Reykjavík Energy

Consolidated Annual Financial Statements 2024

Reykjavík Energy
Ssn. 551298-3029
Bæjarháls 1, 110 Reykjavík

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These Financial Statements are translated from the Icelandic original. Should there be any discrepancies between the two versions, the Icelandic version will take priority.

2024 in a Nutshell

Reykjavík Energy introduces its new corporate strategy under the statement: "We Enable a Sustainable Future." The company's new branding is also unveiled, followed by implementation within its subsidiaries.

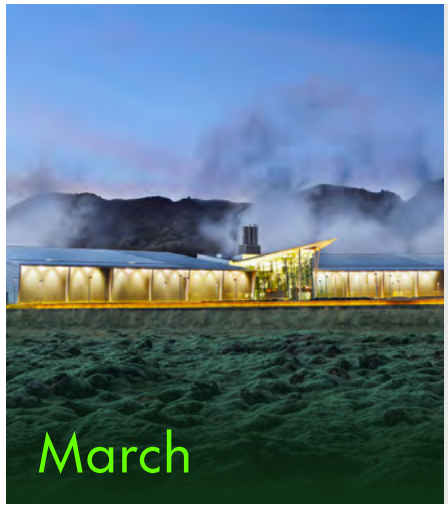
"We aim to be a driving force by focusing on the success of others—because we want to be a strong partner that helps communities thrive. Our success is measured by the success of others."

– Sævar Freyr Þráinsson, CEO of Reykjavík Energy

Veitur Utilities establishes a truck-based hot water supply as a volcanic eruption threatens infrastructure in the Reykjanes region. Hot water is transported by tanker trucks to protect the pipeline system and facilitate the restart of the heating utility.

"Once it became clear that Reykjanes residents were facing a hot water shortage, we devised the truck-based supply after carefully considering how we could assist effectively."

– Hrefna Hallgrímsdóttir, Head of District Heating at Veitur



ON Power publishes an international advertisement seeking interest in purchasing 150 megawatts of electricity from its power plants.

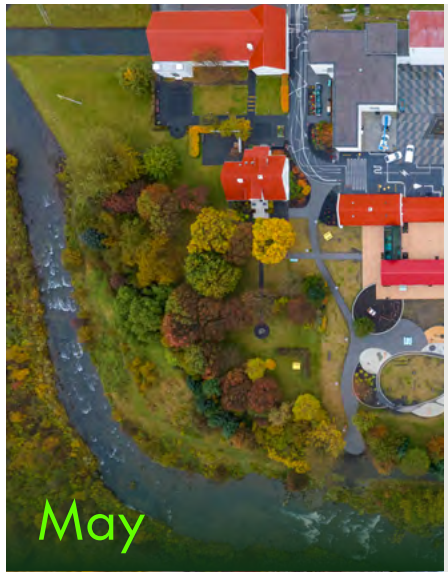
"It is our duty to our owners and society as a whole to offer the energy we generate at market price—this is part of that responsibility."

– Árni Hrannar Haraldsson, CEO of ON Power

Reykjavík Energy's climate accounting receives independent international certification, significantly enhancing its reliability. Previously, the Science Based Targets initiative (SBTi) confirmed that the company's climate goals align with the Paris Agreement.

"This is an important step—one that, as far as we know, no other Icelandic company has taken yet. It marks a significant milestone on our journey towards net-zero emissions."

– Hólmfríður Sigurðardóttir, Head of Environmental Affairs at Reykjavík Energy



Reykjavík Energy and the City of Reykjavík sign an agreement ending more than a century of the company's and its predecessors' use of the Elliðaár River for electricity generation.

"When power production ceases, the operator has a duty to restore the environment as much as possible. Today, Elliðaárdalur is no longer barren land like it was in the early 20th century—it has become one of the capital area's most popular outdoor recreation spaces."

– Sævar Freyr Þráinsson, CEO of Reykjavík Energy

ON Power and Iceland Drilling sign an agreement for the drilling of eight production wells for ON in the Hengill area between 2025 and 2027.

"ON is a key producer of both hot water and electricity, and we want to ensure uninterrupted service for our customers in the long term."

– Árni Hrannar Haraldsson, CEO of ON Power

Reykjavík Fibre Network and the technology firm Tölvun expand their partnership to provide telecommunications services to homes and businesses in Vestmannaeyjar.

"We want to enable all telecom providers to offer their subscriptions over the fibre networks that municipalities have been developing extensively in recent years."

– Einar Þórarinsson, CEO of Reykjavík Fibre Network

New ON Point charging parks open in Reykjavík, Akranes, and Borgarnes.

"At ON Power, we take great pride in launching these charging parks, which are part of our broader effort to expand the ON charging network. This is our contribution to the energy transition."

– Árni Hrannar Haraldsson, CEO of ON

The Council of Europe Development Bank (CEB) approves a €75 million loan to Reykjavík Energy to develop utility networks and enhance their resilience to climate risks and natural disasters.

"This is a crucial step in securing funding for these essential projects and ensuring future quality of life for residents and businesses."

– Sólrún Kristjánsdóttir, CEO of Veitur Utilities

Carbfix signs agreements with Elkem Iceland and Grundartangi Development Company to capture and store carbon dioxide emissions from Elkem's plant.

"We anticipate that more companies and industries will follow, helping to counteract the severe climate changes already underway."

– Edda Aradóttir, CEO of Carbfix

Reykjavík Fibre Network and Snerpa sign an agreement for expanded collaboration, increasing opportunities for other telecom companies in the Westfjords.

"Since 2022, RFN has offered data transport services in rural areas, aiming to leverage our infrastructure and expertise to simplify and optimise business operations."

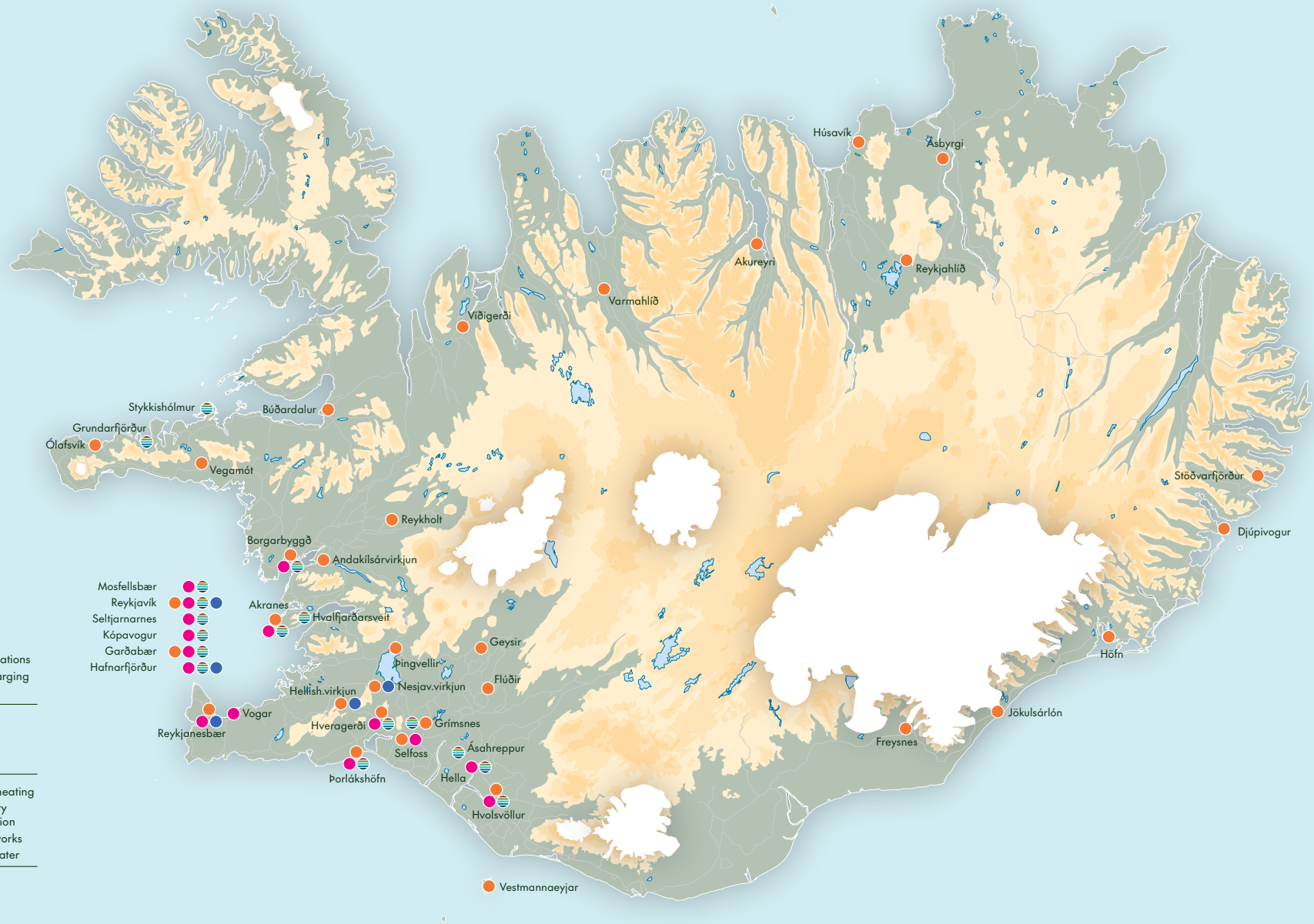
– Einar Þórarinsson, CEO of Ljósleiðarinn

Reykjavík Energy and Veitur Utilities sign a contract with North Tech Drilling for the drilling of up to 35 geothermal wells, in one of the largest drilling tenders in recent years.

"We are moving forward in securing energy resources and ensuring a sustainable energy supply for the future."

– Hera Grímsdóttir, Chief Research and Development Officer of Reykjavík Energy

Services



- Power stations
- Fast-charging stations
- Fibre network
- District heating
- Electricity distribution
- Water works
- Wastewater
- Carbon storage

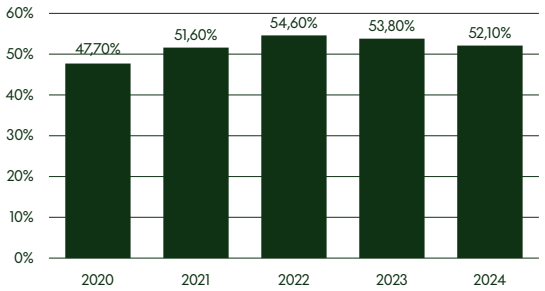
Manager's Overview

Operating year	2024	2023	2022	2021	2020
Amounts are at each years price level in ISK millions					
Revenues	66,782	61,169	55,644	51,890	48,627
Expenses	(27,720)	(25,469)	(21,220)	(18,380)	(19,172)
Thereof energy purchase and distribution	(7,191)	(7,264)	(6,718)	(5,872)	(5,793)
EBITDA	39,062	35,701	34,424	33,510	29,454
Depreciation and amortisation	(16,830)	(15,797)	(14,439)	(13,257)	(13,056)
EBIT	22,232	19,904	19,984	20,253	16,398
Cash flow statement					
Received interest income	1,066	591	313	256	397
Paid interest expenses*	(8,037)	(7,040)	(5,061)	(4,398)	(4,940)
Net cash from operating activities*	29,725	27,672	26,358	25,582	23,152
Working capital from operation	29,113	27,465	27,587	23,675	22,357
Liquid funds	**31.12.2024**	**31.12.2023**	**31.12.2022**	**31.12.2021**	**31.12.2020**
Deposits and marketable securities	11,594	8,670	11,071	14,657	14,867
Cash and cash equivalents	16,438	10,342	6,651	10,320	15,820
Undrawn credit lines	4,550	14,660	9,100	9,629	11,776
Liquid funds total	32,582	33,672	26,821	34,606	42,463
Electricity generation (GWh)	3,384	3,509	3,494	3,545	3,581
Hot water production (million m³)	119	112	107	104	107
Water production (million m³)	30	32	29	28	28
Data volume (Terabytes)	574,000	518,000	443,000	396,000	345,000
Carbon intensity of electricity generation (g CO_2-eq/kWh)	7.3	7.3	7.5	7.3	7.8
Carbon intensity of heat production (g CO_2-eq/kWh)	3.7	3.5	4.0	3.7	3.7
Mineralized CO_2	12,100	12,500	12,300	13,400	11,500
Unexplained gender pay gap	0.59%	-0.10%	0.10%	-0.20%	0.03%

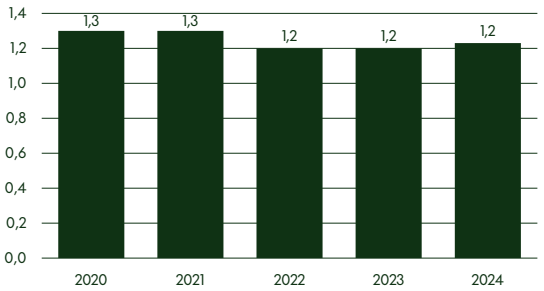
*The year 2022 is adjusted for the settlement of the currency agreement with Glitnir (court case).

Financial Ratios

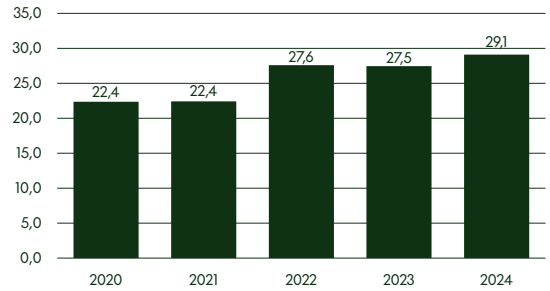
Equity ratio



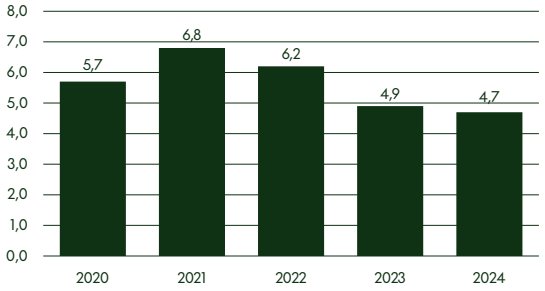
Current ratio



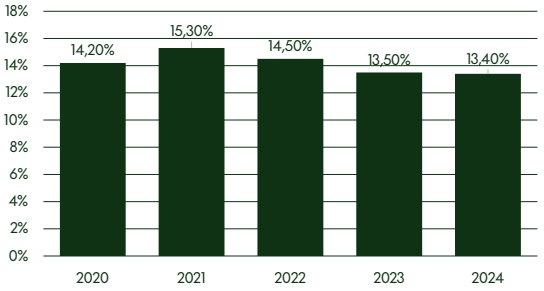
Working Capital from Operations (ISK billions)



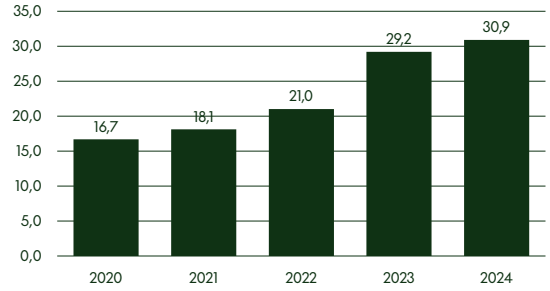
Interest Coverage

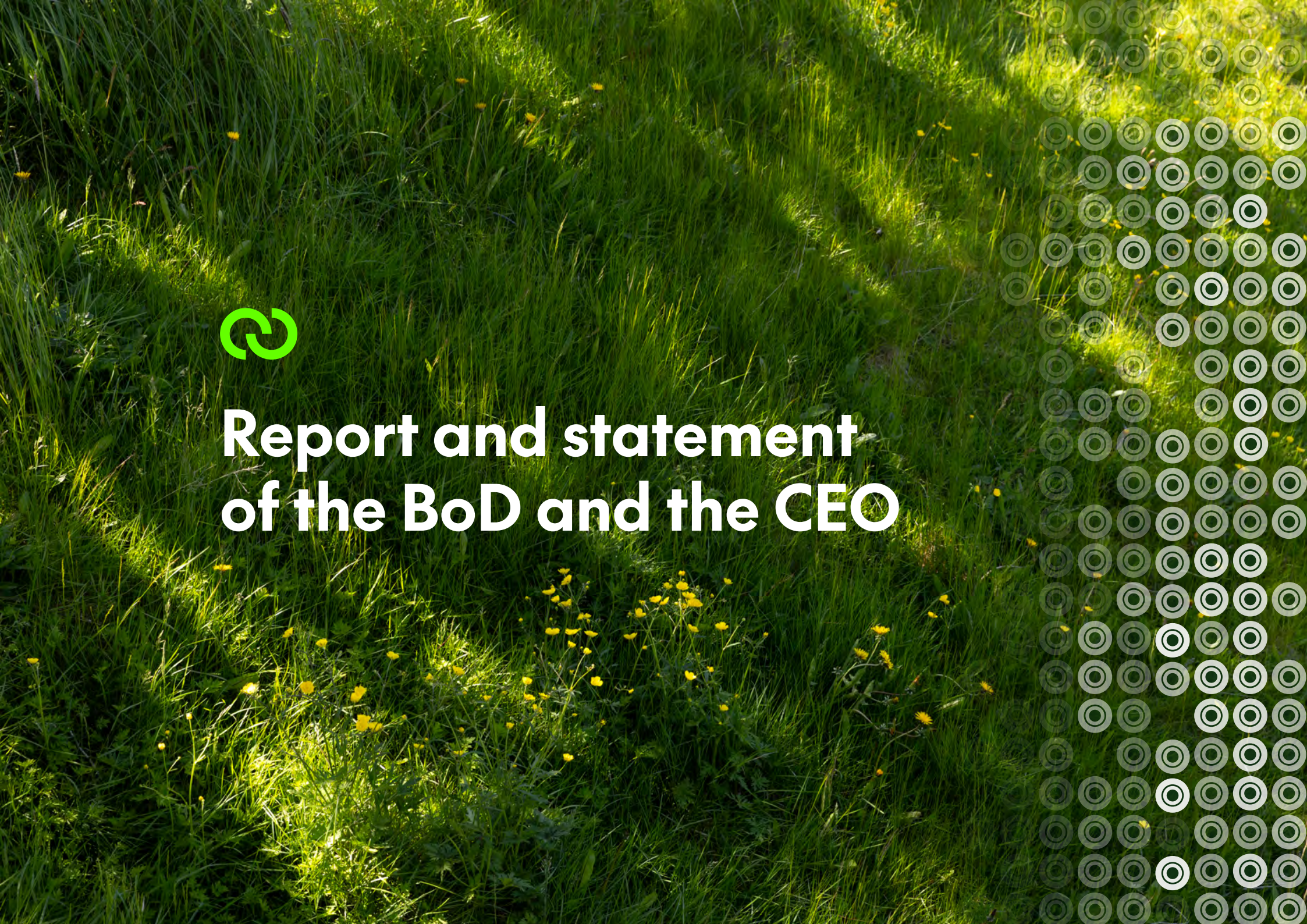


RCF / Net Debt



Investments (ISK Billions)





Report and statement of the BoD and the CEO

Chairman and CEO's Introduction

In 2024, Reykjavík Energy positioned itself for progress based on its new corporate strategy, which was formally approved by all owners mid-year. This strategy clearly outlines how RE will support a growing society, households, and businesses through innovation in energy, utility services, and carbon sequestration.

"We are the driving force of a sustainable future" is the guiding statement of the new strategy and, at the same time, the shared motto of the entire RE group. The strategy also declares the changes that the companies within the group have embraced. Across the RE group, organisational changes were made to reflect the priorities of this new strategy, which is built on the following pillars:

Increased supply and sustainable solutions affirm Reykjavík Energy's leadership in the energy transition and the journey toward carbon neutrality. We support growing communities, households, and businesses by expanding energy production, utility services, and carbon sequestration efforts.

Innovation and strong collaboration, where we take a leading role and are a sought-after partner for cooperation. We work alongside our owners, municipalities, households, and businesses with mutual benefits as our guiding principle.

Success-oriented team and sustainable operations. We are an ambitious, agile, and diverse workforce delivering efficient and reliable operations. Employee well-being, growth, and ambition are directly linked to our overall drive and goals. We actively work to strengthen international competitiveness through knowledge and skill development, empowering employees with the authority to make decisions and create impact.

Gylfi Magnússon Chair of the Board and Sævar Freyr Þráinsson CEO.

For the customer, as the ultimate purpose of Reykjavík Energy's work is to create value for a diverse group of customers, including households, businesses, and municipalities. We innovate and deliver outstanding service.

Ambitious goals have been set to support these strategic priorities.

Solid Finances

Reykjavík Energy's solid financial standing provides the foundation for the growth envisioned in its new strategy. Revenues are increasing, and projections indicate that annual revenues will have grown by one-third over this decade. This revenue growth is based on three key pillars:

1. The growth of the communities RE serves in various ways.
2. New revenue-generating investments made by the group's companies.
3. Increased returns from existing assets, with one of the most significant factors being securing fairer pricing for electricity supplied to heavy industry.

Among the new investments are Carbfix's plans, which are expected to create an entirely new revenue stream—income generated from the permanent and responsible sequestration of CO_2 from industrial sources. This represents a significant environmental milestone, not just for Iceland but for the entire world, while also delivering substantial financial benefits to the country and its people.

According to this annual report, RE's equity stands at ISK 265.7 billion, with an equity ratio of 52.1%. Based on the current financial forecast, equity is expected to grow by more than a quarter by the end of 2029.

Reykjavík Energy operates in a capital-intensive industry. Expanding utility networks and maintaining the thousands of kilometres of underground pipelines is costly. Power plant developments require significant investment, and the infrastructure needed for carbon sequestration also demands substantial financial resources. Access to financing on favourable terms is, therefore, a critical factor in RE's financial efficiency.

The past few years have been financially challenging for many companies. Inflation has been high, and interest rates have remained elevated. RE has certainly felt the impact of rising interest rates, but access to capital has remained smooth. This is mainly due to the company's clear financing framework, which has earned the highest rating for the sustainability of its infrastructure projects.

At its core, Reykjavík Energy is an environmental company, providing natural resources responsibly to households and businesses. When managed with care and respect for future generations, this translates into access to financing on more favourable terms than would otherwise be available.

Focus on Sustainability

The concept of sustainability has been part of public discourse for nearly 40 years, ever since the United Nations published the Brundtland Report in the autumn of 1987. Over time, the understanding of what sustainability means for business operations has gradually evolved, and soon, legislation will formalise the definition adopted by governments in our region as a cornerstone of responsible business practices. Transparency is at the heart of this implementation, with the legislation primarily focusing on ensuring clear corporate disclosures in annual reports.

This is RE's first annual report prepared considering the forthcoming regulations. The EU Corporate Sustainability Reporting Directive (CSRD) has already come into force for large companies within the EU and is expected to extend in the coming months to equivalent companies within the European Economic Area (EEA). Under these regulations, companies must regularly report on sustainability-related aspects of their operations beyond financial performance—including environmental, climate, social, and governance factors—as part of their mandatory disclosures and audits.

Reykjavík Energy has been a pioneer in sustainability reporting in Iceland. Since the turn of the century, the company has consistently published either dedicated environmental reports or integrated annual reports, covering all key sustainability aspects. Therefore, adopting new EU regulations is a natural continuation of RE's existing transparency practices rather than a fundamental shift. However, the legal requirements for the reliability of corporate sustainability disclosures represent a significant and meaningful milestone.

