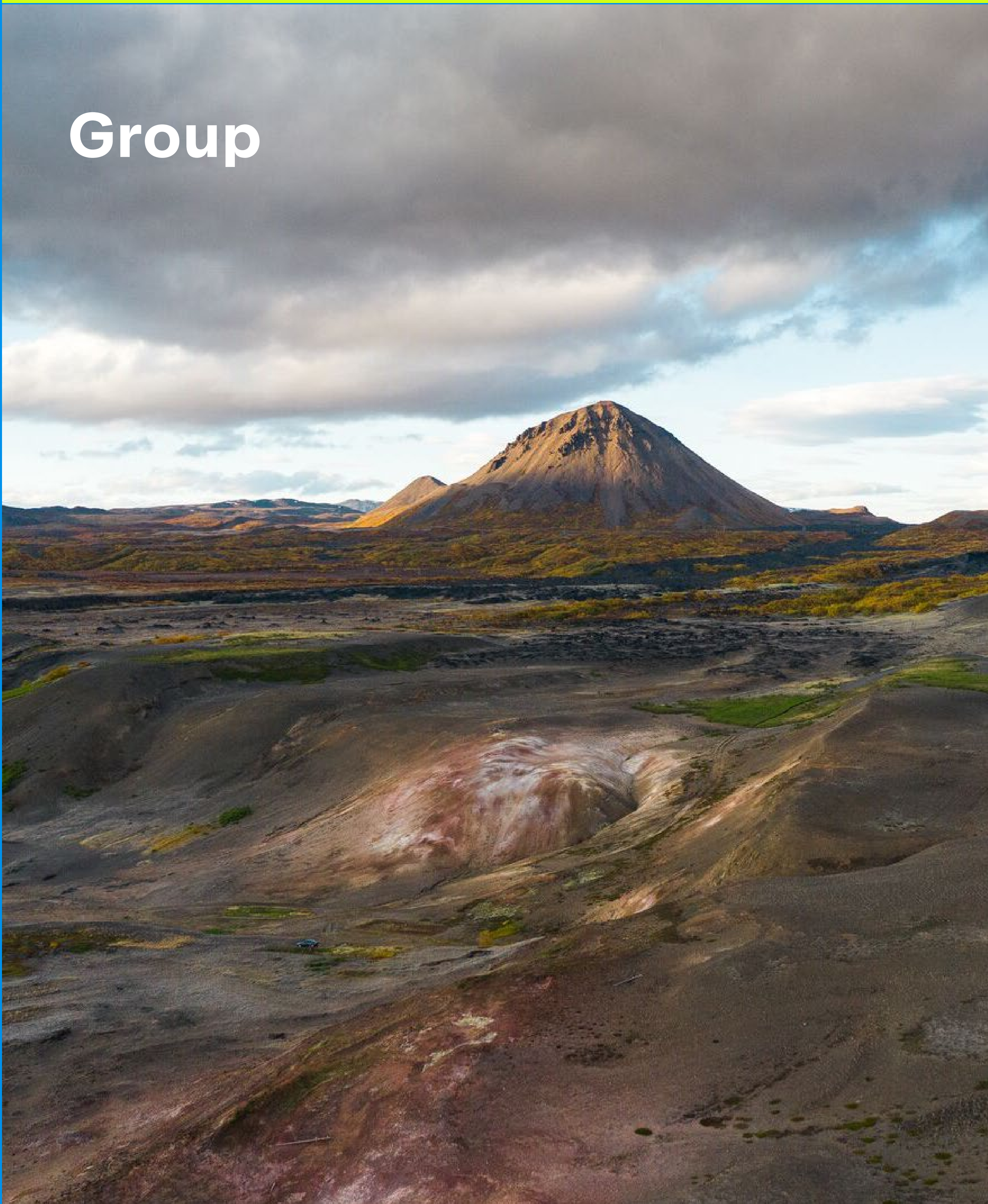
Landsvirkjun

Consolidated
Financial Statements 2022

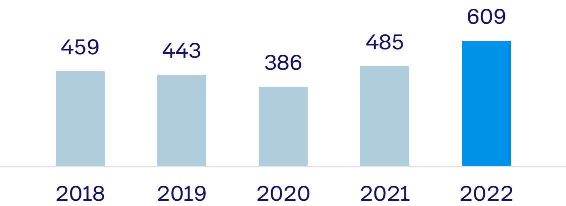
Group



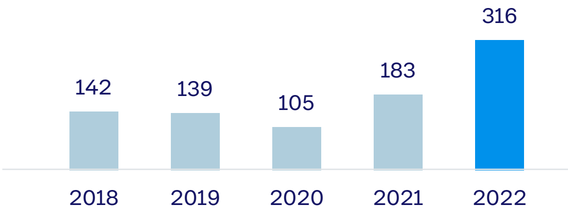
Contents

Key figures

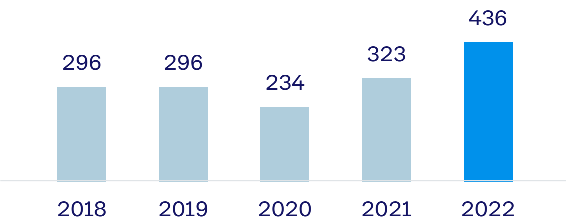
Operating revenues



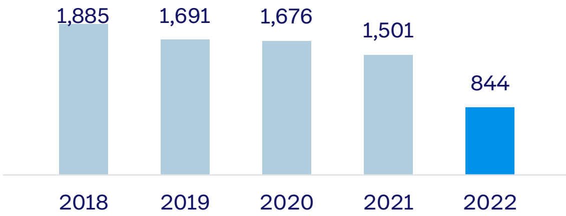
Profit before unrealised financial items



Cash flow from operating activities



Net debt



Capacity **2,146 MW**

15 Hydropower stations **1,991 MW**

3 Geothermal stations **153 MW**

2 Windmills **2 MW**

Amounts in USD million

Key figures - Unaudited

Management's presentation of the operation of Landsvirkjun

	2022	2021	2020	2019	2018
Operation					
Operating revenues	709,042	544,001	380,712	432,483	463,926
Realised hedges	(100,412)	(58,881)	5,262	10,047	(4,534)
Total operating revenues	608,630	485,120	385,974	442,530	459,392
Operating expenses	(153,728)	(151,713)	(138,201)	(145,732)	(161,614)
EBITDA	454,902	333,407	247,773	296,798	297,778
Depreciation and impairment loss	(107,820)	(107,446)	(98,128)	(104,708)	(95,095)
EBIT	347,082	225,961	149,645	192,090	202,683
Financial items	(31,045)	(42,407)	(44,978)	(53,318)	(60,554)
Associated companies	(146)	(248)	(12)	(27)	(179)
Profit before unrealised financial items	315,891	183,306	104,655	138,745	141,950
Unrealised financial items:					
Fair value changes in embedded derivatives	61,616	33,455	970	(1,323)	(49,410)
Fair value changes in other derivatives	81,547	(46,301)	(12,726)	(8,011)	24,878
Unrealised foreign exchange difference	11,071	10,661	(9,087)	6,779	16,070
	154,234	(2,185)	(20,843)	(2,555)	(8,462)
Profit before income tax	470,125	181,121	83,812	136,190	133,488
Income tax	(171,399)	(68,750)	(33,185)	(52,401)	(50,257)
Profit from continued operations	298,726	112,371	50,627	83,789	83,231
Profit (loss) from discontinued operations*	(136,803)	36,207	27,991	31,089	37,798
Net Profit	161,923	148,578	78,618	114,878	121,029
Balance sheet					
Total assets	3,873,145	4,446,381	4,348,344	4,381,633	4,451,081
Equity	2,296,825	2,368,767	2,235,135	2,235,399	2,163,056
Liabilities	1,576,320	2,077,614	2,113,209	2,146,234	2,288,025
Net debt **	843,516	1,500,786	1,675,804	1,691,462	1,884,603
Cash flow					
Funds from operations (FFO)	501,890	366,970	266,263	312,322	316,336
Cash flow from operating activities	435,916	323,299	234,084	295,764	295,761
Investing activities	(95,011)	(113,035)	(111,550)	(82,420)	(150,864)
Financing activities	(280,523)	(204,453)	(142,399)	(218,261)	(151,876)
Liquidity					
Cash and cash equivalents at year end	155,509	97,560	91,963	110,487	116,278
Undrawn loans	150,000	170,000	280,000	180,000	353,155
Total liquidity	305,509	267,560	371,963	290,487	469,433
Key ratios					
Return on equity	6.8%	6.6%	3.5%	5.3%	5.9%
Equity ratio	59.3%	53.3%	51.4%	51.0%	48.6%
Interest cover (EBITDA/net interest exp.)	14.33x	7.23x	5.66x	5.55x	4.76x
FFO / net liabilities***	50.1%	24.5%	15.9%	18.5%	16.8%
FFO / interest expenses***	11.84x	6.17x	4.52x	4.41x	3.72x
Net debt / EBITDA	1.85x	3.53x	5.14x	4.47x	4.83x
Credit rating at year end without state guarantee					
Standard & Poor's	BBB+	BBB+	BBB	BBB	BBB
Moody's	Baa1	Baa1	Baa1	Baa1	Baa2

* Discontinued operations are reported separately in the income statement, key ratios of previous years are unchanged
** Net debt is interest bearing long-term liabilities less cash and cash equivalents
*** The ratio is calculated based on FFO from continued operations

Consolidated Financial Statements of Landsvirkjun 2022 4 Amounts are in USD thousand

