Financial Statements 2023

Landsnet hf.
Gylfaflöt 9
112 Reykjavík

Reg. no. 580804-2410

Contents

Endorsement by the Board of Directors and the CEO

Landsnet hf. was established in 2004 and the role of Landsnet is to administer the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003.

Results of the year 2023

Profit of the year amounted to 25.6 million USD and total profit amounted to 51.0 million USD. The Company's equity at year end amounted to 507.5 million USD, including share capital in the amount of 45.5 million USD.

Average number of employees was 161. The gender ratio of the company’s senior management is 65% men, 35% women and 0% non-binary, with the overall employee gender ratio standing at 65% men, 35% women and 0% non-binary.

Share capital at year end 2023 is divided between two shareholders as at the beginning of the year: Shareholders at year end are:

	Share
Icelandic State	93.22%
Orkuveita Reykjavíkur	6.78%

The Board of Directors of the Company is composed of three women (60%) and two men (40%). In addition, there is one woman and one man in the vice board of the Company. The Board thus meets the requirement of Article 63 of the Public Limited Companies Act that the ratio of each gender on the Board of Directors shall not be lower than 40%.

The Board of Directors proposes to pay dividends USD 13 million to shareholders in 2024 for the operating year 2023, in which context the Board makes reference to the annual financial statements regarding changes in equity.

Current year operations and outlook

The year saw continued seismic activity and earthquakes on the Reykjanes peninsula. In November and December 2023, and again in January and February 2024, major developments occurred in the vicinity of the town of Grindavík when larger fissures opened and eruptions began near critical infrastructure. Although no major Landsnet infrastructure assets in the area were at risk, two transmission towers on the Svartsengi Line, which connects the Svartsengi Power Plant to the grid, were at risk during a volcanic eruption in February 2024. Landsnet has taken an active role in protecting and rebuilding infrastructure in the area as a member of both the Electricity Sector Emergency Partnership (ESEP) and the National Crisis Coordination Centre. In the interest of civil protection and social responsibility, Landsnet has taken part in providing reserve power for the region in addition to relocating and constructing infrastructure, as mandated by the Department of Civil Protection and Emergency Management, to ensure the supply of electricity in the area. Landsnet also protected two transmission towers on the Svartsengi Line when protective barriers were being constructed in the area to protect power plants and other infrastructure. This preventive measure saved the two towers from succumbing to a lava flow that passed just beside them in a volcanic eruption at the beginning of February 2024. The operation of the line has been stable, except for the short period when the lava flow was passing by. Landsnet’s physical assets thus sustained no damage during these events. Work is also being done to change the alignment of the line in the risk area to protect against the possible invasion of lava.

In January 2023, the sub-sea cable to the Westman Islands failed, causing difficulties in supplying electricity to the islands. Repairing the cable turned out to be a complex task both technically and financially. This included major supply chain challenges, as highly specialised ships were required for the task, which routinely take a long time to procure. The fault occurred in a challenging location on the beach, making it more arduous to get to the point of repair and requiring additional reserve stock materials for the task. The deployment of contractors and procurement of resources also had to be planned on the basis of weather conditions and forecasts. Through a concerted, solution-oriented effort, our staff and contractors completed the repairs in an incredibly short time and within budget. During the repair, electricity was supplied using innovative solutions, which included connecting two broken cables so that they worked as a single one. This minimised the cost of running reserve power and the carbon emissions that would otherwise have resulted from back-up power generators. The cable was brought back into service in early August 2023.

Under the Electricity Act, Landsnet’s income is subject to a revenue cap. The Company collects its permitted revenue on the basis of a tariff subject to supervision by the National Energy Authority. In April 2023, Landsnet began charging an “in-feed charge” payable by generating companies, a fee that had previously been on the Company’s tariff up to the autumn of 2007. This new delivery charge made the part of the Company’s grid-operating costs relating to power stations payable by the generating companies connected to the grid. Iceland’s largest electricity generator, Landsvirkjun, brought an action for recognition that Landsnet was not permitted to charge a capacity charge for in-feed on the basis of specified provisions of Landsnet's Tariff No. 43. A district court ruled in Landsvirkjun’s favour and on 20 October 2023 the Court of Appeal ruled in Case No. 191/2023, again finding in favour of Landsvirkjun. The Supreme Court has permitted the case to be appealed, but the case has not been heard. Further explanations of the case can be found in Note 30.

Endorsement by the Board of Directors and the CEO, continued

Landsnet is an issuer of guarantees of origin (GOs) for electricity generated in Iceland from renewable energy sources and is a member of the Association of Issuing Bodies (AIB), an umbrella organisation of issuers of GOs in Europe. During the year, the AIB suspended exports of Icelandic GOs and launched an assessment of whether the issuance of GOs in Iceland was in compliance with AIB rules. The AIB later lifted the suspension but required an assessment of potential double counting of GOs in Iceland as well as clarification of the regulatory framework and supervisory powers. The National Energy Authority submitted a report to the AIB regarding requirements for remedial measures and subsequently the AIB Board concluded, in November, that the requirements had been met. In 2024, the AIB will carry out regular audits of the regulatory framework for and issuance of GOs in Iceland.

On 30 December 2022, the Ministry of Finance and Economic Affairs, Landsvirkjun, Iceland State Electricity (RARIK) and the Westfjord Power Company reached an agreement on the Icelandic government's acquisition of the companies' 93.22% share in Landsnet. Published in the autumn of 2020, the Government of Iceland's Energy Policy to the Year 2050 set out the position that impartial ownership would be fundamental to transparency and non-discrimination in the energy market, making it important to complete the separation of ownership of the transmission system operator and thereby bring it fully into public ownership. The government's acquisition of the Company was rooted in this policy and is in keeping with amendments to the Electricity Act and the Act on the Establishment of Landsnet, which stipulate that the transmission system operator should be directly owned by the Icelandic government and/or municipalities. The Company now has two owners, with Reykjavik Energy continuing to hold a 6.78% share. Landsnet's Board of Directors comprises five members. Following the change in ownership, four new members joined the Board at the 2023 Annual General Meeting, with one existing member, Chairman Sigrún Björk Jakobsdóttir, remaining on the Board.

In March 2023, Landsnet received a loan of 63.7 million USD from the European Investment Bank. This was the first time that Landsnet received a loan from the EIB. The loan was granted to strengthen the regional line with a focus on projects in the north-east of the country. The EIB attaches great importance to climate issues and Landsnet meets the conditions set by the bank. Landsnet's projects that lay the foundation for increased delivery security and promote energy exchange are therefore well suited to the bank's priorities.

In February 2023, Landsnet underwent organisational changes to support its strategy and policies in line with new priorities. Two new Executive Vice Presidents joined the Executive Board, which now comprises six members: three men and three women.

Profit for the year was slightly below projections. As previously mentioned, the Company faced various challenges during the year. Although the net impact thereof on the Financial Statements is not substantial, both income and expenses were affected. Income underperformed projections as a result of the decision not to collect the in-feed charge in the last three months of the year. Operating expenses were higher owing to the fault in the Westman Islands cable, with various costs incurred by the repair in addition to the write-off of the faulty part of the cable. Investment for the year was below projections, largely because construction on the Suðurnes Line 2 was held up during the year. All development permits for this project have been obtained, but Landsnet has yet to secure agreements for land use from a very small number of landowners. Some other projects were postponed, including the installation of an underground cable to the town of Dalvík in northern Iceland. This was partly offset by works on the Westman Islands Cable 3, which had not been scheduled for the year.

Corporate governance

The Board of Directors of Landsnet hf. emphasizes maintaining good management practices. The Board of Directors has laid down comprehensive guidelines wherein the competence of the Board is defined and its scope of work vis-à vis the CEO. These rules include i.e. rules regarding order at meetings, comprehensive rules on the competence of Directors to participate in the discussion and decision of issues presented to the Board, rules on secrecy, rules on information disclosure by the CEO to the Board and other issues. The Corporate Governance Statement, which is appendix 1 in the Financial Statements, provides further information.

Non-financial information

Landsnet hf is a public-interest entity and is therefore obliged under the Annual Accounts Act to disclose information that gives a clear overview of the Company's performance, its position and development, as well as setting out key risks and uncertainties. Non-financial reporting is provided in Appendix 2 to the Financial Statements. Appendix 2 also contains disclosure pursuant to the requirements of the EU Taxonomy Regulation, which entered into force on 1 June 2023 but applies to the entire financial year of 2023.

Endorsement by the Board of Directors and the CEO, continued

Statement of the Board of Directors and the CEO

According to the best of the Board of Director's and the CEO's knowledge, the financial statements are in accordance with the International Financial Reporting Standards as adopted by the EU and it is the Board's and CEO's opinion that the annual financial statements give a true and fair view of the financial performance of the Company for the financial year 2022, its assets, liabilities and financial position as at 31 December 2023 and its cash flows for the financial year 2023.

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

The Board of Directors and the CEO have today discussed the annual financial statements of Landsnet hf. for the year 2023 and confirmed them by means of their signatures.

Reykjavik, 15 February 2024

The Board of Directors:

Sigrún Björk Jakobsdóttir
Álfheiður Eymarsdóttir
Birkir Jón Jónsson
Elín Björk Jónasdóttir
Friðrik Sigurðsson

CEO:

Guðmundur Ingi Ásmundsson

Independent Auditor's Report

To the Shareholder of Landsnet hf.

Opinion

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

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Landsnet hf. in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters	How the matter was addressed in our audit
Valuation of transmission lines and substations	
Transmission lines and substations are the company´s most valuable assets and its valuation is based on management estimations, therefore we consider it to be a key audit matter. Transmission lines and substations are recognised according to the revaluation method. At the year-end its carrying amount was USD 917,5 million or 82,4% of total assets. Revaluation is performed on a regular basis, when management assesses that its fair value has changed significantly. Operating value was measured using a cash flow analysis. The assets were revaluated at year-end 2023 based on management estimation. As to the valuation of the assets, we refer to fixed assets in operation note 13 and accounting policies notes 33c and 33h.	Our audit was focused on management estimations of operating value of transmission lines and substations at the year-end 2023. 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 IFRSs and assessed that the disclosures were appropriate. We have also examined management judgement related to additions and depreciation methods in accordance with IFRS.

Independent Auditor's Report, continued

Other information

Management is responsible for the other information. The other information comprises the report of board of directors, non-financial reporting and corporate governance statement which is an appendix in the Financial Statement. 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 report of the board of directors as stated below.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing Landsnet hf.'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 management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The board of directors and the audit committee are responsible for overseeing Landsnet's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Independent Auditor's Report, continued

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

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

In addition to our work as the auditors of Landsnet hf., Deloitte has provided the firm with permitted additional services such as review of interim financial statements, other assurance engagements, consultation on tax matters. Deloitte has in place internal procedures in order to ensure its independence before acceptance of additional services. Landsnets hf's audit committee also has in place internal procedures to approve additional services before they commence. The audit committee also evaluates the independence of the company's auditors on yearly basis in order to ensure their independence and objectivity.

Deloitte was appointed auditor of Landsnet hf. By the general meeting of shareholders on 24 March 2023. Deloitte have been elected since the general meeting 9 April 2015.

Reykjavik, 15 February 2024

Deloitte ehf.

Gunnar Þorvarðarson
State Authorized Public Accountant

Berglind Klara Daníelsdóttir
State Authorized Public Accountant

Income Statement for the year 2023

	Notes	2023	2022
Operating revenue			
Transmission	5	166,080	160,557
Other income	6	3,171	2,198
		169,251	162,755
Operating expenses			
Energy procurement costs	7	32,608	32,354
Transmission costs	9.10	63,002	55,434
System operation	9.10	4,910	9,973
Other operating expenses	9.10	16,046	9,890
		116,566	107,651
Operating profit		52,685	55,104
Financial income		3,236	4,031
Financial expenses		(23,758)	(18,876)
Net financial expenses	11	(20,522)	(14,845)
Share in net earnings of associated company	15,16	(160)	297
Profit before income tax		32,003	40,556
Income tax	12.23	(6,436)	(8,055)
Profit		25,567	32,501
Profit earnings per share:			
Basic and diluted earnings profit per each 1 share	21	0.56	0.71

Notes no. 1 to 33 are an integral part of these financial statements.

Financial Statements of Landsnet hf. 2023 9 Amounts are in USD thousand

Statement of Comprehensive Income for the year 2023

	Notes	2023	2022
Profit		25,567	32,501
Items under total (loss) profit recognised among equity:			
Revaluation of transmillion system	13	30,231	0
Current tax on revaluation of transmission system		(6,046)	0
		24,185	0
Translation difference due to subsidiaries and associated companies ...		188	(417)
Site restoration provision after income tax, change		1,050	3,714
Total items under total profit recognised among equity		1,238	3,297
Total profit of the year		50,990	35,798

Notes no. 1 to 33 are an integral part of these financial statements.

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Statement of Financial Position as at 31 December 2023

	Notes	31.12.2023	31.12.2022
Assets			
Fixed assets in operation	13	943,210	917,066
Projects under construction	13	56,655	29,655
Intangible assets	13	19,397	18,464
Investments in subsidiary and associate	15.16	4,666	4,424
Long-term note	29	3,886	3,273
Fixed assets		1,027,814	972,882
Inventories	17	6,419	6,192
Receivable with parent company	29	351	145
Trade and other receivables	18	24,666	26,806
Cash and cash equivalents	19	54,324	26,325
Current assets		85,760	59,468
Total assets		1,113,574	1,032,350
Equity			
Share capital		45,549	45,549
Statutory reserve		11,387	11,387
Restricted equity		1,386	1,546
Revaluation account		210,742	195,582
Foreign currency translation		(315)	(503)
Retained earnings		238,751	228,720
Equity	20	507,500	482,281
Liabilities			
Interest bearing long-term liabilities	22	453,078	412,437
Deferred income tax liability	23	76,459	69,883
Deferred income	24	2,118	2,264
Provision due to site restoration	25	10,883	11,716
Long-term liabilities and obligations		542,538	496,300
Current maturities	22	35,735	28,066
Income tax payable	14.23	6,169	6,673
Trade and other payables	27	21,632	19,030
Short-term liabilities		63,536	53,769
Total liabilities		606,074	550,069
Total equity and liabilities		1,113,574	1,032,350

Notes no. 1 to 33 are an integral part of these financial statements.

