

LANDSNET

Financial Statements 2020

Landsnet hf.
Gylfaflöt 9
112 Reykjavík

Reg. no. 580804-2410

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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 2020

Profit of the year amounted to 27.3 million USD and total profit amounted to 23.0 million USD. The Company's equity at year end amounted to 404.8 million USD, including share capital in the amount of 45.5 million USD.

Average number of employees was 140. The gender ratio of the company's senior management is 67% men against 33% women, with the overall employee gender ratio standing at 78% men and 22% women.

Share capital at year end 2020 is divided between four shareholders as at the beginning of the year:

	Share
Landsvirkjun	64.73%
Rarik ohf.	22.51%
Orkuveita Reykjavíkur	6.78%
Orkubú Vestfjarða ohf.	5.98%

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 proposes to pay dividends ISK 1,750 million to shareholders in 2021 for the operating year 2020, in which context the Board makes reference to the annual financial statements regarding changes in equity.

Current year operations and outlook

Landsnet operates Iceland's electricity transmission system, one of the country's most important infrastructures. The year 2020 was among the Company's biggest for infrastructure development to date, with works worth 85 million USD performed during the year. Overall, the COVID-19 pandemic had only a minor impact on our infrastructure projects, although certain project components were rescheduled. At year-end, construction costs were in line with the year's plans. We expect our infrastructure development in 2021 to accord with our plans and continue to closely monitor works contracts, suppliers' production and the delivery of products and services relating to infrastructure works.

Transmission revenue decreased by 7.5%. This was due to, firstly, reduced sales to distribution system operators and ancillary service sales and, secondly, the exchange rate impact, as these tariffs are denominated in ISK. Transmission decreased 2.1% year-on-year. Landsnet had already observed some contraction before the pandemic started to make an impact in Iceland. However, since the tariff is largely load-based, the volume change had a smaller effect than would otherwise have been the case.

Covid-19 has clearly had an impact on the company's customers, but the management team is closely monitoring the situation and is in close contact with customers. The Company's agreements with power-intensive users includes insurance provisions regarding payments regardless of transfer. Different scenarios have been examined regarding revenue streams that will be reviewed by management as progress and further information is received.

COVID-19 has had only a minimal impact on our operating expenses. Costs increased somewhat during the year owing to repairs brought on by a storm in December 2019. Expenses because of heavy weather also grew during 2020, but this was offset by the movement in the USD/ISK exchange rate, resulting in reduced operating expenses year-on-year.

The effect of Covid-19 on the company's overall financial performance has been negligible and is not expected to affect the company's 'going concern'. Profit for the year was in line with projections, but the overall COVID-19 impact on our future operations remains unclear at present, with Landsnet's management team and Board of Directors closely monitoring the situation.

The Company's financial position is strong. Based on its current budget, liquidity position and analysis of access to credit markets, our management believes that the Company is well placed to meet its commitments.

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.

Endorsement by the Board of Directors and the CEO, continued

Non-financial information

Further discussion about non-financial information is in appendix 2 in the Financial Statements.

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 2020, its assets, liabilities and financial position as at 31 December 2020 and its cash flows for the financial year 2020.

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 2020 and confirmed them by means of their signatures.

Reykjavik, 18 February 2021

The Board of Directors:

Sigrún Björk Jakobsdóttir
Svava Bjarnadóttir
Magnús Þór Ásmundsson
Katrín Olga Jóhannesdóttir
Ólafur Rúnar Ólafsson

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, 2020 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, 2020, 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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided. 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 companies most valuable assets and its valuation is based on management estimations, therefore we consider it to be a key audit matter.	Our audit was focused on management estimations of operating value of transmission lines and substations at the year-end 2020. We examined the valuation methodology and its consistency with prior year. We also examined management assumption for the valuation.
Transmission lines and substations are recognised according to the revaluation method. At the year-end its carrying amount was USD 680 million or 74,6% of total assets.	This included: <ul style="list-style-type: none"> • Reviewing the operating plan which is the basis for th valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used.
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 2015 and it is management estimation that there is no basis for revaluation at year-end 2020.	We assessed if the valuation's calculations were in accordance with IFRSs and assessed that the disclosures were appropriate.
As to the valuation of the assets, we refer to fixed assets in operation note 14 and accounting policies notes 33c and 33h.	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.

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

Independent Auditor's Report, continued

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 13 March 2020. Deloitte have been elected since the general meeting 9 April 2015.

Reykjavik, 18 February 2021

Deloitte ehf.

Páll Grétar Steingrímsson

State Authorized Public Accountant

Income Statement for the year 2020

	Notes	2020	2019
Operating revenue			
Transmission	6	128.903	138.524
Other income	7	1.567	1.807
		130.470	140.331
Operating expenses			
Energy procurement costs	8	20.402	23.666
Transmission costs	10,11	47.725	49.392
System operation	10,11	8.127	8.723
Other operating expenses	10,11	7.639	8.366
		83.893	90.147
Operating profit		46.577	50.184
Financial income		1.730	2.809
Financial expenses		(14.285)	(15.523)
Net financial expenses	12	(12.555)	(12.714)
Share in net earnings of associated company	17	137	334
Profit before income tax		34.159	37.804
Income tax	13,24	(6.831)	(7.497)
Profit		27.328	30.307
Profit earnings per share:			
Basic and diluted earnings profit per each 1 share	22	0,60	0,67

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

Statement of Comprehensive Income for the year 2020

	Notes	2020	2019
Profit		27.328	30.307
Items under total (loss) profit recognised among equity:			
Translation difference due to subsidiaries and associated companies ...	(	304)	(264)
Site restoration provision after income tax, change	4 (	4.008)	(2.201)
Total items under total (loss) profit recognised among equity		(4.312)	(2.465)
Total profit of the year		23.016	27.842

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

Balance Sheet as at 31 December 2020

	Notes	31.12.2020	31.12.2019
Assets			
Fixed assets in operation	14	704.084	720.039
Projects under construction	14	121.374	47.443
Intangible assets	14	25.247	23.950
Investments in subsidiary and associate	16,17	5.417	6.514
Long-term note		2.453	1.650
Fixed assets		<u>858.575</u>	<u>799.596</u>
Inventories	18	5.194	4.941
Receivable from parent company	30	4.383	4.501
Trade and other receivables	19	17.520	12.296
Cash and cash equivalents	20	25.766	30.973
Current assets		<u>52.863</u>	<u>52.711</u>
Total assets		<u><u>911.438</u></u>	<u><u>852.307</u></u>
Equity			
Share capital		45.549	45.549
Statutory reserve		10.733	9.366
Restricted equity		1.057	920
Revaluation account		166.798	179.851
Foreign currency translation		51	355
Retained earnings		180.660	155.270
Equity	21	<u>404.848</u>	<u>391.311</u>
Liabilities			
Interest bearing long-term liabilities	23	364.427	283.034
Deferred income tax liability	24	55.119	55.563
Deferred income	25	2.555	2.702
Provision due to site restoration	26	17.727	12.212
Long-term liabilities and obligations		<u>439.828</u>	<u>353.511</u>
Current maturities	23	38.433	81.044
Income tax payable	13,24	6.250	6.510
Trade and other payables	28,30	22.079	19.931
Short-term liabilities		<u>66.762</u>	<u>107.485</u>
Total liabilities		<u>506.590</u>	<u>460.996</u>
Total equity and liabilities		<u><u>911.438</u></u>	<u><u>852.307</u></u>

