Landsvirkjun

Financial Statements

2023

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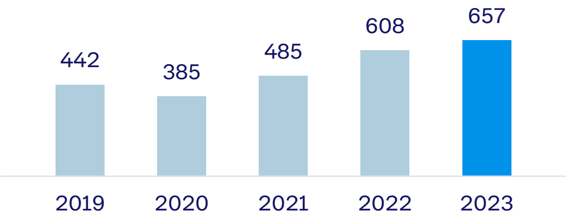
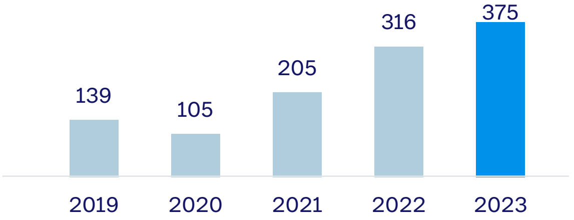
Key figures

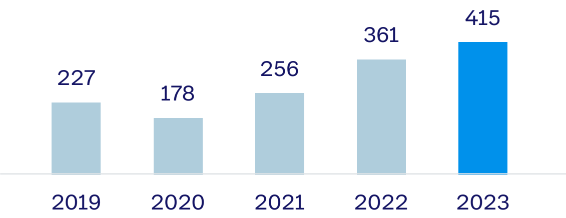
Operating revenues



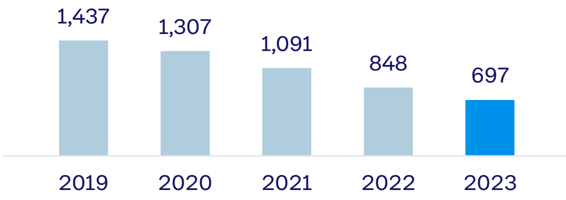
Profit before unrealised financial items



Cash flow from operating activities



Net debt



Capacity
2,146 MW

15 Hydropower stations
1,991 MW

3 Geothermal stations
153 MW

2 Windmills
2 MW

Key figures - Unaudited

Management's presentation of the operation of Landsvirkjun*

	2023	2022	2021	2020	2019
Operation					
Operating revenues	571,390	708,665	543,608	380,209	432,039
Realised hedges	86,044	(100,412)	(58,881)	5,262	10,047
Total operating revenues	657,434	608,253	484,727	385,471	442,086
Operating expenses	(159,961)	(153,884)	(151,579)	(137,893)	(145,299)
EBITDA	497,473	454,369	333,148	247,578	296,787
Depreciation and impairment loss	(105,931)	(107,820)	(107,446)	(98,128)	(104,708)
EBIT	391,542	346,549	225,702	149,450	192,079
Financial items	(17,177)	(31,183)	(21,084)	(45,266)	(53,531)
Subsidiaries and associated companies	918	522	57	435	183
Profit before unrealised financial items	375,283	315,888	204,675	104,619	138,731
Unrealised financial items:					
Fair value changes in embedded derivatives	(18,242)	61,616	33,454	970	(1,323)
Fair value changes in other derivatives	(17,696)	81,547	(46,301)	(12,726)	(8,011)
Unrealised foreign exchange difference	(1,467)	11,071	(10,661)	(9,087)	6,779
	(37,405)	154,234	(23,508)	(20,843)	(2,555)
Profit before income tax	337,878	470,122	181,167	83,776	136,176
Income tax	(128,391)	(171,386)	(68,778)	(33,144)	(52,388)
Profit from continued operations	209,487	298,736	112,389	50,632	83,788
Profit (loss) from discontinued operations	0	(137,231)	23,231	17,919	19,972
Net Profit	209,487	161,505	135,620	68,551	103,760
Balance sheet					
Total assets	3,614,248	3,872,948	3,742,237	3,711,752	3,852,999
Equity	2,364,114	2,296,676	2,213,205	2,103,321	2,108,786
Liabilities	1,250,134	1,576,272	1,529,032	1,608,431	1,744,213
Net debt **	697,319	848,080	1,091,247	1,307,269	1,436,923
Cash flow					
Funds from operations (FFO)	479,416	422,291	287,548	198,501	242,371
Cash flow from operating activities	415,177	361,411	256,432	178,434	226,991
Investing activities	(121,782)	(5,721)	(11,474)	52,197	(22,720)
Financing activities	(362,868)	(268,507)	(238,288)	(244,441)	(202,516)
Liquidity					
Cash and cash equivalents at year end	85,256	150,945	65,898	58,986	70,590
Undrawn loans	125,000	150,000	150,000	250,000	150,000
Total liquidity	210,256	300,945	215,898	308,986	220,590
Key ratios					
Return on equity	9.1%	7.3%	6.4%	3.3%	5.1%
Equity ratio	65.4%	59.3%	59.1%	56.7%	54.7%
Interest cover (EBITDA/net interest exp.)	44.31x	14.31x	7.80x	5.66x	5.53x
FFO / net liabilities	68.8%	49.8%	26.4%	15.2%	16.9%
FFO / interest expenses	14.11x	11.83x	6.63x	4.39x	4.16x
Net debt / EBITDA	1.40x	1.87x	3.28x	5.28x	4.84x
Credit rating at year end without state guarantee					
Standard & Poor's	A-	BBB+	BBB+	BBB	BBB
Moody's	Baa1	Baa1	Baa1	Baa1	Baa1

* Amounts shown are for the parent company, see further note no 2g
** Net debt is interest bearing long-term liabilities less cash and cash equivalents

Financial Statements of Landsvirkjun 2023 4 Amounts are in USD thousand

Quarterly statement 2023 - Unaudited

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

	Q1	Q2	Q3	Q4	Total
Operating revenues					
Power sales	151,790	129,897	122,416	132,145	536,248
Realised hedges	13,391	21,869	28,789	21,995	86,044
Other income	10,242	4,563	12,406	7,931	35,142
	175,423	156,329	163,611	162,071	657,434
Operating expenses					
Energy generation costs	24,794	26,576	27,257	26,145	104,772
Cost of general research	2,459	2,522	2,194	3,282	10,457
Other operating expenses	10,199	10,219	11,202	13,112	44,732
Depreciation and impairment loss	26,579	26,457	26,289	26,606	105,931
	64,031	65,774	66,942	69,145	265,892
Operating profit	111,392	90,555	96,669	92,926	391,542
Financial income and (expenses)					
Interest income	5,327	5,149	6,248	6,023	22,747
Interest expenses	(8,907)	(8,718)	(8,323)	(8,026)	(33,974)
Realised foreign exchange difference	636	78	(790)	(5,874)	(5,950)
	(2,944)	(3,491)	(2,865)	(7,877)	(17,177)
Subsidiaries and associated companies	227	229	188	274	918
Profit before unrealised items	108,675	87,293	93,992	85,323	375,283
Unrealised financial items:					
Fair value changes in embedded derivatives	14,953	(55,083)	6,089	15,799	(18,242)
Fair value changes in other derivatives	34,723	2,366	(28,418)	(26,367)	(17,696)
Unrealised foreign exchange difference	(9,253)	909	(137)	7,014	(1,467)
	40,423	(51,808)	(22,466)	(3,554)	(37,405)
Profit before income tax	149,098	35,485	71,526	81,769	337,878
Income tax	(57,510)	(13,101)	(26,071)	(31,709)	(128,391)
Net Profit	91,588	22,384	45,455	50,060	209,487
From cash flow					
Cash flow from operating activities	144,419	104,365	113,829	52,564	415,177

Other key metrics	**2023**	**2022**	**2021**	**2020**	**2019**
Installed capacity at year end (MW)	2,146	2,146	2,146	2,146	2,146
Av. price for ind. users excl trm. USD/MWh*	30.6	42.9	32.7	21.1	23.2
Av. price for primary energy excl. trm. ISK/kWh	6.7	6.2	5.3	5.3	5.0
Sales in GWh	14,686	14,629	14,052	13,336	14,028
Research and development	33,842	14,712	11,941	10,916	11,823
Accident frequency rate: H200**	0.9	0.6	0.3	0.3	0.3

* Average prices exclude transmission cost
** H200 is the number of absence accidents per 200,000 working hours

Financial Statements of Landsvirkjun 2023 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 financial statements of Landsvirkjun for 2023 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act and include the financial statements of the Company which include the results of the subsidiaries, Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf. and associated companies. Landsvirkjun does not prepare consolidated financial statements, see further note no. 2g. 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 Company's operating revenues amounted to USD 657.4 million in 2023 compared to USD 608.3 million in the previous year, an increase of USD 49.1 million. The increase is mainly due to realised hedges. Operating expenses amounted to USD 265.9 million in 2023 compared to USD 261.7 million in 2022. The Company's operating profit amounted to USD 391.5 million in 2023 compared to USD 346.5 million in the previous year.

Landsvirkjun uses derivative contracts to manage risk associated with fluctuations in interest rates and foreign exchange rates and also 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 54.6 million in 2023, compared to USD 123.1 million of financial income in excess of financial expenses in the previous year, a change of USD 177.7 million. The change is mainly due to fair value changes in derivatives. Profit before unrealised financial items amounted to USD 375.3 million during the year compared to USD 315.9 million in 2022. According to the income statement, profit for the year amounted to USD 209.5 million compared to USD 161.5 million in the previous year.

Equity at year end 2023 amounted to USD 2,364.1 million compared to USD 2,296.7 million at year end 2022 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 150 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 85.3 million and undrawn loans amounted to USD 125.0 million. Cash and cash equivalents and undrawn loans therefore amounted to USD 210.3 million at year end. Cash flow from operations amounted to USD 415.2 million. Repayments of loans of the Company amounted to USD 222.9 million. Cash and cash equivalents decreased by USD 65.7 million during the year.

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 Company's corporate governance and risk management is included in notes 27 to 37 and appendices to the 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.

Statement from the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the 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 Company's assets, liabilities and financial position as at 31 December 2023 and the Companys's results and changes in cash in the year 2023.

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 2023 give a fair view of the Company's results, financial position and development and describe the main risk factors faced by the Company.

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

Reykjavik, 29 February 2024.

The Board of Directors:

Jónas Þór Guðmundsson
Jón Björn Hákonarson
Álfheiður Ingadóttir
Gunnar Tryggvason
Soffía Björk Gunnarsdóttir

The CEO:
Hörður Arnarson

Independent Auditors' Report

To the Board of Directors and owners of Landsvirkjun

Opinion

We have audited the financial statements of Landsvirkjun for the year ended 31 December, 2023 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Landsvirkjun as at 31 December, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Our opinion in this report on the financial statements is consistent with the content of the additional report that has been submitted to the 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 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 other ethical responsibilities in accordance with these requirements and the IESBA Code.

Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 have been provided.

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

Key Audit Matters

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

Key Audit Matters	**How the matter was addressed in the audit**
Power sales	
Around 80% of Landsvirkjun power sales come from sales to industry. 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 industry are a key audit matter.	During our audit of power sales to industry we have confirmed that there is an effective internal control at Landsvirkjun regarding calculation and approval of invoices. We have also confirmed calculation of sales prices by comparing the calculation to contractual agreement and public information in addition to comparing delivered power to metering.

Valuation of power stations	
Included in property, plant and equipment are power stations which amount to 2,889 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 49.	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.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises key figures, 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 that is not disclosed elsewhere in the financial statements.

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

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

Independent Auditors’ Report, contd.

In preparing the 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.

The Board of Directors and the audit committee are responsible for overseeing Landsvirkjun’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Independent Auditors' Report, contd.

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

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 on 26. April 2023. Deloitte have been elected since the general meeting 2014.

Reykjavik, 29 February 2024.

Deloitte ehf.

