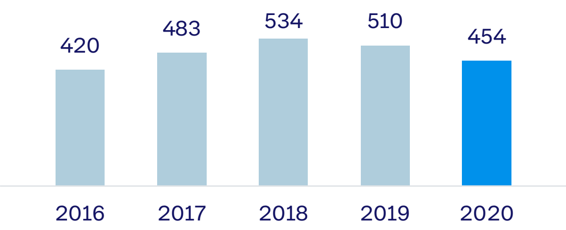
Landsvirkjun

Consolidated Financial Statements 2020

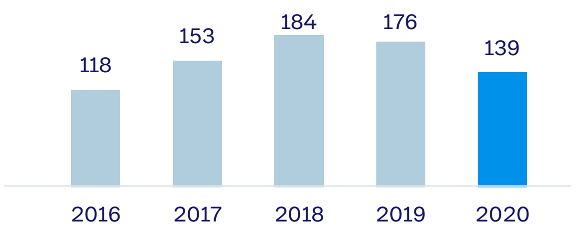
Contents

Key figures

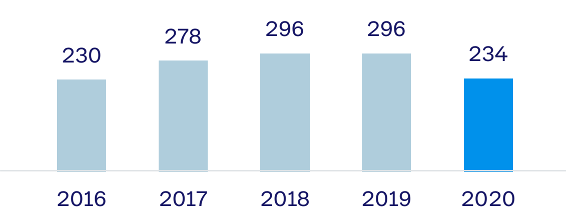
Operating revenues



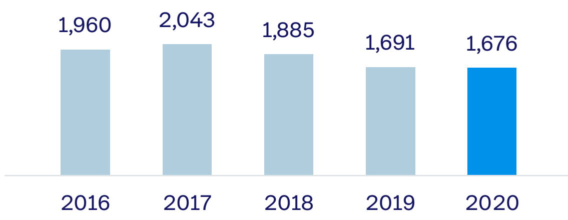
Profit before unrealised financial items



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

High voltage lines
3.500 km

Key figures - Unaudited

Management's presentation of the operation of Landsvirkjun

	2020	2019	2018	2017	2016
Operation					
Operating revenues	448,276	499,547	538,455	491,175	415,480
Realised hedges	5,262	10,047	(4,534)	(8,098)	4,890
Total operating revenues	453,538	509,594	533,921	483,077	420,370
Operating expenses	(127,214)	(131,106)	(144,041)	(137,503)	(118,630)
EBITDA	326,324	378,488	389,880	345,574	301,740
Depreciation and impairment loss	(128,967)	(134,779)	(125,448)	(127,086)	(118,571)
EBIT	197,357	243,709	264,432	218,488	183,169
Financial items	(58,651)	(67,681)	(80,178)	(64,844)	(60,045)
Associated companies	(12)	(27)	(179)	(228)	(5,448)
Profit before unrealised financial items	138,694	176,001	184,075	153,416	117,676
Unrealised financial items:					
Fair value changes in embedded derivatives	970	(1,323)	(49,410)	84,494	21,164
Fair value changes in other derivatives	(12,726)	(8,011)	24,878	(12,990)	(1,269)
Unrealised foreign exchange difference	(8,189)	8,290	21,014	(60,745)	(23,314)
	(19,945)	(1,044)	(3,518)	10,759	(3,419)
Profit before income tax	118,749	174,957	180,557	164,175	114,257
Income tax	(40,131)	(60,079)	(59,528)	(56,211)	(47,437)
Net Profit	78,618	114,878	121,029	107,964	66,820
Balance sheet					
Total assets	4,348,344	4,381,633	4,451,081	4,506,392	4,332,864
Equity	2,235,135	2,235,399	2,163,056	2,063,112	1,969,088
Liabilities	2,113,209	2,146,234	2,288,025	2,443,280	2,363,776
Net debt *	1,675,804	1,691,462	1,884,603	2,042,642	1,960,497
Cash flow					
Funds from operations (FFO)	266,263	312,322	316,336	282,774	235,602
Cash flow from operating activities	234,084	295,764	295,761	277,937	229,827
Investing activities	(111,550)	(82,420)	(150,864)	(253,740)	(172,277)
Financing activities	(142,399)	(218,261)	(151,876)	(45,282)	(59,305)
Liquidity					
Cash and cash equivalents at year end	91,963	110,487	116,278	126,544	144,534
Undrawn loans	280,000	180,000	353,155	421,363	472,448
Total liquidity	371,963	290,487	469,433	547,907	616,982
Key ratios					
Return on equity	3.5%	5.3%	5.9%	5.5%	3.5%
Equity ratio	51.4%	51.0%	48.6%	45.8%	45.4%
Interest cover (EBITDA/net interest exp.)	5.66x	5.55x	4.76x	5.53x	5.15x
FFO / net liabilities	15.9%	18.5%	16.8%	13.8%	12.0%
FFO / interest expenses	4.52x	4.41x	3.72x	4.35x	3.80x
Net debt / EBITDA	5.14x	4.47x	4.83x	5.91x	6.50x
Credit rating at year end without state guarantee					
Standard & Poor's	BBB	BBB	BBB	BBB	BBB-
Moody's	Baa1	Baa1	Baa2	Baa3	Baa3

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

Consolidated Financial Statements of Landsvirkjun 2020 4 Amounts are in USD thousand

Quarterly statement 2020 - Unaudited

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

	Q1	Q2	Q3	Q4	Total
Operating revenues					
Power sales	102,040	79,971	79,674	93,187	354,872
Realised hedges	1,276	2,543	1,087	356	5,262
Transmission	19,951	17,887	18,166	20,351	76,355
Other income	2,895	537	1,934	11,683	17,049
	126,162	100,938	100,861	125,577	453,538
Operating expenses					
Energy production costs	11,200	10,000	13,916	12,636	47,752
Transmission costs	9,273	7,386	8,340	8,476	33,475
Cost of general research	2,037	1,944	2,139	3,207	9,327
Other operating expenses	9,601	8,304	8,263	10,492	36,660
Depreciation and impairment loss	31,955	31,893	31,916	33,203	128,967
	64,066	59,527	64,574	68,014	256,181
Operating profit	62,096	41,411	36,287	57,563	197,357
Financial income and (expenses)					
Interest income	763	240	154	150	1,307
Interest expenses	(16,291)	(14,838)	(14,605)	(13,227)	(58,961)
Realised foreign exchange difference	(589)	474	(2,607)	1,724	(998)
	(16,117)	(14,124)	(17,058)	(11,353)	(58,651)
Associated companies	3	(106)	10	81	(12)
Profit before income tax and unreal. items	45,982	27,181	19,239	46,291	138,694
Unrealised financial items:					
Fair value changes in embedded derivatives	(23,792)	4,166	13,242	7,354	970
Fair value changes in other derivatives	5,902	(5,931)	(4,512)	(8,185)	(12,726)
Unrealised foreign exchange difference	19,916	(10,092)	(2,113)	(15,899)	(8,188)
	2,026	(11,857)	6,617	(16,730)	(19,945)
Profit before income tax	48,008	15,324	25,856	29,561	118,749
Income tax	(14,940)	(4,830)	(8,226)	(12,135)	(40,131)
Net Profit	33,068	10,494	17,630	17,426	78,618
Attributable to:					
Owners of the parent company	29,315	8,489	15,406	15,769	68,979
Subsidiaries minority interest	3,753	2,005	2,224	1,657	9,639
	33,068	10,494	17,630	17,426	78,618
From cash flow					
Cash flow from operating activities	75,412	54,242	40,174	64,256	234,084

Other key metrics for the parent company	**2020**	**2019**	**2018**	**2017**	**2016**
Installed capacity at year end (MW)	2,146	2,146	2,145	2,000	1,957
Av. price for ind. users excl trm. USD/MWh*	21.1	23.2	23.3	21.4	18.6
Av. price for primary energy excl. trm. ISK/kWh	5.3	5.0	4.8	4.6	4.7
Sales in GWh	13,336	14,028	14,753	14,325	13,625
Research and development	10,916	11,823	14,824	20,004	16,829
Accident frequency rate: H200**	0.3	0.3	0.6	0.0	0.3

* Transmission is excluded in the calculation of average price
** H200 is the number of absence accidents per each 200,000 working hours

Consolidated Financial Statements of Landsvirkjun 2020 5 Amounts are in USD thousand

Endorsement by the Board of Directors and CEO

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

The financial statements of Landsvirkjun for the year 2020 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. The functional currency of the Company is the US Dollar (USD) and amounts in the financial statements are rounded to the nearest thousand USD.

The Group's operating revenues amounted to USD 453.5 million in the year 2020 compared to USD 509.6 million in the previous year, a decrease of USD 56.1 million. Operating expenses amounted to USD 256.2 million in the year 2020 compared to USD 265.9 million in the year 2019. The Company's operating profit amounted to USD 197.4 million in the year 2020 compared to USD 243.7 million in the previous year.

Landsvirkjun has entered into derivative contracts in order to manage risk. Contracts have been made in order to hedge interest rate risk and foreign exchange risk. In addition, derivative contracts have been made in order to hedge risk due to fluctuations of aluminium prices in the global market and electricity 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 78.6 million in the year 2020, compared to USD 68.7 million the previous year, a decrease of USD 9.9 million between years due to lower interest expenses but also due to currency exchange differences and fair value changes in derivatives which are mostly unrealised and must be kept in mind when evaluating the Company's annual results. Profit before unrealised financial items amounted to USD 138.7 million during the year compared to USD 176.0 million in the year 2019. According to the income statement, profit for the year amounted to USD 78.6 million compared to USD 114.9 million in the previous year.

Equity at year end 2020 amounted to USD 2,235.1 million compared to USD 2,235.4 million at year end 2019 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 50.0 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 92.0 million and Undrawn loans amounted to USD 280.0 million. Cash and cash equivalents and Undrawn loans therefore amounted to USD 372.0 million at year end. Cash flow from operations amounted to USD 234.1 million. During the year the Company took new loans amounting to USD 250.0 million and repayments amounted to USD 274.7 million. Cash and cash equivalents decreased by USD 18.5 million during the year.

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

Like most other companies, Landsvirkjun has faced various challenges during the COVID 19 pandemic and the accompanying economic downturn. The quarantine and tough quarantine measures and enforcement rules introduced by governments worldwide have negatively affected the economy and reduced the demand for goods and services.