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

Statement of Changes in Equity for the year 2020

	Share capital	Statutory reserve	Restricted equity	Foreign currency translation	Revaluation account	Retained earnings	Total
Year 2019:							
Equity at 1 January 2019.....	45.549	7.961	586	619	192.714	122.874	370.303
Reclassification 1.1. due to Site restoration, note 4.....					(1.687)	1.687	0
Reclassified equity at January 1, 2019.....	45.549	7.961	586	619	191.027	124.561	370.303
Changes in Site restoration obligation.....					(2.201)		(2.201)
Foreign currency translation.....				(264)			(264)
Profit of the year.....						30.307	30.307
Total comprehensive profit.....			0	(264)	(2.201)	30.307	27.842
Share in net earnings of associated company.....			334			(334)	0
Transfer to statutory reserve.....		1.405				(1.405)	0
Dividends paid to shareholders.....						(6.834)	(6.834)
Revaluation recognised under retained earnings					(8.975)	8.975	0
Equity at 31 December 2019.....	45.549	9.366	920	355	179.851	155.270	391.311
Year 2020:							
Equity at 1 January 2020.....	45.549	9.366	920	355	179.851	155.270	391.311
Changes in Site restoration obligation.....					(4.008)		(4.008)
Foreign currency translation.....				(304)			(304)
Profit of the year.....						27.328	27.328
Total comprehensive profit.....		0	0	(304)	(4.008)	27.328	23.016
Share in net earnings of associated company.....			137			(137)	0
Transfer to statutory reserve.....		1.367				(1.367)	0
Dividends paid to shareholders.....						(9.479)	(9.479)
Revaluation recognised under retained earnings					(9.045)	9.045	0
Equity at 31 December 2020.....	45.549	10.733	1.057	51	166.798	180.660	404.848

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

Statement of Cash Flows for the year 2020

	Notes	2020	2019
Cash flow from operating activities			
Operating profit		46.577	50.184
Adjustments for:			
(Profit) loss from sales of fixed assets	7	(12)	1
Depreciation and amortisation	11	30.351	29.641
Working capital from operation before financial items and taxes		76.916	79.826
Operating assets, (increase) decrease		(5.353)	5.352
Operating liabilities, decrease		(956)	(964)
Net Cash from operating activities before financial items and taxes		70.607	84.214
Interest income received		558	1.105
Interest expenses paid and foreign exchange difference		(10.708)	(12.926)
Taxes paid		(6.533)	(5.182)
Net cash from operating activities		<u>53.924</u>	<u>67.211</u>
Cash flow from investing activities			
Investment in transmission infrastructures		(84.550)	(39.833)
Other investments		(2.723)	(3.877)
Proceeds from sale of fixed assets		104	564
Long-term note, changes		(857)	(743)
Net cash to investment activities		<u>(87.096)</u>	<u>(43.889)</u>
Cash flow from financing activities			
New long-term liabilities	23	119.524	0
Payment of loans from parent company	23	(68.234)	(10.602)
Payments of long-term liabilities	23	(13.114)	(12.860)
Dividends paid to shareholders		(9.479)	(6.834)
Net cash to financing activities		<u>28.697</u>	<u>(30.296)</u>
Net decrease in cash and cash equivalents		(4.475)	(6.974)
Effect of exchange rate changes on cash and cash equivalents		(732)	(832)
Cash and cash equivalents at 1 January		<u>30.973</u>	<u>38.779</u>
Cash and cash equivalents at 31 December	20	<u><u>25.766</u></u>	<u><u>30.973</u></u>

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

Notes to the Financial Statements

1. Reporting entity

Landsnet hf. is domiciled at Gylfaflöt 9 in Reykjavik, Iceland. The Company is a subsidiary of Landsvirkjun, and the financial statement of Landsnet hf. is included in the consolidated financial statements of Landsvirkjun. 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 18 February 2021.

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. Changes of accounting principles

The Company has made changes to its accounting treatment with regards to changes in the obligation due to site restoration cost in the transmission grid. IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities provides guidance on accounting treatment of the change in the estimation of the obligation due to site restoration. The Company has recognised obligation due to demolition of assets measured using the revaluation model and should, according to the interpretations, account for changes in the liability which arise from components other than timing of the discount effect on the revaluation account within equity. Changes in the timing of the discount effect are accounted for in financial items. Because of these changes there is a restatement between the revaluation account in equity and the other equity of the company amounting to USD 1.7 million at the beginning of 2019, but total equity does not change. There is also a reclassification between the income statement and other comprehensive income of USD 2.2 million in the comparative figures for the same period of 2019. The effects of the changes can be seen in the statement of equity, income statement and statement of comprehensive income. The comparative numbers for the appropriate items have been changed.

5. 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 2019 except changes in Site restoration obligation.

The estimates and assumptions that are, or might be, affected by Covid-19 and have a significant risk of causing a material adjustment to the carrying amounts of assets within the current financial year are the following:

Estimated impairment

In accordance with the International Accounting Standard, the Company's lines and substations are recognised according to the revaluation method. The revaluation of those assets will be performed on a regular basis and when the management believes that their fair value has changed significantly. At the end of each reporting period the management also assesses whether there is any indication that an asset may be impaired. Covid-19 classifies as such an impairment indicator and therefore those assets were assessed if there was any indication of impairment. The conclusion was there were not triggers indication that impairment on these assets was necessary at year end but management will follow any changes in the latter part of the year 2020. However, there is still some uncertainty as to how the situation will progress.

Notes, continued

Expected credit losses

Under IFRS 9, loss allowances are measured based on Expected Credit Losses ("ECL") that result from all possible default events over the expected life of a financial instrument. As a result of Covid-19 the Company has reassessed the ECL used in calculating its loss allowances. It is clear that Covid-19 is influencing the company's customers, but the management team monitors the situation very closely and is in close contact with them. Different scenarios have been examined regarding revenue streams, but the Company's agreements with power-intensive users includes insurance provisions regarding payments regardless of transfer. Management believes that there is no indication that the assessment of the probability of an expected loss needs to be changed, but this is reviewed by management as progress and further information are received. However, there is still some uncertainty as to how the assessment will progress.

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 14 and 33c - Fixed assets in operation
- Note 15 and 33d - Intangible assets
- Note 26 and 33j - Estimation of provision due to site restoration
- Note 24 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 revalues part of fixed assets to fair value, as stated in note 14. 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 29, 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.

6. Revenue

See accounting policies in note 33k

Transmission revenue consist of:	2020	2019
Energy transmission to power-intensive consumers	67.601	70.788
Energy transmission to distribution system operators	39.519	43.098
Transmission losses and ancillary services	20.284	23.056
Input fees	950	1.038
Service income	549	544
Transmission revenue total	<u>128.903</u>	<u>138.524</u>

Landsnet's largest customers are also shareholders in the company. Further information on revenues from shareholders is provided in Note 30 on related parties.

