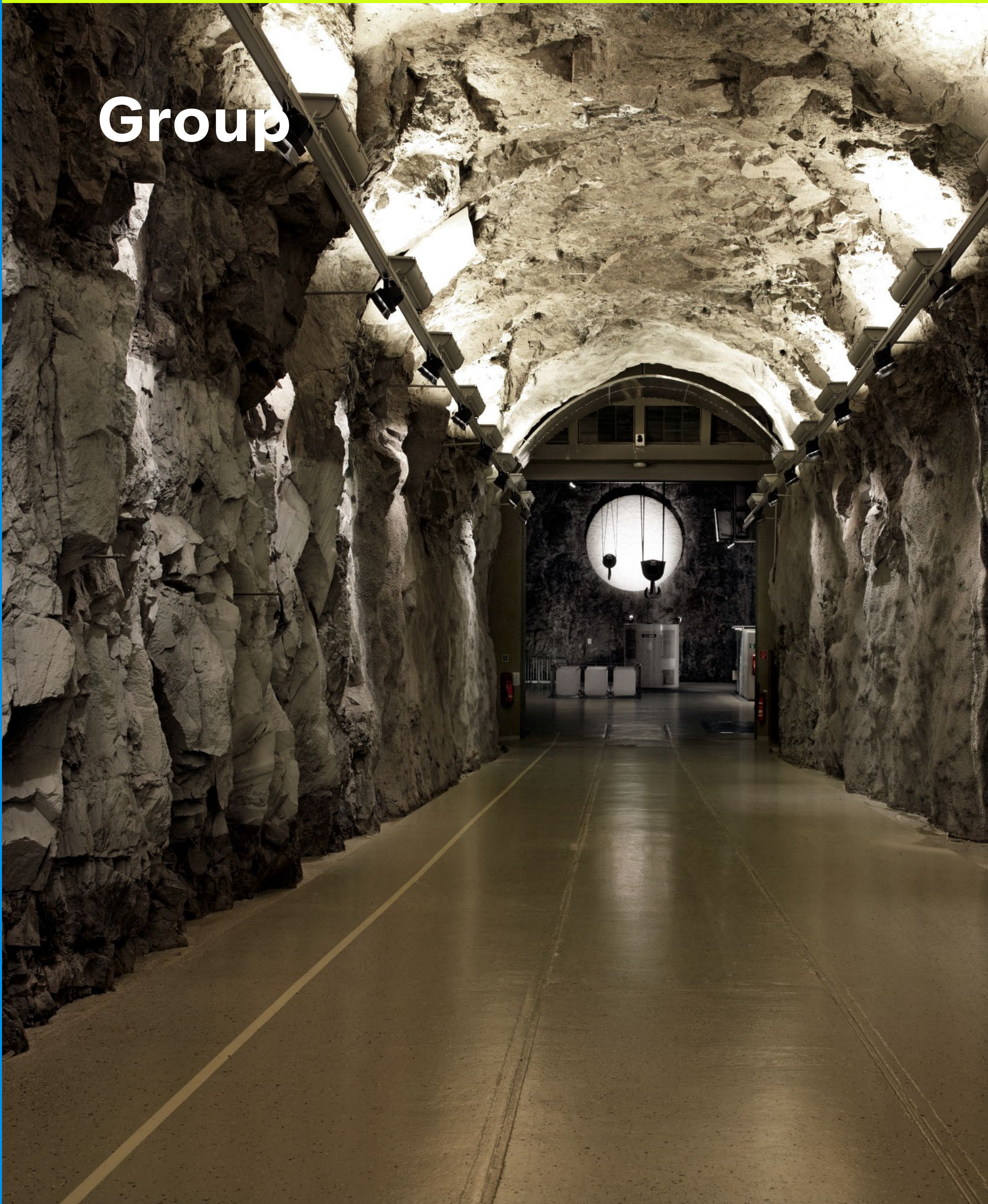
Landsvirkjun

Consolidated Financial Statements 2021

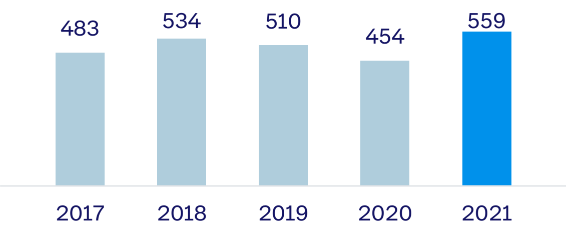
Group



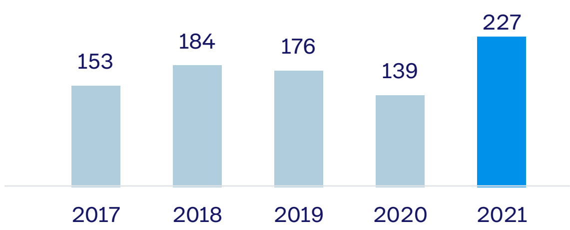
Contents

Key figures

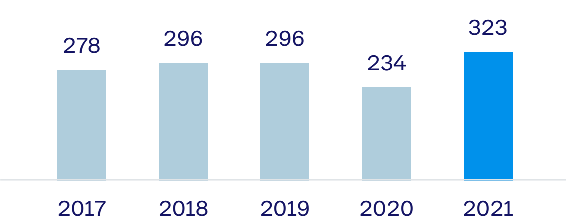
Operating revenues



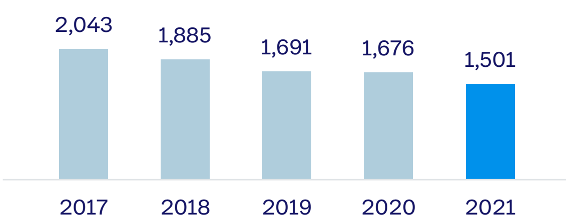
Profit before unrealised financial items



Cash flow from operating activities



Net debt



Capacity	15 Hydropower stations	3 Geothermal stations	2 Windmills	High voltage lines
2,146 MW	**1,991 MW**	**153 MW**	**2 MW**	**3,500 km**

Amounts in USD million

Key figures - Unaudited

Management's presentation of the operation of Landsvirkjun

	2021	2020	2019	2018	2017
Operation					
Operating revenues	617,703	448,276	499,547	538,455	491,175
Realised hedges	(58,881)	5,262	10,047	(4,534)	(8,098)
Total operating revenues	558,822	453,538	509,594	533,921	483,077
Operating expenses	(133,842)	(127,214)	(131,106)	(144,041)	(137,503)
EBITDA	424,980	326,324	378,488	389,880	345,574
Depreciation and impairment loss	(138,722)	(128,967)	(134,779)	(125,448)	(127,086)
EBIT	286,258	197,357	243,709	264,432	218,488
Financial items	(58,914)	(58,651)	(67,681)	(80,178)	(64,844)
Associated companies	(248)	(12)	(27)	(179)	(228)
Profit before unrealised financial items	227,096	138,694	176,001	184,075	153,416
Unrealised financial items:					
Fair value changes in embedded derivatives	33,455	970	(1,323)	(49,410)	84,494
Fair value changes in other derivatives	(46,301)	(12,726)	(8,011)	24,878	(12,990)
Unrealised foreign exchange difference	12,031	(8,189)	8,290	21,014	(60,745)
	(815)	(19,945)	(1,044)	(3,518)	10,759
Profit before income tax	226,281	118,749	174,957	180,557	164,175
Income tax	(77,703)	(40,131)	(60,079)	(59,528)	(56,211)
Net Profit	148,578	78,618	114,878	121,029	107,964
Balance sheet					
Total assets	4,446,381	4,348,344	4,381,633	4,451,081	4,506,392
Equity	2,368,767	2,235,135	2,235,399	2,163,056	2,063,112
Liabilities	2,077,614	2,113,209	2,146,234	2,288,025	2,443,280
Net debt *	1,500,786	1,675,804	1,691,462	1,884,603	2,042,642
Cash flow					
Funds from operations (FFO)	366,970	266,263	312,322	316,336	282,774
Cash flow from operating activities	323,299	234,084	295,764	295,761	277,937
Investing activities	(113,035)	(111,550)	(82,420)	(150,864)	(253,740)
Financing activities	(204,453)	(142,399)	(218,261)	(151,876)	(45,282)
Liquidity					
Cash and cash equivalents at year end	97,560	91,963	110,487	116,278	126,544
Undrawn loans	170,000	280,000	180,000	353,155	421,363
Total liquidity	267,560	371,963	290,487	469,433	547,907
Key ratios					
Return on equity	6.6%	3.5%	5.3%	5.9%	5.5%
Equity ratio	53.3%	51.4%	51.0%	48.6%	45.8%
Interest cover (EBITDA/net interest exp.)	7.23x	5.66x	5.55x	4.76x	5.53x
FFO / net liabilities	24.5%	15.9%	18.5%	16.8%	13.8%
FFO / interest expenses	6.17x	4.52x	4.41x	3.72x	4.35x
Net debt / EBITDA	3.53x	5.14x	4.47x	4.83x	5.91x
Credit rating at year end without state guarantee					
Standard & Poor's	BBB+	BBB	BBB	BBB	BBB
Moody's	Baa1	Baa1	Baa1	Baa2	Baa3

* Net debt is interest bearing long-term liabilities less cash and cash equivalents

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Quarterly statement 2021 - Unaudited

Management´ s presentation of the operation of Landsvirkjun, contd.

	Q1	Q2	Q3	Q4	Total
Operating revenues					
Power sales	110,378	117,879	131,094	158,438	517,789
Realised hedges	(5,118)	(9,902)	(18,572)	(25,289)	(58,881)
Transmission	21,301	21,531	21,076	25,258	89,166
Other income	4,147	1,747	1,351	3,503	10,748
	130,708	131,255	134,949	161,910	558,822
Operating expenses					
Energy generation costs	12,732	11,652	13,044	11,777	49,205
Transmission costs	7,780	8,933	6,755	8,636	32,104
Cost of general research	1,963	2,386	2,537	3,781	10,667
Other operating expenses	10,407	10,109	9,310	12,040	41,866
Depreciation and impairment loss	34,128	34,779	34,985	34,830	138,722
	67,010	67,859	66,631	71,064	272,564
Operating profit	63,698	63,396	68,318	90,846	286,258
Financial income and (expenses)					
Interest income	150	168	158	154	630
Interest expenses	(13,648)	(14,221)	(13,822)	(17,739)	(59,430)
Realised foreign exchange difference	(60)	(109)	85	(30)	(114)
	(13,558)	(14,162)	(13,579)	(17,615)	(58,914)
Associated companies	0	(82)	(85)	(81)	(248)
Profit before income tax and unreal. items	50,140	49,152	54,654	73,150	227,096
Unrealised financial items:					
Fair value changes in embedded derivatives	3,124	18,276	27,842	(15,787)	33,455
Fair value changes in other derivatives	(12,087)	(26,784)	(20,116)	12,686	(46,301)
Unrealised foreign exchange difference	5,224	(4,282)	8,423	2,666	12,031
	(3,739)	(12,790)	16,149	(435)	(815)
Profit before income tax	46,401	36,362	70,803	72,715	226,281
Income tax	(15,448)	(12,214)	(23,352)	(26,689)	(77,703)
Net Profit	30,953	24,148	47,451	46,026	148,578
Attributable to:					
Owners of the parent company	27,720	21,572	43,722	43,034	136,048
Subsidiaries minority interest	3,233	2,576	3,729	2,992	12,530
	30,953	24,148	47,451	46,026	148,578
From cash flow					
Cash flow from operating activities	85,443	78,097	75,524	84,235	323,299

Other key metrics for the parent company	**2021**	**2020**	**2019**	**2018**	**2017**
Installed capacity at year end (MW)	2,146	2,146	2,146	2,145	2,000
Av. price for ind. users excl trm. USD/MWh*	32.7	21.1	23.2	23.3	21.4
Av. price for primary energy excl. trm. ISK/kWh	5.3	5.3	5.0	4.8	4.6
Sales in GWh	14,052	13,336	14,028	14,753	14,325
Research and development	11,941	10,916	11,823	14,824	20,004
Accident frequency rate: H200**	0.3	0.3	0.3	0.6	0.0

* Transmission is excluded in the calculation of average price

** H200 is the number of absence accidents per each 200,000 working hours

Consolidated Financial Statements of Landsvirkjun 2021 5 Amounts are in USD thousand

Endorsement and Statement by the Board of Directors and CEO

Landsvirkjun's objective is to operate in the energy sector and to engage in other business and financial operations according to the decision of the Board of Directors at each time. The Company's consolidated financial statements include, in addition to the parent company, four subsidiaries, Landsnet hf., Orkufjarskipti hf., Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf.

The financial statements of Landsvirkjun for 2021 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. The functional currency of the Company is the US Dollar (USD) and amounts in the financial statements are rounded to the nearest thousand USD.

The Group's operating revenues amounted to USD 558.8 million in 2021 compared to USD 453.5 million in the previous year, an increase of USD 105.3 million. The increase is mainly due to significantly higher prices on global aluminium and Nord Pool power markets. Operating expenses amounted to USD 272.6 million in 2021 compared to USD 256.2 million in 2020. The Company's operating profit amounted to USD 286.3 million in 2021 compared to USD 197.4 million in the previous year.

Landsvirkjun uses derivative contracts to manage risk associated with fluctuations in interest rates, foreign exchange rates, aluminium prices and prices in the Nord Pool market as a part of Landsvirkjun's revenues are linked to these prices.

Financial expenses in excess of financial income amounted to USD 59.7 million in 2021, compared to USD 78.6 million the previous year, a decrease of USD 18.9 million. The change is mainly due to positive currency exchange differences. The currency exchange differences were negative in the previous year. Profit before unrealised financial items amounted to USD 227.1 million during the year compared to USD 138.7 million in 2020. According to the income statement, profit for the year amounted to USD 148.6 million compared to USD 78.6 million in the previous year.

Equity at year end 2021 amounted to USD 2,368.8 million compared to USD 2,235.1 million at year end 2020 according to the balance sheet. The Company's Board of Directors proposes that the profit for the year will be recognised as an increase in equity. During the Annual General Meeting the Company's Board of Directors intends to propose a USD 120 million dividend payment to the owners of the Company in accordance with the dividend policy of Landsvirkjun, but otherwise refers to the notes to the financial statements and statement of equity for further changes in equity. Landsvirkjun is a partnership owned by the Icelandic State and Eignarhlutir ehf. The State owns 99.9% in the Company and Eignarhlutir ehf. 0.1%.

Cash and cash equivalents at year end amounted to USD 97.6 million and undrawn loans amounted to USD 170.0 million. Cash and cash equivalents and undrawn loans therefore amounted to USD 267.6 million at year end. Cash flow from operations amounted to USD 323.3 million. During the year the Company took new loans amounting to USD 160.1 million and repayments amounted to USD 309.1 million. Cash and cash equivalents increased by USD 5.6 million during the year.

Effects of the COVID-19 pandemic on Landsvirkjun's operations og position

Although the effects of COVID-19 were insignificant during the year, the pandemic is not over and it is unclear how it will develop. There is no indication of a material negative impact.

Endorsement and Statement by the Board of Directors and CEO, contd.

Corporate Governance

The Board of Directors of Landsvirkjun endeavours to maintain good corporate governance taking into consideration the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce in collaboration with the Confederation of Icelandic Employers and Nasdaq Iceland. The statement of corporate governance is provided in an appendix to the financial statements. Further information on the Parent Company's corporate governance and risk management is included in notes 30 to 41 and appendices to the financial statements. Landsnet hf. has disclosed information on corporate governance in an appendix to its financial statements.

Non-financial information

According to the Financial Statements Act, public interest entities shall provide information necessary for an understanding of the entity's development, performance, position and impact of its activities relating to environmental, social and employee matters, policy regarding human rights, how the entity counteracts corruption and bribery matters and a brief description of the entity's business model etc. Information on the Company's policy and successes in these matters is provided in an appendix to the financial statements. Landsnet hf. has disclosed information on non-financial information in an appendix to its financial statements.

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. It is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of the Groups's assets, liabilities and financial position as at 31 December 2021 and the Group's results and changes in cash in the year 2021.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and the Endorsement by the Board of Directors for the year 2021 give a fair view of the Group's results, financial position and development and describe the main risk factors faced by the Group.