Endorsement by the Board of Directors and CEO, contd

Landsvirkjun's customers have also been impacted by the pandemic. The demand for raw materials and energy declined and the demand for metals hit an all-time low during the first wave of the pandemic. However, markets picked up during the second half of the year which can be attributed to the rapid recovery of markets in China and positive news on potential vaccines resulting in higher commodity prices including higher aluminium prices. Landsvirkjun supported its customers during these challenging times by offering temporary discounts on electricity prices.

These major upheavals in Landsvirkjun's market environment have put pressure on the Company's operating revenues, which were USD 56.1 million lower in 2020 than they were in 2019. Profit was USD 36.3 million lower than last year. Cash flow from operating activities was about 21% lower than the year before.

Landsvirkjun launched a substantial series of initiatives last spring to boost the Icelandic economy, including various new construction, maintenance, and improvement projects in energy production areas. Research and development projects were launched in the south and north of Iceland in cooperation with local stakeholders. Various digital transformation projects were also expedited.

Corporate Governance

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

Non-financial information

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

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Icelandic Financial Statement Act and it is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of the Groups's assets, liabilities and financial position as at 31 December 2020 and the Group's results and changes in cash in the year 2020.

Endorsement by the Board of Directors and CEO, contd

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 2020 give a fair view of the Group's results, financial position and development and describe the main risk factors faced by the Group.

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

Reykjavik, 18 February 2021.

The Board of Directors:	The CEO:
Jónas Þór Guðmundsson	Hörður Arnarson
Álfheiður Ingadóttir	
Guðfinna Jóhanna Guðmundsdóttir	
Gunnar Tryggvason	
Jón Björn Hákonarson	

Independent Auditors' Report

To the Board of Directors and owners of Landsvirkjun

Opinion

We have audited the consolidated financial statements of Landsvirkjun for the year ended December 31, 2020 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flow for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Landsvirkjun as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

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

Basis for Opinion

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

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

Key Audit Matters

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

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

Valuation of power stations	
Included in property, plant and equipment are power stations which amount to 3,124 million USD at year-end. Power stations are measured at cost less accumulated depreciation and impairment. We consider the valuation of power stations to be a key audit matter due to their magnitude and management estimation of their expected useful life. As to the valuation of the assets, we refer to fixed assets in note 9 and accounting policies note 52.	We reviewed the impairment test of power stations prepared by management. During our audit we examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included: • Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used. We assessed if the valuation's calculations were in accordance with IFRS and assessed that the disclosures were appropriate.

Valuation of transmission network	
The transmission network of Landsnet, a subsidiary of Landsvirkjun, is recognised according to the revaluation method. At year-end its carrying amount was USD 669 million. Transmission network valuation is based on management estimations therefore we consider it to be a key audit matter. Revaluation is performed on a regular basis and it is measured using a cash flow analysis. The assets were revaluated at year-end 2015 and it is management estimate that there is no basis for revaluation at year-end 2020. As to the valuation of the assets, we refer to fixed assets in note 9 and accounting policies note 52.	Our audit was focused on management estimations of operating value of transmission lines and substations at year-end 2020. We examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation. This included: • Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used. We assessed if the valuation's calculations and disclosures were in accordance with IFRS. We have also examined management assumption related to depreciation methods and revaluation in accordance with IFRS.

Other information

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

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

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

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

Independent Auditors' Report, contd.

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

Independent Auditors’ Report, contd.

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

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

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

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

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

Deloitte was appointed auditor of Landsvirkjun by the general meeting of shareholders on 22. April 2020. Deloitte have been elected since the general meeting 2014.

Reykjavik, 18 February 2021.

Deloitte ehf.

Þorsteinn Pétur Guðjónsson
State Authorized Public Accountant

Pétur Hansson
State Authorized Public Accountant

Income Statement

	Notes	2020	2019
Operating revenues			
Power sales	4	354,872	409,715
Realised hedges		5,262	10,047
Transmission	4	76,355	80,112
Other income		17,049	9,720
		453,538	509,594
Operating expenses			
Energy generation costs		143,906	144,667
Transmission costs		62,823	64,485
Cost of general research		9,327	16,662
Other operating expenses		40,125	40,071
		256,181	265,885
Operating profit	3	197,357	243,709
Financial income and (financial expenses)			
Interest income		1,307	2,705
Interest expenses		(58,961)	(70,850)
Foreign exchange difference		(9,186)	8,754
Fair value changes in embedded derivatives	32	970	(1,323)
Fair value changes in other derivatives		(12,726)	(8,011)
	7	(78,596)	(68,725)
Associated companies	14	(12)	(27)
Profit before income tax		118,749	174,957
Income tax	8	(40,131)	(60,079)
Net profit for the year		78,618	114,878
Attributable to:			
Owners of the Parent Company		68,979	104,188
Minority interest in subsidiaries		9,639	10,690
		78,618	114,878

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

Consolidated Financial Statements of Landsvirkjun 2020 13 Amounts are in USD thousand

Statement of Comprehensive Income

	2020	2019
Net profit for the year	78,618	114,878
Items that will not be reclassified subsequently to profit or loss		
Pension obligation after income tax, change	(2,017)	(1,345)
Demolition obligation after income tax, change	(4,008)	(2,201)
Items that may be reclassified subsequently to profit or loss		
Transl. difference due to subsid. and associated companies	(770)	(907)
Total operating items moved to equity	(6,795)	(4,453)
Total Comprehensive Income for the year	71,823	110,425
Total Comprehensive Income attributable to:		
Owners of the Parent Company	63,705	100,605
Minority interest in subsidiaries	8,118	9,820
	71,823	110,425

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

Consolidated Financial Statements of Landsvirkjun 2020 14 Amounts are in USD thousand

Balance Sheet

Assets	Notes	2020	2019
Non-current assets			
Property, plant and equipment	9	3,855,644	3,945,821
Projects under construction	10	121,374	47,443
Development cost	11	136,412	133,610
Other intangible assets	11	48,590	48,234
Derivative financial instruments	13	14,931	6,429
Associated companies	14	1,901	626
Other non-current assets	15	723	984
Deferred tax asset	8	4	0
Total non-current assets		4,179,579	4,183,147
Current assets			
Inventories	18	5,553	5,248
Accounts receivables and other receivables	19	69,344	74,715
Derivative financial instruments	13	1,905	8,036
Cash and cash equivalents	20	91,963	110,487
Total current assets		168,765	198,486
Total assets		4,348,344	4,381,633
Equity and liabilities			
Equity			
Owners' contributions	21	586,512	586,512
Revaluation account	22	147,161	155,668
Restricted reserves	22	59,178	47,191
Translation difference	22	(42,232)	(41,570)
Other equity		1,341,726	1,349,582
Equity of the owners of the Parent Company		2,092,345	2,097,383
Minority interest		142,790	138,016
Total equity		2,235,135	2,235,399
Long term liabilities			
Interest bearing liabilities	23	1,531,715	1,543,288
Pension fund obligation	25	36,597	36,863
Deferred income tax liability	8	173,513	160,295
Lease liability	16	6,091	5,675
Obligation due to demolition	26	17,727	12,212
Prepaid income		2,555	2,701
Derivative financial instruments	13	5,408	4,140
		1,773,606	1,765,174
Current liabilities			
Accounts payable and other payables	27	71,072	77,720
Interest bearing liabilities	24	236,052	258,661
Income tax payable	8	24,618	28,837
Derivative financial instruments	13	7,861	15,842
		339,603	381,060
Total liabilities		2,113,209	2,146,234
Total equity and liabilities		4,348,344	4,381,633

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

Consolidated Financial Statements of Landsvirkjun 2020 15 Amounts are in USD thousand

Statement of Equity

	Owners' contribution	Revaluation account	Restricted reserves	Translation difference	Other equity	Equity attributable to the owners of the Parent Company	Minority interest	Total equity
Changes in equity year 2019								
Equity at 1 January 2019	586,512	162,961	32,838	(40,756)	1,290,895	2,032,450	130,606	2,163,056
Translation difference				(814)		(814)	(93)	(907)
Demolition obligation change		(1,424)				(1,424)	(777)	(2,201)
Pension obligation, change					(1,345)	(1,345)		(1,345)
Net profit for the year					104,188	104,188	10,690	114,878
Total Comprehensive Income		(1,424)	0	(814)	102,843	100,605	9,820	110,425
Share of profit of subsidiaries and associated companies			14,353		(14,353)	0	0	0
Revaluation transferred to other equity		(5,869)			5,869	0	0	0
Dividend to owners					(35,672)	(35,672)	(2,410)	(38,082)
Equity at 31 December 2019	586,512	155,668	47,191	(41,570)	1,349,582	2,097,383	138,016	2,235,399
Changes in equity year 2020								
Equity at 1 January 2020	586,512	155,668	47,191	(41,570)	1,349,582	2,097,383	138,016	2,235,399
Translation difference				(662)		(662)	(108)	(770)
Demolition obligation change		(2,595)				(2,595)	(1,413)	(4,008)
Pension obligation, change					(2,017)	(2,017)		(2,017)
Net profit for the year					68,979	68,979	9,639	78,618
Total Comprehensive Income		(2,595)	0	(662)	66,962	63,705	8,118	71,823
Share of profit of subsidiaries and associated companies			11,987		(11,987)	0	0	0
Revaluation transferred to other equity		(5,912)			5,912	0	0	0
Dividend to owners					(68,743)	(68,743)	(3,343)	(72,086)
Equity at 31 December 2020	586,512	147,161	59,178	(42,232)	1,341,726	2,092,345	142,790	2,235,135

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

Consolidated Financial Statements of Landsvirkjun 2020 16 Amounts are in USD thousand

Statement of Cash Flow

	2020	2019
Operating activities		
Operating profit	197,357	243,709
Adjustments for:		
Depreciation and impairment loss	128,967	134,779
Pension obligation, change	(1,811)	(1,821)
Other changes	(720)	(105)
Working capital from operation before financial items	323,793	376,562
Operating assets, change	(1,877)	2,091
Operating liabilities, change	1,753	875
Cash flow from operating activities before financial items	323,669	379,528
Interest income received	1,380	2,762
Interest expenses and foreign exchange diff. paid	(64,731)	(68,397)
Taxes paid	(26,234)	(18,129)
Cash flow from operating activities	234,084	295,764
Investing activities		
Power stations in operation	(19,863)	(33,273)
Transmission	(84,550)	(39,833)
Power plant preparation cost	(1,516)	(1,869)
Purchased shares in other companies	(1,035)	(390)
Other capital expenditures	(6,907)	(7,270)
Assets sold	2,326	368
Other receivables, change	(5)	(153)
Investing activities	(111,550)	(82,420)
Financing activities		
Dividend paid to owners	(76,263)	(26,625)
New loans	249,755	0
Amortisation of long-term debt	(274,716)	(191,467)
Currency swaps	(41,175)	(169)
Financing activities	(142,399)	(218,261)
Change in cash and cash equivalents	(19,865)	(4,917)
Effect of exchange diff. on cash and cash equivalents	1,341	(874)
Cash and cash equivalents at the beginning of the year	110,487	116,278
Cash and cash equivalents at the end of the year	91,963	110,487

Investing- and financing activities without payments:

	2020	2019
Shares sold	0	10,488
Dividend paid	0	(10,488)

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

Consolidated Financial Statements of Landsvirkjun 2020 17 Amounts are in USD thousand

Notes

General Information

1. Landsvirkjun

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

2. Basis of preparation

a. Statement of IFRS compliance

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

The Company's Board of Directors approved the financial statements on 18 February 2021.