In this 2024 Annual Report, RE's board and CEO have sought to align with the forthcoming legislation. The decision to implement these standards now—rather than waiting for the official government mandate—is because parts of the EU sustainability framework have already been incorporated into Icelandic law. EU regulatory requirements already influence RE's engagement with financial markets.

For instance, in the 2023 annual report, RE classified revenues, expenses, and investments per the EU Taxonomy Regulation, which has already been in effect for the company. Additionally, RE's updated financing framework, issued in autumn 2024, was developed in compliance with the same regulatory requirements.

The Dark Green Reykjavík Energy

A particularly pleasing milestone in the release of RE's financing framework was that an independent assessment by the international rating agency S&P Global awarded it the highest rating,

classifying it as "Dark Green". Furthermore, S&P determined that all eligible operations within the Reykjavík Energy group planned for financing under this framework meet the stringent sustainability requirements of the EU Taxonomy Regulation. Assessments like these reinforce the confidence of the company's board and management that RE is exceptionally well-positioned to lead the green transition that must take place.

Since issuing its first Green Financing Framework in 2019, financing under this framework has become the dominant form of funding within the group, both through bond issuance and direct loans. Currently, 66% of RE's financing falls under the framework.

Another notable change in the group's financing structure is that only 20% of its loans are now directly guaranteed by its owners—the City of Reykjavík, the Municipality of Akranes, and the Municipality of Borgarbyggð. In contrast, at the end of 2010, this figure stood at 93%.

In 2024, discussions emerged regarding how RE's debt should be recorded in the financial statements of its owners. RE is part of the City of Reykjavík's consolidated accounts, meaning that all its liabilities are included in the city's calculated debt ratio under Icelandic municipal legislation. This means that, regardless of RE's assets, equity, cash flow, profitability, or dividend payments, its recorded debt is always counted as a burden on the city's finances—even though the city is not responsible for repaying these debts. This rule does not apply to energy and utility companies owned by the state.

A temporary solution to this issue was reached in 2024, but in light of RE's planned growth, this inaccurate accounting method must be permanently abolished.

Uncertainties

Reykjavík Energy's investments, whether past investments or those planned for the future, are not without risk. One of the most significant advancements in operations in recent years has been the strengthening of risk management. The oversight and supervision of the Board to ensure that its guidelines are followed have been enhanced. Financial risk management is discussed in notes 26-31 of the financial statements, while sustainability risks are addressed in the relevant sections of the Board's report. However, recent events on the Reykjanes Peninsula have drawn attention to natural hazards.

No company in the country relies more on energy production from volcanic areas than RE. It has been encouraging to see how relatively unaffected the operations of the power plants in Svartsengi and Reykjanes have been during the ongoing volcanic activity and how successfully infrastructure has been protected. The response of energy and utility company employees in the Reykjanes region, along with their management and authorities, represents a valuable resource for RE's risk management.

Climate risks also affect Reykjavík Energy. Rising sea levels significantly impact wastewater systems, and the uncertainty regarding whether climate change will result in higher or lower temperatures in Iceland poses challenges for the company's adaptation to ongoing climate shifts. This uncertainty directly affects district heating systems and their energy demand but also has implications for water resources, which are expected to respond in some way to significant climatic changes.

Additional uncertainty looms over wastewater management, as it remains unclear how stricter wastewater treatment requirements will be implemented in Iceland or whether, and to what extent, financial support can be expected to offset foreseeable costs. The last major wastewater infrastructure initiative, launched about a quarter of a century ago, provided significant incentives for wastewater operators—primarily municipalities—to reduce construction costs. This resulted in essential improvements to the coastal water quality of the capital region and, subsequently, similar advancements in Akranes and Borgarbyggð.

It may guide policymakers today that, despite the incentives granted at the time, not all municipalities subject to current regulations have managed to upgrade their wastewater systems. While RE prepares for increasing requirements, research efforts have already begun to reduce the need for wastewater sludge disposal, explore the potential to harness the energy flowing through the wastewater system, and mitigate the environmental impact of substances in wastewater. Through innovation—applying fresh and novel approaches to longstanding challenges—benefits can be realised for the environment, the communities we serve, and society as a whole.

Major Steps in Emission Reduction Ahead

Reykjavík Energy's efforts to reduce its CO_2 emissions have naturally focused on the main source of emissions within the group—the operation of two sizeable geothermal power plants in the Hengill area. Significant progress has been made in capturing and sequestering carbon dioxide and hydrogen sulphide from geothermal steam, and several significant steps are on the horizon.

RE has now published its own Climate Action Plan, outlining in greater detail than before how the company intends to further its progress in climate action and achieve net-zero emissions across its operations and value chain by 2040. Achieving net-zero emissions requires multiple measures, and the roadmap contains the toolbox that RE will utilise to reach this goal. A key foundation of the

Climate Action Plan is RE's precise emissions accounting, which in 2024 attained international certification for its reliability.

The emissions accounting highlights, among other things, how the steel used in RE's supply chain significantly contributes to its carbon footprint. Traditional steel production, as practised for centuries, emits substantial amounts of carbon dioxide, but reports from abroad suggest that new methods could deliver substantial climate benefits.

International developments also bring news of increasing geopolitical tensions, affecting relations between nations, politics, and global trade. RE's supply chain is extensive, with raw materials sourced from more diverse locations. As a result, the company must be prepared for potential disruptions in procurement due to instability in global markets.

Reykjavík Energy's strong standing in sustainability presents opportunities for the company. One of the greatest is the result of years of persistence in developing responsible carbon sequestration. Those familiar with the challenges of growing start-up ventures know that progress can be slow, often leading to impatience. The demand for Carbfix technology is increasing. Although there are signs that a reduction may be on the horizon, carbon dioxide emissions from human activities have not yet begun to decrease. The accumulated concentration of CO_2 in the atmosphere is such that the scientific community is nearly unanimous in the view that capturing carbon from the air or from sources where alternative solutions are difficult to implement is not only necessary but urgently so. This is where business opportunities lie.

Reykjavík Energy cannot seize these opportunities alone. It requires strong collaboration with local communities where operational sites are established, with suppliers and customers, and with prospective co-owners who will share both the risks and financial benefits. The climate and environmental benefits will be undeniable once financing and other preparatory challenges are overcome.

In 2024, the focus regarding the refinancing of Ljósleiðarinn shifted. The authorisation granted by RE's owners to bring in a co-owner or co-owners for the company expired at the turn of the year. The high-interest period that prevailed since the authorisation was granted proved unfavourable for the project. Efforts are underway to refinance through other means but with the same objective: ensuring that Ljósleiðarinn has the financial strength to support the communities it serves so they are well equipped to navigate the digital future.

Increased Energy Production

Since the beginning of Iceland's electrification, hydropower production has been the backbone of the electricity system. Since the turn of the century, geothermal energy has gained a significant share, particularly well-suited for industrial use, where fluctuations in consumption are smaller than in the general market.

After Reykjavík City merged its hydropower plants into Landsvirkjun nearly 60 years ago, that company—now fully state-owned—has controlled the backbone of electricity generation. Competition in the electricity market is heavily influenced by this structure, and overall conditions in the market are largely determined by Landsvirkjun's hydropower reserves. Recent poor hydrological conditions have naturally shaped discussions on energy matters.

At the same time, demand for sustainable energy has risen while supply has been constrained by weather patterns. RE intends to respond to this challenge, and in 2024, the company strengthened its research and innovation division for this purpose. While geothermal utilisation remains RE's stronghold, additional opportunities are being explored in hydropower, wind, solar, and other innovative natural energy sources. These initiatives

are developed and refined within RE, with viable projects then executed by ON Power.

The role of government in providing a regulatory framework for such developments has been under discussion, and it is encouraging that work by previous administrations and parliament to enhance the efficiency of public administration appears to be continuing. Strong energy projects must have a predictable path through the permitting and consultation process, while weak proposals should be quickly dismissed.

Energy security took on a new dimension in 2024 when imminent large-scale damage to substantial residential areas in Reykjanes was averted. The events in Grindavík, which damaged the main transmission pipeline of the district heating system from Svartsengi, underscored that district heating is just as essential to homes and businesses as electricity.

Hot water consumption in Veitur Utilities' district heating system has been increasing at an unprecedented rate in recent years, with no slowdown in 2024. Since 2019, water usage in Veitur Utilities' district heating systems has risen by more than 20%—a massive growth. The additional demand alone is roughly equivalent to twice the total energy consumption in the district heating system for the entire Eyjafjörður region.

It is therefore no surprise that Veitur has taken a firm approach to district heating issues, refining its understanding of resource availability in different areas, identifying opportunities, and shaping a long-term vision for system development. This effort already yielded results last year, with the discovery of new low-temperature geothermal areas for the capital region and the completion of major projects to reinforce key transmission pipelines.

Despite this progress, growing pains in district heating can still be expected. Customers may experience temporary water shortages during major construction projects or restrictions in the delivery of secondary energy—such as to swimming pools—during the coldest winter conditions.

Water Protection

In terms of volume, the cold water delivered to RE's customers amounts to only one-third of the volume of hot water. However, this does not fully reflect its significance, as clean drinking water is the foundation of life and a prerequisite for various industries. The purity of the water must be safeguarded from its source to the taps of the public and other consumers.

The most significant risks along this journey lie at the water sources themselves. Open water sources are now rare in RE's operations, but boreholes are in fenced-off areas where there may be significant human activity just beyond the barriers. This is particularly relevant to the capital region's water sources in Heiðmörk.

In 2025, it will be ten years since the approval of the capital region's new water protection plan, which followed extensive scientific research, with RE among its key contributors. The strong emphasis placed on water protection by local authorities is evident in the fact that this plan was the first component of the regional development plan to be completed, which was finalised in full a year later. Water protection is the foundation—everything else follows from it.

Currently, work is underway on a detailed land-use plan for Heiðmörk. RE is advocating for intense water protection measures and for the new plan to reflect the foresight embedded in the water protection plan. The detailed plan should ensure reduced vehicle traffic on RE's land in Heiðmörk compared to current levels, alongside tighter regulation of all movement in the area. Water must come first, and as a society, we may need to relocate some of the activities currently carried out in Heiðmörk to other locations. RE is willing to participate in finding suitable solutions in this regard.

In Harmony with Communities

Reykjavík Energy must operate in harmony with the communities it serves. While its diverse energy and utility services are essential to the very foundation of society, urgent construction projects and unavoidable system failures can cause significant disruptions to daily life. Therefore, RE emphasises strong communication when such events occur.

This focus was evident in 2024 when many in the capital region experienced hot water shortages due to system connections. Clear communication is just as crucial in smaller-scale incidents that affect fewer customers. Proactive engagement fosters a more positive public perception of the company and enhances mutual understanding between RE and its customers regarding their needs and expectations.

Public opinion is also shaped by discussions in the public sphere, including debates about RE's plans and the activities of its subsidiaries. Disagreements are an inherent part of human interaction, and the societal transition towards greater sustainability—an initiative that RE has committed to leading—will not be without challenges. Fierce disputes consume energy and can often be costly.

For this reason, RE invests considerable effort in shaping its projects in a way that promotes broad public acceptance, ensuring that the benefits extend beyond the company itself. This applies to energy production, carbon sequestration, and major maintenance of utility systems. Adjusting projects at the planning stage is both forward-thinking and cost-effective compared to making changes later in the process.

That is why RE strives, from the outset, to present its projects transparently, openly acknowledging both their advantages and drawbacks as a foun-

dation for honest and constructive dialogue about their development. Such conversations are usually successful—though not always. Projects may sometimes need to be restructured, redirected, or relocated to find a better path forward.

The vast majority of interactions between RE and the public are routine and everyday in nature. From RE's perspective, this involves delivering specified services and receiving payments for them. From the customer's viewpoint, it means having access to water, electricity, district heating, wastewater services, and data infrastructure—and paying the bill.

In 2024, approximately 4.5 million invoices were issued. These interactions have been smooth and largely trouble-free. Service reliability is exceptionally high by any standard, and the cost of services remains lower than in most comparable countries. The latter is achieved through prudent financial management while maintaining a long-term perspective, as the societal needs that RE is responsible for fulfilling are not going anywhere.

The Workplace

The leading role that Reykjavík Energy has taken in societal development with its new strategy has necessitated changes in the workplace. Rapid technological advancements, particularly with the rise of artificial intelligence and other data processing methods, also bring about significant transformations.

Continuously pursuing more efficient and cost-effective ways to provide reliable services at fair prices presents opportunities for change. Investments have been made in new expertise and new personnel, with ongoing evaluations of which knowledge should be retained in-house and what is more practical to outsource. Similarly, discussions are ongoing regarding which expertise and skills should be housed within subsidiaries and what is better shared across the group within the parent company.

Therefore, it is no surprise that RE and its subsidiaries underwent organisational changes in 2024, laying the foundation for further restructuring. This includes the planned outsourcing of maintenance work on utility systems, aiming to secure stronger and more capable partners than in previous procurement processes. Due to expected expansions in geothermal energy production, drilling projects were among the most significant procurements last year. A new drilling rig was also purchased, primarily with Carbfix projects in mind, but it will also serve the geothermal companies Veitur Utilities and ON Power. A key principle remains that the responsibility for essential work and necessary development is not outsourced; this RE's responsibility is constant and unwavering.

Reykjavík Energy is not the only company considering expansion, as seen in the numerous power plant proposals nationwide. This has created competition for skilled workers in the sector. Apart from the organisational changes within the group, which led to some layoffs, this competition is also evident in staff turnover, which increased last year. This serves as a reminder of the importance of supporting and retaining employees during periods of change.

A significant milestone in the coming months will be reopening the renovated section of RE's headquarters at Bæjarháls, which has been under reconstruction for the past few years. High expectations are placed on the new facilities, which have been designed to align with evolving workplace practices and the changing expectations of today's and future employees regarding quality work environments.

Since moisture damage was first detected in RE's relatively new headquarters about a decade ago, numerous buildings in Iceland have been deemed unfit for use—some have been demolished, while others have been renovated. In our case, all options were considered, but the final decision resulted in modifications to the building's exterior and a more efficient use of interior space. As before, when parts of the facility had to be vacated, a portion of the building is intended for leasing. Encouragingly, several parties have already expressed interest in renting the space, reinforcing confidence in the success of the redevelopment.

Board Activities

In 2024, Reykjavík Energy's Board of Directors held 16 meetings—14 regular board meetings, the annual general meeting, and an extraordinary general meeting. The new RE Corporate Strategy was approved for consultation with shareholders in December 2023 and was formally adopted by the Board in June 2024. In preparation for this, two briefing sessions were held with owners' representatives regarding the development of the strategy.

In April 2024, the Board evaluated the CEO's performance, after which it approved a proposal from the Remuneration Committee regarding his compensation. The Board's regular self-assessment took place in May.

At the Board's request, work is now underway to update RE's ownership policy and partnership agreement, which was approved following an open consultation process in 2012. This revision aims to align the policy with the newly adopted comprehensive strategy and, equally importantly, with the general ownership policy established by Reykjavík City in 2022 for its holdings in various companies.

This is an exciting project, as adapting the Board's governance to the principles outlined in the general ownership policy is essential. Additionally, it is crucial to consider the evolving structure of RE's corporate group, which will include companies with shared ownership.

Key Financial Results for 2024

The Reykjavík Energy Group recorded a net profit of ISK 9,309 million in 2024 (2023: ISK 6,400 million). The Group's total comprehensive income for the year amounted to ISK 12,748 million (2023: ISK 18,434 million).

According to the balance sheet, the RE's total assets at year-end stood at ISK 509,953 million (31.12.2023: ISK 481,343 million). Equity at year-end was ISK 265,732 million (31.12.2023: ISK 258,984 million), with the equity ratio at 52.1% (31.12.2023: 53.8%).

On 29 October 2024, RE published its financial forecast on the Nasdaq Iceland news system. The forecast projected revenue for 2024 at ISK 66.4 billion, whereas actual revenue reached ISK 66.8 billion. Operating expenses were estimated at ISK 29.2 billion but came in at ISK 27.7 billion, ISK 1.5 billion lower than anticipated.

Total investments for the year amounted to ISK 30.9 billion, compared to the financial forecast projection of ISK 33.5 billion.

The Board of RE proposes to the annual general meeting that a dividend of ISK 6.5 billion be paid to the owners in 2025 based on the financial performance of 2024. Further details on profit allocation and other changes in equity can be found in these financial statements.

Reykjavik Energy's BOD in January 2024, from left: Skúli Helgason, Valgarður Lyngdal Jónsson, Þórður Gunnarsson, Ragnhildur Alda Vilhjálmsdóttir, Gylfi Magnússon Chair of the Board, Vala Valtýsdóttir Vice-Chair of the Board, Guðveig Lind Eyglóardóttir.

Reykjavík Energy Group

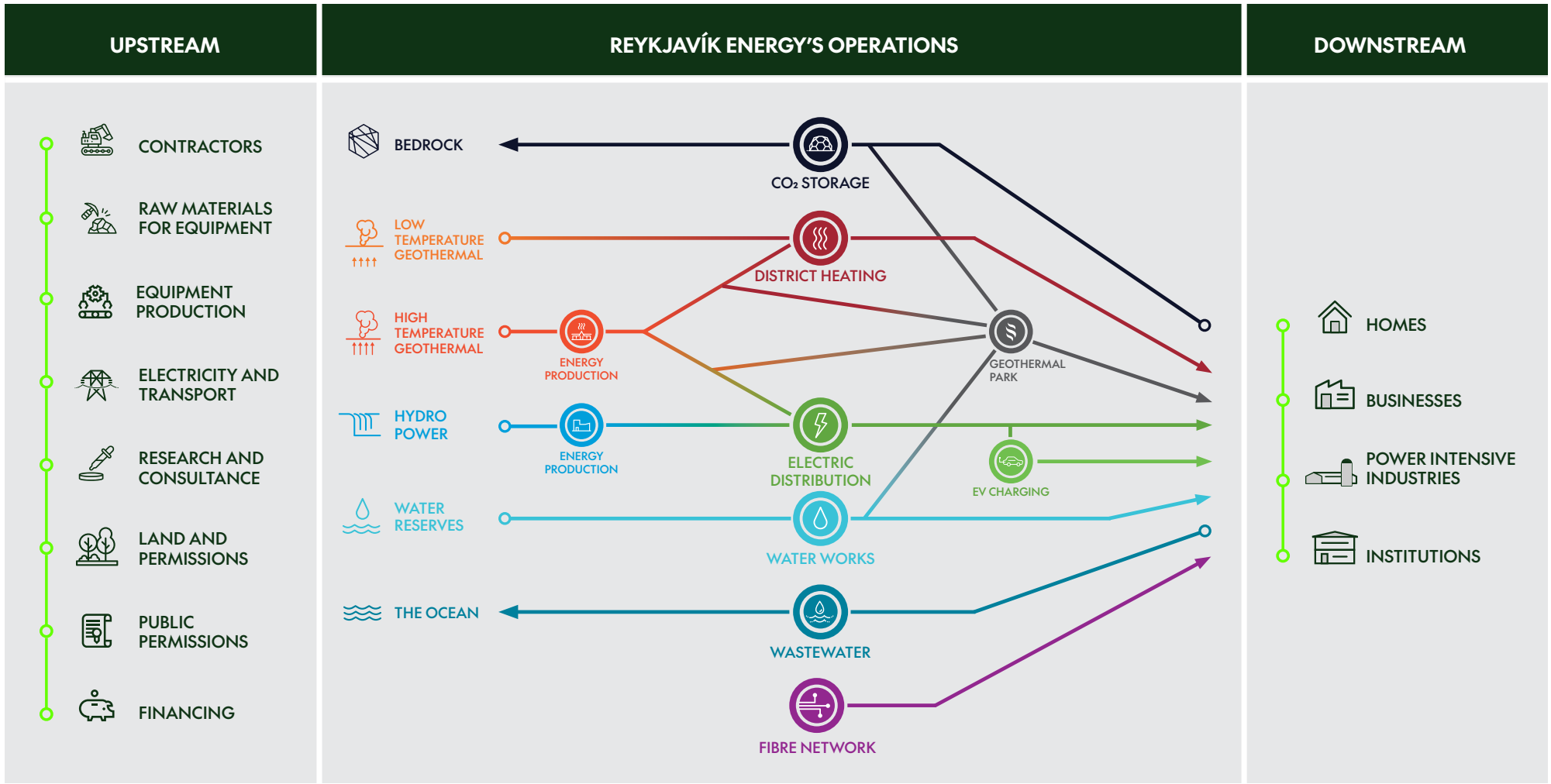
The parent company oversees the group's finances, procurement, human resources, information technology, and research and innovation activities. Additionally, the parent company manages legal affairs, land holdings and rights, and communications. OR Eignir ohf. is the entity responsible for holding shares in Veitur, Orka náttúrunnar, and ON Power.

The average number of full-time equivalent positions within the group in 2024 was 572. At year-end 2024, the group had 581 permanent employees, of whom 35% were women and 65% were men. Non-binary employees accounted for less than one percent.

Among Reykjavík Energy Group's management at year-end, 53% were female and 47% male. One-third of Reykjavík Energy's board members were female, and the chair of the board was a male.

	Field of work	Main Acts that apply to the operations The Act on Reykjavík Energy applies to all operations of the Reykjavík Energy Group	Revenues (See also note 4 in the consolidated financial statements)	Employees Permanent Staff at Year-End 2024 Female:Male on the Board Gender of the Chair of the Board
Veitur ohf. OR vatns- og fráveita sf.	**Veitur** operates electric and district heating utilities, almost all licensed in their area of operation. Veitur takes care of the operations of the OR vatns- og fráveita partnership, which performs the statutory obligations of municipalities with regard to water supply and sewerage, especially in those municipalities that own RE.	Energy Act, Electricity Act, Act on the construction and operation of sewers, Act on municipal water supply, Water Act, Information Act, Administrative Act (water and sewerage), Act on Environmental Responsibility.	Revenues are almost entirely derived from selling utility services provided under exclusive licenses to households and businesses. Tariffs are subject to government oversight as follows: District Heating: Ministry of the Environment, Energy, and Climate Electricity Distribution: Environment and Energy Agency Water Supply: Ministry of Infrastructure Wastewater Services: Ministry of Infrastructure	179 3:2 Female
Orka náttúrunnar ohf. ON Power ohf.	**Orka náttúrunnar** PLC produces hot water and electricity at the Nesjavellir geothermal power plant and electricity at the Andakílsá hydropower station. The water goes to Veitur's district heating in the capital area, while the electricity goes mainly to the general market. ISK is the working currency. Orka náttúrunnar manages the operations of ON Power PLC, which produces hot water and electricity at the Hellisheiði geothermal power plant, where it also operates the Geothermal Park, The water goes to Veitur's district, heating in the capital area, and the electricity goes mainly to the wholesale market. USD is ON Power's operational currency.	Electricity Act, Energy Act, Water Act, Competition Act, Act on Environmental Responsibility.	Revenue is from the sale of electricity in the general market, the sale of electricity in the wholesale market, the sale of hot water wholesale to Veitur's district heating in the capital area, guarantee of origin sales, and rent for the facilities at the Hellisheidi Geothermal Park in Ölfus. The wholesale price of hot water is subject to the supervision of the Environment and Energy Agency, but the electricity market is a competitive market which is monitored by i.a. The Competition Authority and the Environment and Energy Agency.	107 3:2 Female
Ljósleiðarinn ehf.	**Reykjavík Fibre Network** installs and operates an extensive fibre-optic network utilised by telecommunications companies providing internet services to homes and businesses.	Act on telecommunications, Competition Act.	Revenues are, on the one hand, from fiberoptic connections to homes and companies that use the services of electronic communications companies via the Reykjavík Fibre Network's sy-stems, and on the other hand, from the wholesale of data transmission via fiber- optic ca-bles within the communications companies' systems. The electronic communications market is competitive under the supervision of the Electronic Communications Office of Iceland and the Competition Authority.	49 2:3 Female
Carbfix hf. Eignarhaldsfélagið Carbfix ohf. Coda Terminal hf.	Carbfix is a research, innovation, and consulting company in the field of carbon sequestration. It provides services to companies both within and outside the RE Group., Carbfix hf. was established in 2022. Eignarhaldsfélagið Carbfix ohf. holds the patents related to Carbfix, and Coda Terminal is a project company for carbon mineralisation facilities. EUR is the functional currency of Carbfix hf. and Coda Terminal hf.	Act on Hygiene and Pollution Prevention, Act on Environmental Responsibility.	Carbfix is a start- up company, based on the technology of the same name for carbon sequestration. The company's income is through consultation, development, and operations of Carbon sequestration facilities, and grants from international competition funds for research and development.	51 3:1 Female

RE's Value Streams



Value Creation and Stakeholders

The role of Reykjavík Energy can be described as connecting communities to natural resources. The image on the previous page is for illustration, and the table below highlights the links in the value chains that pass through the RE group.