Quarterly statement 2022 - Unaudited

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

	Q1	Q2	Q3	Q4	Total
Operating revenues					
Power sales	170,403	173,217	164,994	182,542	691,156
Realised hedges	(27,836)	(25,830)	(28,357)	(18,389)	(100,412)
Other income	4,591	632	1,887	10,776	17,886
	147,158	148,019	138,524	174,929	608,630
Operating expenses					
Energy generation costs	26,725	29,612	23,224	21,826	101,387
Cost of general research	2,737	2,635	2,113	3,141	10,626
Other operating expenses	10,792	8,802	7,550	14,571	41,715
Depreciation and impairment loss	26,470	27,857	26,887	26,606	107,820
	66,724	68,906	59,774	66,144	261,548
Operating profit	80,434	79,113	78,750	108,785	347,082
Financial income and (expenses)					
Interest income	255	646	1,182	1,964	4,047
Interest expenses	(8,589)	(8,305)	(8,713)	(10,094)	(35,701)
Realised foreign exchange difference	356	(2,361)	(1,894)	4,508	609
	(7,978)	(10,020)	(9,425)	(3,622)	(31,045)
Associated companies	98	90	(35)	(299)	(146)
Profit before income tax and unreal. items	72,554	69,183	69,290	104,864	315,891
Unrealised financial items:					
Fair value changes in embedded derivatives	162,243	(112,444)	(10,415)	22,232	61,616
Fair value changes in other derivatives	(62,119)	57,241	21,349	65,076	81,547
Unrealised foreign exchange difference	788	10,788	12,241	(12,746)	11,071
	100,912	(44,415)	23,175	74,562	154,234
Profit before income tax	173,466	24,768	92,465	179,426	470,125
Income tax	(65,663)	(7,708)	(31,018)	(67,010)	(171,399)
Profit from continued operations	107,803	17,060	61,447	112,416	298,726
Profit (loss) from discontinued operations	7,405	12,279	7,679	(164,166)	(136,803)
Net Profit	115,208	29,339	69,126	(51,750)	161,923
Attributable to:					
Owners of the parent company	112,635	25,042	66,465	(42,209)	161,933
Subsidiaries minority interest	2,573	4,297	2,661	(9,541)	(10)
	115,208	29,339	69,126	(51,750)	161,923
From cash flow					
Cash flow from operating activities	131,024	103,859	116,772	84,261	435,916

Other key metrics for the parent company	**2022**	**2021**	**2020**	**2019**	**2018**
Installed capacity at year end (MW)	2,146	2,146	2,146	2,146	2,145
Av. price for ind. users excl trm. USD/MWh*	42.9	32.7	21.1	23.2	23.3
Av. price for primary energy excl. trm. ISK/kWh	6.2	5.3	5.3	5.0	4.8
Sales in GWh	14,629	14,052	13,336	14,028	14,753
Research and development	14,712	11,941	10,916	11,823	14,824
Accident frequency rate: H200**	0.6	0.3	0.3	0.3	0.6

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

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Endorsement and Statement by the Board of Directors and CEO

Landsvirkjun's objective is to operate in the energy sector and to engage in other business and financial operations according to the decision of the Board of Directors at each time. The Company's consolidated financial statements include, in addition to the parent company, two subsidiaries, Icelandic Power Insurance Ltd. and Landsvirkjun Power ehf. The sudsidiary Landsnet hf. was sold at year end 2022 and according to the agreement the state paid USD 305 million for the shares. The net profit of Landsnet hf., loss of sales, income tax, translation difference and net profit of Orkufjarskipti hf. are accounted for as loss of discontinued operations. One-time cost due to this transaction amounted to USD 159 million. Comparative amounts have been adjusted accordingly, see details in note no. 9.

The financial statements of Landsvirkjun for 2022 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. The functional currency of the Company is the US Dollar (USD) and amounts in the financial statements are rounded to the nearest thousand USD.

The Group's operating revenues amounted to USD 608.6 million in 2022 compared to USD 485.1 million in the previous year, an increase of USD 123.5 million. The increase is mainly due to higher prices on global aluminium and Nord Pool power markets. Operating expenses amounted to USD 261.5 million in 2022 compared to USD 259.2 million in 2021. The Company's operating profit amounted to USD 347.1 million in 2022 compared to USD 226.0 million in the previous year.

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

Financial income in excess of financial expenses amounted to USD 123.2 million in 2022, compared to USD 44.6 million financial expenses in excess of financial income in the previous year, a change of USD 167.8 million. The change is mainly due to positive fair value changes in derivatives. Profit before unrealised financial items amounted to USD 315.9 million during the year compared to USD 183.3 million in 2021. According to the income statement, profit for the year amounted to USD 161.9 million compared to USD 148.6 million in the previous year.

Equity at year end 2022 amounted to USD 2,296.8 million compared to USD 2,368.8 million at year end 2021 according to the balance sheet. The Company's Board of Directors proposes that the profit for the year will be recognised as an increase in equity. During the Annual General Meeting the Company's Board of Directors intend to propose a USD 140 million dividend payment to the owners of the Company in accordance with the dividend policy of Landsvirkjun, but otherwise refers to the notes to the financial statements and statement of equity for further changes in equity. Landsvirkjun is a partnership owned by the Icelandic State and Eignarhlutir ehf. The State owns 99.9% in the Company and Eignarhlutir ehf. 0.1%.

Cash and cash equivalents at year end amounted to USD 155.5 million and undrawn loans amounted to USD 150.0 million. Cash and cash equivalents and undrawn loans therefore amounted to USD 305.5 million at year end. Cash flow from operations amounted to USD 435.9 million. During the year the repayments of loans of the Group amounted to USD 177.0 million. Cash and cash equivalents increased by USD 57.9 million during the year.

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

Corporate Governance

The Board of Directors of Landsvirkjun endeavours to maintain good corporate governance taking into consideration the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce in collaboration with the Confederation of Icelandic Employers and Nasdaq Iceland. The statement of corporate governance is provided in an appendix to the financial statements. Further information on the Parent Company's corporate governance and risk management is included in notes 31 to 42 and appendices to the financial statements.

Non-financial information

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

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Icelandic Financial Statement Act. It is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of the Groups's assets, liabilities and financial position as at 31 December 2022 and the Group's results and changes in cash in the year 2022.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and the Endorsement by the Board of Directors for the year 2022 give a fair view of the Group's results, financial position and development and describe the main risk factors faced by the Group.

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

Reykjavik, 20 February 2023.

The Board of Directors:

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

The CEO:
Hörður Arnarson

Independent Auditors’ Report

To the Board of Directors and owners of Landsvirkjun

Opinion

We have audited the consolidated financial statements of Landsvirkjun for the year ended December 31, 2022 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flow for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Landsvirkjun as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

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

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

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

The sale of Landsnet hf.	
At year end 2022 Landsvirkjun sold its shares in Landsnet hf. to the Icelandic state. On the date of the sale the carrying amount of the shares amounted to 312 million USD.	During our review of the sale, we reviewed the purchase agreement between the parties, assessed the valuation assumptions made in connection with the sale and reviewed other contractual matters related to the sale to obtain sufficient understanding to assess whether the execution was in accordance with IFRS.
We consider the sale of the shares in Landsnet hf. to be a key audit matter due to their magnitude and their impact on the balance sheet. We refer to note no. 9 on discontinued operations.	We reviewed note no. 9 for completeness and compliance with IFRS.

Valuation of power stations	
Included in property, plant and equipment are power stations which amount to 2,963 million USD at year end. Power stations are measured at cost less accumulated depreciation and impairment.	We reviewed the impairment test of the power stations prepared by management. During our audit we examined the valuation methodology and its consistency with prior years. We also examined management assumption for the valuation. This included:
We consider the valuation of power stations to be a key audit matter due to their magnitude and management estimation of their expected useful life.	• Reviewing the operating plan which is the basis for the valuation. • Reviewing the assumptions for the weighted average cost of capital (WACC) used.
As to the valuation of the assets, we refer to fixed assets in note 10 and accounting policies note 53.	We assessed if the valuation's calculations were in accordance with IFRS and assessed that the disclosures were appropriate.

Other information

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

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

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

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

Independent Auditors' Report, contd.

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

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

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

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

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

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

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

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

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

Independent Auditors' Report, contd.

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

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

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

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

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

Deloitte was appointed auditor of Landsvirkjun by the general meeting of shareholders on 29. April 2022. Deloitte have been elected since the general meeting 2014.

Reykjavik, 20 February 2023.

Deloitte ehf.

Birna Sigurðardóttir
State Authorized Public Accountant

Pétur Hansson
State Authorized Public Accountant

Income Statement

	Notes	2022	2021
Operating revenues			
Power sales	4	691,156	533,828
Realised hedges		(100,412)	(58,881)
Other income		17,886	10,173
		608,630	485,120
Operating expenses			
Energy generation costs		198,933	205,785
Cost of general research		19,526	19,571
Other operating expenses		43,089	33,803
		261,548	259,159
Operating profit	3	347,082	225,961
Financial income and (financial expenses)			
Interest income		4,047	701
Interest expenses		(35,701)	(43,402)
Foreign exchange difference		11,680	10,955
Fair value changes in embedded derivatives	33	61,616	33,455
Fair value changes in other derivatives		81,547	(46,301)
	7	123,189	(44,592)
Associated companies	15	(146)	(248)
Profit before income tax		470,125	181,121
Income tax	8	(171,399)	(68,750)
Profit from continued operations		298,726	112,371
Profit (loss) from discontinued operations	9	(136,803)	36,207
Net profit for the year		161,923	148,578
Attributable to:			
Owners of the Parent Company		161,933	136,048
Minority interest in subsidiaries		(10)	12,530
		161,923	148,578

Notes 1 to 63 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2022 12 Amounts are in USD thousand

Statement of Comprehensive Income

	2022	2021
Net profit for the year	161,923	148,578
Items that will not be reclassified subsequently to profit or loss		
Revaluation of transmission after income tax	0	40,800
Pension obligation after income tax, change	(1,380)	(3,890)
Demolition obligation after income tax, change	2,404	3,259
Items that may be reclassified subsequently to profit or loss		
Transl. difference due to subsid. and associated companies	(548)	(252)
Transl. difference reclassified due to sale of a subsidiary	41,506	0
Total operating items transferred to equity	41,982	39,917
Total Comprehensive Income for the year	203,905	188,495
Total Comprehensive Income attributable to:		
Owners of the Parent Company	203,898	160,313
Minority interest in subsidiaries	7	28,182
	203,905	188,495

Notes 1 to 63 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2022 13 Amounts are in USD thousand