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

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which have been measured at fair value; derivative financial instruments, trading financial assets and shares in other companies. Operating assets and assets held for sale are recognised at the lower of book value or fair value. Operating assets of the subsidiaries Landsnet hf. and Orkufjarskipti hf. are recognised at revalued cost. Transmission network of the subsidiary Landsnet hf. was revalued during the year 2015, see note 9.

c. Presentation and functional currency

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

d. Management's use of estimate and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis and the effect of the changes are entered in the periods that the changes are made and in subsequent periods if the change also affects those periods.

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

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

Notes, contd.

2. Basis of preparation, contd.:

e. Determination of fair value

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

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

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

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

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

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

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

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

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

3. Segment reporting

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

Landsvirkjun Group's operating segments are specified as follows:

Electricity generation

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

Electricity transmission

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

3. Segment reporting, contd.:

Other segments

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate a telecommunications system which is necessary for the shareholders' electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. takes care of sales of technical and operational advisory services to third parties and general research work, harnessing researches and projects for Landsvirkjun and related companies.

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

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

Operating segments year 2019	Electricity generation	Electricity transm.	Other segments	Adjustments	Total
Income from third party	427,314	80,888	1,392	0	509,594
Income within the Group	15,312	59,443	4,267	(79,022)	0
Segment income	442,626	140,331	5,659	(79,022)	509,594
Segment operating expenses	(145,694)	(60,519)	(3,915)	79,022	(131,106)
EBITDA	296,932	79,812	1,744	0	378,488
Depreciation and impairm. loss	(104,708)	(29,641)	(841)	411	(134,779)
Segment earnings, EBIT	192,224	50,171	903	411	243,709
Segment assets 2019	3,864,603	845,797	22,101	(351,494)	4,381,007
Associated companies	270	6,510	356	(6,510)	626
Total assets 2019	3,864,873	852,307	22,457	(358,004)	4,381,633
Segment liabilities 2019	1,751,794	460,995	5,863	(72,418)	2,146,234
Total liabilities 2019	1,751,794	460,995	5,863	(72,418)	2,146,234
Investing activities	37,082	43,711	1,453	0	82,246

Consolidated Financial Statements of Landsvirkjun 2020 20 Amounts are in USD thousand

4. Operating revenues

Power sales are specified as follows:

	2020	2019
Retail sales companies	60,010	77,152
Power intensive users	294,862	332,563
Power sales total	354,872	409,715

Revenues from transmission are specified as follows:

	2020	2019
Transmission	67,477	69,488
Transmission losses, grid service and other transmission revenues	8,878	10,624
Transmission total	76,355	80,112

Other income consists of income due to contract work, guarantees of origin, rental income etc. Among other income insurance benefits amounting to USD 8 million are recognized as income due to operational difficulties at Rio Tinto Iceland Ltd.

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

5. Total number of employees

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

	2020	2019
Average number of employees during the year, full-time equivalents	475	482
Full-time equivalent units at year-end	426	437

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

	2020	2019
Average number of employees during the year, full-time equivalents	321	330
Full-time equivalent units at year-end	276	288

6. Total salaries of employees

Total salaries of employees are specified as follows:

	2020	2019
Salaries	50,987	52,145
Contribution to defined contribution plans	7,280	7,660
Defined pension benefit payments	2,579	2,616
Other change in pension obligations	(1,810)	(1,821)
Other salary related expenses	4,668	4,978
	63,704	65,578
Transferred to assets	(5,547)	(6,535)
	58,157	59,043

Salaries and salary related expenses are allocated as follows:

	2020	2019
Energy generation costs	21,002	22,997
Transmission costs	12,761	13,394
Other operating expenses	29,941	29,187
Transferred to assets	(5,547)	(6,535)
	58,157	59,043

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

	2020	2019
Salaries of the Board of Directors of the parent company	164	176
Salaries of the Boards of Directors of two subsid. (same as in 2019)	147	157
Salaries and benefits of the CEO of the parent company	308	338
Salaries of 6 Directors and Deputy CEO (incr. by 1 from year-end 2019)	1,304	1,414
Sal. and benef. of the CEO and 7 Man. Dir. of subsid. (same year-end 2019)	1,489	1,641

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7. Financial income and (expenses)

Financial income and (expenses) are specified as follows:	2020	2019
Interest income	1,307	2,705
Interest expenses	(59,450)	(68,649)
Guarantee fee	(2,078)	(2,883)
Indexation	(1,179)	(1,077)
The effect of the present value of the demolition obligations	(504)	(450)
Capitalised interest costs	4,250	2,209
Total interest expenses	(58,961)	(70,850)
Realised foreign exchange difference	(998)	464
Unrealised foreign exchange difference	(8,188)	8,290
Total foreign exchange difference	(9,186)	8,754
Fair value changes in embedded derivatives	970	(1,323)
Fair value changes in other derivatives	(12,726)	(8,011)
Total financial income and (expenses)	(78,596)	(68,725)

Capitalised finance cost amounted to 4.8% (2019: 4.6%) of investments in transmission under construction but no such cost was capitalised in 2020 due to power stations under construction (2019: 0.0%).

8. Income tax

Income tax is specified as follows:	2020	2019
Change in income tax asset / liability	(13,214)	(29,577)
Income tax payable	(24,618)	(28,837)
Income tax recognised among comprehensive income	(2,217)	(1,360)
Foreign exchange and translation difference	(59)	(51)
Other changes	(23)	(255)
Income tax expensed	(40,131)	(60,079)

Consolidated Financial Statements of Landsvirkjun 2020 22 Amounts are in USD thousand

8. Income tax, contd.:

Effective tax rate

		2020		2019
Profit for the year		78,618		114,878
Income tax for the year		40,131		60,079
Profit before income tax		118,749		174,957
Inc. tax acc. to the parent company's tax rate	37.6%	44,650	37.6%	65,784
Effect of different tax rates within the Group	(5.3%)	(6,254)	(3.9%)	(6,882)
Non-taxable and non-deductible items	1.5%	1,735	0.7%	1,177
Effective income tax	33.8%	40,131	34.3%	60,079

Income tax due to items recognised in other comprehensive income is specified as follows:

	2020	2019
Income tax recognised in other comprehensive income	(2,217)	(1,360)
	(2,217)	(1,360)

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

	Deferred tax asset		Deferred tax liability	
	2020	2019	2020	2019
Balance at the beginning of the year	0	14	(160,294)	(130,733)
Change in temporary difference	(14)	(13)	(13,171)	(29,577)
Change in carry forward loss	18	0	(113)	(37)
Foreign exchange and translation difference	0	(1)	65	52
Balance at year end	4	0	(173,513)	(160,295)

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

Carry forward loss	52	35	16	143
Property, plant and equipment and int. assets	0	0	(204,981)	(172,599)
Derivative financial instruments	0	0	3,165	(1,255)
Other items	(48)	(35)	28,287	13,416
Balance at year end	4	0	(173,513)	(160,295)

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

Carry forward loss of the year 2015, usable until the year 2025	0	210
Carry forward loss of the year 2016, usable until the year 2026	0	424
Carry forward loss of the year 2017, usable until the year 2027	62	140
Carry forward loss of the year 2018, usable until the year 2028	185	114
Carry forward loss of the year 2019, usable until the year 2029	93	-
Carry forward loss at year end	340	888

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

Consolidated Financial Statements of Landsvirkjun 2020 23 Amounts are in USD thousand

9. Property, plant and equipment

Property, plant and equipment is specified as follows:

Cost value	Power stations	Trans-mission	Communi-cation equipment	Other assets	Total
Total value at 1.1.2019	5,596,929	999,768	26,836	79,742	6,703,275
Effect of exch rate changes	0	0	(1,035)	0	(1,035)
Additions during the year	27,674	5,317	1,831	8,602	43,424
Transferred from projects under construction	0	17,236	0	0	17,236
Sold and disposed of	0	(7)	(59)	(3,040)	(3,106)
Total value at 31.12.2019	5,624,603	1,022,314	27,573	85,304	6,759,794
Effect of exch. rate changes	0	0	(1,180)	0	(1,180)
Additions during the year	22,223	3,410	2,297	2,880	30,810
Transferred from projects under construction	0	9,464	0	0	9,464
Sold and disposed of	0	0	0	(3,153)	(3,153)
Total value at 31.12.2020	5,646,826	1,035,188	28,690	85,031	6,795,735
Depreciation and impairment loss					
Total value at 1.1.2019	2,331,097	311,539	10,670	36,424	2,689,730
Effect of exch. rate changes	0	0	(409)	0	(409)
Depreciation for the year	95,821	27,034	857	3,393	127,105
Sold and disposed of	0	(7)	(45)	(2,403)	(2,455)
Total value at 31.12.2019	2,426,918	338,566	11,073	37,414	2,813,971
Effect of exch. rate changes	0	0	(474)	0	(474)
Depreciation for the year	95,747	27,687	916	3,393	127,743
Sold and disposed of	0	0	0	(1,149)	(1,149)
Total value at 31.12.2020	2,522,665	366,253	11,515	39,658	2,940,091
Book value					
1.1.2019	3,265,832	688,229	16,166	43,318	4,013,546
31.12.2019	3,197,685	683,748	16,500	47,889	3,945,821
31.12.2020	3,124,161	668,935	17,175	45,373	3,855,644
Book value without revaluation					
1.1.2019	3,265,832	447,335	15,722	43,318	3,772,208
31.12.2019	3,197,685	454,100	16,147	47,889	3,715,822
31.12.2020	3,124,161	450,593	16,912	45,373	3,637,039

Official assessment of fixed assets and insurance value

The official assessment of the Company's real estates amounted to USD 504 million at year end 2020 (2019: USD 499 million). Insurance value of the Company's assets amounts to USD 6,048 million (2019: USD 5,910 million) and catastrophe insurance value amounts to USD 1.090 million (2019: USD 1.008 million).