Birna Sigurðardóttir
State Authorized Public Accountant

Jóhann Óskar Haraldsson
State Authorized Public Accountant

Income Statement

	Notes	2023	2022
Operating revenues			
Power sales	3	536,248	691,156
Realised hedges		86,044	(100,412)
Other income	3	35,142	17,509
		657,434	608,253
Operating expenses			
Energy generation costs		200,446	199,738
Cost of general research		18,697	19,526
Other operating expenses		46,749	42,440
		265,892	261,704
Operating profit		391,542	346,549
Financial income and (financial expenses)			
Interest income		22,747	3,942
Interest expenses		(33,974)	(35,701)
Foreign exchange difference		(7,417)	11,647
Fair value changes in embedded derivatives	29	(18,242)	61,616
Fair value changes in other derivatives		(17,696)	81,547
	6	(54,582)	123,051
Subsidiaries and associated companies	13, 14	918	522
Profit before income tax		337,878	470,122
Income tax	7	(128,391)	(171,386)
Profit from continued operations		209,487	298,736
Loss from discontinued operations	8	0	(137,231)
Net profit for the year		209,487	161,505

Notes 1 to 59 are an integral part of these financial statements.

Financial Statements of Landsvirkjun 2023 12 Amounts are in USD thousand

Statement of Comprehensive Income

	2023	2022
Net profit for the year	209,487	161,505
Items that will not be reclassified subsequently to profit or loss		
Pension obligation after income tax, change	(2,306)	(1,380)
Demolition obligation after income tax, change	0	2,404
Items that may be reclassified subsequently to profit or loss		
Transl. difference due to subsid. and associated companies	258	(565)
Transl. difference reclassified due to sale of a subsidiary	0	41,506
Total operating items transferred to equity	(2,048)	41,965
Total Comprehensive Income for the year	207,439	203,470

Notes 1 to 59 are an integral part of these financial statements.

Financial Statements of Landsvirkjun 2023 13 Amounts are in USD thousand

Balance Sheet

Assets	Notes	2023	2022
Non-current assets			
Property, plant and equipment	9, 16	2,918,386	2,984,071
Development cost	10	115,156	100,011
Other intangible assets	10	50,088	48,513
Derivative financial instruments	12	74,260	98,964
Subsidiaries	13	7,458	6,579
Associated companies	14	4,725	4,707
Loans to related parties	15	232,940	268,840
Shares in other companies		676	631
Total non-current assets		3,403,689	3,512,316
Current assets			
Accounts receivables and other receivables	17	67,827	115,896
Receivables, related parties		41,270	39,935
Derivative financial instruments	12	16,206	53,856
Cash and cash equivalents	18	85,256	150,945
Total current assets		210,559	360,632
Total assets		3,614,248	3,872,948
Equity and liabilities			
Equity			
Owners' contributions	19	586,512	586,512
Restricted reserves	20	2,199	197
Translation difference	20	(16,449)	(16,707)
Other equity		1,791,852	1,726,674
Total equity		2,364,114	2,296,676
Long term liabilities			
Interest bearing liabilities	21	754,956	776,406
Pension fund obligation	23	39,431	36,427
Deferred income tax liability	7	240,682	232,912
Lease liability	16	9,931	4,472
Derivative financial instruments	12	989	5,535
		1,045,989	1,055,752
Current liabilities			
Accounts payable and other payables	24	53,173	74,798
Interest bearing liabilities	22	27,619	222,619
Income tax payable	7	119,232	195,059
Debt to related companies		134	0
Derivative financial instruments	12	3,987	28,044
		204,145	520,520
Total liabilities		1,250,134	1,576,272
Total equity and liabilities		3,614,248	3,872,948

Notes 1 to 59 are an integral part of these financial statements.

Financial Statements of Landsvirkjun 2023 14 Amounts are in USD thousand

Statement of Equity

	Owners' contribution	Revaluation account	Restricted reserves	Translation difference	Other equity	Total equity
Changes in equity 2022						
Equity at 1 January 2022	586,512	169,952	71,143	(57,648)	1,443,246	2,213,205
Net profit for the year					161,505	161,505
Translation difference				(565)		(565)
Transl. diff. reclassified due to sale of subsid.				41,506		41,506
Demolition obligation change		2,404				2,404
Pension obligation, change					(1,380)	(1,380)
Total Comprehensive Income		2,404	0	40,941	160,125	203,470
Share of profit of subsidiaries and associated companies transferred			8,477		(8,477)	0
Restricted reserves transferred due to sale of subsidiary			(79,423)		79,423	0
Reval. account transf. due to sale of sub.		(165,686)			165,686	0
Dividend to owners					(120,000)	(120,000)
Revaluation transferred to other equity		(6,670)			6,670	0
Equity at 31 December 2022	586,512	0	197	(16,707)	1,726,674	2,296,676
Changes in equity 2023						
Equity at 1 January 2023	586,512	0	197	(16,707)	1,726,674	2,296,676
Net profit for the year					209,487	209,487
Translation difference				258		258
Pension obligation, change					(2,306)	(2,306)
Total Comprehensive Income		0	0	258	207,181	207,439
Share of profit of subsidiaries and associated companies transferred			2,002		(2,002)	0
Dividend to owners					(140,000)	(140,000)
Equity at 31 December 2023	586,512	0	2,199	(16,449)	1,791,852	2,364,114

Notes 1 to 59 are an integral part of these financial statements.

Financial Statements of Landsvirkjun 2023 15 Amounts are in USD thousand

Statement of Cash Flow

	2023	2022
Operating activities		
Operating profit	391,542	346,549
Adjustments for:		
Depreciation and impairment loss	105,931	107,820
Pension obligation, change	(2,251)	(2,027)
Other changes	(472)	(63)
Working capital from operation before financial items	494,750	452,279
Operating assets and liabilities, change	26,131	(26,783)
Cash flow from operating activities before financial items	520,881	425,496
Interest income received	21,765	3,836
Interest expenses and foreign exchange diff. paid	(39,793)	(34,636)
Taxes paid	(87,676)	(33,285)
Cash flow from operating activities	415,177	361,411
Investing activities		
Power stations in operation	(21,652)	(14,191)
Power plant preparation cost	(22,088)	(3,420)
Dividend paid from subsidiaries	0	15,584
Other capital expenditures	(5,721)	(3,342)
Purchased shares in other companies	(18)	(63)
Tax paid due to sale of subsidiary	(112,805)	0
Assets sold	572	154
Loans to related parties, amortisation	39,930	(443)
Investing activities	(121,782)	(5,721)
Financing activities		
Dividend paid to owners	(140,000)	(120,000)
Decrease of shares	0	963
Amortisation of long-term debt	(222,868)	(149,470)
Financing activities	(362,868)	(268,507)
Change in cash and cash equivalents	(69,473)	87,183
Effect of exchange diff. on cash and cash equivalents	3,784	(2,136)
Cash and cash equivalents at the beginning of the year	150,945	65,898
Cash and cash equivalents at the end of the year	85,256	150,945
Investing activities without payments:		
Sold shares in a subsidiary	0	304,613
Loans granted	0	(304,613)
Financing activities without payments:		
Decreased shares in associated company	280	0

Notes 1 to 59 are an integral part of these financial statements.

Financial Statements of Landsvirkjun 2023 16 Amounts are in USD thousand

Notes

General Information

1. Landsvirkjun

Landsvirkjun is a partnership which has its place of business in Iceland and its headquarters at Katrínartún 2, 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.

2. Basis of preparation

a. Statement of IFRS compliance

The 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 29 February 2024.

Note 40 includes information about changes and improvements in IFRS and notes 41-57 contain information on significant accounting policies.

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.

c. Presentation and functional currency

The financial statements are presented in USD, which is the 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 49 property, plant and equipment
- notes 10 and 50 development cost and other intangible assets
- notes 12,29,30,31,32 derivative financial instruments
- note 23 pension fund obligations

2. Basis of preparation, contd.:

e. Determination of fair value

The Company'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 Company 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 12 derivative financial instruments
- note 29 embedded derivatives
- note 36 long-term debt

f. Segment reporting

The operations of the Company fall under one segment 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.

g. Presentation of financial statements

Landsvirkjun does not prepare consolidated financial statements with its subsidiaries Icelandic Power Insurance Ltd and Landsvirkjun Power ehf., because their impact is considered insignificant. Instead, the financial statements are prepared according to IAS 27 Separate Financial Statements. The performance of the subsidiaries is shown in a single number in the income statement in the line Subsidiaries and associated companies. The effects of subsidiaries and subsidiary assets and liabilities are not listed separately in the balance sheet but appear under Subsidiaries.

Notes, contd.

3. Operating revenues

Power sales are specified as follows:

	2023	2022
Retail sales companies	110,350	99,200
Power intensive users	425,898	591,956
Power sales total	536,248	691,156

Realised hedges which are linked to power sale contracts are presented with operating revenues in the income statement. Further information on hedging can be found in note 29.

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

Note no. 43 provides further information on registration of the revenues of the Company.

4. Total number of employees

Total number of employees is specified as follows:

	2023	2022
Average number of employees during the year, full-time equivalents	346	327
Full-time equivalent units at year-end	329	302

5. Total salaries of employees

Total salaries of employees are specified as follows:

	2023	2022
Salaries	43,212	39,126
Contribution to defined contribution plans	6,183	5,604
Defined pension benefit payments	3,033	2,893
Other change in pension obligations	(2,251)	(2,027)
Other salary related expenses	4,148	3,774
	54,325	49,370
Transferred to assets	(3,925)	(3,306)
	50,400	46,064

Salaries and salary related expenses are allocated as follows:

	2023	2022
Energy generation costs	28,769	25,630
Other operating expenses	25,556	23,740
Transferred to assets	(3,925)	(3,306)
	50,400	46,064

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

	2023	2022
Salaries of the Board of Directors	221	196
Salaries and benefits of the CEO	346	346
Salaries of 7 Directors and Deputy CEO	2,150	2,015

6. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2023	2022
Interest income	22,747	3,942
Interest expenses	(33,429)	(35,036)
Guarantee fee	(545)	(665)
Total interest expenses	(33,974)	(35,701)
Realised foreign exchange difference	(5,950)	576
Unrealised foreign exchange difference	(1,467)	11,071
Total foreign exchange difference	(7,417)	11,647
Fair value changes in embedded derivatives	(18,242)	61,616
Fair value changes in other derivatives	(17,696)	81,547
Total financial income and (expenses)	(54,582)	123,051

No finance cost was capitalised in 2023 due to power stations under construction (2022: 0.0%).

Financial Statements of Landsvirkjun 2023 19 Amounts are in USD thousand

Notes, contd.

7. Income tax

Income tax is specified as follows:	2023	2022
Change in income tax liability	(7,770)	(84,987)
Income tax payable	(119,232)	(195,059)
Income tax due to pension obligation	(1,389)	(832)
Income tax expensed	(128,391)	(280,878)

Income tax from continued operations according to the income statement 2022 amounted to USD 171.4 million and income tax from discontinued operations amounted to USD 109.5 million, a total of USD 280.9 million, see note no 8.