7. Other income

Other income consist of:	2020	2019
Income from work sold	528	464
Rental income	358	541
Income from guarantees of origin and certification	551	579
Sales profit from fixed assets	12	0
Other income	118	223
Other income total	<u>1.567</u>	<u>1.807</u>

Notes, continued

8. Energy procurement costs

Energy procurement costs consist of:	2020	2019
Electricity purchases due to transmission losses	11.931	14.566
Purchase of ancillary services	8.471	9.100
Energy procurement costs total	<u>20.402</u>	<u>23.666</u>

9. Fee to auditors

Fee to auditors consist of:	2020		2019	
	Audit of	Other	Audit of	Other
	Financial	service	Financial	service
	Statement		Statement	
Deloitte ehf.	<u>65</u>	<u>28</u>	<u>65</u>	<u>33</u>

Other services in 2020 consists of costs relating to a review of interim financial statements and other purchased services.

10. Personnel expenses

See accounting policies in note 33c and 33i

Salaries and other personnel expenses consist of:	2020	2019
Salaries	14.240	14.864
Defined contribution plan payments	2.036	2.128
Defined benefit plan payments	33	19
Other payroll expenses	1.198	1.283
Capitalised salaries	(2.605)	(2.360)
Personnell expenses total	<u>14.902</u>	<u>15.934</u>

Personnel expenses are specified as follows:

Transmission costs	6.481	7.075
System operation	3.840	3.959
Other operating expenses	4.581	4.900
Salaries and other personnel expenses total	<u>14.902</u>	<u>15.934</u>
Average number of employees	140	137
Full-time equivalent units at year-end	137	135

Personnel expenses in Icelandic krona increased by 5.6% but in US dollars the personnel expenses decreased by 4.3%.

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

	Thousand ISK		Thousand USD	
	2020	2019	2020	2019
Remuneration of the Board of Directors	14.751	14.220	109	116
Remuneration and benefits of the CEO	35.041	34.676	259	283
Remuneration of five Excecutive Directors	122.557	120.928	906	986

Notes, continued

11. Depreciation and amortisation

See accounting policies in notes 33c and 33d

Depreciation and amortisation are specified as follows:	2020	2019
Depreciation of fixed assets in operation, see Note 14	29.588	28.909
Amortisation and impairment losses, see Note 15	763	732
Depreciation and amortisation recognised in the income statement	<u>30.351</u>	<u>29.641</u>

Depreciation and amortisation are allocated as follows to operating items:

Transmission costs	29.418	28.578
System operation	358	407
Other operating expenses	575	656
Depreciation and amortisation recognised in the income statement	<u>30.351</u>	<u>29.641</u>

12. Financial income and expenses

See accounting policies in note 33m

Financial income and expenses are specified as follows:	2020	2019
Interest income	419	767
Net gain in fair value of marketable securities	145	340
Exchange rate difference	1.166	1.702
Total financial income	<u>1.730</u>	<u>2.809</u>
Interest expenses	(16.880)	(16.240)
Indexation	(1.151)	(1.042)
Change in present value of the provision due to site restoration	(504)	(450)
Capitalised interest expense	4.250	2.209
Total financial expenses	<u>(14.285)</u>	<u>(15.523)</u>
Net financial expenses	<u>(12.555)</u>	<u>(12.714)</u>

Net financial expenses due to the construction of a transmission infrastructure and capitalised development cost amounting to 4.3 million USD (2019: 2.2 million USD) is capitalised and has been reported as a reduction in financial expenses.

Capitalised financial expenses were 4.8% of capital tied in transmission structures under construction during the year (2019: 4.6%). This is the Company's average finance cost for the year.

13. Income tax

See accounting policies in note 33n

Income tax recognised in the income statement is specified as follows:	2020	2019
Deferred income tax for the year	444	(437)
Income tax recognised among comprehensive income	(1.002)	(550)
Income tax payable	(6.250)	(6.510)
Other changes	(23)	0
Income tax recognised in the income statement	<u>(6.831)</u>	<u>(7.497)</u>
Effective tax rate	19,9%	19,8%

Notes, continued

14. Fixed assets in operation:

See accounting policies in note 33c

Fixed assets in operation:

	Substations	Transmission lines	Other	Total
Cost				
Balance at 1.1.2019	432.065	584.111	38.511	1.054.687
Additions	4.488	829	2.536	7.853
Transferred from projects under construction	6.183	11.055	0	17.238
Sold	(7)	0	(641)	(648)
Balance at 31.12.2019	442.729	595.995	40.406	1.079.130
Additions	3.184	226	849	4.259
Transferred from projects under construction	4.815	4.649	0	9.464
Sold	0	0	(392)	(392)
Balance at 31.12.2020	450.728	600.870	40.863	1.092.461
Depreciation				
Balance at 1.1.2019	121.570	194.547	14.523	330.640
Depreciation	12.450	15.012	1.447	28.909
Sold	(7)	0	(451)	(458)
Balance at 31.12.2019	134.013	209.559	15.519	359.091
Depreciation	12.789	15.326	1.473	29.588
Sold	0	0	(302)	(302)
Balance 31.12.2020	146.802	224.885	16.690	388.377
Carrying amount				
1.1.2019	310.495	389.564	23.988	724.047
31.12.2019	308.716	386.436	24.887	720.039
31.12.2020	303.926	375.985	24.173	704.084
Carrying amount without revaluation				
1.1.2019	222.241	236.924	23.988	483.153
31.12.2019	224.357	241.147	24.887	490.391
31.12.2020	223.440	238.129	24.173	485.742

Basis of revaluation of fixed assets in operation

In accordance with the International Accounting Standard, the Company's lines and substations are recognised according to the revaluation method. These assets were revalued at year-end 2015 and information of it's premises is in note 33c. Each year the Company's management assess the premises for revaluation and it's the assessment of the Company's management, a revaluation of fixed assets in operation in 2020 is not necessary. The revaluation has been categorised as level 3 fair value.

Leased assets:

These lease payments are leases for a 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:

Notes, continued

14. Fixed assets in operation, contd.:

Leased assets:

	Substations	Other	Total
Balance at 1.1. 2019	0	0	0
New lease agreements	1.019	799	1.818
Indexation	44	12	56
Impact of revaluation of lease liabilities	(96)	0	(96)
Depreciation of the year	(103)	(40)	(143)
Balance at 31.12.2019	864	771	1.635
New lease agreements	0	49	49
Indexation	4	13	17
Impact of revaluation of lease liabilities	36	44	80
Depreciation of the year	(93)	(48)	(141)
Balance at 31.12.2020	811	829	1.640

Projects under construction:

	2020	2019
Balance at 1.1.	47.443	22.573
Additions	83.394	38.768
Transferred to fixed assets in operation	(9.464)	(17.238)
Transferred to intangible assets	1	3.340
Balance at 31.12.	121.374	47.443

Rateable value and insurance value

The rateable value of the Company's real property amounts to upwards of 55.5 million USD (2019: 61.6 million USD). Assessed value for the same property's fire insurance amounts to 103.2 million USD (2019: 106.3 million USD) and book value amounts to 80.9 million USD (2019: 83.2 million USD). The insurance value of the Company's assets amounts to 518.5 million USD (2019: 547.3 million USD), excluding transmission lines and cables, which are insured by an emergency insurance fund. The Company's emergency insurance amounts to 1,106.8 million USD (2019: 1,038.7 million USD).