Balance Sheet

Assets	Notes	2022	2021
Non-current assets			
Property, plant and equipment	10	2,984,071	3,916,273
Projects under construction	11	0	83,432
Development cost	12	100,012	131,521
Other intangible assets	12	48,513	49,702
Derivative financial instruments	14	98,964	27,290
Associated companies	15	6,750	2,081
Loans to related parties	16	268,840	0
Shares in other companies		631	622
Deferred tax asset	8	39	44
Total non-current assets		3,507,820	4,210,965
Current assets			
Inventories	19	0	5,825
Accounts receivables and other receivables	20	116,038	100,085
Receivables, related parties	16	39,922	0
Derivative financial instruments	14	53,856	31,946
Cash and cash equivalents	21	155,509	97,560
Total current assets		365,325	235,416
Total assets		3,873,145	4,446,381
Equity and liabilities			
Equity			
Owners' contributions	22	586,512	586,512
Revaluation account	23	0	169,952
Restricted reserves	23	197	71,143
Translation difference	23	(16,707)	(42,597)
Other equity		1,726,673	1,417,648
Equity of the owners of the Parent Company		2,296,675	2,202,658
Minority interest		150	166,109
Total equity		2,296,825	2,368,767
Long term liabilities			
Interest bearing liabilities	24	776,406	1,449,195
Pension fund obligation	26	36,427	39,574
Deferred income tax liability	8	232,912	217,109
Lease liability	17	4,472	5,899
Obligation due to demolition	27	0	15,631
Prepaid income		0	2,409
Derivative financial instruments	14	5,535	13,777
		1,055,752	1,743,594
Current liabilities			
Accounts payable and other payables	28	74,846	75,826
Interest bearing liabilities	25	222,619	149,151
Income tax payable	8	195,059	42,775
Derivative financial instruments	14	28,044	66,268
		520,568	334,020
Total liabilities		1,576,320	2,077,614
Total equity and liabilities		3,873,145	4,446,381

Notes 1 to 63 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2022 14 Amounts are in USD thousand

Statement of Equity

	Owners' contribution	Revaluation account	Restricted reserves	Translation difference	Other equity	Equity attrib-utable to the owners of the Parrent Comp.	Minority interest	Total equity
Changes in equity 2021								
Equity at 1 January 2021	586,512	147,161	59,178	(42,232)	1,341,726	2,092,345	142,790	2,235,135
Translation difference				(365)		(365)	113	(252)
Demolition obligation change		2,110				2,110	1,149	3,259
Pension obligation, change					(3,890)	(3,890)		(3,890)
Revaluation of transmission		26,410				26,410	14,390	40,800
Net profit for the year					136,048	136,048	12,530	148,578
Total Comprehensive Income		28,520	0	(365)	132,158	160,313	28,182	188,495
Share of profit of subsidiaries and associated companies transferred			11,965		(11,965)	0	0	0
Revaluation transferred to other equity		(5,729)			5,729	0	0	0
Dividend to owners					(50,000)	(50,000)	(4,862)	(54,862)
Equity at 31 December 2021	586,512	169,952	71,143	(42,597)	1,417,648	2,202,658	166,109	2,368,767
Changes in equity 2022								
Equity at 1 January 2022	586,512	169,952	71,143	(42,597)	1,417,648	2,202,658	166,109	2,368,767
Translation difference				(565)		(565)	17	(548)
Transl. diff. reclassified due to sale of subsid				41,506		41,506		41,506
Demolition obligation change		2,404				2,404	0	2,404
Pension obligation, change					(1,380)	(1,380)		(1,380)
Net profit for the year					161,933	161,933	(10)	161,923
Total Comprehensive Income		2,404	0	40,941	160,553	203,898	7	203,905
Share of profit of subsidiaries and associated companies transferred			8,477		(8,477)	0	0	0
Restricted reserves transferred due to sale of subsidiary			(79,423)		79,423	0	0	0
Revaluation acc. transf. to other equity		(6,670)			6,670	0	0	0
Reval. account transf. due to sale of sub.		(165,686)			165,686	0	0	0
Minority interest eliminated from the Group.							(165,965)	(165,965)
Transl. diff. reclassified due to sale of sub.				(15,051)	15,051	0		0
Capitalised interest cost transf. see note 9					10,120	10,120		10,120
Dividend to owners					(120,000)	(120,000)	0	(120,000)
Equity at 31 December 2022	586,512	0	197	(16,707)	1,726,673	2,296,675	150	2,296,825

Notes 1 to 63 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2022 15 Amounts are in USD thousand

Statement of Cash Flow

	2022	2021
Operating activities		
Operating profit of continued operations	347,082	225,961
Operating profit of discontinued operations	56,772	60,297
Op. profit of continued and discontinued operations	403,854	286,258
Adjustments for:		
Depreciation and impairment loss	144,266	138,722
Pension obligation, change	(2,027)	(2,239)
Other changes	(85)	(972)
Working capital from operation before financial items	546,008	421,769
Operating assets, change	(37,301)	(31,280)
Operating liabilities, change	13,258	12,654
Cash flow from operating activities before financial items	521,965	403,143
Interest income received	4,214	625
Interest expenses and foreign exchange diff. paid	(49,548)	(55,742)
Taxes paid	(40,715)	(24,727)
Cash flow from operating activities	435,916	323,299
Investing activities		
Power stations in operation	(14,191)	(20,500)
Transmission	(40,421)	(84,044)
Power plant preparation cost	(3,420)	(1,296)
Purchased shares in other companies	(551)	(466)
Sold shares	237	0
Other capital expenditures	(10,427)	(8,185)
Assets sold	277	1,462
Cash and cash equivalents of subsidiaries at date of sale	(26,515)	0
Other receivables, change	0	(6)
Investing activities	(95,011)	(113,035)
Financing activities		
Dividend paid to owners	(128,490)	(54,862)
New loans	25,000	160,149
Amortisation of long-term debt	(177,033)	(309,062)
Currency swaps	0	(678)
Financing activities	(280,523)	(204,453)
Change in cash and cash equivalents	60,382	5,811
Effect of exchange diff. on cash and cash equivalents	(2,433)	(214)
Cash and cash equivalents at the beginning of the year	97,560	91,963
Cash and cash equivalents at the end of the year	155,509	97,560
Investing activities without payments:		
Sold shares in a subsidiary	304,613	0
Loans granted	(304,613)	0

Notes 1 to 63 are an integral part of these financial statements.

Consolidated Financial Statements of Landsvirkjun 2022 16 Amounts are in USD thousand

Notes

General Information

1. Landsvirkjun

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

2. Basis of preparation

a. Statement of IFRS compliance

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

The Company's Board of Directors approved the financial statements on 20 February 2023.

Note 44 includes information on the Group's significant accounting policies and changes therein in the year.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities, which have been measured at fair value; derivative financial instruments, trading financial assets and shares in other companies. Operating assets and assets held for sale are recognised at the lower of book value or fair value. Operating assets of the subsidiaries Landsnet hf. and Orkufjarskipti hf. are recognised at revalued cost. Landsnet hf. was sold in year end and revaluation account transferred to other equity.

c. Presentation and functional currency

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

d. Management's use of estimate and judgements

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

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

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

- notes 10 and 53 property, plant and equipment
- notes 12 and 54 development cost and other intangible assets
- notes 14, 31, 33, 34, 35 derivative financial instruments
- notes 8 and 52 income tax
- note 26 pension fund obligations

2. Basis of preparation, contd.:

e. Determination of fair value

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

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

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

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

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

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

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

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

- note 14 derivative financial instruments
- note 33 embedded derivatives
- note 40 long-term debt
- note 53 property, plant and equipment

3. Segment reporting

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

Landsvirkjun Group's operating segments are specified as follows:

Electricity generation

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

Electricity transmission

The operations of Landsnet hf. fell under the segment electricity transmission. The purpose of Landsnet hf. is to operate the electricity transmission network and system management in Iceland according to provisions of Chapter III of the Energy Act No. 65/2003 and may thus not carry out other operations than are necessary in order to fulfill its obligations according to the Energy Act. Landsnet hf. was sold at year end 2022 (see note no. 9) and the profit of the segment is presented as discontinued operations in the income statement.

3. Segment reporting, contd.:

Other segments

Other segments include the operations of Orkufjarskipti hf. and Landsvirkjun Power ehf. The purpose of Orkufjarskipti hf. is to own and operate a telecommunications system which is necessary for the shareholders' electricity operations throughout the country and to rent access thereto in accordance with availability and law. Landsvirkjun Power ehf. develops energy related projects internationally and provides advisory services to owners in that field. Landsnet hf. was sold at year end 2022 (see note no. 9) and Orkufjarskipti hf. became associate company and the profit of the segment is presented as discontinued operations in the income statement.

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

Operating segments year 2022	Electricity generation	Electricity transm.	Other segments	Adjustments	Total
Income from third party	607,979	0	651	0	608,630
Income within the Group	1,078	0	0	(1,078)	0
Segment income	609,057	0	651	(1,078)	608,630
Segment operating expenses	(154,124)	0	(682)	1,078	(153,728)
EBITDA	454,933	0	(31)	0	454,902
Depreciation and impairm. loss	(107,820)	0	0	0	(107,820)
Segment earnings, EBIT	347,113	0	(31)	0	347,082
Segment assets 2022	3,871,424	0	1,563	(6,592)	3,866,395
Associated companies	4,707	0	2,043	0	6,750
Total assets 2022	3,876,131	0	3,606	(6,592)	3,873,145
Segment liabilities 2022	1,576,286	0	47	(13)	1,576,320
Total liabilities 2022	1,576,286	0	47	(13)	1,576,320
Investing activities	20,953	0	0	0	20,953

Operating segments year 2021	Electricity generation	Electricity transm.	Other segments	Adjustments	Total
Income from third party	484,372	0	748	0	485,120
Income within the Group	989	0	85	(1,074)	0
Segment income	485,361	0	833	(1,074)	485,120
Segment operating expenses	(151,743)	0	(1,045)	1,074	(151,713)
EBITDA	333,618	0	(212)	0	333,407
Depreciation and impairm. loss	(107,446)	0	0	0	(107,446)
Segment earnings, EBIT	226,172	0	(212)	0	225,961
Segment assets 2021	3,744,745	1,015,309	21,447	(337,201)	4,444,300
Associated companies	426	4,868	1,655	(4,868)	2,081
Total assets 2021	3,745,171	1,020,177	23,102	(342,069)	4,446,381
Segment liabilities 2021	1,529,360	549,619	10,099	(11,464)	2,077,614
Total liabilities 2021	1,529,360	549,619	10,099	(11,464)	2,077,614
Investing activities	23,417	88,879	1,730	0	114,026

Consolidated Financial Statements of Landsvirkjun 2022 19 Amounts are in USD thousand

Notes, contd.

4. Operating revenues

Power sales are specified as follows:

	2022	2021
Retail sales companies	99,200	76,060
Power intensive users	591,956	457,768
Power sales total	691,156	533,828

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

In note no. 47 is further accounted for the registration of the revenues of the Group.