The Board of Directors and the CEO hereby confirm these consolidated financial statements with their signature.

Reykjavik, 18 February 2022.

The Board of Directors:

Jónas Þór Guðmundsson
Álfheiður Ingadóttir
Gunnar Tryggvason
Hákon Hákonarson
Jón Björn Hákonarson

The CEO:
Hörður Arnarson

Independent Auditors' Report

To the Board of Directors and owners of Landsvirkjun

Opinion

We have audited the consolidated financial statements of Landsvirkjun for the year ended December 31, 2021 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flow for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Landsvirkjun as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Our opinion in this report on the consolidated financial statements is consistent with the content of the additional report that has been submitted to the parent company´s audit committee in accordance with the EU Audit Regulation 537/2014 Article 11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Landsvirkjun in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
Power sales	
More than 80% of Landsvirkjun power sales come from sales to power intensive users. The revenue is based on delivered power and contractual prices that are based on certain parameters. Due to both the magnitude and variability of prices, we believe that power sales to power intensive users are a key audit matter.	During our audit of power sales to power intensive users we have confirmed that there is an effective internal control at Landsvirkjun regarding calculation and approval of invoices. We have confirmed calculation of sales prices by comparing the calculation to contractual agreement and public information in addition to comparing delivered power to metering.

Independent Auditors' Report, contd.

Valuation of power stations

Included in property, plant and equipment are power stations which amount to 3,046 million USD at year-end. Power stations are measured at cost less accumulated depreciation and impairment. We consider the valuation of power stations to be a key audit matter due to their magnitude and management estimation of their expected useful life. As to the valuation of the assets, we refer to fixed assets in note 9 and accounting policies note 52.	We reviewed the impairment test of power stations prepared by management. During our audit we examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included: • Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used. We assessed if the valuation's calculations were in accordance with IFRS and assessed that the disclosures were appropriate.

Valuation of transmission network

The transmission network of Landsnet, a subsidiary of Landsvirkjun, is recognised according to the revaluation method. At year-end its carrying amount was USD 809 million. Transmission network valuation is based on management estimations therefore we consider it to be a key audit matter. Revaluation is performed on a regular basis, when management estimates that there has been a significant change in the operating value of the assets and it is measured using a cash flow analysis. The assets were revaluated at year-end 2021. As to the valuation of the assets, we refer to fixed assets in note 9 and accounting policies note 52.	Our audit was focused on management estimations of operating value of transmission lines and substations at year-end 2021. We examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included: • Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used. We assessed if the valuation's calculations and disclosures were in accordance with IFRS. We have also examined management assumption related to depreciation methods and revaluation in accordance with IFRS.

Other information

The Board of Directors and the CEO are responsible for other information which comprises key figures, quarterly statement, the endorsement by the board of directors and CEO, statement of corporate governance and non-financial reporting.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding the report of the board of directors as stated below.

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

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

Independent Auditors’ Report, contd.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Landsvirkjun’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Landsvirkjun’s internal control.

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

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

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

Independent Auditors' Report, contd.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

In addition to our work as the auditors of Landsvirkjun, Deloitte has provided the firm with permitted additional services such as review of interim financial statements, other assurance engagements and consultation on accounting matters. Deloitte has in place internal procedures in order to ensure its independence before acceptance of additional services. Deloitte has confirmed in writing to the Audit Committee that we are independent of Landsvirkjun.

Deloitte was appointed auditor of Landsvirkjun by the general meeting of shareholders on 15. April 2021. Deloitte have been elected since the general meeting 2014.

Reykjavik, 18 February 2022.

Deloitte ehf.

Birna Sigurðardóttir
State Authorized Public Accountant

Pétur Hansson
State Authorized Public Accountant

Income Statement

	Notes	2021	2020
Operating revenues			
Power sales	4	517,789	354,872
Realised hedges		(58,881)	5,262
Transmission	4	89,166	76,355
Other income		10,748	17,049
		558,822	453,538
Operating expenses			
Energy generation costs		146,146	143,906
Transmission costs		61,794	62,823
Cost of general research		19,567	9,327
Other operating expenses		45,057	40,125
		272,564	256,181
Operating profit	3	286,258	197,357
Financial income and (financial expenses)			
Interest income		630	1,307
Interest expenses		(59,430)	(58,961)
Foreign exchange difference		11,917	(9,186)
Fair value changes in embedded derivatives	32	33,455	970
Fair value changes in other derivatives		(46,301)	(12,726)
	7	(59,729)	(78,596)
Associated companies	14	(248)	(12)
Profit before income tax		226,281	118,749
Income tax	8	(77,703)	(40,131)
Net profit for the year		148,578	78,618
Attributable to:			
Owners of the Parent Company		136,048	68,979
Minority interest in subsidiaries		12,530	9,639
		148,578	78,618

Notes 1 to 64 are an integral part of these financial statements.

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Statement of Comprehensive Income

	2021	2020
Net profit for the year	148,578	78,618
Items that will not be reclassified subsequently to profit or loss		
Revaluation of transmission after income tax	40,800	0
Pension obligation after income tax, change	(3,890)	(2,017)
Demolition obligation after income tax, change	3,259	(4,008)
Items that may be reclassified subsequently to profit or loss		
Transl. difference due to subsid. and associated companies	(252)	(770)
Total operating items moved to equity	39,917	(6,795)
Total Comprehensive Income for the year	188,495	71,823
Total Comprehensive Income attributable to:		
Owners of the Parent Company	160,313	63,705
Minority interest in subsidiaries	28,182	8,118
	188,495	71,823

Notes 1 to 64 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2021 13 Amounts are in USD thousand

Balance Sheet

Assets	Notes	2021	2020
Non-current assets			
Property, plant and equipment	9	3,916,273	3,855,644
Projects under construction	10	83,432	121,374
Development cost	11	131,521	136,412
Other intangible assets	11	49,702	48,590
Derivative financial instruments	13	27,290	14,931
Associated companies	14	2,081	1,901
Other non-current assets	15	622	723
Deferred tax asset	8	44	4
Total non-current assets		4,210,965	4,179,579
Current assets			
Inventories	18	5,825	5,553
Accounts receivables and other receivables	19	100,085	69,344
Derivative financial instruments	13	31,946	1,905
Cash and cash equivalents	20	97,560	91,963
Total current assets		235,416	168,765
Total assets		4,446,381	4,348,344
Equity and liabilities			
Equity			
Owners' contributions	21	586,512	586,512
Revaluation account	22	169,952	147,161
Restricted reserves	22	71,143	59,178
Translation difference	22	(42,597)	(42,232)
Other equity		1,417,648	1,341,726
Equity of the owners of the Parent Company		2,202,658	2,092,345
Minority interest		166,109	142,790
Total equity		2,368,767	2,235,135
Long term liabilities			
Interest bearing liabilities	23	1,449,195	1,531,715
Pension fund obligation	25	39,574	36,597
Deferred income tax liability	8	217,109	173,513
Lease liability	16	5,899	6,091
Obligation due to demolition	26	15,631	17,727
Prepaid income		2,409	2,555
Derivative financial instruments	13	13,777	5,408
		1,743,594	1,773,606
Current liabilities			
Accounts payable and other payables	27	75,826	71,072
Interest bearing liabilities	24	149,151	236,052
Income tax payable	8	42,775	24,618
Derivative financial instruments	13	66,268	7,861
		334,020	339,603
Total liabilities		2,077,614	2,113,209
Total equity and liabilities		4,446,381	4,348,344

Notes 1 to 64 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2021 14 Amounts are in USD thousand

Statement of Equity

	Owners' contribution	Revaluation account	Restricted reserves	Translation difference	Other equity	Equity attributable to the owners of the Parent Company	Minority interest	Total equity
Changes in equity year 2020								
Equity at 1 January 2020	586,512	155,668	47,191	(41,570)	1,349,582	2,097,383	138,016	2,235,399
Translation difference				(662)		(662)	(108)	(770)
Demolition obligation change		(2,595)				(2,595)	(1,413)	(4,008)
Pension obligation, change					(2,017)	(2,017)		(2,017)
Net profit for the year					68,979	68,979	9,639	78,618
Total Comprehensive Income		(2,595)	0	(662)	66,962	63,705	8,118	71,823
Share of profit of subsidiaries and associated companies			11,987		(11,987)	0	0	0
Revaluation transferred to other equity		(5,912)			5,912	0	0	0
Dividend to owners					(68,743)	(68,743)	(3,343)	(72,086)
Equity at 31 December 2020	586,512	147,161	59,178	(42,232)	1,341,726	2,092,345	142,790	2,235,135
Changes in equity year 2021								
Equity at 1 January 2021	586,512	147,161	59,178	(42,232)	1,341,726	2,092,345	142,790	2,235,135
Translation difference				(365)		(365)	113	(252)
Demolition obligation change		2,110				2,110	1,149	3,259
Pension obligation, change					(3,890)	(3,890)		(3,890)
Revaluation of transmission		26,410				26,410	14,390	40,800
Net profit for the year					136,048	136,048	12,530	148,578
Total Comprehensive Income		28,520	0	(365)	132,158	160,313	28,182	188,495
Share of profit of subsidiaries and associated companies			11,965		(11,965)	0	0	0
Revaluation transferred to other equity		(5,729)			5,729	0	0	0
Dividend to owners					(50,000)	(50,000)	(4,862)	(54,862)
Equity at 31 December 2021	586,512	169,952	71,143	(42,597)	1,417,648	2,202,658	166,109	2,368,767

Notes 1 to 64 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2021 15 Amounts are in USD thousand

Statement of Cash Flow

	2021	2020
Operating activities		
Operating profit	286,258	197,357
Adjustments for:		
Depreciation and impairment loss	138,722	128,967
Pension obligation, change	(2,239)	(1,811)
Other changes	(972)	(720)
Working capital from operation before financial items	421,769	323,793
Operating assets, change	(31,280)	(1,877)
Operating liabilities, change	12,654	1,753
Cash flow from operating activities before financial items	403,143	323,669
Interest income received	625	1,380
Interest expenses and foreign exchange diff. paid	(55,742)	(64,731)
Taxes paid	(24,727)	(26,234)
Cash flow from operating activities	323,299	234,084
Investing activities		
Power stations in operation	(20,500)	(19,863)
Transmission	(84,044)	(84,550)
Power plant preparation cost	(1,296)	(1,516)
Purchased shares in other companies	(466)	(1,035)
Other capital expenditures	(8,185)	(6,907)
Assets sold	1,462	2,326
Other receivables, change	(6)	(5)
Investing activities	(113,035)	(111,550)
Financing activities		
Dividend paid to owners	(54,862)	(76,263)
New loans	160,149	249,755
Amortisation of long-term debt	(309,062)	(274,716)
Currency swaps	(678)	(41,175)
Financing activities	(204,453)	(142,399)
Change in cash and cash equivalents	5,811	(19,865)
Effect of exchange diff. on cash and cash equivalents	(214)	1,341
Cash and cash equivalents at the beginning of the year	91,963	110,487
Cash and cash equivalents at the end of the year	97,560	91,963

Notes 1 to 64 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2021 16 Amounts are in USD thousand

Notes

General Information

1. Landsvirkjun

Landsvirkjun is a partnership having its place of business in Iceland and its headquarters at Háaleitisbraut 68, Reykjavík. Landsvirkjun operates on the basis of the Act on Landsvirkjun No. 42/1983. The Company's main objective is to engage in operations in the energy sector. The financial statements include the consolidated financial statements of the Company and its subsidiaries (referred to as "the Group") and share of profit or loss of associated companies.

2. Basis of preparation

a. Statement of IFRS compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in Icelandic Financial Statements Act.

The Company's Board of Directors approved the financial statements on 18 February 2022.

Note 43 includes information on the Group's significant accounting policies and changes therein in the year.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which have been measured at fair value; derivative financial instruments, trading financial assets and shares in other companies. Operating assets and assets held for sale are recognised at the lower of book value or fair value. Operating assets of the subsidiaries Landsnet hf. and Orkufjarskipti hf. are recognised at revalued cost. Transmission network of the subsidiary Landsnet hf. was revalued during the year 2021, see note 9.

c. Presentation and functional currency

The financial statements are presented in USD, which is the Parent Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise stated.

d. Management's use of estimate and judgements

The preparation of financial statements in conformity with IFRS requires management to make decisions, 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 and the effect of the changes are entered in the periods that the changes are made and in subsequent periods if the change also affects those periods.

Information on management's estimates and decisions made in relation to the application of accounting methods that significantly affect the financial statements are presented in the following notes:

- notes 9 and 52 property, plant and equipment
- notes 11 and 53 development cost and other intangible assets
- notes 13, 30, 32, 33, 34 derivative financial instruments
- notes 8 and 51 income tax
- note 25 pension fund obligations

2. Basis of preparation, contd.:

e. Determination of fair value

The Group's accounting policies and disclosures can require measurement of fair values, for both financial and non-financial assets and liabilities.

To the extent possible the Group uses market information in determining fair values but if such information is not available management's evaluation is used.

For derivatives, other than embedded derivatives, counterparty information is used where applicable to measure fair values. Then treasury division compares this to its own assessment and confirms that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Fair values are categorised into different levels in the fair value hierarchy based on assumptions used in the valuation techniques as follows.

- Level 1; quoted prices in active markets for identical assets or liabilities.
- Level 2; assumptions based on other than quoted prices included in Level 1 that can be acquired for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3; assumptions for value of asset or liability that are based on data where market data is not available.

If the assumptions used to measure fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in the lowest level.

If the categorisation of fair value during the accounting period changes, it is transferred between levels at the end of the period.

Further information on the assumptions made in measuring fair values is included in the following notes:

- note 13 derivative financial instruments
- note 32 embedded derivatives
- note 39 long-term debt
- note 52 property, plant and equipment

3. Segment reporting

Segment information is presented according to the nature of the operation and is based on the Group's organisation and internal disclosure.

Landsvirkjun Group's operating segments are specified as follows:

Electricity generation

The operations of the Parent Company fall under the segment electricity generation but Landsvirkjun's objective according to law is to operate in the energy sector and operate other business and financial operations according to decision of the Board of Directors at each time. Landsvirkjun harnesses hydroelectric power, geothermal power and wind power. Landsvirkjun sells all its electricity generation in Iceland, on the one hand to retail sales companies, and on the other to energy intensive industrial users. Furthermore, the operation of Icelandic Power Insurance Ltd. falls under this segment. The purpose of Icelandic Power Insurance Ltd. is to take care of insurances for Landsvirkjun's power stations.

Electricity transmission

The operations of Landsnet hf. fall under the segment electricity transmission. The purpose of Landsnet hf. is to operate the electricity transmission network and system management in Iceland according to provisions of Chapter III of the Energy Act No. 65/2003 and may thus not carry out other operations than are necessary in order to fulfill its obligations according to the Energy Act.

3. Segment reporting, contd.:

Other segments

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate a telecommunications system which is necessary for the shareholders' electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. develops energy related projects internationally and provides advisory services to owners in that field.

Almost all the operations of the Group are based in Iceland.

Operating segments year 2021	Electricity generation	Electricity transm.	Other segments	Adjustments	Total
Income from third party	467,575	89,822	1,425	0	558,822
Income within the Group	17,786	59,929	3,561	(81,276)	0
Segment income	485,361	149,751	4,986	(81,276)	558,822
Segment operating expenses	(151,743)	(60,016)	(3,359)	81,276	(133,842)
EBITDA	333,618	89,735	1,627	0	424,980
Depreciation and impairm. loss	(107,446)	(30,738)	(954)	416	(138,722)
Segment earnings, EBIT	226,172	58,997	673	416	286,258
Segment assets 2021	3,744,745	1,015,309	21,447	(337,201)	4,444,300
Associated companies	426	4,868	1,655	(4,868)	2,081
Total assets 2021	3,745,171	1,020,177	23,102	(342,069)	4,446,381
Segment liabilities 2021	1,529,360	549,619	10,099	(11,464)	2,077,614
Total liabilities 2021	1,529,360	549,619	10,099	(11,464)	2,077,614
Investing activities	23,417	88,879	1,730	0	114,026

Operating segments year 2020					
Income from third party	375,516	76,741	1,281	0	453,538
Income within the Group	10,578	53,730	3,733	(68,041)	0
Segment income	386,094	130,471	5,014	(68,041)	453,538
Segment operating expenses	(138,175)	(53,542)	(3,538)	68,041	(127,214)
EBITDA	247,919	76,929	1,476	0	326,324
Depreciation and impairm. loss	(98,128)	(30,351)	(823)	335	(128,967)
Segment earnings, EBIT	149,791	46,578	653	335	197,357
Segment assets 2020	3,716,194	906,025	20,392	(296,168)	4,346,443
Associated companies	249	5,413	1,652	(5,413)	1,901
Total assets 2020	3,716,443	911,438	22,044	(301,581)	4,348,344
Segment liabilities 2020	1,608,488	506,589	7,489	(9,357)	2,113,209
Total liabilities 2020	1,608,488	506,589	7,489	(9,357)	2,113,209
Investing activities	23,513	87,273	2,051	0	112,837

Consolidated Financial Statements of Landsvirkjun 2021 19 Amounts are in USD thousand

Notes, contd.