The employees of Reykjavík Energy engage in extensive and ongoing communication with the stakeholders involved in the company's operations. The table shows where the main stakeholder groups are involved in value creation.

	Natural resources	New projects	Production and distribution	Business and services
Main activities	• Locating natural resources and acquiring rights • Monitoring and management of resource utilisation • R&D	• Designing and acquiring permits • Financing • Purchase of materials, equipment, and contractor services • Supervision and testing	• Commissioning new project • Managing and monitoring production • Supervision, maintenance, and renewal • Purchasing materials and machinery	• Acquiring and registering customers • Connecting homes and businesses • Metering and billing • Reponding to outages
Stakeholders	**Public entities** Licensing, planning, and inspection **Public** Review of public decisions, appeal **RE owners** Confirmation of extensive projects **Academia** Ideas and knowledge	**Public entities** Licensing, planning, and inspection **Suppliers** Construction, materials, and machinery **Public** Review of public decisions, appeal **RE owners** Confirmation of extensive projects **Financiers** Share capital or loans	**Public entities** Licensing and inspection **Public** Comments and review **Customers** Information on outages **Suppliers** Construction, materials, and machinery	**Customers** Paying invoices, meter reading **Public entities** Monitoring of delivery security, tariffs, and metering practices
	Employees, **NGOs**, and **organisations** of individuals and companies, as well as **public entities** monitoring working conditions and labour market, are stakeholders to all operations.			

Double Materiality Assessment

In 2016, Reykjavik Energy organised a workshop with representatives from a diverse group of stakeholders involved in its operations. Participants included representatives from suppliers, trade unions, regulatory bodies, major customers, and civil society organisations. The purpose of the workshop was to prioritise sustainability factors within the company's operations, using the United Nations Sustainable Development Goals (SDGs) as a framework. The workshop played a key role in defining which SDGs would become priority goals for Reykjavik Energy.

The boards of RE's subsidiaries have assessed the UN Sustainable Development Goals in relation to the scope of each company's operations.

The double materiality assessment, as required by the European Sustainability Reporting Standards (ESRS), is a significantly more extensive and structured process aimed at evaluating both the impact of RE's operations on the external environment and the impact of sustainability factors on the company's business performance. The findings of this assessment determine on which sustainability factors from the ESRS framework should be reported in the company's financial statements.

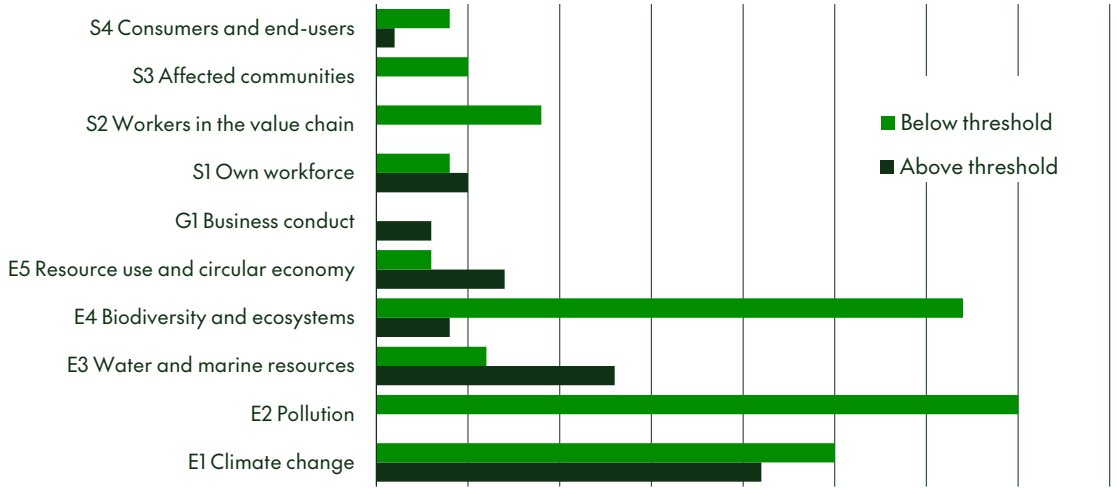
The double materiality assessment at Reykjavik Energy was primarily conducted by the company's sustainability team, with input from operational experts and external consultants. Reykjavik Energy views the results presented here as preliminary, subject to further refinement by boards, management, and external stakeholders.

The analysis considered:

- 177 impacts related to the company's activities
- 74 risks and opportunities identified through the assessment
- 56 sustainability factors that underwent financial evaluation

Below is an overview of how these identified factors are categorised under the ESRS regulatory framework. The assessment involved defining scoring scales to assess the intensity and scope of each impact. Additionally, thresholds were set to determine the minimum score required for a factor to be classified as material.

Assessment of impact factors



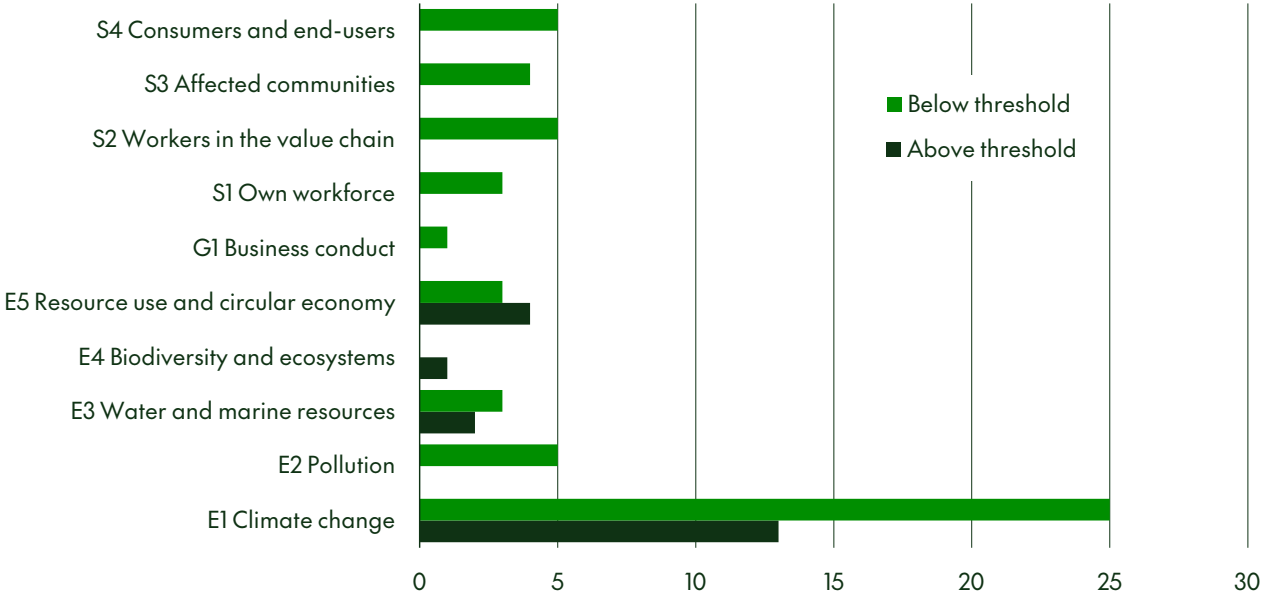
Assessment Results on the Significance of 177 Impact Factors in Reykjavik Energy's Operations Using the European Sustainability Reporting Standard (ESRS) Methodology.

The diagram illustrates that 35 factors were evaluated concerning the impact of pollution on Reykjavik Energy's operations. None of these factors exceeded the materiality threshold. This outcome reflects the company's decade-long focus on reducing pollution from its activities. A key example is the removal of hydrogen sulfide emissions from geothermal power plants using the Carbfix method. The topic of hydrogen sulfide capture and sequestration is further addressed in section E4 on biodiversity.

Regarding other factors that did not surpass the materiality threshold—S2 and S3—it is important to note that the social impact of Reykjavik Energy's operations, as a provider of essential services, is accounted for under S4. As for S3, the impact of Reykjavik Energy's procurement activities—which could pose risks within the supply chain—was not significant enough to meet the threshold, neither in terms of the importance of inputs for Reykjavik Energy nor the company's influence within the relevant markets.

Notably, an independent SP Global assessment of Reykjavik Energy's Green Financing Framework, published in autumn 2024, pointed out that human rights risks exist in the supply chain for rare metals used in electrical equipment.

Assessment results risks and opportunities



Assessment results on the materiality of 74 risks and opportunities in Reykjavik Energy's operations using the ESRS methodology.

As with the impact assessment, environmental and climate-related factors carry significant weight in the risk and opportunity evaluation. However, it is important to note that this assessment is not a comprehensive risk and opportunity analysis of Reykjavik Energy's operations; rather, it focuses exclusively on sustainability aspects, including environmental, social, and governance (ESG) factors.

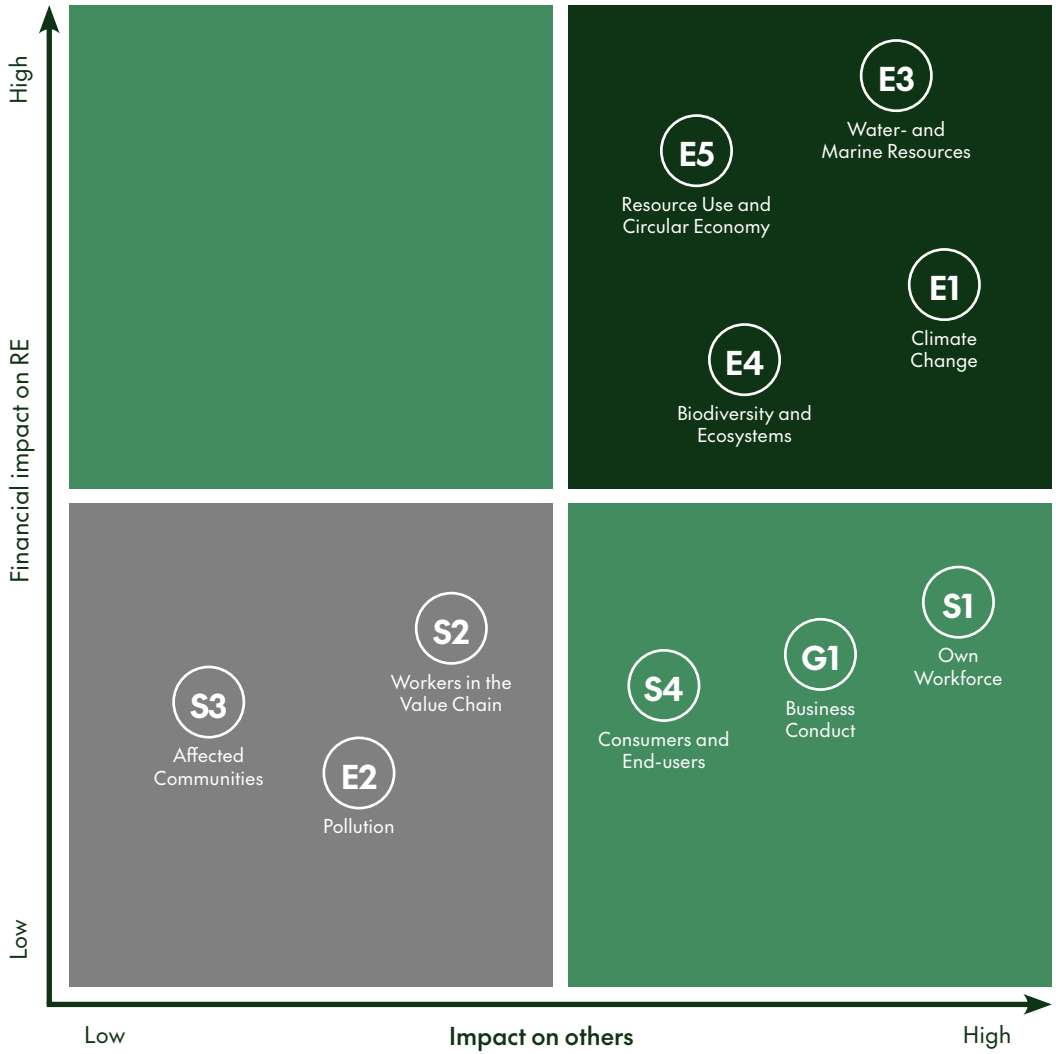
A financial assessment was conducted in parallel, aiming to identify ESG factors—some of which appear in the impact or risk and opportunity assessments, though not all. 56 elements were evaluated, and all financially significant factors identified were environmental, with the majority related to climate issues. Among these, 12 factors surpassed the materiality threshold, evenly split between potential positive and negative financial impacts.

The diagram below presents all ESRS content categories based on Reykjavik Energy's materiality assessment results. The Y-axis represents the financial impact on Reykjavik Energy, while the X-axis reflects the impact of Reykjavik Energy's sustainability factors on others. The value of each content category in the graph is determined by the highest individual assessment score within that category.

According to the findings of the double materiality assessment, the following topics will be addressed in this Board of Directors' report as part of Reykjavik Energy's 2024 consolidated annual financial statements:

- E1 Climate Change
- E3 Water and Marine Resources
- E4 Biodiversity and Ecosystems
- E5 Resource Use and Circular Economy
- S1 Own Workforce
- S4 Consumers and End Users
- G1 Business Conduct

Assessment on ESRS content categories



Results of Reykjavik Energy's double materiality assessment on ESRS content categories presented in a materiality matrix.

EU Taxonomy

Reykjavík Energy now publishes financial data in accordance with the EU Taxonomy Regulation for the second time. This regulation entered into force in Iceland on 1 June 2023 through Act No. 25/2023. The objective of the regulation is to assess which activities can be considered sustainable based on standardized environmental and climate criteria. To meet these criteria, an activity must either make a substantial contribution to one of the following environmental objectives without causing significant harm to any of the others:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Pollution prevention and control
- Transition to a circular economy
- Protection and restoration of biodiversity and ecosystems

Among the activities listed in the Taxonomy Regulation, ten business activities within the RE group were initially identified as taxonomy-eligible, and the presentation in the 2023 Annual Report was based on this classification. Since then, Reykjavík Fibre Network's operations has been reclassified as an activity outside the scope of the Taxonomy Regulation, and the presentation below has been adjusted accordingly.

The tables below provide a comprehensive overview of the proportion of investments, expenses, and revenues within the Reykjavík Energy group concerning their classification under the taxonomy regulation. The classification distinguishes between activities that (i) comply with the regulation's assessment criteria (aligned), (ii) fall within the scope of the regulation but do not demonstrate compliance with its assessment criteria (eligible but not aligned), or (iii) fall outside the taxonomy regulation's activity classifications (non-eligible). Tables 1, 2, and 3 below show the percentage of revenue, investments, and operating expenses that met the taxonomy regulation's assessment criteria.

Activities Covered by the Taxonomy Regulation

We identified nine activity categories within Reykjavík Energy that fall under the taxonomy regulation. These are listed in the regulation as follows:

- Electricity generation from hydropower (4.5)
- Transmission and distribution of electricity (4.9)
- District heating/cooling distribution (4.15)
- Cogeneration of heat/cool and power from geothermal energy (4.18)
- Construction, extension, and operation of water collection, treatment, and supply systems (5.1)
- Construction, expansion, and operation of wastewater collection and treatment (5.3)
- Underground permanent geological storage of CO_2 (5.12)
- Transport via motorbikes, passenger cars, and light commercial vehicles (6.5)
- Infrastructure enabling low-carbon road transport and public transport (6.15)

Significant Contribution

All activity categories met the assessment criteria for significantly contributing to climate change mitigation. Greenhouse gas emissions are verified in accordance with the ISO 14064-1 standard, which is part of the assessment criteria for energy generation (4.5, 4.18). Energy distribution (4.9, 4.15), i.e., district heating and electricity distribution, is almost entirely based on renewable energy sources. Water supply and wastewater systems operate with energy consumption below the thresholds set for their respective categories (5.1 and 5.3). The injection of carbon dioxide (5.12) complies with the regulation on underground CO_2 storage (1430/2022). Reykjavík Energy's vehicle fleet meets the emissions criteria for greenhouse gases (6.5). Charging points exclusively serve clean-energy vehicles (6.15).

The potential impacts of climate change and relevant resilience and adaptation measures have been thoroughly mapped for all of Reykjavík Energy's operations.

Does No Significant Harm

Water and Marine Resources

Reykjavík Energy monitors both the potential and actual impacts of its operations on water bodies. Additionally, environmental impact assessments are a statutory requirement for major construction projects. No activities were found to cause significant harm to water and marine resources.

Circular Economy

RE operates a certified environmental management system under ISO 14001, which covers waste management and resource utilisation.

Pollution

Reykjavík Energy prioritises minimising pollution across all its operations. This is achieved in part through its ISO 14001 environmental management system. Specific initiatives include capturing and sequestrating H_2S gas at geothermal power plants, which has reduced impacts on air quality in neighbouring municipalities. In wastewater management, emphasis is placed on blue-green stormwater solutions to reduce the volume of rainwater entering collection systems.

Biodiversity and Ecosystems

All major construction projects within RE's operations must undergo environmental impact assessments. These assessments always include considerations of biodiversity impacts.

Minimum Safeguards

RE has integrated a focus on human rights into its policies and procedures in line with OECD guidelines and the UN Guiding Principles. This applies to all aspects of the company's operations and supply chain.

Key Performance Indicators

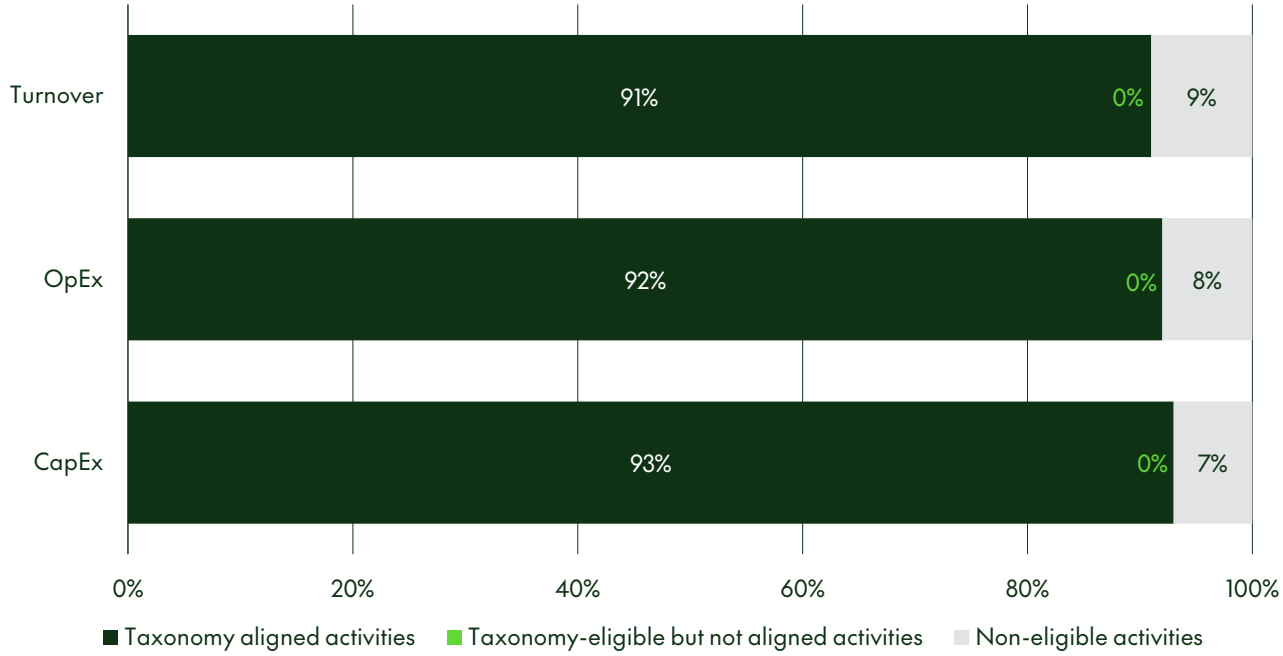
Labelling

Key performance indicators related to the EU Taxonomy for sustainable economic activities are based on RE's interpretation of Annex 1 of Commission Delegated Regulation (EU) 2021/2178. All activity categories are labelled at cost level in Reykjavík Energy's accounting system. Additionally, cost centres were identified as either falling outside the scope of the Taxonomy or belonging to support functions. Support functions were calculated separately from key performance indicators in accordance with 2021/2178.

Double Counting

To prevent double counting, costs are categorised differently depending on whether they are capitalised or expensed. Furthermore, costs are allocated distinct operational codes within Dimension 4 of RE's financial system.