5. Total number of employees

Total number of employees is specified as follows:

	2022	2021
Average number of employees during the year, full-time equivalents	328	320
Full-time equivalent units at year-end	303	277

6. Total salaries of employees

Total salaries of employees are specified as follows:

	2022	2021
Salaries	39,378	38,107
Contribution to defined contribution plans	5,604	5,485
Defined pension benefit payments	2,893	3,015
Other change in pension obligations	(2,027)	(2,238)
Other salary related expenses	3,774	3,548
	49,622	47,917
Transferred to assets	(3,306)	(2,363)
	46,316	45,554

Salaries and salary related expenses are allocated as follows:

	2022	2021
Energy generation costs	25,630	24,549
Other operating expenses	23,992	23,368
Transferred to assets	(3,306)	(2,363)
	46,316	45,554

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

	2022	2021
Salaries of the Board of Directors of the parent company	196	195
Salaries and benefits of the CEO of the parent company	346	339
Salaries of 7 Directors and Deputy CEO of parent company	2,015	1,887

7. Financial income and (expenses)

Financial income and (expenses) are specified as follows:

	2022	2021
Interest income	4,047	701
Interest expenses	(35,036)	(41,914)
Guarantee fee	(665)	(1,488)
Total interest expenses	(35,701)	(43,402)
Realised foreign exchange difference	609	294
Unrealised foreign exchange difference	11,071	10,661
Total foreign exchange difference	11,680	10,955
Fair value changes in embedded derivatives	61,616	33,455
Fair value changes in other derivatives	81,547	(46,301)
Total financial income and (expenses)	123,189	(44,592)

No finance cost was capitalised in 2022 due to power stations under construction (2021: 0.0%).

Consolidated Financial Statements of Landsvirkjun 2022 20 Amounts are in USD thousand

Notes, contd.

8. Income tax

Income tax is specified as follows:

	2022	2021
Change in income tax asset / liability	(15,808)	(43,556)
Income tax payable	(195,059)	(42,775)
Income tax recognised among comprehensive income	(832)	8,671
Foreign exchange and translation difference	3	(38)
Eliminated because of discontinued operations	(69,184)	8,953
Other changes	(11)	(5)
Income tax expensed	(280,891)	(68,750)

Income tax from continued operations according to the income statement amounted to USD 171.4 million and income tax from discontinued operations amounted to USD 109.5 million, a total of USD 280.9 million, see note no 9.

Effective tax rate		2022		2021
Profit for the year		161,923		148,578
Loss (profit) of discontinued operations		136,803		(36,207)
Income tax for the year		171,399		68,750
Profit before income tax		470,125		181,121
Inc. tax acc. to the parent company's tax rate	37.6%	176,767	37.6%	68,102
Effect of different tax rates within the Group	(0.0%)	(203)	(0.0%)	(81)
Capital gains on shares	23.3%	109,492	0.0%	0
Non-taxable and non-deductible items	(1.1%)	(5,165)	0.4%	729
Effective income tax	59.7%	280,891	38.0%	68,750

Income tax due to items recognised in other comprehensive income is specified as follows:	2022	2021
Income tax recognised in other comprehensive income	(832)	8,671
	(832)	8,671

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

	Deferred tax asset		Deferred tax liability	
	2022	2021	2022	2021
Balance at the beginning of the year	44	4	(217,109)	(173,513)
Companies eliminated from the Group	0	0	69,184	0
Change in temporary difference	10	30	(84,987)	(43,629)
Change in carry forward loss	(11)	12	0	(7)
Foreign exchange and translation difference	(3)	(2)	0	40
Balance at year end	39	44	(232,912)	(217,109)

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

Carry forward loss	46	62	0	9
Property, plant and equipment and int. assets	0	0	(197,013)	(242,679)
Derivative financial instruments	0	0	(45,834)	7,996
Other items	(7)	(18)	9,935	17,565
Balance at year end	39	44	(232,912)	(217,109)

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

	2022	2021
Carry forward loss of the year 2017, usable until the year 2027	0	99
Carry forward loss of the year 2018, usable until the year 2028	95	106
Carry forward loss of the year 2020, usable until the year 2030	83	91
Carry forward loss of the year 2021, usable until the year 2031	52	57
Carry forward loss at year end	230	353

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

Consolidated Financial Statements of Landsvirkjun 2022 21 Amounts are in USD thousand

9. Discontinued operations

Under laws approved in 2021, the Icelandic state and/or municipalities should own Landsnet hf. directly. A contract was made at the end of 2022 between the Ministry of Finance and Economic Affairs and Landsvirkjun to sell Landsvirkjun's 64.73% share in Landsnet hf. to the state for USD 305 million and as of 30 December 2022 Landsnet hf. is no longer part of the Group. The sales price was paid with loan agreements. Orkufjarskipti hf. is subsequently no longer a subsidiary, becoming an associated company with a share in equity as a holding in an associate company.

Capitalized interest on Landsvirkjun´ s loan to Landsnet was USD 10.5 million at the end of 2021. Landsvirkjun's separate financial statements recognized the amount as interest revenue. In Landsvirkjun's consolidated financial statements, this capitalization was offset against the parent company's equity. Following the sale of Landsnet hf., this consolidated entry was reversed and transferred to other equity.

Sale of subsidiary: main statements

In the income statement, Landsnet hf. and Orkufjarskipti's hf. performance is presented in one line as discontinued operations and the amounts for 2021 have been adjusted accordingly to comply with IFRS 5 for comparison reasons. Landsnet´ s and Orkufjarskipti´ s assets and liabilities are transferred from the group following the sale and are therefore not included in the balance sheet on the accounting date 31.12.2022 but are part of the comparative figures of the balance sheet 31.12.2021. The cash flow statement shows the cash flow from continuing operations and discontinued operations up to the date of sale.

The main results of discontinued operations due to Landsnet hf. are the following:

Income Statement	**2022**	**2021**
Operating revenues	162,755	149,750
Operating expenses	(107,651)	(90,755)
Operating profit	55,104	58,995
Financial income and (financial expenses)	(14,548)	(14,570)
Profit before income tax	40,556	44,425
Income tax	(8,055)	(8,850)
Profit of discontinued operations	32,501	35,575

Balance Sheet	**31.12.2022**
Property, plant, equipment and projects under construction	946,721
Intangible assets	18,464
Inventories	6,192
Accounts receivables and other receivables	26,951
Long term receivables and shares in other companies	7,697
Cash and cash equivalents	26,325
Total assets	1,032,350
Interest bearing liabilities	440,503
Deferred income tax liability	69,883
Obligation due to demolition	11,716
Prepaid income	2,264
Accounts payable and other payables	19,030
Income tax payable	6,673
Total liabilities	550,069
Total equity 31 December 2022	482,281

Statement of Cash Flow	**2022**
Cash flow from operating activities	72,962
Investing activities	(45,052)
Financing activities	(26,534)
Change in cash and cash equivalents	1,376

Consolidated Financial Statements of Landsvirkjun 2022 22 Amounts are in USD thousand

Notes, contd.

9. Discontinued operations contd.:	**2022**	**2021**
Profit (loss) of discontinued operations is specified as follows:		
Profit of Landsnets hf.	32,501	35,575
Depreciation of capitalised interest	428	428
Minority interest in profit of Landsnets hf.	(11,463)	0
The share of the parent company in profit of Orkufjarskipti hf.	297	203
Loss of sale due to the sale of Landsnets hf.	(7,568)	0
Income tax due to taxable capital gain of shares	(109,492)	0
Translation difference reclassified	(41,506)	0
	(136,803)	36,207

10. Property, plant and equipment

Property, plant and equipment is specified as follows:

Cost value	**Power stations**	**Trans-mission**	**Communi-cation equipment**	**Other assets**	**Total**
Total value at 1.1.2021	5,646,826	1,035,188	28,690	85,031	6,795,735
Effect of exch rate changes	0	0	(734)	0	(734)
Revaluation of transmission	0	76,933	0	0	76,933
Additions during the year	17,888	7,149	1,689	1,736	28,462
Transferred from projects under construction	0	110,543	0	0	110,543
Sold and disposed of	0	0	(50)	(2,016)	(2,066)
Total value at 31.12.2021	5,664,714	1,229,813	29,595	84,751	7,008,873
Eliminated due to sale of sub.	0	(1,229,813)	(29,595)	(41,365)	(1,300,773)
Additions during the year	13,288	0	0	3,070	16,358
Sold and disposed of	0	0	0	(1,037)	(1,037)
Total value at 31.12.2022	5,678,002	0	0	45,419	5,723,421
Depreciation and impairment loss					
Total value at 1.1.2021	2,522,665	366,253	11,515	39,658	2,940,091
Revaluation change	0	25,933	0	0	25,933
Effect of exch. rate changes	0	0	(297)	0	(297)
Depreciation for the year	96,158	28,359	965	3,330	128,812
Sold and disposed of	0	0	(47)	(1,892)	(1,939)
Total value at 31.12.2021	2,618,823	420,545	12,136	41,096	3,092,600
Eliminated due to sale of sub.	0	(420,545)	(12,136)	(17,901)	(450,582)
Depreciation for the year	96,102	0	0	2,176	98,278
Sold and disposed of	0	0	0	(945)	(945)
Total value at 31.12.2022	2,714,925	0	0	24,426	2,739,351
Book value					
1.1.2021	3,124,161	668,935	17,175	45,373	3,855,644
31.12.2021	3,045,891	809,268	17,459	43,655	3,916,273
31.12.2022	2,963,077	0	0	20,993	2,984,071
Book value without revaluation					
1.1.2021	3,124,161	450,593	16,912	45,373	3,637,039
31.12.2021	3,045,891	550,860	17,272	43,655	3,657,678
31.12.2022	2,963,077	0	0	20,993	2,984,071

Official assessment of fixed assets and insurance value

The official assessment of the Company's real estate amounted to USD 467 million at year end 2022 (2021: USD 529 million). Insurance value of the Company's assets amounts to USD 6.010 million (2021: USD 5,814 million) and catastrophe insurance value amounted to zero because of the sale of Landsnet hf. (2021: USD 1.083 million).

Consolidated Financial Statements of Landsvirkjun 2022 23 Amounts are in USD thousand

10. Property, plant and equipment, contd.:

Assumptions relating to revaluation of property, plant and equipment

In accordance with provision of IFRS the Group's transmission network and communication equipment were revalued during 2008 and powerlines and connection masts of Landsnet hf. at year end 2015 and again at year end 2021.