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Statement of Changes in Equity for the year 2023

	Share capital	Statutory reserve	Restricted equity	Foreign currency translation	Revaluation account	Retained earnings	Total
Year 2022:							
Equity at 1 January 2022	45,549	11,387	1,249	(86)	202,093	210,365	470,557
Profit of the year						32,501	32,501
Foreign currency translation				(417)			(417)
Changes in Site restoration obligation					3,714		3,714
Total comprehensive profit			0	(417)	3,714	32,501	35,798
Share in net earnings of associated company			297			(297)	0
Transfer to statutory reserve						0	0
Dividends paid to shareholders						(24,074)	(24,074)
Revaluation recognised under retained earnings					(10,225)	10,225	0
Equity at 31 December 2022	45,549	11,387	1,546	(503)	195,582	228,720	482,281
Year 2023:							
Equity at 1 January 2023	45,549	11,387	1,546	(503)	195,582	228,720	482,281
Profit of the year						25,567	25,567
Revaluaton of transmission system					30,231		30,231
Current tax on revaluation of transmission system					(6,046)		(6,046)
Foreign currency translation				188			188
Changes in Site restoration obligation					1,050		1,050
Total comprehensive profit			0	188	25,235	25,567	50,990
Share in net earnings of associated company			(160)			160	0
Dividends paid to shareholders						(25,771)	(25,771)
Revaluation recognised under retained earnings					(10,075)	10,075	0
Equity at 31 December 2023	45,549	11,387	1,386	(315)	210,742	238,751	507,500

Notes no. 1 to 33 are an integral part of these financial statements.

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Statement of Cash Flows for the year 2023

	Notes	2023	2022
Cash flow from operating activities			
Operating profit		52,685	55,104
Adjustments for:			
Profit from sales of fixed assets	6	(8)	(19)
Depreciation and amortisation	10	39,615	35,920
Working capital from operation before financial items and taxes		92,292	91,005
Operating assets, increase		1,729	(2,193)
Operating liabilities, increase		1,383	5,737
Net Cash from operating activities before financial items and taxes		95,404	94,549
Interest income received		3,226	696
Interest expenses paid and foreign exchange difference		(19,452)	(14,869)
Taxes paid		(6,673)	(7,414)
Net cash from operating activities		72,505	72,962
Cash flow from investing activities			
Investment in transmission infrastructures		(55,493)	(40,421)
Other investments		(8,098)	(5,224)
Proceeds from sale of fixed assets		139	104
Long-term note, changes		(409)	(443)
Changes in investment in associated companies		285	932
Net cash from investment activities		(63,576)	(45,052)
Cash flow from financing activities			
New long-term liabilities	22	123,282	25,000
Payments of long-term liabilities	22	(79,770)	(27,460)
Dividends paid to shareholders		(25,771)	(24,074)
Net cash from financing activities		17,741	(26,534)
Net increase in cash and cash equivalents		26,670	1,376
Effect of exchange rate changes on cash and cash equivalents		1,329	(275)
Cash and cash equivalents at 1 January		26,325	25,224
Cash and cash equivalents at 31 December	19	54,324	26,325

Notes no. 1 to 33 are an integral part of these financial statements.

Financial Statements of Landsnet hf . 2023 13 Amounts are in USD thousand

Notes to the Financial Statements

1. Reporting entity

Landsnet hf. is domiciled at Gylfaflöt 9 in Reykjavik, Iceland. The Company is majority-owned by the Icelandic Treasury and is classified as a company in Group C of the Central Government. Landsnet was established in 2004 on the basis of the Electricity Act passed by the Icelandic parliament, the Althingi, in the spring of 2003. The role of Landsnet is to administer the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act No. 65/2003, which stipulates that the Company must not engage in any activities other than necessary to perform its duties under the Act.

2. Basis of preparation

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

The financial statements were approved by the Board of Directors on 15 February 2024.
Details of the Company's accounting policies are included in note 33.

3. Functional and presentational currency

The financial statements are presented in USD, which is the Company's functional currency. Amounts are presented in USD thousand unless otherwise stated. The financial statements have been prepared on the historical cost basis, except for the Company's transmission system is recognised at a revalued amount.

4. Use of estimates and judgements

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

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

The significant judgements made by management in applying the Companies accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2022. In the income statement, changes have been made to the classification of costs between system operation and other operating expenses, with appropriate changes made to comparative figures.

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

- Note 13 and 33c - Fixed assets in operation
- Note 14 and 33d - Intangible assets
- Note 25 and 33j - Estimation of provision due to site restoration
- Note 23 and 33n - Income tax

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Landsnet revaluates part of fixed assets to fair value, as stated in note 13. Other assets and liabilities are not recognised at fair value. For non-derivative financial liabilities, fair value, which is determined for disclosure purposes as stated in note 28, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Transmission revenue

See accounting policies in note 33k

Transmission revenue consist of:

	2023	2022
Energy transmission to power-intensive consumers	74,623	72,336
Energy transmission to distribution system operators	47,170	43,158
Transmission losses and ancillary services	32,138	32,672
In-feed fees	11,333	11,496
Service income	816	895
Transmission revenue total	166,080	160,557

The company's main customers are electricity producers, electricity distributors and large consumers. About one third of the transmission income was due to transactions with electricity distributors and 2/3 of transmission

6. Other income

Other income consist of:

	2023	2022
Income from work sold	626	931
Rental income	459	387
Income from guarantees of origin and certification	822	684
Sales profit from fixed assets	8	19
Other income	1,256	177
Other income total	3,171	2,198

7. Energy procurement costs

Energy procurement costs consist of:

	2023	2022
Electricity purchases due to transmission losses	20,265	21,589
Purchase of ancillary services	12,343	10,765
Energy procurement costs total	32,608	32,354

8. Fee to auditors

Fee to auditors consist of:

	2023		2022	
	Audit of Financial Statement	Other service	Audit of Financial Statement	Other service
Deloitte ehf.	72	14	59	0

Audit of Financial Statement consists of costs relating to audit of the financial statement and a review of interim financial statements.

9. Personnel expenses

See accounting policies in note 33c and 33i

Salaries and other personnel expenses consist of:

	2023	2022
Salaries	18,369	15,936
Defined contribution plan payments	2,616	2,309
Other payroll expenses	1,608	1,378
Capitalised salaries	(3,870)	(3,331)
Personnell expenses total	18,723	16,292

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9. Personnel expenses, contd.:

Personnel expenses are specified as follows:

	2023	2022
Transmission costs	6,524	6,141
System operation	4,159	4,795
Other operating expenses	8,040	5,356
Salaries and other personnel expenses total	18,723	16,292
Average number of employees	161	148
Full-time equivalent units at year-end	157	152

Personnel expenses in Icelandic krona increased by 17.1% but in US dollars the personnel expenses increased by 15.1%.

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

	Thousand ISK		Thousand USD	
	2023	2022	2023	2022
Remuneration of the Board of Directors	17,226	16,054	125	119
Remuneration and benefits of the CEO	46,454	42,621	337	315
Remuneration of six/five Excecutive Directors	158,657	135,270	1,150	999

10. Depreciation and amortisation

See accounting policies in notes 33c and 33d

Depreciation and amortisation are specified as follows:

	2023	2022
Depreciation of fixed assets in operation, see Note 13	37,972	34,619
Amortisation and impairment losses, see Note 14	1,643	1,301
Depreciation and amortisation recognised in the income statement	39,615	35,920

Depreciation and amortisation are allocated as follows to operating items:

	2023	2022
Transmission costs	38,394	34,850
System operation	379	368
Other operating expenses	842	702
Depreciation and amortisation recognised in the income statement	39,615	35,920

11. Financial income and expenses

See accounting policies in note 33m

Financial income and expenses are specified as follows:

	2023	2022
Interest income	2,743	426
Net gain in fair value of marketable securities	493	272
Exchange rate difference	0	3,333
Total financial income	3,236	4,031
Interest expenses	(21,039)	(18,677)
Indexation	(2,728)	(3,188)
Exchange rate difference	(1,045)	0
Change in present value of the provision due to site restoration	(658)	(626)
Capitalised interest expense	1,712	3,615
Total financial expenses	(23,758)	(18,876)
Net financial expenses	(20,522)	(14,845)

Net financial expenses due to the construction of a transmission infrastructure and capitalised development cost amounting to 1.7 million USD (2022: 3.6 million USD) is capitalised and has been reported as a reduction in financial expenses.

Capitalised financial expenses were 5.1% of capital tied in transmission structures under construction during the year (2022: 4.0%). This is the Company's average finance cost for the year.

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12. Income tax

See accounting policies in note 33n

	2023	2022
Income tax recognised in the income statement is specified as follows:		
Deferred income tax for the year	(530)	(2,311)
Income tax recognised among comprehensive income	263	928
Income tax payable	(6,169)	(6,673)
Other changes	0	1
Income tax recognised in the income statement	(6,436)	(8,055)
Effective tax rate	20.1%	19.9%

13. Fixed assets in operation:

See accounting policies in note 33c

Fixed assets in operation:

	Substations	Transmission lines	Other	Total
Cost				
Balance at 1.1.2022	517,898	728,324	41,584	1,287,806
Additions	6,316	2,236	2,094	10,646
Transferred from projects under construction	36,726	61,120	0	97,846
Sold	0	0	(244)	(244)
Balance at 31.12.2022	560,940	791,680	43,434	1,396,054
Revaluation	19,088	27,111	0	46,199
Additions	2,137	5,066	3,774	10,977
Transferred from projects under construction	8,130	14,909	0	23,039
Sold	0	0	(364)	(364)
Balance at 31.12.2023	590,295	838,766	46,844	1,475,905
Depreciation				
Balance at 1.1.2022	170,340	256,067	18,121	444,528
Depreciation	14,727	18,217	1,675	34,619
Sold	0	0	(159)	(159)
Balance at 31.12.2022	185,067	274,284	19,637	478,988
Revaluation	6,693	9,275	0	15,968
Depreciation	15,517	20,714	1,741	37,972
Sold	0	0	(233)	(233)
Balance at 31.12.2023	207,277	304,273	21,145	532,695
Carrying amount				
1.1.2022	347,558	472,257	23,463	843,278
31.12.2022	375,873	517,396	23,797	917,066
31.12.2023	383,018	534,493	25,699	943,210
Carrying amount without revaluation				
1.1.2022	248,861	312,546	23,463	584,870
31.12.2022	282,022	365,620	23,797	671,439
31.12.2023	281,174	378,515	25,699	685,388

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13. Fixed assets in operation, contd.:

Basis of revaluation of fixed assets in operation

In accordance with the provisions of the International Accounting Standard, the Company's transmission lines and substations were revalued as at year-end and before that they were revalued at year-end 2021. For the revaluation the Company's operating value was estimated using cash flow analysis. The valuation period was from 2024 to 2033, with the future operating value calculated thereafter. The revaluation conducted during the year was based on the operating value of the Company's current assets using the assumption that investment would equal the depreciation of the current asset base. The discounting of future cash flows was based on the market interest rate (WACC) in accordance to the method applied to determine for the Company with respect to power-intensive consumers and distribution system operators, an averaging 5.58%. Future growth is not expected, as the company is subject to a revenue cap. The valuation was also based on the transmission system's reconstruction as estimated by independent experts at the end of the-year. The carrying amount of assets passed impairment test at the year-end and and the lines and substations were revalued by USD 30.2 million at the end of the year.

Leased assets:

The company leases part of the transmission structures it uses from domestic energy companies, office premises and substations sites.

Changes in lease assets, which are disclosed with Fixed asset under operation, from the beginning to the end of the period are as follows:

	Substations	Other	Total
Balance at 1.1. 2022	781	789	1,570
New lease agreements	70	0	70
Indexation	0	38	38
Impact of revaluation of lease liabilities	20	51	71
Depreciation of the year	(14)	(68)	(82)
Balance at 31.12.2022	857	810	1,667
New lease agreements	0	0	0
Indexation	0	30	30
Impact of revaluation of lease liabilities	101	48	149
Depreciation of the year	(17)	(73)	(90)
Balance at 31.12.2023	941	815	1,756

Projects under construction:	2023	2022
Balance at 1.1.	29,655	83,432
Additions	48,213	30,896
Transferred to fixed assets in operation	(23,039)	(97,846)
Transferred frá intangible assets	1,826	13,173
Balance at 31.12.	56,655	29,655

Rateable value and insurance value

The rateable value of the Company's real property amounts to upwards of 69.7 million USD (2022: 67.9 million USD). Assessed value for the same property's fire insurance amounts to 140.8 million USD (2022: 127.9 million USD) and book value amounts to 87.8 million USD (2022: 83.9 million USD). The insurance value of the Company's assets amounts to 678.9 million USD (2022: 647.2 million USD), excluding transmission lines and cables, which are insured by an emergency insurance fund. The Company's emergency insurance amounts to 1,348.0 million USD (2022: 1,228.8 million USD).

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14. Intangible assets:

See accounting policies in note 33d and 33h

	Capitalised development cost	Software	Total
Cost			
Balance at 1.1.2022	34,055	5,943	39,998
Additions	3,483	658	4,141
Transferred to projects under construction	(13,173)	0	(13,173)
Balance at 31.12.2022	24,365	6,601	30,966
Additions	4,139	263	4,402
Transferred to projects under construction	(1,826)	0	(1,826)
Balance at 31.12.2023	26,678	6,864	33,542
Amortisation and impairment losses			
Balance at 1.1.2022	7,359	3,842	11,201
Amortisation and impairment losses	1,195	106	1,301
Balance at 31.12.2022	8,554	3,948	12,502
Amortisation and impairment losses	1,484	159	1,643
Balance at 31.12.2023	10,038	4,107	14,145
Carrying amount			
1.1.2022	26,696	2,101	28,797
31.12.2022	15,811	2,653	18,464
31.12.2023	16,640	2,757	19,397

Development costs are reviewed each year by the management of Landsnet hf. and are examined for any indications of impairment. If the management believes that impairment has occurred, that development cost is expensed as impairment.

15. Investment in subsidiary

See accounting policies in note 33e

The breakdown of investment in subsidiary is as follows:

	2023 Share in net earnings	2022 Share in net earnings	31.12.2023 Carrying amount	31.12.2022 Carrying amount
ELMA orkuviðskipti ehf. 100%	(529)	0	(499)	35

The operations of Landsnet's subsidiary, Elma orkuviðskipti ehf., are insignificant during the year, and therefore no consolidated financial statements have been prepared.

16. Investment in associates

See accounting policies in note 33f

The breakdown of investment in associates is as follows:

	2023 Share in net earnings	2022 Share in net earnings	31.12.2023 Carrying amount	31.12.2022 Carrying amount
Orkufjarskipti hf. 48.6%	369	297	4,666	4,389

17. Inventories

See accounting policies in note 33g

Inventories are spare parts and material inventories. Write-down of the year amounted to 121 thousand USD is recognised in the financial statements for the year 2023 (2022: none).