Consolidated Financial Statements of Landsvirkjun 2020 24 Amounts are in USD thousand

9. Property, plant and equipment, contd.:

Assumptions relating to revaluation of property, plant and equipment

In accordance with provision of IFRS the Group's transmission network and communication equipment were revalued during the year 2008 and powerlines and connection masts of Landsnet hf. at year end 2015. Two methods were applied when performing the revaluation. On one hand it is done by looking at the assets' replacement cost which was calculated by independent experts at the beginning of the year 2015 and projected to the end of the year 2015. On the other hand the value of the assets in operation is calculated by cash flow analysis. The forecast period was from the year 2016 until 2025 and after that terminal value of the operations was calculated. The revaluation was based on operational value of the assets and assumed the investments would be equal to depreciation of assets. Discounting of future cash flows was based on weighted average cost of capital (WACC) which Landsnet hf. is allocated for energy intensive industrial users and distribution companies. The revaluation is classified at level 3 in the fair value hierarchy.

10. Projects under construction

Projects under construction are specified as follows:	2020	2019
Balance at 1.1.	47,443	22,573
Transferred from development costs	1	3,340
Additions during the year	83,394	38,768
Transferred to property, plant and equipment	(9,464)	(17,238)
Balance at 31.12.	121,374	47,443

11. Development cost and other intangible assets

Development cost and other intangible assets are specified as follows:

	Capitalised developm. cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2019	226,220	45,611	10,793	282,624
Sold and disposed of	0	0	(882)	(882)
Additions during the year	3,379	0	713	4,092
Transferred to projects under construction	(3,340)	0	0	(3,340)
Total value at 31.12.2019	226,259	45,611	10,624	282,494
Sold and disposed of	0	0	(11)	(11)
Additions during the year	3,497	0	887	4,384
Transferred to projects under construction	(1)	0	0	(1)
Total value at 31.12.2020	229,755	45,611	11,500	286,866
Depreciation and impairment loss				
Total value at 1.1.2019	85,523	0	8,337	93,860
Amortisation during the year	0	0	546	546
Impairment loss during the year	7,127	0	0	7,127
Sold and disposed of	0	0	(882)	(882)
Total value at 31.12.2019	92,650	0	8,001	100,651
Amortisation during the year	0	0	531	531
Impairment loss during the year	693	0	0	693
Sold and disposed of	0	0	(11)	(11)
Total value at 31.12.2020	93,343	0	8,521	101,864

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

Book value	Capitalised developm. cost	Water and geothermal rights	Software	Total
1.1.2019	140,698	45,611	2,456	188,765
31.12.2019	133,610	45,611	2,623	181,844
31.12.2020	136,412	45,611	2,979	185,002

Development cost is reviewed every year by management and checked whether there are indications of impairment. In testing for possible impairment the Parent Company's forecast on expected cash flow over the useful life of the assets was used. In the evaluation expected cash flow was discounted with the rate of 4.96% (2019: 5.25%) of weighted average required rate of return. If management concludes that impairment has occurred the relevant development cost is expensed as impairment.

12. Depreciation and impairment loss

The Group's depreciation and impairment is specified as	2020	2019
Power stations	95,747	95,821
Transmission	27,687	27,034
Telecommunication equipment	916	857
Other assets	3,393	3,393
Depreciation of assets in operation	127,743	127,105
Impairment loss on development cost	693	7,127
Amortisation of software	531	546
	128,967	134,779

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

	2020	2019
Energy generation costs	96,154	96,694
Transmission costs	29,348	28,557
Cost of general research	0	6,550
Other operating expenses	3,465	2,978
	128,967	134,779

13. Derivative financial instruments

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

	31.12.2020	31.12.2019
Assets:		
Embedded derivatives in power contracts	4,571	5,575
Commodity hedges	4,139	3,656
Currency swaps	8,126	5,234
	16,836	14,465
Derivative financial instruments are divided as follows:		
Long-term component of derivative agreements	14,931	6,429
Short-term component of derivative agreements	1,905	8,036
	16,836	14,465
Liabilities:		
Embedded derivatives in power contracts	890	2,864
Commodity hedges	12,379	1,290
Currency swaps	0	15,828
	13,269	19,982

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13. Derivative financial instruments, contd.:

Derivative financial instruments are divided as follows:

	31.12.2020	31.12.2019
Long-term component of derivative agreements	5,408	4,140
Short-term component of derivative agreements	7,861	15,842
	13,269	19,982

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

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

14. Associated companies

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

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

2019	Share	Share in return	Book value
GEDC, Canada	33.0%	0	188
Heimsþing ehf., Iceland	33.3%	(5)	(3)
SER eignarhaldsfélag ehf., Iceland	35.4%	(33)	261
Sjávarorka ehf., Iceland	33.6%	0	12
LP-Verkis, Georgia	40.0%	(2)	5
Hecla SAS, France	28.5%	13	163
		(27)	626

15. Other non-current assets

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

	31.12.2020	31.12.2019
Shares in other companies	579	587
Long-term receivables	144	397
	723	984

16. Lease agreements

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

	2020		2019	
	Lease asset	Lease debt	Lease asset	Lease debt
Balance 1.1.	6,293	(6,068)	6,497	(6,497)
Additions during the year	1,225	(863)	0	-
Indexation	146	(146)	145	(145)
Other changes in lease payments	80	(81)	0	0
Foreign exchange rate changes	5	282	(13)	277
Depreciation of assets/amortisation of debt	(329)	316	(336)	297
Staða 31.12.	7,420	(6,560)	6,293	(6,068)

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16. Lease agreements contd.:

Current maturities are recognised among short term liabilities. In the year 2020 the Group expensed USD 244 thousand of interest expenses due to the lease liability (2019: 274 thousand USD). The Group takes advantage of the exemptions in IFRS 16 due to lease of assets with low value.

Lease liability - maturity analysis - not discounted

	2020	2019
Payments within a year	674	583
Payments after a year and within 5 years	2,027	1,560
Payments after 5 years or later	11,013	11,318
Total of lease liability - not discounted	13,714	13,461

17. Landsvirkjun's subsidiaries

Landsvirkjun's subsidiaries are the following:

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

18. Inventories

Inventories are specified as follows:

	31.12.2020	31.12.2019
Spare parts and consumables	5,553	5,248
	5,553	5,248

19. Accounts receivables and other receivables

Accounts receivables and other receivables are specified as follows:

Accounts receivables	67,724	64,856
Other short term receivables	1,620	9,859
	69,344	74,715

In assessing impairment of accounts receivables, historical information is used as guidance as well as current economic prospects. At year-end 2020, 84% of accounts receivables were under 30 days old (2019: 90%).

20. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank deposits	89,584	81,199
Market securities	2,379	29,288
	91,963	110,487

21. Equity

The Parent Company is a partnership owned by the Icelandic State and Eignarhlutir ehf. The Icelandic State owns 99.9% in the Company and Eignarhlutir ehf. 0.1%. Eignarhlutir ehf. is owned by the State. Landsvirkjun is an independent taxable entity. The Group's equity ratio at year end 2020 was 51.4% compared to 51.0% at year end 2019.

22. Revaluation account, translation difference and restricted reserves

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

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Notes, contd.

23. Liabilities

Interest bearing long term debt is specified as follows:

	2020	2019
Interest bearing long term debt 1.1.	1,801,949	2,000,881
New loans	249,755	0
Amortisation of long-term debt	(274,399)	(191,157)
Foreign exchange difference	(9,699)	(17,062)
Changes in CPI indexation and amortisation of discount	161	9,287
Interest bearing long term debt 31.12.	1,767,767	1,801,949

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

	Due date	2020 Average interest	Remaining balance	2019 Average interest	Remaining balance
Liabilities in ISK	2021-2034	5.0%	37,853	3.7%	268,797
Liabilities in CHF	2021-2022	0.0%	9,978	0.0%	15,141
Liabilities in EUR	2024-2026	0.0%	282,143	0.0%	257,879
Liabilities in USD	2021-2035	3.4%	1,437,793	3.8%	1,260,132
			1,767,767		1,801,949
Current maturities of long-term debt			(236,052)		(258,661)
Total long-term debt			1,531,715		1,543,288

Interest rates on debt at year end was in the range of 0.0-5.0%. Nominal interest rates for the period were on average 3.2% (2019: 3.6%), taking into account the state guarantee fee for long-term loans which is calculated according to Act No. 121/1997 on state guarantees.

24. Maturities of long-term debt

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

	2020	2019
2020	-	258,661
2021	236,052	214,511
2022	113,988	163,481
2023	245,631	165,652
2024	151,948	143,529
2025	189,919	-
Later	830,229	856,115
	1,767,767	1,801,949

25. Pension fund obligations

The Company's obligation to refund the indexation charges on retirement payments to current and former employees, which hold pension rights with state and communal pension funds amounted to USD 36.6 million at year end 2020 according to an actuary's evaluation, which is based on estimated future changes in salaries and prices. Interest rates in excess of price increase are assessed at 3.5% and salary increase in excess of price increase is assessed at 1.5% per year on average. Premises on life expectancy and mortality are in accordance with the provisions of Regulation No. 391/1998 on obligatory pension benefits and operation of pension funds. The calculated retirement age is 68 years for current employees and 65 years for non-employees with vested benefits. This is consistent with criterion used by the Pension Fund for State Employees.

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Notes, contd.