4. Operating revenues

Power sales are specified as follows:

	2021	2020
Retail sales companies	60,021	60,010
Power intensive users	457,768	294,862
Power sales total	517,789	354,872

Revenues from transmission are specified as follows:

	2021	2020
Transmission	78,074	67,477
Transmission losses, grid service and other transmission revenues	11,092	8,878
Transmission total	89,166	76,355

Other income consists of income due to guarantees of origin, contract work, rental income etc.

In note no. 46 is further accounted for the registration of revenues of the Group.

5. Total number of employees

Total number of employees of the Group is specified as follows:

	2021	2020
Average number of employees during the year, full-time equivalents	475	475
Full-time equivalent units at year-end	427	426

Total number of employees of the parent company is specified as follows:

	2021	2020
Average number of employees during the year, full-time equivalents	319	321
Full-time equivalent units at year-end	276	276

6. Total salaries of employees

Total salaries of employees are specified as follows:

	2021	2020
Salaries	54,983	50,987
Contribution to defined contribution plans	7,927	7,280
Defined pension benefit payments	3,047	2,579
Other change in pension obligations	(2,238)	(1,810)
Other salary related expenses	4,970	4,668
	68,689	63,704
Transferred to assets	(5,118)	(5,547)
	63,571	58,157

Salaries and salary related expenses are allocated as follows:

	2021	2020
Energy generation costs	24,549	21,002
Transmission costs	14,487	12,761
Other operating expenses	29,653	29,941
Transferred to assets	(5,118)	(5,547)
	63,571	58,157

Due to organizational changes in the year 2021 the classification of items between years has changed.

Salaries of the Boards of Directors, CEO, Deputy CEO and EVPs are specified as follows:

	2021	2020
Salaries of the Board of Directors of the parent company	195	164
Salaries of the Boards of Directors of two subsidiaries	160	147
Salaries and benefits of the CEO of the parent company	339	308
Salaries of 7 Directors and Deputy CEO of parent c. (incr. by 1 in 2021)	1,429	1,304
Sal. and benef. of the CEO and 6 Man. Dir. of subsid. (decr. by 1 in 2021)	1,142	1,489

Consolidated Financial Statements of Landsvirkjun 2021 20 Amounts are in USD thousand

Notes, contd.

7. Financial income and (expenses)

Financial income and (expenses) are specified as follows:	2021	2020
Interest income	630	1,307
Interest expenses	(60,284)	(59,450)
Guarantee fee	(1,488)	(2,078)
Indexation	(1,856)	(1,179)
The effect of the present value of the demolition obligation	(1,506)	(504)
Capitalised interest costs	5,704	4,250
Total interest expenses	(59,430)	(58,961)
Realised foreign exchange difference	(114)	(998)
Unrealised foreign exchange difference	12,031	(8,188)
Total foreign exchange difference	11,917	(9,186)
Fair value changes in embedded derivatives	33,455	970
Fair value changes in other derivatives	(46,301)	(12,726)
Total financial income and (expenses)	(59,729)	(78,596)

Capitalised finance cost amounted to 4.8% (2020: 4.8%) of investments in transmission under construction but no such cost was capitalised in 2021 due to power stations under construction (2020: 0.0%).

8. Income tax

Income tax is specified as follows:	2021	2020
Change in income tax asset / liability	(43,556)	(13,214)
Income tax payable	(42,775)	(24,618)
Income tax recognised among comprehensive income	8,671	(2,217)
Foreign exchange and translation difference	(38)	(59)
Other changes	(5)	(23)
Income tax expensed	(77,703)	(40,131)

Consolidated Financial Statements of Landsvirkjun 2021 21 Amounts are in USD thousand

8. Income tax, contd.:

Effective tax rate

		2021		2020
Profit for the year		148,578		78,618
Income tax for the year		77,703		40,131
Profit before income tax		226,281		118,749
Inc. tax acc. to the parent company's tax rate	37.6%	85,082	37.6%	44,650
Effect of different tax rates within the Group	(3.5%)	(7,989)	(5.3%)	(6,254)
Non-taxable and non-deductible items	0.3%	610	1.5%	1,735
Effective income tax	34.3%	77,703	34.3%	40,131

Income tax due to items recognised in other comprehensive income is specified as follows:	2021	2020
Income tax recognised in other comprehensive income	8,671	(2,217)
	8,671	(2,217)

Changes in the tax asset / liability during the year is specified as follows:

	Deferred tax asset		Deferred tax liability	
	2021	2020	2021	2020
Balance at the beginning of the year	4	0	(173,513)	(160,294)
Change in temporary difference	30	(14)	(43,629)	(13,171)
Change in carry forward loss	12	18	(7)	(113)
Foreign exchange and translation difference	(2)	0	40	65
Balance at year end	44	4	(217,109)	(173,513)

The Group's deferred tax asset / liability is specified as follows:

Carry forward loss	62	52	9	16
Property, plant and equipment and int. assets	0	0	(242,679)	(204,981)
Derivative financial instruments	0	0	7,996	3,165
Other items	(18)	(48)	17,565	28,287
Balance at year end	44	4	(217,109)	(173,513)

The Group's carry forward tax loss may be utilised for 10 years from when it is incurred and is specified as follows:

Carry forward loss of the year 2017, usable until the year 2027	99	62
Carry forward loss of the year 2018, usable until the year 2028	106	185
Carry forward loss of the year 2020, usable until the year 2030	91	93
Carry forward loss of the year 2021, usable until the year 2031	57	0
Carry forward loss at year end	353	340

Deferred tax asset is recognised as an asset as management considers it likely that it will be utilised against future taxable profit. Carry forward loss is recognised in Icelandic krona and, therefore, the exchange rate of the USD affects the carry forward loss at each year end.

Consolidated Financial Statements of Landsvirkjun 2021 22 Amounts are in USD thousand

Notes, contd.

9. Property, plant and equipment

Property, plant and equipment is specified as follows:

Cost value	Power stations	Trans-mission	Communi-cation equipment	Other assets	Total
Total value at 1.1.2020	5,624,603	1,022,314	27,573	85,304	6,759,794
Effect of exch rate changes	0	0	(1,180)	0	(1,180)
Additions during the year	22,223	3,410	2,297	2,880	30,810
Transferred from projects under construction	0	9,464	0	0	9,464
Sold and disposed of	0	0	0	(3,153)	(3,153)
Total value at 31.12.2020	5,646,826	1,035,188	28,690	85,031	6,795,735
Effect of exch. rate changes	0	0	(734)	0	(734)
Revaluation of transmission	0	76,933	0	0	76,933
Additions during the year	17,888	7,149	1,689	1,736	28,462
Transferred from projects under construction	0	110,543	0	0	110,543
Sold and disposed of	0	0	(50)	(2,016)	(2,066)
Total value at 31.12.2021	5,664,714	1,229,813	29,595	84,751	7,008,873
Depreciation and impairment loss					
Total value at 1.1.2020	2,426,918	338,566	11,073	37,414	2,813,971
Effect of exch. rate changes	0	0	(474)	0	(474)
Depreciation for the year	95,747	27,687	916	3,393	127,743
Sold and disposed of	0	0	0	(1,149)	(1,149)
Total value at 31.12.2020	2,522,665	366,253	11,515	39,658	2,940,091
Effect of exch. rate changes	0	0	(297)	0	(297)
Depreciation for the year	96,158	28,359	965	3,330	128,812
Revaluation change	0	25,933	0	0	25,933
Sold and disposed of	0	0	(47)	(1,892)	(1,939)
Total value at 31.12.2021	2,618,823	420,545	12,136	41,096	3,092,600
Book value					
1.1.2020	3,197,685	683,748	16,500	47,889	3,945,821
31.12.2020	3,124,161	668,935	17,175	45,373	3,855,644
31.12.2021	3,045,891	809,268	17,459	43,655	3,916,273
Book value without revaluation					
1.1.2020	3,197,685	454,100	16,147	47,889	3,715,820
31.12.2020	3,124,161	450,593	16,912	45,373	3,637,039
31.12.2021	3,045,891	550,860	17,272	43,655	3,657,678

Official assessment of fixed assets and insurance value

The official assessment of the Company's real estate amounted to USD 529 million at year end 2021 (2020: USD 504 million). Insurance value of the Company's assets amounts to USD 5.814 million (2020: USD 6,048 million) and catastrophe insurance value amounts to USD 1.083 million (2020: USD 1.090 million).

Consolidated Financial Statements of Landsvirkjun 2021 23 Amounts are in USD thousand

Notes, contd.

9. Property, plant and equipment, contd.:

Assumptions relating to revaluation of property, plant and equipment

In accordance with provision of IFRS the Group's transmission network and communication equipment were revalued during 2008 and powerlines and connection masts of Landsnet hf. at year end 2015 and again at year end 2021. Two methods were applied when performing the revaluation. On the one hand it is done by looking at the assets' replacement cost which was calculated by independent experts at year end 2021. On the other hand the value of the assets in operation is calculated by cash flow analysis. The assessment period was from 2022 until 2029. The future value of the operations was calculated for the period after 2029. The revaluation was based on the operational value of the existing assets and assumed that investments would be equal to depreciation of assets. A weighted average cost of capital (WACC) rate of 4.23% was used to discount Landsnet hf's future cash flow from energy intensive industrial users and distribution companies. Future growth is not assumed as Landsnet hf. is bound by the income limit.The revaluation is classified at level 3 in the fair value hierarchy.

10. Projects under construction

Projects under construction are specified as follows:	2021	2020
Balance at 1.1.	121,374	47,443
Transferred from development costs	153	1
Additions during the year	72,448	83,394
Transferred to property, plant and equipment	(110,543)	(9,464)
Balance at 31.12.	83,432	121,374

11. Development cost and other intangible assets

Development cost and other intangible assets are specified as follows:

	Capitalised developm. cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2020	226,259	45,611	10,624	282,494
Sold and disposed of	0	0	(11)	(11)
Additions during the year	3,497	0	887	4,384
Transferred to projects under construction	(1)	0	0	(1)
Total value at 31.12.2020	229,755	45,611	11,500	286,866
Sold and disposed of	0	0	(1,394)	(1,394)
Additions during the year	4,533	0	1,750	6,283
Transferred to projects under construction	(153)	0	0	(153)
Total value at 31.12.2021	234,135	45,611	11,856	291,602
Depreciation and impairment loss				
Total value at 1.1.2020	92,650	0	8,001	100,651
Amortisation during the year	0	0	531	531
Impairment loss during the year	693	0	0	693
Sold and disposed of	0	0	(11)	(11)
Total value at 31.12.2020	93,343	0	8,521	101,864
Amortisation during the year	0	0	638	638
Impairment loss during the year	9,271	0	0	9,271
Sold and disposed of	0	0	(1,394)	(1,394)
Total value at 31.12.2021	102,614	0	7,765	110,379

Consolidated Financial Statements of Landsvirkjun 2021 24 Amounts are in USD thousand

11. Development cost and other intangible assets, contd.:

Book value	Capitalised developm. cost	Water and geothermal rights	Software	Total
1.1.2020	133,610	45,611	2,623	181,844
31.12.2020	136,412	45,611	2,979	185,002
31.12.2021	131,521	45,611	4,091	181,223

Development cost is reviewed every year by management to check whether there are indications of impairment. In testing for possible impairment the Parent Company's forecast of expected cash flow over the useful life of the assets was used. In the evaluation, expected cash flow was discounted using the weighted average required rate of return which was 4.76% (2020: 4.96%). If management concludes that an impairment has occurred, the relevant development cost is expensed as impairment.

12. Depreciation and impairment loss

The Group's depreciation and impairment is specified as	2021	2020
Power stations	96,158	95,747
Transmission	28,359	27,687
Telecommunication equipment	965	916
Other assets	3,330	3,393
Depreciation of assets in operation	128,812	127,743
Impairment loss on development cost	9,271	693
Amortisation of software	638	531
	138,722	128,967

The Group's depreciation and impairment is allocated as follows by sectors:

Energy generation costs	96,940	96,154
Transmission costs	29,690	29,348
Cost of general research	8,900	0
Other operating expenses	3,191	3,465
	138,722	128,967

13. Derivative financial instruments

Derivative financial instruments in the balance sheet are specified as follows:

	31.12.2021	31.12.2020
Assets:		
Embedded derivatives in power contracts	37,135	4,571
Commodity hedges	20,212	4,139
Currency swaps	1,889	8,126
	59,236	16,836
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	27,290	14,931
Short-term component of derivative agreements	31,946	1,905
	59,236	16,836
Liabilities:		
Embedded derivatives in power contracts	0	890
Commodity hedges	80,045	12,379
	80,045	13,269

Consolidated Financial Statements of Landsvirkjun 2021 25 Amounts are in USD thousand

13. Derivative financial instruments, contd.:

Derivative financial instruments are divided as follows:

	31.12.2021	31.12.2020
Long-term component of derivative agreements	13,777	5,408
Short-term component of derivative agreements	66,268	7,861
	80,045	13,269

The assumptions for valuation of embedded derivatives are discussed in note 32.

The fair value of other derivatives than embedded derivatives is based on an evaluation from counterparties and verified by the company with comparative calculations based on market information.

14. Associated companies

Shares in associated companies recognised according to the equity method are specified as follows:

		2021	
	Share	Share in return	Book value
AIS LLC, Georgia	20.0%	(236)	1,399
GEDC, Canada	33.0%	(13)	164
Hecla SAS, France	28.5%	(90)	92
Heimsþing ehf., Iceland	33.3%	0	(11)
SER eignarhaldsfélag ehf., Iceland	47.0%	91	426
Sjávarorka ehf., Iceland	33.6%	0	11
		(248)	2,081

		2020	
	Share	Share in return	Book value
AIS LLC, Georgia	20.0%	0	1,281
GEDC, Canada	33.0%	(13)	177
Hecla SAS, France	28.5%	13	193
Heimsþing ehf., Iceland	33.3%	(7)	(11)
LP-Verkis, Georgia	40.0%	(4)	0
SER eignarhaldsfélag ehf., Iceland	35.4%	0	249
Sjávarorka ehf., Iceland	33.6%	0	12
		(12)	1,901

15. Other non-current assets

Other long-term assets in the balance sheet are specified as follows:

	31.12.2021	31.12.2020
Shares in other companies	622	579
Long-term receivables	0	144
	622	723

16. Lease agreements

The Group is a lessee in lease agreements of real estate and land. Lease assets are recognised among property, plant and equipment. Lease assets and debt are specified as follows from the beginning of the year to year-end.

	2021		2020	
	Lease asset	Lease debt	Lease asset	Lease debt
Balance 1.1.	7,420	(6,560)	6,293	(6,068)
Additions during the year	0	0	1,225	(863)
Indexation	257	(257)	146	(146)
Other changes in lease payments	54	(54)	80	(81)
Foreign exchange rate changes	(7)	157	5	282
Depreciation of assets/amortisation of debt	(357)	408	(329)	316
Staða 31.12.	7,367	(6,306)	7,420	(6,560)

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16. Lease agreements contd.:

Current maturities are recognised among short term liabilities. In the year 2021 the Group expensed USD 281 thousand of interest expenses due to the lease liability (2020: 244 thousand USD). The Group takes advantage of the lease of assets with low value exemptions in IFRS 16.