15. Intangible assets:

See accounting policies in note 33d and 33h

	Capitalised development cost	Software	Total
Cost			
Balance at 1.1.2019	30.451	5.022	35.473
Additions	1.817	0	1.817
Transferred to projects under construction	(3.340)	0	(3.340)
Balance at 31.12.2019	28.928	5.022	33.950
Additions	2.008	53	2.061
Transferred to projects under construction	(1)	0	(1)
Balance at 31.12.2020	30.935	5.075	36.010

Amortisation and impairment losses

Balance at 1.1.2019	5.717	3.551	9.268
Amortisation and impairment losses	577	155	732
Balance at 31.12.2019	6.294	3.706	10.000
Amortisation and impairment losses	693	70	763
Balance at 31.12.2020	6.987	3.776	10.763

Carrying amount

1.1.2019	24.734	1.471	26.205
31.12.2019	22.634	1.316	23.950
31.12.2020	23.948	1.299	25.247

Notes, continued

15. Intangible assets, contd.:

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.

16. Investment in subsidiary

See accounting policies in note 33e

The breakdown of investment in subsidiary is as follows:

	31.12.2020		31.12.2019	
	Share	Carrying amount	Share	Carrying amount
Landsnet ehf.	100,00%	4	100,00%	4

The Company's share in Landsnet ehf. is stated at cost as the firm has not conducted any operations from its establishment.

17. Investment in associates

See accounting policies in note 33f

The breakdown of investment in associates is as follows:

	2020	2019	31.12.2020	31.12.2019
	Share in net earnings	Share in net earnings	Carrying amount	Carrying amount
Orkufjarskipti hf. 50% / 50%	137	334	5.413	6.510

18. Inventories

See accounting policies in note 33g

Inventories are spare parts and material inventories. Depreciation of inventories during the year 2020 amounted to 30 thousand USD (2019: 300 thousand USD) and are expensed at transmission costs.

19. Trade and other receivables

See accounting policies in note 33b

Trade and other receivables:

	31.12.2020	31.12.2019
Trade receivables	16.934	11.923
Other receivables	586	373
Trade and other receivables total	17.520	12.296

At the year-end 67.0% of trade receivables were less than 30 days (2019: 67.3%).

20. Cash and cash equivalents

See accounting policies in note 33b

Cash and cash equivalents:

	31.12.2020	31.12.2019
Bank deposits in USD	18.723	21.379
Bank deposits in other currency	4.664	6.322
Money market funds in ISK	2.379	3.272
Cash and cash equivalents total	25.766	30.973

21. 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.

Notes, continued

21. Equity, contd.:

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 (unadjusted loss).

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%. 5% of the year's profit was deposited in the reserve in 2020.

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 transferred to restricted reserve account among equity.

Dividends

Dividends in the amount of 1,275 million ISK (9.5 million USD) were paid out in 2020 for the financial year 2019. By comparison, dividends in the amount of 800 million ISK (6.8 million USD) were paid out in 2019 for the financial year 2018.

22. Profit earnings per share

2020

2019

See accounting policies in note 33o

Basic and diluted profit earnings per share:

Profit to shareholders	27.328	30.307
Weighted average number of ordinary shares at 31 December	45.549	45.549
Basic and diluted earnings per share	0,60	0,67

23. 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:

	31.12.2020	31.12.2019
Long-term liabilities		
Loan from parent company in USD, fixed interest	0	68.234
Loan agreement and notes in USD, fixed interest	353.681	238.958
Loan agreement in CHF, LIBOR + margin	9.978	15.141
Listed indexed bond loan in NASDAQ OMX in ISK, fixed interest	37.853	40.336
	401.512	362.669
Current maturities on long-term liabilities	(38.433)	(81.044)
Long-term liabilities total	363.079	281.625

As at year-end 2020, the Company meets all current requirements of loan agreements regarding financial strength.

Notes, continued

23. Interest-bearing loans and borrowings, contd.: Terms of long-term liabilities

	Final maturity	Weighted avg. rate	31.12.2020 Carrying amount	Weighted avg. rate	31.12.2019 Carrying amount
Liabilities in USD	2021-2032	4,21%	353.681	4,32%	307.192
Liabilities in CHF	2022	0,00%	9.978	0,00%	15.141
Liabilities in ISK, indexed	2034	5,00%	37.853	5,00%	40.336
Total loans and borrowings			<u>401.512</u>		<u>362.669</u>

Maturities by year of loans and borrowings:

Árið 2021 / 2020	38.433	81.044
Árið 2022 / 2021	15.226	17.912
Árið 2023 / 2022	23.012	15.003
Árið 2024 / 2023	26.160	23.089
Árið 2025 / 2024	7.288	26.239
Later	291.393	199.382
	<u>401.512</u>	<u>362.669</u>

Change in long-term liabilities are as follows:

	2020	2019
Long-term liabilities at the beginning of the year	362.669	386.221
New long-term liabilities	119.524	0
Payment of long-term liabilities	(81.227)	(23.342)
Exchange rate difference on long-term liabilities	(898)	(1.277)
Indexation and changes of discount on long-term liabilities	1.444	1.067
Long-term liabilities at the end of the year	<u>401.512</u>	<u>362.669</u>

Landsnet sold unsecured bonds in the amount of 100 million USD on the Private Placement market in the USA. Landsnet paid the last instalment of the loan owed to Landsvirkjun, its mother company, in the amount of 68.2 million USD in March, plus interest. In October the Company drew 20 million USD from its credit line facility from Landsbankinn hf.

Lease liabilities

Lease liabilities are disclosed in the statement of financial position with Other interest bearing long-term liabilities 1,348 thousand USD (31.12.19 1,408 thousand USD) and with Trade and other payables 193 thousand USD (190 thousand USD).

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

	2020	2019
Lease liabilities on 1 January	1.598	0
New lease agreements	49	1.818
Interest expense on lease obligations	17	57
Repayment of lease liabilities during the year	81	(96)
Revaluation due to indexation of lease payments	(121)	(107)
Exchange rate difference	(83)	(74)
Carrying amount on 31 December	<u>1.541</u>	<u>1.598</u>

Impact on profit or loss are as follow:

	2020	2019
Interest expense on lease liabilities	(71)	(83)
Depreciation of leased assets	(141)	(143)
Currency exchange difference	83	74

Notes, continued

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

Maturity analyses - undiscounted contractual maturities:	2020	2019
Payments within a year	197	194
Payments one to five years	412	468
Payments five years and later	2.689	2.734
Undiscounted contractual maturities total:	3.298	3.396

24. Deferred tax liability

See accounting policies in note 33n

The breakdown of deferred tax liability is as follows:

	2020	2019
Deferred tax liability at 1 January	55.563	55.126
Calculated income tax for the year	6.808	7.498
Deferred tax liability due to changes in site restoration obligation	(1.002)	(551)
Income tax payable	(6.250)	(6.510)
Deferred tax liability at 31 December	55.119	55.563

The breakdown of deferred tax liability was as follows at year-end:

	31.12.2020	31.12.2019
Fixed assets in operation	55.054	55.004
Intangible assets	3.436	2.800
Other assets	754	643
Provision due to site restoration	(3.545)	(2.442)
Other obligations	(849)	(889)
Unrealized exchange rate difference	269	447
Deferred tax liability at 31 December	55.119	55.563

25. 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 2.7 million USD (2019: 2.8 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 2020 amounted to 0.1 million USD (2019: 0.2 million USD).