25. Pension fund obligations contd.:

Change in the obligation is specified as follows:	2020	2019
Balance at 1.1.	36,863	38,015
Expensed during the year	736	776
Payments during the year	(2,546)	(2,597)
Actuarial change	3,232	2,155
Effect of foreign exchange rate changes	(1,688)	(1,486)
Balance at 31.12.	36,597	36,863

Pension fund obligation, 5 years:	2020	2019	2018	2017	216
Present value of the obligation	36,597	36,863	38,015	40,597	35,383

26. Obligation due to demolition

Change in the obligation due to demolition is specified as follows:	2020	2019
Balance at 1.1.	12,212	9,011
Reversal of discount in the year	504	450
Change in obligation through equity	5,011	2,751
Balance at 31.12.	17,727	12,212

In accordance with IFRS, the initial value of fixed operating assets shall include estimated cost of their demolition after their use. Estimated demolition cost of power lines has been assessed and discounted on the basis of the useful life. In return, an obligation has been written up among long-term liabilities. A change in the obligation is recognised in the income statement amounting to the discounted value. The Group has made changes to its accounting treatment with regards to changes in the obligation due to demolition cost as discussed in the interim financial statements January - September 2020. Comparative amounts have been changed.

27. Accounts payable and other payables

Accounts payable and other payables are specified as follows:	31.12.2020	31.12.2019
Accounts payable	32,868	26,695
Accrued interests	14,021	19,688
Other short term liabilities	24,183	31,337
	71,072	77,720

28. Related parties

Definition of related parties

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

Transactions with related parties	2020	2019
Other income		
Associated companies	0	2
Interest income		
Associated companies	5	3
Expenses		
Associated companies	0	0
Loans		
Associated companies	144	143

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

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29. Fees to auditors

Fees to auditors of the Group in the year 2020 amounted to USD 327 thousand (2019: USD 415 thousand), whereof USD 259 thousand (2019: USD 234 thousand) was for the audit and review.

30. Risk management

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

Landsvirkjun‘s risk management goals:

- Support development and adoption of policy
- Support effective, stable and responsible operations
- Support focused execution of projects and assignments
- Ensure risks are in line with approved risk management policies

Landsvirkjun‘s Board of Directors approves risk management policies.

- The Board’s Risk Committee, nominated by the Board, verifies the effectiveness of risk management within the Company and supports the Board in monitoring key risks and risk management procedures.

- The Company’s Risk Management Committee reassesses and approves risk management procedures within the Company. The committee is a consultation forum for risk management and also ensures that the Company’s Risk Policy is adhered to. The CEO, Deputy CEO and the EVP of the Finance Division are members of the committee. The CEO serves as its Chairman.

- Executive Vice Presidents are responsible for identifying and assessing risks within their divisions, as well as implementing appropriate risk mitigation controls.

- The Risk Manager coordinates risk management and is responsible for its realistic implementation.

31. Financial risk

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

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

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

32. Commodity risk

The Company is exposed to market risk due to fluctuations in aluminum price and electricity price on the Nord Pool market. About 35% of Landsvirkjun‘s electricity sales (GWh) is linked to aluminium price and around 11% is linked to electricity price on the Nord Pool market. Thus the Company enters into derivative agreements to secure its income base and reduce fluctuations. Such agreements consist in most cases of fixing prices or fixing 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 75% of its aluminium price risk in 2021, and around 50% for 2022 and around 51% of its Nord Pool electricity price risk in 2021. At 2020 year-end the fair value of derivatives for hedging commodity risk was negative by 8.2 million USD (2019: positive by 2.4 million USD).

32. Commodity risk contd.:

Embedded derivatives

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

	2020	2019
Fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	2,711	4,034
Fair value changes during the year	970	(1,323)
Fair value of embedded derivatives at year end	3,681	2,711
Division of embedded derivatives is specified as follows:		
Long term component of embedded derivatives	4,447	5,366
Short term component of embedded derivatives	(766)	(2,655)
Total embedded derivatives	3,681	2,711

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

Calculations are based on the forward price of aluminium, as disclosed in the LME and are based on the maximum time length of forward aluminium prices, or 123 months. Management's opinion is that aluminium price expectations after ten years will reflect the aluminium price at the time the agreements were made and therefore fair value changes will not arise for that period.

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

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

Expected cash flow of contracts is discounted using USD rates according to Bloomberg, no spread added. At year end 2020, rates for discounting were in the range of 0.2 - 0.8% (2019: 1.8 - 1.9%).

Sensitivity analysis of aluminium price risk

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

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

31.12.2019	**Aluminium price USD/MT**	
	-100	+100
Embedded derivatives	(8,490)	8,496
Aluminium hedges	3,196	(3,020)
	(5,294)	5,476

Sensitivity analysis of Nord Pool electricity price risk

The following table shows effects of changes in Nord Pool electricity prices on fair value of financial instruments linked to Nord Pool electricity prices in the income statement. Amounts are in thousands of USD, pre tax. As of year-end 2019, Landsvirkjun had not entered into derivative agreements to hedge Nord Pool electricity price risk.

31.12. 2020	**Electricity price EUR/MWh**	
	-2	+2
Electricity hedges	1,509	(1,509)

33. Foreign exchange risk

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

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

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

31.12. 2020	**EUR**	**ISK**	**CHF**	**Other currencies**
Long term receivables	0	144	0	0
Accounts receivables and other receivables	454	20,773	0	86
Cash and cash equivalents	4,681	8,484	1	1,682
Interest bearing liabilities	(282,143)	(37,853)	(9,978)	0
Derivatives	158,154	0	0	0
Accounts payable and other payables	(3,737)	(76,423)	0	(239)
Risk in balance sheet	(122,591)	(84,875)	(9,977)	1,529

31.12. 2019	**EUR**	**ISK**	**CHF**	**Other currencies**
Long term receivables	0	3,415	0	85
Accounts receivables and other receivables	2,409	15,648	0	21
Cash and cash equivalents	3,104	25,922	0	2,542
Interest bearing liabilities	(257,879)	(268,797)	(15,141)	0
Derivatives	56,082	234,907	0	0
Accounts payable and other payables	(2,373)	(72,823)	(9)	(418)
Risk in balance sheet	(198,657)	(61,728)	(15,150)	2,230

Exchange rates of the main currencies against the USD for the years 2020 and 2019 are specified as follows:

	Average rate		**Rate at year end**	
	2020	**2019**	**2020**	**2019**
EUR	0.88	0.89	0.81	0.89
CHF	0.94	0.99	0.88	0.97
ISK	135.27	122.65	127.21	121.10

33. Foreign exchange risk contd.:

Sensitivity analysis

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

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

2019	Strengthening	Weakening
EUR	19,866	(19,866)
ISK	6,173	(6,173)
CHF	1,515	(1,515)
Other currencies	(223)	223

The fair value of cross currency swaps was positive by USD 8.1 million at the end of December 2020 (2019: negative by USD 10.6 million).

34. Interest rate risk

Landvirkjun is exposed to interest rate risk through its fixed and floating interest bearing assets and liabilities. The Company's risk mainly relates to 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 2020, the proportion of loans with fixed interest rates including swap agreements was 77% (2019: 73%). At year end 2020, the estimated market value of the Company's long-term liabilities was USD 238 million higher than their book value (2019: USD 168 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	**31.12.2020**	**31.12.2019**
Interest bearing liabilities	(1,212,631)	(1,030,392)
Cross currency and interest rate swaps	(146,986)	(292,448)
Long term receivables	144	397
	(1,359,473)	(1,322,443)
Financial instruments with floating interest		
Cash and cash equivalents	91,963	110,487
Interest bearing liabilities	(555,136)	(771,557)
Cross currency and interest rate swaps	159,524	284,764
	(303,649)	(376,306)

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34. Interest rate risk, contd.,

Sensitivity analysis of interest rate risk

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

31.12. 2020	**Cash flow**		**Book value**	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	276	(260)
Other derivatives	0	915	132	3,483
Interest bearing liabilities	1,571	(4,299)	0	0
Cash and cash equivalents	(920)	920	0	0
	651	(2,464)	408	3,223

31.12. 2019	**Cash flow**		**Book value**	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	470	(436)
Other derivatives	(2,287)	2,709	(227)	1,805
Interest bearing liabilities	5,005	(6,963)	0	0
Cash and cash equivalents	(1,105)	1,105	0	0
	1,613	(3,149)	243	1,369

35. Liquidity risk

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

The Company’s cash and cash equivalents amounted to USD 92 million at year end 2020 (2019: USD 110 million) but taking into account undrawn loans and credit facilities (USD 280 million) Landsvirkjun has access to a total of USD 372 million (2019: USD 290 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 2022.

Covid-19 has not affected Landsvirkjun’s ability to meet its obligations. Management made the decision to temporarily strengthen the Company’s liquidity position with increased borrowing in response to the uncertainty caused by the pandemic.

35. Liquidity risk, contd.,

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

31.12. 2020	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
Non-derivative financial instruments						
Long term receivab.	144	151	0	151	0	0
Cash and cash equiv. ...	91,963	91,963	91,963	0	0	0
Short term receivab.	69,344	69,344	69,344	0	0	0
Interest bearing liab.	(1,767,767)	(2,033,253)	(272,712)	(158,444)	(689,092)	(913,004)
Current liabilities	(95,690)	(95,690)	(95,690)	0	0	0
	(1,702,006)	(1,967,485)	(207,095)	(158,293)	(689,092)	(913,004)
Derivative financial instruments						
Cross curr. swaps	8,126	7,972	(2,799)	(1,723)	(4,760)	8,558
Commodity derivat.	(8,240)	(6,003)	(4,033)	0	0	0
Embedded derivatives in power contracts	3,681	3,832	(767)	(1,770)	540	3,551
	3,567	5,801	(7,599)	(5,141)	6,432	12,109

31.12. 2019	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
Non-derivative financial instruments						
Long term receivab.	397	411	0	411	0	0
Cash and cash equiv. ...	110,487	110,487	110,487	0	0	0
Short term receivab.	74,715	74,715	74,715	0	0	0
Interest bearing liab.	(1,801,949)	(2,059,766)	(279,735)	(263,286)	(577,763)	(938,982)
Current liabilities	(106,557)	(106,557)	(106,557)	0	0	0
	(1,722,907)	(1,980,710)	(201,090)	(262,875)	(577,763)	(938,982)
Derivative financial instruments						
Cross curr. swaps	(10,594)	(15,980)	(9,497)	(1,723)	(4,760)	0
Commodity derivat.	2,366	1,984	1,984	0	0	0
Embedded derivatives in power contracts	2,711	3,584	(2,682)	(1,770)	540	7,496
	(5,517)	(10,412)	(10,195)	(3,493)	(4,220)	7,496

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36. Financing

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

In March 2020 Landsvirkjun issued USD 80 million bonds linked to the UN's sustainable development goals in the US private placement market. In September the company announced the issuance of Green Bonds in the US private placement market amounting to USD 150 million. The amount of USD 50 million was funded in November 2020 and USD 100 million will be funded in February 2021. In February Landsnet issued bonds in the US private placement market amounting to USD 100 million. The amount of Landsnet's revolving credit facility was increased from USD 30 million to USD 50 million in the year 2020. New borrowings amounted to USD 250 million in the year 2020 (2019: USD 0 million). Repayments of borrowings amounted to USD 274 million (2019: USD 191 million).