Lease liability - maturity analysis - not discounted

	2021	2020
Payments within a year	600	674
Payments after a year and within 5 years	1,845	2,027
Payments after 5 years or later	10,866	11,013
Total of lease liability - not discounted	13,311	13,714

17. Landsvirkjun's subsidiaries

Landsvirkjun's subsidiaries are the following:

	Share	
Icelandic Power Insurance Ltd., Bermuda	100.0%	100.0%
Landsnet hf., Iceland	64.7%	64.7%
Landsvirkjun Power ehf., Iceland	100.0%	100.0%
Orkufjarskipti hf., Iceland	100.0%	100.0%

18. Inventories

Inventories are specified as follows:

	31.12.2021	31.12.2020
Spare parts and consumables	5,825	5,553
	5,825	5,553

19. Accounts receivables and other receivables

Accounts receivables and other receivables are specified as follows:

Accounts receivables	98,735	67,724
Other short term receivables	1,350	1,620
	100,085	69,344

In assessing impairment of accounts receivables, historical information is used as guidance as well as current economic prospects. At year-end 2021, 90% of accounts receivables were under 30 days old (2020: 84%).

20. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank deposits	97,560	89,584
Market securities	0	2,379
	97,560	91,963

21. Equity

The Parent Company is a partnership owned by the Icelandic State and Eignarhlutir ehf. The Icelandic State owns 99.9% of the Company and Eignarhlutir ehf. 0.1%. Eignarhlutir ehf. is owned by the State. Landsvirkjun is an independent taxable entity. The Group's equity ratio at year end 2021 was 53.3% compared to 51.4% at year end 2020.

22. Revaluation account, translation difference and restricted reserves

The revaluation account consists of the revaluation of the transmission network and telecommunication equipment after income tax effects. The translation difference is the foreign exchange difference arising due to Landsvirkjun's subsidiaries and associated companies with other functional currencies than the Parent Company's. Restricted reserves contain the share in unrealised profit of equity accounted investees, from 1 January 2016, (subsidiaries and associated companies) recognised in the income statement which exceeds dividends from these companies, or the dividend that has been decided to distribute. The transmission network of Landsnet was revaluated at year end 2021, the last revaluation was in the year 2015.

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23. Liabilities

Interest bearing long term debt is specified as follows:

	2021	2020
Interest bearing long term debt 1.1.	1,767,767	1,801,949
New loans	160,149	249,755
Amortisation of long-term debt	(308,653)	(274,399)
Foreign exchange difference	(23,743)	(9,699)
Changes in CPI indexation and amortisation of discount	2,826	161
Interest bearing long term debt 31.12.	1,598,346	1,767,767

Interest bearing long-term debt is specified as follows by currencies:

	Due date	2021 Average interest	Remaining balance	2020 Average interest	Remaining balance
Liabilities in ISK	2034	5.0%	36,690	5.0%	37,853
Liabilities in CHF	2022	0.0%	3,210	0.0%	9,978
Liabilities in EUR	2026	0.0%	169,741	0.0%	282,143
Liabilities in USD	2022-2035	3.5%	1,388,705	3.4%	1,437,793
			1,598,346		1,767,767
Current maturities of long-term debt			(149,151)		(236,052)
Total long-term debt			1,449,195		1,531,715

Interest rates on debt at year end was in the range of 0.0-5.0%. Nominal interest rates for the period were on average 3.6% (2020: 3.2%), taking into account the state guarantee fee for long-term loans which is calculated according to Act No. 121/1997 on state guarantees.

24. Maturities of long-term debt

According to loan agreements, maturities of long-term debt are as follows:

	2021	2020
2021	-	236,052
2022	149,151	113,988
2023	250,674	245,631
2024	58,824	151,948
2025	194,965	189,918
2026	310,898	-
Later	633,834	830,229
	1,598,346	1,767,766

25. Pension fund obligations

The Company's obligation to refund the indexation charges on retirement payments to current and former employees, which hold pension rights with state and communal pension funds amounted to USD 39.6 million at year end 2021 according to an actuary's evaluation, which is based on estimated future changes in salaries and prices. Interest rates in excess of price increases are assessed at 3.5% and salary increase in excess of price increases is assessed at 1.5% per year on average. Life expectancy and mortality assumptions are in accordance with the provisions of Regulation No. 391/1998 on obligatory pension benefits and operation of pension funds. New death and survivor tables were published in December 2021 by the Association of Icelandic Actuaries using a calculation model with a forecast of future death and survivor figures.The calculated retirement age is 65 years for non-employees with vested benefits. This is consistent with criterion used by the Pension Fund for State Employees.

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25. Pension fund obligations contd.:

Change in the obligation is specified as follows:

	2021	2020
Balance at 1.1.	36,597	36,863
Expensed during the year	776	736
Payments during the year	(3,015)	(2,546)
Actuarial change	6,234	3,232
Effect of foreign exchange rate changes	(1,018)	(1,688)
Balance at 31.12.	39,574	36,597

Pension fund obligation, 5 years:	2021	2020	2019	2018	2017
Present value of the obligation	39,574	36,597	36,863	38,015	40,597

26. Obligation due to demolition

Change in the obligation due to demolition is specified as follows:

	2021	2020
Balance at 1.1.	17,727	12,212
The time effect of discounting through financial expenses	1,506	504
Additions during the year	472	0
Change in obligation through other comprehensive income	(4,074)	5,011
Balance at 31.12.	15,631	17,727

In accordance with IFRS, the initial value of fixed operating assets shall include estimated cost of their demolition after their use. Estimated demolition cost of power lines has been assessed and discounted on the basis of the useful life. In return, an obligation has been written up among long-term liabilities. A change in the obligation is recognised in the income statement amounting to the discounted value.

27. Accounts payable and other payables

Accounts payable and other payables are specified as follows:

	31.12.2021	31.12.2020
Accounts payable	16,915	32,868
Accrued interest	13,927	14,021
Other short term liabilities	44,984	24,183
	75,826	71,072

28. Related parties

Definition of related parties

Owners, associated companies, members of Boards of Directors, key management and companies and institutions owned by them are among the Company's related parties.

Transactions with related parties	**2021**	**2020**
Interest income		
Associated companies	6	5
Loans		
Associated companies	144	144

Transactions with related parties are on the same basis as transactions with non-related parties. Transactions with the State or companies or institutions owned by the State are not specified as a separate item but such transactions are comparable to transactions with non related parties. The Group applies an exemption from disclosure requirements of IAS 24 as the Parent Company is owned by the State. See further information in note 21.

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29. Fees to auditors

Fees to auditors of the Group in the year 2021 amounted to USD 351 thousand (2020: USD 327 thousand), whereof USD 251 thousand (2020: USD 259 thousand) was for the audit and review.

30. Risk management

Effective risk management is a key aspect of informed decision making and is integrated into processes of all of the Company‘s divisions. Landsvirkjun‘s risk management policies support continuous and dependable operations, as well as the Company’s goals for social responsibility.

- The Board’s Risk Committee monitors the effectiveness of risk management, risk policy and Landsvirkjun’s risk framework. The Board’s Risk Committee and Audit Committee report back to the Board on their progress according to the Rules of Procedure. The Board receives information and proposals from the committees for discussion and approval at Board meetings.

- The CEO implements the Company’s risk policy and ensures that effective risk management systems and processes are in place to support the Policy. The CEO also ensures that individual roles in risk management are clearly defined, that risk control is adequate and that an overview of the Company’s risk factors exists. The CEO also sets risk criteria for the Company’s operations in accordance with risk appetite.

- Landsvirkjun’s Executive Board reviews and approves risk management procedures within the Company. The Board acts as a consultation forum on risk management and ensures compliance with the Company’s Risk Policy. The Executive Board consists of the CEO, Deputy CEO and Executive Directors according to the Company’s organisation chart.

- Executive Directors are responsible for ensuring that Risk Policy and procedures are integrated into daily activities within their divisions.

- Landsvirkjun’s Risk Manager develops and coordinates risk management methodologies and procedures. He supports risk management implementation, is responsible for monitoring and participates in information dissemination to the Board and management.

31. Financial risk

Landsvirkjun is exposed to financial risk through business transactions and other operations of the Company. The treasury division is responsible for analysing, managing and reporting the Company‘s financial risk. The Company‘s financial risk is divided into market risk, liquidity risk and counterparty risk. Market risk mainly consist of the following:

- Price in power contracts being linked to aluminium price and Nord Pool electricity price
- Interest rate risk due to the companies liabilities
- Foreign exchange risk due to liabilities and cash flows

Landsvirkjun utilizes derivative agreements to hedge market risk in accordance with approved market risk limits.

32. Commodity risk

The Company is exposed to market risk due to fluctuations in aluminum price and electricity price on the Nord Pool market. About 62% of Landsvirkjun‘s electricity sales (GWh) is linked to aluminium price and around 11% is linked to electricity price on the Nord Pool market. The Company uses derivative agreements to secure its income base and reduce fluctuations. In most cases such agreements fix prices or a price range. Therefore, the Company will recognise less revenue if prices go up, but secure its revenue if prices go down. Landsvirkjun has hedged around 74% of its aluminium price risk and around 61% of its Nord Pool electricity price risk in 2022. At 2021 year-end the fair value of derivatives for hedging commodity risk was negative by 59.8 million USD (2020: negative by 8.2 million USD).

32. Commodity risk contd.:

Embedded derivatives

Landsvirkjun's electricity sales contracts which are linked to aluminium prices form embedded derivatives which are recognised in the Company's financial statements. Embedded derivatives in power contracts are recognised in the balance sheet at fair value on the reporting date. Fair value changes are recognised in the income statement in financial income and expenses.

	2021	2020
Fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	3,681	2,711
Fair value changes during the year	33,455	970
Fair value of embedded derivatives at year end	37,135	3,681
Division of embedded derivatives is specified as follows:		
Long term component of embedded derivatives	22,934	5,366
Short term component of embedded derivatives	14,201	(2,655)
Total embedded derivatives	37,135	2,711

The main assumptions Landsvirkjun uses in the valuation of embedded derivatives are the following:

Calculations are based on the forward price of aluminium, as published by LME, and are based on the maximum time length of forward aluminium prices, or 123 months. Management expects the aluminium price in ten years to reflect the aluminium price at the time the agreements were made and therefore fair value changes will not arise for that period.

The calculations are limited to the revision time of power contracts or length of contracts. However the time length can never be more than the aforementioned 123 months.

According to provisions on energy buyers' purchase obligation the calculation is based on a secured minimum purchase.

Expected cash flows are discounted using USD rates from Bloomberg, without spreads. At year end 2021, discount rates were in the range of 0.2 - 1.6% (2020: 0.2 - 0.8%).

Sensitivity analysis of aluminium price risk

The following tables show the effects of changes in aluminium prices on the fair value of financial instruments linked to aluminium prices in the income statement. Amounts are in thousands of USD, before tax.

31.12.2021	Aluminium price USD/MT	
	-100	+100
Embedded derivatives	(17,099)	16,672
Aluminium hedges	7,572	(8,101)
	(9,527)	8,571

31.12.2020	Aluminium price USD/MT	
	-100	+100
Embedded derivatives	(6,355)	6,321
Aluminium hedges	5,152	(5,787)
	(1,203)	534

Notes, contd.

32. Commodity risk contd.:

Sensitivity analysis of Nord Pool electricity price risk

The following tables show the effects of changes in Nord Pool electricity prices on the fair value of financial instruments linked to Nord Pool electricity prices in the income statement. Amounts are in thousands of USD, before tax.

31.12.2021	Electricity price EUR/MWh -2	Electricity price EUR/MWh +2
Electricity hedges	1,803	(1,803)

31.12.2020	Electricity price EUR/MWh -2	Electricity price EUR/MWh +2
Electricity hedges	1,509	(1,509)

33. Foreign exchange risk

Foreign exchange risk is the risk of loss due to unfavourable changes in foreign exchange rates. Landsvirkjun's functional currency is the USD and therefore a foreign exchange risk arises from cash flows, assets and liabilities in currencies other than the USD. The Company's revenues are mainly in USD and ISK, but expenses in ISK provide a natural hedge. Currency risk due to amortisation and interest payments has been limited with the use of cross currency swaps.

The Company's reporting risk related to changes in exchange rate arises mainly due to its debt in EUR which is mainly long-term. The following table shows Landsvirkjun's position in currencies other than the functional currency.

Landsvirkjun's foreign exchange risk related to monetary assets and liabilities at year end is specified as follows:

31.12.2021	EUR	ISK	CHF	Other currencies
Accounts receivables and other receivables	1,224	17,656	0	47
Cash and cash equivalents	4,224	19,211	0	1,192
Interest bearing liabilities	(169,741)	(36,690)	(3,210)	0
Derivatives	43,042	0	0	0
Accounts payable and other payables	(12,756)	(86,076)	(16)	(711)
Risk in balance sheet	(134,007)	(85,899)	(3,226)	528

31.12.2020	EUR	ISK	CHF	Other currencies
Long term receivables	0	144	0	0
Accounts receivables and other receivables	454	20,773	0	86
Cash and cash equivalents	4,681	8,484	1	1,682
Interest bearing liabilities	(282,143)	(37,853)	(9,978)	0
Derivatives	158,154	0	0	0
Accounts payable and other payables	(3,737)	(76,423)	0	(239)
Risk in balance sheet	(122,591)	(84,875)	(9,977)	1,529

Exchange rates of the main currencies against the USD for the years 2021 and 2020 are specified as follows:

	Average rate 2021	Average rate 2020	Rate at year end 2021	Rate at year end 2020
EUR	0.85	0.88	0.88	0.81
CHF	0.91	0.94	0.91	0.88
ISK	127.05	135.27	130.38	127.21

33. Foreign exchange risk contd.:

Sensitivity analysis

The following tables show the effects of a 10% deviation in currencies against the functional currencies of the companies in the Group and would have changed the Group's results and equity by the following amounts before tax. The analysis includes monetary assets and liabilities and assumes that all other variables, especially interest rates, remain unchanged.

	Profit (loss) / Equity	
2021	Strengthening	Weakening
EUR	13,401	(13,401)
ISK	8,590	(8,590)
CHF	323	(323)
Other currencies	(53)	53

2020	Strengthening	Weakening
EUR	12,122	(12,122)
ISK	8,487	(8,487)
CHF	998	(998)
Other currencies	(153)	153

The fair value of cross currency swaps was positive by USD 1.9 million at the end of December 2021 (2020: positive by USD 8.1 million).

34. Interest rate risk

Landvirkjun is exposed to interest rate risk through its fixed and floating interest bearing assets and liabilities. The Company's risk mainly relates to a possible increase in interest on floating interest bearing borrowings, which would lead to an increase in interest expense. In recent years, Landsvirkjun has managed interest rate risk by increasing the ratio of fixed interest bearing borrowings, as well as using cross currency swaps that include interest rate swaps.

At year end 2021, the proportion of loans with fixed interest rates including swap agreements was 85% (2020: 77%). At year end 2021, the estimated market value of the Company's long-term liabilities was USD 166 million higher than their book value (2020: USD 238 million higher) discounted by the underlying currencies yield curve without spread. The following table shows the division of financial assets and liabilities between floating and fixed interest.

Financial instruments with fixed interest	**31.12.2021**	**31.12.2020**
Interest bearing liabilities	(1,300,235)	(1,212,631)
Cross currency and interest rate swaps	(56,015)	(146,986)
Long term receivables	144	144
	(1,356,106)	(1,359,473)
Financial instruments with floating interest		
Cash and cash equivalents	97,560	91,963
Interest bearing liabilities	(298,109)	(555,136)
Cross currency and interest rate swaps	56,604	159,524
	(143,946)	(303,649)

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34. Interest rate risk, contd.,

Sensitivity analysis of interest rate risk

The following tables show the effect of changes in interest rates on book value and cash flows for one year. The amounts are in USD thousand before tax.