Change in income tax liability is specified as follows:		
Change in temporary differences	(7,770)	(84,987)
Change in income tax liability	(7,770)	(84,987)

Effective tax rate		2023		2022
Profit for the year		209,487		161,505
Loss of discontinued operations		0		137,231
Income tax of continuing operations		128,391		171,386
Profit before income tax		337,878		470,122
Inc. tax acc. to the company's tax rate	37.6%	127,042	37.6%	176,766
Capital gains on shares	0.0%	0	23.3%	109,492
Non-taxable items	0.5%	1,704	(1.1%)	(5,204)
Subsidiaries, associated and other companies	(0.1%)	(355)	(0.0%)	(176)
Effective income tax	38.0%	128,391	59.7%	280,878

	2023	2022
Changes in tax liability during the year is specified as follows:		
Tax liability at the beginning of the year	(232,912)	(147,925)
Income tax in the income statement	(128,391)	(280,878)
Income tax recognised due to pension obligation	1,389	832
Income tax payable	119,232	195,059
Tax liability at the end of the year	(240,682)	(232,912)
The Company's tax liability is specified as follows:		
Property, plant and equipment and intangible assets	(225,539)	(197,013)
Derivative financial instruments	(32,321)	(45,834)
Other items	17,178	9,935
Tax liability at the end of the year	(240,682)	(232,912)

Financial Statements of Landsvirkjun 2023 20 Amounts are in USD thousand

8. Discontinued operations

Under laws approved in 2021, the Icelandic state and/or municipalities are required to own Landsnet hf. directly. At the end of 2022 a contract was made between the Ministry of Finance and Economic Affairs and Landsvirkjun to sell Landsvirkjun's 64.73% share in Landsnet hf. to the state for USD 305 million. As of 30 December 2022 Landsnet hf. was no longer part of the Group. The sales price was paid with loan agreements. In the income statement for the year 2022 the performance of Landsnet hf. is presented as discontinued operations in accordance with IFRS 5. As of year-end 2022 Orkufjarskipti hf. ceased to be a subsidiary and became an associated company with Landsvirkjun holding a share in its equity. Further information can be found in Landsvirkjun's Group financial statements for the year 2022.

Loss from discontinued operation is specified as follows:	**2023**	**2022**
Share in the profit of Landsnet hf.	0	21,038
Share in the profit of Orkufjarskipti hf.	0	297
Loss due to the sale of Landsnet hf.	0	(7,568)
Income tax due to capital gains on shares	0	(109,492)
Reclassified translation difference	0	(41,506)
	0	(137,231)

9. Property, plant and equipment

Property, plant and equipment is specified as follows:

Cost value	**Power stations**	**Other assets**	**Total**
Total value at 1.1.2022	5,664,714	43,386	5,708,100
Additions during the year	13,288	3,070	16,358
Sold and disposed of	0	(1,037)	(1,037)
Total value at 31.12.2022	5,678,002	45,419	5,723,421
Additions during the year	20,799	10,523	31,322
Sold and disposed of	(14)	(1,518)	(1,532)
Total value at 31.12.2023	5,698,787	54,424	5,753,211
Depreciation and impairment loss			
Total value at 1.1.2022	2,618,823	23,194	2,642,017
Depreciation for the year	96,102	2,176	98,278
Sold and disposed of	0	(945)	(945)
Total value at 31.12.2022	2,714,925	24,425	2,739,350
Depreciation for the year	94,855	2,053	96,908
Sold and disposed of	(14)	(1,418)	(1,432)
Total value at 31.12.2023	2,809,766	25,060	2,834,826
Book value			
1.1.2022	3,045,891	20,192	3,066,083
31.12.2022	2,963,077	20,994	2,984,071
31.12.2023	2,889,022	29,364	2,918,386

Official assessment of fixed assets and insurance value

The official assessment of the Company's real estate amounted to USD 508 million at year end 2023 (2022: USD 467 million). Insurance value of the Company's assets amounts to USD 6,547 million including business interruption insurance (2022: USD 6,010 million).

Financial Statements of Landsvirkjun 2023 21 Amounts are in USD thousand

Notes, contd.

10. 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 1.1.2022	200,077	45,611	5,913	251,601
Additions during the year	4,086	0	1,554	5,640
Total value at 31.12.2022	204,163	45,611	7,467	257,241
Additions during the year	23,385	0	2,356	25,741
Sold and disposed of	0		(713)	(713)
Total value at 31.12.2023	227,548	45,611	9,110	282,269
Depreciation and impairment loss				
Total value at 1.1.2022	95,252	0	3,923	99,175
Amortisation during the year	0	0	642	642
Impairment loss during the year	8,900	0	0	8,900
Total value at 31.12.2022	104,152	0	4,565	108,717
Amortisation during the year	0	0	782	782
Impairment loss during the year	8,240	0	0	8,240
Sold and disposed of	0	0	(713)	(713)
Total value at 31.12.2023	112,392	0	4,634	117,026
Book value				
1.1.2022	104,825	45,611	1,990	152,426
31.12.2022	100,011	45,611	2,902	148,524
31.12.2023	115,156	45,611	4,477	165,243

Development cost and water and geothermal rights are reviewed every year by management to check whether there are indications of impairment. In testing for possible impairment the Company's forecasted cash flow over the useful life of the assets was used. In the evaluation, expected cash flow was discounted using the weighted average cost of capital which was 5.5% (2022: 5.43%). If management concludes that an impairment has occurred, the relevant development cost is expensed as impairment.

Financial Statements of Landsvirkjun 2023 22 Amounts are in USD thousand

11. Depreciation and impairment loss

Depreciation and impairment loss is specified as follows:

	2023	2022
Power stations	94,855	96,102
Other assets	2,053	2,176
Depreciation of assets in operation	96,908	98,278
Impairment loss on development cost	8,240	8,900
Amortisation of software	782	642
	105,931	107,820

Depreciation and impairment loss is allocated as follows by sectors:

Energy generation costs	95,674	97,546
Cost of general research	8,240	8,900
Other operating expenses	2,017	1,374
	105,931	107,820

12. Derivative financial instruments

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

	31.12.2023	31.12.2022
Assets:		
Embedded derivatives in power contracts	80,510	98,752
Commodity hedges	6,239	50,583
Currency swaps	3,717	3,485
	90,466	152,820
Derivative financial instruments are divided as follows:		
Long term component of derivative agreements	74,260	98,964
Short term component of derivative agreements	16,206	53,856
	90,466	152,820
Liabilities:		
Commodity hedges	4,976	33,579
	4,976	33,579
Derivative financial instruments are divided as follows:		
Long term component of derivative agreements	989	5,535
Short term component of derivative agreements	3,987	28,044
	4,976	33,579

The assumptions for valuation of embedded derivatives are discussed in note 29.

The fair value of derivatives, excluding embedded derivatives is determined through evaluation from counterparties and verified by the company through comparative calculations based on market information.

Financial Statements of Landsvirkjun 2023 23 Amounts are in USD thousand

13. Subsidiary companies

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

2023	Share	Share in return	Book value
Icelandic Power Insurance Ltd., Bermuda	100.0%	665	3,835
Landvirkjun Power ehf., Iceland	100.0%	150	3,623
		815	7,458

2022	Share	Share in return	Book value
Icelandic Power Insurance Ltd., Bermuda	100.0%	564	3,169
Landvirkjun Power ehf., Iceland	100.0%	(53)	3,410
		511	6,579

14. Associated companies

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

2023	Share	Share in return	Book value
Heimsþing ehf., Iceland	33.3%	0	2
Orkufjarskipti hf., Iceland	45.0%	70	4,272
SER eignarhaldsfélag ehf., Iceland	47.0%	33	441
Sjávarorka ehf., Iceland	33.6%	0	10
		103	4,725

2022	Share	Share in return	Book value
Heimsþing ehf., Iceland	33.3%	11	2
Orkufjarskipti hf., Iceland	45.0%	0	4,304
SER eignarhaldsfélag ehf., Iceland	47.0%	0	391
Sjávarorka ehf., Iceland	33.6%	0	10
		11	4,707

15. Loan to related parties

Landsvirkjun has provided long term loans to both the Icelandic state and Orkufjarskipti hf. The interest rates are in the range of 3.5-6.0% At year end 2023 the loans amounted to USD 232.9 million after deducting next year's maturities (2022: 268.8 USD million). Current maturites amount to USD 39.9 million (2022: 39.9 USD million). Loans to the Icelandic state are two loan agreements, 100 EUR million to be paid in 2026 and 158.9 USD million to be paid in equal installments over the next 4 years.

	31.12.2023	31.12.2022
The Icelandic state	269,406	305,294
Orkufjarskipti hf.	3,469	3,468
Current maturites	(39,935)	(39,922)
	232,940	268,840

Notes, contd.

16. Lease agreements

The Company is a lessee in lease agreements of real estate and land. Lease assets are recognised among property, plant and equipment.

	2023		2022	
	Lease asset	Lease debt	Lease asset	Lease debt
Balance 1.1.	6,525	(4,703)	5,485	(4,532)
Additions during the year	6,755	(6,755)	754	(401)
Indexation	350	(350)	406	(406)
Foreign exchange rate changes	0	(202)	0	415
Depreciation of assets/amortisation of debt	(193)	249	(120)	221
Balance 31.12.	13,437	(11,761)	6,525	(4,703)

Current maturities are classified as short term liabilities. In the year 2023 the Company expensed USD 207 thousand of interest expenses due to the lease liability (2022: 195 thousand USD). The Company takes advantage of the lease of assets with low value exemptions in IFRS 16.

Lease liability - maturity analysis - not discounted

	2023	2022
Payments within a year	2,205	419
Payments after a year and within 5 years	6,780	1,306
Payments after 5 years or later	8,791	8,123
Total of lease liability - not discounted	17,777	9,848

17. Accounts receivables and other receivables

Accounts receivables and other receivables are specified as follows:

	31.12.2023	31.12.2022
Accounts receivables	60,698	112,730
Other short term receivables	7,129	3,166
	67,827	115,896

When assessing the impairment of accounts receivables, historical information is used as a guide, along with current economic prospects. At year end 2023, 97% of accounts receivables were less than 30 days old (2022: 96%).

18. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank deposits	85,256	150,945
	85,256	150,945

19. Equity

Landsvirkjun 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.

Financial Statements of Landsvirkjun 2023 25 Amounts are in USD thousand

Notes, contd.

20. Translation difference and restricted reserves

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. Restricted reserves contain the share in unrealised profit of equity accounted investees from 1 January 2016, recognised in the income statement which exceeds dividends from these companies, or the dividend that has been decided to distribute.

21. Interest bearing debt

Interest bearing debt is specified as follows:

	2023	2022
Interest bearing long term debt 1.1.	999,025	1,157,145
New loans/interest added to principal	0	248
Amortisation of long term debt	(222,619)	(149,249)
Foreign exchange difference	5,758	(9,821)
Changes in amortisation of discounting	411	702
Interest bearing long term debt 31.12.	782,575	999,025

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

	Due date	2023 Average interest	Remaining balance	2022 Average interest	Remaining balance
Liabilities in EUR	2026	4.1%	165,708	1.6%	159,938
Liabilities in USD	2024-2035	4.0%	616,867	3.6%	839,087
			782,575		999,025
Current maturities of long term debt			(27,619)		(222,619)
Total long term debt			754,956		776,406

Interest rates on debt at year end was in the range of 2.8-7.3%. Nominal interest rates for the year were on average 4.0% (2022: 3.3%), taking into account the state guarantee fee for long term loans which is calculated according to Act No. 121/1997 on state guarantees.

22. Maturities of long-term debt

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

	2023	2022
2023	-	222,619
2024	27,619	27,619
2025	182,631	182,631
2026	193,368	187,610
2027	27,619	27,619
2028	131,764	-
Later	219,574	350,927
	782,575	999,025

Financial Statements of Landsvirkjun 2023 26 Amounts are in USD thousand

23. 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 39.4 million at year end 2023 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.

Change in the obligation is specified as follows:	**2023**	**2022**
Balance at 1.1.	36,427	39,574
Expensed during the year	781	866
Payments during the year	(3,032)	(2,893)
Actuarial change	3,696	2,212
Effect of foreign exchange rate changes	1,559	(3,332)
Balance at 31.12.	39,431	36,427

Pension fund obligation, 5 years:	**2023**	**2022**	**2021**	**2020**	**2019**
Present value of the obligation	39,431	36,427	39,574	36,597	36,863

24. Accounts payable and other payables

Accounts payable and other payables are specified as follows:	**31.12.2023**	**31.12.2022**
Accounts payable	15,013	16,665
Accrued interest	7,492	9,249
Other short term liabilities	30,668	48,884
	53,173	74,798

Financial Statements of Landsvirkjun 2023 27 Amounts are in USD thousand

25. Related parties

Definition of related parties

Owners, subsidiaries, associated companies, members of Board of Directors, key management and companies and institutions owned by them are among the Company's related parties. Loans to the Icelandic state are classified as loan to related parties.