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18. Trade and other receivables

See accounting policies in note 33b

Trade and other receivables:

	31.12.2023	31.12.2022
Trade receivables	23,550	25,511
Other receivables	1,116	1,295
Trade and other receivables total	24,666	26,806

At the year-end 85% of trade receivables were less than 30 days (2022: 85%).

19. Cash and cash equivalents

See accounting policies in note 33b

Cash and cash equivalents:

	31.12.2023	31.12.2022
Bank deposits in USD	47,611	23,596
Bank deposits in other currency	4,825	2,729
Money market funds in ISK	1,888	0
Cash and cash equivalents total	54,324	26,325

20. Equity

See accounting policies in note 33b

Share capital

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

Revaluation account

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

Statutory reserve

Under the Public Limited Companies Act, 25% of the nominal value of the Company's share capital must be held in a statutory reserve, which is not permitted to be used to pay dividends to shareholders. 10% of each year's profit must be deposited in the reserve until it amounts to 10% of the nominal value of the share capital, when the percentage deposited becomes 5%. At the end of 2023 the statutory reserve fund amounts to 25% of the nominal value of share capital.

Foreign currency translation

Foreign currency translation is the foreign exchange difference arising due to subsidiary and associated company with other functional currencies.

Restricted equity

Under the Annual Accounts Act, the Company must transfer its share in the profit or loss of associates exceeding received dividends, or dividend payouts that have been decided, into a restricted reserve account among equity. The Company has neither received dividends nor has been assigned dividends from its associates and therefore has all share in their earnings been transfered to restricted reserve account among equity.

Dividends

Dividends in the amount of 3,600 million ISK (25.8 million USD) were paid out in 2023 for the financial year 2022. By comparison, dividends in the amount of 3,100 million ISK (24,1 million USD) were paid out in 2022 for the financial year 2021.

21. Profit earnings per share

See accounting policies in note 33p

Basic and diluted profit earnings per share:

	2023	2022
Profit to shareholders	25,567	32,501
Weighted average number of ordinary shares at 31 December	45,549	45,549
Basic and diluted earnings per share	0.56	0.71

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22. Interest-bearing loans and borrowings

See accounting policies in note 33b

This Note provides information on the contractual terms of the Company's loans and borrowings:

	31.12.2023	31.12.2022
Long-term liabilities		
Loan agreement and notes in USD, fixed interest	450,820	404,502
Listed indexed bond loan in NASDAQ OMX in ISK, fixed interest	36,510	34,675
	487,330	439,177
Current maturities on long-term liabilities	(35,735)	(28,066)
	451,595	411,111
Lease liabilities	1,483	1,326
Long-term liabilities total	453,078	412,437

As at year-end 2023, the Company meets all current requirements of loan agreements regarding financial strength.

Terms of long-term liabilities

	Final maturity	Weighted avg. rate	31.12.2023 Carrying amount	Weighted avg. rate	31.12.2022 Carrying amount
Liabilities in USD	2024-2023	4.36%	450,820	4.41%	404,502
Liabilities in ISK, indexed	2034	5.00%	36,510	5.00%	34,675
Total loans and borrowings			487,330		439,177

Maturities by year of loans and borrowings:

Year 2023 / 2022	35,735	28,066
Year 2024 / 2023	16,879	79,217
Year 2025 / 2024	68,028	12,346
Year 2026 / 2025	66,248	63,478
Year 2027 / 2026	40,430	61,682
Later	260,010	194,388
	487,330	439,177

Change in long-term liabilities are as follows:

	2023	2022
Long-term liabilities at the beginning of the year	439,177	441,201
New long-term liabilities	123,282	25,000
Payment of long-term liabilities	(79,701)	(27,395)
Exchange rate difference on long-term liabilities	1,488	(3,177)
Indexation and changes of discount on long-term liabilities	3,084	3,548
Long-term liabilities at the end of the year	487,330	439,177

The Company has an agreement with a credit line facility with Landsbankinn hf. in the amount of ISK 80 million USD (31.12.22: 80 million USD). The facility was undrawn at the end of the year (31.12.22: 48 million USD).

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22. Interest-bearing loans and borrowings, contd.:

Lease liabilities

Lease liabilities are disclosed in the statement of financial position with Interest bearing long-term liabilities 1,483 thousand USD (31.12.22 1,326 thousand USD) and with Trade and other payables 129 thousand USD (31.12.2022: 114 thousand USD).

Changes in lease liabilities from the beginning to the end of the period are as follows:

	2023	2022
Lease liabilities on 1 January	1,440	1,453
New lease agreements	0	71
Interest expense on lease obligations	30	38
Repayment of lease liabilities during the year	149	71
Revaluation due to indexation of lease payments	(68)	(62)
Exchange rate difference	(61)	(131)
Carrying amount on 31 December	1,490	1,440

Impact on profit or loss are as follow:	2023	2022
Interest expense on lease liabilities	(71)	(71)
Depreciation of leased assets	(90)	(82)
Currency exchange difference	61	131

Maturity analyses - undiscounted contractual maturities:	2023	2022
Payments within a year	132	116
Payments one to five years	452	409
Payments five years and later	2,829	2,542
Undiscounted contractual maturities total:	3,413	3,067

23. Deferred tax liability

See accounting policies in note 33n

The breakdown of deferred tax liability is as follows:	2023	2022
Deferred tax liability at 1 January	69,883	67,571
Calculated income tax for the year	6,436	8,055
Deferred tax liability due to changes in site restoration obligation	263	930
Current tax on revaluation of transmission system	6,046	0
Income tax payable	(6,169)	(6,673)
Deferred tax liability at 31 December	76,459	69,883

The breakdown of deferred tax liability was as follows at year-end:	31.12.2023	31.12.2022
Fixed assets in operation	76,344	69,557
Intangible assets	2,190	2,210
Other assets	794	721
Provision due to site restoration	(2,177)	(2,343)
Other obligations	(775)	(770)
Unrealized exchange rate difference	83	508
Deferred tax liability at 31 December	76,459	69,883

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24. Deferred income

Deferred income is recognised mostly with regard to connection charges paid by electricity buyers to the Company during the year. At year-end, deferred income amounted to 2.1 million USD (2022: 2.3 million USD). The part of deferred income that will be recognised in the income statement next year is recognised in current liabilities. Connection charges recognised in profit or loss for 2023 amounted to 0.1 million USD (2022: 0.1 million USD).

25. Provision due to site restoration

See accounting policies in note 33j

Change in the provision due to site restoration is specified as follows:	2023	2022
Balance at 1 January	11,716	15,631
Changes in timing of discount effect accounted for in financial items	658	626
Additions	10	101
Discontinued	(188)	0
Change in the provision through other comprehensive income	(1,313)	(4,642)
Balance at 31 December	10,883	11,716

The initial value of property, plant and equipment includes the estimated cost of the demolition thereof after use. The estimated demolition cost of lines has been valuated and discounted based on life-cycle criteria. The discounted value is recognised as a provision under long-term liabilities. The change in the discounting provision is based on a 6.1% interest rate (2022: 5.4%) is included in the company´s equity.

26. Pension fund obligation

See accounting policies in note 33i

The Pension Fund for State Employees calculates at the end of each year the benefit plan obligation accrued for the year. Actuary assessment is based on the accrued obligation for the year being discounted at year-end on the basis of the annual interest rate generally used to assess pension fund obligations. The accrued obligation has been settled annually but at year-end, no Landsnet employee remained a member of the Pension Fund for State Employees in Iceland (LSR), for which reason the Company has settled its obligations to the LSR..

27. Trade and other payables

See accounting policies in note 32b

Trade and other payables are specified as follows:	31.12.2023	31.12.2022
Trade payables	13,253	12,112
Other payables	7,882	6,918
Liability due to a subsidiary (note 15)	497	6,918
Trade and other payables total	21,632	25,948

28. Financial instruments

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and its management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors seeks consultation both from its employees and external consultants and discusses it regularly at Board meetings.

The Company's objective is to discover and analyse the risks it faces, set a benchmark for risk exposure and control it. The Company's risk management policy is regularily reviewed to analyse market changes and changes within the Company.

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28. Financial instruments, contd.:

a. Credit risk

Credit risk is the risk of financial loss of the Company owing to the failure of a customer or counterparty to a financial instrument to meet its contractual obligations. The Company's credit risk is mainly due to trade receivables and is dependant on the financial condition and operations of each customer and also cash and cash equivalent.

Trade and other receivables

The company's main customers are electricity producers, electricity distributors and large consumers. About one third of the transmission income was due to transactions with electricity distributors and 2/3 of transmission income was due to transactions with electricity producers and large users.

Highest possible loss due to credit risk

The Company's highest possible loss due to financial assets is their book value, which was as follows at year-end:

	31.12.2023	31.12.2022
Long-term note	4,095	3,468
Receivables with affiliated companies	353	145
Trade and other receivables	24,666	26,806
Cash and cash equivalents	54,324	26,325
Highest possible loss due to credit risk total	83,438	56,744

Impairment losses

No impairment loss was recognised of accounts receivable at year-end 2023 and none at year-end 2022. The write-down of receivables is based on the management's assessment and experience, i.a. based on the long business history of the largest customers. Based on that, the credit risk is considered insignificant. Also, cash is bank deposits with established banks that are considered to have a low credit risk.The Company's collection issues are reviewed on a regular basis.

b. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial commitments as they fall due. Landsnet´s aim is to manage its cash position so as to ensure that it has sufficient cash at all times to meet its commitments. In addition, the Company has a credit line facility with Landsbankinn hf. in the amount of 80 million USD. The credit line facility is undrawn at year end.

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

Non-derivative financial liabilities: 31.12.2023	Carrying amount	Contractual cash flow	Within 12 months	1-2 years	2-5 years	After 5 years
Long-term liabilities	491,267	619,681	56,981	37,052	223,083	302,565
Trade and other payables	13,598	13,598	13,598	0	0	0
	504,865	633,279	70,579	37,052	223,083	302,565
31.12.2022						
Long-term liabilities	442,554	528,614	44,381	94,272	174,359	215,602
Trade and other payables	12,679	12,679	12,679	0	0	0
	455,233	541,293	57,060	94,272	174,359	215,602

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28. Financial instruments, contd.:

c. Market risk

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

(i) Currency risk

Currency risk is the risk of a loss because of unfavorable changes in the rate of currencies. The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Company´s functional currency. The Company´s functional currency is US dollars and therefore a currency risk arises from the net cash flow and opening balance in currencies other than USD. Majority of the Company´s income derives from USD, but other income is in Icelandic króna (ISK). Currency risk regarding income in ISK is limited by being almost offset by purchasing in ISK, on the basis of cash flow. During the year the Icelandic króna (ISK) in particular, posed balance sheet currency risk, while other currencies created an insignificant risk. At year-end, 92,4% of the Company´s long-term debt was denominated in USD, with 7,6% denominated in Icelandic króna.

The Company does in general not hedge against foreign exchange risk but reviews on a regular basis the currency combination of its liabilities against the currency combination of its income.

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

	EUR	ISK
31.12.2023		
Cash and cash equivalent	10	1,888
Trade and other receivables	7	14,431
Other long-term liabilities	0	(36,510)
Trade and other payables	(357)	(16,548)
Net currency risk	(340)	(36,739)
31.12.2022		
Cash and cash equivalent	321	2,407
Trade and other receivables	21	13,885
Other long-term liabilities	0	(34,675)
Trade and other payables	(1,106)	(14,752)
Net currency risk	(764)	(33,135)

	Av. exch. rate for the year		Year-end exch. rate	
	2023	2022	31.12.2023	31.12.2022
Currency risk				
EUR	0.93	0.95	0.90	0.94
ISK	0.01	0.01	0.01	0.01

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December would have increased (decreased) after-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2022.

	31.12.2023	31.12.2022
EUR	27	61
ISK	2,939	2,651

A 10% weakening of the USD against the above currencies at 31 December would have had the equal but opposite effect on profit or loss after tax to the amounts shown above, given that all other variables remain constant.

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28. Financial instruments, contd.:

(ii) Interest rate risk

The Company´s interest rate risk arises from interest bearing assets and liabilities. The Company's borrowings bear fixed interest and one borrowing bears inflation-indexed interest, cf. Note 22.

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

	Carrying amount	
	31.12.2023	**31.12.2022**
Financial instruments with floating interest rate		
Financial assets	26,325	26,325
Financial instruments with fixed interest rate		
Financial assets	4,094	3,468
Financial liabilities	(487,329)	(439,177)
	(483,235)	(435,709)

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

The Company's liabilities all carry fixed interest rates. These liabilities are not recognised at fair value. Therefore, interest changes on the settlement date should not affect the Company's income statement.

Cash-flow sensitivity analysis for floating interest rate instruments

An increase in interest rates of 100 basis points at the reporting date would have increased (decreased) equity and profit or loss after tax by the amounts stated below. The analysis was performed in the same manner for the year 2022.

	Earnings	
	100bp increase	**100bp decrease**
31.12.2023		
Financial instruments with floating interest rates	327	(327)
Cash flow sensitivy (net)	327	(327)
31.12.2022		
Financial instruments with floating interest rates	197	(197)
Cash flow sensitivy (net)	197	(197)

Fair value

Fair value versus carrying amounts

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

	31.12.2023		31.12.2022	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term liabilities	(487,330)	(489,513)	(439,177)	(433,652)
	(487,330)	(489,513)	(439,177)	(433,652)

The fair values of other financial assets and liabilities are equivalent to its carrying amounts.

Interest rate in valuation of fair value

Where applicable, expected contractual cash flow is discounted using the interest rate on government bonds plus a 1% margin on the reporting date as in 2022.

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28. Financial instruments, contd.:

Classification of financial assets and liabilities

The following table shows the Company's classification of financial assets and liabilities:

	Financial assets designated at fair value	Financial assets at amortised cost	Financial liabilities at amortised cost	Carrying amount
31.12.2023				
Long-term note		3,886		3,886
Receivables from related parties		353		353
Trade and other receivables		25,407		25,407
Cash and cash equivalents		54,324		54,324
	0	83,970	0	83,970
Long-term liabilities			487,330	487,330
Trade and other payables			17,536	17,536
	0	0	504,866	504,866
31.12.2022				
Long-term note		3,273		3,273
Receivables from related parties		145		145
Trade and other receivables		26,569		26,569
Cash and cash equivalents		26,325		26,325
	0	56,312	0	56,312
Loans from parent company				
Other long-term liabilities			439,177	439,177
Trade and other payables			16,056	16,056
	0	0	455,233	455,233

(ii) Indexation risk

Indexation risk is the risk of fluctuation in the Consumer Price Index (CPI) affecting the Company´s financial position and the cash flows of inflation-indexed financial instruments. At year-end, indexed liabilities comprised 7.6% of total long-term liabilities (2022: 8.0%).