Landsvirkjun´ s interest-bearing debt amounted to USD 1,768 million at year-end 2020 (2019: USD 1.802 million). The risk associated with refinancing is reduced by the equal distribution of amortisations and by the suitable lifetime of outstanding debt. The weighted average lifetime of interest-bearing debt is 4.8 years (2019: 4.6 years) and the ratio of interest-bearing debt with maturity within a 12-month period is 13.4% (2019: 14.4%).

In recent years, Landsvirkjun has placed an emphasis on changing its debt portfolio and no longer takes on debt with a state guarantee. In addition, the Company has systematically worked towards removing state guarantees of outstanding debt where possible. The principal of state guarantee debt is decreasing and the last debt enjoying a state guarantee is due in 2026. At year-end 2020, 29% of Landsvirkjun's debt was state guaranteed (2019: 39%). Landsvirkjun pays a guarantee fee to the Icelandic state for the Company´ s debt which has a state guarantee.

37. Green Bonds

In 2018 Landsvirkjun issued a USPP in Green Bond format of USD 200 million. This was the Company's first Green Bond and Landsvirkjun was the first Icelandic company to issue a Green Bond. In September 2020 the Company announced the issuance of Green Bonds in the US private placement market amounting to USD 150 million.The bonds were issued under Landsvirkjun´ s updated Green Finance Framework. The proceeds will be used to finance and refinance green assets on the Company's balance sheet. This is a new approach in defining use of proceeds under the Green Finance Framework.

Annual reporting under the Green Finance Framework and further information can be found on Landsvirkjun´ s website.

38. Counterparty risk

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

38. Counterparty risk contd.:

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

	31.12.2020	31.12.2019
Derivative financial instruments	16,836	14,465
Long term receivables	144	397
Accounts receivables and other receivables	69,344	74,715
Cash and cash equivalents	91,963	110,487
	178,287	200,064

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

	31.12.2020		31.12.2019	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	1,767,767	2,005,966	1,801,949	1,970,328

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

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

Interest rates are specified as follows:	2020	2019
Interest bearing liabilities in USD	0.1 to 1.2%	1.7 to 2.0%
Interest bearing liabilities other than USD	-0.8 to 0.9%	-0.7 to 1.2%

40. Fair value classification

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

	Level 2	Level 3	Total
31.12.2020			
Embedded derivatives		3,681	3,681
Other derivatives	(113)		(113)
Revaluation of property, plant and equipment		218,605	218,605
Shares in other companies		579	579
	(113)	222,865	222,752
31.12.2019			
Embedded derivatives		2,711	2,711
Other derivatives	(692)	(7,536)	(8,228)
Revaluation of property, plant and equipment		230,000	230,000
Shares in other companies		587	587
	(692)	225,762	225,070

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

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41. Classification of financial instruments

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

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

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

31.12.2020	**Assets and liabilities held for trading**	**Equity instruments**	**Loans and receivab.**	**Other financial liabilities**	**Total**
Derivative financial instruments	16,836				16,836
Shares in other companies		579			579
Long term receivables			144		144
Accounts receivables and other receivables			69,344		69,344
Cash and cash equivalents			91,963		91,963
Total assets	16,836	579	161,451	0	178,866
Interest bearing liabilities				1,767,767	1,767,767
Derivative financial instruments	13,269				13,269
Accounts payable and other payables				95,690	95,690
Total liabilities	13,269	0	0	1,863,457	1,876,726
31.12.2019					
Derivative financial instruments	14,465				14,465
Shares in other companies		587			587
Long term receivables			397		397
Accounts receivables and other receivables			74,715		74,715
Cash and cash equivalents			110,487		110,487
Total assets	14,465	587	185,599	0	200,651
Interest bearing liabilities				1,801,949	1,801,949
Derivative financial instruments	19,982				19,982
Accounts payable and other payables				106,557	106,557
Total liabilities	19,982	0	0	1,908,506	1,928,488

42. Capital management

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

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43. Significant accounting policies

The Group has adopted International Financial Reporting Standards, amendments thereto and interpretations adopted by the European Union at year-end 2020. The following improvements become operative January 1, 2020:

•IFRS 3 - improvements that further clarify the definition of operation.
•IAS 1 & IAS 8 - definition of the concept of materiality updated and coordinated in the Standards.
•The framework of financial statements - the framework updated entirely.
•IFRS 9 & IFRS 7 - impovements due to a change in the interest rate (IBOR reform Phase I).
•IFRS 16 - concessions on rent payments due to impact of the Covid-19 (valid June 1).

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

The Group has not adopted new or amended standards which have been issued but not entered into effect. On January 1, 2021 improvements will taka effect on IFRS 9, IFRS 7 and IFRS 16 relating to the effects of proposed changes in interest rates on accounting (IBOR reform Phase II). It is management's estimate, that the application of these changes do not have a material effect on the consolidated financial statements.

44. Basis of consolidation

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

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

44. Basis of consolidation contd.:

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

45. Associated companies

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

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

46. Operating revenues

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

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

Electricity generation

Electricity generation revenues are generated by the sale of electricity that is generated by hydroelectric power, wind power and geothermal heat.

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

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

46. Operating revenues contd.:

Electricity transmission

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

Other

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate a telecommunication infrastructure which is necessary for shareholders´ electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. takes care of sales of technical and operational advisory services to third parties and general research work, harnessing researches and projects for Landsvirkjun and related companies. Revenues are recognised for other income when a performance obligation according to an agreement has been fulfilled.

47. Interest income and expenses

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

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

48. Other financial income and expenses

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

49. Foreign currency transactions

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

50. Impairment

a) Financial assets

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

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

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

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

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

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

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

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

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

50. Impairment, contd.:

b) Other assets

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

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

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

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

51. Income tax

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

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

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

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

52. Property, plant and equipment

Property, plant and equipment are initially measured at cost.

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

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

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

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

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

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

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

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

52. Property, plant and equipment, contd.:

Depreciation

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

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

Depreciation ratios and useful life are specified as follows:

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

53. Intangible assets

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

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

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

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

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

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

	Amortisation	Useful life
Software	25%	4 years

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54. Lease agreements

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

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

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

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

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

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

55. Financial instruments

a) Non-derivative financial assets

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

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

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

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

55. Financial instruments contd.:

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

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

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

ii) Financial assets at amortised cost

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

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

iii) Financial assets at fair value through other comprehensive income

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

b) Non-derivative financial liabilities

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

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

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

c) Derivative financial instruments

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

i) Separable embedded derivatives

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

55. Financial instruments contd.:

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

56. Inventories

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

57. Cash and cash equivalents

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

58. Equity

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

59. Employees' benefits

a) Defined contribution plan

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

b) Defined benefit plan

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

60. Obligations

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

61. Operating segments

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

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

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

Like most other companies, Landsvirkjun has faced various challenges during the COVID 19 pandemic and the accompanying economic downturn. The quarantine and tough quarantine measures and enforcement rules introduced by governments worldwide have negatively affected the economy and reduced the demand for goods and services.

62. Effects of the COVID-19 pandemic on Landsvirkjun's operations contd.:

Landsvirkjun's customers have also been impacted by the pandemic. The demand for raw materials and energy declined and the demand for metals hit an all-time low during the first wave of the pandemic. However, markets picked up during the second half of the year which can be attributed to the rapid recovery of markets in China and positive news on potential vaccines resulting in higher commodity prices including higher aluminium prices. Landsvirkjun supported its customers during these challenging times by offering temporary discounts on electricity prices.

These major upheavals in Landsvirkjun's market environment have put pressure on the Company's operating revenues, which were USD 56.1 million lower in 2020 than they were in 2019. Profit was USD 36.3 million lower than last year. Cash flow from operating activities was about 21% lower than the year before.

Landsvirkjun launched a substantial series of initiatives last spring to boost the Icelandic economy, including various new construction, maintenance, and improvement projects in energy generation areas. Research and development projects were launched in the south and north of Iceland in cooperation with local stakeholders. Various digital projects were also expedited.

63. Subsequent events

Nothing has come forth after the balance sheet date, which would require adjustments or changes to the financial statements for the year 2020.

64. Other matters

The Icelandic Minister of Tourism, Industry and Innovation, has appointed a workgroup and is leading discussions on the State's purchase of Landsnet hf. Landsnet operates the Icelandic transmission system and control of power systems. Landsvirkjun owns 64.7% of Landsnet.

Appendix I: Statement of Corporate Governance

Legislation and corporate governance

Landsvirkjun is a public partnership company 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 Act 50/2007 on General Partnerships, on matters not covered by the partnership agreement.

The Company follows the guidelines outlined in the 5th edition of the Icelandic Guidelines on Corporate Governance, published by the Icelandic Chamber of Commerce, SA – Confederation of Icelandic enterprise and Nasdaq Iceland (English version available on the Icelandic Chamber of Commerce website). The guidelines of 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 control and risk management

Landsvirkjun's internal controls are based on a structure that supports its goals of effectiveness and efficiency in operations.

The main role of Landsvirkjun's Audit Committee, according to Article 2 of its Rules of Procedure, is to monitor the efficiency and effectiveness of the Company's internal controls, internal auditing and risk management. The Committee shall, in accordance with the Company's operating procedures, evaluate the need for an internal auditor and submit, as appropriate, its recommendations on the tasks to be undertaken by the internal auditor, including their scope and organisation. See the section "Board of Directors and sub-committees of the Board" for more detailed information on the role of the Audit Committee.