31.12.2021	Cash flow		Book value	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	(3,692)	3,296
Other derivatives	0	293	(2,202)	438
Interest bearing liabilities	926	(2,131)	0	0
Cash and cash equivalents	(976)	976	0	0
	(50)	(862)	(5,894)	3,734

31.12.2020	Cash flow		Book value	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	276	(260)
Other derivatives	0	915	132	3,483
Interest bearing liabilities	1,571	(4,299)	0	0
Cash and cash equivalents	(920)	920	0	0
	651	(2,464)	408	3,223

35. Liquidity risk

Liquidity risk consists of risk of losses should the Company not be able to meet its obligations at maturity date. Landsvirkjun limits liquidity risk with effective liquidity management by ensuring that there is sufficient cash at all times to be able to meet obligations. In order to keep balance between liabilities and expected revenues an emphasis is placed on a secure liquidity position in the form of cash and access to revolving credit facilities.

The Company's cash and cash equivalents amounted to USD 98 million at year end 2021 (2020: USD 92 million) but taking into account revolving credit facilities (USD 170 million) Landsvirkjun has access to a total of USD 268 million (2020: USD 372 million). Cash flow from operations, a well distributed maturity profile in addition to strong liquidity and access to credit facilities secure the Company's liquidity at least throughout the year 2023.

35. Liquidity risk, contd.,

Contractual payments due to financial instruments, including interests, are specified as follows:

31.12.2021	**Book value**	**Contractual cash flow**	**Within one year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial instruments						
Cash and cash equiv. ...	97,560	97,560	97,560	0	0	0
Short term receivab.	100,085	100,091	100,091	0	0	0
Interest bearing liab.	(1,598,346)	(1,847,081)	(183,718)	(294,358)	(666,012)	(702,993)
Current liabilities	(118,601)	(118,601)	(118,601)	0	0	0
	(1,519,302)	(1,768,031)	(104,668)	(294,358)	(666,012)	(702,993)
Derivative financial instruments						
Cross curr. swaps	1,889	1,726	(719)	(629)	3,073	0
Commodity derivat.	(59,834)	(86,233)	(60,278)	(25,955)	0	0
Embedded derivatives in power contracts	37,135	37,619	14,236	11,711	12,085	(414)
	(20,810)	(46,888)	(46,761)	(14,872)	15,158	(414)

31.12.2020						
Non-derivative financial instruments						
Long term receivab.	144	151	0	151	0	0
Cash and cash equiv. ...	91,963	91,963	91,963	0	0	0
Short term receivab.	69,344	69,344	69,344	0	0	0
Interest bearing liab.	(1,767,767)	(2,033,253)	(272,712)	(158,444)	(689,092)	(913,004)
Current liabilities	(95,690)	(95,690)	(95,690)	0	0	0
	(1,702,006)	(1,967,485)	(207,095)	(158,293)	(689,092)	(913,004)
Derivative financial instruments						
Cross curr. swaps	8,126	7,972	(2,799)	(2,769)	4,982	8,558
Commodity derivat.	(8,240)	(6,003)	(4,033)	(1,970)	0	0
Embedded derivatives in power contracts	3,681	3,832	(767)	(402)	1,450	3,551
	3,567	5,801	(7,599)	(5,141)	6,432	12,109

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36. Financing

Landsvirkjun places emphasis on securing access to capital and having diverse sources of funding. Thus, the Company has been able to access capital through the issuance of bonds in the domestic and foreign capital markets, by borrowing from the European Investment Bank (EIB) and the Nordic Investment Bank (NIB) and through project financing in Europe and Japan. In addition, the Company has access to credit facilities from its commercial banks.

During the year the Company took on new debt amounting to USD 160 million (2020: USD 250 million). Repayments amounted to USD 309 million (2020: USD 274 million). In February 2021 the Company issued Green Bonds in the US private placement market amounting to USD 100 million. The issuance was announced in September 2020. Landvirkjun paid off bonds in December 2021 amounting to EUR 80 million which equals to USD 90 million. In June Landsnet took a loan amounting to USD 50 million through the Nordic Investment Bank to finance construction on Krafla power line 3 and Hólasandur power line 3. The drawn amount of revolving credit facility was increased by USD 10 million during the year.

Landsvirkjun's interest-bearing debt amounted to USD 1,598 million at year-end 2021 (2020: USD 1.768 million). The risk associated with refinancing is reduced by the equal distribution of amortisations and by the suitable lifetime of outstanding debt. The weighted average lifetime of interest-bearing debt is 4.8 years (2020: 4.8 years) and the ratio of interest-bearing debt with maturity within a 12-month period is 9.3% (2020: 13.4%).

In recent years, Landsvirkjun has placed an emphasis on changing its debt portfolio and no longer takes on debt with a state guarantee. In addition, the Company has systematically worked towards removing state guarantees of outstanding debt where possible. The principal of state guarantee debt is decreasing and the last debt enjoying a state guarantee is due in 2026. At year-end 2021, 14% of Landsvirkjun's debt was state guaranteed (2020: 29%). Landsvirkjun pays a guarantee fee to the Icelandic state for the Company´ s debt which has a state guarantee.

37. Green Bonds

Landsvirkjun has issued bonds under the Green Finance Framework. The proceeds will be used to finance and refinance green assets on the Company's balance sheet. Landsvirkjun was the first Icelandic company to issue a Green Bond in March 2018 when the Company announced the issuance of Green Bonds amounting to USD 200 million. At year end 2021 Landsvirkjun has issued Green Bonds amounting to USD 350 million. Annual reporting under the Green Finance Framework and further information can be found on Landsvirkjun´ s website.

38. Counterparty risk

Counterparty risk is the risk that a counterparty to an agreement does not comply with provisions of the agreement. Landsvirkjun's counterparty risk arises first and foremost due to the Company's power contracts, derivative contracts and cash and cash equivalents. Though the amounts involved can be considerable, the risk is limited by the Company´ s requirements for take or pay clauses in power contracts and also through requirements for counterparty guarantees. Landsvirkjun requires that counterparties have an investment grade credit rating when it comes to keeping cash and cash equivalents and entering into derivative contracts. In note no. 50 the assessment of assets is explained in more detail.

Notes, contd.

38. Counterparty risk contd.:

The Company's counterparty risk is specified as follows at year end:

	31.12.2021	31.12.2020
Derivative financial instruments	59,236	16,836
Long term receivables	0	144
Accounts receivables and other receivables	100,085	69,344
Cash and cash equivalents	97,560	91,963
	256,881	178,287

39. Comparison of fair value and book value of long-term debt

	31.12.2021		31.12.2020	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	1,598,346	1,764,683	1,767,767	2,005,966

The fair value of other financial assets and liabilities is measured as book value.

Fair value of interest bearing liabilities is calculated by discounting expected cash flows with the underlying currencies' yield curve.

Interest rates are specified as follows:	2021	2020
Interest bearing liabilities in USD	0.2 to 1.7%	1.1 to 1.2%
Interest bearing liabilities other than USD	-0.7 to 0.7%	-0.8 to 0.9%

40. Fair value classification

The table shows the level categorisation for items in the financial statements recognised at fair value.

	Level 2	Level 3	Total
31.12.2021			
Embedded derivatives		37,135	37,135
Other derivatives	(57,945)		(57,945)
Revaluation of property, plant and equipment		258,595	258,595
Shares in other companies		622	622
	(57,945)	296,352	238,407
31.12.2020			
Embedded derivatives		3,681	3,681
Other derivatives	(113)		(113)
Revaluation of property, plant and equipment		218,605	218,605
Shares in other companies		579	579
	(113)	222,865	222,752

Main assumptions for valuation of derivatives can be seen in notes 13 and 32.

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41. Classification of financial instruments

Financial assets and liabilities are divided into defined groups. The classification affects how evaluation of the relevant financial instrument is measured. Those groups to which the Company's financial assets and liabilities pertain and their basis for evaluation are specified as follows:

- Assets and liabilities held for trading - are recognised at fair value through profit and loss.
- Equity instruments - are recognised at fair value through profit and loss.
- Loans and receivables - are recognised at amortised cost.
- Other financial liabilities - are recognised at amortised cost.

Financial assets and liabilities are divided into the following groups of financial instruments:

31.12.2021	Assets and liabilities held for trading	Equity instruments	Loans and receivab.	Other financial liabilities	Total
Derivative financial instruments	59,236				59,236
Shares in other companies		622			622
Accounts receivables and other receivables			100,085		100,085
Cash and cash equivalents			97,560		97,560
Total assets	59,236	622	197,645	0	257,503
Interest bearing liabilities				1,598,346	1,598,346
Derivative financial instruments	80,045				80,045
Accounts payable and other payables				118,601	118,601
Total liabilities	80,045	0	0	1,716,947	1,796,992
31.12.2020					
Derivative financial instruments	16,836				16,836
Shares in other companies		579			579
Long term receivables			144		144
Accounts receivables and other receivables			69,344		69,344
Cash and cash equivalents			91,963		91,963
Total assets	16,836	579	161,451	0	178,866
Interest bearing liabilities				1,767,767	1,767,767
Derivative financial instruments	13,269				13,269
Accounts payable and other payables				95,690	95,690
Total liabilities	13,269	0	0	1,863,457	1,876,726

42. Capital management

Landsvirkjun places emphasis on maintaining a strong equity base supporting further development of the Company.

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43. Significant accounting policies

The Group has adopted International Financial Reporting Standards, amendments thereto and interpretations adopted by the European Union at year-end 2021. The following improvements become operative January 1, 2021:

•IFRS 9,IFRS 7 & IFRS16 - improvements due to a change in the interest rate benchmark (IBOR reform Phase II).
•IFRS 16 - concessions on rent payments due to influence of Covid-19 (extended to June 2022).

It is the management's opinion that the implementation of new and amended standards do not have significant effects on the consolidated financial statements.

The Group has not adopted new or amended standards which have been issued but not entered into effect. On January 1, 2022 improvements will take effect in IAS 16 Property, Plant and Equipment relating to proceeds of sale before the asset is taken into use and improvements in IAS 37 Provisions, Contingent Liabilities and Contingent Assets relating to the cost of fulfilling onerous contracts. It is management's estimate, that the implementation of these changes will not have material effect on the consolidated financial statements.

44. Basis of consolidation

Subsidiaries are entities controlled by the Company. A company controls an entity when it has the power to govern the investment, is exposed to, or has rights to variable returns from its involvement in the investment and has the ability to affect those returns through its power over the investment. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial performance of subsidiaries have been taken into account. When the Company's share of losses exceeds its interest in a subsidiary, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the subsidiary. In case of a profit on the operation of a subsidiary in subsequent periods, a share in their profit is not recognised until the share in a loss has been fully offset.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes, contd.

44. Basis of consolidation contd.:

Assets and liabilities of subsidiaries with another functional currency than the Parent Company's are translated to USD at the exchange rate ruling on the accounting date. Income and expenses are translated to USD at the average exchange rate for the year. The exchange rate difference arising from the translation to USD is shown separately in the statement of comprehensive income and under equity. Amounts in the statement of cash flow are translated to USD at the average exchange rate of the year. The exchange rate difference arising from the translation to USD is entered separately in the statement of cash flow.

45. Associated companies

Associated companies are those companies in which the Group 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% of the voting power of another entity, including any other possible voting power.

The consolidated financial statements include share in the profit or loss of associated companies accounted for using the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the book value of an associated company the book value is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associated company. If in subsequent periods there is a profit on the operation of associated companies, the share in the profit is not recognised until the previous share in losses has been offset.

46. Operating revenues

Revenues from electricity sales and transmission of electricity consists of sales to power intensive industries and to energy providers on the wholesale market based on measured delivery of electricity during the year. Other service income is recognised when earned or upon delivery.

Revenues are recognised based on the nature of products sold and services delivered as follows:

Electricity generation

Power sales are generated by the sale of electricity that is generated by hydroelectric power, wind power and geothermal heat.

Electricity generation revenues are generated by the delivery of electricity at an agreed price. The service obligation is to deliver electricity over time and the contractual price is the fee that Landsvirkjun expects to receive, on either the daily price or the contractual price. The service obligation is met over time and reflects revenues based on contracual price for each delivered unit which is the amount that is recognised as revenues. The right to make an invoice for the sale of electricity arises when electricity is generated and delivered and the right to make an invoice has been created for a fee which will, in most circumstances, be the same as the value for the customer.

Furthermore, the operation of Icelandic Power Insurance Ltd. is included in this segment. The purpose of Icelandic Power Insurance Ltd. is to manage Landsvirkjun´ s power stations insurance.

Notes, contd.

46. Operating revenues contd.:

Electricity transmission

Landsnet carries out the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act no. 65/2003. Revenues for the transmission of electricity are based on the measurement of delivered units according to a valid tariff at each time. That tariff is dependent on a revenue cap defined in art. 12 of the Electricity Act and is subject to surveillance by the National Energy Authority. Revenues from transmission losses and system operation are also recognised based on the measurement of delivered units according to the valid tariff. That tariff is based on purchase price according to auctions and is not dependent on the revenue cap but subject to surveillance by the Natonal Energy Authority. The right to recognise revenue and issue an invoice for the transmission of electricity is established when the electricity is transmitted and delivered.

Other

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate the telecommunication infrastructure which is necessary for shareholders´ electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. develops energy related projects internationally and provides advice to owners in that field. Revenues are recognised for other income when a performance obligation according to an agreement has been fulfilled.

47. Interest income and expenses

Interest income and expenses are recognised in the income statement using the effective interest method. Interest income and expenses include bank rates, premium, realised interest rate swaps, changes in the timing of the discount effect of demolition obligation and other differences arising on initial book value of financial instruments and amounts on the date of maturity using the effective interest method.

Effective interest is the imputed rate of interest used in determining the current value of estimated cash flow over the estimated useful life of a financial instrument or a shorter period if applicable, so that it equals the book value of the financial asset or liability in the balance sheet. When calculating the effective interest rate, the Company estimates cash flow taking into account all contractual aspects of the financial instrument.

48. Other financial income and expenses

Other financial income and expenses include profit or loss on assets and liabilities held for trading and all realized and unrealized fair value changes and changes in foreign exchange rates.

49. Foreign currency transactions

Transactions in foreign currencies are recognised at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate ruling at the end of the year. The foreign currency gain or loss thereon relating to USD is recognised in the income statement. Non-monetary assets and liabilities measured at cost value in a foreign currency are translated to USD at the exchange rate ruling at the date of the transactions. Tangible assets and liabilities recognised in foreign currencies at fair value are translated to USD at the exchange rate ruling at the date of determination of fair value.

50. Impairment

a) Financial assets

The impairment model in IFRS 9 is based on the premise of providing for expected losses and applies to all of the following: (i) financial assets measured at amortised cost, (ii) financial assets mandatorily measured at fair value through other comprehensive income; (iii) lease receivables (iv) contract assets within the scope of IFRS 15 and (v) certain loan commitments and financial guarantee contracts.

Expected impairment loss for financial assets is estimated based on what stage of the impairment model the relevant financial assets is classified:

Stage 1: expected credit loss is estimated based on 12 months expectation of default,
Stage 2: expected credit loss is estimated based on lifetime default,
Stage 3: objective evidence of impairment is in place about the expected credit loss of the financial asset.

At initial recognition, financial assets are classified in stage 1, with the exception of purchased or originated credit impaired financial assets. Financial assets are classified in stage 2 when there is a significant increase in credit risk from initial recognition. An estimate of significant increase in credit risk is performed at each financial reporting date. The Group has elected to classify trade receivables that do not include significant finance component, in stage 2 at initial recognition in accordance with the simplified approach in the standard.

At each financial reporting date, management estimates if there is an objective evidence of impairment of financial assets (stage 3). Financial assets are impaired if there is an objective evidence, as a result of one or more events that occurred after the initial recognition of the asset, that indicated that the expected cash flow from the assets will be lower than previously expected.

Impairment of financial assets at amortised cost is the difference between the book value of the assets and the expected cash flow, discounted with original effective interest rate. Impairment for assets held for sale is estimated based on the fair value of the financial assets at each balance sheet date.

Impairment is reversed if there is an objective evidence that an event has occurred after the impairment was recognised that changes the previous estimate of impairment. Reversal of impairment loss for financial assets at amortised cost and debt instruments classified as available for sale are recognised in profit or loss. Reversal of impairment loss for equity instruments that are classified as assets available for sale, is recognised in other comprehensive income.

The Group derecognises receivables when there are indicators of significant financial difficulties of debtors and very likely that the receivables will not be paid.

Change in estimated impairment for financial assets is recognised in profit or loss in the period when the estimate is performed.