Transactions with related parties	**2023**	**2022**
Sale of goods and services		
Subsidiaries and associated companies	110	21,187
Purhase of goods and services		
Subsidiaries and associated companies	7,517	62,331

Interest income from related parties amounted to USD 12.9 million, (2022: USD 0.3 million) due to loans. The loans were issued at market rates, see further in notes no. 15 and 36.

	31.12.2023	**31.12.2022**
Loans to related parties are specified as follows:		
Interest bearing loans to Orkufjarskipti hf.	3,469	3,468
Interest bearing loans to the Icelandic state	269,406	305,294
Accrued interest	974	51
Receivables due to decrease of shares in Orkufjarskipti hf.	280	0
	274,129	308,813

Accounts receivables and accounts payables to related parties are specified as follows:

	31.12.2023		**31.12.2022**	
	Receivables	**Payables**	**Receivables**	**Payables**
Subsidiaries and associated companies	82	(134)	14	(77)
	82	(134)	14	(77)

Transactions with related parties are on the same basis as transactions with non-related parties. Transactions with the state, excluding loan agreements, 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 Company applies an exemption from disclosure requirements of IAS 24 as the Company is owned by the state. See further information in note 19.

Expected credit losses due to claims on related parties are assessed separately for each party with regard to the circumstances on the balance sheet date.

26. Fees to auditors

Fees to auditors in the year 2023 amounted to USD 116 thousand (2022: USD 113 thousand), whereof USD 73 thousand (2022: USD 78 thousand) was for the audit and review.

Financial Statements of Landsvirkjun 2023 28 Amounts are in USD thousand

Notes, contd.

27. 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 policy supports 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.

- It is the responsibility of the Directors to ensure that Risk Policy and procedures are integrated into the 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.

28. 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.

29. Commodity risk

The Company is exposed to market risk stemming from fluctuations in aluminum price and electricity price on the Nord Pool market, although this risk is not present at year end. About 33% of Landsvirkjun‘s electricity sales (GWh) is linked to aluminium price and around 10% was linked to electricity price on the Nord Pool market in 2023. 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 58% of its aluminium price risk in 2024. At 2023 year-end the fair value of derivatives for hedging commodity risk was positive by 1.3 million USD (2022: positive by 17.0 million USD).

29. Commodity risk contd.:

Embedded derivatives

Landsvirkjun's power sales contracts which are linked to aluminium prices, contain embedded derivatives that 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.

	2023	2022
Fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	98,752	37,135
Fair value changes during the year	(18,242)	61,616
Fair value of embedded derivatives at year end	80,510	98,752
Division of embedded derivatives is specified as follows:		
Long term component of embedded derivatives	70,354	88,384
Short term component of embedded derivatives	10,156	10,368
Total embedded derivatives	80,510	98,752

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, which is 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 either to the revision time of power contracts or length of contracts. However the time period 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 2023, discount rates were in the range of 3.7 - 5.6% (2022: 3.8 - 5.1%).

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 before tax.

31.12.2023	**Aluminium price USD/MT**	
	-100	+100
Embedded derivatives	(17,404)	17,404
Aluminium hedges	2,428	(2,358)
	(14,976)	15,046

31.12.2022	**Aluminium price USD/MT**	
	-100	+100
Embedded derivatives	(21,925)	21,925
Aluminium hedges	5,964	(5,946)
	(15,961)	15,979

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29. 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. As Nord Pool market risk is no longer present, there is no impact from sensitivity analysis at the end of the year. Amounts are before tax.

31.12.2023	**Electricity price EUR/MWh** -2	+2
Electricity hedges	0	0

31.12.2022	**Electricity price EUR/MWh** -2	+2
Electricity hedges	1,740	(1,740)

30. Foreign exchange risk

Foreign exchange risk is the risk of financial 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, interest payments and other expenses 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 and expenses and income tax in ISK. 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:

31.12.2023	**EUR**	**ISK**	**Other currencies**
Long term receivables	110,499	3,469	0
Accounts receivables and other receivables	7,489	17,858	0
Cash and cash equivalents	7,933	7,833	0
Derivatives	55,250	0	0
Interest bearing liabilities	(165,709)	0	0
Accounts payable and other payables	(774)	(159,011)	(308)
Risk in balance sheet	14,688	(129,851)	(308)
31.12.2022			
Long term receivables	106,660	3,468	0
Accounts receivables and other receivables	4,206	16,457	0
Cash and cash equivalents	3,808	8,948	0
Derivatives	69,555	0	0
Interest bearing liabilities	(159,938)	0	0
Accounts payable and other payables	(13,282)	(240,161)	(242)
Risk in balance sheet	11,009	(211,288)	(242)

Exchange rates of the main currencies against the USD for the years 2023 and 2022 are specified as follows:

	Average rate 2023	2022	**Rate at year end** 2023	2022
EUR	0.93	0.95	0.90	0.94
ISK	137.98	135.46	136.20	142.04

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30. Foreign exchange risk contd.:

Sensitivity analysis

The following tables show the effects of a 10% deviation in currencies against the functional currencies of the Company and would have changed the Company'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	
2023	Strengthening	Weakening
EUR	(1,469)	1,469
ISK	12,985	(12,985)
Other currencies	31	(31)

2022	Strengthening	Weakening
EUR	(1,101)	1,101
ISK	21,129	(21,129)
Other currencies	25	(24)

The fair value of cross currency swaps was positive by USD 3.7 million at the end of December 2023 (2022: positive by USD 3.5 million).

31. 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 2023, the proportion of loans with fixed interest rates including swap agreements was 77% (2022: 82%). At year end 2023, the estimated market value of the Company's long-term liabilities was USD 4 million higher than their book value (2022: USD 5 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	**31.12.2023**	**31.12.2022**
Interest bearing liabilities	(547,367)	(766,759)
Cross currency and interest rate swaps	(56,015)	(56,015)
Loan to related parties	272,117	308,031
	(331,265)	(514,743)
Financial instruments with floating interest		
Cash and cash equivalents	85,256	150,945
Interest bearing liabilities	(235,208)	(232,266)
Cross currency and interest rate swaps	55,250	53,330
Loan to related parties	758	731
	(93,944)	(27,260)

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Notes, contd.

31. 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 before tax.

31.12.2023	**Cash flow**		**Book value**	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	(1,747)	1,561
Other derivatives	(552)	552	(1,815)	485
Interest bearing liabilities	1,657	(1,657)	0	0
Cash and cash equivalents	(853)	853	0	0
	252	(252)	(3,562)	2,046

31.12.2022	**Cash flow**		**Book value**	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	(2,000)	1,764
Other derivatives	(533)	533	(2,239)	(101)
Interest bearing liabilities	2,320	(2,326)	0	0
Cash and cash equivalents	(1,509)	1,509	0	0
	277	(284)	(4,239)	1,663

32. 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 85 million at year end 2023 (2022: USD 151 million) but taking into account revolving credit facilities (USD 125 million) Landsvirkjun has access to a total of USD 210 million (2022: USD 301 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 2025.

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Notes, contd.

32. Liquidity risk, contd.,

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

31.12.2023	**Book value**	**Contractual cash flow**	**Within one year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial instruments						
Loan to assoc. comp. ...	3,469	4,366	405	1,004	839	2,118
Loan to the Icel. state ..	269,406	296,237	50,761	48,822	196,654	0
Cash and cash equiv. ...	85,256	85,256	85,256	0	0	0
Short term receivab.	69,162	69,162	69,162	0	0	0
Interest bearing liab.	(782,575)	(870,978)	(44,329)	(202,130)	(390,324)	(234,194)
Current liabilities	(170,904)	(170,904)	(170,904)	0	0	0
	(526,186)	(586,861)	(9,650)	(152,303)	(192,832)	(232,076)
Derivative financial instruments						
Cross curr. swaps	3,718	4,381	819	1,316	2,247	0
Commodity derivat.	1,263	5,191	5,191	0	0	0
Embedded derivatives in power contracts	80,510	93,892	10,494	14,097	40,727	28,574
	85,490	103,464	16,503	15,413	42,974	28,574

31.12.2022	**Book value**	**Contractual cash flow**	**Within one year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial instruments						
Loan to assoc. comp. ...	3,468	4,552	365	357	1,395	2,435
Loan to the Icel. state ..	305,294	343,505	51,449	50,610	241,446	0
Cash and cash equiv. ...	150,945	150,945	150,945	0	0	0
Short term receivab.	115,909	115,909	115,909	0	0	0
Interest bearing liab.	(999,025)	(1,133,783)	(247,391)	(56,974)	(453,677)	(375,742)
Current liabilities	(269,857)	(269,857)	(269,857)	0	0	0
	(693,266)	(788,730)	(198,580)	(6,006)	(210,836)	(373,308)
Derivative financial instruments						
Cross curr. swaps	3,485	3,229	811	1,173	1,245	0
Commodity derivat.	17,005	14,746	15,742	(997)	0	0
Embedded derivatives in power contracts	98,752	116,804	10,695	14,682	54,383	37,044
	119,241	134,779	27,248	14,859	55,628	37,044

Financial Statements of Landsvirkjun 2023 34 Amounts are in USD thousand

Notes, contd.

33. 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. All financing since 2018 has been green or sustainability-related and is in line with the company's strategy and focus on sustainable development and the United Nations' global goals.

During the year 2023 the Company took no new debt (2022: USD 0 million). Repayments amounted to USD 223 million (2022: USD 149 million). The Company has entered into agreements for a new revolving credit facility totaling USD 125 million, valid for three years with the option for two one year extensions. This new revolving credit facility replaces the previous one.

Landsvirkjun's interest-bearing debt amounted to USD 783 million at year end 2023 (2022: USD 999 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 3.7 years (2022: 3.7 years) and the ratio of interest-bearing debt with maturity within a 12-month period is 4% (2022: 22%).

In recent years the Company has systematically worked towards removing state guarantees of outstanding debt where possible. As a result, the principal of state guarantee debt has been decreasing, and the final debt with a state guarantee is due in 2026. At year end 2023, 21% of Landsvirkjun's debt was state guaranteed (2022: 16%) reflecting an increase attributable to reduced overall debt. Landsvirkjun pays a guarantee fee to the Icelandic state for the Company´ s debt which has a state guarantee.

34. 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. At year end 2023 Landsvirkjun has issued Green Bonds amounting to USD 200 million. Annual reporting under the Green Finance Framework and further information can be found on Landsvirkjun´ s website.

35. 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, loans to related parties 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. 47 the assessment of assets is explained in more detail.

35. Counterparty risk contd.:

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

	31.12.2023	31.12.2022
Loans to associated companies	3,469	3,468
Loans to the Icelandic state	269,406	305,294
Derivative financial instruments	90,466	152,820
Accounts receivables and other receivables	69,162	115,909
Cash and cash equivalents	85,256	150,945
	517,759	728,436

36. Comparison of fair value and book value of loans to related parties and long term debt

	31.12.2023		31.12.2022	
	Book value	Fair value	Book value	Fair value
Interest bearing loans to the Icelandic state	269,406	274,400	305,294	305,294
Interest bearing long term liabilities	(782,575)	(786,536)	(999,025)	(1,004,138)

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

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

Interest rates are specified as follows:	2023	2022
Interest bearing assets and liabilities in USD	3.7 to 5.6%	3.8 to 5.1%
Interest bearing assets and liabilities in EUR	2.6 to 3.5%	1.5 to 3.5%

37. Fair value classification

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

	Level 2	Level 3	Total
31.12.2023			
Embedded derivatives		80,510	80,510
Other derivatives	4,980		4,980
Shares in other companies		676	676
	4,980	81,186	86,166
31.12.2022			
Embedded derivatives		98,752	98,752
Other derivatives	20,489		20,489
Shares in other companies		631	631
	20,489	99,383	119,872

Main assumptions for valuation of derivatives can be seen in notes 12, 29 and 30.