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

- The Board's Risk Committee, nominated by the Board, verifies the effectiveness of risk management within the Company and supports the Board in monitoring key risks and risk management procedures.

- The Company's Risk Management Committee reassesses and approves risk management procedures within the Company. The committee is a consultation forum for risk management and ensures compliance with the Company's Risk Policy. The CEO, Deputy CEO and the Executive Vice President of the Finance Division are members of the committee. The CEO serves as its Chairman.

- Executive Vice Presidents are responsible for identifying and assessing risks within their divisions, as well as implementing appropriate risk mitigation controls.

- The Risk Manager coordinates risk management and is responsible for its implementation.

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 as sustainable operations are one of the Company's key objectives. 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 effectively contribute to society. The Policy is approved by the Company's Board of Directors.

Appendix I: Statement of Corporate Governance, contd.

Landsvirkjun's ethical standards have been defined and 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. The documents include the Employee Code of Conduct, Supplier Code of Conduct, and the Reprehensible Conduct Response Plan. These criteria are designed to support employees and suppliers in decision-making. The Code of Conduct and Supplier Code of Conduct can be accessed on Landsvirkjun's website. The Code of Conduct is approved by the CEO. Employees have been provided with information on the Reprehensible Conduct Response Plan and the Code of Conduct. The purpose of the plan is to prevent and investigate any misconduct, criminal or otherwise, at the earliest opportunity. Topics covered in the plan include the prevention of corruption and bribery, designed to help employees to take practical and preventative action by immediately reporting inappropriate behaviour.

The government's general ownership policy encourages board diversity, where board members should be chosen according to their varied educational backgrounds as well as their expertise and experience in operations in their field. Gender diversity should also be considered, as well as any conflicts of interest. Landsvirkjun's Human Resources Policy states that the skills, education, and experience of applicants should be considered. Gender equality is also an important factor and gender ratio is adjusted wherever possible, to strengthen the workforce.

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

Ownership, role, policy, vision and values

Landsvirkjun is an energy company owned by the Icelandic State. 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 is the owner of power stations, other structures, water rights and equipment that the Company has acquired through sectoral laws or contracts.

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

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

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

The Company has defined the following objectives to uphold its role:

- Efficient energy generation and development
- A leader in sustainable development
- Exceptional customer services
- A progressive and sought-after workplace
- Exceeding expectations in open communication and cooperation

Landsvirkjun's vision is a sustainable world, powered by renewable energy. The Company operates within an international environment and hopes to be amongst the very best in generating and selling energy.

The Board of Directors and sub-committees of the Board

The Board of Directors

Landsvirkjun's Board of Directors is appointed by the Minister of Finance and Economic Affairs at the Company's Annual General Meeting. The Board and the CEO are responsible for managing the Company's finances and operations. The Board's Operating Procedures can be found on Landsvirkjun's website. The Board's members are independent and unaffiliated with the Company, the day-to-day management of the Company and its owner, pursuant to the Corporate Governance Guidelines published by the Icelandic Chamber of Commerce, SA Confederation of Icelandic Enterprise and Nasdaq Iceland in 2015.

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 has a Cand. Jur. from the Faculty of Law of the University of Iceland, is a Supreme Court Lawyer and runs a law firm in Hafnarfjörður. He has been an independent lawyer since 1999. He is the Chairman of the Trout and Salmon Evaluation Committee and is a member of the Board of the Icelandic Chamber of Commerce. He was previously Chairman of the Icelandic Bar Association and a member of the election supervision committee for the South-West constituency and wage council. 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 in any way.

Álfheiður Ingadóttir, Vice-Chairman of the Board, was born on the 1st of May 1951 and lives in Reykjavík. Álfheiður re-joined Landsvirkjun's Board of Directors in April 2014, after previously being appointed to the Board by the Reykjavík City Council 2003-2006. Álfheiður holds a BS degree in biology from the University of Iceland and is currently an alternate Member of Parliament for the Left-Green Movement Party and an editor at the Icelandic Museum of Natural History. She was a Member of Parliament for the Reykjavík constituency from 2007-2013. Álfheiður was the Minister of Health from October 1, 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 and editor of Náttúrufræðingurinn, a magazine published by the Icelandic natural science society from 1997-2006. She worked as an Information Representative for the Women's Shelter from 1994-1995 and as a journalist for Þjóðviljinn from 1977-1987. Álfheiður is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

Jón Björn Hákonarson was born on the 27th of January 1973 and lives in Norðfjörður, Fjarðabyggð. Jón Björn was elected to Landsvirkjun's Board of Directors in April 2018 and was previously on the Board from 2014-2017. Jón Björn was President of the Fjarðabyggð Town Council and Vice-chairman of the Municipal Council between 2010 and 2020 and the Deputy Chairman of the local council. He is now the Mayor of Fjarðarbyggð and a local council member. He is also a Board Member of the Icelandic Association of Local Authorities, Savings bank of Eastern Iceland, the School Board at the Comprehensive College of Eastern Iceland and is involved in various committees for Fjarðabyggð, other public entities and municipal cooperation. He is also Party Secretary for the Progressive Party. Jón Björn is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

Guðfinna Jóhanna Guðmundsdóttir was born on the 14th of April 1969 and lives in Seltjarnarnes. Guðfinna was elected to Landsvirkjun's Board of Directors in April 2018. Guðfinna is a lawyer and founded the law firm Fasteignamál Lögmannsstofa in 2002. She previously worked as a lawyer at the Ministry of Social Affairs, at the Housing Financing Fund, National Council of State Housing Agencies and as a Representative of the District Commissioner in the Westman Islands. She was a member of the City Council for the Progressive Party and Airport Friends from 2014-2018. Guðfinna is the Chairman of the Examination Committee of Property Declaration and the Chairman of the Examination Committee of Tenants. Guðfinna 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 an Assistant Port Director at the Associated Icelandic Port. He previously worked as a Senior Manager at KPMG from 2009-2018. Gunnar also worked in Corporate Finance at Landsbankinn and as a CFO at Enex hf. Gunnar is an independent member of the Board of Directors and is not affiliated with Landsvirkjun or its owners in any way.

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

Audit Committee

Landsvirkjun's Audit Committee is subject to chapter IX of Act No. 3/2006 on Financial Statements, cf. Act No. 80/2008. The Board of Directors sets out the standard procedures for the committee to further comply with the law. The role of Landsvirkjun's Audit Committee, according to Article 2 of its Rules of Procedure, is to:

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

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

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

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

Pursuant to paragraph 3, Article 8 of the Act on Landsvirkjun No. 42/1983, the General Meeting elects a certified public accountant or accounting firm to audit the financial statements of the Company, 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 the audit committees, when applicable. Landsvirkjun's Audit Committee serves an advisory role for the Board of Directors and acts on its behalf. The Committee does not have executive power. The Audit Committee has a total of three members consisting of two Board members: Jónas Þór Guðmundsson and Gunnar Tryggvason and Heimir Haraldsson CPA, who is the Chairman of the Committee. The Audit Committee may seek advice, whenever necessary, to fulfil its supervisory duties. The Committee meets at least four times during the Committee's tenure.

Risk Management Committee

Landsvirkjun’s Risk Management Committee shall, according to Article 2 of its Rules of Procedure:

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

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

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

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

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

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

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

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

The Risk Committee has three Board members, all appointed by the Board of Directors: Jónas Þór Guðmundsson who acts as Chairman, Álfheiður Ingadóttir and Guðfinna Jóhanna Guðmundsdóttir. The committee meets as often as required and reports back to the Board on an annual basis.

Remuneration Committee

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, who acts as Chairman, Álfheiður Ingadóttir and Jón Björn Hákonarson. The committee meets as often as required and reports annually to the Board.

During the year 2020: The Board of Directors held 18 meetings, the Audit Committee held 11 meetings, the Remuneration Committee held 3 meetings and the Risk Committee held 4 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 day-to-day operations of the Company and must comply with the policy and instructions set out by the Board of Directors. Day-to-day operations do not include measures that are unusual or significant. The CEO can only take such measures with the explicit permission of the Board of Directors unless awaiting the Board's decision would prove disadvantageous to the Company's 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. The Company is in the process of developing an ownership policy for the ownership of individual companies within the Group, where corporate governance procedures will be consolidated.

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 Deputy CEO handles any collective matters of the Company, as well as ensuring good governance practices. The CEO's office has support divisions, which process any collective matters for Landsvirkjun.

The Executive Board consists of the CEO, Deputy CEO, Executive Vice Presidents, and others, dependent upon the CEO's decision. There are six Executive Vice Presidents.

Óli Grétar Blöndal Sveinsson is the Executive Vice President of the Research and Development Division. The role of the division is to oversee the preparation of new power projects, conducting research and monitoring power station operations. The division is responsible for the development of potential power projects, increased flexibility in energy generation, supporting innovation in energy generation and the long-term evaluation of energy reserves.

Gunnar Guðni Tómasson is the Executive Vice President of the Project Planning and Construction Division. The role of the Division is to oversee Landsvirkjun's power projects, from the preparation stage to their completion. The Division monitors costs and safeguards the quality and progress of the various projects, according to the criteria, plans and needs outlined by the Company.

Einar Mathiesen is the Executive Vice President of the Energy Division. The role of the division is to ensure that electricity generation and delivery is secure and efficient and fulfills the terms of the agreements signed with Landsvirkjun's customers.

Rafnar Lárusson is the Executive Vice President of the Finance Division. The role of the division is to create a foundation for efficient operations and to promote maximum results in all units of the Landsvirkjun Group.

Tinna Traustadóttir is the Executive Vice President of the Sales and Custumer Service Division. The division's role is to maximise Landsvirkjun's long-term income in collaboration with the Business Development and Innovation Division. The division is responsible for maintaining customer relationships, pricing and analysis and business environment analysis to ensure Landsvirkjun's competitiveness in international markets. The division is responsible for receiving electricity orders and energy settlements.

Ríkarður S. Ríkarðsson is the Executive Vice President of Business Development and Innovation Division. The role of the division is to develop new business opportunities and to oversee Landsvirkjun's participation in energy-related innovation. The division initiates and leads extensive stakeholder consultation and associated marketing to maximise the likelihood of success in these areas.