26. Provision due to site restoration

See accounting policies in note 33j

Change in the provision due to site restoration is specified as follows:

	2020	2019
Balance at 1 January	12.212	9.011
Changes in timing of discount effect accounted for in financial items	504	450
Change in the provision through other other comprehensive income	5.011	2.751
Balance at 31 December	17.727	12.212

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 valued and discounted based on life-cycle criteria. The discounted value is recognised as a provision under long-term liabilities. The accounting treatment for site restoration obligation has been change according to IFRIC 1, see note 4, where now the change in timing of the discount effect is accounted for in financial items but all other change of the obligation is accounted for in equity. That includes the change in the discounting provision which is based on a 2.9% interest rate (2019: 4.1%). The change of the site restoration obligation used to be accounted in financial items but the comparative numbers for the appropriate items have been changed according to the change in accounting treatment.

27. 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 present annual rate is 0.78%. A total of 33 thousand USD is expensed in relation thereto for 2020 (2019: 20 thousand USD), but the accrued benefit plan obligation is paid in full each year.

Notes, continued

28. Trade and other payables

See accounting policies in note 33b

Trade and other payables are specified as follows:

	31.12.2020	31.12.2019
Trade payables	12.453	11.908
Other payables	9.626	8.023
Trade and other payables total	<u>22.079</u>	<u>19.931</u>

29. 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 regularly reviewed to analyse market changes and changes within the Company.

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 generating companies, distribution system operators and power-intensive consumers. The Company's largest customers are also shareholders in the Company. Approximately 77% (2019: 78%) of the Company's transmission income derives from the Company's shareholders.

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:

	31.12.2020	31.12.2019
Long-term note	2.510	1.708
Receivables from parent company	4.326	4.443
Trade and other receivables	17.520	12.296
Cash and cash equivalents	25.766	30.973
Highest possible loss due to credit risk total	<u>50.122</u>	<u>49.420</u>

Impairment losses

No impairment loss was recognised of accounts receivable at year-end (2019: 0.3 million USD). The write-down of receivables is based on the management's assessment and experience. 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 50 million USD. In the end of the 20 million USD had been drawn from the credit line facility.

Notes, continued

29. Financial instruments, contd.:

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

Non-derivative financial

liabilities: 31.12.2020	Carrying amount	Contractual cash flow	Within 12 months	1-2 years	2-5 years	After 5 years
Long-term liabilities from parent comp.	0	0	0	0	0	0
Long-term liabilities	405.113	518.774	55.177	31.029	98.991	333.577
Trade and other payables	17.096	17.096	17.096	0	0	0
	<u>422.209</u>	<u>535.870</u>	<u>72.273</u>	<u>31.029</u>	<u>98.991</u>	<u>333.577</u>

31.12.2019

Long-term liabilities from parent comp.	68.984	69.572	69.572	0	0	0
Long-term liabilities	296.631	384.739	25.714	30.520	98.035	230.470
Trade and other payables	14.094	14.094	14.094	0	0	0
	<u>379.709</u>	<u>468.405</u>	<u>109.380</u>	<u>30.520</u>	<u>98.035</u>	<u>230.470</u>

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. Two currencies in particular, the ISK and the Swiss franc (CHF), posed balance sheet currency risk during the year. At year-end, 88.4% of the Company's long-term debt was denominated in USD, with 11.6% denominated in other currencies.

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 loan denominated in Swiss francs (CHF) poses a currency risk, but the interest rate on this loan is lower than on USD-denominated loans taken out by the Company.

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

	EUR	CHF	ISK
31.12.2020			
Cash and cash equivalent	820	1	6.197
Trade and other receivables	0	0	9.776
Other long-term liabilities	0 (	9.978) (	37.853)
Trade and other payables	(2.426)	0 (	16.311)
Net currency risk	(1.606)	(9.977)	(38.191)

Notes, continued

29. Financial instruments, contd.:

31.12.2019	EUR	CHF	ISK
Cash and cash equivalent	40	0	9.545
Trade and other receivables	0	0	4.799
Other long-term liabilities	0 (	15.141) (	40.336)
Trade and other payables	(1.642)	0 (	7.629)
Net currency risk	(1.602)	(15.141) (	33.621)

	Av. exch. rate for the year		Year-end exch. rate	
	2020	2019	31.12.2020	31.12.2019
Currency risk				
EUR	0,88	0,89	0,81	0,84
CHF	0,94	0,98	0,88	0,98
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 2019.

	31.12.2020	31.12.2019
EUR	(128) (	128)
CHF	(798) (	1.211)
ISK	(3.055) (	2.690)

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.

(ii) Interest rate risk

The Company's interest rate risk arises from interest bearing assets and liabilities. The Company's borrowings bear both floating interest and fixed inflation-indexed interest. The majority of the Company's borrowings bear fixed interest, cf. Note 23. At year end 2020, the proportion of liabilities with floating interest rates was 2.5% (2019: 3.8%).

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

	Carrying amount	
	31.12.2020	31.12.2019
Financial instruments with floating interest rate		
Financial assets	25.766	30.973
Financial liabilities	(9.978) (	15.141)
	<u>15.788</u>	<u>15.832</u>
Financial instruments with fixed interest rate		
Financial assets	2.510	1.708
Financial liabilities	(391.534) (	347.528)
	<u>(389.024) (</u>	<u>345.820)</u>

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

The Company's liabilities all carry fixed interest rates except for liability in Swiss franc (CHF). 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 2019.

Notes, continued

29. Financial instruments, contd.:

	Earnings	
	100bp increase	100bp decrease
31.12.2020		
Financial instruments with floating interest rates	123	(221)
Cash flow sensitivity (net)	123	(221)
31.12.2019		
Financial instruments with floating interest rates	138	(284)
Cash flow sensitivity (net)	138	(284)

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:

	31.12.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term liabilities from parent company	0	0	(68.234)	(69.137)
Other long-term liabilities	(401.512)	(470.627)	(294.435)	(331.904)
	(401.512)	(470.627)	(362.669)	(401.041)

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 2019.

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
31.12.2020				
Long-term note		2.453		2.453
Receivables from parent company		4.383		4.383
Trade and other receivables		17.347		17.347
Cash and cash equivalents		25.766		25.766
	0	49.949	0	49.949
Loans from parent company			0	0
Other long-term liabilities			401.512	401.512
Trade and other payables			20.697	20.697
	0	0	422.209	422.209
31.12.2019				
Long-term note		1.650		1.650
Receivables from parent company		4.501		4.501
Trade and other receivables		11.966		11.966
Cash and cash equivalents		30.973		30.973
	0	49.090	0	49.090
Loans from parent company			68.984	68.984
Other long-term liabilities			294.435	294.435
Trade and other payables			16.289	16.289
	0	0	379.708	379.708

Notes, continued

29. Financial instruments, contd.:

(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 9.3% of total long-term liabilities (2019: 11.1%).

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 2019.

	Earnings	
	100bp increase	100bp decrease
31.12.2020		
Inflation-indexed financial instruments	(325)	325
Cash flow sensitivity (net)	(325)	325
31.12.2019		
Inflation-indexed financial instruments	(348)	348
Cash flow sensitivity (net)	(348)	348

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 equity 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.

30. Related parties

Definition of related parties

The Company has a related-party relationship with its shareholders, subsidiary, associates, directors, executive 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 the Parent Company is owned by the State.

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 10.