An increase in the Consumer Price Index of 100 basis points at the reporting date would have (decreased) increased equity and profit or loss after tax by the amounts stated below. This analysis assumes that all other variables, in particular the exchange rates, remain constant. The analysis was performed in the same manner for the year 2022.

	Earnings 100bp increase	Earnings 100bp decrease
31.12.2023		
Inflation-indexed financial instruments	(303)	303
Cash flow sensitivy (net)	(303)	303
31.12.2022		
Inflation-indexed financial instruments	(286)	284
Cash flow sensitivy (net)	(286)	284

Other market price risk

Other market price risk is limited because investment in bonds and shares is an insubstantial part of the Company's operations.

Capital management

Landsnet places emphasis on maintaining a strong equtiy base that reflects the considerations underlying regulatory decisions on the Company´s profitability in the form of the revenue cap and supports the Company´s development.

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29. Related parties

Definition of related parties

The Company has a related-party relationship with its shareholders, subsidiary, associate, directors, excecutive officers and companies in their possession. Transactions with related parties are on the same basis as transactions with non-related parties. Landsnet applies an exemption from disclosure requirements of IAS 24 as Landsnet is owned by the State.

The operations of Landsnet's subsidiary, Elma orkuviðskipti ehf., are insignificant during the year, and therefore no consolidated financial statements have been prepared.

Payments to senior management

In addition to receiving salaries, the CEO and Managing Directors (Vice Presidents) of the Company receive a contribution to a defined benefit pension fund. They also receive a car allowance. Management's salaries are accounted for in Note 9.

Transactions with related parties

	2023	2022
Sale of goods and services:		
Subsidiary and associate/ Landsnet's parent company and its subsidiaries	20	50,699
Landsnet's other shareholders	34,485	56,637
Sale of goods and services to related parties total	34,505	107,336
Cost of goods and services:		
Subsidiary and associate/ Landsnet's parent company and its subsidiaries	2,245	22,265
Landsnet's other shareholders	2,495	4,064
Cost of goods and services to related parties total	4,740	26,329

The Company also received minor interest income from a long-term receivable from the subsidiary and associated company.

Balance:

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

	31.12.2023		31.12.2022	
	Receivables	Payables	Receivables	Payables
Landsnet's subsidiary and associated company	287	0	145	0
Landsnet's other shareholders	3,792	0	3,550	0
Total	4,079	0	3,695	0

Other receivables and payables with related parties are as follows:

	31.12.2023	31.12.2022
Interest-bearing long-term note to subsidiary and associate	3,886	3,273
Total	3,886	3,273

30. Other matters

On 20 October 2023, the Court of Appeal delivered a ruling in Case No. 191/2023, Landsnet hf and the National Energy Authority v. Landsvirkjun. Landsnet and the National Energy Authority (NEA) had appealed the District Court judgment of 2 March 2023 in Case No. 2985/2022 brought by Landsvirkjun for recognition that Landsnet was not permitted to charge a capacity charge for in-feed on the basis of specified provisions of Landsnet's Tariff No. 43. In its judgment, the District Court had accepted Landsvirkjun's principal claim. The Court of Appeal also accepted Landsvirkjun's principal claim and ruled that the collection of a capacity charge for in-feed of generated electricity into Landsnet's grid, as per Landsnet's Tariff No. 43, was not permitted. The Court of Appeal reasoned that since the Electricity Act contained no provision specifically permitting the collection of an in-feed charge, the charging of fees under the Tariff must be limited "to distribution companies' out-feed from the transmission system on the one hand and power-intensive consumers' out-feed on the other hand," cf. Article 27 of the judgement.

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30. Other matters, contd.:

Landsnet and the NEA applied for permission by the Supreme Court, based on paragraph 1 of Article 176 of the Code of Civil Procedure No. 91/1991, to appeal the Court of Appeal's judgment. On 5 January 2024, the Supreme Court issued a decision permitting such appeal.

The application for permission to appeal was based on the fact that the outcome of the case has significant general implications of public interest. Landsnet also considered the result to be in conflict with the foundations of the Electricity Act and the EEA rules that it was intended to incorporate into domestic law, which must be interpreted in accordance with the provisions of the EEA Agreement. Landsnet further argued that the result concerned particularly important interests given the amounts of the capacity charge for in-feed in 2022 and 2023.

Landsnet's revenue cap for 2022 and 2023 was determined by the NEA at ISK 18.2 billion for 2022, with the revenue cap for 2023 projected at ISK 19.0 billion. Changes in the structure of Landsnet's tariff effective from 1 April 2022, in the form of Tariff No. 43, introduced a capacity charge for in-feed. The amount of the capacity charge for in-feed of electricity was based on an analysis of cost factors relating to the in-feed of electricity. The proportion of assets in Landsnet's asset base used for electricity in-feed is 13.6%. The collected capacity charge for in-feed thus amounted to ISK 1.5 billion in 2022 and ISK 1.6 billion in 2023. The capacity charge for feed-in was collected for 18 months until Landsnet's tariff reverted to its previous form at year-end in order to reduce uncertainty. The court documents submitted by Landsvirkjun state that Landsvirkjun values the real effect of the change introduced by Tariff No. 43 at more than ISK 180 million annually, causing additional costs for the company.

If the Supreme Court's findings prove unfavourable for Landsnet and result in the Company being unable to utilise fully the revenue cap duly determined and legally prescribed, Landsnet will seek the authorisation of the NEA pursuant to paragraph 7 of Article 12 of the Electricity Act to carry over any under-collected revenue between years in excess of the general limits specified in the Article. This would serve to ensure income for Landsnet in accordance with the revenue cap, even if repayments become payable as a result of the outcome of the case.

31. Financial ratios

The company's key financial ratios:

Financial performance:	**2023**	**2022**
EBIT	52,685	55,104
EBITDA	92,300	91,024
Financial position:	**31.12.2023**	**31.12.2022**
Current ratio – current assets/current liabilities	1.35	1.11
Equity ratio – equity/total assets	45.6%	46.7%
Return on average equity	5.2%	6.8%

32. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for:
- The Company's transmission system is recognised at a revalued amount.
- Financial assets at fair value through profit and loss are recognised at fair value.

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33. Accounting policies

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

The following table of contents shows the pages on which various accounting policies may be found.

a. Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

b. Financial instruments

(i) Non-derivative financial instruments

The Company initially recognises loans, receivables and cash and cash equivalents on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest is such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

The Company classifes non-deravative financial assets into the following catagories: financial assets at fair value through profit or loss and financial assets at amortised cost.

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss are trading assets and financial assets that are at initial recognition designated at fair value through profit and loss in accordance with the fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

33. Accounting policies, contd.:

Financial assets at amortised cost

Financial assets at amortised cost are debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are initially measured at fair value with any transaction costs directly attributable to the acquistion of the asset added to the fair value. Such assets are subsequently accounted for at amortised cost. The Company´s financial assets measured at amortised cost are non-current receivables, trade and other current receivables, bank balances and cash.

Cash and cash equivalents comprise cash balances and call deposits.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective

Other financial liabilities comprise loans and borrowings and trade and other payables.

Borrowing costs are recognised as a deduction of the financial liability and amortised using the effective interest method.

(iii) Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity.

c. Property, plant and equipment

(i) Fixed assets in operation

Items of fixed assets in operation other than transmission lines and substations are measured at cost less accumulated depreciation and impairment losses.

The cost includes expenditures directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items as well as restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

In accordance with the provisions of the International Accounting Standards, the Company's transmission lines and substations are recognised on the basis of the revaluation method. The Company's transmission lines and substations are thus stated at a revalued cost in the balance sheet, which is their fair value on the revaluation date less revalued depreciation from the assets' acquisition date. The revaluation of those assets will be performed on a regular basis and when the management believes that their fair value has changed significantly.

The company has established a policy on the revaluation of property, plant and equipment to meet requirements regarding the use of a revaluation method. Under the policy, fixed property, plant and equipment must be revalued if there are indications that there is difference in the carrying amount of revalued real property. The Company conducts a formal appraisal of this balance yearly.

In accordance with the provisions of the International Accounting Standard, the Company’s transmission lines and substations were revalued as at year-end 2023. Two methods were applied in the revaluation. First, it was based on the transmission system’s reconstruction cost as estimated by independent experts at year-end. Second, the Company’s operating value was estimated using cash flow analysis. The valuation period was from 2024 to 2033, with the future operating value calculated thereafter. The revaluation conducted during the year was based on the operating value of the Company’s current assets using the assumption that investment would equal the depreciation of the current asset base. The discounting of future cash flows was based on the market interest rate (WACC) in accordance to the method applied to determine for the Company with respect to power-intensive consumers and distribution system operators.

33. Accounting policies, contd.:

All value increases due to the revaluation are entered in a revaluation account among equity after income tax. Depreciation of the revalued price is recognised in the income statement. Upon sale or disposal of an asset, the part of the revaluation account pertaining to that asset is recognised in retained earnings.

Any gain on disposal of an item of fixed assets in operating (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss as other income but any loss on disposal of an item of fixed assets in operation is recognised in profit or loss as other operating expenses.

(ii) Transmission structures under construction

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

(iii) Leased assets

Leases that are not included in the calculation of liabilities and leaseholds in accordance with IFRS 16 are defined as operating leases and leased assets are not recognized in the company's balance sheet.

(iv) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of day-to-day servicing of fixed assets in operation are recognised in profit or loss when incurred.

(v) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant or equipment until the salvage value is reached. The estimated useful lives are as follows:

Substations	20 - 40 years
Transmission lines	20 - 60 years
Buildings	50 years
Other assets	4 - 10 years

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

d. Intangible assets

(i) Developement cost

Developement cost is capitalised within fixed assets. This cost consists largely of expenses relating to exploration for transmission line sites, preparation for transmission structures and environmental impact assessments of proposed projects. Cost of capital attributable to developement costs is capitalised except when there is a extended delay on the projects. Developement cost is not depreciated at this stage, but possible impairment losses have been considered, as discussed in Note 33h.

The Company has concluded agreements whereby the prospective buyers of electricity shall bear all expenses of the project if it is cancelled.

When the decision to construct a transmission structure has been made and all neccessary approvals have been obtained, the development cost of the transmission structure is capitalised in fixed assets as a project under construction.
At each accounting date, capitalised development cost is reviewed by management and impairment is recognised if premises for the recognition of development cost no longer exist.
Expenditure on research activities is recognised in profit or loss when incurred.

(ii) Software and other intangible assets

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

33. Accounting policies, contd.:

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of software are 4 years.

e. Investment in subsidiaries

The company owns the subsidiary ELMA orkuviðskipti ehf. The financial statements include a share in the subsidiary's earnings and equity movements from the beginning of the impact to its end. However, the company's operations were insignificant during the year, and therefore no consolidated financial statements have been prepared.

f. Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The financial statements include the Company's share of the total recognised gains and losses of equity movements of associates on an equity-accounted basis from the date that significant influence commences until the date that the significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount, including any long-term investments, is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has undertaken an obligation for or made payments on behalf of the investee.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the expected sales price in normal operation net of any cost of selling the product. The cost of inventories is based on the first-in-first-out (FIFO) principle of inventory valuation and includes cost incurred in acquiring the inventories and bringing them to their existing location and condition.

h. Impairment

(i) Financial assets

The impairment model in IFRS 9 classifies financial asstes in 3 stages: 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. The Company has elected to classify trade receivables that do not include significant finance component, in stage 2 at initial recognition in accordance with the simplified approach in the standard.

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

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

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.

(ii) Other assets

The carrying amount of the Company's other assets, except for inventories, is reviewed at each reporting date to determine whether there is any indication of an impairment loss. If any such indication exists, the asset's recoverable amount is estimated.

33. Accounting policies, contd.:

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

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

i. Pension payments

(i) Defined contribution plans

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

(ii) Defined benefit plans

Under an agreement between the Company and the Pension Fund for State Employees (LSR), the Company's obligations regarding employees who are members of LSR shall be settled yearly. LSR estimates specifically at year-end the present value of the pension obligation accrued during the year and deducts from that amount the contributions paid by employees and the Company to LSR due to pension rights accrued during the year. At the end of the year, no employee is a member of LSR anymore, and the company has therefore settled its obligations to the fund.

j. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are estimated by discounting the expected future cash flows at marked rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

(i) Site restoration

The Company has estimated the cost of demolition of current line lots. The estimation is based on expert assessment. The demolition cost has been discounted based on the estimated useful life of the Company's power transmission lines. The discounted value is entered, on the one hand, as an increase for the relevant asset and, on the other hand, as an obligation in the balance sheet.

k. Transmission revenues

Landsnet is responsible for the transmission of electricity and system management under the provisions of Chapter III of the Electricity Act No. 65/2003. Income from transmission is recognised on the basis of measured delivery of electricity and the tariff in force at any given time. The tariff is subject to a revenue cap set for the Company on the basis of Article 12 of the Electricity Act and regulated by the National Energy Authority. Income relating to transmission losses and ancillary services is also recognised on the basis of measured delivery and the tariff in force. The tariff is based on purchase prices determined by tendering processes. It is external to the revenue cap but subject to regulation by the National Energy Authority. The criteria for recognition as income and for billing for transmission are met once the electricity is transmitted and delivered.

l. Lease payments

The company assesses whether a contract is or contains a lease based on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Therefore, the company has, as a lessee, recognised leased assets for its right to use the underlying assets and lease liabilities due to its lease payment obligations. The accounting policies applicable to the company as a lessor are similar to previous rules, i.e. a lessor recognises each lease contract as either a finance lease or an operating lease. The application of IFRS 16 has not had any effect on the company´s financial statements as a lessor.

33. Accounting policies, contd.:

Leased assets

Leased assets are initially recognised at cost in the statement of financial position on their commencement date and subsequently recognised at revalued amounts, as are similar assets owned by the company. Adjustments are made for the impact of depreciation, impairment and effect of revaluation of lease liabilties, as applicable. Leased assets are disclosed among Fixed assets in operation in the statement of financial position.

Leased liabilities

Lease liabilities are initially recognised in the statement of financial position at commencement date of lease contracts and subsequently recognised at the present value of unpaid lease payments. Lease payments are discounted at the company´s incremental borrowing rate.