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38. 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:

31.12.2023	**Derivatives at fair value through P&L**	**Financial assets at fair value - P&L**	**Fin. assets at amortized cost**	**Fin. debt at amortized cost**	**Total**
Derivative financial instruments	90,466				90,466
Shares in other companies		676			676
Loans to associated companies			3,469		3,469
Loans to the Icelandic State			269,406		269,406
Accounts receivables and other receivables			69,162		69,162
Cash and cash equivalents			85,256		85,256
Total assets	90,466	676	427,293	0	518,435
Interest bearing liabilities				782,575	782,575
Derivative financial instruments	4,976				4,976
Accounts payable and other payables				170,904	170,904
Total liabilities	4,976	0	0	953,479	958,455
31.12.2022					
Derivative financial instruments	152,820				152,820
Shares in other companies		631			631
Loans to associated companies			3,468		3,468
Loans to the Icelandic State			305,294		305,294
Accounts receivables and other receivables			115,909		115,909
Cash and cash equivalents			150,945		150,945
Total assets	152,820	631	575,616	0	729,067
Interest bearing liabilities				999,025	999,025
Derivative financial instruments	33,579				33,579
Accounts payable and other payables				269,857	269,857
Total liabilities	33,579	0	0	1,268,882	1,302,461

39. Capital management

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

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40. Significant accounting policies

The Company has adopted International Financial Reporting Standards, amendments thereto and interpretations adopted by the European Union which apply to accounting periods that began on 1 January 2023 or later. The following standards and improvements become operative 1 January 2023:

- IFRS 17 Insurance contracts	New accounting standard
- IAS 1 Presentation of Financial statements	Accounting policies in notes
- IAS 8 Accounting policies, changes in accounting estimates and errors	Definition of accounting estimate
- IAS 12 Income taxes	Tax deferral for assets and liabilities derived from the same transaction

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

The Company has not adopted new or amended standards which have been issued but not entered into effect. 1 January 2024 the following improvements to standards take effect:

- IAS 1 Presentation of Financial statements	Classification of debt into short-term and long-term
- IAS 1 Presentation of Financial statements	Long-term debt with credit terms
- IAS 7 Statement of cash flows and IFRS 7 Financial instruments: Disclosures	Financing through suppliers
- IFRS 16 Leases	Lease liability in sale and leaseback transactions

It is management's estimate, that the implementation of these changes which have been approved but have not entered into force, will not have material effect on the financial statements.

41. Subsidiaries

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 include share in the profit or loss and the balance sheet of subsidiaries is accounted for using the equity method.

The financial statements include share in the profit or loss of subsidiaries accounted for using the equity method, from the date that significant influence commences until the date that significant influence ceases. 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.

Notes, contd.

41. Subsidiaries 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 equity.

42. Associated companies

Associated companies are those companies in which the Company has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity, including any other possible voting power.

The 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 Company'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 Company 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.

43. Operating revenues

Revenues from power sales consists of sales to power intensive industries and to energy providers on the wholesale market based on measured delivery of power during the year. Other income is recognized when completed or delivered.

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.

Power 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.

44. Interest income and expenses

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

44. Interest income and expenses contd.:

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.

45. 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.

46. 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.

47. 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 Company 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.

47. Impairment, contd.:

The Company 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.

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 at least 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.

48. 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 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 financial statements, on the other hand. The difference thus arising is due to the fact that the tax assessment is based on premises other than the Company's financial statements and is in main respect a temporary difference as expenses are entered in the financial statement in another period than in the tax return.

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.

49. Property, plant and equipment

Property, plant and equipment are initially measured at 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.

49. Property, plant and equipment, contd.:

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.

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
Office buildings	2.00%	50 years
Lease assets	2.00%	50 years
Equipment	10-25%	4-10 years
Vehicles	10-20%	5-10 years

50. Intangible assets

Intangible assets are recognised at cost value, less accumulated impairment loss and amortisation. Inerest due to preparation cost is not capitalized.

Expenditure for general research cost is expensed in the period it occurs. Development cost for future power projects is capitalised under fixed assets. 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 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.

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

Financial Statements of Landsvirkjun 2023 42 Amounts are in USD thousand

51. Lease agreements

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company 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 Company 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 Company uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise of 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 Company expects to excercise the option.

Lease payments are divided into interest expenses and payments of principal which are deducted from the lease liability. The Company 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 Company 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 Company 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.

52. 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 Company 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.

52. 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 asset 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 and loan agreements, 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. After initial registration, they are entered at fair value and changes, other than impairment and exchange differences, are entered as other income and expenses in the statement of comprehensive income and shown as a separate item among equity.

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 Company 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.

52. Financial instruments contd.:

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

53. Determination of fair value

Accounting rules require that fair value be determined, both for financial assets and financial liabilities as well as other assets and liabilities. Fair value has been determined due to evaluation and/or explanations according to the following methods. Where applicable, further information on the assumptions used to determine the fair value of assets and liabilities is provided in the relevant notes.

The fair value of financial assets and financial liabilities that are listed on an active market is the same as their listed price. Valuation methods are applied to all other financial instruments when calculating their fair value. A financial asset or financial liability is considered to be listed on an active market if an official price is available from a stock exchange or other independent party and the price reflects real and regular market transactions between unrelated parties.

Valuation methods may include the use of prices in recent transactions between unrelated parties. The value of other financial instruments that are similar to the instrument in question is taken into account, methods are used to estimate discounted cash flows or other valuation methods that can be used to reliably estimate the real market value. When applying valuation methods, all factors are used that market participants would use for valuation, and the methods are in accordance with recognized methods for pricing financial instruments. In the absence of market data, management's judgment is used. The Company regularly validates its valuation methods and tests them using prices obtained in active market transactions for the same instrument, without adjustments or changes, or based on information from an active market.

The most reliable proof of the fair value of the derivative contracts at the beginning is the purchase price, unless the fair value of the instrument can be proven by comparison with other recorded and recent market transactions of the same type of financial instrument or based on a valuation method where variables are based only on market data. When such data is available, the company recognizes profit or loss on the original recording date of the instruments.

54. Cash and cash equivalents

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

55. Equity

The Company's equity is divided into owners' contribution, translation difference, restricted reserves and other equity. The Company's initial capital amounts to USD 587 million.

56. 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.

57. 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 interest and the risk inherent with the obligation.

58. Subsequent events

Nothing has come forth after the balance sheet date, which would require adjustments or changes to the financial statements for the year 2023.

59. Other matters

There are pending cases at the Icelandic Competition Authority (ICA). The ICA notified Landsvirkjun by letter dated February 9, 2024, that it had decided to initiate an investigation into whether provisions in contracts with energy intensive users, which stipulate that it is not allowed to resell electricity, unless with the consent of Landsvirkjun, violate competition law provisions or provisions of the EEA Agreement. The notification of the initiation of a case by the ICA signifies the beginning of the investigation process, but it does not offer any final conclusions regarding violations or the potential outcome. The inquiry is still in its initial phase.

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 (English version available on the Iceland Chamber of Commerce website). The guidelines on 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

The internal control system at Landsvirkjun is structured to support operational success and efficiency.

The role of Landsvirkjun's Audit Committee, according to Article 2 of its Rules of Procedure, is amongst other things:

a) Monitor the processes involved in preparing financial statements.

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

c) Monitor the 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. See the section "Board of Directors an 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 "CEO, Deputy CEO and Executive Vice Presidents" section below. The Risk Policy defines the various roles and responsibilities to manage risk efficiently.

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

- 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 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 the 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 and participates in monitoring and disseminating information 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 to the Board. Landsvirkjun's Social Responsibility Policy states that the Company's role is to create value, to respect and protect natural resources and the environment and to share its expertise to contribute to society effectively. The Board approves the Policy.

Landsvirkjun's ethical standards are outlined in the Company's quality management system, where they are included in the appropriate procedures and are also made available to employees in the general information provided by the Company. Landsvirkjun has established guidelines for its staff and suppliers, including the Code of Conduct, the Supplier Code of Conduct, and the Response Plan and Reprehensible Conduct Response Plan. These guidelines assist staff and suppliers in making ethical and responsible decisions. You can access the Code of Conduct and Supplier Code of Conduct on Landsvirkjun's website. Landsvirkjun´ s Board of Directors approves these regulations.

Landsvirkjun is a state-owned company that operates in accordance with the government's ownership policy for such entities (as of September 2021). This policy provides guidelines for various aspects of the Company's management and organisation, governance, policy formulation and vision, operational practices and methods, information disclosure, performance measurement, and communication with the owner's representative.

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

Ownership, role, policy, vision and values

Landsvirkjun is an energy company owned by the Icelandic State. The purpose of Landsvirkjun, 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 pursuant to the decisions of the Board of Directors at any time." Landsvirkjun owns power stations, other structures, water rights and equipment that the Company has acquired through sectoral laws or contracts.

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

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

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

The Company has defined the following objectives to uphold its role:
- Exemplifying resource utilisation and electricity generation
- Leading the way in climate and environmental affairs
- Pursuing a diverse business and exceptional customer service
- Providing a progressive and sought-after workplace
- Exceeding expectations in open communication & cooperation

Board of Directors and sub-committees of the Board

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 subcommittee's 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 Company's Board shall operate independently, is responsible for the operation and management of the Company and is accountable to its owner.

Landsvirkjun's Board of Directors:

Jónas Þór Guðmundsson, Chairman of the Board, was born on the 11th of 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 and owns a law firm established in 1999. He has a Cand. Jur. from the Faculty of Law of the University of Iceland. He is the Chairman of the salmon and trout fishing assessment committee and a Deputy Judge at the Court on Reopening Cases. 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 the Iceland Chamber of Commerce board member. 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 is not affiliated with Landsvirkjun or its owners.

Jón Björn Hákonarson, Vice-Chairman of the Board, 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 from 2010 - 2020. He was the Mayor of Fjarðabyggð and a town representative from 2020-2023. He is currently President of the Fjarðabyggð Town Council. He is also a Board Member of the Icelandic Association of Local Authorities, Sparisjóður Austurlands, HMS and Briet Leasing. He is involved in various committees for Fjarðabyggð, other public entities and municipal cooperation. He was Party Secretary for the Progressive Party between 2016 and 2022. Jón Björn is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners.

Álfheiður Ingadóttir 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 between 2003 and 2006. Álfheiður holds a BS degree in biology from the University of Iceland and is currently an alternate Member of Parliament for the Left-Green Movement Party. She was a Member of Parliament for the Reykjavík constituency- Left-Green Movement Party from 2007-2013. Álfheiður was the Minister of Health from 1 October 2009 - 2 September 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, a specialist at the Icelandic Museum of Natural History from 2014-2022, and the editor of Náttúrufræðingurinn, a magazine published by Hið íslenska náttúrufræðifélag from 1997-2006 and 2014-2022. 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 is not affiliated with Landsvirkjun or its owners in any way.

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 Port Director at Faxaflóahöfn. He previously worked as a senior manager at KPMG from 2009 to 2018. Gunnar also worked as a Corporate Finance consultant at Landsbankinn and CFO at Enex hf. Gunnar is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners.

Soffía Björk Guðmundsdóttir was born on the 24th of December 1962, and lives in Reykjavík. Soffía was elected to Landsvirkjun's Board of Directors in April 2022. Soffía has a B.Sc. in Chemistry, a M.Sc. in Environmental Engineering, a MBA from Oxford University, and is a Business Administrator. She has also completed the courses Manager's Finances at Capacent School of Management in 2015 and Accredited Directors at Akademias in 2023. Soffía works as the manager of PAME, an international office run by the Arctic Council. She is also a part-time lecturer in Arctic law at the Faculty of Law at the University of Akureyri. Previously, she worked at the United Nations Environment Agency and in project management of the construction and design of drainage and landfill structures at an engineering firm in Seattle. Soffía is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners.