EU Taxonomy Summary



Turnover

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities **Notes:** Y: Yes N: No N/EL: Non Eligible EL: Eligible N/A: Data not available	Code (2)	Absolute Turnover (3)	Proportion of Turnover (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	"Proportion of Taxonomy-aligned (A.1) or -eligible (A.2.) turnover, 2023 (18)"	Category enabling activity (20)	Category transitional activity (21)
		m ISK	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Transmission and distribution of electricity	CCM 4.9	9.829	15%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A	E	
District heating/cooling distribution	CCM 4.15	20.929	32%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Cogeneration of heat/cool and power from geothermal energy	CCM 4.18	17.203	26%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Construction, extension and operation of water collection, treatment and supply systems	CCM 5.1	3.376	5%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Construction, extension and operation of waste water collection and treatment	CCM 5.3	7.349	11%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Underground permanent geological storage of CO_2	CCM 5.12	178	0%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5	9	0%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		T
Infrastructure enabling low-carbon road transport and public transport	CCM 6.15	399	1%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A	E	
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		59.273	93%	93%	93%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	N/A		
Of which enabling		10.228	18%	18%	18%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	N/A	E	
Of which transitional		9	1%	1%	1%					Y	Y	Y	Y	Y	Y	Y	N/A		T
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
Electricity generation from hydropower	CCM 4.5	0	0%	EL	EL	EL	EL	EL	EL								N/A		
Turnover of Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**0**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**								N/A		
A. Turnover of Taxonomy eligible activities (A.1+A.2)		**59.273**	**91%**	**91%**	**91%**	**0%**	**0%**	**0%**	**0%**								N/A		
B. Turnover of Taxonomy non-eligible activities		**5.812**	**9%**																
TOTAL		**65.085**	**100%**																

Operating Expenses

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities **Notes:** Y: Yes N: No N/EL: Non Eligible EL: Eligible N/A: Data not available	Code (2)	Absolute OPEX (3)	Proportion of OPEX (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	"Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) turnover, 2023 (18)"	Category enabling activity (20)	Category transitional activity (21)
		m ISK	%	J; N; N/EL	J; N; N/ EL	J; N; N/ EL	J; N; N/ EL	J; N; N/ EL	J; N; N/ EL	J/N	J/N	J/N	J/N	J/N	J/N	J/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Transmission and distribution of electricity	CCM 4.9	3.310	16%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A	E	
District heating/cooling distribution	CCM 4.15	906	26%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Cogeneration of heat/cool and power from geothermal energy	CCM 4.18	8.061	25%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Construction, extension and operation of water collection, treatment and supply systems	CCM 5.1	3.944	8%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Construction, extension and operation of waste water collection and treatment	CCM 5.3	161	9%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Underground permanent geological storage of CO_2	CCM 5.12	1.825	6%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5	255	1%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		T
Infrastructure enabling low-carbon road transport and public transport	CCM 6.15	0	3%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A	E	
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**18.462**	**91%**	**91%**	**91%**	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	N/A		
Of which enabling		3.310	16%	16%	16%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	N/A	E	
Of which transitional		255	1%	1%	1%					Y	Y	Y	Y	Y	Y	Y	N/A		T
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
Electricity generation from hydropower	CCM 4.5	56	0%	EL	EL	EL	EL	EL	EL								N/A		
Turnover of Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**56**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**								N/A		
A. Turnover of Taxonomy eligible activities (A.1+A.2)		**18.518**	**92%**	**92%**	**92%**	**0%**	**0%**	**0%**	**0%**								N/A		
B. Turnover of Taxonomy non-eligible activities		**1.661**	**7%**																
TOTAL		**20.179**	**100%**																

Capital Expenses

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities **Notes:** Y: Yes N: No N/EL: Non Eligible EL: Eligible N/A: Data not available	Code (2)	Absolute CAPEX (3)	Proportion of CAPEX (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	"Proportion of Taxonomy-aligned (A.1) or -eligible (A.2.) turnover, 2023 (18)"	Category enabling activity (20)	Category transitional activity (21)
		m ISK	%	J; N; N/EL	J; N; N/ EL	J; N; N/ EL	J; N; N/ EL	J; N; N/ EL	J; N; N/ EL	J/N	J/N	J/N	J/N	J/N	J/N	J/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Transmission and distribution of electricity	CCM 4.9	4.680	16%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A	E	
District heating/cooling distribution	CCM 4.15	7.880	26%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Cogeneration of heat/cool and power from geothermal energy	CCM 4.18	7.447	25%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Construction, extension and operation of water collection, treatment and supply systems	CCM 5.1	2.344	8%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Construction, extension and operation of waste water collection and treatment	CCM 5.3	2.553	9%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Underground permanent geological storage of CO_2	CCM 5.12	1.692	6%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		
Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5	217	1%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A		T
Infrastructure enabling low-carbon road transport and public transport	CCM 6.15	764	3%	Y	Y	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	N/A	E	
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**27.575**	**93%**	**93%**	**93%**	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	N/A		
Of which enabling		5.444	18%	18%	18%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	N/A	E	
Of which transitional		217	1%	1%	1%					Y	Y	Y	Y	Y	Y	Y	N/A		T
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
Electricity generation from hydropower	CCM 4.5	77	0%	EL	EL	EL	EL	EL	EL								N/A		
Turnover of Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**77**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**								N/A		
A. Turnover of Taxonomy eligible activities (A.1+A.2)		**27.652**	**93%**	**93%**	**93%**	**0%**	**0%**	**0%**	**0%**								N/A		
B. Turnover of Taxonomy non-eligible activities		**2.150**	**7%**																
TOTAL		**29.802**	**100%**																

E1 Climate Change

From RE's strategy:

Certified Net Zero by 2040 based on the best standards and international implementation of Carbfix.

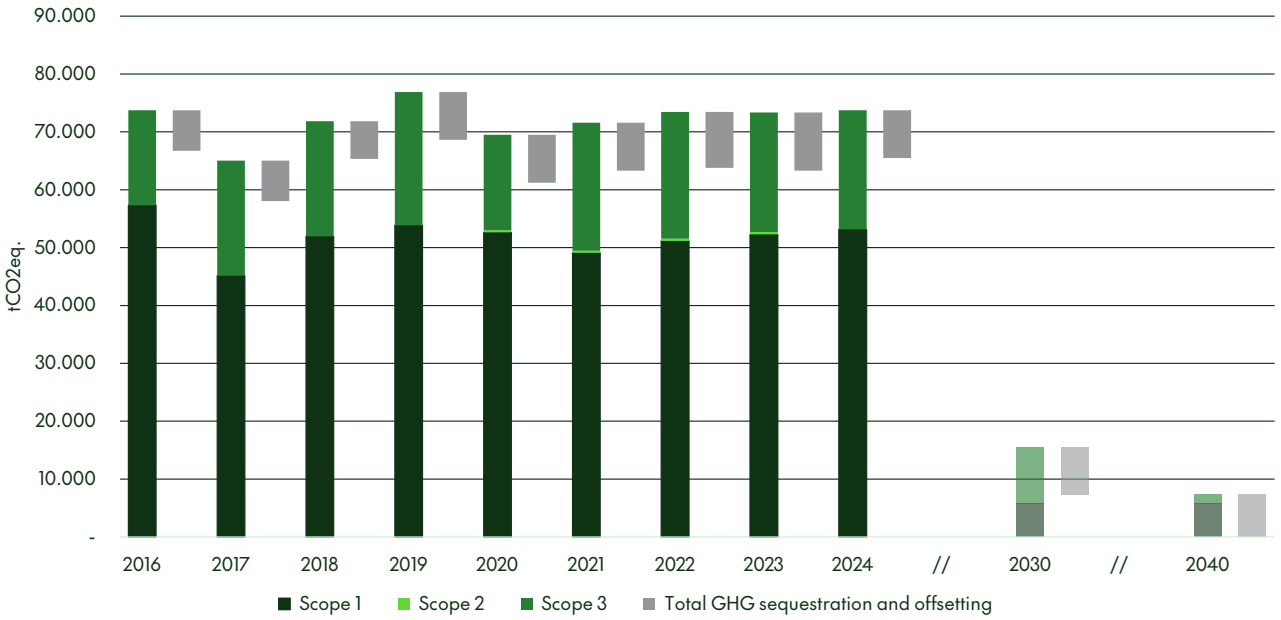
Strategy, Approach and Goals

Reykjavík Energy has prioritized climate issues for many years by developing and implementing the Carbfix method to reduce carbon dioxide (CO_2) emissions from the Hellisheiði Geothermal Power Plant. Additionally, the company has worked to decrease emissions from its vehicle fleet, encourage sustainable procurement among its suppliers, promote the energy transition in operations, and enhance carbon sequestration in vegetation and soil. This has been achieved despite the company's operations being based on the extraction and utilization of renewable energy sources.

Reykjavík Energy's Sustainability Strategy states that the company aims to achieve carbon neutrality for its own operations by 2030 and across its entire supply chain by 2040. This means reducing greenhouse gas emissions by 90% in scopes 1 and 2, and by 40% in scope 3 by 2030, compared to the baseline year of 2016. By 2040, emissions reductions in the supply chain (scope 3) are targeted to reach 90%.

To ensure that Reykjavík Energy operates according to the highest possible standards and best practices, the company has obtained independent verification of both its climate goals and reported emissions figures. In 2024, Reykjavík Energy's climate targets were reviewed and confirmed to meet the Science Based Targets initiative (SBTi) requirements. These goals align with the Race to Zero campaign under the United Nations, supporting the 1.5°C goal of the Paris Agreement. Reykjavík Energy's climate accounting follows the Greenhouse Gas Protocol (GHGP) methodology and has, for the past two years, been audited according to the ISO 14064-1 international standard.

GHG emissions, carbon insetting and offsetting by RE 2016–2024



Total emissions of Reykjavík Energy (direct and indirect), sequestration through land restoration, and carbon offsetting from 2016 to 2024. Also shown are Reykjavík Energy's targets for 2030 and 2040, which have been validated by the Science Based Targets initiative (SBTi).

The company's strategy also emphasizes strengthening the resilience of society to climate change by adapting service systems to changing weather patterns.[1]

1 Memo Phase 4 - Adaptation to Climate Change – 2024

Reykjavík Energy's Board of Directors oversees the assessment and management of climate-related risks within the company. The Board reviews the Sustainability Policy at least once a year, following an operational plan that outlines climate and other environmental risks, as well as key environmental factors related to them.

The Board identifies gaps in the policy and provides guidance to Reykjavík Energy's management when necessary.

Greenhouse Gas Emissions (GHG)

Reykjavík Energy's climate impact was assessed in accordance with the GHGP guidelines and the ISO 14064-1 standard. This includes a comprehensive assessment of direct emissions from operations (scope 1), indirect emissions in the supply chain (scopes 2 and 3), biogenic CO_2 emissions, and carbon sequestration from land restoration and afforestation. Reykjavík Energy's detailed climate account for 2024, along with its framework, is published on the company's website.

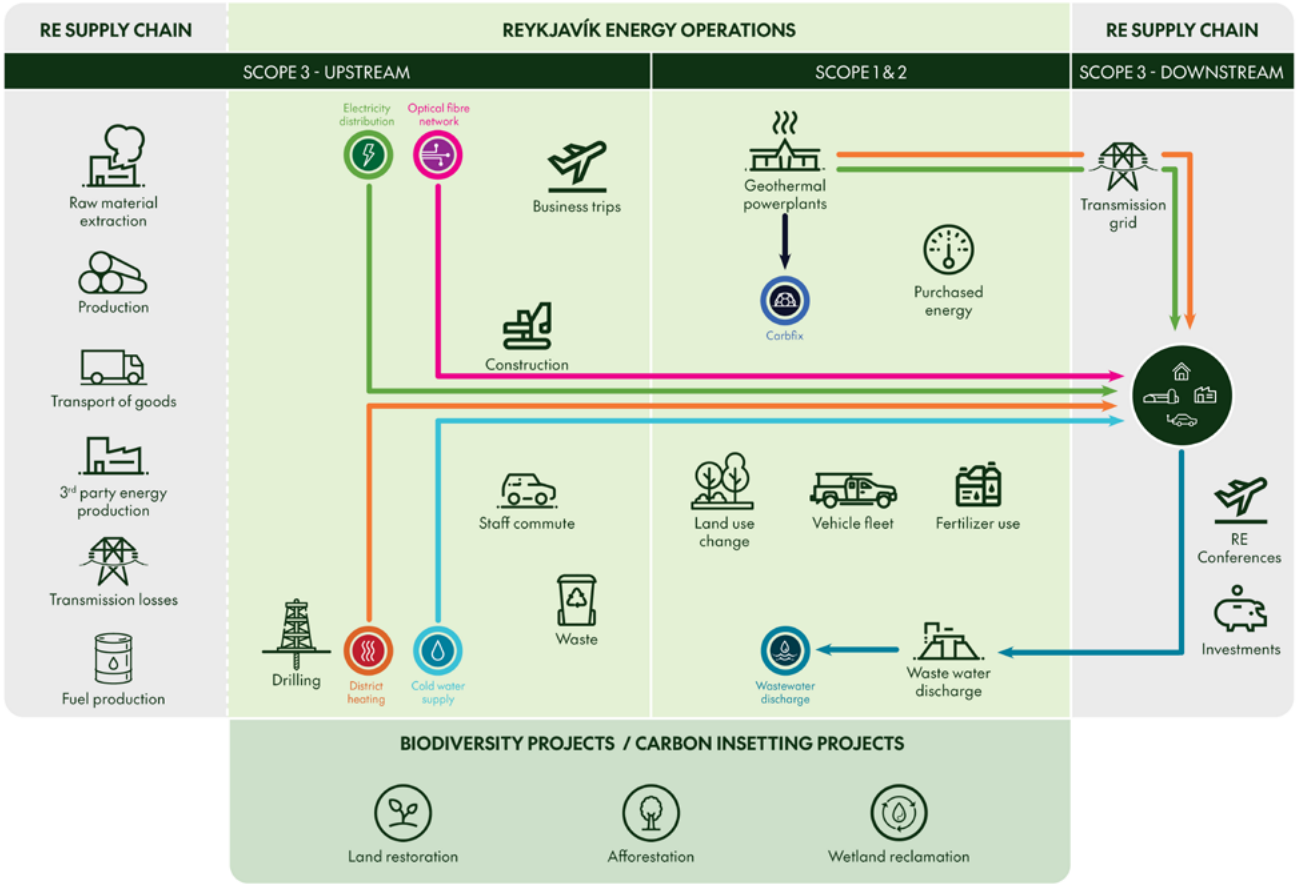
Total emissions from Reykjavík Energy in 2024 amounted to approximately 73,745 tons CO_2 equivalent (CO_2eq), unchanged from the baseline year 2016, when emissions were also 73,745 tons CO_2eq.

In 2024, total GHG emissions increased by 385 tons CO_2eq from 2023, representing an increase of less than 1%. However, net emissions (total emissions minus sequestration through land restoration and carbon offsetting) increased by 3.5% year-on-year.

The main reasons for this increase were the reduced operational uptime of the air abatement unit at Hellisheiði Geothermal Power Plant due to unexpected malfunctions and the connection of a new, larger air abatement unit at the plant, which is scheduled for commissioning in spring 2025. The air abatement unit is a key component in significantly reducing emissions of carbon dioxide (CO_2) and hydrogen sulfide (H_2S) from the plant.

The framework for Reykjavík Energy's climate accounting

It outlines the sources of greenhouse gas emissions, where emissions occur within the company's supply chain, and highlights key projects that contribute to biodiversity, ecosystem enhancement, and carbon sequestration.



In 2024, the relative CO_2 capture and sequestration at Hellisheiði Geothermal Power Plant was 27% of its total CO_2 emissions. At Nesjavellir Geothermal Power Plant, pilot-scale CO_2 capture and sequestration, which began in 2023, accounted for 2% of the plant's CO_2 emissions, a 7% decrease from 2023 due to malfunctions.

Nitrous oxide (N_2O) emissions from wastewater treatment amounted to 2,535 tons CO_2eq, or 3.5% of Reykjavík Energy's total emissions.

In 2024, emissions from scopes 1 and 2 totalled over 53,000 tons CO_2eq, a reduction of 4,000 tons CO_2eq from 2016, or 7%. The largest contributor to these emissions was Reykjavík Energy's geothermal power plants, which accounted for 72% of total emissions in 2024. However, electricity generation from these plants has increased over this period.

Reykjavík Energy is implementing a plan for Hellisheiði Geothermal Power Plant to achieve carbon neutrality by 2025 and Nesjavellir by 2030, meaning that 80-90% of CO_2 emissions from the plants will be captured and sequestered in the basaltic bedrock by 2030.

In 2024, emissions from scope 3 amounted to 20,500 tons CO_2eq, an increase of 4,000 tons CO_2eq from 2016, or 26%. The largest component of scope 3 emissions was procurement, accounting for 19% of Reykjavík Energy's total emissions, with the highest emissions originating from steel pipes purchases. However, emissions from procurement decreased by 8% in 2024 compared to 2023.

Reykjavík Energy is exploring options to purchase "green steel" and recycled steel, for example, for pipelines, once these materials become available on the market, in order to reduce emissions. Steel pipes alone account for approximately 45% of the company's total procurement emissions, meaning that reducing emissions from this source will have a significant impact on scope 3.

Emissions have increased from business travel by 110 tons CO_2eq since 2016 and from employee commuting by 140 tons CO_2eq. However, emissions from waste have decreased by 70 tons CO_2eq in 2024 compared to 2016. Reykjavík Energy has introduced a transportation subsidy for employees using climate-friendly commuting methods. The company also supports flexible work arrangements, including remote work options.

The following emissions are considered negligible and were not included in Reykjavík Energy's 2024 climate account. Emissions from the Andakílsá Hydropower Plant reservoir and Skorradalsvatn lake after 80 years of operation, emissions from low-temperature geothermal areas operated by Veitur, emissions from data transmission and hosting services for Ljósleiðarinn, emissions from taxi use, electricity consumption for remote work, and procurement outside the company's purchasing system. Emissions from purchased electricity for energy trading are not disclosed due to confidentiality reasons.

Emission Intensity

ON Power produces electricity for its customers and supplies hot water in bulk to Veitur. The carbon intensity of electricity is reported in grams of CO_2 equivalent per kilowatt-hour (gCO_2eq/kWh), while the carbon intensity of hot water is reported in grams of CO_2 equivalent per cubic meter (gCO_2eq/m^3).

In 2024, the carbon intensity of electricity was 7.3 gCO_2eq/kWh [2], representing a 26% reduction compared to 2016. The carbon intensity of hot water was 217.3 gCO_2eq/m^3, a 11% reduction compared to 2016. This progress is attributed to the initial steps taken in Reykjavík Energy's plan to make Hellisheiði Geothermal Power Plant carbon neutral by 2025 and Nesjavellir Geothermal Power Plant by 2030.

2 Emissions of greenhouse gases, carbon dioxide, and hydrogen sulfide per energy unit at Hellisheiði and Nesjavellir in 2024

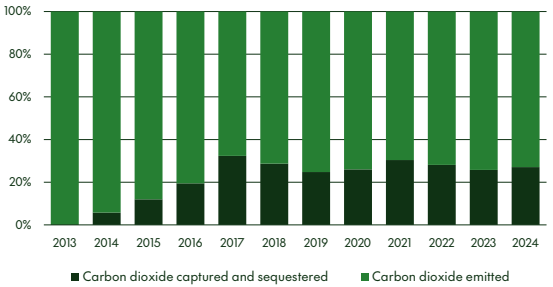
Carbon emission intensity

Intensity metric	Unit	Scope	2016	2017	2018	2019	2020	2021	2022	2023	2024
Electricity (gross)	gCO_2-eq/kWh	Scope 2	9.9	6.9	8.4	8.9	7.9	7.3	7.5	7.3	7.3
Electricity (net pro-duction)	gCO_2-eq/kWh	Scope 2	10.3	7.9	9.0	9.2	8.3	7.7	7.9	7.7	7.5
Hot water	gCO_2-eq/m^3	Scope 2	245.0	190.5	207.9	214.7	213.0	216.2	231.3	205.2	217.3

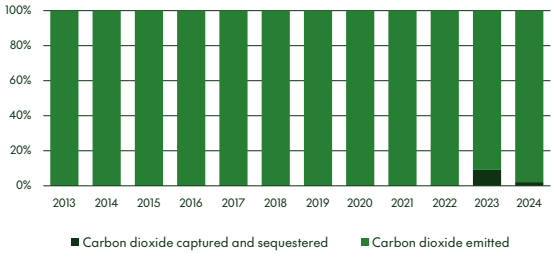
Carbon Intensity of carbon dioxide from 2016 to 2024 (g CO_2 equivalent per kWh). Direct emissions from the production of hot water from low-temperature geothermal fields have been estimated at approximately 0 gCO_2eq/kWh. According to guidelines from the Environment and Energy Agency of Iceland on emission factors, the emission factor per kilowatt-hour of electricity is 8.54 gCO_2eq, and the emission factor per cubic meter of hot water is 434 gCO_2eq.

Annual percentage of injection of carbon dioxide from the Hellisheiði and Nesjavellir Geothermal Power Plants in 2013-2024

Hellisheiði



Nesjavellir



Monitoring is conducted on CO_2 and H_2S concentrations in several production wells at Hellisheiði Geothermal Power Plant. The estimated flow time from reinjection to the production area appears to be less than one year, with indications of a slight increase in concentration in two monitoring wells closest to the reinjection site. Efforts continue to optimize the method and direct gas reinjection into wells further from the production area.

Reykjavík Energy does not emit ozone-depleting substances as part of its operations.

Biodiversity and Land-based Carbon Insetting Projects

Reykjavík Energy has engaged in land restoration and afforestation on its properties for over 70 years, since 1950. The objective has been to restore and improve the land, maintain it, rehabilitate natural birch forests, and enhance biodiversity. Over the past decade, an additional goal has been to sequester greenhouse gases (GHG) from the atmosphere in vegetation and soil. The land restoration areas cover approximately 600 hectares, and the afforestation areas about 965 hectares.

Wetland restoration was carried out on over three hectares in autumn 2016, with the aim of reducing carbon emissions from previously drained wetlands and restoring the wetland ecosystem.

In 2024, GHG sequestration in Reykjavík Energy's afforestation areas amounted to 5,740 tons of CO_2 equivalent, remaining the same as the baseline year 2016. This is because sequestration is assessed every 10 years, meaning the recorded value remains unchanged until the next update. In 2024, sequestration in land restoration areas amounted to 1,260 tons of CO_2eq, reflecting a 4% increase compared to 2016.

In 2024, the avoided GHG emissions from Reykjavík Energy's wetland restoration were estimated at 40 tons of CO_2eq, remaining unchanged since 2017. A study is planned for summer 2025 to confirm these results.

Carbon Offsets

Reykjavík Energy has supported carbon offsetting projects since 2018. These projects focus on reducing greenhouse gas emissions while promoting sustainable development, social benefits, and economic gains. Since 2020, Reykjavík Energy has purchased certified emission reductions through the United Nations Climate Agreement, supporting the "RIPPLE Africa's Improved Cookstove Project in Malawi". Between 2018 and 2021, Reykjavík Energy also supported GHG emission reductions through wetland restoration in Iceland. During this period, the cumulative avoided emissions amounted to nearly 3,000 tons of CO_2 equivalent.

Mitigation and Adaptation Measures to Climate Change

Climate change has a direct impact on Reykjavík Energy's operations. The company has analysed and assessed the severity of these impacts on its activities and identified appropriate response measures. Potential adaptation strategies have been explored in relation to increased precipitation intensity, snowmelt, more frequent and extreme temperature fluctuations, severe storms with higher lightning frequency and wind loads, landslides, and sea level rise.

Reykjavík Energy utilizes temperature, precipitation, and other climate data based on climate scenarios from the 2018 report by the Icelandic Scientific Committee on Climate Change. These scenarios include, among others, RCP-2.6 and RCP-8.5.

The company is expected to have significant resilience to these changes. In this context, the water utility continuously monitors microbial and chemical contamination in drinking water in real time, enabling preventive actions to ensure its quality. Additionally, the district heating utility assesses future demand for hot water and optimizes its utilization to maintain supply security.

The wastewater utility considers projections of sea level rise and precipitation intensity in its planning. Furthermore, blue-green surface water solutions are being explored to drain and purify rainwater from streets and roads before it flows into rivers and lakes. These measures also enhance biodiver-

sity and improve urban environments, serving as both mitigation and adaptation actions to climate risks.

At the geothermal power plants in the Hengill area, monitoring and response mechanisms are in place to manage infrastructure stress and ensure the security of electricity and hot water supply.

All Reykjavík Energy subsidiaries are developing action plans and implementing these measures in collaboration with municipalities, institutions, academia, and research organizations as applicable.[3]

Board Involvement in Approving the Plan for Achieving Sustainability Goals, Including Climate Targets

As Reykjavík Energy's operations involve the construction and management of infrastructure designed to last over 50 years, the company must consider long-term climate risks in its investments and operations, as well as the opportunities they present. Reykjavík Energy's management assesses and manages climate-related risks within the company and reports these risks to the Board.