Estimating incremental borrowing rate required management to exercise judgement. In that estimation various factors were taken into account but in particular the type of leased asset and its location and condition and lease term. Interest rate were determined as 5%.

Subsequent to initial recognition the carrying amount of lease liabilities increase due to interest expense but decrease due to lease payments made. Furthermore, the carrying amount is recalculated when future lease payments change due to changes in interest or rate, estimation of expected payments to be made under a residual value guarantee and changes in assessment of whether it is reasonably certain that a purchase or extension option will be exercised or a termination option not exercised.

Lease payments are split into interest expense payment and payment of principal. In general, the interest element of lease payment will decrease during the lease term. Lease liabilities are disclosed with Other interest bearing long-term liabilities in the statement of financial position.

Landsnet also have variable lease payments not depending on index or rate. In accordance with IFRS 16 they are not included in determination of lease liabilities and leased assets but expensed as incurred.

These lease payments are leases for a part of the transmission structures it uses from domestic energy companies. The lease agreements have an indeterminate lease term and the lease price is determined by the National Energy Authority.

These lease payments are leases for a part of the transmission structures it uses from domestic energy companies. The lease agreements have an indeterminate lease term and the lease price is determined by the National Energy Authority. Expensed lease payments in 2023 amounted to 1.3 million USD (2022: 1.2 million USD).

m. Finance income and expenses

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

Finance expenses comprise interest expense on borrowings, reversal of discounting of obligations, foreign exchange losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs are recognised in income statement using the effective interest method.

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

n. Income tax

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

Current 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 tax of previous years. The income tax rate is 20%.

A deferred tax asset (liability) is recognised in the financial statements. It´s calculation is based on the difference in balance sheet items, according to the tax return, on the one hand, and the financial statements, on the other hand. The difference thus arising is due to the fact that the tax assessment is based on premises other than the Company´s financial statements an 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 ration when temporary differences are estimated to be reversed based on current law at the reporting date.

33. Accounting policies, contd.:

o. Segment reporting

Under the Electricity Act, the Company may only administer the transmission of electricity and system management in Iceland and operate an electricity trading market. The Company has not begun operating an electricity trading market and considers its present operation as one single segment, for which reason it does not provide segment reporting.

p. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is the same as basic EPS, as the Company has not issued any call options or convertible bonds.

q. New standards and interpretations thereof

The Company has implemented all International Financial Reporting Standards, amendments thereto and interpretations confirmed by the EU at year-end 2023 and that apply to its operations. The Company has not implemented standards, amendments thereto or interpretations entering into effect after year-end 2023 but allowed to be implemented sooner.

Appendix 1: Corporate Governance Statement

Role of Landsnet hf.

Under the Electricity Act No. 65/2003, the role of Landsnet hf. is to operate an electricity transmission system and administer its system management. The Company has a duty to ensure and maintain the capabilities of the transmission system on a long-term basis and ensure the electricity system's operational security. Our role is also to balance electricity generation against demand at all times and manage the settlement of electricity flows countrywide. In addition, the Company is also charged with promoting an efficient electricity market.

Corporate governance

The Board of Directors of Landsnet hf is committed to maintaining good corporate governance and complying with the Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers from July 1st 2021. The Board adopts Rules of Procedure defining the scope of its powers and duties vis-à-vis the President & CEO. The current Rules of Procedure were confirmed at the Annual General Meeting of Landsnet held on 8 June 2022 and are available for inspection at the Company's head office.

Internal control and risk management

To ensure that Landsnet's financial statements accord with generally accepted accounting practice, the Company has emphasised well-defined areas of responsibility, proper segregation of duties, regular reporting and transparency in its activities. The process of monthly reporting and reviews for individual departments is an important part of monitoring financial performance and other key performance indicators. A double materiality analysis has taken place at the company, which is part of the EU's CSRD regulation. The Board of Directors monitors the Company's financial risk. Information on risk management is provided in Note 28 to the annual financial statements.

Diversity, values and Code of Conduct

Our Human Resources and Human Rights Policy is an integral part of our overall policy pledge, which places priority on human rights and diversity. We are committed to respect human rights and equality in all our activities and to ensure that all personnel working for the Company are valued on their own terms in a workplace where different viewpoints are appreciated and heard. We place a strong emphasis on non-discrimination and enjoyment of human rights by everyone regardless of origin, nationality, colour, religion, political opinions, gender, sexual orientation, age, economic position, disability, health or position in other respects. Our Gender Equality Programme sets out focus areas designed to increase diversity in the workforce. Our Human Resources and Human Rights Policy as well as our Gender Equality Programme can be found on our website, www.landsnet.is.

Landsnet's Code of Conduct was approved at a meeting of the Board of Directors on 15 June 2022 and is designed to encourage honesty, justice and fairness among staff towards each other, the Company and its customers. The Code is also intended to promote the trust and confidence of customers and the general public in Landsnet, as well as to limit the risk of reputational damage. The Board of Directors is of the view that a clear Code of Conduct that is duly observed in the Company's day-to-day activities forms the basis of its success and future growth. Landsnet's Code of Conduct applies to all its employees, including the Directors and the President & CEO. The Code of Conduct is available for inspection at Landsnet's head office and on the company's website www.landsnet.is

Future vision and policy focus areas

The core tenet of Landsnet's future vision is an "electrified future in tune with society." Modern societies increasingly rely on a secure supply of electricity, making it necessary to strengthen the grid. To ensure energy security in the future, the Company's operations need to be guided by value-added thinking. The value created by an efficient and reliable grid, responsible operations, sustainability, investment and funding, an efficient electricity market, business transparency, pricing transparency, and data-driven services based on real-time

Policy focus areas

Landsnet has defined four key focus areas reflecting its strategy for the years 2023-2025, which are divided into two categories: a solid foundation and innovation

A solid foundation:

An efficient and reliable grid

Transmission systems must meet modern demands and be able to deal with future challenges. They are under constant development, which must ensure diverse access to the electricity market whilst maintaining efficiency as a guiding principle. Success is achieved through careful preparation and planning as well as streamlining processes to make them more efficient. Successful development of the grid means better use of financial resources and enables more restraint in tariff increases.

Responsible operations, investment and funding

We are part of a larger context and can have a beneficial impact beyond the Company. We are committed to taking advantage of opportunities in the value chain with regard to cost, waste and environmental impacts. Our opportunities extend to all aspects of being able to deliver the right product at the right price and time. We strive to minimise the footprint of our infrastructure development and activities on the environment and nature, which means constantly working to improve our environmental performance. We are vigilant of the social responsibility that comes with operating the transmission system, whether with regard to the natural environment, the stewardship of financial resources or security of supply.

Innovation:

Data-driven services based on real-time information

Community and customer needs are about empowerment. Empowerment is essentially about access to the right information at the right time to be able to make the right decisions. We aim to increase our use of data in decision-making, in automation and in information dissemination. To that end, our data environment needs to be effective and accessible to society at large. Access to real-time data enables consumers to make the right decisions and maximise value in their value chain.

An efficient electricity market, business transparency and pricing transparency

An electricity market's role is to deliver the most favourable prices possible for consumers at any given time. An efficient, open and transparent electricity market is also the most effective way of ensuring electricity security, energy efficiency and equal access to electricity. Transparent pricing is a hallmark of an effective energy market and serves to ensure balance between supply and demand, which is a long- and short-term energy security priority. It is necessary to build an environment conducive to an efficient energy market in Iceland, and to this end Landsnet plays a major role. We connect buyers and sellers in a transparent and cost-effective manner, thereby allowing them to maximise mutual value and flexibility in electricity trading. By working towards electricity security, energy efficiency and access for new market players, we create the conditions for pricing transparency.

The Company has also defined two support focus areas that it considers necessary to support its key focus areas. The support focus areas are (1) human resources & culture and (2) procedures and approach.

Human resources & culture

Culture is the collective mindset of all our staff. Dedicated people feel part of a team, are willing to strive for success and encourage others to do the same. We are committed to build a culture characterised by trust and encouragement of constructive dialogue. It is important that we all take responsibility and are good role models. Co-operation and communication, whether with external or internal stakeholders, requires a constructive approach and integrity. To achieve our aims, it is important to foster the development and growth of those who work for us and to ensure for safety, mental and social wellbeing. Also to work together to achieve the goals of our customers as well as our own goals.

Procedures & approach

The customer is at the forefront of our work. Our procedures and approach to our activities have a business-oriented focus, with special attention paid to the value being delivered. By focusing on sustainability in our operations, we reduce waste and minimise our environmental footprint. We support the circular economy by making better use and using less. We always bear in mind that the best environmental approach is to "use less and use better". We optimise solutions by taking all necessary factors into consideration when preparing our projects and by striving to always meet any requirements applicable to our activities.
Landsnet puts safety and security first in all its operations. We want all employees and contractors that work for Landsnet to return home safely after work.

Landsnet's management structure

The main units of Landsnet’s management structure are the Board of Directors and the Executive Committee. The Executive Committee is composed of CEO and six Executive Vice Presidents. The Board has one sub-committee, the Audit Committee, and the Board also serves as the Remuneration Committee.

Relations between shareholders and the Board of Directors/management

Under the provisions of Act No. 75/2004 on the Establishment of Landsnet and the Electricity Act No. 65/2003, the Company’s Directors shall be independent in all respects from other companies engaging in the generation, distribution or sale of electricity, whether these companies are owners of the Company or not. The purpose of these provisions is to meet the statutory requirement that the transmission system operator maintains utmost impartiality and non-discrimination in its activities.

Board of Directors

The Board of Directors of Landsnet hf is the supreme authority in the Company’s affairs between Annual General Meetings. The Board is responsible for the Company’s policy-making and major decisions between shareholders’ meetings, as specified in, e.g., the Rules of Procedure of the Board of Directors. The Board supervises all Company operations, and works to ensure that its activities are in proper and good order at all times. The Board ensures sufficient supervision of the Company’s financial management and that its accounts and financial statements are in good order. The Board engages the Chief Executive Officer of the Company. All members of the board of directors are independent of the Company and the shareholders in accordance with article 8 of the Electicity Act No. 65/2003.

Five members are elected to Landsnet’s Board of Directors at each Annual General Meeting. New Directors and Alternate Directors were elected to the Board at the AGM held on 24 March 2023. All the Directors and Alternate Directors elected were new ones except for the Chairman. At year-end, the Board consisted of the following five regular Directors and two Alternate Directors:

Sigrún Björk Jakobsdóttir, Chairman of the Board

Sigrún Björk Jakobsdóttir was born in 1966. She has been a member of the board of many companies, institutions and committees and has extensive experience in the field of tourism and in local government. She was a member of the Town Council for Akureyri between 2002 and 2010, Chairman of the council between 2006 and 2007 and the Mayor of Akureyri between 2007 and 2009. She is Director of Regional Airports at Isavia. Sigrún Björk Jakobsdóttir was appointed Chairman of the Board at Landsnet’s Annual General Meeting on the 7th of April, 2016. Sigrún has no personal interests in the Company or its main clients.

Álfheiður Eymarsdóttir, Board Member

Álfheiður Eymarsdóttir, Director, was born in 1969. She holds a BA degree in Political Science from the University of Iceland and a Diploma in International Politics and Political Philosophy from the University of Edinburgh. She has worked both in the private and public sector in the IT, technology and fishing industries in Iceland and for approximately 10 years in the UK. She is a Municipal Council Member in the Municipality of Árborg and is a member of its Properties and Utilities Committee. She is a former Deputy Member of Parliament. She is one of the founders of the Icelandic Association of Coastal Fishing, in which she serves as an alternate director, having previously been chairperson until February 2023. Álfheiður was on the board of RARIK ohf (Iceland State Electricity) in 2017-2023 and served on its audit committee in 2022-2023. She was elected to Landsnet’s Board on 24 March 2023 and also serves on the Company’s Audit Committee. Álfheiður has no personal interests in the Company or its main clients.

Birkir Jón Jónsson, Board Member

Birkir Jón Jónsson, Director, was born in 1979. He earned an MBA from the University of Iceland in 2008 and is self-employed. He sits on the board of Hugarafl and the boards of several small companies. His other board memberships and positions of responsibility include serving on the board of the Housing Financing Fund in 2002-2006, the Municipal Council of Fjallabyggð in 2006-2010 and the Municipal Council of Kópavogur in 2014-2022, including as chairman in 2018-2022. He served on the board of RARIK ohf in 2014-2023, including as chairman in 2014-2017 and 2018-2023, and on the board of Sorpa in 2018-2022, including as chairman in 2018-2020. He was a member of the Civil Protection Committee for the Greater Capital Area in 2018-2022. He served for years on the board of the Icelandic Bridge Federation. He was assistant to the Minister of Social Affairs in 2000-2003 and a Member of Parliament in 2003-2013. He was elected to Landsnet’s Board on 24 March 2023 and also sits on the Company’s Audit Committee. Birkir Jón has no personal interests in the Company or its main clients.

Elín Björk Jónasdóttir, Board Member
Elín Björk Jónasdóttir, Director, was born in 1980. She holds BSc and MSc degrees in Meteorology and a Diploma in International Relations from the University of Iceland. She is pursuing an MA in International Relations, due for completion in the summer of 2024. On 1 October 2023, she joined the Ministry of the Environment, Energy and Climate as a climate expert. Prior to that, she was Head of Department at the Icelandic Meteorological Office (IMO), having previously served as team leader and meteorologist at the IMO. In 2011-2015, she provided Landsnet with meteorological advice through the weather and climate consultancy firm Veðurvaktin. She has served on the boards of several other companies. She has been chairperson of the Left Movement – Green Candidature in Reykjavík since the autumn of 2022 and is a co-member of the Movement's board, to which she was first elected at its 2021 National Conference and re-elected at the 2023 National Conference. She has served on the board of the Green Scouts since 2022 and the board of the Iceland Touring Association since 2023. She was elected to Landsnet's Board on 24 March 2023 and has no personal interests in the Company or its main clients.

Friðrik Sigurðsson, Board Member
Friðrik Sigurðsson, Director, was born in 1970. He holds academic qualifications in flight operations from the University of Iceland and Keilir Aviation Academy. He is a private investor and importer, owner and chairman of Góð hótel ehf and Norðursiglingar hf and owner and managing director of Fraser ehf. He has operated several of his own businesses for almost three decades, including hotel, retail and construction companies. He served on the Municipal Council of Húsavík and the Municipal Council of Norðurþing for most of the electoral terms from 1996 to 2016 and was President of the Municipal Council of Húsavík for part of that period. He was elected to Landsnet's Board on 24 March 2023 and has no personal interests in the Company or its main clients.