Landsvirkjun's Board of Directors evaluates the Company's strategy, operations, financial position and the work of the CEO and its own. 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 etc.

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 Procedures, is to:

a) Monitor the processes involved in preparing financial statements.

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

c) Monitor the 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 Soffía Björk Guðmundsdóttir 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) When necessary, present the Board with any proposed changes to the risk management structure.

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 damage and liability insurance status.

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, appointed by the Board of Directors: Jónas Þór Guðmundsson, Chairman, Álfheiður Ingadóttir, and Gunnar Tryggvason. The Committee meets three 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 annually to the Board.

Meetings in 2023: The Board of Directors held 15 sessions, the Audit Committee held four meetings, the Remuneration Committee held six meetings, and the Risk Committee held three meetings. All meetings were fully attended.

CEO, Deputy CEO and Executive Vice Presidents

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 the Board of Directors set out. 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 if 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 strategic planning and compiling key metrics. As well as maintaining the Company's management systems and risk management, the department coordinates changes throughout the Company and creates channels for improvement. The Division is responsible for managing the Company's communication and information sharing, as well as human resources, compensation, and workplace development. It provides legal support to other divisions and works on the development of high-quality governance and management practices.

The Executive Board consists of the CEO, Deputy CEO, Executive Vice Presidents, and others, dependent upon the CEO's decision. At year end the Executive Vice Presidents were seven.

Gunnar Guðni Tómasson is the Executive Vice President of the Hydropower Division. The division ensures that hydropower stations operate efficiently, maximising energy generation. The Division is responsible for maintaining and refurbishing hydropower stations to ensure they comply with environmental and safety requirements. The Division is responsible for developing hydropower energy options, monitoring water, researching new energy options, and supervising dams and other structures. The Division is responsible for managing electricity generation and delivery by existing agreements.

Einar Mathiesen is the Executive Vice President of the Wind and Geothermal Division. The Division is responsible for efficiently operating geothermal power stations and wind farms and maximising energy generation. As part of its responsibilities, the division maintains, renovates, and renews power stations to ensure they perform their specified role efficiently, comply with environmental and safety requirements, and meet the ISO 55000 standard for asset management. Additionally, the Division is responsible for developing new geothermal and wind energy options and innovations that improve resource utilisation, monitoring, and research. The two resource divisions use common systems and work processes during maintenance and refurbishment. They are jointly responsible for their development in line with progress and changing company operations priorities. The systems in question are managed by the asset management department.

Ásbjörg Kristinsdóttir is the Executive Vice President of the 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, tenders and contracts for planned projects and the acquisition of necessary permits. The department is responsible for construction costs and work progress during the project period. It delivers power stations ready for operation in hydropower, wind, and geothermal fields in accordance with the assumptions, plans and policies of the company.

Rafnar Lárusson is the Executive Vice President of the Finance and IT Division. The Division is responsible for the budget process and its monitoring. Services include providing an overview of Company operations, overseeing resource acquisition and capital management, and providing comprehensive advice on purchasing and financing. The Division is responsible for ensuring that IT and digital solutions reflect the needs of Company operations at any given time. The Division also offers general internal services.

Tinna Traustadóttir is the Executive Vice President of the Sales and Services Division. The Division manages contracts with existing customers and ensures excellent service. The Division maximises Landsvirkjun's long-term revenues, interacts with customers, manages business portals, and settles power sales. It is also responsible for developing pricing policies in wholesale and energy-intensive user markets, handling demand forecasts and analysing Landsvirkjun's business environment and competitive position in domestic and foreign markets.

Ríkarður S. Ríkarðsson is the Executive Vice President of the Business Development and Innovation Division. The division leads the development and marketing efforts for new business opportunities and manages Landsvirkjun's involvement in energy-related innovation. It is tasked with attracting new clients and energy-related ventures globally, promoting Landsvirkjun, and facilitating collaborative efforts with clusters, municipalities, companies, and other stakeholders to drive business development and innovation. Additionally, it plays a pivotal role in securing funding for energy-focused business growth and innovation through international research and development initiatives.

Jóna Bjarnadóttir is the Executive Vice President of the Community and Environment Division. Leading the Company's efforts in social and environmental matters is the main focus of this division. It also supports other divisions within the Company, working towards carbon neutrality, green operations, active community engagement, and socially responsible practices.

Regulatory compliance

The Company has not violated any laws or regulations according to any court or administrative order in 2023.

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 communication 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 as an annual report in accordance with the Global Reporting Initiative since 2019. These reports are part of a holistic approach towards increased sustainability emphasis in the company's operations. Landsvirkjun has supported the UN Global Compact since 2013, and communicates the companys progress to meet fundamental human rights, labour, environment, and anti-corruption responsibilities. Landsvirkjun also supports the UN's Sustainable Development Goals, focusing on Goal 13 on Climate Action, Goal 7 on Affordable and Clean Energy, and Goal 5 on Gender Equality.

In order to enhance the company's understanding of the expectations and interests of stakeholders in terms of sustainability, a materiality assessment was carried out in the years 2018-2020. That assessment had to be updated and therefore there is a need to carry out a new assessment. With the implementation of the CSRD (Corporate Sustainability Reporting Directive) directive from the European Union, standardized sustainability reporting is required. The European Union has put forward standards, ESRS (European Sustainability Reporting Standards) in this context, which are intended to align the information and make comparisons between companies simpler. The basis for the implementation of these standards is the double materiality assessment. On one hand, the impact on the environment and society is being evaluated, and on the other hand, financial risks. Landsvirkjun's operations will therefore be evaluated based on these two impacts in order to determine which topics are the most important to the company in terms of strategy and information disclosure.

In order to prepare for the implementation of these aforementioned standards, which will most likely be implemented for the accounting year 2024, Landsvirkjun has started the double materiality assessment. It is a large-scale project involving stakeholders from all divisions of the company. In addition to the participation of internal stakeholders, various external stakeholders are also involved.

Below is the result of the materiality assessment that was carried out in 2018-2020.

Economy and corporate governance	**Climate and Environment**	**Society**
- Responsible work practices and ethical standards	- Climate action	- Safety and well-being of employees and professional development
- Value creation and dividends	- Energy generation in harmony with nature	- Equality
- Energy-related innovation	- Improved utilisation of natural resources and less waste	- Cooperation with local communities

Landsvirkjun's market environment has undergone significant changes in recent years, bringing both challenging obstacles and exciting opportunities.

Future vision: Our vision is a sustainable world powered by renewable energy.

Role: Our role is to maximise the value of the renewable energy resources we have been entrusted with in a sustainable and efficient manner.

The Company operates in accordance with specific strategic goals to ensure success:

Appendix II: Non-financial information, contd.

Strategy targets	**Strategic objectives**
Operating exemplary resource utilisation and energy generation	Landsvirkjun utilises hydropower, geothermal energy, and wind energy, focusing on sustainability, efficiency, and safety. We show foresight and develop opportunities for increased energy generation to fulfil future needs.
Leading the way in climate and environmental affairs	Landsvirkjun respects the environment and plays a vital role in Iceland's energy transition, contributing to global carbon neutrality.
Pursuing a diverse business and exceptional customer service	Landsvirkjun works closely with its customers to increase value creation. We work to create a greener future by using innovative measures and identifying new business opportunities.
Providing a progressive and sought-after workplace	We promote team unity, job satisfaction, and positive workplace culture by supporting employee health, well-being, and equal rights.
Exceeding expectations in open communication and cooperation	We foster effective and active communication with all our stakeholders and work closely with local communities. We are a good neighbour.

Economy and corporate governance

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

Business model

Landsvirkjun is a state-owned energy company that specialises in generating and selling electricity derived from renewable energy sources, such as hydropower, geothermal energy, and wind power. The Company operates in an internationally competitive market, generating more than 70% of the country's electricity. About 20% of the Company's electricity generation is sold to domestic electricity sales companies, which then sell it to households and businesses. About 80% of the Company's power generation is sold to various energy-intensive customers competing in an internationally competitive market, such as smelters, silicon plants and data centres. Landsvirkjun also sells guarantees of origin. A guarantee of origin is a confirmation that a certain amount of electricity has been generated with renewable energy sources, and consumers can support the generation of renewable energy by purchasing such guarantees.

Landsvirkjun's role is to maximise the value of the renewable energy resources it has been entrusted with in a sustainable and efficient manner. Landsvirkjun paid dividends to the state in the amount of 140 million USD in 2023.

Appendix II: Non-financial information, contd.

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

This year, we continued reviewing and updating internal policies per 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

Ethical Standards and human rights
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 general information provided by the Company. The Code of Conduct and Supplier Code of Conduct were updated.

Landsvirkjun conducted a gap analysis in response to implementing the EU Taxonomy Regulation. This regulation outlines the minimum standards companies must meet concerning human rights and governance. The analysis found that Landsvirkjun was well-prepared, a few suggestions for improvement will be addressed in the coming year.

Employees who witness any misconduct within the Company must report it following the established protocol. 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.

Landsvirkjun's Board of Directors approved the Company's Value Chain rules in 2016, intended to ensure the rights of Landsvirkjun's employees, contractors, subcontractors, or temporary employees. They cover wages, working conditions, 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 process aims 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. A part of that is climate risk. Landsvirkjun uses a specialised risk management information system to store information on specific risk factors and mitigation measures.

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

Appendix II: Non-financial information, contd.

Landsvirkjun's Customers

In 2023, Landsvirkjun's customers faced unfavourable market conditions as product prices hit an all-time high in 2022. Landsvirkjun's customers have effectively utilised their production capacity despite deteriorating market conditions. Energy sales to energy-intensive users decreased by 1% compared to the previous year. Data centres processing cryptocurrency have renegotiated contracts with Landsvirkjun, resulting in reduced electricity sales. New contracts are in place with significant reductions but remain essential for maximising renewable energy value.

Energy-related and climate-friendly innovation

Landsvirkjun supports energy-related and climate-friendly innovation through various collaborative projects. These include collaboration projects with local communities surrounding our power stations to prepare for future energy-related opportunities in, amongst others, the fields of food production and sustainable use of resources and entrepreneurship. The Company is also involved in preparing areas for new energy-related investments. Landsvirkjun also engages in energy transition projects with businesses and municipalities, focusing 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 the Policy is to protect the environment while responsibly utilising natural resources and managing work procedures to minimise any potential environmental impact from Company operations. The Policy states the following among other things:

- Landsvirkjun is at the forefront of environmental and climate issues.
- We respect the landscape and natural environment and continually strive to optimise the use of resources and prevent waste. Landsvirkjun prioritises protecting and preserving biodiversity by following an ecosystem approach as a guiding principle. Emphasis is placed on understanding and minimising the environmental impact of our operations and preventing environmental incidents.
- Landsvirkjun intends to achieve carbon neutrality and actively participates in the global response to climate change. We systematically work towards reducing our carbon emissions, supporting Iceland's commitment to the Paris Agreement, and responding to climate change-induced challenges and opportunities.

The Board approved the revised Climate and Environmental Policy in the beginning of 2024 that prioritises biodiversity and clarifies goals.

Climate and environmental targets

Landsvirkjun has implemented measures to support its success in climate and environmental issues. We have set five targets in our climate and environmental policy concerning environmental impact, resource utilisation and climate issues. The associated performance indicators include keeping track of the Company's climate action and energy transition plans. Progress is tracked using live dashboards that are reviewed regularly. An overview of the targets can be seen below.