The CEO of Reykjavík Energy receives monthly updates on climate-related performance from the company's environmental lead. The role of the environmental manager includes overseeing climate-related matters, which also involves continuous monitoring of Reykjavík Energy's progress toward its climate goals. Performance-based incentives related to carbon footprint reduction are not part of executive compensation.

Climate factors and key climate-related issues are on the monthly agenda of the Board of Reykjavík Energy. The Board reviews, monitors, and approves major plans concerning climate action, climate risk, the implementation and progress of climate targets, and mitigation measures, while also evaluating the opportunities these actions present.

At least once a year, the Board conducts a comprehensive review of the status and progress of projects related to climate change adaptation.

Climate Innovations

Reykjavík Energy has been at the forefront of innovation and development in climate and environmental matters for the past decade. Innovation and development efforts are carried out within the company as well as in collaboration with domestic and international academia. Cooperation between industry, academia, and municipalities is often essential for turning ideas into practical projects that benefit both businesses and society. More information about these projects, along with other Reykjavík Energy initiatives in climate and environmental innovation and development, can be found on the company's website.

In all its operations, Reykjavík Energy emphasizes the efficient and transparent utilization of renewable energy, strengthening trust and supporting long-term success and resilience. The company also aims to increase transparency in all its activities and innovations.

Reykjavík Energy's products, which are derived from renewable energy, have a positive impact on the carbon footprint of its customers.

Actions in 2024

Reykjavík Energy has already undertaken numerous measures to reduce greenhouse gas emissions and support climate adaptation. These include:

1. **Application of the Carbfix method at geothermal power plants:** CO_2 capture and sequestration at Hellisheiði Geothermal Power Plant. The goal is for Hellisheiði to become carbon neutral by 2025 and Nesjavellir by 2030. The project has already ensured the sequestration of thousands of tons of CO_2 equivalents annually. Estimated cost: ISK 1.5 billion.
2. **CO_2 sequestration experiments using seawater in Helguvík:** This project is unique on a global scale and paves the way for the future development of the Carbfix method.
3. **Internal carbon pricing:** Reykjavík Energy has sought ways to procure more sustainable products, with a focus on steel produced through sustainable methods, as steel pipelines represent a significant portion of Veitur Utilitie's procurement and carbon footprint. In 2024, the company set an internal carbon price at ISK 15,000 per ton of CO_2 equivalent as a benchmark for all applicable projects.
4. **Land restoration, afforestation, and vegetation recovery:** In 2024, land restoration was carried out on approximately 4 hectares at Hellisheiði and Ölfusvatn, and birch and rowan trees were planted on 2 hectares near Hellisheiði Geothermal Power Plant. The primary goal is to strengthen ecosystems and increase vegetation cover. Enhanced carbon sequestration across 965 hectares of land within Reykjavík Energy's operational areas has further increased the company's contribution to climate action.
5. **Energy transition in transportation:** Installation of fast-charging stations across the country and collaboration with municipalities and investors on electrification of ships. With over 50 fast-charging stations, Reykjavík Energy has significantly contributed to the energy transition.
6. **Adapting utility networks to climate change:** Improved monitoring of water quality and distribution systems, supporting analysis of climate impacts. Enhanced understanding of wastewa-

3 Memo Phase 4 - Adaptation to Climate Change – 2024

ter system responses to climate-related events. Implementation of blue-green surface solutions in collaboration with municipalities to improve wastewater management and enhance climate resilience. Simultaneously, solutions are being developed to meet increasing demand and ensure maximum security of supply.

7. **Artificial intelligence for hot water consumption forecasting:** This solution supports improved hot water efficiency and increases forecasting accuracy, influencing future investment decisions in the district heating system.
8. **Continued deployment of smart meters:** These provide insight into electricity and hot water usage patterns over hours, weeks, or months, enabling customers to better manage their consumption, detect anomalies and faults earlier, and create opportunities for energy savings and cost reduction. These meters improve reliability and accountability in energy distribution. Veitur Utilities gains a better overview of how outdoor temperatures affect energy demand, allowing for more accurate forecasting, faster response to malfunctions, and enhanced support for the sustainable and responsible use of resources. More details are available on the Veitur Utilities website.
9. **United Nations carbon offsetting:** Since 2020, Reykjavík Energy has purchased certified emission reductions through the United Nations Climate Agreement, supporting the "RIPPLE Africa's Improved Cookstove Project in Malawi." In 2024, Reykjavík Energy offset 1,200 tons of CO_2 equivalents, compared to 645 tons in 2020, representing an 86% increase in purchased offsets. By supporting the Malawi project, GHG emissions are reduced while also combating deforestation and respiratory diseases, particularly among women and children.

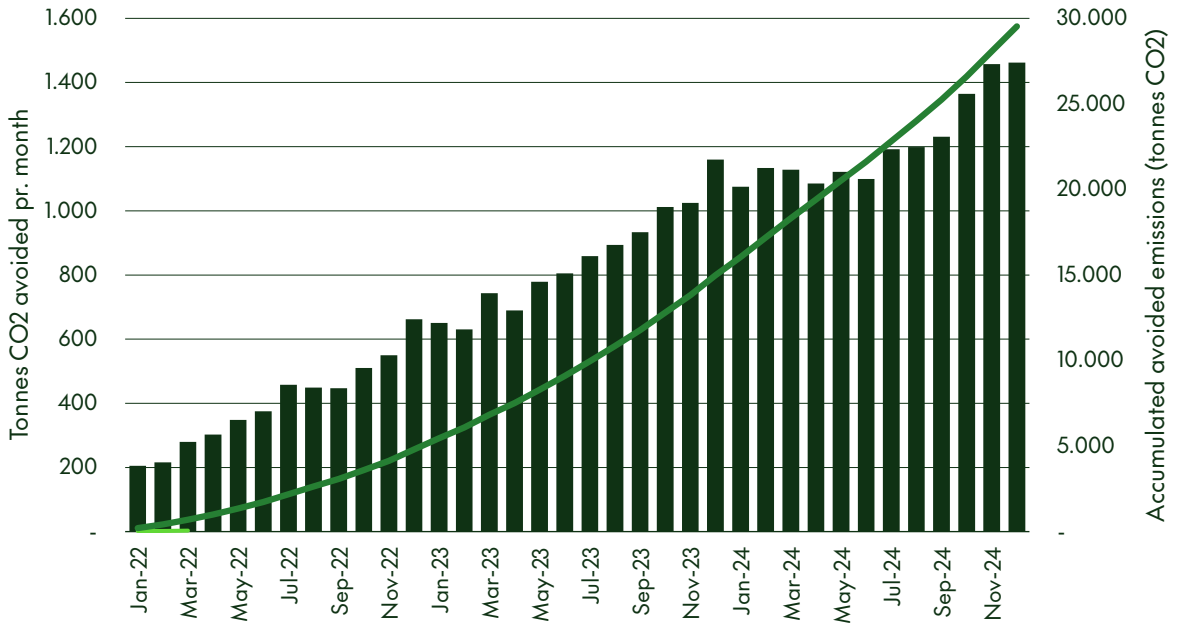
Electric Vehicles Reduce Emissions

ON Power has been a pioneer in establishing charging infrastructure for electric vehicles in Iceland, having installed the country's first fast charger in 2014. Today, ON Power's charging services include fast charging, home charging subscriptions, corporate charging, and neighbourhood charging in collaboration with municipalities.

The accompanying figure illustrates total sales across these charging services by month from 2022 to 2024. The data is presented as avoided CO_2 emissions, and estimates suggest that this electric vehicle charging has collectively prevented approximately 30,000 tons of CO_2 emissions.

Electricity sales through ON Power's charging network

Presented as avoided $CO_{2\text{-EQ}}$ emissions



Future Actions

Future large-scale actions to mitigate risk and capitalize on opportunities in energy production and operations at Reykjavík Energy related to greenhouse gas emissions:

1. **Application of the Carbfix method at geothermal power plants in the Hengill area** and utilization of experience from the operation of the air abatement unit at Hellisheiði Geothermal Power Plant for the design and decision-making process regarding emissions treatment at Nesjavellir Geothermal Power Plant.
2. **More sustainable procurement.** In the long term, Reykjavík Energy needs to integrate internal carbon pricing into investment project decision-making and improve employee awareness of its application in project evaluations. Additionally, the company must conduct a long-term assessment of how goods and services related to energy production and operations impact risk, opportunities, and mitigation measures within sustainable procurement.

Reykjavík Energy will continue working on the following projects:

- Energy transition in transportation
- Adaptation of utility networks to climate change
- Deployment of smart meters
- Land restoration, afforestation, and vegetation recovery

Reykjavík Energy's strategy outlines a significant increase in sustainable and diverse energy production, while also committing to achieving carbon neutrality by 2040. If energy production expands significantly, greenhouse gas emissions from planned investments, infrastructure, and long-term contracts are expected to increase. The company has not yet conducted a detailed analysis of how these future developments will impact its carbon footprint, but it is clear that assessing the emission impacts of these projects will be necessary for emissions management.

E3 Water- and Marine Resources

From RE's strategy:

Responsible utilization of water- and marine resources for the future by maximizing the lifetime of resources and minimizing environmental impact.

Water Resources

Strategy, Approach and Goals

Water extraction from Veitur's and ON Power's water sources is a fundamental aspect of Reykjavík Energy's operations and plays a crucial role in the quality of life for the communities it serves.

Veitur operates fifteen water sources, supplying water to the capital region, West Iceland, and South Iceland. Its distribution systems serve approximately 45% of Iceland's population. More information about the water utility can be found on Veitur's website. ON Power operates three water sources, which are used in the company's geothermal power plants.

Daily domestic water consumption in the capital region is not individually metered but is estimated at 140 liters per person on average. Every year, water leakage is roughly assessed within Veitur's service areas based on annual flow and production data, industrial consumption measurements, and estimated per capita usage. This leakage assessment, along with infrastructure condition evaluations and demand forecasts, helps identify priority areas where water reserves or distribution capacity are at risk.

Through active leak detection, pipe renewal, and repairs, Veitur have kept water loss within acceptable limits: 10-15% in the largest utilities, around 20% in mid-sized utilities, and up to 25% in the smallest ones. Exceptions include small utilities and one mid-sized system in a vulnerable state. In Reykjavík, leaks were reduced from 50% to 10% following an intensive campaign from 1986 to 1987, and that progress has been maintained. In recent years, leaks have been reduced by up to 10% in mid-sized utilities in West Iceland. Veitur is implementing automation to improve leak detection and reduce water wastage in distribution networks. This includes increasing the number of district meters and developing advanced methods to enhance leak identification and pinpoint locations with greater accuracy. This initiative is part of the LIFE ICEWATER project, led by the Environment and Energy Agency of Iceland. Additionally, acoustic sensors have been installed in Veitur' s distribution networks to detect leaks based on sound changes. Veitur is also introducing new technologies to facilitate pipeline condition assessments.

Reykjavík Energy's Sustainability Strategy emphasizes its responsibility for the resources it utilizes. Responsible resource management ensures that future generations have the same opportunities as present ones to access and benefit from water resources, while also verifying sustainable practices. Reykjavík Energy is committed to protecting drinking water resources from threats and contamination, recognizing the responsibility entrusted to the company.

The goal is to ensure that:

- Water sources supplying Veitur's and ON Power's service areas remain unpolluted. Water extraction and related activities must not compromise the potential for equivalent future water use.

A resource assessment indicator has been established to monitor the status and progress of drinking water extraction across Veitur's and ON Power's water sources. This metric evaluates activated water reserves, future reserves, water quality, and potential risks and is updated annually.

In accordance with Environment and Energy Agency of Iceland requirements for the implementation of Iceland's Water Plan, impact assessments are conducted for projects affecting water bodies to support permit applications. Such assessments were carried out for applications regarding increased utilization of Veitur's water source at Steindórsstaðir in Reykholtsdalur and for ON Power's drilling operations at Meitlar and Hverahlíð.

Veitur has not set general targets for reducing water extraction and consumption, but the company has collaborated with large consumers and municipalities in areas experiencing water shortages to reduce water use and promote responsible resource management.

Water Protection Areas

Defining water protection zones around Veitur's and ON Power's water sources is one of the most important measures to ensure the purity of drinking water and prevent contamination. Collaboration with stakeholders, including public health au-

thorities and the Environment and Energy Agency of Iceland, which also serve as regulatory bodies for water extraction, is crucial to achieving this objective. Systematic preventive measures and monitoring are in place to safeguard drinking water quality.

Environmental factors, microbial contamination, and climate change effects are closely monitored, along with the transportation of oil, gasoline, and other hazardous substances within the water protection zone of the capital region in Heiðmörk. More information is available on Veitur's website. Accidents and incidents involving hazardous behaviour within water protection areas are recorded, reviewed, and addressed as necessary. Continuous improvements are being made to procedures for pipe connections and flushing in Veitur's distribution systems. To prevent contamination incidents, all Veitur and ON Power employees as well as contractors working on projects in water protection areas receive training on water protection measures before construction begins. This requirement is explicitly stated in tender documents.

Groundwater Levels

Groundwater reserves for drinking water resources are closely monitored, along with the impact of their utilization, in Heiðmörk and other water extraction areas operated by Veitur and ON Power. This is done through a dense network of groundwater level meters in boreholes, data on extraction and withdrawals from boreholes supplying the capital region and the Hengill area, and an annually updated groundwater model. In summer 2024, the water level in Grenkriki, Heiðmörk, reached a historic low due to low precipitation in 2023 and limited snowmelt and rainfall in spring 2024. However, this low groundwater level did not affect Veitur's operations or supply security but resulted in reduced water levels in some nearby lakes and rivers around the capital region.

The Environment and Energy Agency of Iceland and water utilities in the capital region discussed the low water levels in Hvaleyrarvatn and reduced flow in Kaldá, focusing on the relationship between water extraction and groundwater levels. The discussion concluded that weather patterns and natural variations in water table levels play a greater role than water extraction, as precipitation variability within the watershed is significantly higher than the rate of extraction. An extensive monitoring and stress test has been conducted to assess the potential impact of water extraction from Vatnsendakrikar on Hafnarfjörður's water source at Kaldárbotnar. The results of the stress test indicate more optimistic outcomes than initially expected, suggesting that the impact may be less significant than previously estimated. Veitur aims to ensure the long-term sustainable use of the area, as water quality remains stable and high, and the elevation of the area is essential for maintaining system pressure.

Increased Seismic Activity

In 2024, increased seismic activity in the Ljósufjöll volcanic system in West Iceland has not affected the operation of Veitur's utility systems in the area. The Grábrókarhraun water source is the most vulnerable to such effects, and temporary turbidity increases have been observed in connection with large earthquakes on the Reykjanes Peninsula and in North Iceland. Given the current location of seismic activity, it is considered unlikely that lava would reach Veitur's resource areas in the event of an eruption.

Cold Water Extraction, Internal Use, and Reuse of Cold Water

In 2024, Veitur's extraction of cold drinking water amounted to nearly 28 million m³. ON Power extracted over 87 million m³ of cold water, the majority of which was heated in geothermal power plants in the Hengill area and subsequently used for space heating in the capital region.

ON Power also utilizes condensate from geothermal power plants for CO_2 and hydrogen sulfide capture and sequestration using the Carbfix method. Instead of being discharged into cooling towers, the condensate is reused before being reinjected into the bedrock.

Water Quality

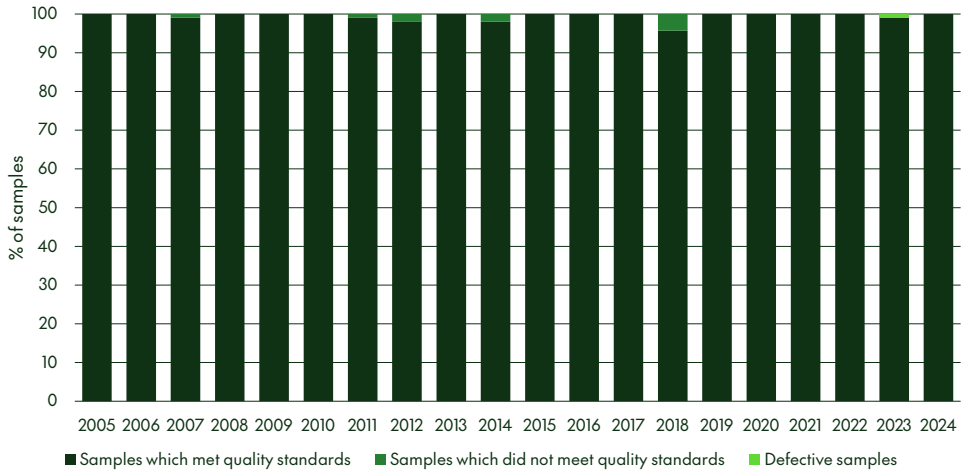
Water quality in Veitur's and ON Power's water utilities in 2024 was generally good and, in most cases, complied with quality standards, legal provisions, regulations, and company objectives. Some deviations occurred in rural areas, which were addressed accordingly, see[1]:

- A quality deviation occurred in drinking water from Svelgsárhraun on Snæfellsnes at the end of the year. The water is used in rural areas of the region. No E. coli was detected, but precautionary notices were issued to vulnerable users recommending boiling the water. UV treatment ensures the safety of drinking water in Stykkishólmur, but the rural area supply is not yet UV-treated. Veitur is working to install temporary UV treatment near the water source to secure water quality for all users in the service area.

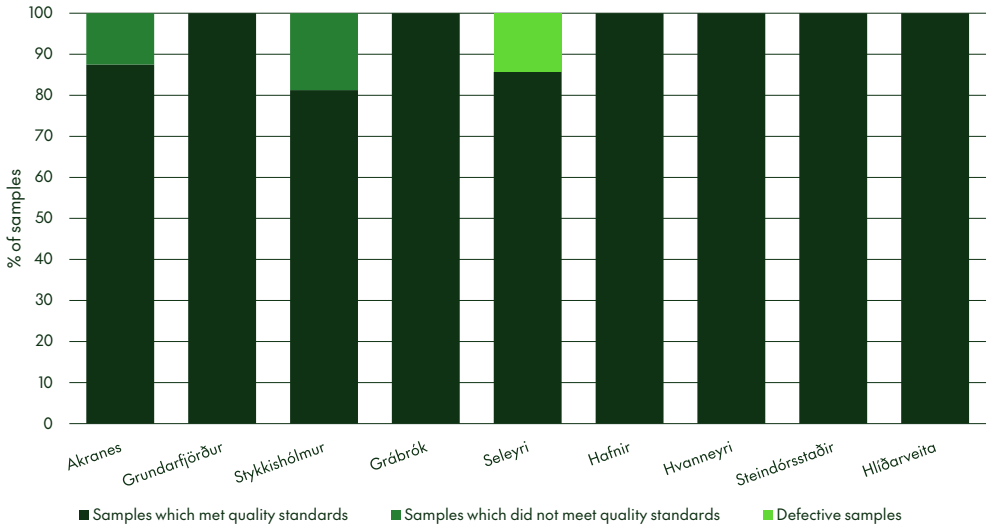
1 Water utilities and water protection issues 2024

- A quality deviation occurred in the Seleyri water source, which supplies Borgarnes. As a precautionary measure, boiling notices were issued. Follow-up sampling confirmed compliance. Veitur responded by improving the sampling facility and is currently renovating the pumping station in the area, where UV treatment for drinking water will be installed and commissioned in 2025/2026.
- A failure occurred in one of the two UV treatment units in Akranes' water supply in May, leading to untreated water entering the distribution network for several hours. The West Iceland Public Health Authority was notified. Procedural and equipment modifications were made to prevent similar incidents from occurring in the future.
- Residents of Akranes noticed an unusual taste in the cold water in August 2023, which was traced to green algae in a reservoir near the Berjadalsá water source. This did not recur in summer 2024, due to colder weather conditions and operational adjustments at the water source. Water samples were taken, and the results were satisfactory. These algae are common in unpolluted rivers and lakes in Iceland and are not considered a health risk.

Drinking Water Quality in the Capital Region 2005–2024



Drinking Water Quality in Rural Areas 2024



Actions in 2024

Drinking water extraction is assessed within Reykjavík Energy's resource evaluation framework. This means evaluating the risks associated with water extraction and utility operations, as well as external threats to drinking water, such as climate change. Short- and long-term actions are taken as needed.

Actions in 2024 to mitigate risks and seize opportunities related to drinking water extraction and operations at Veitur and ON Power:

1. **Analysis of water demand and future water reserves** for Grundarfjörður, Stykkishólmur, and Akranes, as well as for Álfsnes, Esjumelar, and Kjalarnes in Reykjavík.
2. **Implementation of UV treatment for Veitur's water sources** at Hvanneyri and Lindaveita at Nesjavellir. This deactivates microorganisms that may enter the water sources during snowmelt, ensuring safer distribution.
3. **Expansion of the water protection areas for the capital region.** Veitur has requested an expansion of the security zone to cover a planned development area in Hólmsheiði. This follows recommendations from consultancy firm Vatnaskil, which conducted an analysis for Reykjavík City and Veitur.
4. **Local plan for Heiðmörk.** Reykjavík City is working on a zoning plan for the area in cooperation with Veitur, Reykjavík Energy, and other stakeholders. This plan will shape the long-term vision for the region and is key to ensuring the highest possible water quality for the capital area in the future. Reykjavík Energy and Veitur will prioritize drinking water quality and preventive measures in this planning process.
5. **Demolition of summer houses within Veitur's water protection area in Grábrókarhraun** near Hreðavatn. Estimated cost: ISK 6 million.
6. **Exploratory drilling in Bláfjöll** within the extended water protection zone of the capital region, carried out by the Association of Municipalities in the Capital Area. The purpose is to better define watershed boundaries and recharge areas for the capital region's water sources. Drilling was difficult due to geological conditions, and only one of three planned boreholes was completed in 2024. Additional measurements in existing boreholes are scheduled for 2025, with a reassessment of further drilling feasibility.
7. **Monitoring the relationship between environmental factors, microbial contamination, and climate change.** Data collection and research continued in 2024 to improve understanding of these interactions.[2]
8. **Leak detection using acoustic monitoring and other diagnostic methods.** Veitur detects water leaks in pipelines by listening for pressure changes. In 2024, a significant leak of 8 liters per second was identified and repaired in Álftanes.
9. **Deployment of smart meters in the water utility system** to support future infrastructure planning and improve leak detection. This project is part of the LIFE ICEWATER initiative, led by the Environment and Energy Agency of Iceland.
10. **New method for pipeline renewal** tested at Sogavegur in Reykjavík. Instead of excavating the entire pipeline, a new liner was inserted into the existing pipe, reducing construction time, costs, environmental impact, and carbon footprint.

2 Research projects in and around the water protection areas of Veitur and ON Power 2024

Future Actions

Future actions to reduce risks and seize opportunities related to drinking water extraction and the operations of Veitur and ON Power include:

1. **Continued implementation of strategic projects on drinking water reserves and water distribution** in the capital region, Akranes, Borgarnes, Reykholt, Hvanneyri, and Stykkishólmur.
2. **Implementation of UV treatment at Veitur's water sources** in Seleyri and Svelgsárhraun in West Iceland to ensure an adequate supply of safe drinking water for Borgarbyggð and Helgafellssveit.
3. **Mitigation measures for potential impacts of wildfires on water quality.** In May 2021, extensive wildfires occurred within the water extraction area of the capital region following prolonged drought, burning over 55 hectares of land. The fires reached within 600 meters of the wellfield at Vatnsendakrikar. Research confirmed that wildfires can affect the chemical composition of groundwater, highlighting the need for fire protection measures as part of water source management and urban planning in the ongoing zoning process led by Reykjavík City.
4. **Increased seismic activity in the Ljósufjöll volcanic system** has led to enhanced monitoring by the Icelandic Meteorological Office. Veitur is closely following the findings and will reassess risks accordingly.