The alternate members of Landsnet's Board of Directors are Hafdís Gunnarsdóttir and Jón Gunnar Vilhelmsson, both elected on 24 March 2023.

The Board of Directors of the Company is composed of three women and two men. The Board thus meets the requirement of Article 63 of the Public Limited Companies Act that the ratio of each gender on the Board of Directors shall not be lower than 40%.

The Board of Directors held 14 meetings in 2023. Thirteen meetings were attended by all Board members. At one meeting one member was absent.

Landsnet´s CEO and Executive Committee

Duties of the President & CEO
The President & CEO is responsible for the Company's day-to-day activities. He/she is empowered to make decisions on all Company affairs not entrusted to others under Act No. 2/1995 and/or the Company's Articles of Association. The President & CEO conducts the operations of the Company in accordance with rules and/or decisions of the Board of Directors, the Articles of Association and the law. The President & CEO's signature constitutes an obligation on the Company's part. He/she is an authorised signatory of the Company ("procuration holder"). The President & CEO may grant power of attorney to other employees of the Company to exercise designated powers of his/her duties of office, provided that prior approval is obtained from the Board of Directors.

The President & CEO is responsible for detecting, measuring, monitoring and controlling risks relating to the Company's operations. The President & CEO must maintain an organisation chart of the Company that clearly delineates areas of responsibility, employees' powers and communication channels within the Company. The President & CEO shall set internal control targets in consultation with the Board and monitor the effectiveness of internal control mechanisms. The President & CEO prepares meetings of the Board of Directors together with its Chairman and reports regularly to the Board on the Company's activities and position.

Guðmundur Ingi Ásmundsson, CEO & President
Mr Ásmundsson was born in 1955. He took a degree in electrical engineering from the University of Iceland in 1980 and a master's degree in electrical power engineering from the Technical University of Denmark in 1982. He joined Landsvirkjun in 1982 as an engineer in the Operations department, later becoming chief engineer and Head of System Operations from 1993. He served as Landsnet's System Manager from the Company's founding on 1 January 2005 and Director of System Operations from 1 November 2005. Mr Ásmundsson became Deputy CEO of Landsnet on 1 January 2008 and CEO & President on 1 January 2015.

Members of Landsnet's Executive Committe in addition to CEO consists of:
Guðlaug Sigurðardóttir, EVP and Chief Financial Officer (CFO) and Deputy CEO
Guðný Björg Hauksdóttir, EVP HR and Continous Improvements
Nils Gústavsson, EVP Asset Management and Operation
Svandís Hlín Karlsdóttir, EVP of Market and System Developement
Sverrir Jan Norðfjörð, EVP Information Intelligence & Technology
Þorvaldur Jacobsen, EVP System Operation

Audit Committee

The Board of Directors appoints the Audit Committee. The current Audit Committee of Landsnet consists of:
Margret G. Flóvenz, accountant, Chairman
Álfheiður Eymarsdóttir, Director of Landsnet's Board
Birkir Jón Jónsson, Director of Landsnet's Board

The Audit Committee has adopted Rules of Procedure, which define the Committee's role as follows:
The Audit Committee shall, among other things, have the following role, regardless of the responsibilities of the Board of Directors, management staff or others in this area:

- Oversight of procedures for the preparation of financial statements.
- Oversight of the structures and functioning of the Company's internal controls, internal auditing, if applicable, and risk management.
- Oversight of the auditing of the annual financial statements and consolidated financial statements.
- Assessment of the independence of the Company's auditor or audit firm; monitoring of the work of the auditor or audit firm.

The Audit Committee annually submits a proposal to the National Audit Office (Ríkisendurskoðun) for a certified public accountant or audit firm for the Company. The National Audit Office then submits final proposals to the Company's Annual General Meeting.

A total of 9 meetings of the Committee were held in 2023 and all meetings were attended by all Board members.

Remuneration Committee

The Board of Directors of Landsnet hf performs the role of the Company's Remuneration Committee and has formulated a Remuneration Policy for the Company. The Remuneration Policy was approved at the Company's Annual General Meeting on 24 March 2023. The Remuneration Policy can be viewed on the Company's website. The business of the Remuneration Committee is transacted at meetings of the Board of Directors when applicable.

Appendix 2: Non-financial information

Role, policy and business model

Landsnet's role is to ensure the cost-efficient development and operation of the grid as a secure and uninterrupted electricity supply is one of the main pillars of modern society.

Landsnet's policy is informed by it´s role and future vision. The policy is reflected in the policy focus that will guide the company´s operations in the coming years. The core tenet of Landsnet's future vision is an "electrified future in tune with society" and takes into account that modern societies increasingly rely on a secure supply of electricity. It's therefore necessary to strengthen the grid to meet changing needs and to ensure energy for the companies and the public in Iceland. The Company emphasizes value-added thinking in its police focus and projects are evaluated on the basis of ensuring security of supply, operational efficiency but also on focusing on minimising environmental impacts and maximising efficiencies in the use of investments and resources for clients and society at large.

Landsnet is a public limited company responsible for the transmission of electricity and management of the electricity system according to Act No. 75/2004 of the establishment of Landsnet. The Company is subject to regulation by the National Energy Authority, whose role under Article 12 of the Electricity Act also includes determining the Company´s allowed revenue from its concession activities, i.e. its revenue cap. The revenue cap is decided five years in advance at a time a for transmission to power-intensive consumers on the one hand and distribution system operators on the other hand. The Company´s electricity transmission tariff is based on the revenue cap and forecast transmission levels and power demand. The Company also collects a fee from consumers for, on the one hand, the electricity lost in the system, called transmission losses, and, on the other hand, services relating to the system´s management, called ancillary services. The Company´s revenue for transmission losses and ancillary services is based on the cost of the service plus a permitted margin. The Company´s tariffs are regulated by the National Energy Authority.

Infrastructure of key importance for society at large

The electricity transmission system is among Iceland's key infrastructures – the impacts of outages are considered to be extensive and can be serious for homes and businesses as well all as for other important infrastructures such as telecommunications. It is important for the transmission system to ensure public access to secure energy and to have the capacity to transmit the electricity traded by market participants at any given time in the quantities and at the quality agreed. For the benefit of society at large, one of our key strategic policies is to ensure security of electricity supply. To this end, our key performance indicators include the number of outage minutes, which are measured annually. Outage minutes are an average outage duration index, i.e. an indicator of outage duration calculated as a ratio between unsupplied energy and total energy supply.

Under Regulation No. 1048/2004, Landsnet must set itself targets for power quality and security of supply, with three defined indicators for which targets are set. These indicators are: (a) the Power Interruption Index (PII). The target for the year 2023 was 0.85 MW/MWyear. The result wast was 0.22 MW/MWyear and the target was therefore reach, (b) the Average Curtailment Duration Index, outage minutes (ACDI). The company's target was not to exceed 50 minutes and that target was achieved but outage minutes were 18.31 minutes in the year 2023 and (c) System Minutes (SM). The company's target is that there is no interruption for more than 10 system minutes. That target was met as no outage exceeded 10 system minutes. Landsnet has a defined corporate indicator for security of supply, measuring the proportion of time that the system is operational and supply is secured. The result for this indicator in 2023 was 99.9965% (up from 99.9926 in 2022), against a target of 99.9905% for both years.

Security of supply in the electricity transmission system is high, but a single event can have some impact on the security of supply measurements. At the beginning of the year, a fault occurred in the power cable to the Westman Islands, which affected the supply of electricity to the region while repairs were being carried out. During the repairs, the supply of electricity was ensured by using reserve power.

Landsnet is responsible for the operation of the transmission system and manages the system, ensuring the balance between electricity usage and electricity generation. The role of the system operator is to coordinate response plans for operational unit breakdowns that affect the operation of the electricity system, to steer the development of the system after operational disruptions have occurred, to reduce the user load if the need arises and to respond to transmission constraints. Landsnet´s control centre is always active and its staff members are available around the clock.

The year saw continued seismic activity and earthquakes on the Reykjanes peninsula. In November and December 2023, and again in January and February 2024, major developments occurred in the vicinity of the town of Grindavík when larger fissures opened and eruptions began near critical infrastructure. Although no major Landsnet infrastructure assets in the area were at risk, two transmission towers on the Svartsengi Line, which connects the Svartsengi Power Plant to the grid, were at risk during a volcanic eruption in February 2024. Landsnet has taken an active role in protecting and rebuilding infrastructure in the area as a member of both the Electricity Sector Emergency Partnership (ESEP) and the National Crisis Coordination Centre. In the interest of civil protection and social responsibility, Landsnet has taken part in providing reserve power for the region in addition to relocating and constructing infrastructure, as mandated by the Department of Civil Protection and Emergency Management, to ensure the supply of electricity in the area. Landsnet also protected two transmission towers on the Svartsengi Line when protective barriers were being constructed in the area to protect power plants and other infrastructure. This preventive measure saved the two towers from succumbing to a lava flow that passed just beside them in a volcanic eruption at the beginning of February 2024. The operation of the line has been stable, except for the short period when the lava flow was passing by. Landsnet's physical assets thus sustained no damage during these events. Work is also being done to change the alignment of the line in the risk area to protect against the possible invasion of lava.

The company´s policy is to work in tune with society and efforts have therefore been made to increase public access to information and to improve communication with stakeholders. A Stakeholders Forum operates under the Company's auspices. The Forum's purpose is to create broad consultation and serve as a roundtable for discussion between stakeholders in society on the electricity system's development.The Stakeholders Forum is intended to be an advisor for Landsnet and a forum to discuss Landsnet's policy, plans and analyzes with regard to the needs and future challenges of society and stakeholders. Representatives of 16 stakeholders sit on the Forum, as well as a chairman appointed by the Ministry of the Environment, Energy and Climate. A more detailed description and arrangement is published on Landsnet's website.

Project teams have been launched for larger regional projects, which involves regular meetings between key stakeholders, with the exception of landowners. Also, information and consultation meetings have been held with landowners. The aim is to foster more active dialogue, understanding and better information flows between stakeholders in the run-up to decisions on Landsnet´s infrastructure projects. Focus is placed on efficiency in the grid´s development and operation for the benefit of clients and the general public.

The Company emphasizes good service to it´s current and future customers. Being a wholesale operation, the Company has relatively few customers. Owing to the importance and size of our customers, service excellence is one of our key priorities. Accordingly, service satisfaction is measured annually. Our long-term target is a customer service satisfaction score of 4.2 on a scale of 1-5. The year 2023 saw a negative year-on-year trend, with a score of 3.9 and the Companys target was not met.

Operational and development risks

In recent years, the company has worked strategically to strengthen its operational and development risk assessment, including through business continuity planning. Landsnets excecutives and key employees identify the financial and non-financial risks of the company and assess their importance. The company risk register is used to manage or reduce risk. The ÍST ISO31000 standard has been complied with for this work.

Operating the electricity system includes devising contingency plans against major risks faced by the company to ensure preparedness against defined emergencies such as severe weather events, earthquakes, volcanic eruptions, pandemics, cyberattacks, disturbances, etc. Contingency plans are also maintained for the operations of the electricity system and for each department of the Company.

Response exercises for outages and natural disasters are held regularly, usually in co-operation with clients and other key stakeholders. Landsnet leads the work of the Electicity System´s Emergency Partnership (ESEP), a co-operation forum for the transmission system operator, generators, distributors, power-intensive consumers and public bodies in Iceland to deal with emergencies affecting power generation, transmission or distribution and/or power-intensive consumers. Landsnet's CEO sits on Iceland's Civil Protection and Security Council under paragraph 2 of Article 4 of the Civil Protection Act No. 82/2008.

Non-financial information, contd.:

In recent years, the Company has faced increased risks due to heavy weather and volcanic activity. We work closely with the Department of Civil Protection and Emergency Management, with a Landsnet employee serving as a member of the Civil Protection team whenever needed. Landsnet monitors such events very closely and assesses the appropriate response each time. Landsnet has extensive contingency plans for such events and works closely with natural hazard and weather experts throughout these.

At the start of 2023, the main power cable to the Westman Islands failed. The task of repairing the cable was complex because of the location of the failure, supply chain challenges and the short time frame. With great resourcefulness, repairs on the cable were completed in August within an acceptable cost range. Since July, a southern part of the Reykjanes peninsula in the vicinity of the town of Grindavík has seen increased seismic activity, volcanic eruptions and the formation of fissures. In 2023, Landsnet's properties and transmission infrastructure were not at risk during these events, and in partnership with utility providers and the Department of Civil Protection and Emergency Management (DCPEM) Landsnet took an active part in providing reserve power to ensure the supply of electricity in the region. After volcanic activity resumed in January and February 2024, Landsnet in collaboration with the DCPEM assisted in procuring reserve power and erecting temporary transmission lines to protect the supply of electricity in the distribution area. The area remains under the supervision of geoscientists. Landsnet infrastructure has sustained no damage thus far, but one transmission line, the Svartsengi Line, is in a high-risk area. The Svartsengi Line connects the power plant at Svartsengi to the grid. Work has been carried out to protect the Svartsengi Line, in particular two transmission towers located outside the protective barriers built by the government authorities to protect local infrastructure.

Landsnet has a clear legal duty to develop the transmission system in a cost-effective manner whilst ensuring security, efficiency, security of supply and power quality as well as complying with government policy on the transmission system's development. Plans for the development of the electricity transmission system are set out in a ´system plan´, where projects are assessed on the basis of a number of factors including the impact on customers, the environment and the local community.

The grid's development and upgrading have been delayed in recent years, and the company has defined risks relating to licensing. The preparation and construction process is a long one, with the production and delivery of components for construction projects taking up to 18 months. The licensing process includes an available complaints procedure right until the development permit is issued. Since municipalities issue development permits for one year at a time, applications for these are not made until just prior to the construction period. Landsnet has been committed to working in harmony with society and the environment. Preparing infrastructure projects includes consultation with local communities through project teams and regular Stakeholders Forum meetings attended by representatives of important stakeholders in society. Landsnet places great value on ensuring the participation of all stakeholders in the matter at hand and enabling different views to be expressed at this forum. It is important to co-ordinate procedures and ensure early dispute resolution.

Supply chains and the impact of world affairs

The transmission system is among society's most important infrastructures. With this in mind, the Company worked to ensure business continuity. The Company put in place active contingency plans for our activities and have cooperated extensively with the Department of Civil Protection and Emergency Management (DCPEM) with regard to emergency response scenarios. The Company has adopted a management system and procedures to ensure operational continuity and has developed operational contingency plans. These plans guided our work and were adapted over time.