11. Projects under construction

Projects under construction are specified as follows:

	2022	2021
Balance at 1.1.	83,432	121,374
Eliminated due to sale of subsidiary	(83,432)	0
Transferred from development costs	0	153
Additions during the year	0	72,448
Transferred to property, plant and equipment	0	(110,543)
Balance at 31.12.	0	83,432

12. Development cost and other intangible assets

Development cost and other intangible assets are specified as follows:

	Capitalised developm. cost	Water and geothermal rights	Software	Total
Cost value				
Total value at 1.1.2021	229,755	45,611	11,500	286,866
Sold and disposed of	0	0	(1,394)	(1,394)
Additions during the year	4,533	0	1,750	6,283
Transferred to projects under construction	(153)	0	0	(153)
Total value at 31.12.2021	234,135	45,611	11,856	291,602
Eliminated due to sale of subsidiary	(34,055)	0	(5,943)	(39,998)
Additions during the year	4,086	0	1,554	5,640
Total value at 31.12.2022	204,166	45,611	7,467	257,244
Depreciation and impairment loss				
Total value at 1.1.2021	93,343	0	8,521	101,864
Amortisation during the year	0	0	638	638
Impairment loss during the year	9,271	0	0	9,271
Sold and disposed of	0	0	(1,394)	(1,394)
Total value at 31.12.2021	102,614	0	7,765	110,379
Eliminated due to sale of subsidiary	(7,360)	0	(3,842)	(11,202)
Amortisation during the year	0	0	642	642
Impairment loss during the year	8,900	0	0	8,900
Total value at 31.12.2022	104,154	0	4,565	108,719

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

Book value	Capitalised developm. cost	Water and geothermal rights	Software	Total
1.1.2021	136,412	45,611	2,979	185,003
31.12.2021	131,521	45,611	4,091	181,223
31.12.2022	100,012	45,611	2,902	148,525

Development cost is reviewed every year by management to check whether there are indications of impairment. In testing for possible impairment the Parent Company's forecast of expected cash flow over the useful life of the assets was used. In the evaluation, expected cash flow was discounted using the weighted average required rate of return which was 5.43% (2021: 4.76%). If management concludes that an impairment has occurred, the relevant development cost is expensed as impairment.

13. Depreciation and impairment loss

Depreciation and impairment is specified as follows:	2022	2021
Power stations	96,102	96,158
Other assets	2,176	1,817
Depreciation of assets in operation	98,278	97,975
Impairment loss on development cost	8,900	8,900
Amortisation of software	642	572
	107,820	107,446

Depreciation and impairment is allocated as follows by sectors:

Energy generation costs	97,546	96,940
Cost of general research	8,900	8,900
Other operating expenses	1,374	1,606
	107,820	107,446

14. Derivative financial instruments

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

	31.12.2022	31.12.2021
Assets:		
Embedded derivatives in power contracts	98,752	37,135
Commodity hedges	50,583	20,212
Currency swaps	3,485	1,889
	152,820	59,236
Derivative financial instruments are divided as follows:		
Long term component of derivative agreements	98,964	27,290
Short term component of derivative agreements	53,856	31,946
	152,820	59,236
Liabilities:		
Commodity hedges	33,579	80,045
	33,579	80,045
Derivative financial instruments are divided as follows:		
Long term component of derivative agreements	5,535	13,777
Short term component of derivative agreements	28,044	66,268
	33,579	80,045

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14. Derivative financial instruments, contd.:

The assumptions for valuation of embedded derivatives are discussed in note 33.

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

15. Associated companies

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

2022	Share	Share in return	Book value
AIS LLC, Georgia	20.0%	(153)	1,891
GEDC, Canada	33.0%	(2)	152
Hecla SAS, France	28.5%	(2)	0
Heimsþing ehf., Iceland	33.3%	11	2
Orkufjarskipti hf., Iceland	45.0%	0	4,304
SER eignarhaldsfélag ehf., Iceland	47.0%	0	391
Sjávarorka ehf., Iceland	33.6%	0	10
		(146)	6,750

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

16. Loan to related parties

Landsvirkjun has granted loans at market rates to the Icelandic state and Orkufjarskipti hf. In year end 2022 the loans amounted to USD 268.8 million after deducting next year's maturities. Current maturites amounted to USD 39.9 million.

	31.12.2022	31.12.2021
The Icelandic state	305,294	0
Orkufjarskipti hf.	3,468	0
Current maturites	(39,922)	0
	268,840	0

17. Lease agreements

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

	2022		2021	
	Lease asset	Lease debt	Lease asset	Lease debt
Balance 1.1.	7,367	(6,306)	7,420	(6,560)
Eliminated due to sale of subsidiary	(1,882)	1,774	0	0
Additions during the year	754	(401)	0	0
Indexation	406	(406)	257	(257)
Other changes in lease payments	0	0	54	(54)
Foreign exchange rate changes	0	415	(7)	157
Depreciation of assets/amortisation of debt	(120)	221	(357)	408
Balance 31.12.	6,525	(4,703)	7,367	(6,306)

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Notes, contd.

17. Lease agreements contd.:

Current maturities are recognised among short term liabilities. In the year 2022 the Group expensed USD 195 thousand of interest expenses due to the lease liability (2021: 193 thousand USD). The Group takes advantage of the lease of assets with low value exemptions in IFRS 16.

Lease liability - maturity analysis - not discounted

	2022	2021
Payments within a year	419	600
Payments after a year and within 5 years	1,306	1,845
Payments after 5 years or later	8,123	10,866
Total of lease liability - not discounted	9,848	13,311

18. Landsvirkjun's subsidiaries

Landsvirkjun's subsidiaries are the following:

	Share	
Icelandic Power Insurance Ltd., Bermuda	100.0%	100.0%
Landsnet hf., Iceland	0.0%	64.7%
Landsvirkjun Power ehf., Iceland	100.0%	100.0%
Orkufjarskipti hf., Iceland	45.0%	100.0%

The subsidiary Landsnet hf. was sold during the year. Orkufjarskipti hf. is an associated company at year end where control is shared with Landsnet hf.

19. Inventories

Inventories are specified as follows:

	31.12.2022	31.12.2021
Spare parts and consumables	0	5,825
	0	5,825

20. Accounts receivables and other receivables

Accounts receivables and other receivables are specified as follows:

Accounts receivables	112,843	98,735
Other short term receivables	3,195	1,350
	116,038	100,085

In assessing impairment of accounts receivables, historical information is used as guidance as well as current economic prospects. At year end 2022, 96% of accounts receivables were under 30 days old (2021: 90%).

21. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank deposits	155,509	97,560
	155,509	97,560

22. Equity

The Parent Company is a partnership owned by the Icelandic State and Eignarhlutir ehf. The Icelandic state owns 99.9% of the Company and Eignarhlutir ehf. 0.1%. Eignarhlutir ehf. is owned by the State. Landsvirkjun is an independent taxable entity. The Group's equity ratio at year end 2022 was 59.3% compared to 53.3% at year end 2021.

Consolidated Financial Statements of Landsvirkjun 2022 27 Amounts are in USD thousand

23. Revaluation account, translation difference and restricted reserves

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

24. Liabilities

Interest bearing long term debt is specified as follows:

	2022	2021
Interest bearing long term debt 1.1.	1,598,346	1,767,767
Eliminated due to sale of subsidiary	(441,201)	0
New loans/interest added to principal	248	160,149
Amortisation of long term debt	(149,249)	(308,653)
Foreign exchange difference	(9,821)	(23,743)
Changes in CPI indexation and amortisation of discounting	702	2,826
Interest bearing long term debt 31.12.	999,025	1,598,346

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

	Due date	2022 Average interest	2022 Remaining balance	2021 Average interest	2021 Remaining balance
Liabilities in ISK			0	5.0%	36,690
Liabilities in CHF			0	0.0%	3,210
Liabilities in EUR	2026	1.6%	159,938	0.0%	169,741
Liabilities in USD	2023-2035	3.6%	839,087	3.5%	1,388,705
			999,025		1,598,346
Current maturities of long term debt			(222,619)		(149,151)
Total long term debt			776,406		1,449,195

Interest rates on debt at year end was in the range of 1.6-6.8%. Nominal interest rates for the year were on average 3.3% (2021: 3.4%), taking into account the state guarantee fee for long term loans which is calculated according to Act No. 121/1997 on state guarantees.

25. Maturities of long-term debt

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

	2022	2021
2022	-	149,151
2023	222,619	250,674
2024	27,619	58,824
2025	182,631	194,965
2026	187,610	310,898
2027	27,619	-
Later	350,927	633,834
	999,025	1,598,346

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26. Pension fund obligations

The Company's obligation to refund the indexation charges on retirement payments to current and former employees, which hold pension rights with state and communal pension funds amounted to USD 36.4 million at year end 2022 according to an actuary's evaluation, which is based on estimated future changes in salaries and prices. Interest rates in excess of price increases are assessed at 3.5% and salary increase in excess of price increases is assessed at 1.5% per year on average. Life expectancy and mortality assumptions are in accordance with the provisions of Regulation No. 391/1998 on obligatory pension benefits and operation of pension funds. New death and survivor tables were published in December 2021 by the Association of Icelandic Actuaries using a calculation model with a forecast of future death and survivor figures.The calculated retirement age is 65 years for non-employees with vested benefits. This is consistent with criterion used by the Pension Fund for State Employees.

Change in the obligation is specified as follows:	**2022**	**2021**
Balance at 1.1.	39,574	36,597
Expensed during the year	866	776
Payments during the year	(2,893)	(3,015)
Actuarial change	2,212	6,234
Effect of foreign exchange rate changes	(3,332)	(1,018)
Balance at 31.12.	36,427	39,574

Pension fund obligation, 5 years:	**2022**	**2021**	**2020**	**2019**	**2018**
Present value of the obligation	36,427	39,574	36,597	36,863	38,015

27. Obligation due to demolition

Change in the obligation due to demolition is specified as follows:	**2022**	**2021**
Balance at 1.1.	15,631	17,727
Eliminated due to sale of subsidiary	(15,631)	0
The time effect of discounting through financial expenses	0	1,506
Additions during the year	0	472
Change in obligation through other comprehensive income	0	(4,074)
Balance at 31.12.	0	15,631

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

28. Accounts payable and other payables

Accounts payable and other payables are specified as follows:	**31.12.2022**	**31.12.2021**
Accounts payable	16,688	16,915
Accrued interest	9,249	13,927
Other short term liabilities	48,909	44,984
	74,846	75,826

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29. Related parties

Definition of related parties

Owners, associated companies, members of Boards of Directors, key management and companies and institutions owned by them are among the Company's related parties. Due to the sale of Landsnet hf. Orkufjarskipti hf becomes an associated companies and the presentation of this note is changed from the previous year.