Maximise the utilisation of harnessed resources

The winter of 2022-23 presented mixed conditions with warmth and precipitation in November, stabilising reservoir levels and preventing the need for energy curtailments during the winter months. Subsequent temporary curtailments were needed because of a power shortage to fulfil Landsvirkjun's system service obligations to Landsnet. The autumn of 2023 was dry and cold in all water catchment areas, and the drawdown was substantial. In December, the delivery of flexible energy (curtailable energy) embedded in contracts to fish meal factories and data centres was reduced. Curtailment options embedded in several of Landsvirkjun's power contracts allow for this reduction in supply. Landsvirkjun's installed capacity for electricity production is currently being utilised at a rate of 75%, ranking it among the top performers in hydropower systems globally. As a result, curtailable power contracts are essential to maintain this efficiency level.

Landsvirkjun's energy sales were 14,686 GWh in 2023, the second highest in its history. The generation system is nearly fully utilised with an estimated 96% resource utilisation rate. More information on resource utilisation can be found in Landsvirkjun's Annual Report.

Preventing incidents that negatively impact the environment

Seven environmental incidents caused unwanted risks this year, none of them were grounds for sanctions. There were fourteen risk incidents unlikely to cause serious damage or harm The causes were assessed, procedures reviewed, and the relevant work procedures updated. More information about the year's environmental incidents can be found in Landsvirkjun's Annual Report.

- Becoming carbon neutral by end of year 2025

Emissions less sequestration were 13.5 thousand tonnes in 2023, an increase of 22% compared with 2022.

- Annual greenhouse gas emissions below 4 g CO_2 equivalent per kWh

Carbon intensity was 3.3 g CO_2 eq/kWh in 2023, an increase of 7% between years. Therefore, carbon intensity is below the annual emission ceiling of 4 g CO_2 eq/kWh. Avoided emissions from Landsvirkjun's operations in 2023 are estimated at 2.6 million tonnes of CO_2 eq, a decrease of 1% compared with 2022. A more detailed discussion on avoided emissions and calculation methods can be found in Landsvirkjun's Annual Report.

- Stop purchasing fossil fuels by 2030

We purchased 126 thousand litres of fossil fuels in 2023, a reduction of 11% compared with 2022.

A more detailed discussion on the status of climate goals can be found in Landsvirkjun's Climate Accounts, approved 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 assurance) by the firm Bureau Veritas, according to the ISO 14064-3 Standard, in 2008, 2018, 2019, 2020, 2021, 2022 and 2023. Landsvirkjun's carbon sequestration measures were also reviewed and confirmed (with limited certainty) by Bureau Veritas in 2020, 2021, 2022 and 2023 according to the ISO 14064-2 Standard.

CDP (formerly the Carbon Disclosure Project) has, for the second year in a row recognised Landsvirkjun for its climate leadership qualities by awarding it an A score, which means that Landsvirkjun demonstrates best practice in strategy and action on climate matters in its operations. Landsvirkjun has submitted information about the company's climate management to CDP, for the first time in 2016.

Appendix II: Non-financial information, contd.

Society

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

Community Engagement Policy

Landsvirkjun's Community Engagement Policy was introduced in 2022 and aims to promote the positive social impacts and benefits of Company operations alongside the responsible utilisation of natural resources. The Policy states the following:

"Landsvirkjun is a good neighbour. Our guiding principles are honesty, respect, and a commitment to benefitting the local community in all aspects of operations, from project planning to the operation of power stations.

We actively participate in society and support issues and projects that positively impact society.

We encourage constructive communication and cooperation and share knowledge on Company activities through various platforms.

As a leading force within society, we promote energy-related innovation with sustainability as our guiding principle.

The Community Engagement Policy states that it must be reviewed at least once every three years. The Policy was reviewed, and changes were approved in January 2024.

Collaboration with the community

Landsvirkjun's operations have a widespread impact on 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. All divisions and implementation projects develop a stakeholder analysis and communication plan to communicate their activities effectively.

The Community and Environment Division's role Is to lead the Company's journey in social issues across fields and departments, emphasising activity in the local community of power stations. The department thus reflects the importance that Landsvirkjun attaches to communication and contribution to society.

Human Resources and Equality Policy

A new Human Resources and Equality Policy was approved at the beginning of 2024. Its purpose is to support an ambitious work environment that nurtures strong teamwork, fosters motivation and success, and cultivates a desirable culture characterised by well-being, diversity, equality, opportunities for growth, and staff dedication. Our strong strategy supports a progressive and desirable workplace and is based on four key chapters:

- Teamwork and culture
- Equality and diversity
- Cooperation and communication
- Success and flexibility

Appendix II: Non-financial information, contd.

Human Resources

Landsvirkjun operates 15 hydropower stations, 3 geothermal power stations and 2 wind turbines in five operational areas, half of the Company's employees work at the headquarters in Reykjavík, and the other half are located all over the country. Landsvirkjun also offers summer employment opportunities to young people and university students yearly.

Landsvirkjun invested in extensive management and leadership training to support the Company's strategy. The training program is designed to bolster manager-team relationships, helping managers attain their full potential, thereby creating a cohesive environment where the Company's vision, policy, corporate culture, and operations can thrive. All company employees have access to professional and progressive training and education programs in addition to management training.

Equality

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 annually or as needed.

Landsvirkjun is committed to ensuring gender equality throughout its operations, including career advancement, responsibility, participation in working groups, and professional training and education opportunities. 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 (EKKO).

Equality objectives and certification

A milestone was reached in 2021 when gender balance was achieved on the Executive Board. However, there is still a gender deficit at the management level. The proportion of female managers at Landsvirkjun was 39% at the end of 2023 and 39% at the end of 2022.

Landsvirkjun pays equal wages 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. Landsvirkjun was awarded the PWC Gold Standard for the ninth time in 2023. Men's basic salaries were 0.07% higher than women's, and men's total wages were 0.5% higher than women's, placing them within the PWC threshold.

Health and Safety Policy

Landvirkjun's new Health and Safety Policy was approved at the beginning of 2024. The Policy prioritises employee health and safety in the workplace. The Policy aims to create a safe and healthy work environment that promotes employee well-being and cultivates a healthy workplace culture. The Policy is set by the Board of Directors, based on a proposal from the CEO.

Landsvirkjun prioritises workplace health and safety leadership. We aim to establish a secure and healthy work environment that prevents accidents and work-related illnesses that could result in lasting harm. Landsvirkjun also stresses the well-being of its employees and strives to cultivate a healthy workplace culture. All positions/jobs undergo a risk assessment to control physical and psychosocial risks. The necessary protective measures are taken, and unacceptable risks are avoided. We are committed to open and honest communication regarding health and safety with all stakeholders. Management must prioritise employee safety and well-being. The Health and Occupational Safety Policy performance indicators are as follows:

•H-200 for Landsvirkjun employees (goal: 0)
•H-200 for contractors operating within Landsvirkjun's operational areas(goal: 0)

Appendix II: Non-financial information, contd.

Objectives in health and safety matters

Landsvirkjun has set specific goals in this category to promote its success. The goals below are from the previous safety, health and occupational safety policy in force in 2023.

	2023	2022
Absence related incident/200,000 work hours = 0 (empl)	0.89	0.64
Absence related incident/200,000 work hours = 0 (contr)	0	Unmeasureable

Employee mental health

Landsvirkjun conducted a psychosocial risk assessment in collaboration with external specialists, a wellbeing and support service, which examined risk factors for various positions within Landsvirkjun. Particular attention was paid to stress, management, and work-related issues.

Certification and standards in health and safety and occupational safety matters

Landsvirkjun operations are reviewed annually and certified in accordance with the Occupational Health and Safety Standard ISO 45001, which requires continuous improvement in safety, health, and occupational health. Landsvirkjun's operations are reviewed annually according to the standard's requirements, and the Company maintained the certification of ISO 45001 in 2023.

EU Taxonomy Regulation

Landsvirkjun has integrated the EU Taxonomy provisions into its operations and is now publishing sustainability information based on the taxonomy.

Pursuant to Article 1 of Act no. 25/2023, on the disclosure of information on sustainability in the field of financial services and classification system for sustainable investments, implementing EU regulation no. 2020/852 in Icelandic law, Landsvirkjun must disclose the percentage of key indicators of taxonomy-eligible activities considered environmentally sustainable based on the regulation's criteria.

A commitment to sustainability drives Landsvirkjun's operations. We believe that our most significant contribution to promoting sustainable development is to take responsibility for climate matters, where the energy sector plays a key role. Simultaneously, while contributing to climate change mitigation, we will continue to emphasise respect for nature and the responsible utilisation of the renewable resources we are entrusted with.

The EU taxonomy is a common classification system for sustainable economic activities assessed using technical screening criteria outlined in the Commission Delegated Regulation (EU) 2021/2139. The regulation is a vital transparency tool designed to help meet the EU's climate and energy targets and the objectives of the European Green Deal.

Corporations must satisfy the criteria for environmentally sustainable economic activity as specified under Article 3 to obtain recognition as an environmentally sustainable entity per the governing regulation. This requires that such activities make a significant contribution towards achieving one or more environmental objectives without impeding the attainment of other goals. Furthermore, such activities must conform to the minimum safeguards and comply with the technical evaluation benchmarks.

The regulation requires businesses like Landsvirkjun, to identify and disclose information on percentage of revenue, CapEx and OpEx directly linked to activities eligible for taxonomy. The Company must be eligible and aligned to fulfil the requirements. The regulation came into effect in Iceland on June 1st, 2023, through Act no. 25/2023, and it applies to the accounting year 2023.

Financial Statements of Landsvirkjun 2023 62 Amounts are in USD thousand

Appendix II: Non-financial information, contd.

Basis for the preparation of the report

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Icelandic Financial Statements Act, which includes Article 66d on non-financial information, NFRD. The financial statements are presented in USD, the Company's functional currency. Unless otherwise stated, all financial information presented in USD has been rounded to the nearest thousand. Preparing 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.

During 2022 and 2023, Landsvirkjun worked towards implementing and assessing EU Taxonomy alignment for all the Company‘s economic activities. The process has also included a conversation with similar companies regarding interpreting the requirements and approach of EU Taxonomy. The interpretation of various parts of the EU guidelines remains uncertain. There is an ongoing process of interpretation of the EU Taxonomy. Landsvirkjun will follow closely the discussions, and everything presented is based on that there might be changes and/or development that may affect the company's assessment on alignment.

Taxonomy eligible activities

Landsvirkjun assessed which parts of its operation are eligible under the taxonomy regulation. Landsvirkjun's core activities eligible in accordance with the taxonomy regulation are the following: Electricity generation from hydropower, electricity generation from geothermal energy and electricity generation from wind power. When assessing the eligibility, financial materiality was a deciding factor.

Taxonomy aligned activities

To qualify as aligned with the EU taxonomy, an activity must substantially contribute to at least one of the six environmental objectives defined in the taxonomy and do no significant harm to the other five objectives. There is a technical screening criteria that has to be fulfilled for each eligible operation. The company must as well comply with minimum safeguards.

Substantial Contribution (SC)

Electricity generation from hydropower

Most of Landsvirkjun‘s energy generation comes from hydropower. Three technical criteria for substantial contribution to climate change mitigation are presented, requiring the fulfilment of at least one of them. One of the three criteria is that the life-cycle greenhouse gas emissions from the generation of electricity from hydropower are lower than 100 g CO_2eq/kWh. Emissions from Landsvirkjun's activities, including all operational emissions from the Company's hydropower stations, in 2023 were 3,3 g CO_2eq/kWh. These figures have been reviewed and confirmed by an independent third party in accordance with ISO14064-1:2018.

Landsvirkjun has successfully conducted life cycle assessments of four hydropower plants, revealing a carbon footprint well below established criteria. The hydropower stations for which a life-cycle assessment has not been carried out, the other two criteria are used; the electricity generation facility must be either a run-of-river plant, without an artificial reservoir, or the power density of is above 5W/m^2. The assessment shows that all our hydropower stations comply with these criteria.