Marine Resources

Strategy, Approach, and Aoals

The development and operation of Veitur's wastewater system is a fundamental aspect of Reykjavík Energy's operations and plays a crucial role in the quality of life for the communities it serves.

Veitur manages wastewater operations in urban areas in Reykjavík, Akranes, and Borgarbyggð. Wastewater from Kópavogur, Mosfellsbær, Seltjarnarnes, and parts of Garðabær is treated at Ánanaust and Klettagarðar wastewater treatment plants, covering approximately 60% of Iceland's population. More information about wastewater management is available on Veitur's website.

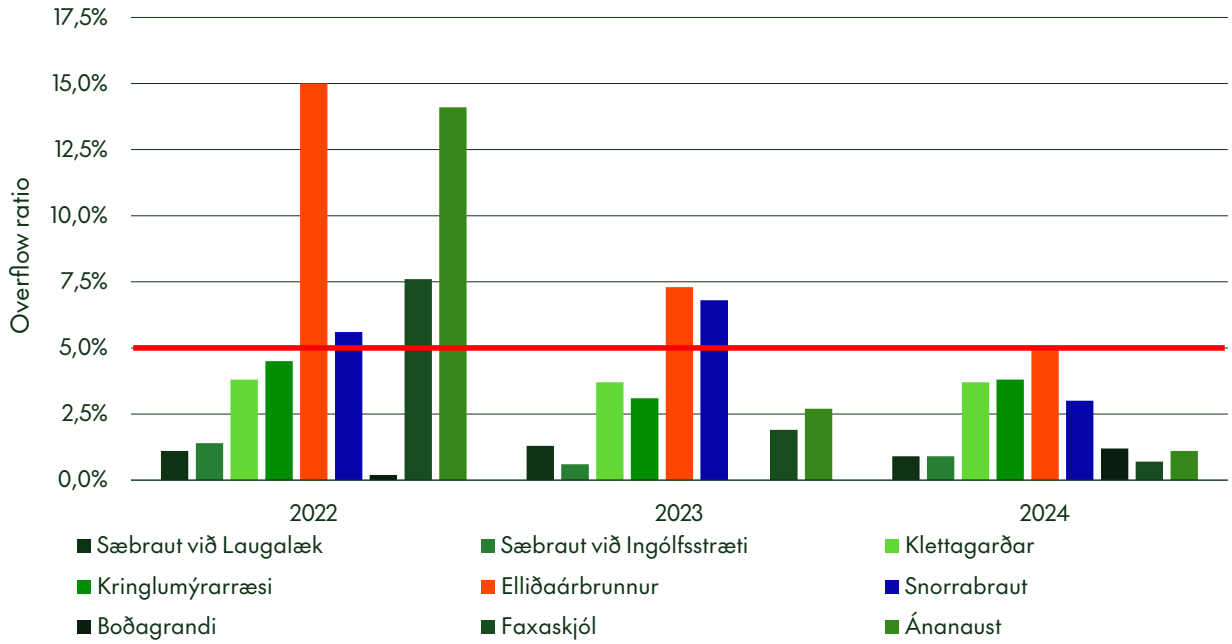
Reykjavík Energy's Sustainability Strategy states that the company's operations result in the release of substances and energy into the environment. Emissions must only occur if their impact on health is negligible and environmental effects are acceptable and continuously decreasing.

The goals are to:

- Ensure that wastewater treatment performance at treatment plants complies with legal and regulatory limits, while also preparing for anticipated future treatment requirements.
- Monitor wastewater receiving environments in accordance with operating permits, legislation, regulations, and Iceland's Water Plan. The concentration of fecal bacteria near discharge points should never exceed 1,000 colony-forming units (CFU) per 100 mL and, where applicable, stricter limits must be met for bathing areas in nature or surface waters near food production sites.
- Prevent untreated sewage discharge from combined sewer systems via overflow outlets due to stormwater loads exceeding 5% of

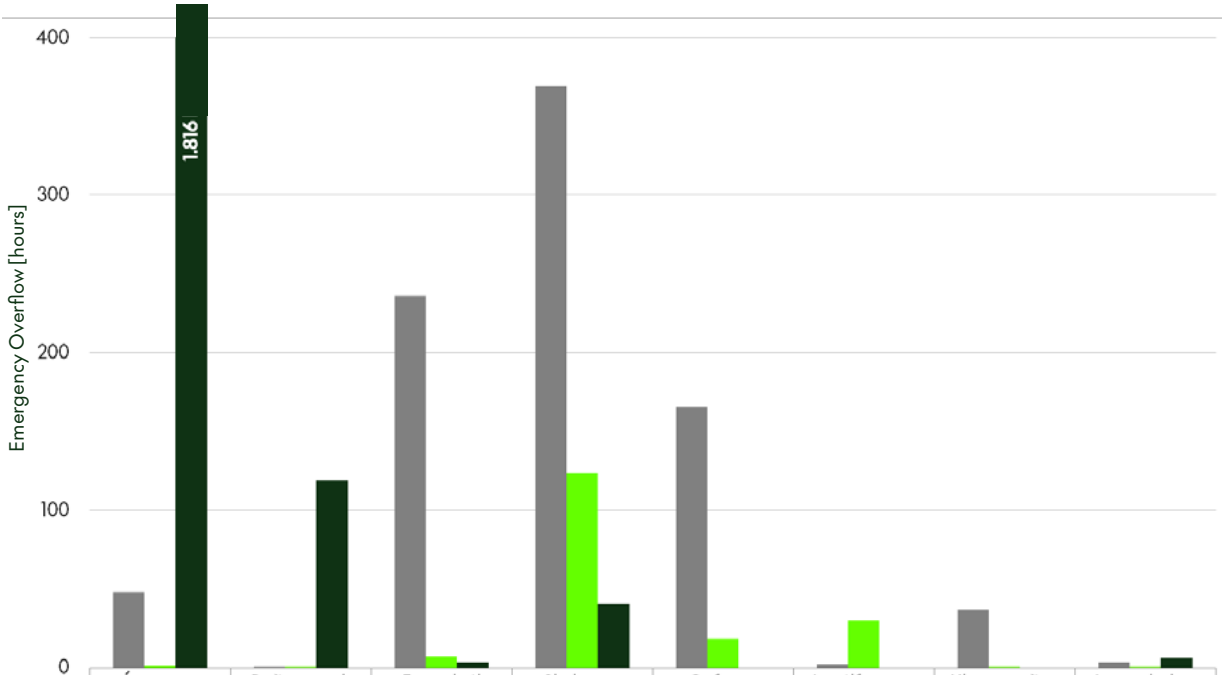
Overflow time in sewage systems in the capital area

Overflow time in Veitur's sewage systems in the capital area from 2022-2024 when untreated sewage was discharged into the ocean. According to regulation no. 798/1999 on sewage systems and wastewater, it is permitted to allow surface-water to flow through overflows up to 5% of the year or when mixed sewage with geothermal- or surface-water is at least in a ratio of one to five. Veitur's records are automated, and it has become apparent that they should be taken with caution. In 2024, data from automatic meters indicate that discharges exceeded 5% from Elliðaárbrunnur, but not as much as shown in the image. The explanation is that solid material has settled on the sensor, giving an incorrect reading. Unfortunately, it proves difficult to correct the measurements.



Operation of emergency overflows in the capital area 2022-2024

The sewage system was under pressure due to weather, repairs to control equipment, and renewal of filtering equipment in 2024. Extensive repairs at Ánanaust took several months, making it necessary to discharge untreated sewage into the sea through emergency overflows.



	Ánanaust	Boðagrandi	Faxaskjól	Skeljanes	Gufunes	Ingólfsstræti	Klettagarðar	Laugalækur
2022	48,1	0,4	236,1	369,1	165,4	1,7	36,5	3,2
2023	1,1	0,2	7,0	123,6	18,2	30,2	0,1	0,6
2024	1816,2	119,2	3,1	40,5	0,0	0,0	0,0	6,1
	Skerjafjarðarveita				Sundaveita			

total annual operating time. Under normal operating conditions, discharges should only occur in conjunction with stormwater flows, and essential maintenance activities should be considered acceptable deviations from normal operational standards.

- Under normal operating conditions, emergency discharge outlets should not be activated.

Veitur has established a long-term goal to ensure that shorelines within its operational areas remain clean, as coastal areas are designated as recreational zones in municipal master plans. During construction projects, Veitur avoids, whenever possible, any disruption to marine and coastal areas that are protected under nature conservation laws, supporting the sustainable use of marine and coastal resources.

The provisions of wastewater operating permits also take ecological limits into account.

Regular meetings with regulatory authorities, such as municipal health inspection agencies, are held to develop monitoring plans, track progress, and ensure the implementation of necessary measures.

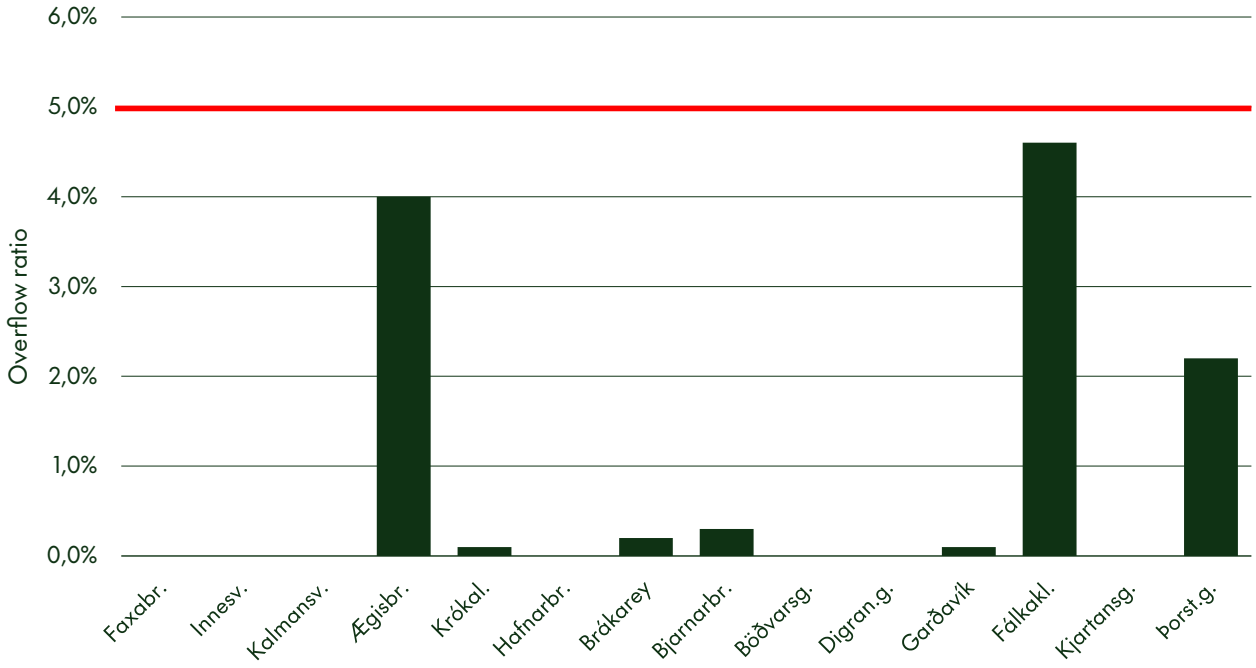
Wastewater Discharge into the Ocean

Residents and businesses within Veitur's wastewater service area have access to wastewater infrastructure and treatment in compliance with regulations. However, the company has been granted an exemption from the general wastewater treatment requirement, if the receiving waters is monitored for potential negative impacts. See the section below on seawater quality for more details.

The discharge of untreated wastewater through overflow outlets is an inherent part of the wastewater system developed over past decades. This will remain the case in the foreseeable future, as a

Overflow time in Veitur's sewage systems in West Iceland

Overflow time in Veitur's sewage systems in West Iceland 2024 when untreated sewage was discharged into the ocean. In 2024, sewage discharge through overflows in West Iceland was within the set limits established by Veitur. Veitur's records are automated, and it has become apparent that they should be taken with caution. According to regulation no. 798/1999 on sewage systems and wastewater, it is permitted to allow stormwater to flow through overflows up to 5% of the year or when mixed sewage with geothermal or surface-water is at least in a ratio of one to five.



mixture of sewage, stormwater, and hot and cold water from households continues to flow through the wastewater collection and transmission network. This combined flow overloads the system, particularly during heavy rainfall and snowmelt, leading to coastal pollution. Veitur has responded by improving leak detection and upgrading infrastructure to separate stormwater from wastewater. Currently, approximately 28% of Veitur's wastewater pipes (by length) are combined sewers. In addition to these factors, climate change impacts—such as weather variability, increased precipitation intensity, flooding, and rising sea levels—affect the performance of wastewater systems.

Seawater Quality and Monitoring of Receiving Waters

Veitur and the Environmental Health Authority of Reykjavík regularly monitor the microbiological quality of coastal waters in Reykjavík and Kjalarnes. According to Veitur's operating permits, sampling is conducted every four years, with monthly tests for one year during each cycle. The most recent year-long sampling period was from May 2023 to April 2024, covering 10 sampling sites in the capital region. In 2024, a total of 130 samples were collected. Along the coastline, 78% of the samples were below the reference limits for E. coli bacteria, and 95% were below the reference limits for enterococci, indicating low levels of fecal contamination.[3] [4]

Every four years, Veitur also conducts environmental monitoring of its wastewater receiving waters, with sampling near the main discharge points of treatment plants, following detailed guidelines from the Marine and Freshwater Research Institute. The 2023-2024 monitoring results for wastewater discharges into Faxaflói Bay and near Akranes were compared to the EU Water Framework Di-

3 Sewage treatment, overflows and sea water quality 2024
4 Sewage discharge report 2024

rective's ecological status classification, assessing chlorophyll concentration, nutrient levels, and invertebrate biodiversity. The results indicate that the water bodies in Faxaflói Bay and Akranes are in excellent condition. The findings have been submitted to the Environment and Energy Agency of Iceland, which will determine whether the receiving waters should remain classified as "less sensitive".

There were several instances of untreated sewage discharge through overflows and emergency outlets in 2024. The main contributing factors were replacement of screen filters at the Ánanaust wastewater treatment plant from March to April, which triggered emergency bypass operations. Additionally, there were repairs to the control system at the Boðagrandi pumping station.

Actions in 2024

Wastewater systems play a key role in public health and community well-being. Improvements to the system are made as needed, while also identifying opportunities that wastewater infrastructure and operations may present.

Successful initiatives in 2024 included targeted leak detection, updated maintenance procedures for pumping stations, and major infrastructure investments to divert stormwater away from the sewer system—a top priority for the wastewater division. Additional actions in 2024 to mitigate risks and leverage opportunities in Veitur's wastewater infrastructure and operations:

1. **New wastewater pumping station at Naustavogur, Reykjavík**. This station will allow for maintenance while simultaneously treating and pumping wastewater forward, unlike older coastal pumping stations that lack this capability. Estimated total cost: over ISK 2 billion.
2. **Primary wastewater treatment implementation.** Veitur has decided to meet primary treatment standards at its wastewater treatment plants. Preparations for necessary investments are underway, in line with wastewater treatment regulations. Feasibility studies and preliminary design will take place in 2025.
3. **Separation of extraneous water from the sewer system.** Systematic efforts are ongoing to separate non-wastewater flows from sewage networks. Separation projects were carried out at Hlemmur, Framnesvegur, Skógarhlíð, Ármúli, Grensásvegur, parts of Suðurlandsbraut, Ártúnshöfði, and Flóahverfi in Akranes, as well as Sæunnargata in Borgarnes.
4. **Environmental monitoring of wastewater discharge from the capital region and Akranes** was completed in late 2024. The studies adhered to nationally standardized requirements based on Iceland's Water Plan. Results confirmed that the receiving water bodies are in very good condition.
5. **Surface-water management solutions.** In cooperation with municipalities, Veitur is implementing blue-green surface-water solutions (BGO) to slow rainwater runoff from streets, roads, and other urban surfaces before it enters the wastewater system. Projects in Vogabyggð, Kvosin, Lönguhlíð, Leirtjörn, and Keldnaland aim to reduce the risk of polluted water discharge through overflow outlets. BGO measures will be incorporated into most road construction projects in Akranes, Borgarbyggð, and Reykjavík.
6. **Biological treatment plants.** A study is underway on the biological treatment plants in Borgarfjörður, aiming to reduce high microbial concentrations in receiving waters.
7. **Wastewater system data analysis.** A comprehensive review was conducted to improve knowledge of resource flows, energy content, and material transport within the wastewater system. The quantities of materials before and after treatment are now well documented, and data was evaluated in relation to potential future treatment requirements. Cost: ISK 2.7 million.
8. **Responsible consumption.** Veitur continued to educate the public on not using toilets as trash bins. Items such as disinfecting wipes, wet wipes, and other waste create stress on wastewater infrastructure and the environment.

Future Actions

Future actions to reduce risks and leverage opportunities in Veitur's wastewater infrastructure and operations include:

1. Implementation of primary wastewater treatment. Preparations are underway for investments and measures to ensure that wastewater treatment in the capital region and West Iceland meets at least the regulatory definition of primary treatment. These will involve significant investments.
2. Complete separation of non-wastewater flows from the sewer system. Long-term plans for surface-water separation will continue.
3. Modifications to the wastewater system to improve water quality in Vatnsmýri and Tjörnin. Veitur will carry out projects funded through the LIFE ICEWATER initiative, led by the Environment and Energy Agency of Iceland.
4. Installation of flow meters in the wastewater system. The objective is to establish mass balance accounting at key wastewater outlets, pumping stations, and treatment plants to quantify untreated wastewater overflows and better distinguish municipal contributions to system usage. Additionally, continuous specialized monitoring, such as temperature measurements at selected locations, will be implemented.

Seawater Quality Along the Coastline in Reykjavík

Seawater quality along Reykjavik coastline- a total of 130 samples for each microorganism group

Seawater Quality Along the Coastline in Reykjavík and at the Edge of Dilution Zones. Percentage (%) of samples measuring below threshold limits, i.e., under 100 CFU per 100 mL at the shoreline in Reykjavík from 2013 to 2024, and under 1,000 CFU per 100 mL at the edge of dilution zones from 2013 to 2021.

Heat-Resistant Microorganisms		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fecal Coliforms	%	90	86	92	85	81	87	90	93	87	95	83	78
Enterococci	%	99	95	96	95	96	96	99	97	93	99	93	95

From 2014 to 2021, Veitur conducted additional sampling alongside the samples taken by the Environmental Health Authority of Reykjavík (HER), and the results are presented in the table. Veitur did not conduct shoreline sampling in Reykjavík in 2022 (except in connection with maintenance projects) since operating permit requirements specify sampling every four years.

Seawater quality at the edge of dilution zones

Heat-Resistant Microorganisms		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fecal Coliforms	%		97	97	100	100	97	100	100	100	-	-	-
Enterococci	%		100	100	100	100	100	100	100	100	-	-	-

In 2021, Veitur stopped sampling at the edge of dilution zones, since it is not required in operating permits.

Seawater Quality near Akranes and Borgarnes

Seawater quality along the coastline

No samples were taken in 2024. Sampling is required every four years, with monthly measurements conducted over one year. The last sampling period was 2022–2023. The table shows the percentage of samples below threshold limits (100 CFU per 100 mL for coastal waters and rivers).

	Heat-Resistant Microorganisms		2021	2022	2023	2024
Akranes	Fecal Coliforms	%	86	85	83	-
6 samples taken for each microorganisml group	Enterococci	%	93	96	100	-
Borgarnes	Fecal Coliforms	%		96	100	-
11 samples taken for each microorganisml group	Enterococci	%		97	100	-

The results of sample testing by the Environmental Health Authority of Reykjavík (HER) are available on HER's website. Faxaflóahafnir and the West Iceland Environmental Health Authority conduct regular measurements of microbial pollution in harbors in Reykjavik, Akranes, and Borgarnes, as well as at Langasandur in Akranes. The results are accessible on their respective websites. Veitur measures microbial concentrations in treated wastewater and near the outlets of Veitur's treatment plants at Bifröst, Varmaland, Reykholt, and Hvanneyri. The results are available in annual summary reports on Veitur's website.

E4 Biodiversity and Ecosystems

From RE's strategy:

Responsible utilization of energy resources for the future (thermal and electricity) by minimizing environmental impact and protecting biodiversity and ecosystems.

Strategy, Approach and Goals

The natural resources of Iceland serve as the foundation for Reykjavík Energy's operations and the quality of life in the communities it serves. The company's operational area extends across the country, with its licensed services spanning from Grundarfjörður in the west to Hvolsvöllur in the south. Approximately 1,600 square kilometres of Reykjavík Energy's own land fall within protected areas. These include water conservation areas, designated reserves, areas listed in the national nature conservation register, and other specially protected sites. Biodiversity is an integral part of these areas.[1]

As part of Reykjavík Energy's Sustainability Strategy, the company is committed to seeking optimal solutions where resource utilization for public benefit is evaluated in balance with other interests, including biodiversity. The objective is to minimize biodiversity loss on land, in freshwater, and in marine environments due to Reykjavík Energy's projects and operations. No land owned or leased by the company should fall into the "red zone" according to Reykjavík Energy's biodiversity assessment metrics.

1 Protected areas 2024. Birds and plants on Watch Lists 2024.

In 2024, biodiversity was incorporated into Reykjavík Energy's resource assessment framework. This means that the risks associated with hot water extraction for heating, cold water extraction for consumption, electricity production, wastewater management, fiber optic infrastructure, and carbon sequestration are evaluated for their impact on ecosystems, and mitigation measures are implemented as needed. Additionally, potential opportunities for biodiversity conservation within Reykjavík Energy's activities—and vice versa—are explored.

Areas, where Reykjavík Energy impacts key plants and animal species, habitats, and ecosystem services are assessed based on:

1. **The significance of the area** and
2. **The priority level for intervention.**

Each of these main factors is divided into subcategories, such as ecosystem quality and condition, conservation value, environmental stress, mitigation measures undertaken, changes in stress levels, and Reykjavík Energy's control over these pressures. This assessment aligns with the guidelines of the International Union for Conservation of Nature (IUCN).

Once the assessment of an area's significance and intervention priority is completed, an overall score is assigned to indicate the status of biodiversity in that area. The results are based on available research data.

This information enables Reykjavík Energy's management and board, regulatory authorities, and financial institutions to make responsible decisions regarding investments and funding for these areas.