Transactions with related parties

	2020	2019
Sale of goods and services:		
Landsnet's parent company and its subsidiaries	53.730	59.442
Landsnet's other shareholders	46.715	36.842
Sale of goods and services to related parties total	100.445	96.284
Cost of goods and services:		
Landsnet's parent company and its subsidiaries	13.245	16.924
Landsnet's other shareholders	7.175	7.713
Cost of goods and services to related parties total	20.420	24.637

In addition to the costs outlined above, the Company paid 603 thousand USD (2019: 3.0 million USD) in interest to its parent company. The Company also received minor interest income from a long-term receivable from an affiliated company.

Notes, continued

30. Related parties, contd.:

Balance:

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

	31.12.2020		31.12.2019	
	Receivables	Payables	Receivables	Payables
Landsnet's parent company and its subsidiaries	4.383	0	4.501	0
Landsnet's other shareholders	6.592	0	3.931	0
Total	10.975	0	8.432	0

Other receivables and payables with related parties are as follows:

	31.12.2020	31.12.2019
Interest-bearing long-term note to associate	2.511	1.708
Interest-bearing liabilities to parent company, see note 23	0 (	68.234)
Accrued interest payable to parent company, included in other payables	0 (	750)
Total	2.511 (	67.276)

31. Financial ratios

The company's key financial ratios:

Financial performance:	2020	2019
EBIT	46.577	50.184
EBITDA	76.928	79.825
Financial position:	31.12.2020	31.12.2019
Current ratio – current assets/current liabilities	0,79	0,49
Equity ratio – equity/total assets	44,4%	45,9%
Return on average equity	6,9%	7,4%

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.

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.

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Notes, continued

33. Accounting policies, contd.:

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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 in 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 classifies non-derivative financial assets into the following categories: 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.

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 acquisition 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 interest method.

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

Notes, continued

33. Accounting policies, contd.:

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 the difference between the carrying amount of revalued real property and its fair value has reached 5% and exceeded ISK 5 billion. The company conducts a formal appraisal of this balance when preparing its half-year and annual financial statements.

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.

The Company's lines and substations were revalued at year-end 2015. The revaluation was based on two methods. First, it was based on the estimated reconstruction cost of the transmission system, which was calculated by independent experts at the beginning of the year and projected to year-end 2015. Second, the operating value was measured using a cash flow analysis. The valuation period was 2016-2025, with the future operating value calculated thereafter. The year's revaluation was based on the operating value on the assumption that investment would equal the depreciation of the current asset base. The discounting of future cash flows was based on the weighted average cost of capital (WACC) determined for the Company with respect to power-intensive consumers and distribution system operators.

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

The leases the Company holds are operating leases. Leased assets are not recognised in the Company's balance sheet.

Notes, continued

33. Accounting policies, contd.:

(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) Development cost

Development 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 development costs is capitalised except when there is an extended delay on the projects. Development 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 necessary 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.

(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 has one subsidiary, Landsnet ehf. The financial statements of the two companies are not consolidated and the holding is recognised at historical cost. The subsidiary has had no activity since its establishment. The share capital of the subsidiary is ISK 500 thousand.

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.

Notes, continued

33. Accounting policies, contd.:

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 assets 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.

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.

33. Accounting policies, contd.:

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.

Notes, continued

33. Accounting policies, contd.:

(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. The difference is recognised in profit or loss and settled on a yearly basis. The actuarial estimation shall assume that the obligation accrued for the year is calculated to the present value at year-end using the interest rate normally used to estimate the obligations of pension funds, which is currently 0.78% per annum.

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 a pre-tax 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 now assesses whether a contract is or contains a lease based on the new 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.

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 liabilities, 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.

Notes, continued

33. Accounting policies, contd.:

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 2020 amounted to 1.4 million USD (2019: 1.1 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 and is in main respect a temporary difference as expenses are entered in the financial statement in another period than in the tax return. Calculation of deferred tax is based on the expected tax ration when temporary differences are estimated to be reversed based on current law at the reporting date.

o. 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.

p. 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.

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 2020 and that apply to its operations. The Company has not implemented standards, amendments thereto or interpretations entering into effect after year-end 2020 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 June 1st 2015. 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 15 May 2019 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. The Board of Directors monitors the Company's financial risk. Information on risk management is provided in Note 29 to the annual financial statements.

Corporate values and Code of Ethics

Landsnet's employees are obliged to abide by the Company's values in all their activities. Its corporate values are informed by its role and future vision and provide the foundation for the corporate culture for which the Company strives. Landsnet's values are: respect, cooperation and responsible.

Landsnet's Code of Conduct was approved at a meeting of the Board of Directors on 18 February 2021 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.

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, Landsnet's operations need to be guided by value-added thinking. Our core strategic focus is the value created by ensuring security of supply, operational efficiency, minimising environmental impacts and maximising efficiencies in the use of investments and resources for clients and society at large.

Policy focus areas

Landsnet has defined a fourfold promise to society in the form of policy focus areas. These reflect our corporate policy and the milestones that must be achieved along the way to reach our future vision. The emphasins are:

Smart

We operate in an environment of ever-increasing demands and ever-changing technologies, and therefore need to be poised to meet the technological challenges ahead. We achieve this partly through increased automation and digital solutions. We strengthen the basis for our decision-making by continually improving our insights and analytical capacity. Flexibility of use and innovation in the electricity market will play a key role in meeting future challenges.

Effective

We are the guardians of a great resource. Society and our customers have high expectations for the quality of our services, operational efficiency and a stable tariff. We always see opportunity in doing better and realise that this is the key to achieving effective processes and efficiency in the electricity system's development and operation. We seek to simplify and sharpen our activities for the benefit of our customers and make better use of their and our financial resources. As part of this commitment, we choose eco-friendly solutions to make better use of our and the world's resources.

Corporate Governance Statement, contd.:

Responsible

We are a key infrastructure provider for Iceland, which comes with great responsibility. Secure power delivery is our most important task, while at the same time our decision-making must be transparent and based on effective information dissemination, dialogue and cooperation. We manage our work in a risk-focused way whilst ensuring operational and business continuity through contingency planning. We place a priority on environmental stewardship and never take chances when it comes to occupational health and safety. We use methodical practices and procedures. We strive for continual improvement based on international management standards and meet the requirements applicable to our activities, including legal and other requirements.

Ambitious

We strive to create a sought-after workplace placing priority on care, equality and staff safety. We are committed to a positive workplace culture with a strong team spirit. Our culture is an ambitious one that provides incentives to deliver results and achieve career advancement. We are a progress-driven, knowledge-intensive company keen to develop our employees' talents and skills. We foster a culture in which all employees can attain professional development and are provided with in-service training and continuous education meeting their professional needs.

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 five Executive Vice Presidents. The Board has one sub-committee, the Audit Committee, and 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.

With respect to the Company's special status under Chapter III of the Electricity Act and its strict duties to maintain impartiality and non-discrimination, it should be reiterated that shareholders are not permitted to interfere in individual affairs relating to Landsnet's activities.

As a rule, the shareholders' involvement must be limited to general policy decisions taken at regular shareholders' meetings, e.g. on financial targets.

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 Electricity Act No. 65/2003.

Landsnet's Board of Directors consists of the following yearly elected five members:

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.