Transactions with related parties	**2022**	**2021**
Sale of goods and services		
Associated companies	15	13
Purhase of goods and services		
Associated companies	1,672	1,545

Interest income from related parties amounted to USD 0.3 million, (2021: USD 0.2 million) due to loans. The loans were issued at market rates.

	31.12.2022	**31.12.2021**
Loans to related parties are specified as follows:		
Interest bearing loans to associated companies	3,468	144
Interest bearing loans to the Icelandic state	305,294	0
Accrued interest	51	0
	308,813	144

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

	31.12.2022		**31.12.2021**	
	Receivables	**Payables**	**Receivables**	**Payables**
Associated companies	1	(77)	0	0
	1	(77)	0	0

Transactions with related parties are on the same basis as transactions with non-related parties. Transactions with the state, excluding loan agreements, or companies or institutions owned by the State are not specified as a separate item but such transactions are comparable to transactions with non related parties. The Group applies an exemption from disclosure requirements of IAS 24 as the Parent Company is owned by the state. See further information in note 22.

30. Fees to auditors

Fees to auditors in the year 2022 amounted to USD 183 thousand (2021: USD 202 thousand), whereof USD 115 thousand (2021: USD 133 thousand) was for the audit and review.

Consolidated Financial Statements of Landsvirkjun 2022 30 Amounts are in USD thousand

Notes, contd.

31. Risk management

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

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

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

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

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

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

32. Financial risk

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

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

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

33. Commodity risk

The Company is exposed to market risk due to fluctuations in aluminum price and electricity price on the Nord Pool market. About 54% of Landsvirkjun‘s electricity sales (GWh) is linked to aluminium price and around 9% is linked to electricity price on the Nord Pool market. The Company uses derivative agreements to secure its income base and reduce fluctuations. In most cases such agreements fix prices or a price range. Therefore, the Company will recognise less revenue if prices go up, but secure its revenue if prices go down. Landsvirkjun has hedged around 61% of its aluminium price risk and around 88% of its Nord Pool electricity price risk in 2023. At 2022 year-end the fair value of derivatives for hedging commodity risk was positive by 17.0 million USD (2021: negative by 59.8 million USD).

33. Commodity risk contd.:

Embedded derivatives

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

	2022	2021
Fair value of embedded derivatives is specified as follows:		
Fair value of embedded derivatives at the beginning of the year	37,135	3,681
Fair value changes during the year	61,616	33,455
Fair value of embedded derivatives at year end	98,752	37,135
Division of embedded derivatives is specified as follows:		
Long term component of embedded derivatives	88,384	22,934
Short term component of embedded derivatives	10,368	14,201
Total embedded derivatives	98,752	37,135

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

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

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

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

Expected cash flows are discounted using USD rates from Bloomberg, without spreads. At year end 2022, discount rates were in the range of 3.8 - 5.1% (2021: 0.2 - 1.6%).

Sensitivity analysis of aluminium price risk

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

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

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

33. Commodity risk contd.:

Sensitivity analysis of Nord Pool electricity price risk

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

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

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

34. Foreign exchange risk

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

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

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

31.12.2022	**EUR**	**ISK**	**CHF**	**Other currencies**
Long term receivables	106,660	3,468	0	0
Accounts receivables and other receivables	4,206	16,475	0	86
Cash and cash equivalents	4,257	9,163	0	490
Interest bearing liabilities	(159,938)	0	0	0
Derivatives	69,555	0	0	0
Accounts payable and other payables	(13,282)	(240,174)	(55)	(214)
Risk in balance sheet	11,458	(211,068)	(55)	361

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

Exchange rates of the main currencies against the USD for the years 2022 and 2021 are specified as follows:

	Average rate		**Rate at year end**	
	2022	**2021**	**2022**	**2021**
EUR	0.95	0.85	0.94	0.88
CHF	0.96	0.91	0.92	0.91
ISK	135.46	127.05	142.04	130.38

34. Foreign exchange risk contd.:

Sensitivity analysis

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

	Profit (loss) / Equity	
2022	Strengthening	Weakening
EUR	(1,146)	1,146
ISK	21,107	(21,107)
CHF	6	(6)
Other currencies	(36)	36

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

The fair value of cross currency swaps was positive by USD 3.5 million at the end of December 2022 (2021: positive by USD 1.9 million).

35. Interest rate risk

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

At year end 2022, the proportion of loans with fixed interest rates including swap agreements was 77% (2021: 85%). At year end 2022, the estimated market value of the Company's long-term liabilities was USD 5 million higher than their book value (2021: USD 166 million higher) discounted by the underlying currencies yield curve without spread. The following table shows the division of financial assets and liabilities between floating and fixed interest.

Financial instruments with fixed interest	**31.12.2022**	**31.12.2021**
Interest bearing liabilities	(766,759)	(1,300,235)
Cross currency and interest rate swaps	(56,015)	(56,015)
Long term receivables	308,031	144
	(514,743)	(1,356,106)
Financial instruments with floating interest		
Cash and cash equivalents	155,509	97,560
Interest bearing liabilities	(232,266)	(298,109)
Cross currency and interest rate swaps	53,330	56,604
Long term receivables	731	0
	(22,696)	(143,946)

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35. Interest rate risk, contd.,

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

31.12.2022	**Cash flow**		**Book value**	
	-100 bps	+100 bps	-100 bps	+100 bps
Embedded derivatives	0	0	(2,000)	1,764
Other derivatives	(533)	533	(2,239)	(101)
Interest bearing liabilities	2,320	(2,326)	0	0
Cash and cash equivalents	(1,555)	1,555	0	0
	232	(238)	(4,239)	1,663

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

36. Liquidity risk

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

The Company's cash and cash equivalents amounted to USD 156 million at year end 2022 (2021: USD 98 million) but taking into account revolving credit facilities (USD 150 million) Landsvirkjun has access to a total of USD 306 million (2021: USD 268 million). Cash flow from operations, a well distributed maturity profile in addition to strong liquidity and access to credit facilities secure the Company's liquidity at least throughout the year 2024.

36. Liquidity risk, contd.,

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

31.12.2022	Book value	Contractual cash flow	Within one year	1 - 2 years	2 - 5 years	More than 5 years
Non-derivative financial instruments						
Long term receivab.	308,762	348,057	51,814	50,967	242,841	2,435
Cash and cash equiv. ...	155,509	155,509	155,509	0	0	0
Short term receivab.	116,038	116,038	116,038	0	0	0
Interest bearing liab.	(999,025)	(1,133,783)	(247,391)	(56,974)	(453,677)	(375,742)
Current liabilities	(269,905)	(269,905)	(269,905)	0	0	0
	(688,621)	(784,085)	(193,936)	(6,006)	(210,836)	(373,307)
Derivative financial instruments						
Cross curr. swaps	3,485	3,229	811	1,173	1,245	0
Commodity derivat.	17,005	14,746	15,742	(997)	0	0
Embedded derivatives in power contracts	98,752	116,804	10,695	14,682	54,383	37,044
	119,241	134,779	27,248	14,859	55,628	37,044

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

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37. Financing

Landsvirkjun places emphasis on securing access to capital and having diverse sources of funding. Thus, the Company has been able to access capital through the issuance of bonds in the domestic and foreign capital markets, by borrowing from the European Investment Bank (EIB) and the Nordic Investment Bank (NIB) and through project financing in Europe and Japan. In addition, the Company has access to credit facilities from its commercial banks. All financing since 2018 has been green or sustainability-related and is in line with the company's strategy and focus on sustainable development and the United Nations' global goals.

During the year the Group took on new debt amounting to USD 25 million (2021: USD 160 million). Repayments amounted to USD 177 million (2021: USD 309 million). The parent company paid off bonds in December 2022 amounting to USD 50 million which were due in February 2026. The bonds had a government guarantee and the percentage of loans with government guarantee has therefore decreased.

Landsvirkjun's interest-bearing debt amounted to USD 999 million at year end 2022 (2021: USD 1.598 million). The risk associated with refinancing is reduced by the equal distribution of amortisations and by the suitable lifetime of outstanding debt. The weighted average lifetime of interest-bearing debt is 3.7 years (2021: 4.8 years) and the ratio of interest-bearing debt with maturity within a 12-month period is 22% (2021: 9.3%).

In recent years, Landsvirkjun has placed an emphasis on changing its debt portfolio and no longer takes on debt with a state guarantee. In addition, the Company has systematically worked towards removing state guarantees of outstanding debt where possible. The principal of state guarantee debt thus is decreasing and the last debt enjoying a state guarantee is due in 2026. At year end 2022, 16% of Landsvirkjun's debt was state guaranteed (2021: 14%). Landsvirkjun pays a guarantee fee to the Icelandic state for the Company´ s debt which has a state guarantee.

38. Green Bonds

Landsvirkjun has issued bonds under the Green Finance Framework. The proceeds will be used to finance and refinance green assets on the Company's balance sheet. Landsvirkjun was the first Icelandic company to issue a Green Bond. At year end 2022 Landsvirkjun has issued Green Bonds amounting to USD 285 million. Annual reporting under the Green Finance Framework and further information can be found on Landsvirkjun´ s website.

39. Counterparty risk

Counterparty risk is the risk that a counterparty to an agreement does not comply with provisions of the agreement. Landsvirkjun's counterparty risk arises first and foremost due to the Company's power contracts, derivative contracts and cash and cash equivalents. Though the amounts involved can be considerable, the risk is limited by the Company´ s requirements for take or pay clauses in power contracts and also through requirements for counterparty guarantees. Landsvirkjun requires that counterparties have an investment grade credit rating when it comes to keeping cash and cash equivalents and entering into derivative contracts. In note no. 51 the assessment of assets is explained in more detail.