The impacts of global events, such as the COVID-19 pandemic, the war in Europe and increased inflation in our trading partner economies have been evident both our in operations and in investment. Supply chain problems have emerged, especially for our infrastructure development, for which the impact has been becoming increasingly apparent. Some manufacturers of equipment and components have disappeared from the market. However, through good cooperation with suppliers, international procurement and tendering systems and professional procurement processes, such issues have been resolved and project continuity ensured. Despite the various related challenges, the overall impact on our activities and speed of our infrastructure development has been minor, although the costs thereof have risen as a result.

The company closely monitors the course of events and assesses the impact of rising prices and changes in the supply chain on the company's future investments. In its decisions, Landsnet will always prioritize and adapt investment plans to the company's financial capacity and the impact on the tariff.

Management system

Landsnet is committed to robust improvement activities, with a strong focus on process implementation and simplification of the quality system so as to ensure visibility in our activities as a whole, whilst always remaining focussed on customer service. Our practices are based on international management standards and meet the legal and other requirements applicable to our activities. Landsnet has a certified management system that covers quality, occupational health and safety, equal pay, information security, electrical safety and environmental protection. Our management system is certified by the British Standards Institution (BSI).

We are committed to risk planning, assessment and monitoring to ensure business continuity. We manage our risks using quality-related documentation outlining our activities and procedures, which are designed to meet stakeholder needs and expectations. Continual improvement and follow-up extends to all our operations, using international management standards and requirements to meet the legal and other obligations applicable to our activities. Landsnet has certified management systems in accordance with International Standards, including ISO9001:2015 – Quality Management System, ISO14001:2015 – Enviromental Management System, ISO 45001:2018 – Occupational Health and Safety Management Certification, ISO 27001:2013 Information Security Management System and ÍST 85:2012 Equal Pay Certification.

Enviromental matters

Landsnet has in place a certified environmental management system in accordance with the International Standard ISO14001:2015 as well as an Environmental Policy. Our Environmental Policy emphasises completing infrastructure projects in an eco-friendly manner, monitoring the carbon footprint of our activities and investigating any environmental incidents. We place priority on environmental responsibility and carefully consider and manage any environmental risks that may arise in our activities and could otherwise negatively impact the environment. The same environmental requirements apply to Landsnet employees and our contractors. We monitor greenhouse gas emissions and waste generation in a structured manner and have set ourselves targets and measures to keep track of our emissions. We report annually on our performance on these criteria.
Environmental impact assessments of our infrastructure projects include evaluating and disclosing probable impacts. The impacts are analysed, their severity is assessed and proposals are made on how to react to them. Under Icelandic law, the issuance of permits for infrastructure development must be based on the results of an environmental impact assessment. Environmental audits are conducted after the construction of infrastructure, which includes analysing how successfully the project was completed based on the environmental impact assessment and whether improvements are needed. We listen to and act on any criticism in this respect. During works, we place an emphasis on minimising soil and other environmental disturbance. We also place priority on returning the construction site to natural-looking, preconstruction conditions using the soil and vegetation removed by the works.

The company is committed to reducing the visibility of electrical power structures within the transmission system. Particular attention has been paid to the design of new substations and their surroundings to minimise the visibility of the structures. The aim is to ensure that these structures blend as closely as possible with the surrounding environment.

Landsnet is among the 103 companies that committed to specific climate action targets in the run-up to the 21st UN Climate Change Conference in the autumn of 2015.

One of our key performance indicators is carbon emission. Benchmarks and targets have been set to monitor the development of our emissions, and we have set ourselves the goal of achieving carbon neutrality by 2030. When calculating the carbon footprint of the company's operations, the Green House Gasprotocol methodology is used, where emission factors are analyzed and classified into scope 1, which is direct emissions from the operation, scope 2 and scope 3, which cover the company's indirect emissions. Greenhouse gas emissions from the company's operations, based on scope 1, 2 and 3, in 2023 were 8,120 tons of CO2 equivalent but was 7.272 tons of CO2 equivalent in 2022. or 0.42 tons of CO2 equivalent per GWh produced compared to 0.38 CO2 equivalent per GWh. The main factors in Landsnet's operations that contribute to the release of greenhouse gases are, on the one hand, the leakage of sulphur hexafluoride, SF6, as an insulating agent in the electrical equipment of substations, and on the other hand, transmission losses.

About 70% of the company's total emissions can be attributed to these factors. In cooperation with Kolviður, the company offset 500 tons of CO2-equivalents in 2023. The Company's carbon footprint is thus 7,620 tonnes of CO2 equivalents, up by approximately 11% from 2022, when it was 6,838 tonnes of CO2 equivalents. The year-on-year increase was driven mainly by the use of reserve power, which was up by 109% year-on-year because of the failure of the power cable to the Westman Islands. Emissions in the form of SF6 leakage were reduced by 22% year-on-year, thanks to increased monitoring and preventive maintenance of our equipment.

Calculations for electricity and hot water, and thereby of transmission losses, use a location-based emission factor of 10.3 g CO2-equivalent/kWh, a factor issued by the National Energy Authority in 2022. The market-based emission factor for electricity is 511 g CO2-equivalent/kWh, which would bring transmission loss emissions to 205,877 tonnes of CO2 equivalents. New emission factors were issued in January 2024, lowering the location-based factor to 8.54 g CO2-equivalent/kWh. Our calculations of emissions in 2024 will use the new emission factor.

Safety and security management

Landsnet strives to foster a healthy workplace and corporate culture that supports our employees' contribution to accident prevention and staff wellbeing.

Two lost-time injury events occurred in 2023 among our staff. These were not serious and both staff members made a full recovery. Prior to that, there had been no lost-time injury events at Landsnet since 2017.

Our aim for 2023 was to have zero lost-time injury events, like in 2022, but this aim was not achieved, as previously stated.

Our staff safety training is designed to address the risks to which our employees are exposed. Our training focus areas reflect risks inherent in infrastructure and other projects. To this end, our key performance indicators include the Lost-Time Injury Frequency Rate (LTIFR), which is measured annually. The Lost-Time Injury Frequency Rate (LTIFR) is a Scandinavian indicator of the frequency of lost-time injury events, taking into account the size of the company. Lost-time injury events are accidents that lead to absence of staff from work. Our aim to have zero lost-time injury events was achieved in 2022 but not in 2023 as mentioned.

We work according to that basic principle that nothing is as important than the personal safety of our personnel, our service providers and contractors. We drew lessons and changes from each incidents and take steps to prevent their repetition.

Landsnet pays close attention to access controls. Landsnet divides its places of work and premises into different security zones, to which access is controlled based on the nature of and risks in each zone. Cybersecurity is important facet of our activities. Cyber threats are on the rise, with hackers increasingly targeting infrastructure and industrial companies. Landsnet has steadily been stepping up its preparedness against various cyber threats, including the introduction of cyber security systems, more rigorous procedures and increasing staff awareness about cyber security.

Landsnet has ISO 27001:2013 certification for its information security management system in May 2020. The certification marks another milestone in our ongoing journey towards more risk-focused information security management.

Businesses operating under certified management standards are required to undertake continuous improvement and are likelier to succeed in their efforts than other companies. The standards systematically support safe and secure operations and effective procedures in an aim to increase quality, service levels and the personal safety of staff. At the same time, they lay a foundation for improved security levels at Landsnet through access controls to data and physical premises.

Landsnet cooperates with other Icelandic energy companies and comparable companies in the Nordic countries on safety and security, which helps us uphold the best standards and practices at any given time.

Human resources

Landsnet is committed to providing a positive workplace with an ambitious corporate culture and a strong team spirit. We strive to ensure that our interactions – whether internal or external – are guided by our corporate values of responsibility, cooperation and respect. To achieve this, our staff and management must foster open and honest exchange of views as well as robust information dissemination. A particular emphasis is placed on creating an environment free from bullying, prejudice and sexual harassment. One of our key strategic policies is to provide our employees with our opportunities to engage in exciting work and develop their skills in a professional environment thereby maintaining a sought - after workplace.

Non-financial information, contd.:

Among our key performance indicators is employee engagement. Engaged employees are emotionally invested in the organisation, proactive and highly interested in their work. Engagement is measured as part of our annual workplace survey. This survey measures key aspects of our work environment relating to staff and corporate culture, strengths and challenges. The survey is administered to all permanent employees and is managed by an external professional body.

Questions are answered on a five-point scale and our target is to achieve an employee engagement score higher than 4.4. Scores above 4.2 are counted as indicating strength. Our employee engagement score in 2023 was 4.0, slighty below our target and the same result as in 2022.

Our HR and human rights policy sets the framework for our equality and human resources practices. We are committed to workplace diversity. Our recruitment practices always focus on the applicant’s capabilities and an effort is made to balance the gender ratio, whether within divisions, other business units or job categories. We are committed to employee wellbeing and providing a good work-life balance by supporting work flexibility.

Under its remuneration policy, the Company provides competitive, but not leading, remuneration in line with comparable companies in the marketplace. The remuneration policy is based on the company’s values, accepted equality principles and respect for employees, laws and rules. The company’s approach to remuneration is guided by fairness and corporate social responsibility criteria.

Our gender-based wage gap was 1.7% in women´s favour. Gender equality are important to the Company and the Gender Equality Committee has been active during the year. The Committee’s role is to monitor our Gender Equality Programme and follow up on our targets as well as provide training on gender equality issues, support for the Programme’s work in cooperation with our Human Resources Manager and present results relating to gender equality. Last year, the Committee organised a series of events called Equality Days, which was a great success and proved to be an effective awareness-raising initiative. The Gender Equality Committee conducted an audit of the Company’s gender equality performance, which proved to be generally good. This analysis is available on Landsnet’s website.

In 2023, our Human Resources team published a Gender Equality Report for the entire year of 2022. The 2023 Report is currently being prepared. Women’s decision-making power within Landsnet measures at 43.1% in 2023, up from 38.8% in the preceding measurement. A new Gender Equality Programme for 2023-2026 was issued and approved by the Directorate of Equality.

Anti-corruption, bribery measures and human rights issues

Landsnet has adopted a code of conduct that defines financial standards, confidentiality, interests, competition and restrictions, environmental protection, use of the company´s assets and compliance with regulations. The Code of Ethics is accessible to all employees. Landsnet exercises social and moral responsibility in procurement by making extensive demands on employees and suppliers in the execution of procurement. A procurement process that forms part of a quality manual is intended to ensure that procedures are in accordance with laws and regulations that also apply to Landsnet´s procurement procedures. The company has introduced General Supplier Terms and Conditions that impose minimum requirements on our suppliers and provides for detailed evaluation of suppliers that supply goods or services or perform work for the transmission system. A code of conduct for suppliers have been finalized.

The company vision is dedicated to ensuring the rights of its employees and service providers with regard to working facilities, health and safety and appropriate wages and benefits. Landsnet therefore assumes that all employees acting indirectly for the company receive their rights and benefits in accordance with collective agreements and laws.

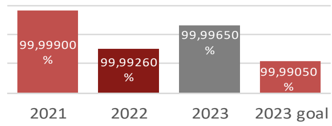
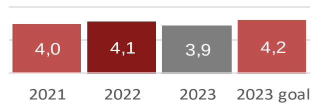
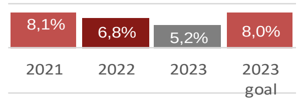
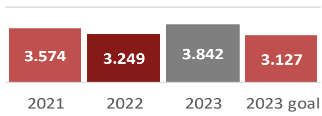
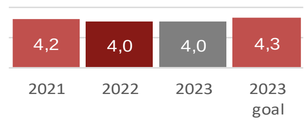
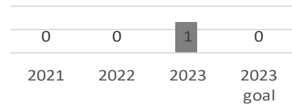
In the company's tenders, great emphasis is placed on social responsibility, and suppliers must submit declarations to the effect that human rights are respected and the tender documents contain provisions on chain liability, whereby suppliers are responsible for ensuring that all employees, whether of suppliers, subcontractors or temporary-work agencies, receive wages and are afforded employee benefits in accordance with current collective agreements and the laws governing the professions that fall under their respective professional disciplines. The provision also requires suppliers to provide necessary information for trade unions to be able to carry out supervision and ensure employee rights. In the supplier terms and conditions, which are published on Landsnet's website, suppliers are required to comply with laws and regulations that apply to relations between parties in the labor market.

Non-financial information, contd.:

The HR and human rights policy emphasizes equality and the fact that everyone is entitled to human rights regardless of orgin, ethnicity, race, religion, political opinion, gender, sexual orientation, age, economic status, family association, disability, health or other status.

Non-financial key indicators

The company's strategic planning is reviewed regularly, in which process the company has placed much emphasis on staff participation. This includes considering challenges facing the company and defining focus areas for upcoming periods. The company's Board of Directors approved a strategic plan and focus areas for 2023-2025, with six key performance indicators defined. One of these, Return on Equity, was financial while the following five were non-financial:

Responsible	Are we delivering secure supply of energy to the society and our customers?	Network reliability	
Effective	Are the customers satisfied with our services?	Customer satisfaction	
Responsible	Is our return on equity according to regulations?	Return on equity, ROE	
Responsible	Are we delivering on our climate policies?	CO2 scope 1 (tonn equvalents)	
Ambitious	Are our employees engaged?	Employee engagement	
Responsible	Are our employees operating safely?	No. of accidents (H value)	

EU Taxonomy

The EU Taxonomy Regulation entered into force in Iceland on 1 June 2023 through the enactment of Act No. 25/2023 on Sustainability-Related Disclosures in the Financial Services Sector and Classification System for Sustainable Investment. The Act was retroactive to 1 January 2023, so applies to the entire financial year of
The purpose of the Taxonomy Regulation is to define which economic activities may be considered environmentally sustainable based on technical screening criteria set out in the Commission Delegated Regulation (EU) 2021/2139, and to promote transparency in sustainability-related disclosures. In order for a company to qualify as environmentally sustainable within the meaning of the Regulation, it must meet the criteria for environmentally sustainable economic activities under Article 3 of the Regulation. First, the economic activity must contribute substantially to one or more environmental objectives, whilst not significantly harming other objectives. The economic activity must be carried out in compliance with minimum safeguards and, lastly, comply with the technical screening criteria.

The Regulation sets out six environmental objectives: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems. Technical screening criteria for climate change mitigation and adaptation have been transposed into Icelandic law on the basis of Commission Delegated Regulation (EU) 2021/2139, so economic activities specified therein are subject to disclosure requirements in Iceland, whereas Delegated Regulation (EU) 2023/2486 on other environmental objectives and Commission Delegated Regulation (EU) 2023/2485 on establishing additional climate change-
Companies are required to disclose the proportion of their turnover, capital expenditure and operating expenditure associated with eligible activities, i.e. activities subject to the Taxonomy Regulation, for the preceding operating period. The same key performance indicators must also be disclosed for activities meeting all the criteria of the Regulation and qualifying as Taxonomy-aligned or environmentally sustainable activities..