Corporate Governance Statement, contd.:

Katrín Olga Jóhannesdóttir, Board Member

Katrín Olga Jóhannesdóttir was born in 1962. She holds a Cand. Oecon. degree in business administration from the University of Iceland, an MSc business degree from Odense University and read corporate finance at the London Business School. She has held various managerial positions, including as Chairman of the Board and partner at Já hf., Chief Strategy Officer at Skipti hf., VP for Residential Markets and VP of Sales and Marketing at Síminn hf. and Managing Director of Navision Software Iceland. She served as Chairman of the Iceland Chamber of Commerce in 2016-2020. She sits on the boards of the following companies: Hagar hf., Kría consulting ehf. and Vörður tryggingar hf. She is a member of the University Council of Reykjavik University and the Investment Committee of Akur Investment. She has served on the boards of numerous companies, including Icelandair Group, Ölgerðin and Advania. Katrín Olga was elected to Landsnet's Board at its Annual General Meeting of 13 March 2020.

Magnús Þór Ásmundsson, Board Member

Magnús Þór Ásmundsson was born in 1963. He took a degree in electrical engineering from the University of Iceland in 1987 and a master's degree from the Technical University of Denmark in 1990. Magnús has extensive managerial experience. He was Director of Manufacturing at Marel until 2009, Director of Product Development at Alcoa Fjarðaál and Managing Director of the same company from 2012 to 2019. In 2020, he became chief executive of Faxaflóahafnir sf. (the Associated Icelandic Ports). He has served on the boards of the Icelandic Chamber of Commerce, Reykjavik University and the Technical College. He is a co-founder of the tourism company Vök Baths in East Iceland and sits on the board of that company. Magnús was elected to Landsnet's Board at its Annual General Meeting of 13 March 2020.

Ólafur Rúnar Ólafsson, Board Member

Ólafur Rúnar Ólafsson was born in 1975. He has been practising as an Attorney at Law since 2002 and was admitted to the bar as a Supreme Court Attorney in 2011. He was Regional Director of the debt collection agencies Lögheimtan ehf and Motus ehf in northern Iceland for 12 years until 2016, when he took over mid-term as Municipal Manager of the Eyjafjarðarsveit municipality. Mr Ólafsson owns and currently operates the law firm Legal North/Lögmannsstofa Norðurlands ehf, based in the town of Akureyri in northern Iceland. He sat on the Presiding Election Board of the North East Iceland Constituency in 2009-2017, served as Chairman of the fund management company Rekstrarfélag verðbréfasjóða ÍV hf and has supervised instruction in company law at the Faculty of Social Sciences and Law at the University of Akureyri in recent years. He has extensive experience in legal practice and legal advisory services to business and government clients. Mr Ólafsson joined Landsnet as Alternate Director at the start of 2018 and was elected to the Board at the Annual General Meeting on 23 March 2018.

Svava Bjarnadóttir, Board Member

Svava Bjarnadóttir was born in 1964. She has many years' experience in company administration, including financial management, HR management, strategic planning and numerous board memberships. She holds a master's (cand.oecon.) degree in business administration from the University of Iceland, with focus on corporate finance, and is an Associate Certified Coach (ACC) with the International Coach Federation (ICF). Ms Bjarnadóttir has played an active role in Icelandic business, including as a shareholder in the engineering firm Mannvit, its chief financial officer in 2002-2012 and human resources manager in 2005-2007. She co-founded the management consultancy company Strategía ehf and currently owns and operates Kapítuli ehf, a leadership and management coaching company for small and medium-sized enterprises. She served as Alternate Director 2013-2018 and was elected to Landsnet's Board as a full Director at the Annual General Meeting on 23 March 2018.

The Board of Directors held 16 meetings in 2020. Thirteen meetings were attended by all Board members. At three meetings one member was absent.

Corporate Governance Statement, contd.:

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 ("procurator 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 Committee in addition to CEO consists of:

Guðlaug Sigurðardóttir, Head of Finance (CFO) and Deputy CEO
Einar S. Einarsson, Head of Corporate Services & Communication
Nils Gústavsson, Head of Constructions & Grid Services
Sverrir Jan Norðfjörð, Head of Technology & Development
Þorvaldur Jacobsen, Head of 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
Ólafur Rúnar Ólafsson, Director of Landsnet's Board
Svava Bjarnadóttir, 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 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 11 meetings of the Committee were held in 2020, all of which were attended by all Committee 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 13 March 2020. 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 its 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 policy 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), (b) the Average Curtailment Duration Index, outage minutes (ACDI), and (c) System Minutes (SM). Our targets and results for these indicators in 2020 are presented in our annual Performance Report published together with our annual report at www.landsnet.is. 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 2020 was 99.9977% (up from 99.9831 in 2019), against a target of 99.9905% for both years.

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.

An emphasis is placed on regular maintenance and effective responses to disturbances in the system's general operations. Emphasis is also placed on close cooperation with customers in the event of a disruption.

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.

Non-financial information, contd.:

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 its 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. Due to the Covid-19 pandemic our service provision during the year was unusual in a number of ways, as for most of the year we were neither able to visit our customers nor invite them for visits. Our long-term target is a customer service satisfaction score of 4.2 on a scale of 1-5. Our score in 2020 was 3.9, down by 0.1 from the preceding year.

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. Landsnet's executives 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 Electricity 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.

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.

The COVID-19 impact

Like other companies, Landsnet had to deal with the impacts of the COVID-19 pandemic on its operations. The transmission system is among society's most important infrastructures. With this in mind, the Company worked to ensure business continuity during an otherwise challenging period. 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. Already in March, we transitioned employees to work remotely at home, while at the same time ensuring a sufficient presence of personnel to handle our core operations. Our Executive Committee and our Safety Manager held daily meetings, with work conducted in accordance with the DCPEM's contingency plans. Throughout the year, our activities were divided into anti-contagion compartments, ensuring separation between different working teams.

Non-financial information, contd.:

The COVID-19 impact, contd.:

Our operations performed well in these circumstances, with no unexpected operational incidents posing any risks during the year. 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 as we gained experience in dealing with the new situation. Working from home remotely proved unproblematic, as we had already put in place effective procedures for home connections and use of equipment.

The impact on Landsnet's infrastructure development was minimal. Deliveries of equipment were delayed in some cases and solutions had to be found with regard to the participation of foreign contractors in our projects. Both of these issues had only minor impacts, which in some cases were solved by prioritising projects and project components.

The impact of COVID-19 on our activities was negligible, with the year's infrastructure works proceeding as planned.

Management system

Landsnet is committed to robust improvement activities, with a strong focus on process implementation, LEAN management 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 – Environmental 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.

Environmental matters

Landsnet has a certified environmental management system in accordance with the International Standard ISO14001:2015. The company has an environmental policy and has worked systematically to reduce the impact of its operations.

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. A particular emphasis is placed on minimising any disturbance during the construction period. The completion of finishing work at the end of the construction period is also an important factor and materials such as soil and vegetation disturbed during the construction period are re-used to restore these areas.

The year 2019 saw the completion of a pilot project undertaken for Landsnet to follow up on an environmental impact assessment (EIA) for the Krafla Line 4 and Þeistareykir Line 1. This involved assessing whether the environmental impact of a number of measurable aspects of the construction was in keeping with the projections of the pre-construction EIA. The project's aim was to evaluate the EIA's effectiveness and identify any possible areas of improvement in that process. The project's results have already been put into use to improve EIA methods for Landsnet infrastructure projects. Landsnet will follow up on the environmental impact assessments (EIA) of new projects in a similar manner, to ensure that any EIA is conducted on the basis of the latest information at any given time.