39. Counterparty risk contd.:

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

	31.12.2022	31.12.2021
Derivative financial instruments	152,820	59,236
Long term receivables	308,762	0
Accounts receivables and other receivables	116,038	100,085
Cash and cash equivalents	155,509	97,560
	733,128	256,881

40. Comparison of fair value and book value of long term debt

	31.12.2022		31.12.2021	
	Book value	Fair value	Book value	Fair value
Interest bearing long term liabilities	999,025	1,004,138	1,598,346	1,764,683

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

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

Interest rates are specified as follows:	2022	2021
Interest bearing liabilities in USD	3.8 to 5.1%	0.2 to 1.7%
Interest bearing liabilities other than in USD	1.5 to 3.5%	-0.7 to 0.7%

41. Fair value classification

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

	Level 2	Level 3	Total
31.12.2022			
Embedded derivatives		98,752	98,752
Other derivatives	20,489		20,489
Shares in other companies		631	631
	20,489	99,383	119,872
31.12.2021			
Embedded derivatives		37,135	37,135
Other derivatives	(57,945)		(57,945)
Revaluation of property, plant and equipment		258,595	258,595
Shares in other companies		622	622
	(57,945)	296,352	238,407

Main assumptions for valuation of derivatives can be seen in notes 14 and 33.

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42. Classification of financial instruments

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

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

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

31.12.2022	**Assets and liabilities held for trading**	**Equity instruments**	**Loans and receivab.**	**Other financial liabilities**	**Total**
Derivative financial instruments	152,820				152,820
Shares in other companies		631			631
Long term receivables			308,762		308,762
Accounts receivables and other receivables			116,038		116,038
Cash and cash equivalents			155,509		155,509
Total assets	152,820	631	580,309	0	733,759
Interest bearing liabilities				999,025	999,025
Derivative financial instruments	33,579				33,579
Accounts payable and other payables				269,905	269,905
Total liabilities	33,579	0	0	1,268,930	1,302,509
31.12.2021					
Derivative financial instruments	59,236				59,236
Shares in other companies		622			622
Accounts receivables and other receivables			100,085		100,085
Cash and cash equivalents			97,560		97,560
Total assets	59,236	622	197,645	0	257,503
Interest bearing liabilities				1,598,346	1,598,346
Derivative financial instruments	80,045				80,045
Accounts payable and other payables				118,601	118,601
Total liabilities	80,045	0	0	1,716,947	1,796,992

43. Capital management

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

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44. Significant accounting policies

The Group has adopted International Financial Reporting Standards, amendments thereto and interpretations adopted by the European Union at year end 2022. The following improvements become operative 1 January 2022:

•IAS 16 Property, pland and equipment - commissions for use
•IAS 37 Provisions, Contingent Assets and Contingent Liabilities - onerous contracts, cost of fulfilling a contract.
•IFRS 3 Busines Combinations - IFRS foundation
•2018-2020 annual improvements - minor improvements to 4 standards.

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

The Group has not adopted new or amended standards which have been issued but not entered into effect. 1 January 2023 the following improvements to standards take effect:

•IFRS 17 Insurance contracts - new standard
•IAS 1 Presentation of Financial Statements - accounting policies in notes
•IAS 8 Accounting policies, changes in accounting estimates and errors - definition of accounting estimate

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

45. Basis of consolidation

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

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

45. Basis of consolidation contd.:

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

46. Associated companies

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

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

47. Operating revenues

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

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

Electricity generation

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

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

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

47. Operating revenues contd.:

Electricity transmission

Landsnet carries out the transmission of electricity and system operation in accordance with the provisions of Chapter III of the Electricity Act no. 65/2003. Revenues for the transmission of electricity are based on the measurement of delivered units according to a valid tariff at each time. That tariff is dependent on a revenue cap defined in art. 12 of the Electricity Act and is subject to surveillance by the National Energy Authority. Revenues from transmission losses and system operation are also recognised based on the measurement of delivered units according to the valid tariff. That tariff is based on purchase price according to auctions and is not dependent on the revenue cap but subject to surveillance by the Natonal Energy Authority. The right to recognise revenue and issue an invoice for the transmission of electricity is established when the electricity is transmitted and delivered. Landsnet hf was sold in year end 2022 (see further in note no 9).

Other

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

48. Interest income and expenses

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

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

49. Other financial income and expenses

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

50. Foreign currency transactions

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

Notes, contd.

51. Impairment

a) Financial assets

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

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

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

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

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

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

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

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

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

51. Impairment, contd.:

b) Other assets

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

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

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

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

52. Income tax

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

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

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

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

53. Property, plant and equipment

Property, plant and equipment are initially measured at cost.

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

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

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

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

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

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

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

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

53. Property, plant and equipment, contd.:

Depreciation

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

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

Depreciation ratios and useful life are specified as follows:

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

54. Intangible assets

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

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

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

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

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

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

	Amortisation	Useful life
Software	25%	4 years

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55. Lease agreements

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

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

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

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

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

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

56. Financial instruments

a) Non-derivative financial assets

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

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

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

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

56. Financial instruments contd.:

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

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

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

ii) Financial assets at amortised cost

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

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

iii) Financial assets at fair value through other comprehensive income

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

b) Non-derivative financial liabilities

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

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

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

c) Derivative financial instruments

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

i) Separable embedded derivatives

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

56. Financial instruments contd.:

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

57. Inventories

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

58. Cash and cash equivalents

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

59. Equity

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

60. Employees' benefits

a) Defined contribution plan

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

b) Defined benefit plan

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

61. Obligations

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

62. Operating segments

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

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

63. Subsequent events

Nothing has come forth after the balance sheet date, which would require adjustments or changes to the financial statements for the year 2022.

Appendix I: Statement of Corporate Governance

Legislation and corporate governance

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

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

Internal controls and risk management

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

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

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

- The Audit Committee, in cooperation with an external auditor, reviews the effectiveness of risk management and internal controls in connection with the reliability of the Company's financial information and financial statements.
- The Board's Risk Committee monitors the effectiveness of risk management, risk policy and Landsvirkjun's risk framework. The Board's Risk Committee and Audit Committee report back to the Board on their progress under the Rules of Procedure. The Board receives information and proposals from the committees for discussion and approval at Board meetings.
- The CEO implements the Company's risk policy and ensures that effective risk management systems and processes are in place to support the Policy. The CEO also ensures that individual roles in risk management are clearly defined, that risk control is adequate and that an overview of the Company's risk factors exists. The CEO also sets risk criteria for the Company's operations in accordance with risk appetite.
- Landsvirkjun's Executive Board reviews and approves risk management procedures within the Company. The Board acts as a consultation forum on risk management and ensures compliance with the Company's Risk Policy. The Executive Board consists of the CEO, Deputy CEO and Executive Directors according to the Company's organisation chart.
- Executive Directors are responsible for ensuring that the Risk Policy and procedures are integrated into daily activities within their divisions.

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

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

Corporate social responsibility and ethical standards

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

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

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

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

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

Ownership, role, policy, vision and values

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

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

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

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

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

The Board of Directors and sub-committees of the Board

The Board of Directors

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

Landsvirkjun's Board of Directors:

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

Jón Björn Hákonarson, Vice-Chairman of the Board, was born on the 27th of January 1973 and lives in Norðfjörður, Fjarðabyggð. Jón Björn was elected to Landsvirkjun's Board of Directors in April 2018 and was previously on the Board from 2014-2017. Jón Björn was President of the Fjarðabyggð Town Council and Vice-chairman of the Municipal Council from 2010- 2020. He is now the Mayor of Fjarðabyggð and a town representative. He is also a Board Member of the Icelandic Association of Local Authorities, Sparisjóður Austurlands, the leasing company Bríet and is involved in various committees for Fjarðabyggð, other public entities and municipal cooperation. He was also Party Secretary for the Progressive Party from 2016-2022. Jón Björn is an independent member of the Board of Directors and unaffiliated with Landsvirkjun and its owners.

Appendix I: Statement of Corporate Governance, contd.

Álfheiður Ingadóttir was born on the 1st of May 1951 and lives in Reykjavík. Álfheiður re-joined Landsvirkjun's Board of Directors in April 2014 after being appointed to the Board by the Reykjavík City Council (2003-2006). Álfheiður holds a BS degree in biology from the University of Iceland and is currently an alternate Member of Parliament for the Left-Green Movement Party and an editor at the Icelandic Museum of Natural History. She was a Member of Parliament for the Reykjavík constituency from 2007-2013. Álfheiður was the Minister of Health from 1 October 2009 - 2 September 2010 and Chairman of the Left-Green Movement Party from 2012-2013. She was the Publishing Director of the Icelandic Institute of Natural History from 1997-2007 and editor of+B1525 Náttúrufræðingurinn, a magazine published by Hið íslenska náttúrufræðifélag from 1997-2006. She worked as an Information Representative for the Women's Shelter from 1994-1995 and as a journalist for Þjóðviljinn from 1977-1987. Álfheiður is an independent member of the Board of Directors and unaffiliated with Landsvirkjun and its owners.

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

Hákon Hákonarson was born on the 6th of February 1945 and lives in the town of Akureyri. Hákon was appointed as a deputy member of the Board in April 2018 and was a board member from October 2021 until April in 2022.

Soffía Björk Guðmundsdóttir was born on the 24th of December 1962, and lives in Reykjavík. Soffía was elected to Landsvirkjun's Board of Directors in April 2022. Soffía has a B.Sc. in Chemistry, an M.Sc. in Environmental Engineering, and an MBA from the University of Oxford and Business Studies. Soffía is Executive Director at PAME at the North Arctic Council. She is also a part-time lecturer in Arctic law at the Faculty of Law at the University of Akureyri. She previously held a position at the United Nations Environment Agency and in project management for the construction and design of drainage and landfill structures at an engineering firm in the city of Seattle. Soffía is an independent member of the Board of Directors and unaffiliated with Landsvirkjun and its owners.

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

Audit Committee

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

a) Monitor the processes involved in preparing financial statements.

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

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

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

Pursuant to paragraph 3, Article 8 of the Act on Landsvirkjun No. 42/1983, the General Meeting elects a certified public accountant or accounting firm to audit the Company's financial statements, according to the proposal from the Icelandic National Audit office. Pursuant to the Act on the Auditor General and the Auditing of Government Accounts, the election of an auditor or audit firm shall be decided in consultation with audit committees, when applicable.

Landsvirkjun's Audit Committee serves an advisory role for the Board of Directors and acts on its behalf. The Committee does not have executive power. The Audit Committee has a total of three members consisting of two Board members: Jónas Þór Guðmundsson and Soffía Björk Guðmundsdóttir and Heimir Haraldsson CPA, who is the Chairman of the Committee. The Audit Committee may seek advice, whenever necessary, to fulfil its supervisory duties. The official working period of the audit committee (at any given time) is between annual general meetings. The Committee meets at least four times during its tenure. The Chairman of the Committee chairs the meetings of the Audit Committee.