50. Impairment, contd.:

b) Other assets

The carrying amounts of the Company's other assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with unspecified useful lives are tested annually for impairment.

An impairment loss is expensed if the carrying amount of the asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or cash generating units. Impairment loss is first recognised in the income statement and then to reduce the carrying amounts of the fixed assets in the cash generating unit.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its net fair value. Value in use is based on the estimated future cash flows, 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 assets.

For other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation.

51. Income tax

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

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

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

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against the asset. The tax asset is calculated at each reporting date and decreased to the extent that is considered likely that it will not be utilised against future taxable profit.

52. Property, plant and equipment

Property, plant and equipment are initially measured at cost.

The cost of renewing single items of fixed asset is capitalised if it is considered likely that the proceeds of the asset will revert to the Company and the cost can be measured reliably. All other cost is expensed in the income statement as it is incurred.

The Group's transmission and telecommunication systems are recognised at a revalued cost in the balance sheet, which is their fair value less depreciation from the date of revaluation. The revaluation of those assets is carried out on a regular basis. All value increases due to the revaluation is recognised in the revaluation account among equity after income tax effect. Depreciation of the revalued cost is recognised in the income statement. Upon the sale, depreciation or disposal of an asset, the part of the revaluation account pertaining to the asset is transferred to retained earnings.

Other operating assets are capitalised at cost less accumulated depreciation and impairment.

Initial value of fixed assets includes the estimated cost of demolition following their use. Estimated demolition cost of power lines has been measured at a discounted value based on the useful life and an obligation in relation thereto has been recognised among long-term liabilities. A change in the obligation due to the discounted value is recognised through the income statement in addition to depreciation of demolition cost.

Cost value consists of all cost incurred due to the acquisition of the asset. Cost value of fixed assets constructed in own account is the aggregate cost of construction, such as cost of material and salaries in addition to all other costs the Company incurs in making the asset operative.

If single items of fixed assets have different estimated useful lives, they are divided in accordance with their different useful lives.

Interest expenses on loans used to finance the cost value of projects under construction are capitalised at the time of construction.

Profit or loss on the sale of fixed assets is the difference between the sales value and the book value of the asset and is recognised in the income statement.

52. Property, plant and equipment, contd.:

Depreciation

Depreciation is calculated as a fixed annual percentage based on the estimated useful lives of the operating assets.

The depreciation method, estimated useful life and residual value are revalued at each accounting date.

Depreciation ratios and useful life are specified as follows:

	Depreciation	Useful life
Hydro power stations:		
Power houses and other structures	1.67%	60 years
Machinery	2.5-6.67%	15-40 years
Dams and waterways	1.67-3.33%	30-60 years
Thermal stations	1.67-6.67%	15-60 years
Windmills	5.00%	20 years
Substations	2.5-5%	20-40 years
Power lines and cables	1.67-5%	20-60 years
Optical fibre	4-10%	10-25 years
Other telecommunication equipment	6-20%	5-17 years
Office buildings	2.00%	50 years
Lease assets	2.00%	50 years
Equipment	10-25%	4-10 years
Vehicles	10-20%	5-10 years

53. Intangible assets

Intangible assets are recognised at cost value, less accumulated impairment loss and amortisation.

Expenditure for general research cost is expensed in the period it occurs. Development cost for future power projects is capitalised under fixed assets, such as cost of materials, salary cost and all cost incurred by the Company in relation to capitalised development cost. Development cost is only capitalised if there is a probability of future economic benefit and the Company intends and is able to conclude, use or sell it. The useful life of development cost is assessed to be unlimited until a decision is made concerning its use or sale, thus the cost is not amortized at this stage but account is taken for possible impairment loss if a project changes.

Water and geothermal rights are capitalised as intangible assets with unlimited useful life on the balance sheet at cost value since it cannot be determined when these rights will no longer be financially viable.

Other intangible assets are stated at cost less accumulated amortisation and impairment loss.

Subsequent cost is only capitalised if it increases the estimated future economic benefit of the asset it relates to. All other cost is expensed in the income statement when incurred.

Amortisation is calculated on a straight line basis, based on the estimated useful lives of intangible assets from the date that they become usable. Amortisation and estimated useful life is specified as follows:

	Amortisation	Useful life
Software	25%	4 years

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54. Lease agreements

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of future lease payments, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the excercise price of purchase options if the Group expects to excercise the option.

Lease payments are divided into interest expenses and payments of principal which are deducted from the lease liability. The Group remeasures the lease liability if the lease term has changed, when lease payments change in an index or when a lease contract is modified and the modification is not accounted for as a seperate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rent payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As defined by IFRS 16, The Group applies a practical expedient that allows a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

55. Financial instruments

a) Non-derivative financial assets

Non-derivative financial assets are recognised when the Company becomes a part of contractual provisions of the relevant financial instrument.

Financial assets are derecognised if the Company's contractual right to cash flow due to the asset expires or the Company transfers the assets to another party without holding back control or almost all the risk and gain involved in the ownership. The component of the transferred financial assets arising or retained by the Company is recognised as a specific asset or liability.

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

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables at amortised cost and financial assets at fair value through other comprehensive income.

55. Financial instruments contd.:

i) Financial assets measured at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value in the balance sheet, and changes therein are recognised in the income statement.

Financial assets at fair value through profit or loss are shares in other companies and marketable securities.

ii) Financial assets at amortised cost

Financial assets are measured at amortised cost if it meets the following two conditions and is not designated at fair value through profit or loss: (i) the financial assets business model is to hold the financial asset to collect the contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially recognised at fair value plus all transaction costs. After initial recognition the financial assets are measured at amortised cost net of any write down for impairment.

Financial assets at amortised cost include bonds, cash and cash equivalents, accounts receivables and other receivables. Cash and cash equivalents includes funds and non-restricted bank balances with maturity date of three months or less.

iii) Financial assets at fair value through other comprehensive income

If the financial assets are held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets the financial instrument is measured at fair value through other comprehensive income. It is permitted to make a irrevocable election at initial recognition to measure equity instruments at fair value through other comprehensive income, if they are not held for trading or contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

b) Non-derivative financial liabilities

Non-derivative financial liabilities are initially measured at fair value plus direct transaction costs. Subsequent to initial recognition the liabilities are recognised at the amortised cost value based on effective interests.

The Group derecognises a financial liability when the contractual obligations due to the debt instrument expire.

The Company's non-derivative financial liabilities are loans, accounts payables and other payables.

c) Derivative financial instruments

The Company enters into derivative financial instruments to hedge its foreign currency, interest rate, aluminium price risk and Nord Pool risk exposures. Derivative financial instruments are recognised initially at fair value. Direct transaction cost is recognised in the income statement as it incurs. Subsequent to initial recognition, derivative financial instruments are recognised at fair value in the balance sheet and fair value changes are recognised in the income statement among financial income and expenses. Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies.

i) Separable embedded derivatives

Embedded derivatives where the host contract is not a financial instruments are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, other instruments with the same provisions as the embedded derivative would be defined as a derivative and the hybrid contract is not stated at fair value in the income statement.

55. Financial instruments contd.:

Changes in the fair value of separable embedded derivatives are recognised in the income statement among financial income and expenses.

56. Inventories

Inventories are stated at the lower of the cost value or the net sales value. Cost value of inventories is based on “the First In First Out method” and includes cost incurred upon the purchase of the inventories and in bringing them to the sales location and in a saleable state.

57. Cash and cash equivalents

Cash and cash equivalents consist of cash, short-term market securities and demand deposits.

58. Equity

The Group’s equity is divided into owners’ contribution, revaluation account, translation difference, restricted reserves, other equity and minority interest. The Parent Company’s initial capital amounts to USD 587 million.

59. Employees’ benefits

a) Defined contribution plan

Cost due to contribution to defined benefit plans is expensed in the income statement among salaries and salary related expenses when incurred.

b) Defined benefit plan

The Company’s obligation due to defined benefit plans is calculated by estimating the future value of defined pension benefits accrued by current and former employees in current or previous periods. The benefits are discounted in order to determine their present value. An actuary has calculated the obligation on the basis of a method, which is based on accrued benefits. Actuarial changes in the obligation are recognised among operating items under equity in the statement of comprehensive income. Other changes are recognised in the income statement.

60. Obligations

Obligations are recognised in the balance sheet when the Company has a legal obligation or entered into obligations due to past events, it is considered probable that they will be settled and they can be reliably measured. The obligation is assessed on the basis of estimated future cash flow, discounted on the basis of interests reflecting market interests and the risk inherent with the obligation.

61. Operating segments

A segment is a distinguishable component of the Group, which is subject to risks and returns, including income and expenses related to other segments of the Group. In determining the distribution of resources to segments and evaluating the results, the return of the segments is reviewed by management on a regular basis.

Segment operating results, assets and liabilities consist of items that can be directly linked to each segment, in addition to the items that can be reasonably divided into segments.

62. Effects of the COVID-19 pandemic on Landsvirkjun’s operations

Although the effect of COVID-19 was insignificant during the year, the pandemic is not over and it is unclear how it will develop. There is no indication of a material negative impact.

63. Subsequent events

Nothing has come forth after the balance sheet date, which would require adjustments or changes to the financial statements for the year 2021.

64. Other matters

The Icelandic Minister of Tourism, Industry and Innovation appointed a workgroup in 2019 to assess the viability of transferring ownership of Landsnet, wholly or partially, to the state within an acceptable timeframe. Landsnet operates the Icelandic electricity transmission system. Landsvirkjun owns 64.7% of Landsnet´ s shares. A new law took effect on the 1st July 2021 stating that the transmission company shall be directly owned by the Icelandic state and/or municipalities. The provision is to be implemented 1 July 2022.

Appendix I: Statement of Corporate Governance

Legislation and corporate governance

Landsvirkjun is regulated by the Act on Landsvirkjun No 42/1983, as amended. Landsvirkjun also entered into a general partnership agreement in April 2012 which states that Landsvirkjun must comply with the Act on General Partnerships on matters not covered by the partnership agreement.

The Company also follows the guidelines published by the Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland, version 6 (English version available on the Iceland Chamber of Commerce website). The guidelines in the Share Registry and the Nomination Committee do not apply, as Landsvirkjun is a public partnership company regulated by the Act on Landsvirkjun No 42/1983, as amended.

Internal controls and risk management

Landsvirkjun's internal controls are structured to support its effectiveness and efficiency goals in operations.

The role of Landsvirkjun's Audit Committee, according to Article 2 of its Rules of Procedure, is amongst other things, monitoring the accounting process, efficiency and effectiveness of the Company's internal controls, internal auditing, and risk management, and the audit of the Company's annual financial statements and consolidated financial statements. The Committee shall also assess the compliance of auditors or auditing firms employed by Landsvirkjun with the laws and supervisory standards generally adhered to by auditors and auditing firms. See the section *Board of Directors and sub-committees* of the Board for more detailed information on the role of the Audit Committee.

Landsvirkjun's Board of Directors reviews the Company's Risk Management Policy annually. The scope of the Risk Policy extends to the parent company. Further information on the group's corporate governance is included in the section *CEO, Deputy CEO and Executive Vice Presidents* below. The Risk Policy defines the various roles and responsibilities to manage risk efficiently.

- The Audit Committee, in cooperation with an external auditors, review the effectiveness of risk management and internal controls regarding the reliability of the Company's financial information and financial statements.

- The Risk Committee monitors the effectiveness of risk management, risk policy and Landsvirkjun's risk framework. The Board's Risk Committee and Audit Committee report back to the Board on their progress under the Rules of Procedure. The Board receives information and proposals from the committees for discussion and approval at Board meetings.

- The CEO implements the Company's risk policy and ensures that effective risk management systems and processes are in place to support the Policy. The CEO also ensures that individual roles in risk management are clearly defined, that risk control is adequate and that an overview of the Company's risk factors exists. The CEO also sets risk criteria for the Company's operations in accordance with risk appetite.

- Landsvirkjun's Executive Board reviews and approves risk management procedures within the Company. The Board acts as a consultation forum on risk management and ensures compliance with the Company's Risk Policy. The Executive Board consists of the CEO, Deputy CEO and Executive Directors according to the Company's organisation chart.

- Executive Directors are responsible for ensuring that Risk Policy and procedures are integrated into daily activities within their divisions.

- Landsvirkjun's Risk Manager develops and coordinates risk management methodologies and procedures. He supports risk management implementation, is responsible for monitoring and participates in information dissemination to the Board and management.

Landsvirkjun's Company Compliance Officer is Ingvar Christiansen, Legal Counsel / Attorney-at-Law at Landsvirkjun. Landsvirkjun's Deputy Company Compliance Officer is Þorgerður Marinósdóttir, a Certified Public Accountant within Landvirkjun's Finance Division.

Corporate social responsibility and ethical standards

Landsvirkjun's Corporate Social Responsibility Policy was introduced in 2012 and is registered as a policy document in the Company's quality management system. The Policy is under continuous review, and its progress is reported back to the Board. Landsvirkjun's Social Responsibility Policy states that the Company's role is to create value, respect and protect natural resources and the environment and to share its expertise to contribute to society effectively. The Company's Board of Directors approves the Policy.

Landsvirkjun's ethical standards are outlined in the Company's quality management system where they are integrated with appropriate procedures and made available to employees in general information provided by the Company. The documents include the *Code of Conduct of Landsvirkjun, Supplier Code of Conduct, and the Reprehensible Conduct Response Plan*. These criteria support employees and suppliers in decision-making processes. *The Code of Conduct and Supplier Code of Conduct* can be accessed on Landsvirkjun's website. The CEO approves the Code of Conduct.

Landsvirkjun's operations follow *the government's general ownership policy and guidelines for state-owned companies* (September 2021), which provides guidelines on management and organisation, governance, policy formulation and vision, company operations, practices and working methods, information disclosure, performance measurement and communication with the owner's representative.

Landsvirkjun's Human Resources and Equality Policy states that the skills, education, and experience of applicants should be considered. Gender ratio is also considered to ensure gender equality, therefore, strengthening the Company's human resources.

Further information on policy, projects and performance can be found in *Appendix II on non-financial information* and Landvirkjun's website.

Ownership, role, policy, vision and values

Landsvirkjun is an energy company owned by the Icelandic State, whose purpose, according to the Act on Landsvirkjun no. 42/1983, is "to engage in operations in the energy sector and any other business and financial activities according to the decisions of the Board of Directors at any time." Landsvirkjun is the owner of power stations, other structures, water rights, and equipment acquired by the Company through sectoral laws or contracts.

Landsvirkjun's role is to maximise the potential yield and value of the renewable natural resources it has been entrusted with in a sustainable, responsible, and efficient manner.

Appendix I: Statement of Corporate Governance, contd.

Landsvirkjun's values are progressiveness, prudence, and reliability.

Landsvirkjun's policy is approved by the Board of Directors.

The Company has defined the following objectives to uphold its role:
- Efficient energy generation and development
- A leader in sustainable development
- Exceptional customer services
- A progressive and sought-after workplace
- Exceeding expectations in open communication and cooperation

Landsvirkjun's vision is a sustainable world powered by renewable energy.

The Board of Directors and sub-committees of the Board

The Board of Directors

Landsvirkjun's Board of Directors is appointed annually by the Minister of Finance and Economic Affairs. The Board and CEO are collectively responsible for the finances and operation of the Company. The Board's and sub-committies´ Operating Procedures are on Landsvirkjun's website. Board members are independent and unaffiliated with the Company, its day-to-day management, and its owner, according to the guidelines on corporate governance, published by the Chamber of Commerce on the 1st of July 2021. The group's Board shall operate independently, is responsible for the operation and management of the Company and is accountable to its owner.

Guðfinna Jóhanna Guðmundsdóttir resigned from the Company's Board of Directors in October 2021, and Hákon Hákonarson, previously a reserve member, became a member of the Board of Directors.