Landsnet makes consistent efforts to reduce the environmental impacts of its activities and places a strong emphasis on knowing the company's impacts on nature and society. No serious environmental incidents occurred during the year. However, we continue to place a high priority on continuous improvements in this respect. The company's Green Accounts set out the results from environmental monitoring and our carbon footprint.

Non-financial information, contd.:

Environmental matters, contd.:

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. The company's carbon footprint in scope 1 is determined by the leakage of the insulating gas sulphur hexafluoride (SF6), which is used as an insulator in electrical equipment in substations, backup power and fuel for cars and machines. Our scope 1 carbon emissions in 2020 amounted to 4,002 CO2 tonnes, up 37% from the previous year. The biggest contributor to this figure is a leakage of SF6 gas due to damage to equipment, but repairs of which were completed during the year. In addition, carbon emission remained high due to bad weather. Extensive improvements are underway to our SF6 equipment around the country, as is the instalment of real-time monitoring capabilities. Success in reducing non-spinning reserves consumption depends on weather conditions on the one hand and the progress of infrastructure development in areas that rely on non-spinning reserves on the other.

Safety and security management

We have a zero-injury approach to every single day in the workplace and strive to foster a corporate culture that supports our staff's contribution to accident prevention. There were no absence accidents among Landsnet's employees during the year 2020. One accident occurred with one of our subcontractors during an infrastructure and investment project. A serious electrical accident also befell a contractor's employee in the West Fjords. A Landsnet employee had a serious incident at the Rangárvellir substation during work to resolve an outage in the area. 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 2020, as in 2019.

The aforesaid incidents serve as a reminder that nothing is more important than the personal safety of our personnel, our service providers and contractors. We drew lessons from these incidents and took 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. Due to Covid-19, external visits to the company's offices were not permitted most of the year. 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 collaborates with comparable companies in the Nordic countries on all of the above aspects of safety and security, which helps us uphold the best standards and practices at any given time. Landsnet received 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. The Act on Network and Information System Security, implementing the NIS Directive, took effect in September 2020, with which Landsnet is required to comply as one of Iceland's major infrastructure companies.

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.

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.:

Human resources, 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, the aim being to achieve a staff satisfaction score higher than 4.3.

Our target is to achieve an employee engagement score higher than 4.3. Scores above 4.2 are counted as indicating strength. Our employee engagement score in 2020 was 4.3 (2019: target score 4.3; score achieved 4.3) and there has been a steady positive development since 2012.

Our HR 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.

The Company achieved Equal Pay Certification during the year. Our gender-based wage gap was 0.9% in men's favour. Reflecting the importance of gender equality to the Company, it formed a Gender Equality Committee 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.

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 is being developed.

Landsnet's tender processes place much emphasis on corporate social responsibility. We are also working to introduce provisions in our tender documents stipulating suppliers' self-declarations of compliance with human rights obligations. Suppliers will also be required to comply with laws and regulations on labour and industrial relations. Our 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.

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 has established a responsible value chain to ensure compliance with standards, legislation and other obligations in these areas. Landsnet therefore assumes that all employees acting indirectly for the company receive their rights and benefits in The company attaches great importance to non-discrimination and the fact that everyone is entitled to human rights regardless of origin, ethnicity, race, religion, political opinion, gender, sexual orientation, age, economic status, family association, disability, health or other status.

Non-financial information, contd.:

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 2020-2021, with six key performance indicators defined. One of these, Return on Equity, was financial while the following five were non-financial:

	Linked to what section of corporate policy?	Key Performance Indicators													
Responsible	Are we delivering secure supply of energy to the society and our customers?	Network reliability	<table border="1"> <tr> <td>2016</td> <td>2017</td> <td>2018</td> <td>2019</td> <td>2020</td> <td>2020 * goal</td> </tr> <tr> <td>99,9989%</td> <td>99,9909%</td> <td>99,9996%</td> <td>99,9831%</td> <td>99,9977%</td> <td>99,9905%</td> </tr> </table>	2016	2017	2018	2019	2020	2020 * goal	99,9989%	99,9909%	99,9996%	99,9831%	99,9977%	99,9905%
2016	2017	2018	2019	2020	2020 * goal										
99,9989%	99,9909%	99,9996%	99,9831%	99,9977%	99,9905%										
Effective	Are the customers satisfied with our services?	Customer satisfaction	<table border="1"> <tr> <td>2016</td> <td>2017</td> <td>2018</td> <td>2019</td> <td>2020</td> <td>2020 * goal</td> </tr> <tr> <td>3,5</td> <td>3,6</td> <td>4,0</td> <td>4,0</td> <td>3,9</td> <td>4,2</td> </tr> </table>	2016	2017	2018	2019	2020	2020 * goal	3,5	3,6	4,0	4,0	3,9	4,2
2016	2017	2018	2019	2020	2020 * goal										
3,5	3,6	4,0	4,0	3,9	4,2										
Responsible	Is our return on equity according to regulations?	Return on equity, ROE	<table border="1"> <tr> <td>2016</td> <td>2017</td> <td>2018</td> <td>2019</td> <td>2020</td> <td>2020 * goal</td> </tr> <tr> <td>-4,1%</td> <td>8,7%</td> <td>10,5%</td> <td>7,4%</td> <td>6,9%</td> <td>8,0%</td> </tr> </table>	2016	2017	2018	2019	2020	2020 * goal	-4,1%	8,7%	10,5%	7,4%	6,9%	8,0%
2016	2017	2018	2019	2020	2020 * goal										
-4,1%	8,7%	10,5%	7,4%	6,9%	8,0%										
Responsible	Are we delivering on our climate policies?	CO2 scope 1 (tonn equivalents)	<table border="1"> <tr> <td>2017</td> <td>2018</td> <td>2019</td> <td>2020</td> <td>2020 * goal</td> </tr> <tr> <td>2.847</td> <td>3.709</td> <td>2.928</td> <td>4.002</td> <td>2.635</td> </tr> </table>	2017	2018	2019	2020	2020 * goal	2.847	3.709	2.928	4.002	2.635		
2017	2018	2019	2020	2020 * goal											
2.847	3.709	2.928	4.002	2.635											
Ambitious	Are our employees engaged?	Employee engagement	<table border="1"> <tr> <td>2016</td> <td>2017</td> <td>2018</td> <td>2019</td> <td>2020</td> <td>2020 * goal</td> </tr> <tr> <td>3,9</td> <td>4,0</td> <td>4,2</td> <td>4,3</td> <td>4,3</td> <td>4,3</td> </tr> </table>	2016	2017	2018	2019	2020	2020 * goal	3,9	4,0	4,2	4,3	4,3	4,3
2016	2017	2018	2019	2020	2020 * goal										
3,9	4,0	4,2	4,3	4,3	4,3										
Responsible	Are our employees operating safely?	No of accidents (H value)	<table border="1"> <tr> <td>2016</td> <td>2017</td> <td>2018</td> <td>2019</td> <td>2020</td> <td>2020 * goal</td> </tr> <tr> <td>0</td> <td>0,67</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> </table>	2016	2017	2018	2019	2020	2020 * goal	0	0,67	0	0	0	0
2016	2017	2018	2019	2020	2020 * goal										
0	0,67	0	0	0	0										