Electricity generation from geothermal energy

To contribute substantially to climate change mitigation, life-cycle greenhouse gas emissions from geothermal energy generation must be lower than 100 g CO_2eq/kWh. Emissions from Landsvirkjun's operations, including its geothermal stations, were 3,3 g CO_2eq/kWh in 2023.These emissions have been verified and confirmed by an independent third-party assurance according to ISO 14064-1:2018. In a life-cycle assessment of Þeistareykir geothermal station, the carbon footprint was found to be 12,8 g CO_2eq/kWh. The life cycle assessment of Þeistareykir and confirmed emissions from Krafla and Bjarnarflag during their operational period all indicate that the power stations are below the 100 g CO_2eq/kWh standard. Therefore, the assessment confirms that the operation of all the Company's geothermal stations complies with this standard.

Electricity generation from wind power

The business activity under consideration involves the generation of electricity through wind energy. Landsvirkjun's wind turbines comply with these criteria and meet the regulations' requirements.

Do no significant harm (DNSH)

Climate Change Adaptation

Weather patterns and climate conditions constitute fundamental elements in Landsvirkjun's project development and production planning. Physical climate risks are assessed using historical data and potential future scenarios. These risk assessments are integrated into our ongoing project developments and the operation of power stations. Landsvirkjun monitors climate change, and climate change risk analysis considers chronic and acute risks from temperature, wind, and water changes concerning location. Physical climate change risk analysis is integrated into all other risk analyses in our operations. More information can be found in our CDP report. Based on this, Landsvirkjun considers that the criteria have been met.

DNSH Sustainable use and Protection of Water and Marine Resources

The DNSH criteria related to the sustainable use and protection of water and marine resources state that the activity must comply with the provisions of Directive 2000/60/EC, or the Water Framework Directive (WFD), with additional requirements for hydropower. The Water Framework Directive was adopted by the European Union in 2000 and incorporated into the EEA agreement in 2009. Initially, there was a disagreement by the EFTA member states regarding whether the directive should be included in the EEA agreement. The matter was brought before the ESA and the EFTA Court, which ultimately determined that the directive was a part of the agreement.

As a result, the EFTA countries started working on the directive later than the EU member states and will consequently adhere to all the provisions of the directive later than the EU member states. The Water Framework Directive (WFD) was incorporated into Icelandic law in 2011 through the Water Management Act (36/2011). The Environmental Agency of Iceland (EAI) enforces the WFD in Iceland. The first River Basin Management Plan (RBMP), covering the period of 2022 to 2027, was approved and published in April 2022. The plan was formally presented in 2021 and came into effect in 2022.

Landsvirkjun operates in accordance with the requirements outlined in RBMP, 2022-2027, for the first water cycle for all watersheds in its operational areas. The company has started gathering data by researching water bodies near its power stations. Independent agencies are responsible for conducting this research to classify the water bodies. Additionally, the EAI will classify the ecological status and suggest ways to improve it if it is deemed insufficient.

However, Landsvirkjun points out that the Water Framework Directive has not been fully implemented in Iceland, and it is not expected to be implemented fully until at the second round of the RBMP, which ends in 2033.

Appendix II: Non-financial information, contd.

DNSH Transition to a circular Economy
The environmental goal of transitioning to a circular economy applies to Landsvirkjun's wind energy electricity generation operations. The criterion is quite broad, but it requires the activity to evaluate the availability of equipment and components that are highly durable, recyclable, and easy to dismantle and refurbish.

Landsvirkjun aims to prolong the lifespan of its power stations to preserve the resources invested in them and maintain them for as long as possible. The main challenge regarding the criteria is recycling of wind turbine blades. The Company is committed to continue contributing to the circular economy and will endeavour to find the most suitable solution for the disposal of the blade at their end-of-life. Based on this, Landsvirkjun considers that the criteria have been met.

DNSH Pollution Prevention and Control
Criteria for pollution prevention and control only apply to geothermal electricity generation. In high-enthalpy geothermal energy systems, adequate abatement systems to reduce emissions must comply with air quality limits set out in Directives 2004/107/EC and 2008/50/EC of the European Parliament and Council. These directives are a part of the national law, 7/1998, on Hygiene and Pollution Prevention. Based on this, Landsvirkjun considers that the criteria have been met.

DNSH Protection and restoration of biodiversity and ecosystems
The criteria for protecting and restoring biodiversity and ecosystems include conducting an Environmental Impact Assessment (EIA) compliant with Directive 2011/92/EU and implementing the required mitigation and compensation measures. Meeting these requirements in the EU and EEA is a prerequisite to obtaining an operation permit. Landsvirkjun only operates in Iceland, which is a part of the EEA. All Landsvirkjun's projects subject to this law have undergone an EIA since it came into force.

For sites or operations located in or near biodiversity-sensitive areas, an appropriate assessment, where applicable, must be conducted in accordance with Directives 2009/147/EC on the conservation of wild birds and 92/43/EC on the conservation of natural habitats and wild fauna and flora. These EU directives have not been, and are not expected to be, implemented into Icelandic legislation, since these directives are not part of the EEA agreement. Therefore, Landsvirkjun is currently not able to publish adequate information, as it is not possible to determine whether an "appropriate assessment" has been conducted in accordance with these directives in Iceland. The Icelandic Nature Conservation Act (No. 60/2013) addresses the protection of areas that are important for the protection of birds and ecosystems. Landsvirkjun ensures strict compliance with all Icelandic laws and regulations, including conserving wild birds and natural habitats.

Appendix II: Non-financial information, contd.

Minimum safeguards

Landsvirkjun is committed to conducting its operations in a manner that respects and upholds human rights, particularly those related to the labour market.

Landsvirkjun conducted a gap analysis in response to the implementation of the EU Taxonomy Regulation. This regulation outlines the minimum standards companies must meet concerning human rights and governance. The analysis found that Landsvirkjun was well-prepared, and suggestions for minor improvements will be addressed appropriately.

Landsvirkjun believes it meets the regulation requirements for human rights and governance. In recent years, Landsvirkjun has implemented specific rules, response plans, internal policies and agreements that deal with these issues. These include the Code of Ethics, Suppliers' Code of Conduct, the Reprehensible Conduct Response Plan, EKKO's response plan, HR and Equality Policy, the UN Global Compact, the Board's Code of Practice, supplier evaluation and chain responsibility clauses in contracts, to name just a few.

Taxonomy tables – KPI's

Landsvirkjun will monitor developments in the EU Taxonomy framework and make necessary adjustments per the requirements and clarifications. This could impact future estimates and key metrics. In cases where the European Union directives have not been transposed into Icelandic law, the specific information cannot be disclosed.

Revenue

As stated above, Landsvirkjun has defined revenue-related economic activities as eligible for the KPI. Landsvirkjun's revenue is tied to renewable energy generation, with income streams linked to electricity sales, including guarantees of origin and realised hedges. Other types of income do not fall under EU Taxonomy eligible activities and is part pf other income in the financial statements.

Capital expenditures

CapEx

The EU Taxonomy CapEx KPI covers direct investments in new power stations, capitalised investments for power station refurbishment and capitalised preparation costs. The excluded investments involve buying assets other than power stations and development costs for power stations that are not yet ready for construction and are unlikely to begin construction within the next five years.

Operating expenses

OpEx

Landsvirkjun's operating expenses falling under the EU Taxonomy OpEx KPI include direct maintenance costs for power stations, electricity transmission, research and development, and facility cleaning costs. The cost of transmitting electricity is directly related to the sale of green electricity and Landsnet's (TSO) transmission system. Costs due to depreciation and amortisation are not included in the presentation of Landsvirkjun's operating costs.

Taxonomy tables – KPI's are following:

EU Taxonomy

Turnover

Economic activites (1)	Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	Substantial contribution criteria: Climate change mitigation (5)	Climate change adaption (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	DNSH criteria ("Does not significantly harm"): Climate change mitigation (11)	Climate change adaption (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy aligned proportion of turnover, year N (18)	Taxonomy aligned proportion of turnover, year N-1 (19)	Category (enabling activity or) (20)	Category (transitional activity) (21)
	NACE	USD million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (Taxonomy-aligned)																				
4.5. Electricity generation from hydropower	D35.1.1	600.1	91.3%	100.0%							Y	Y	-	-	Y	Y	91.5%			
4.6. Electricity generation from geothermal energy	D35.1.1	55.6	8.5%	100.0%							Y	Y	-	Y	Y	Y	8.5%			
4.3. Electricity generation from wind power	D35.1.1	0.3	0.0%	100.0%							Y	Y	Y	-	Y	Y	0.0%			
Turnover of environmentally sustainable activities (Taxonomy-aligned (A.1)		**655.9**	**99.8%**	**100.0%**													**100.0%**			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**0.0**	**0.0%**														**0.0%**			
Total (A.1 + A.2)		**655.9**	**99.8%**														**100.0%**			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)		**1.5**	**0.2%**																	
Total (A + B)		**657.4**	**100.0%**																	

EU Taxonomy

CapEx

				Substantial contribution criteria						DNSH criteria ("Does not significantly harm")										
Economic activites (1)	Code(s) (2)	Absolute CapEx (3)	Proportion of CapEx (4)	Climate change mitigation (5)	Climate change adaption (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaption (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy aligned proportion of CapEx, year N (18)	Taxonomy aligned proportion of CapEx, year N-1 (19)	Category (enabling activity or) (20)	Category (transitional activity) (21)
	NACE	USD million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (Taxonomy-aligned)																				
4.5. Electricity generation from hydropower	D35.1.1	30.4	53.2%	100.0%							Y	Y	-	-	Y	Y	69.0%			
4.6. Electricity generation from geothermal energy	D35.1.1	12.7	22.2%	100.0%							Y	Y	-	Y	Y	Y	28.8%			
4.3. Electricity generation from wind power	D35.1.1	1.0	1.7%	100.0%							Y	Y	Y	-	Y	Y	2.2%			
CapEx of environmentally sustainable activities (Taxonomy-aligned (A.1)		**44.0**	**77.1%**	**100.0%**													**100.0%**			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**0.0**	**0.0%**														**0.0%**			
Total (A.1 + A.2)		**44.0**	**77.1%**														**100.0%**			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
CapEx of Taxonomy-non-eligible activities (B)		**13.1**	**22.9%**																	
Total (A + B)		**57.1**	**100.0%**																	

EU Taxonomy

OpEx

				Substantial contribution criteria						DNSH criteria ("Does not significantly harm")										
Economic activites (1)	Code(s) (2)	Absolute OpEx (3)	Proportion of OpEx (4)	Climate change mitigation (5)	Climate change adaption (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaption (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy aligned proportion of OpEx, year N (18)	Taxonomy aligned proportion of OpEx, year N-1 (19)	Category (enabling activity or) (20)	Category (transitional activity) (21)
	NACE	USD million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmentally sustainable activities (Taxonomy-aligned)																				
4.5. Electricity generation from hydropower	D35.1.1	57.1	87.4%	100.0%							Y	Y	-	-	Y	Y	87.4%			
4.6. Electricity generation from geothermal energy	D35.1.1	8.2	12.5%	100.0%							Y	Y	-	Y	Y	Y	12.5%			
4.3. Electricity generation from wind power	D35.1.1	0.0	0.1%	100.0%							Y	Y	Y	-	Y	Y	0.1%			
OpEx of environmentally sustainable activities (Taxonomy-aligned (A.1)		**65.3**	**100.0%**	**100.0%**													**100.0%**			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**0.0**	**0.0%**														**0.0%**			
Total (A.1 + A.2)		**65.3**	**100.0%**														**100.0%**			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
OpEx of Taxonomy-non-eligible activities (B)		**0.0**	**0.0%**																	
Total (A + B)		**65.3**	**100.0%**																	