Risk Management Committee

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

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

b) When necessary, present the Board with any proposed changes to the risk management structure.

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

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

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

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

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

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

The Risk Committee has three Board members, all appointed by the Board of Directors: Jónas Þór Guðmundsson, Chairman, Álfheiður Ingadóttir, and Gunnar Tryggvason. Hákon Hákonarson, who replaced Guðfinna Jóhanna Guðmundsdóttir as a committee member on the 20th of October 2021 sat on the committee until Landsvirkjun's General Meeting in 2022. The Committee meets 2-3 times a year or as often as required and reports back to the Board annually.

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

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

b) Monitor the execution of the remuneration policy.

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

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

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

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

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

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

Meetings in 2022: The Board of Directors held 19 sessions, the Audit Committee held 4 meetings, the Remuneration Committee held 3 meetings, and the Risk Committee held 3 meetings. All meetings were fully attended.

CEO, Deputy CEO and Executive Board

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

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

Appendix I: Statement of Corporate Governance, contd.

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

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

Einar Mathiesen is the Executive Director of the Wind and Geothermal Energy Division. The Division is responsible for efficiently operating geothermal power stations and wind farms and maximising energy generation. The Division is responsible for the maintenance, renovation, and renewal of power stations to perform their specified role efficiently, meeting environmental and safety requirements and complying with the ISO 55000 Asset Management Standard. The Division is also responsible for the development of new energy options for geothermal and wind energy and innovation that leads to improved utilisation of the resource, as well as monitoring and research monitoring of the resource. The two resource divisions share common systems and work processes during maintenance and refurbishment projects and are jointly responsible for their development in line with progress and changing priorities in company operations. The Asset Management Division in the Construction Division manages the systems in question.

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

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

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

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

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

Regulatory compliance

The Company has not violated any laws or regulations according to any court or administrative order in 2022.

Arrangements for communication with the owners

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

Appendix II: Non-financial information

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

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

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

Landsvirkjun's market environment has undergone significant changes, presenting complex challenges and exciting opportunities. Landsvirkjun responded to these changes by embarking on extensive strategy work in 2020, which continued into 2021 and 2022.

Strategy targets	**Strategic objectives**
Operating exemplary resource utilisation & energy generation	Lower electricity generation costs Take the next step in wind energy
Leading the way in climate and environmental affairs	Supporting domestic energy transition Become carbon neutral
Pursuing a diverse business & exceptional customer service	Work closely with customers Diversify our customer base
Providing a progressive & sought-after workplace	Strengthening the team Correct gender ratios
Exceeding expectations in open communi-cation and cooperation	Working closely with the local community Active communication with stakeholders

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

Appendix II: Non-financial information, contd.

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

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

Economy and corporate governance

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

Business model

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

Landsvirkjun's role is to maximise the value of the renewable energy resources it has been entrusted with in a sustainable, responsible, and efficient manner. Landsvirkjun paid dividends to the state in the amount of 120 million USD in 2022.

Management System

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

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

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

Appendix II: Non-financial information, contd.

Ethical Standards
Landsvirkjun's ethical standards are outlined in the Company's quality management system, included in the appropriate procedures, and made available to employees in the general information provided by the Company. The Code of Conduct and Supplier Code of Conduct are being updated.

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

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

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

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

EU Taxonomy Regulation
Landsvirkjun has begun preparations for implementing the EU Taxonomy Regulation, a classification system for environmentally sustainable economic activities designed to support the green transformation of the EU economy. We have assessed the taxonomy eligibility of our activities, which is one of the screening criteria set out in the taxonomy. This includes all the energy we generate, utilising hydropower, geothermal energy, and wind power. The Regulation requires businesses to analyse and identify income, investments, and operating costs directly linked to taxonomy-eligible activities.

Landsvirkjun's Customers
Market conditions for Landsvirkjun's customers were favourable in 2022, with product prices reaching an all-time high in the year's first half. However, challenging circumstances arose in the external environment due to the war in the Ukraine, the subsequent electricity crisis and energy curtailments in Iceland. Landsvirkjun's energy sales to energy-intensive users increased by 3% from the previous year, despite reductions in electricity delivery in the first half of the year and problems associated with the supply chains of several customers.

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

Appendix II: Non-financial information, contd.

Climate and environmental issues

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

Climate and Environment Policy

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

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

The Climate and Environmental Policy was reviewed during the year, and proposed amendments will be submitted to the Board for approval at the beginning of 2023. The aim of the review is to ensure that the Policy continues to support the Company in its role as a leader in climate and environmental issues. The proposed changes relate to Landsvirkjun's commitment to emission reductions, prioritisation, and more explicit wording.

Climate and environmental targets

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

Maximise the utilisation of harnessed resources

The winter of 2021-2022 was cold, with heavy snowfall, which decreased reservoir inflow during the winter months. Most of Landsvirkjun's customers maximised their production capacity due to favourable market conditions during this period, and Landsvirkjun subsequently reduced the supply of curtailable energy due to low water levels. The situation turned around in March when warm weather came unusually early, melting the snow, and rapidly increasing reservoir inflow. These measures were lifted earlier than expected at the beginning of April. Landsvirkjun's electricity generation increased by 4% from the previous year, despite bringing curtailment clauses in power contracts into effect. Landsvirkjun's production is now close to full capacity. The year's events emphasised the importance of curtailment clauses in power contracts to maximise the value of the renewable energy sources Landsvirkjun has been entrusted with.

Appendix II: Non-financial information, contd.

Preventing incidents that negatively impact the environment.
Two environmental incidents caused unwanted risks this year. There were seven risk incidents unlikely to cause serious damage or harm and five minor acceptable-risk incidents. The causes were assessed, procedures reviewed, and the relevant work procedures updated. More information about the year's environmental incidents can be found in Landsvirkjun's Annual Report.

- Becoming carbon neutral in 2025.
Emissions less sequestration were 17.0 thousand tonnes in 2022, a increase of 2% compared with 2021.

- Annual greenhouse gas emissions below 4 g CO_2 equivalent per kWh
Emissions per energy unit were 3.5 g CO_2 eq/kWh in 2022 and decreases by 2% between years. Emissions per energy unit are, therefore, below the annual emission ceiling which is 4 g CO_2 eq/kWh. Avoided emissions from Landsvirkjun's operations in 2022 are estimated at 2.7 million tonnes of CO_2 eq, a decrease of 16% compared with 2021, which can be attributed to decreasing emission factors. A more detailed discussion on avoided emissions and calculation methods can be found in Landsvirkjun's Annual Report.

- Stop purchasing fossil fuels by 2030
We purchased 142 thousand litres of fossil fuels in 2022, a reduction of 14% compared with 2021.

- No active waste from general operations will go to landfill by 2024
The quantity of active waste sent to landfill in 2022 was 35 tonnes, a decrease of 2 tonnes compared with 2021.

A more detailed discussion on the status of climate goals can be found in Landsvirkjun's Climate Accounts, approved by Bureau Veritas.

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

Landsvirkjun's emissions were reviewed and confirmed (with limited certainty) by the international firm Bureau Veritas, according to the ISO 14064-3 Standard, in 2008, 2018, 2019, 2020, 2021 and 2022. Landsvirkjun's carbon sequestration measures were also reviewed and confirmed (with limited certainty) by Bureau Veritas in 2020, 2021 and 2022 according to the ISO 14064-2 Standard.

The CDP (formerly the Carbon Disclosure Project) has once again recognised Landsvirkjun for its climate leadership qualities by awarding it an A score, which means that Landsvirkjun demonstrates best practice in strategy and action on climate matters in its operations. Landsvirkjun has submitted information about the company's climate management to CDP since 2016 but decided to submit information every other year after receiving an A- score in 2020.

Society

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

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Appendix II: Non-financial information, contd.

Community Engagement Policy

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

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

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

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

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

Collaboration with the community

Landsvirkjun's operations have a widespread impact on the community, not least in local communities surrounding its power stations. One of the Company's strategic objectives is to create support and consensus through open communication with stakeholders.

Following the structural changes in 2021, the Local Community and Green Operations Division, a part of the Community and Environment Division, was established and reflects Landsvirkjun's commitment to communication and contributing to society.

Human Resources and Equality Policy

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

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

Human Resources

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

Landsvirkjun invested in extensive management and leadership training between 2020 and 2022 to support the Company's new strategy. The training program was designed to bolster manager-team relationships, helping managers attain their full potential, thereby creating a cohesive environment where the Company's vision, policy, corporate culture, and operations can thrive.

Appendix II: Non-financial information, contd.

Equality

The Company has a Gender Equality Committee chaired by the CEO. It has defined and published a gender equality plan until 2024 in accordance with Act 150/2020 on Equal Status and Equal Rights Irrespective of Gender. The Executive Board reviews the plan every six months.

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

Equality objectives and certification

A milestone was reached in 2021 when gender balance was achieved on our Executive Board. However, there is still a gender deficit at the management level. The proportion of female managers at Landsvirkjun was 39% at the end of 2022 and 33% at the end of 2021.

Landsvirkjun pays equal wages and/or the same terms for the same or equally valuable jobs. The Company operates in accordance with the Equal Wage Standard ÍST 85:2012, and the Company's equal pay system is certified. Landsvirkjun was awarded the PWC Gold Standard for the eighth time in 2022. Men's basic salaries were 2% higher than women's, and men's total wages were 2,5% higher than women's, placing them within the PWC threshold.

Health and Safety and Occupational Safety Policy

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

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

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

Appendix II: Non-financial information, contd.

Objectives in health and safety and occupational safety matters

Landsvirkjun has set the following objectives:

	2022	2021
Absence related incident/200,000 work hours = 0 (empl)	0.64	0.33
Absence related incident/200,000 work hours = 0 (contr)	Not measurable due to too few hours	
Sick days as a percentage of working hours < 3%	4.2%	3.1%

Employee mental health

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

Certification and standards

Landsvirkjun operations are reviewed annually and certified in accordance with the Occupational Health and Safety Standard ISO 45001, which requires continuous improvement in safety, health, and occupational health. Landsvirkjun's operations are reviewed annually according to the requirements of the standard and the Company maintained the certification of ISO 45001 in 2022.

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