Actions in 2024

Actions taken in 2024 to reduce risks and seize opportunities related to the impact of Reykjavík Energy's energy production and operations on biodiversity:

1. **Restoration of damaged ecosystems due to energy production as close as possible to their previous state.** During all construction activities on vegetated land, emphasis is placed on preserving and replanting local vegetation for land restoration to prevent soil and vegetation erosion, as is done in Hellisheiði and Andakílsá areas. Priorities include proper site management, continuous restoration work during construction, returning the natural environment to its previous state, and reducing visual impact. Work procedures and education are regularly refined to ensure even better environmental awareness and work procedures among employees and contractors. The annual cost of ecosystem restoration is approximately ISK 40 million.
2. **Andakílsá Hydropower Plant in Borgarfjörður has varying impacts on the water bodies Andakílsá 1 and 2, Skorradalsvatn, and Fitjar.** According to an impact assessment by the Marine and Freshwater Research Institute, the ecological condition of Andakílsá 2 was not good. However, the ecosystem of Andakílsá 1 has recovered after a significant amount of sediment entered the river during an inspection in May 2017. Salmon fishing in 2024 was very good, with nearly 525 salmon caught, which is almost 400 more than in 2023. Around 20,000 salmon smolts were released into the river, and an additional 20,000 smolts were placed in hatcher-

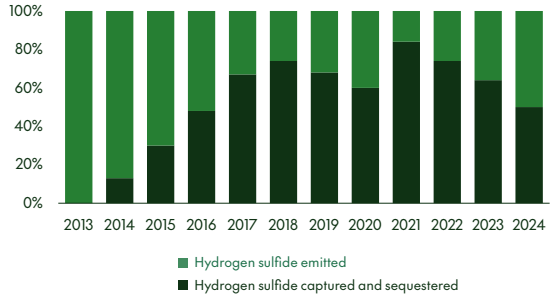
ies. Riverbank reinforcements along Andakílsá, implemented since 2021, have proven effective. The estimated investments in these reinforcements were approximately ISK 40 million.

3. **The water level of Skorradalsvatn is monitored.** In 2024, the water level exceeded reference limits for several days due to heavy rainfall.[2] The water flow in Andakílsá fell below reference limits for two days in June, due to construction work on the intake pipeline of the Andakílsá hydropower station.
4. **Implementation of blue-green surface water solutions in urban areas in collaboration with municipalities.** Veitur and the City of Reykjavík have developed guidelines on the implementation and design of blue-green surface water solutions. The benefits of implementing such solutions go beyond environmental advantages, as they also contribute to social, economic, and public health improvements.
5. **Injection of hydrogen sulphide from geothermal power plants to reduce emissions that may cause air, vegetation, and water pollution.** The Icelandic Institute of Natural History has monitored the moss near the geothermal powerplants in the Hengill area every five years since 2012. The results from 2022 show that moss cover remained largely unbroken and undamaged, and overall, there were fewer instances of moss damage compared to previous years. ON Power believes that these results are likely due to a significant reduction in hydrogen sulphide emissions into the atmosphere from Hellisheiði Power Plant, resulting from injection efforts. In 2024, the preparation for the expansion of the air abatement plant at Hellisheiði Power Plant was in its final stages, with estimated investments of nearly ISK 1.5 billion.

2 Water level in Lake Skorradalsvatn 2024

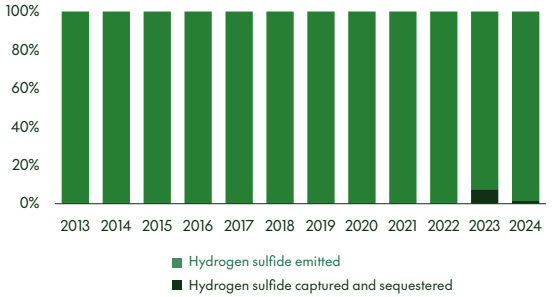
Hellisheiði

Injection of hydrogen sulphide began at Hellisheiði Geothermal Power Plant in 2014, reaching 50% of the plant's emissions by 2024.



Nesjavellir

Injection of hydrogen sulphide started on a pilot scale in 2023, accounting for 1% of the plant's emissions in 2024.



Emissions of hydrogen sulphide from geothermal power plants are continuously monitored,[3] along with hydrogen sulphide concentrations at air quality monitoring stations.[4] For further information, see the website of the Environment and Energy Agency.

3 Emissions of carbon dioxide & hydrogen sulphide and emission intensity from Hellisheidi and Nesjavellir
4 Atmospheric concentrations of H2S in populated areas and regulatory limits 2024

6. **Considering landscape integrity, habitats, energy production, tourism, outdoor recreation, and education from the start.** ON Power has so far successfully integrated energy production with nature-based experiences in the Hengill area. The company's infrastructure developments have improved accessibility for more visitors than would otherwise have been possible, particularly with the construction of Nesjavallavegur road and the creation of 120 kilometers of hiking trails in the Hengill area. The educational trail at Nesjavellir Geothermal Power Plant, for example, enables outdoor enthusiasts to navigate safely past pipelines and borehole enclosures. This is supported by the findings of a 2017 tourism survey, and interviews conducted in 2024 with representatives of outdoor recreation organizations and individuals who engage in outdoor activities in Hverahlíð and Meitlar. During the summer of 2024, special emphasis was placed on improving the educational trails at Nesjavellir Geothermal Power Plant, along with general maintenance and monitoring of other trails in the Hengill area. The estimated investment for these improvements is approximately ISK 15 million.
7. **The restoration of natural resources in Elliðaárdalur following Reykjavík Energy's decommissioning of the hydropower plant in the area in 2014 is progressing well**. In 2019, a design competition was launched to determine a new role for the historical power plant structures, which had been designated as protected heritage buildings in 2012. The resulting Elliðaárstöð development is the outcome of this initiative. Reykjavík Energy officially initiated the restoration of natural assets in Elliðaárdalur in 2021. Until autumn 2020, Árbæjarlón, the reservoir that once supplied the hydropower plant, was alternately filled and drained each autumn and spring. The reservoir was permanently drained in autumn 2020. A variety

of data has been collected on the ecological impact of this permanent drainage, revealing significant effects upstream along the channel.

Various data have been collected on the effects of the reservoir's permanent drainage, which have extended significantly upstream along the river channel. Monitoring of juvenile salmon populations in Árbæjarkvísl in 2024 confirms for the fourth consecutive year how well the salmon are thriving after the removal of migration barriers and the discontinuation of water regulation at the Árbær dam. The river area where Árbæjarlón once existed is now densely populated with salmon fry from natural spawning in Árbæjarkvísl. The decision to eliminate instability in the river ecosystem has already proven beneficial for the salmon populations. The cost estimate for the ongoing modifications is not yet finalized, but preliminary design work is underway.

8. **Injection of Geothermal Water and Heated Groundwater to Reduce Thermal Pollution from Nesjavellir Geothermal Power Plant at the Shore of Lake Þingvallavatn**. The discharge of hot water on and near the surface at Nesjavellir poses both environmental and operational risks. Hot water can harm ecosystems, and the cooling water pumped from Grámelur at Lake Þingvallavatn becomes warmer than is optimal for the power plant's operation. Additionally, this discharge has made it challenging to comply with the operating license requirements of Nesjavellir Geothermal Power Plant and nature conservation laws. Innovation in blending geothermal water from power plants with district heating water for the capital area aims to fundamentally improve the operational framework of the district heating system while enhancing the heat production of the power plants. This long-term strategy is designed to optimize the utilization of produced heat, which over time will reduce thermal pollution at the shore of Lake Þingvallavatn and its impact on the ecosystem. Reykjavík Energy's expertise in assessing the risks of thermal pollution for both the ecosystem and operations has already contributed to advancements in the injection of geothermal water at power plants in the Hengill area. Estimated investments in the reinjection system over the past two years amount to approximately ISK 675 million.

9. **Land Reclamation, Afforestation, and Wetland Restoration.** Land reclamation primarily takes place on Reykjavík Energy's properties in the Municipality of Ölfus, in the Nesjavellir area in Grímsnes- og Grafningshreppur, and in Andakíll in Borgarbyggð and Skorradalshreppur. These areas account for approximately 90% of Reykjavík Energy's total land reclamation sites. Initially, all these areas were barren or sparsely vegetated, with less than 20% vegetation cover. In 2024, around 4 hectares were revegetated with local plant species in fields outside of ON Power's development areas in Hellisheiði and near Ölfusvatn. Afforestation is carried out exclusively on company-owned land at Nesjavellir and Ölfusvatn in Grímsnes- og Grafningshreppur, as well as at Elliðavatn in Reykjavík. In 2024, approximately 6,000 birch and rowan trees were planted on nearly 4 hectares of land near Hellisheiði Geothermal Power Plant. This aligns with the company's policy to expand afforestation areas using native tree species, sequester carbon, and enhance biodiversity. The estimated cost of land reclamation and afforestation was approximately ISK 15 million. Wetland restoration was carried out on a 3.2-hectare area of Reykjavík Energy-owned land in the Municipality of Ölfus in 2016. A visual inspection in the autumn of 2023 confirmed that the restoration had been successful.

10. **Containment of Nootka Lupine Spread in Reykjavík Energy's Operational Areas.** The spread of Nootka lupine, an invasive species, is being controlled within Reykjavík Energy's operational areas. ON Power has actively worked to limit its expansion as much as possible on Hellisheiði and near Andakílsárvirkjun.

Future Actions

In the short term, Reykjavík Energy aims to integrate biodiversity objectives into a monitoring dashboard that will outline goals, scheduled indicators, and actions related to new energy projects in geothermal, wind, and hydropower, along with continued monitoring of areas associated with current energy and utility projects. In the long term, Reykjavík Energy must develop scenarios to assess the potential future state of biodiversity and ecosystems within its operational areas. This will align with the United Nations Convention on Biological Diversity and the Kunming-Montreal Framework. Such an analysis will help company management understand the impacts of factors such as climate change, increased energy production, and conservation measures on biodiversity and ecosystem health. Through this approach, Reykjavík Energy seeks to ensure that both ongoing and future projects have as minimal a negative impact on biodiversity as possible. The company will strive to integrate biodiversity goals across all areas of its operations.

Future actions to reduce risks and Seize Opportunities in Reykjavík Energy's Energy Production and Operations for Biodiversity:

1. **In early 2025, a new air abaiting facility at Hellisheiði Geothermal Power Plant is scheduled to be commissioned.** The facility will remove nearly all hydrogen sulphide emissions from the plant. By 2030, a fully operational air purification facility is also expected to remove

nearly all hydrogen sulphide emissions from Nesjavellir Geothermal Power Plant.

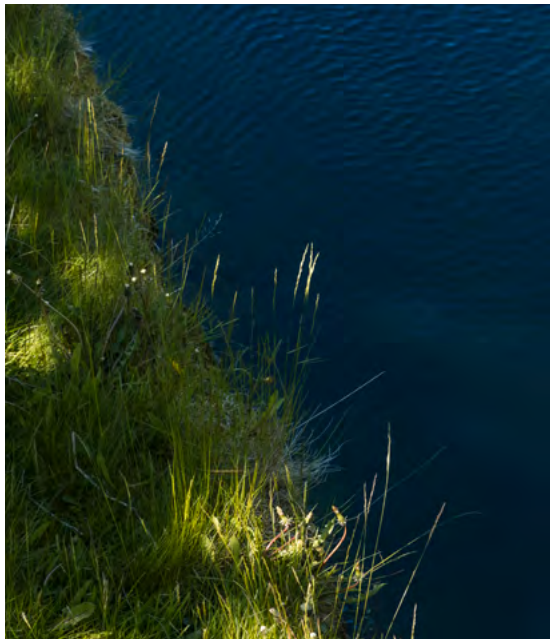
2. **The reservoir at Andakílsárvirkjun in Borgarfjörður is scheduled for clean-up in 2026** to improve dam structures and ensure safety for both people and the environment, as the structures do not currently meet safety standards. The permitting process is underway, and estimated investments exceed ISK 900 million.
3. **Mitigation Measures to Counteract the Negative Impact of Andakílsárvirkjun on the Water Body Andakílsá 2,** ensuring that; 1) Ecological continuity is maintained between Andakílsá 2 and Skorradalsvatn, 2) Minimum environmental flow (e-flow) is secured through the natural river channel of Andakílsá 2, 3) A well-defined operational handbook is established for the power plant, and infrastructure maintenance follows methods designed to minimize the plant's negative impact on the ecosystem. Estimated investments for these measures amount to approximately ISK 40 million.
4. **Integrated Consideration of Landscape, Habitats, and Land Use.** From the outset of any new energy development, Reykjavík Energy will continue to simultaneously assess landscape integrity, plant and animal habitats, energy production, tourism, outdoor recreation, and education. South of Suðurlandsvegur on Hellisheiði, the Municipality of Ölfus has designated a protected area in its municipal plan with the objective of "preserving natural monuments, archaeological sites, and other historical relics to support tourism in the region." In preparation for increased energy development in the area, clear signals are being sent that tourists are welcome within the energy production zone, with signage, marked hiking trails, and other infrastructure to ensure that visitors unfamiliar with the area can safely navigate without risk from pipelines or wellhouses. Significant opportunities exist to establish a cohesive outdoor recreation area across Hengill itself, including the mountainous region east of Mosfellsheiði, around Skálafell on Hellisheiði, Gráuhnúkar, Hengladalir, Litla Skarðsmýrarfjall, and Bitra/Ölkelduháls, as well as in Þverárdalur.
5. **Collaboration with Suppliers.** Reykjavík Energy has already begun working with suppliers to reduce the carbon footprint of products and services. In the long term, however, the company must also assess the primary biodiversity impacts of its energy production and operational supply chain, such as the sourcing of rare metals and other materials with significant biodiversity implications. A more detailed risk analysis, identification of opportunities, and mitigation strategies will be crucial in this regard.
6. **Protection Status for Hengladalir.** Reykjavík Energy has expressed a positive stance toward granting protection status to Hengladalir, provided that geothermal utilization in the area remains permitted through continued directional drilling beneath the site. Hengladalir spans approximately 10 km² near Hellisheiði Geothermal Power Plant and contains habitats of high and very high conservation value, listed under the Bern Convention. Reykjavík Energy owns the land and has been utilizing geothermal energy underneath it through directional drilling for over a decade.

The discussion above demonstrates that Reykjavík Energy upholds its commitments to safeguarding ecosystems and Icelandic nature. This strengthens trust, enhances the company's reputation, attracts customers and talented employees, and ultimately contributes to the company's long-term resilience and adaptability.

A Holistic Approach to Sustainability

Reykjavík Energy has embarked on a journey to adopt a holistic approach that integrates environmental, social, and financial sustainability. This requires prioritizing actions, including the restoration of disturbed and heavily impacted areas where feasible, promoting improved resource utilization and circularity, and supporting local communities.

By fostering an understanding among Reykjavík Energy's leadership and employees of the importance of biodiversity for ecosystem health, the company will be better equipped to adopt more sustainable practices. This will lead to more adaptable business models and the creation of new green business opportunities aimed at addressing climate change, ecosystem degradation, and increasing regulatory demands.



E5 Resource Use and Circular Economy

From RE's strategy:

Responsible utilization of energy resources for the future (thermal and electricity) by maximizing resource lifetime and pioneering the circular economy in energy and utility operations

Geothermal Resources

Strategy, Approach, and Goals

VHeat production from natural resources in low-temperature and high-temperature fields in southwest Iceland is one of the cornerstones of Veitur's and ON Power's operations, as well as the quality of life for the communities served by Reykjavík Energy. In recent years, Veitur has raised awareness about responsible consumption of hot water, as geothermal water for space heating is not an unlimited natural resource. Maintaining the production capacity of the Hengill area's geothermal power plants for both hot water and electricity has also been one of the key projects for ON Power. People now recognize more than before the need to prioritize geothermal energy for space heating to ensure quality of life in Iceland.

Veitur operates thirteen district heating systems: one in the capital area, which is the largest, five in the West and seven in the South, see information on district heating on Veitur's website. These district heating systems serve approximately 70% of the country's population. In 2024, production from Veitur's low-temperature fields in both the capital region and rural areas was in accordance with the company's defined goals and legal regulations. ON Power operates two geothermal power plants in the Hengill area. In 2024, energy production at Nesjavellir and Hellisheiði was conducted in compliance with existing licenses and ON Power's operational goals.

Reykjavík Energy's Sustainability Strategy highlights the company's significant responsibility for the resources it utilizes. Responsible utilization means that future generations will have the same opportunities as the present generation to use these resources and that this can be verified. Reykjavík Energy is committed to seeking sustainable solutions where resource utilization for public benefit is carefully weighed against other interests.

The goals are to:

- Ensure that Veitur's water extraction from low-temperature fields at any given time does not diminish the possibility of equivalent water extraction in the future.
- Ensure that ON Power's geothermal power plants receive the geothermal energy required to meet energy sales commitments, within the utilization limits set by the plants' operating licenses.
- Ensure that the concentration of hydrogen sulfide in the atmosphere complies with the conditions set forth in regulation 514/2010.
- Ensure that earthquakes related to energy production (extraction and reinjection) cause minimal inconvenience and never result in damage.

Resource Utilization - Extraction, Internal Use, and Reuse of Hot Water

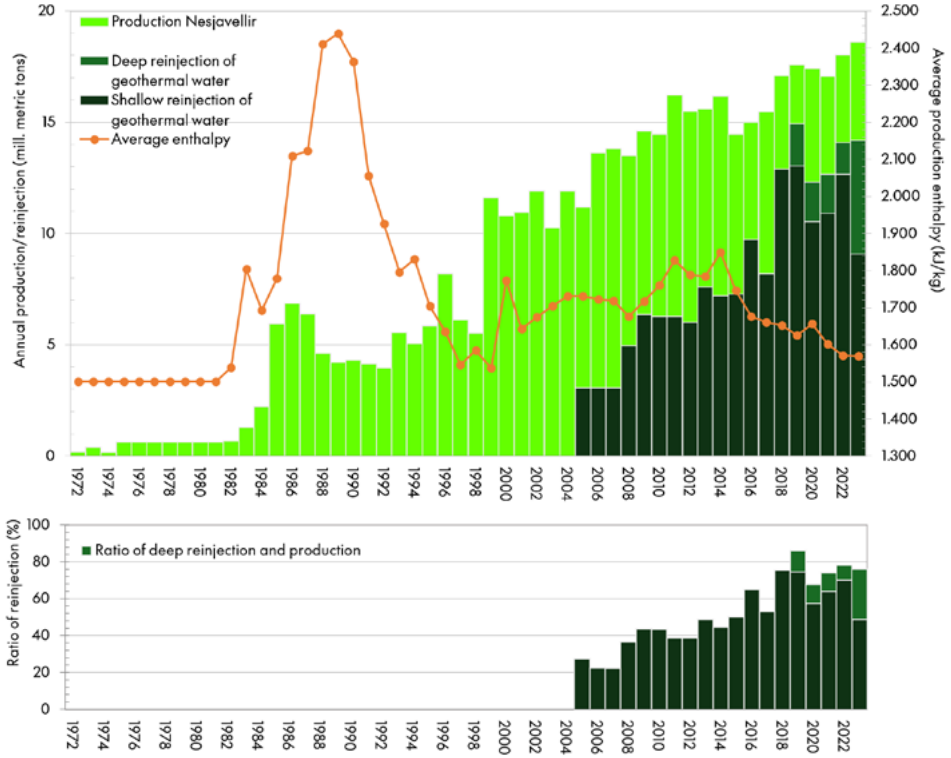
It is inherent to all geothermal systems, especially in high-temperature areas, that they renew themselves more slowly than the rate of extraction. This is evident in the gradual decline of their capacity to provide water and steam over the production period. Low-temperature areas recover quickly when left idle,[1] but the same does not apply to high-temperature extraction, which is therefore more agressive.[2] Reykjavík Energy emphasizes that resource utilization should be as responsible as possible while also safeguarding biodiversity and ecosystems.

ON Power has injected nearly 70% of the geothermal water from the Hellisheiði Power Plant back into the geothermal reservoir and nearly 40% into the geothermal reservoir at Nesjavellir Power Plant. The purpose of injecting geothermal water into the reservoir is to assist the geothermal system in renewing itself and thereby extend the lifespan of the resource. Veitur also injects hot return water into geothermal systems where applicable, such as in Stykkishólmur.

1 District heating utilities, hot water supply, water quality and water levels in low-temperature geothermal fields 2024.
2 High temperature geothermal resources: Production, enthalpy, reinjection and drawdown 2024.

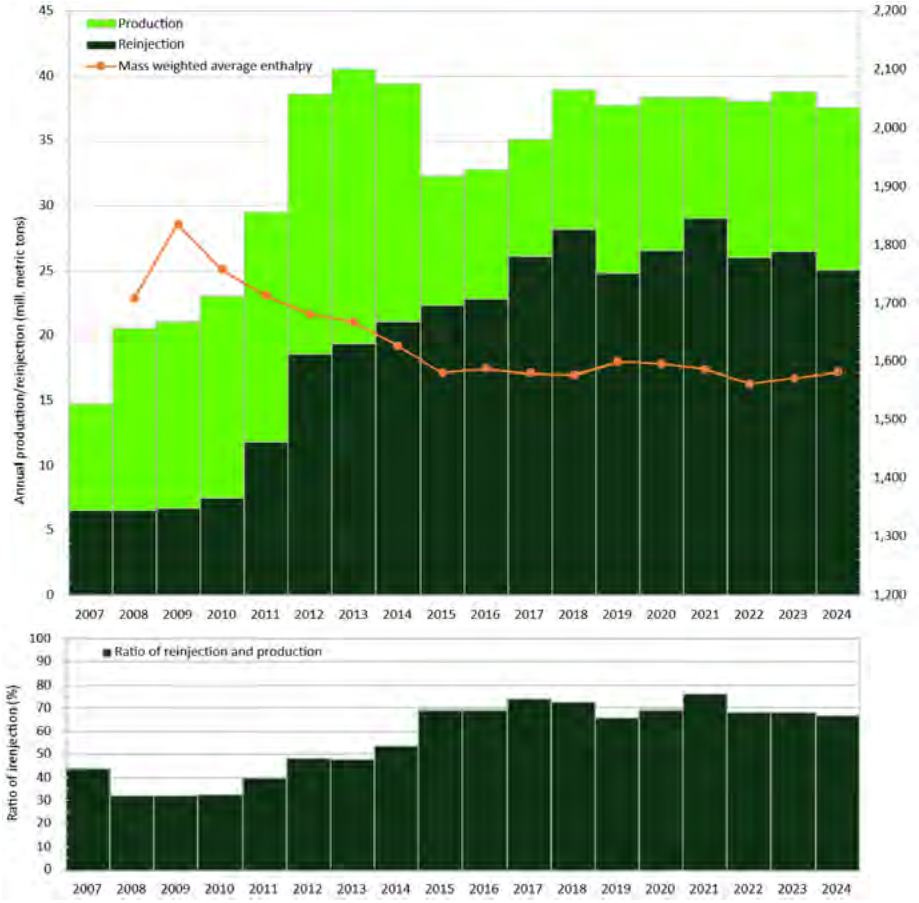
Annual production at Nesjavellir

Annual production at Nesjavellir from 1972 to 2024 (million tons per year), weighted average enthalpy of extracted fluid as a measure of its energy content (kJ/kg), and injection of geothermal water (million tons per year). Furthermore, the proportion of extracted volume that was injected into boreholes below upper groundwater layers and deep into the geothermal reservoir (%) is shown..



Annual production at Hellisheiði and Hverahlíð

Annual production at Hellisheiði and Hverahlíð from 2003 to 2024 (million tons per year), weighted average enthalpy of extracted fluid as a measure of its energy content (kJ/kg), and injection of geothermal water (million tons per year). Furthermore, the proportion of extracted volume that was injected into boreholes deep into the geothermal reservoir and used for blending geothermal fluid into production water (%) is shown.



In 2024, an impact assessment of water bodies was initiated in relation to various projects connected to geothermal utilization. However, this assessment has been limited to the effects on surface water and cold groundwater. A methodology for assessing the impacts of geothermal water utilization has not yet been developed. Reykjavík Energy has requested consultation on the planned work related to the inclusion of hot groundwater in Iceland's Water Management Plan.