In Iceland, the Regulation applies to companies subject to non-financial reporting under Article 66(d) of the Annual Accounts Act No. 3/2006, which includes Landsnet.

Landsnet’s eligible activities within the meaning of the Regulation

Landsnet launched a review of its operations in accordance with the technical screening criteria, comparing its activities with the criteria already published for the environmental objectives of climate change mitigation and climate change adaptation. The review revealed that that Section 4.9 of the Climate Delegated Act: Transmission and Distribution of Electricity, under which Landsnet’s main activity falls, is subject to the environmental objective of climate change mitigation.

Taxonomy-aligned activities

In order for an activity to qualify as Taxonomy-aligned and thereby meet the Taxonomy Regulation’s requirement of being environmentally sustainable, it must make a ‘substantial contribution’ and ‘do no significant harm’, in addition to having minimum safeguards in place. The requirements are quite detailed and any company wishing to declare in good conscience that it meets the objectives in a manner standing up to scrutiny first needs to undertake substantial groundwork.

Landsnet’s main activity, the transmission of electricity, meets the requirement of the Taxonomy Regulation that it must make a substantial contribution to climate change mitigation, since the activity is considered to meet the technical screening criterion that the transmission infrastructure or equipment must be in an electricity system where more than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100 g CO_2e/kWh measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period. This is an activity that enables other activities to contribute to environmental objectives.

"Do no significant harm" criteria

In order for Landsnet’s activity to qualify as doing “no significant harm”, it must meet the criteria set out below:

Climate change adaptation

Landsnet has defined its climate change-related risks and assessed these with a view to implementing measures to minimise the possible consequences. The risk assessment is reviewed annually by the Company’s management.

Non-financial information, contd.:

Sustainable use and protection of water and marine resources
For Landsnet's economic activities to qualify as environmentally sustainable, they are not required to meet the criteria for the protection of water and marine resources.

Transition to a circular economy
Landsnet has a waste management plan in place designed to, among other things, ensure effective facilities for waste sorting, correct sorting of waste, including hazardous waste, and that the waste is delivered to an authorised receiving facility.

Pollution prevention and control
Landsnet is certified under the ISO 14001 Environmental Management Standard. Safety, health and environmental audits are conducted during the Company's infrastructure development projects, and at the end of any large-scale works, environmental audits are carried out together with an external party.
Landsnet complies with the provisions of Regulation No. 1290/2015 on the maximum radiation exposure to employees and the public from activities where radiation is used.
Landsnet's activities do not use polychlorinated biphenyls.

Protection and restoration of biodiversity and ecosystems
Landsnet complies with the government requirements regarding the environmental impact assessment of infrastructure projects. The Company has also adopted a policy to work systematically to minimise any negative impacts of operating and developing the transmission system.
Landsnet believes that it meets the requirements to qualify as a Taxonomy-aligned/environmentally sustainable economic activity.

Compliance with minimum social safeguards
Article 18 of the Taxonomy Regulation prescribes minimum safeguards to ensure alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights as well as the eight fundamental conventions identified in the Declaration of the International Labour Organisation regarding fundamental principles and rights. The EU Commission's Platform on Sustainable Finance has defined the key focus areas based on these requirements as the following: human rights, corruption and bribery, taxation and fair competition.

Our Human Resources and Human Rights Policy is an integral part of our overall policy pledge, which places priority on human rights and diversity. We are committed to respect human rights and equality in all our activities and to ensure that all personnel working for the Company are valued on their own terms in a workplace where different viewpoints are appreciated and heard. We place a strong emphasis on non-discrimination and enjoyment of human rights by everyone regardless of origin, nationality, colour, religion, political opinions, gender, sexual orientation, age, economic position, disability, health or position in other respects.

Our Gender Equality Programme, which applies to all staff members, places priority on equality, non-discrimination and the wellbeing of employees. By virtue of the Programme, Landsnet meets all its obligations under the Gender Equality Act No. 150/2020. The Programme emphasises equal rights of all genders to pay, wellbeing, work, in-service training and continuous education, enjoyment of the same opportunities, rights and working conditions, regardless of race, nationality, religion, colour, economic position, social background or any other unreasonable distinctions, as applicable. It defines measures to be taken, timeframes for such measures, objectives and criteria, as well as who is responsible for the implementation of measures and procedures. The measures are designed to ensure equality and minimise the risk of negative impacts on employees. One of the measures defined by the Programme was the establishment of a Gender Equality Committee tasked with monitoring the Programme's implementation and with following up on its objectives. The Committee is composed of Landsnet employees, both managerial and non-managerial. In 2023, our HR team published a Gender Equality Report for the entire year of 2022. The 2023 Report is currently being prepared. Women's decision-making power within Landsnet measures at 43.1% in 2023, up from 38.8% in the preceding measurement. A new Gender Equality Programme for 2023-2026 was issued and approved by the Directorate of Equality.

Workplace analyses are carried out annually, in which employees are asked questions about, among other things, employee engagement, bullying, sexual harassment, gender-based harassment, violence, human rights, working conditions and stress/burnout. In recent years, the Company has worked to develop its organisational culture through employee involvement, with surveys conducted to follow up on this work.

Non-financial information, contd.:

Our Equal Pay Policy applies to all our staff and is an integral part of our Human Resources and Human Rights Policy, Remuneration Policy and Gender Equality Policy. Equal pay for the same work or work of equal value, regardless of gender or any other characteristic, is a non-negotiable principle at Landsnet. A certified equal pay system is in place based on the Icelandic Standard ÍST 85, and the Company is obliged to maintain this certification. Remuneration analysis is carried out annually and presented to employees. In the event that any of the Standard's requirements are not met, remedial action is taken. In 2023, the gender pay gap was 1.7% in favour of women.

Landsnet has procedures and guidelines in place for the protection of whistleblowers. This includes reporting channels and procedures for deliberations on and handling of reports of violations of law or reprehensible behaviour in Landsnet's activities subject to the Protection of Whistleblowers Act No. 40/2020. Employees can report law violations and reprehensible behaviour anonymously if they so prefer. Whistleblowing reports received are handled in accordance with defined Company procedures. Reports can be submitted through the Company's internal systems. In the first half of 2024, a whistleblowing system will be set up on the Company website, which both staff and external parties will be able to use.

Landsnet's Code of Conduct applies to all Company staff, including members of the Board of Directors and the CEO. The Code of Conduct is an addition to the government regulatory framework and sets out procedures and guidelines for areas not covered by law, official rules and guidelines. The Code of Conduct's objectives include enhancing and maintaining professional practices and transparency as well as preventing corruption. None of the Company's managers or other staff have ever been convicted of corruption offences in its operations. The Company has also drawn up a Supplier Code of Conduct.

Landsnet's employees are committed to ensuring that human rights are respected and held in high esteem throughout the Company's value chain. Landsnet is certified under the ISO 45001 international standard for occupational health and safety management and works to ensure that safety and working conditions are an integral part of the assessment- and decision-making process for investments, construction projects, operations, the selection of contractors and the procurement of products and services for the Company's activities. Any deviations in this respect are reviewed annually and employees and other stakeholders are informed of the results and defined focus areas. The Company's supplier terms and conditions require suppliers to meet all the criteria defined by Landsnet for equipment, with the same safety requirements applying to Landsnet staff and all suppliers, contractors and service providers. Suppliers are also obliged to comply with the laws and regulations governing the labour market. This applies equally to the working conditions of suppliers, subcontractors and temporary-work agencies. The supplier must be able to present satisfactory documentation that all requirements are met.

Landsnet complies with the provisions of Regulation No. 340/2014 on Procurement by Parties Operating in the Water, Energy, Transportation and Postal Service Sectors in all EEA tendering procedures as well as tendering procedures conducted in accordance with the Act on Tender Procedures. The provisions on reasons to exclude tenderers under Article 79 of the Regulation have been part of all contracts tendered by the Company under the Regulation, and Landsnet does not deviate from applying the reasons for exclusion where it deems this necessary. Under Article 79, any tenderer convicted for violations such as participation in organised crime, corruption, fraud, acts of terrorism, money laundering, terrorism financing, child slavery or any other human trafficking must be excluded. Provisions on mandatory measures and authorising certain other measures, including with respect to human rights and labour rights, also allow for the exclusion of tenderers.

Quality requirements are made on suppliers, including under the ISO 9001, ISO 14001 and ISO 45001 standards, the last of which includes mechanisms dealing with aspects of human rights violations, e.g. human trafficking and slavery. Following tendering procedures, the Company considers the need for separate audits of suppliers. Such audits include confirming the supplier's self-assessment with an on-site audit. The scope of such supplier audits includes the education and qualifications, facilities for employees and terms of employment. The supplier's safety standards and environmental compliance are also examined.

Where appropriate, Landsnet requires any qualification assessments of suppliers as part of its tendering procedures to be based on the Achilles qualification system, which is used in the selection of participants in tenders for the procurement of equipment and services in the electricity system.

Landsnet operates under a concession arrangement and is subject to regulation by the National Energy Authority. The Company is thus not in a competitive market and, hence, no competition law violations have occurred in its activities. The Company complies with all laws and regulations that apply to its operations, such as tax laws and regulations but the Company has not set a tax policy.

Key performance indicators relating to the Taxonomy Regulation

The European Union has published guidelines for the calculation of key performance indicators in the Commission Delegated Regulation (EU) 2021/2178. The proportion of turnover, capital expenditure and operating expenditure is calculated in accordance with Article 8 of the Taxonomy Regulation. However, the applicable requirements or methodologies may be subject to change as the Regulation is updated, which may affect Landsnet's future calculations, for example if its activities prove to be better matched to other environmental objectives than those already published.

Turnover

The proportion of turnover according to the definition under the Taxonomy Regulation includes income recognised according to paragraph 82A of the International Accounting Standard 1 (IAS 1). The total turnover according to the definition is in accordance with the Group's total turnover for the year 2023 as it appears in Note 5 and 6 to the Financial Statements. Thereof, 98.1% derives from Taxonomy-aligned activities and 98.1% derives from environmentally sustainable economic activities. The proportions are shown in the table for turnover on page 53.

Capital expenditure

We have allocated capital expenditure to eligible activities in accordance with the Taxonomy Regulation. Capital expenditure under Article 8 of the Taxonomy Regulation entails additions to tangible and intangible assets during the financial year considered before depreciation, amortisation and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. Capital expenditure totalled 59.4 million USD for the year 2023, in accordance with the additions for the year specified in Notes 13 and 14 to the Financial Statements. Thereof, 93.8% derives from Taxonomy-aligned activities and 93.8% derives from environmentally sustainable economic activities. The proportions are shown the table for capital expenditure on page 53.

Operating expenditure

The Taxonomy Regulation's definition of operating expenditure is narrower than the general accounting definition. Operating expenditure includes direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets. Operating expenditure totalled 12.4 million USD for the year 2023 and derived from maintenance, breakdown and property rental costs for the Company´s transmission infrastructure as well as research and development costs. Thereof, 96.5% derived from Taxonomy-aligned activities and 96.5% derived from environmentally sustainable economic activities. The proportions are shown in the table for operating expenditure on page 54.

EU Taxonomy - Turnover

NA = not applicable

				Substantial contribution criteria						DNSH criteria (does Not Significantly Harm)										
Economic activities (1)	**Code (2)**	**Absolute turnover (3)**	**Proportion of turnover (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum Safeguards (17)**	**Taxonomy-aligned proportion of turnover year N (18)**	**Taxonomy-aligned proportion of turnover year N-1 (19)**	**Category (enabling activity) (20)**	**Category (transitional activity) (21)**
	#	Thousand USD	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Transmission and Distribution of Electricity	4.9	166,080	98.1	100	-	-	-	-	-	NA	Y	NA	Y	Y	Y	Y	98.1	NA	E	-
Turnover of environmentally sustainable activities (Taxonomy-aligned)(A.1)		**166,080**	**98.1**	**100**													**98.1**	**NA**		
A.2. Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligend activities)																				
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		0	0																	
Total (A.1 + A.2)		**166,080**	**98.1**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)		3,172	1.9																	
Total (A+B)		**169,252**	**100**																	

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EU Taxonomy - CapEx

NA = not applicable

				Substantial contribution criteria						DNSH criteria (does Not Significantly Harm)										
Economic activities (1)	Code (2)	Absolute CapEx (3)	Proportion of CapEx (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum Safeguards (17)	Taxonomy-aligned proportion of CapEx year N (18)	Taxonomy-aligned proportion of CapEx year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
	#	Thousand USD	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Transmission and Distribution of Electricity	4.9	59,436	93.8	100	-	-	-	-	-	NA	Y	NA	Y	Y	Y	Y	93.8	NA	E	-
CapEx of environmentally sustainable activities (Taxonomy-aligned)(A.1)		**59,436**	**93.8**	**100**													**93.8**	**NA**		
A.2. Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligend activities)																				
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		0	0																	
Total (A.1 + A.2)		**59,436**	**93.8**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
CapEx of Taxonomy-non-eligible activities (B)		3,935	6.2																	
Total (A+B)		**63,371**	**100**																	

Financial Statements of Landsnet hf 2023 53 Amounts are in USD thousand

EU Taxonomy - OpEx

NA = not applicable

				Substantial contribution criteria						DNSH criteria (does Not Significantly Harm)										
Economic activities (1)	**Code (2)**	**Absolute OpEx (3)**	**Proportion of OpEx (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum Safeguards (17)**	**Taxonomy-aligned proportion of OpEx year N (18)**	**Taxonomy-aligned proportion of OpEx year N-1 (19)**	**Category (enabling activity) (20)**	**Category (transitional activity) (21)**
	#	Thousand USD	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Transmission and Distribution of Electricity	4.9	12,354	96.5	100	-	-	-	-	-	NA	Y	NA	Y	Y	Y	Y	96.5	NA	E	-
OpEx of environmentally sustainable activities (Taxonomy-aligned)(A.1)		**12,354**	**96.5**	**100**													**96.5**	**NA**		
A.2. Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligend activities)																				
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		0	0																	
Total (A.1 + A.2)		**12,354**	**96.5**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
OpEx of Taxonomy-non-eligible activities (B)		452	3.5																	
Total (A+B)		**12,806**	**100**																	

Financial Statements of Landsnet hf 2023 54 Amounts are in USD thousand