Policy development and planning for the implementation of the revised policy is ongoing. Various organisational changes have been approved by the board and are now being further defined. These changes are designed to support the Company's revised policy and to embrace future challenges and opportunities.

Regulatory compliance

The Company has not violated any laws or regulations according to any court or administrative order in 2020.

Arrangements for communication with the owners

Communication with the owners mostly takes place 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

Business model

Landsvirkjun is an energy company owned by the Icelandic State. The Company generates electricity from renewable hydro, geothermal and wind sources. The Company generates over 70% of the country's electricity and is by far the largest generator of electricity in Iceland. Landsvirkjun operates in an international competitive market, offering competitive agreements, ensuring the long-term secure delivery of electricity to various industries. The Company's share in the world market is negligible. Landsvirkjun sells electricity wholesale to retail sales companies who subsequently sell to homes and businesses.

Landsvirkjun's market environment is undergoing major changes which entail various challenges and opportunities for the Company and thus Icelandic society. The main drivers of the changes are increased international focus on climate issues and increased demand for renewable energy and innovation in generation, distribution and utilisation. This applies to transport and food production, the demanding operating environment of Landsvirkjun's key customers in the aluminium and silicon metal industry and the rapid growth of new energy-intensive industries such as fuel production, data centers and battery production. The competitive advantage of hydropower and geothermal energy has also decreased compared to wind and solar energy.

Landsvirkjun's strategy was updated in 2020 to reflect the new market conditions and the Company's development. An increased focus will be placed on innovation, including the new Business Development and Innovation Division, which was previously part of the Marketing and Business Development Division. Sustainability and social responsibility are becoming an increasingly important part of the Company's operations in all areas, not least in the development of new business opportunities.

Sustainability and social responsibility – policy and focus 2020

See Appendix I: Statement of Corporate Governance for more information about the Company's Corporate Social Responsibility Policy and ethical standards.

Landsvirkjun published its second sustainability report in accordance with the Global Reporting Initiative Standards (GRI) in 2021 (Core option). The report is part of the Company's Annual Report and is published alongside its Financial Statement and Climate Accounts. The report represents a part of the Company's overall strategy to progress towards more sustainable operations. The GRI standards offer guidance on global best practice for reporting on a range of economic, environmental, and social impacts, supporting the Company in achieving its current objectives in these areas.

Discussions took place with the Company's stakeholders, as part of the GRI implementation process, in 2020. Representatives from various stakeholder groups were asked to respond to the same survey previously sent to other stakeholders, providing feedback on how the Company could enhance the sustainability of its operations. The analysis of important sustainability categories included identifying and engaging with the widest possible group of stakeholders. Decisions have subsequently been made regarding the focus of policy development and knowledge dissemination on sustainability issues.

Appendix II: Non-financial information, contd.

Landsvirkjun continues to support the UN Global Compact (UN GC) initiative by reporting on the Company's work pertaining to the UN-GC principles in the areas of environment, labour law, human rights and anti-corruption in its 2020 sustainability report. Landsvirkjun also supports the UN Sustainable Development Goals (SDGs). The Company has chosen to primarily focus on goals 13, 7 and 5 on climate action, affordable and clean energy, and gender equality.

Landsvirkjun's operations can have a widespread impact on the community, especially those near the Company's power stations. One of the Company's objectives is achieving consensus with stakeholders through open dialogue. A stakeholder analysis and communication plan are completed for all operational units and construction projects, to communicate the activities of the Company as effectively as possible. The Annual Meeting and other annual meetings for sustainability projects in the East and North-east regions of Iceland, as well as open meetings, were cancelled in 2020 because of the COVID-19 pandemic. Meetings of public interest in the latter part of 2020 were live streamed.

Landsvirkjun supports a variety of projects that benefit the community every year, through its Community Fund, Energy Research Fund, summer employment for young adults and in various other ways.

Landsvirkjun updated its Environmental Policy in 2020. The Company is a leader in environmental matters and the updated policy emphasises the identification, recognition, and minimisation of the environmental impact of Landsvirkjun's operations. Policy targets include using natural resources efficiently, carbon-neutral operations and operations in harmony with nature and the landscape.

Landsvirkjun's Human Resources and Equality Policy focuses on six key targets. The Company strives to be an exemplary workplace as a happy and healthy workforce is the key to company success. Supporting well-being, expertise and equality in the Company's workforce makes Landsvirkjun a sought-after workplace. Gender equality and workplace culture remain key focuses as equality should be embedded in workplace culture.

Rules and regulations on chain liability were approved by Landsvirkjun's Board of Directors in 2016. The regulations are intended to ensure that any contractors, sub-contractors, or workers from temporary work agencies, enjoy rights and employment terms in accordance with the law and wage contracts. These rights include wages, employment terms, sickness, and accident insurance. Landsvirkjun does not have a specific human rights policy as the policies already in place ensure the rights of all parties involved in Landsvirkjun's operations.

A description of the Integrity Due Diligence (IDD) process and the work procedures for power contracts with electricity purchasers, can be found in Landsvirkjun's management system. IDD checks are led by a cross-divisional IDD team, appointed by the Executive Vice President of Business Development and Innovation Division. An emphasis is placed on identifying risk factors that should be addressed during the negotiation process or in contracts, wherever the need arises. The results of the IDD check include key financial variables, counterparty default risk, counterparty reputation and reputational risk, as well as environmental and licensing issues.

Appendix II: Non-financial information, contd.

Risk Management

Landsvirkjun follows a formal risk management process to identify and control the Company's financial and non-financial risks. The objectives of the process are 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 special risk management information system is used by Landsvirkjun to store information on specific risk factors and mitigation measures. Risk assessment is divided into the following main categories: Policy development, finances, operations, compliance, image, and projects. Financial risk is further reported in notes to these Financial Statements.

Key performance indicators

A materiality assessment was conducted by Landsvirkjun to identify important sustainability factors. This type of assessment involves consultation with the Company's main stakeholders as well as internal analyses to assess the appropriate response to stakeholder expectations regarding knowledge dissemination and policy development on sustainability issues. The results of this process confirm that Landsvirkjun has been focusing on the areas that are of key interest to its stakeholders in recent years, namely the following: Action on climate change, energy generation in harmony with nature, improved efficiency of the natural resource and less waste, workforce health and safety and professional training, equality issues, working with local communities, corporate responsibility and ethical standards, value and dividend creation and energy-related innovation.

Landsvirkjun secured a new syndicated revolving credit facility in 2019. The interest margin is directly linked to Landsvirkjun's ability to meet defined sustainability goals. The goals were defined for each year and the performance is assessed annually. The main goals related to sustainability, key performance indicators and results in 2020 are discussed below.

Environment

Landsvirkjun has a certified environmental management system, in accordance with the international standard ISO 14001. The Company introduced its Environmental Policy in 2006 which was subsequently updated in 2020. A strategy for achieving these goals has also been developed in accordance with the updated version.

Indicator: Landsvirkjun maintained certification of ISO 14001 in the BSI audit in 2020. (2019: Maintained certification).

Climate change is currently one of the world's greatest challenges. Landsvirkjun's carbon footprint is among the lowest in the world when compared with other energy generation companies. The Company publishes an annual report on all direct emissions from its operations in CO2 equivalents as well as indirect emissions in the value chain. Emissions from operations have decreased in recent years. Landsvirkjun intends to become carbon neutral in 2025.

An action plan was drawn up in 2019 to achieve this milestone. The plan covers the period until 2030 and is based on the results of carbon footprint mapping conducted by the Company in recent years. The priorities in developing the action plan were as follows: 1. Preventing new emissions – 2. Reducing existing emissions – 3. Mitigation measures.

Landsvirkjun has set clear carbon reduction targets. Internal carbon prices are included in all major financial decisions, ranging from the procurement of consumer goods to the selection of new power station options.

Landsvirkjun submitted its 4th carbon disclosure report to CDP (formerly the Carbon Disclosure Project) in 2020 to compare its operations with comparable companies that submit information to the CDP every year. The Company received an A- rating which is the highest rating received by an Icelandic company. The average rating for the ‘company category’ in 2020 was C. The average rating for renewable energy companies was B but Landsvirkjun was one of 50 energy companies given an A- or A rating.

Indicator: Carbon sequestration measures should be no less than 32,538 CO2-eq by the end of 2020. Landsvirkjun’s total carbon sequestration in 2020 was 33,000 CO2-eq (compared with 31,900 CO2-eq in 2019)

Human resources

Gender equality has been a priority for Landsvirkjun in recent years with targeted work carried out in all areas of the Company. A three-year action plan has been developed (2019-2021) and 17 improvement projects have been defined to achieve these goals. One of the goals is to achieve gender equality in all areas of operation. One of the objectives is female managers 40% by end of 2021.

Indicator: The ratio of female managers at Landsvirkjun should be 31% by the end of 2020. The ratio of female managers was 34%. (2019:31%)

Landsvirkjun received the Gold Standard by PwC for Wage Equality for the sixth time in 2020. The Company also received the standard in 2013, 2015, 2017, 2018 and 2019. The review revealed that the base salary for men was 2.1% higher than the base salary for women. The total salary for men was 0.8 % higher than the total salary for women. The difference between the genders for both base salary and total salary is within the limits set by PwC for equal pay. The wage equality review by PwC supports the review of Landsvirkjun’s Equal Pay Management System in accordance with the Equal Pay Standard ÍST 85:2012. Landsvirkjun’s goal is to maintain the Gold Standard by PwC for Wage Equality.

Indicator: Landsvirkjun should maintain the PwC Gold Standard. The Company received the PWC Gold Standard in 2020 (2019: Gold Standard PwC).

Landsvirkjun is committed to the health, safety and well-being of its employees. Landsvirkjun works according to a so-called zero-accident policy (no absence-related incidents). The Company is also certified according to the ISO 45001 occupational health and safety standard which requires the continuous improvement of health and safety matters. In 2020, there was one absence-related incident, so the goal of accident-free operations was not achieved.

Indicator: H-number 0. Landsvirkjun’s H-number at the end of 2020 was 0.32 (2019: 0.31).

Indicator: Landsvirkjun should maintain the ISO 45001 certification. Landsvirkjun maintained ISO 45001 certification in the BSI audit in 2020 (2019: Maintained certification).