Landsvirkjun's Board of Directors:

Jónas Þór Guðmundsson, Chairman of the Board, was born on 11 May 1968 and lives in Hafnarfjörður. Jónas was first elected Chairman of the Board at the Company's Annual General Meeting on the 2nd of April 2014. He is a Supreme Court Lawyer from 1999. He has a Cand. Jur. from the Faculty of Law of the University of Iceland. He is Chairman of the assessment committee on salmon and trout fishing. He was previously Chairman of the Icelandic Bar Association, a member of the election supervision committee and wage council for the South-West constituency and on the Board of the Iceland Chamber of Commerce. He was a legal expert at the Ministry of Justice and Ecclesiastical Affairs, Director of Education at the Faculty of Law at the University of Iceland, and a lecturer at the Faculty of Law at the University of Iceland. In addition to his principal occupation, he also held the position of Adjunct at the Faculty of Law at Reykjavík University. Jónas is an independent member of the Board of Directors and unaffiliated with Landsvirkjun and its owners.

Álfheiður Ingadóttir, Vice-Chairman of the Board, was born on the 1st of May 1951 and lives in Reykjavík. Álfheiður re-joined Landsvirkjun's Board of Directors in April 2014, after being appointed to the Board by the Reykjavík City Council (2003-2006). Álfheiður holds a BS degree in biology from the University of Iceland and is currently a Board member for the Left-Green Movement Party and an editor at the Icelandic Museum of Natural History from 2014. She was a Member of Parliament for the Reykjavík constituency from 2007-2013 for the Left-Green Movement Party. Álfheiður was the Minister of Health from 2009 - 2010 and Chairman of the Left-Green Movement Party from 2012-2013. She was the Publishing Director of the Icelandic Institute of Natural History from 1997-2007 and editor of Náttúrufræðingurinn, a magazine published by Hið íslenska náttúrufræðifélag from 1997-2006. She worked as an Information Representative for the Women's Shelter from 1994-1995 and as a journalist for Þjóðviljinn from 1977-1987. Álfheiður is an independent member of the Board of Directors and unaffiliated with Landsvirkjun and its owners.

Jón Björn Hákonarson was born on the 27th of January 1973 and lives in Norðfjörður, Fjarðabyggð. Jón Björn was elected to Landsvirkjun's Board of Directors in April 2018 and was previously on the Board from 2014-2017. Jón Björn was President of the Fjarðabyggð Town Council and Vice-chairman of the Municipal Council 2010- 2020. He is now the Mayor of Fjarðabyggð and a town representative. He is also a Board Member of the Icelandic Association of Local Authorities, Sparisjóður Austurlands, the School Board at Verkmenntaskóli Austurlands and is involved in various committees for Fjarðabyggð, other public entities and municipal cooperation. He is also Party Secretary for the Progressive Party. Jón Björn is an independent member of the Board of Directors and unaffiliated with Landsvirkjun and its owners.

Gunnar Tryggvason was born on the 15th of August 1969 and lives in Reykjavík. Gunnar was elected to Landsvirkjun's Board of Directors in April 2018. Gunnar has a B.Sc in electrical engineering and an M.Sc. in power engineering and works as a Business Manager at Faxaflóahöfn. He previously worked as a Senior Manager at KPMG from 2009-2018. Gunnar also worked in Corporate Finance at Landsbankinn and as a CFO at Enex hf. Gunnar is an independent member of the Board of Directors and unaffiliated with Landsvirkjun and its owners.

Guðfinna Jóhanna Guðmundsdóttir, a Member of Landsvirkjun's Board of Directors from April 2018 to October 2021, was born on the 14th of April 1969 and currently lives in Seltjarnarnes. Guðfinna is a lawyer and established the law firm Fasteignamál Lögmannsstofa in 2002. She previously worked as a lawyer at the Ministry of Social Affairs, at the Housing Financing Fund, National Council of State Housing Agencies and as a Representative of the District Commissioner in the Westman Islands. She was a member of the City Council for the Progressive Party and Airport Friends between 2014 and 2018. Guðfinna is the Chairman of the Examination Committee of Property Declaration and the Chairman of the Examination Committee of Tenants. Guðfinna was an independent member of the Board of Directors and unaffiliated with Landsvirkjun or its owners.

Hákon Hákonarson, who became a Member of the Board in October 2021, was born on the 6th of February 1945 and currently lives in Akureyri. Hákon was elected as an alternate member of Landsvirkjun's Board of Directors in April 2018. Hákon is a mechanic and studied Operations and Management at Símenntun at the University of Akureyri. Hákon has served on the boards of various institutions and companies such as the Metalworkers' Association of Akureyri, Hitaveita Akureyrar, Norðurorka and Fallorka. Hákon is an independent member of the Board of Directors and unaffiliated with Landsvirkjun or its owners.

Appendix I: Statement of Corporate Governance, contd.

Landsvirkjun's Board of Directors evaluates the Company's strategy, operations, financial position, its work, and the CEO's. The Board annually reviews the presentation, content, and form of the written information, submitted by the CEO to the Board, on the Company's operations and financial position. The Board holds an annual meeting, without the CEO or other Company staff, to discuss the Company's policies and Board procedures.

Audit Committee

Landsvirkjun's Audit Committee is subject to Chapter IX of Act No. 3/2006 on Financial Statements, cf. Act No. 80/2008. The Board of Directors sets out standard procedures for the Committee in compliance with the law. Landsvirkjun's Board of Directors appoints three individuals to Landsvirkjun's Audit Committee at its first meeting after the Annual General Meeting each year, one of whom shall be appointed Chairman of the Committee. The role of Landsvirkjun's Audit Committee, according to Article 2 of its Rules of Procedure, is to:

a) Monitor the processes involved in the preparation of financial statements.

b) Monitor the organisation and effectiveness of the Company's internal control framework, internal auditing, and risk management.

c) Monitor any audit of the Company's financial statements and consolidated financial statements.

d) Assess the compliance of auditors or auditing firms employed by Landsvirkjun with the laws and supervisory standards generally adhered to by auditors and auditing firms.

Pursuant to paragraph 3, Article 8 of the Act on Landsvirkjun No. 42/1983, the General Meeting elects a certified public accountant or accounting firm to audit the Company's financial statements, according to the proposal from the Icelandic National Audit office. Pursuant to the Act on the Auditor General and the Auditing of Government Accounts, the election of an auditor or audit firm shall be decided in consultation with audit committees, when applicable. Landsvirkjun's Audit Committee serves an advisory role for the Board of Directors and acts on its behalf. The Committee does not have executive power. The Audit Committee has a total of three members consisting of two Board members: Jónas Þór Guðmundsson and Gunnar Tryggvason and Heimir Haraldsson CPA, who is the Chairman of the Committee. The Audit Committee may seek advice, whenever necessary, to fulfil its supervisory duties. The official working period of the audit committee (at any given time) is between annual general meetings. The Committee meets at least four times during its tenure. The Chairman of the Committee chairs the meetings of the Audit Committee.

Risk Management Committee

Landsvirkjun's Board of Directors appoints three individuals to the Risk Management Committee, one of whom shall be appointed chairman. The Risk Committee is appointed for one year at a time at the first board meeting after the Annual General Meeting. Landsvirkjun's Risk Management Committee shall, according to Article 2 of its Rules of Procedure:

a) Monitor Landsvirkjun's risk management, including risk policy and risk appetite.

b) Present the Board with any proposed changes to the risk management structure, when necessary.

c) Monitor and evaluate the execution and effectiveness of risk management.

d) Review Landsvirkjun's key risks and the Company's risk profile.

e) Review emergency management procedures, contingency plans, and business continuity plans.

f) Oversee the Company's compliance with the law and mandatory disclosure requirements.

g) Monitor and inform the Board of Directors on the status of damage and liability insurance.

h) Take on the responsibilities assigned to the Committee, by Landsvirkjun's Board of Directors, at any given time.

The Risk Committee has three Board members: Jónas Þór Guðmundsson, Chairman, Álfheiður Ingadóttir and Hákon Hákonarson, all appointed by the Board of Directors. Hákon Hákonarson was appointed to the Risk Committee from 20th of October 2021 at the same time Guðfinna Jóhanna Guðmundsdóttir resigned from the Board. The Committee meets 2-3 times a year or as often as required and reports back to the Board annually.

Remuneration Committee

Landsvirkjun's Board of Directors appoints three individuals to the Remuneration Committee, one of whom shall be appointed chairman. The Remuneration Committee is appointed for one year at a time at the first board meeting after the Annual General Meeting. Landsvirkjun's Remuneration Committee shall, according to Article 2 of its Rules of Procedure:

a) Submit a proposal regarding the Company's remuneration policy and its review, to Landsvirkjun's Board of Directors.

b) Monitor the execution of the remuneration policy.

c) Submit a proposal on the CEO's wages and other benefits to Landsvirkjun's Board of Directors.

d) Monitor the development of Landsvirkjun's remuneration and human resources matters, including wage equality.

e) Follow up on the completion of agreements made with the CEO and other employees, under the auspices of the Board, on salaries and other employment terms.

f) Propose remuneration for Landsvirkjun's Board of Directors and the members of the Board's sub-committees for the current term of office, to be submitted to the Annual General Meeting.

g) Take on the responsibilities assigned to the Committee, by Landsvirkjun's Board of Directors, at any given time.

The Remuneration Committee has three Board members, all appointed by the Board of Directors: Jónas Þór Guðmundsson, Chairman, Álfheiður Ingadóttir and Jón Björn Hákonarson. The Committee meets as often as required and reports back to the Board annually.

Meetings held in 2021: The Board of Directors held 16 meetings, the Audit Committee held 4 meetings, the Remuneration Committee held 5 meetings, and the Risk Committee held 3 meetings. All the meetings were fully attended.

CEO, Deputy CEO and Executive Board

Hörður Arnarson is Landsvirkjun's CEO. The Board approves the CEO's Operating Procedures. The CEO handles the Company's day-to-day operations and must comply with the policy and instructions set out by the Board of Directors. Day-to-day operations do not include measures that are unusual or significant. The CEO can only take such actions with the explicit permission of the Board of Directors unless awaiting the Board's decision would prove disadvantageous to Company operations. The Board shall be notified immediately of any measures taken under such circumstances. The CEO shall ensure that the Company accounts are kept in accordance with the relevant laws and practices and shall also ensure the secure handling of its assets. The CEO supervises and monitors Landsvirkjun's subsidiaries and associates.

Kristín Linda Árnadóttir is the Deputy CEO of Landsvirkjun. The Deputy CEO is the substitute for the CEO in his absence and manages the CEO's Office. The CEO's office leads company strategy and the collection of key criteria. The Division is responsible for the functioning of the Company's management systems and risk management, in addition to facilitating improvement and coordinating cross-divisional changes. The Division leads the Company's communication and information dissemination and is responsible for human resources, wages and leads the development of the working environment. The Division provides legal services to other Landsvirkjun divisions and works on Landsvirkjun's quality management and governance methods.

Appendix I: Statement of Corporate Governance, contd.

The Executive Board consists of the CEO, Deputy CEO, Executive Vice Presidents, and others, dependent upon the CEO's decision. Extensive organisational changes were made to support the Company's strategy during the year. The energy division was divided into two resource areas: The Hydropower Division and the Wind and Geothermal Energy Division. The Marketing and Business Development Division was split into two divisions: The Sales and Services Division and the Business Development and Innovation Division. A Community and Environment Division was also established. The Research and Development Division discontinued in its corrent form and its role transferred to other divisions. There were seven Executive Directors at the end of the year.

Gunnar Guðni Tómasson is the Executive Director of the Hydropower Division. The division is responsible for ensuring the efficient operation of hydropower stations, ensuring that energy production is maximised. The Division is responsible for maintaining and refurbishing hydropower stations to ensure that they meet environmental and safety requirements. The Division is responsible for developing hydropower energy options, water monitoring, research related to new energy options and the supervision of dams and other structures. The Division is responsible for managing electricity generation and delivery in accordance with existing agreements.

Einar Mathiesen is the Executive Director of the Wind and Geothermal Energy Division. The Division is responsible for the efficient operation of geothermal power stations and wind farms, ensuring that energy generation is maximised. The Division is responsible for the maintenance, renovation, and renewal of power stations to perform their specified role efficiently, meeting environmental and safety requirements and complying with the ISO 55000 Standard. The Division is also responsible for the development of new energy options for geothermal and wind energy and innovation that leads to improved utilisation of the resource, as well as monitoring and research monitoring of the resource.

Ásbjörg Kristinsdóttir is the Executive Director of Construction Division. The Division oversees the construction of power stations that have reached the construction stage and renovation projects at the Company's power stations. The Division is also responsible for tender documents, work preparation, cost and cash flow plans for projects, tenders and contracts for planned projects and the acquisition of necessary project permits. The Division is responsible for construction, costs and the progression of projects during the construction phase.

Rafnar Lárusson is the Executive Director of the Finance Division and IT. The Division is responsible for the budget process and its monitoring. It provides services that provide an overview of Company operations, oversees processes that ensure the acquisition of resources and capital management, and provides comprehensive advice in procurement and finance. The Division is responsible for ensuring that IT and digital solutions reflect the needs of Company operations at any given time.

Tinna Traustadóttir is the Executive Director of the Sales and Customer Service Division. The Division operates contracts with existing customers and ensures excellent service. The Division is responsible for maximising Landsvirkjun's long-term revenue, interfacing with customers, business portals, settling electricity sales. It is also responsible for the development of pricing policies in wholesale and energy-intensive user markets, handling demand forecasts and the analysis of Landsvirkjun's business environment and competitive position in both domestic and foreign markets.

Ríkarður Ríkarðsson is the Executive Director of the Business Development & Innovation Division. The role of the Division is to develop new business opportunities and manage Landsvirkjun's participation in energy-related innovation. The Division is responsible for planning and supervising innovation projects and collaborates with municipalities, other companies, clusters, and other parties to pursue innovation. The Division also seeks funding for energy-related business development and innovation in the international research and development arena.

Jóna Bjarnadóttir is the Executive Director of the Community and Environment Division. The Division leads the way social and environmental matters. It also supports other divisions within the Company, leading the journey towards carbon neutrality, green operations, active cooperation and dialogue in the local community and socially responsible activities.

The Board approved the new strategy on the 17th of August 2020. Organisational changes were made to help the Company adapt to and support new strategy and policies.

Regulatory compliance

The Company has not violated any laws or regulations according to any court or administrative order in 2021.

Arrangements for communication with the owners

Communication with the owners mainly occurs at the Company's Annual General Meeting and extraordinary general meetings. See more about contact with owners in the Board's Rules of Procedure.

Appendix II: Non-financial information

Landsvirkjun first introduced its Corporate Social Responsibility Policy in 2012 and has published a sustainability report in accordance with the Global Reporting Initiative since 2019. These reports are part of a holistic approach towards increased sustainability in Company operations. Landsvirkjun has supported the UN Global Compact since 2013, outlining criteria to meet fundamental responsibilities in human rights, labour, environment and anti-corruption. Landsvirkjun also supports the UN's Sustainable Development Goals, focussing on Goal 13 on Climate Action, Goal 7 on Affordable and Clean Energy and Goal 5 on Gender Equality.

Landsvirkjun carried out an extensive materiality assessment between 2018 and 2020 to assess the importance of sustainability issues. This type of analysis involves consultation with the Company's main stakeholders, as well as analytical work within the Company, to assess how the Company can meet stakeholders' expectations regarding key focus areas, strategy, and information dissemination on sustainability issues. Landsvirkjun defined nine key sustainability issues based on the results of the analysis:

Economy and corporate governance	**Climate and environmental issues**	**Society**
- Responsible work practices and ethical standards	- Climate action	- Safety and welfare of employees and professional development
- Creating value and dividends	- Energy generation in harmony with nature	- Equality issues
- Energy-related innovation	- Improved utilisation of natural resources and less waste	- Cooperation with local communities

Landsvirkjun's 2020 Sustainability Report considered these nine focus areas and was awarded Sustainability Report of the year by Festa - the Center for Sustainability, Stjórnvísir and the Icelandic Chamber of Commerce.

Landsvirkjun's market environment has undergone significant changes, presenting complex challenges and exciting opportunities. Landsvirkjun responded to these changes by embarking on extensive strategy work in 2020, which continued into 2021. The work focused on the nine sustainability key focus areas mentioned above. The Company's Board subsequently approved ten strategy objectives for the Company, two for each of the Company's five strategy targets:

Strategy targets	**Strategic objectives**
Efficient energy generation & development	Lower electricity production costs Take the next step in wind energy
Leader in sustainable development	Support domestic & international energy transition Become carbon neutral
Exceptional customer service	Work closely with customers Diversify our customer base
Progressive & sought-after workplace	Strengthen the team Correct gender ratios
Exceeding expectations in open communication and cooperation	Work closely with the local community Active communication with stakeholders

The Company's strategy targets, and strategy objectives support the Company's role and vision.

Appendix II: Non-financial information, contd.

Landsvirkjun's vision is a sustainable world powered by renewable energy.

Landsvirkjun's role is to maximise the value of the renewable energy resources it has been entrusted with in a sustainable and efficient manner.

Economy and corporate governance

Sustainab. indicators Responsible practices and ethical standards
Creation of economic value and dividends
Energy-related innovation

Business model

Landsvirkjun is an energy company owned by the Icelandic State which generates electricity from renewable energy sources such as hydropower, geothermal energy, and wind power. The Company produces over 70% of the country's electricity and operates in a competitive market. About 15% of the Company's electricity production is sold to domestic electricity sales companies, who subsequently sell electricity to households and businesses. About 85% of the Company's electricity generation is sold to various energy-intensive customers competing in an internationally competitive market, such as smelters, silicon plants and data centers.

Landsvirkjun's role is to maximise the potential yield and value of the natural resources it has been entrusted with in a sustainable, responsible, and efficient manner. Landsvirkjun paid dividends to the state amounting to 50 million USD in 2021.

Organisational Changes

Landsvirkjun initialised various changes in 2020 and 2021, updating its policy to reflect the changing business environment. The subsequent organisational changes will help the Company adapt to and implement new procedures and policies. Restructuring began in 2020 by introducing two new divisions, the Sales & Customer Services Division, and the Business Development & Innovation Division, which replaced the Marketing & Business Development Division. Another three divisions were created in 2021. The Community and Environment Division was established to reflect the increased importance of sustainability across all company operations, including developing new business opportunities. The Construction Division, responsible for preparing power projects and their subsequent operations, was restructured. The Hydropower Division and the Wind and Geothermal Power Division were established and the Energy and Developement Divisions were closed.

Management System

Landsvirkjun's management system supports the Company in fulfilling its obligations towards its customers, employees, and other stakeholders, as well as aiding in the development of company policy based on the values of sustainability development. The Management System is certified according to international standards for quality management, environmental management, security, health and safety and IT security. Landsvirkjun's electricity generation is certified as 100% renewable energy, which is testimony to the Company's commitment to developing renewable energy sources and confirmation that Landsvirkjun fulfils the most stringent production requirements.

We continued the review and update of the internal policies this year. Landsvirkjun's Board approved coordinated instructions on the Company's internal policies. These guidelines expect the Company to set internal procedures for the following areas:

Dividends	Data protection	Environmental issues
Risk management	Social responsibility	Information security
Capital structure	Competition	Inform. and publication issues
Procurement	Communication with local comm.	Health and safety and
Human res. and equality issues	Remuneration policy	occupational safety

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Appendix II: Non-financial information, contd.

Ethical Standards

Landsvirkjun's ethical standards are outlined in the Company's quality management system, included in the appropriate procedures, and made available to employees in the educational material provided by the Company. The Code of Conduct and Supplier Code of Conduct are on Landsvirkjun's website.

The purpose of the Reprehensible Conduct Response Plan is to disclose any offence and other possible misconduct at the earliest opportunity and to prevent this type of conduct. Among the topics covered in the plan are preventing corruption and bribery. Employees who become aware of any reprehensible behaviour within the Company must report the information using the response plan.

Human Rights

Landsvirkjun's Board of Directors approved the Company's Value Chain regulations in 2016, intended to ensure the rights of Landsvirkjun's employees, contractors, subcontractors, or temporary employees. They cover wages, working conditions and health and accident insurance. Various policies and regulations, already in place, ensure the human rights of all Landsvirkjun's employees. A specific human rights policy in addition to these regulations was therefore not deemed necessary. These include Landsvirkjun's Code of Ethics, Supplier Code of Ethics and the Reprehensible Conduct Response Plan discussed above.

Risk Management

Landsvirkjun follows a formal risk management process to identify and control the Company's financial and non-financial risks. The objective of the process is to map key risk factors and take appropriate action, to reduce the likelihood of undesirable events and their potential effects on image, finances, health and safety and the environment. Landsvirkjun uses a specialised risk management information system to store information on specific risk factors and mitigation measures. Landsvirkjun's climate change risk is discussed in the chapter on climate and environmental issues.

Landsvirkjun has closely monitored the progress of the EU Taxonomy Regulation to continue to meet all requirements for sustainable investments.

Landsvirkjun's financial risk is discussed in more detail in the notes section of these Financial Statements.

COVID-19

Landsvirkjun announced its COVID-19 response package in the first quarter of 2020 to contribute to Iceland's economic recovery during the pandemic. Landsvirkjun introduced measures to ensure secure energy generation at its power stations during the pandemic, often going above and beyond the set restrictions. The Chapter on Health and Safety measures, during COVID-19, discusses these measures in more detail.

Landsvirkjun's Customers

Landsvirkjun immediately responded to customers who felt the impact of the downturn in the world economy in 2020, to see a sharp recovery in 2021. Markets responded better than expected, and Landsvirkjun's customers fully utilised their contracts, purchasing more energy than expected. No further customer support was required during the pandemic.

Job-creation projects

Three projects began as part of the Company's power station renovation plans to support employment opportunities during the pandemic. The projects will reach completion in the next two to three years.

Appendix II: Non-financial information, contd.

Energy-related and climate-friendly innovation
Landsvirkjun supports energy-related and climate-friendly innovation through various collaborative projects. These include collaboration projects with the local communities surrounding power stations to prepare for future energy-related opportunities in, amongst others, the fields of food production, sustainable use of resources and entrepreneurship. The Company is also involved in preparing areas for new energy-related investments. Landsvirkjun is also engaged in energy transition projects with businesses and municipalities, focussing on aviation, transport and larger vehicles that cannot use batteries.

Climate and environmental issues

Sustainab. indicators	Climate action
	Energy generation in harmony with nature
	Improved utilisation of natural resources and less waste

Climate and Environment Policy
Climate and environmental issues are core issues in Landsvirkjun's operations, and the Company operates in accordance with a Climate and Environmental policy. The purpose of Landsvirkjun's Climate and Environmental Policy is to protect the environment while responsibly utilising natural resources and managing work procedures to minimise any potential impact on the environment from Company operations. The Policy states the following:

- Landsvirkjun is at the forefront of environmental and climate issues.
- Landsvirkjun respects the landscape and natural environment and consistently strives to optimise the utilisation of natural resources to prevent waste. We are committed to minimising and recognising any adverse environmental impacts resulting from our operations and preventing environmental incidents.
- Landsvirkjun intends to achieve carbon neutrality and is an active participant in the global response to the climate crisis. We systematically work towards reducing our carbon emissions, increasing sequestration, and responding to climate change challenges and opportunities.

Positive and negative environmental impact from operations
The most effective way to mitigate global climate change today is to replace fossil fuel consumption with renewable energy solutions. Renewable energy is Iceland's biggest contribution to climate change action. Landsvirkjun's influence extends beyond Iceland, as the Company participates in harnessing renewable energy abroad through its subsidiary Landsvirkjun Power.

Landsvirkjun has also set the goal of eliminating its net emissions by 2025. Information on the Company's emissions and its progress on these issues is published in the Company's Climate Accounts and confirmed with limited certainty according to ISO 14064-3. The action plan created to achieve these objectives can be accessed on the Company's website. The Company's priorities are in this order: Prevent new emissions, reduce current emissions and implement mitigation measures.

Renewable energy is unquestionably one of the most essential weapons in preventing global warming but still requires the utilisation of natural resources. The effects of renewable energy sources such as hydropower, geothermal energy and wind energy differ; however, they all depend on the responsible and maximal utilisation of the resource.

Landsvirkjun works hard to understand, reduce, and prevent the environmental impact of its operations. Power stations are designed and finished to blend into the immediate landscape with minimal disturbance to the local environment and vegetation. Landsvirkjun also participates in land reclamation and reforestation projects to reclaim land lost to the Company's energy infrastructure.

Appendix II: Non-financial information, contd.

Climate and environmental objectives

Landsvirkjun has set clear goals to support its ongoing success in climate and environmental matters. The goals relate to resource utilisation, carbon neutrality, GHG emissions reduction, fossil fuel consumption, landfill waste, and no environmental incidents. Below is an overview of Landsvirkjun's Climate and Environmental Policy.

Maximise the utilisation of harnessed resources

In the first half of the year, Landsvirkjun's larger customers were affected by challenging market conditions and were unable to take full advantage of their contracts, which affected Landsvirkjun's production system. However, they recovered towards the end of the year, and Landsvirkjun's production subsequently reached full capacity, also reducing curtailable energy.

Prevent environmental incidents

Two environmental incidents occurred this year. The causes were immediately identified, and work procedures were reviewed and updated. More detailed information is provided in Landsvirkjun's Annual Report.

Carbon footprint and GHG emissions objectives

- Become carbon neutral by 2025
- Annual GHG emissions below 4 gCO_2-eq/kWh
- Stop purchasing fossil fuels by 2030
- No active waste from operations sent to landfill by 2024

More detailed information is provided in Landsvirkjun's Climate Accounts which are certified by Bureau Veritas.

Certification and standards

Landsvirkjun's Environmental Management System is certified in accordance with ISO 14001. The Company is committed to consultation and cooperation with Company employees and stakeholders and closely monitors international developments in environmental issues.

Landsvirkjun's emissions were reviewed and confirmed (with limited certainty) by Bureau Veritas, according to the ISO 14064-3 Standard, in 2008, 2018, 2019, 2020 and 2021. Landsvirkjun's carbon sequestration measures in 2020 were also reviewed and confirmed (with limited certainty) by Bureau Veritas in 2021 according to the ISO 14064-2 Standard.

Landsvirkjun has submitted information to the CDP (formerly known as the Carbon Disclosure Project) since 2016. In 2020 the CDP gave Landsvirkjun a grade of A- on their Climate list, which was the highest rating any Icelandic company had received. Landsvirkjun did not submit information to the CDP in 2021 due to extensive organisational changes and an emphasis on completing larger, outstanding projects. Landsvirkjun intends to disclose information to the CDP again in 2022.

Society

Sustainab. indicators	Safety and welfare of employees and professional development
	Equality issues
	Cooperation with local communities

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Appendix II: Non-financial information, contd.

Human Resources and Equality Policy

Landsvirkjun's strives to provide a progressive, sought-after work environment to attract people who are the best in their field. Landsvirkjun's team is the key to its success, and the Company safeguards the wellbeing, knowledge, and equality of its employees. There are six policy objectives:

- We hire qualified and progressive staff
- We emphasise equality and ensure equal pay for equally valuable jobs
- We create a flexible and positive work environment
- We acquire knowledge and develop professionally
- We want progressive management
- We welcome and send off employees with respect

Human Resources

Landsvirkjun operations are located throughout Iceland. Half of the Company's employees work at the headquarters in Reykjavík and the other half are located at workstations where Landsvirkjun's 15 hydropower stations, 3 geothermal power stations and 2 wind turbines are in operation. Landsvirkjun also offers numerous young adults and university students summer employment each year.

Landsvirkjun invested in extensive management and leadership training in 2020 and 2021 to support the Company's new strategy. Training bolsters the manager-team relationship, helping managers attain their full potential, thereby creating a cohesive environment where the Company's vision, policy, corporate culture, and operations can thrive.

New human resources processes were shaped and developed within the Company this year. Performance interviews are conducted twice each year to assess employee competency requirements and to give employees effective feedback on where they excel and where they can improve. Increased emphasis has been placed on internal communication and information dissemination with employees. Landsvirkjun has also significantly increased E-learning, and its use has increased among employees.

Equality

Gender equality is a cross-divisional, strategic priority and Landsvirkjun completed a three-year action plan this year on gender equality, involving 17 improvement projects. The projects support the objectives and criteria set by the Company on equality issues. The Company has a Gender Equality Committee chaired by the CEO. It has defined and published a gender equality plan until 2024 in accordance with Act 150/2020 on Equal Status and Equal Rights Irrespective of Gender. The Executive Board reviews the plan every six months.

Landsvirkjun is committed to ensuring gender equality throughout its operations, including career advancement, responsibility and participation in working groups and opportunities in professional training and education. Landsvirkjun is a family-friendly environment where employees are protected from harassment and violence. Landsvirkjun has defined response plans for bullying, sexual harassment, gender-based harassment and violence.

Equality objectives and certification

A milestone was reached this year when gender balance was achieved on our Executive Board. However, there is still a gender deficit at the management level. The proportion of female managers at Landsvirkjun was 33% at the end of 2021 and 34% at the end of 2020.

Appendix II: Non-financial information, contd.

Landsvirkjun pays equal wages and/or the same terms for the same or equally valuable jobs. The Company operates in accordance with the Equal Wage Standard ÍST 85: 2012, and the Company's equal pay system is certified by the British Standard Institution (BSI). The certificate was renewed this year by BSI and is valid for three years. Landsvirkjun was awarded the PWC Gold Standard for the seventh time in 2021. Men's basic salaries were 0.8% higher than women's salaries and men's total wages were 1.2% higher than women's, placing them within the PWC threshold.

Health and Safety and Occupational Safety Policy

Landsvirkjun's Health and Safety and Occupational Safety Policy is based on a safety culture and ensuring a work environment that ensures the wellbeing of its employees. The goal is operations without incidents that cause permanent injury. Landsvirkjun's Board sets the policy, based on the CEO's proposal.

Landsvirkjun's policy is to ensure a sustainable safety culture based on the values, communication, and behaviour of employees in the workplace. An emphasis is placed on the following:

- Physical and psychosocial hazards are analysed, risks assessed, and controls implemented based on prevention and continuous improvement.
- Activities without incidents that cause permanent injury
- Operations promote wellbeing in the workplace
- Managerial responsibilities are clearly defined, and employees know their safety is a priority
- Compliance with official requirements concerning the issue
- Open and honest communication and consultation with internal and external stakeholders on the issue

Objectives in health and safety and occupational safety matters

To support success Landsvirkjun has set the following objectives:

	2021	2020
Absence related incident/200,000 work hours = 0 (empl)	0.33	0.32
Absence related incident/200,000 work hours = 0 (contr)	Not mesurable due to too few hours	
Sick days as a percentage of working hours < 3%	3.1%	3.0%

Employee mental health

Landsvirkjun carried out a psychosocial risk assessment in collaboration with the company Auðnast, a wellbeing and support service, where risk factors for various positions within Landsvirkjun were examined. Particular attention was paid to stress, management, and work-related issues. Surveys were conducted on the wellbeing of employees during COVID, and the results showed that the epidemic had less effect on wellbeing than expected.

Certification and standards

Landsvirkjun operations are certified in accordance with the Occupational Health and Safety Standard ISO 45001, which requires continuous improvement on safety, health, and occupational health. Landsvirkjun's operations are audited annually by BSI and maintained certification for ISO 45001 in 2021.

COVID

Covid measures have, since the pandemic began in 2020, focused on ensuring continuous, uninterrupted operations and protecting employee health. Operations have remained unaffected by the pandemic, despite infections amongst external staff.

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Appendix II: Non-financial information, contd.

A specific pandemic response plan was initiated, and response teams were appointed in each area of operation to implement local measures. These measures successfully prevented large groups of employees from being quarantined. Overall, the epidemic had less impact on Landsvirkjun's operations than initially expected.

Collaboration with the community

Landsvirkjun's operations have a widespread impact in the community, not least in local communities surrounding its power stations. One of the Company's strategic objectives is to create support and consensus through open communication with stakeholders. A stakeholder analysis and communication plan are developed for every project to support ongoing dialogue and transparency.

A special department, Local Community and Green Operations was established this year following the organisational restructuring. The department reflects Landsvirkjun's commitment to communication and contributing to society. The new department belongs to the Community and Environment Division, which was also established this year.

The Company has developed a Community Engagement Policy to reflect its focus on the community. The new Policy will be launched in the first quarter of 2022, aiming to coordinate working procedures across company operations, promoting the positive social impacts and benefits of Company operations through dialogue and collaboration, thereby supporting innovation.