Reykjavík Energy produces renewable energy, namely electricity and hot water, primarily from geothermal resources. In 2024, the hot water production of Veitur and ON Power amounted to over 119 million m³. The majority of this was cold water that was heated in ON Power's geothermal power plants in the Hengill area and used for space heating in the capital region. The combined internal consumption of hot water by Veitur and ON Power was nearly 700 thousand m³. Reykjavík Energy itself used over 11% of the electricity it produced and nearly 1% of the hot water it generated. Electricity and hot water accounted for 99.5% of Reykjavík Energy's total energy consumption, while fossil fuels and methane made up 0.5%.

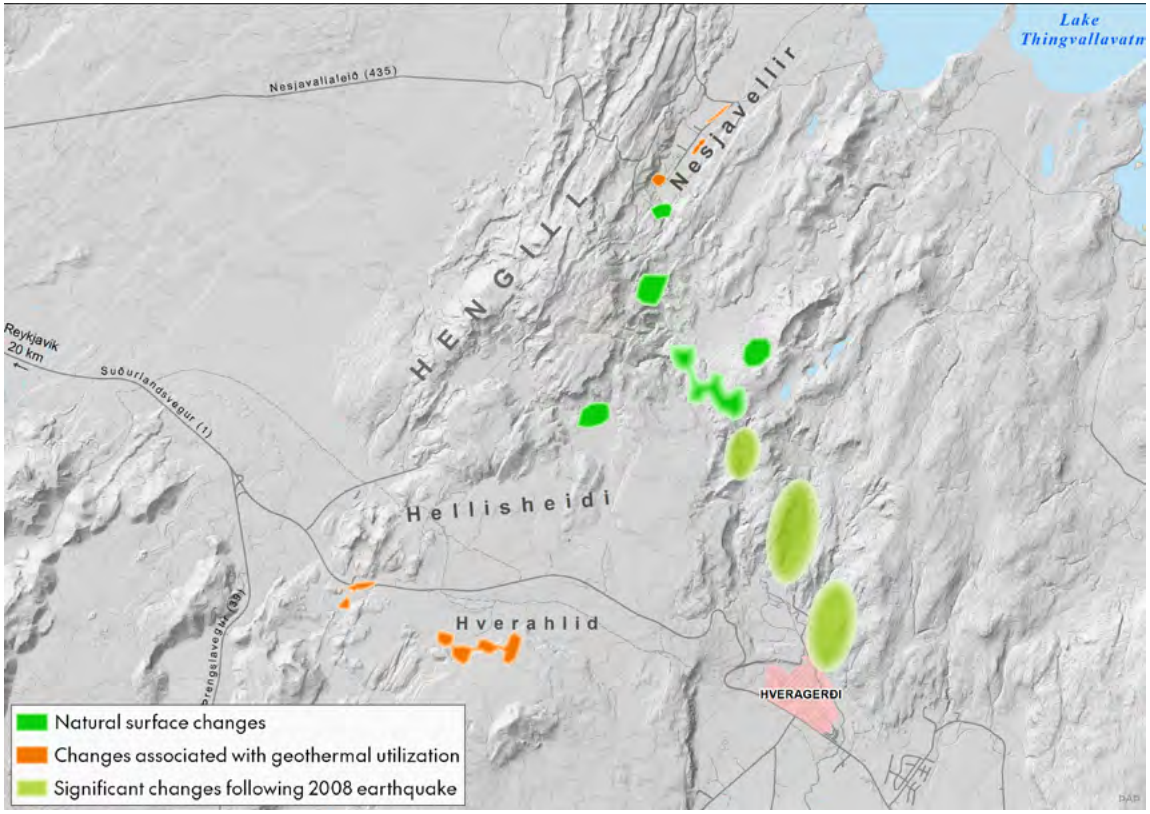
Demand for Hot Water for Space Heating

Following a comprehensive review of the long-term vision for district heating in the capital region, significant measures were undertaken to ensure supply security for the coming decades. The most notable of these efforts include geothermal exploration in both low-temperature and high-temperature fileds. Veitur's benchmark indicates that peak demand for hot water for space heating increases by an average of 120 l/s annually, which corresponds to the needs of a community of approximately 2,000 people at maximum usage.

The Surface Activity of Geothermal Fields in the Hengill Area

The geothermal surface activity is closely monitored, as it can change naturally or due to geothermal utilization. There is no definitive method to distinguish between natural variations and human-induced changes, but efforts are made to assess this based on prevailing conditions. For instance, changes in surface activity began in Hverahlíð after wells were drilled there, suggesting a possible link to geothermal resource utilization in the field. Monitoring of surface geothermal activity in Hverahlíð was expanded in 2024.

ON Power closely monitors surface geothermal activity beneath Highway 1 in Hveradalabrekka near Skíðaskálinn in close collaboration with the Icelandic Road Administration.



Geothermal power plant production fields in the Hengill area and changes in surface geothermal activity.

Injection of Geothermal Water

Geothermal water is injected at Nesjavellir and Hellisheiði Power Plants to protect surface water and groundwater, as the geothermal water is hotter and has a different chemical composition than groundwater. Another key objective is to manage injection in a way that supports pressure within the geothermal reservoir, promoting more responsible resource utilization. The injection capacity has been developed to accommodate all separated water from both power plants, a result of research and innovation efforts since 2015. In cases where geothermal water is discharged at the surface, it is typically due to maintenance shutdowns that temporarily prevent full injection.

In recent years, numerous research and development projects have been undertaken to meet reinjection requirements at Nesjavellir and Hellisheiði with notable success.[3]

As mentioned above, nearly 70% of the geothermal fluid extracted from the Nesjavellir geothermal reservoir was injected into injection wells, with approximately 40% returned directly to the reservoir. Despite improvements in the injection system at Nesjavellir Power Plant, geothermal production still results in the discharge of heated groundwater to the surface, leading to thermal pollution in boreholes and springs near Lake Þingvallavatn. Efforts continue to enhance deep injection at Nesjavellir, as well as preparations for blending geothermal water with district heating water in the capital region, a project planned for 2026, see discussion below.

At Hellisheiði, nearly 70% of the extracted geothermal fluid (separated water and condensate) was injected into the reservoir in 2024. The portion of condensate (pure condensed steam) that was not injected either evaporated in cooling towers or was released as overflow, accounting for approximately 1.5%. The overflow is used in cases of planned or unexpected operational incidents. In 2024, maintaining surface discharge levels within ON Power's targets was a significant challenge due to maintenance projects and unexpected failures, but these challenges were successfully managed.[4]

3 Projects to meet Injection demands at Hellisheidi and Nesjavellir

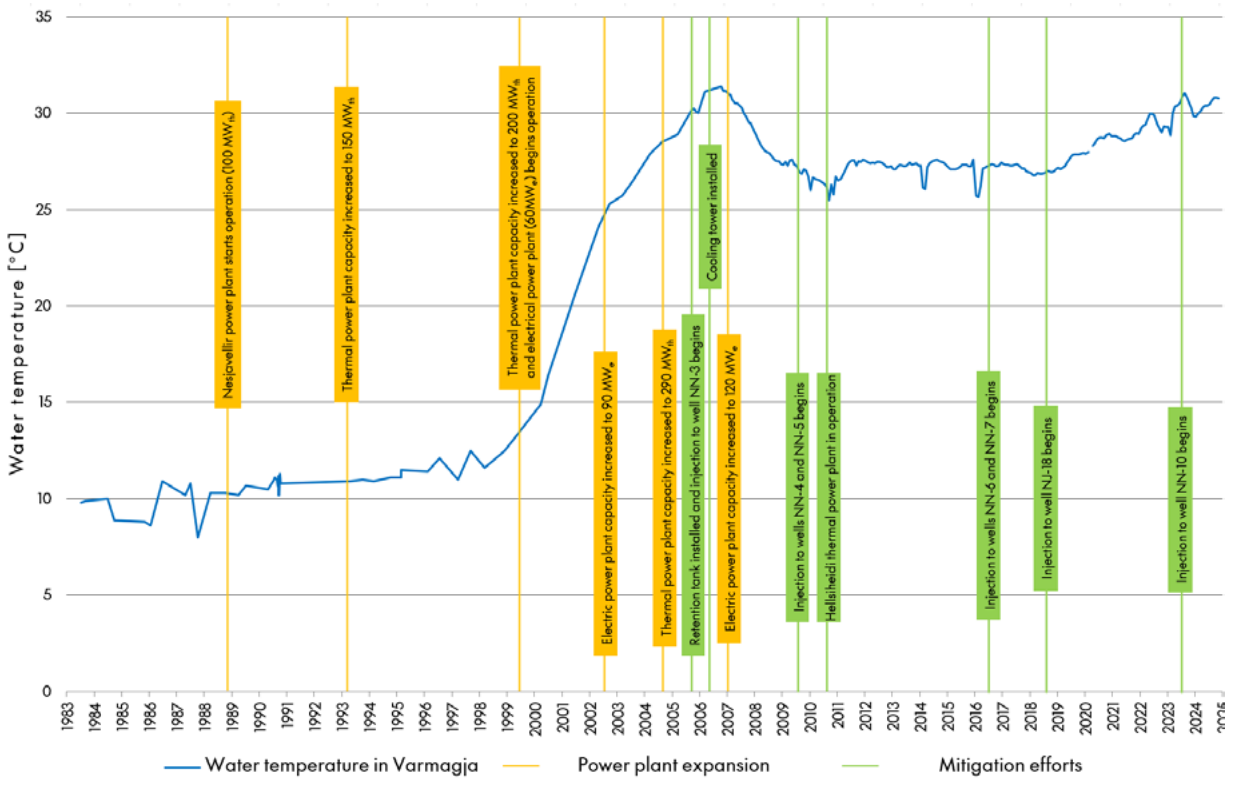
4 Release of geothermal water from the Nesjavellir and Hellisheidi geothermal power plants 2024. Groundwater monitoring 2024.

Thermal Pollution in Groundwater

Thermal pollution in groundwater at Nesjavellir Power Plant is one of ON Power's main environmental challenges. The cause of this issue is the discharge of hot water, cooling water, and geothermal water from the power plant. Groundwater temperature at Nesjavellir is closely monitored through measurements in boreholes and springs along the shores of Lake Þingvallavatn. In 2024, temperatures approached their highest levels

Temperature trends in Lake Þingvallavatn

Temperature trends in Varmagjá at Lake Þingvallavatn from the start of monitoring to 2024 and implemented mitigation measures



since monitoring began in 1985. This is a considerable disappointment given the numerous mitigation measures, research, and development projects ON Power has implemented in recent years to prevent the release of hot water into groundwater. Despite a significant increase in deep injection into the geothermal reservoir in recent years, it has yet to result in lower groundwater temperatures. ON Power will continue working on mitigation solutions, including the application of nature-based solutions in the construction of cooling ponds in Lækjarhvarf. This project is supported by the LIFE ICEWATER initiative, which is led by the Environment and Energy Agency of Iceland. Additionally, plans are in place to expand the cooling tower at the power plant and drill a deep reinjection well in 2026.

The planned integration of the capital region's district heating systems will result in increased hot water production at Nesjavellir, which will significantly reduce the overall discharge of hot water at the power plant. See the discussion below on increased hot water supply for the capital region.

Increased Geothermal Water Supply for the Capital Region

Research on the integration of the capital region's district heating systems, enabling the blending of low-temperature water with hot water from geothermal power plants, shows promising results. If this project proceeds, it will bring about a fundamental change in the operation of the district heating system and heat production at the power plants. The long-term goal is to reduce summer extraction from low-temperature fields and optimize the utilization of heat produced at geothermal power plants. In 2025, a conclusion will be reached on whether it is feasible to initiate the project in 2026. If implemented, it will significantly reduce the surface discharge of hot water at Nesjavellir, which over time will help mitigate thermal pollution along the shores of Lake Þingvallavatn.

Monitoring the Ecosystem in the Bay Þorsteinsvík at Lake Þingvallavatn

The effects of geothermal water discharge on the ecosystem in Þorsteinsvík at Lake Þingvallavatn have been monitored since before the construction of Nesjavellir Power Plant. Measurements conducted by the Kópavogur Natural History Institute in 2020 indicated that trace elements in geothermal water from the power plant, which have been considered the most likely to negatively affect the ecosystem, do not show a statistically significant increase in the environment. Further analyses of groundwater conditions at Nesjavellir will continue to support ON Power's goal of reducing the environmental impact of Nesjavellir Power Plant.

Seismic Activity

The injection of geothermal water, particularly in the Húsmúli area, as well as geothermal utilization related to geological research and drilling in high-temperature fields, can release stress in the Earth's crust and trigger seismic activity, known as induced seismicity. ON Power follows procedures aimed at minimizing the risk of induced earthquakes in and around the Hengill area.

Reykjavík Energy's objective that earthquakes potentially linked to geothermal water injection should cause minimal inconvenience and no damage was met. In 2024, a magnitude 3.1 earthquake occurred in ON Power's injection area at Húsmúli.[5] No changes were made to the injection process, and no notifications were issued to the earthquake monitoring service of the Icelandic Meteorological Office or the Civil Protection Department of the National Commissioner of the Icelandic Police regarding changes in injection in 2024.

5 Development of seismic activity at the Hellisheidi geothermal power plant since the autumn of 2011 to 2024.

Hydrogen Sulphide Emissions

Relative to energy production, the emission intensity of hydrogen sulphide from geothermal power plants has decreased since 2016, from just over 2 grams per kilowatt-hour to approximately 1.6 grams in 2024.[6]

Total hydrogen sulfide emissions from Hellisheiði and Nesjavellir Power Plants amounted to approximately 11,000 tons in 2024. The hydrogen sulphide (H_2S) concentration exceeded reference limits once in Norðlingaholt and Hveragerði in 2024. The relative injection of hydrogen sulphide from Hellisheiði Power Plant was about 50% in 2024. At Nesjavellir Power Plant, hydrogen sulphide reinjection began on a trial scale in 2024, accounting for a percentage of the plant's total emissions.

A plan is in place for Hellisheiði Power Plant to achieve near zero emissions by 2025 and for Nesjavellir Power Plant by 2030, meaning that nearly all hydrogen sulphide emissions from the plants will be captured and mineralized in bedrock.

Wind and Hydropower Resources

In line with Reykjavík Energy's corporate strategy, the company has initiated preliminary studies on wind and hydropower opportunities, with the goal of gradually increasing sustainable and diversified energy production. Planned wind energy projects are located at Lyklafell, Lambafell, and Dyravegur, near the Hengill area. Hydropower projects are being considered at various locations across the country.

6 Atmospheric concentrations of hydrogen sulphide in populated areas and regulatory limits 2024

Actions in 2024

Significant initiatives were undertaken to ensure the availability of hot water for space heating, secure the reliability of hot water supply in the capital region, as well as in West and South Iceland for the coming decades, and to reduce waste.

1. **Hot water was found at Kjalarnes and Geldinganes**, marking a milestone, as all indications suggest that these new geothermal systems within Reykjavík could be utilized for district heating. This is an important step in meeting the growing energy demand for space heating and commercial activities in the area, which is expanding in line with an increasing population.
2. **Geothermal exploration in South and West Iceland, as well as in the capital region**, was conducted at Laugaland in Holt, Borg á Mýrum, Álftanes, and the southern part of Grafarvogur in Reykjavík. Veitur plans to follow up on studies conducted at Álftanes and Borg á Mýrum with drilling. All exploratory wells are drilled in close collaboration and consultation with landowners. Preparations began for drilling a new production well in Hveragerði near Veitur's thermal facility at Bláskógar, with an estimated drilling cost of approximately ISK 100 million.
3. **One of Veitur's main district heating pipelines was laid across Elliðaár.** This pipeline will enhance capacity and operational reliability for a large part of the capital region in the coming years. The pipeline was laid over the river rather than beneath it, ensuring that the sensitive aquatic ecosystem remained undisturbed while minimizing disruption to the riverbanks and vegetation.
4. **Hot water leaks were detected using drones** equipped with thermal imaging cameras, a method particularly effective for leak detection during winter. The inspections have yielded significant results.
5. **The Hverahlíð II pipeline at Hellisheiði was commissioned.** Its implementation increased the steam transmission capacity from Hverahlíð, significantly improving the steam supply for Hellisheiði Power Plant while enhancing operational flexibility. The estimated cost was approximately ISK 1,500 million.
6. **Research on new high-temperature fields** have been in preperation at Meitlar North, Meitlar South, Hverahlíð II, Þverárdalur/Ölkelduháls, Ölfusdalur, and Mosfellsheiði, along with the corresponding permit applications.
7. **Integration of the capital region's district heating systems.** In 2024, the first research phase of the project—ongoing since 2018 and Reykjavík Energy's largest innovation initiative—was completed. The goal is to blend low-temperature water with hot water from power plants without causing mineral scaling. The next phase of research has begun and is showing promising results. If successful, this project will fundamentally transform the operational structure of the district heating system and heat production at the power plants.
8. **Research and development projects to meet geothermal reinjection requirements at Hellisheiði and Nesjavellir.** From 2015 to 2024, these projects have enabled full reinjection of separated water at both power plants. In 2024, the project focused on further modifying reinjection methods to minimize impacts on production areas.
9. **Encouraging responsible hot water use.** During cold periods and equipment failures, Veitur has encouraged the public to use hot water responsibly by avoiding excessive heating of homes and keeping windows closed.
10. **Drilling tenders powered by electricity.** Reykjavík Energy's 2024 tender included the drilling of 35 wells for Veitur's low-temperature fields and exploratory wells around Hengill. The tender specifications required the use of electric-powered drilling instead of diesel.
11. **Preliminary studies on wind and hydropower projects** under Reykjavík Energy and preparations for the necessary permitting processes.

Future Actions

Significant initiatives will be undertaken to ensure the availability of hot water for space heating, reduce risks, and seize opportunities related to resource utilization and the supply of hot water and electricity in the coming decades, while also minimizing waste.

1. **Drilling of district heating wells at Kjalarnes, Geldinganes, and Álftanes**. Further research and drilling will be carried out in these new production areas to better map the location of geothermal resources. If successful, water from these newly identified geothermal fields will be connected to the capital region's district heating system in the coming years.
2. **Increasing the production capacity of existing low-temperature areas through additional drilling.** Some of this work is necessary to restore lost production capacity, while part of it is to meet changing usage patterns in low-temperature areas in the near future. This involves extracting more during winter while resting the fields in summer. Additional drilling at existing low-temperature areas will also contribute to improved operational security.
3. **Exploring new low-temperature fields** at Borg á Mýrum and Ásahreppur.
4. **Increasing the hot water supply in Rangárveita due to higher-than-expected demand.** Drilling at Laugaland in Holt, planned for spring 2025, will determine whether production can be increased there, which would be highly beneficial. If that is not feasible, the most viable and quickest alternative is to drill a new production

well at Kaldárholt. The estimated drilling cost is approximately ISK 100 million.

5. **Continued work on the integration of the capital region's district heating systems.** Feasibility results for this large-scale project are expected by mid-2025.
6. **Research and development projects to meet reinjection requirements at Hellisheiði and Nesjavellir.** Two high-temperature wells will be connected to the reinjection system at Hellisheiði Power Plant, and efforts are underway to identify the location for a new deep reinjection well in ON Power's production areas.
7. **Ongoing research on new high-temperature fields in Meitlar North, Meitlar South, Hverahlíð II, Þverárdalur/Ölkelduháls, Ölfusdalur, and Mosfellsheiði, along with the necessary permit applications.** Two exploratory wells will be drilled in Meitlar North in autumn 2025 to assess geothermal potential. If permits are granted, production drilling in new sections of Hverahlíð and south of Hverahlíð is planned for summer 2026. The findings from these exploratory drillings will be key in deciding future drilling in Hverahlíð.
8. **Expansion of the cooling tower at Nesjavellir Power Plant and the construction of cooling ponds to reduce thermal pollution in Þingvallavatn caused by geothermal production at Nesjavellir.** ON Power is undertaking the cooling pond project with funding from the LIFE ICE-WATER initiative, led by the Environment and Energy Agency of Iceland.
9. **Further preliminary studies on wind and hydropower projects** under Reykjavík Energy and preparation for permitting processes.
10. **New production wells** will be drilled in ON Power's production areas to maintain the supply of hot water and electricity at Hellisheiði and Nesjavellir Power Plants.

Implementation of the Circular Economy

Strategy, Approach and Goals

As a nationally significant company, it is essential for Reykjavík Energy to take a decisive role in implementing the circular economy to promote sustainability and reduce environmental impact. Reykjavík Energy emphasizes the responsible use of resources, viewing waste as raw material and reintegrating it into operational processes wherever possible to minimize waste. By doing so, Reykjavík Energy and its subsidiaries can reduce operating costs and environmental impact, enhance their competitiveness through innovation and the development of eco-friendly solutions, and strengthen the company's reputation. ON Power is particularly focused on utilizing energy streams in the Geothermal Park at Hellisheiði Power Plant in a diverse and environmentally responsible manner.

Reykjavík Energy's sustainability strategy states that the company minimizes the emission of pollutants as much as possible and prioritizes research and development to implement the best possible solutions, with a strong focus on circular economy principles.

The goal is to:

- Minimize waste. By 2025, the recycling rate should reach 85% and 90% by 2030, based on total waste, excluding asbestos and sewage waste.
- Implement waste prevention measures, including ensuring that products have a longer lifespan, are repairable, reusable, and that associated packaging is minimized.

Waste, including sewage waste, and reuse, either decreased or increased at Reykjavík Energy in 2024. The recycling rate (including waste sent to incineration) in 2024 was 95%, excluding asbestos and sewage waste. This exceeded the target of 85% set for 2025. Reykjavík Energy publishes data on how the company's waste is categorized across different waste streams at its operational sites.[7]

Reykjavík Energy is engaged in numerous projects aimed at sorting and reusing products and equipment to extend their lifespan and reduce waste. Examples of such projects include:

- Steel and concrete are key raw materials supplied to Reykjavík Energy for the construction and maintenance of utility networks and power plants. These materials are expensive and have a significant carbon footprint. Efforts are made to recycle these materials in collaboration with contractors and waste management service providers. Additionally, preference is given to purchasing products that contain recycled steel.
- Workwear is reused for summer employees. Staff can also borrow work clothing if they do not require it daily. Reykjavík Energy participated in the 2024 Children's Culture Festival, where a workshop on textile circuits was held in collaboration with elementary school students and an e-textile designer. E-textile artworks were exhibited at the festival.
- Old computers are loaned out, upgraded, and reassigned to new employees. Once they are no longer supported, staff members have the option to purchase them at a discounted price for personal use.
- Old electricity meters are being replaced with smart meters, a large-scale project involving approximately 150,000 meters.

7 Waste classification 2024

The old meters are collected, dismantled at the Litla-Hraun prison, and sorted into metal and plastic components. The metals are sent for recycling in the Netherlands, while the plastics are processed for energy recovery in Sweden.

- Food leftovers are repurposed in Reykjavík Energy's cafeteria, either served in their original form or creatively reworked into new dishes. Any remaining food is donated to Samhjálp, a local charity.
- Motors and pumps are repaired whenever possible instead of purchasing new equipment. When pumps in boreholes are replaced, such as deep well pumps, old pipes are repurposed for other projects.
- Insulated district heating pipes are shredded, with the steel recycled and the remaining material processed for energy recovery. All steel is sorted, along with other materials generated in workshops.
- Plastic pipes used for distributing water during drilling of wells are disassembled, welded together, and reused multiple times.
- Gravel from older drilling pads is repurposed for new pads.
- Damaged EV chargers are dismantled and reused for spare parts. Home chargers that are no longer in use are returned for repurposing elsewhere.

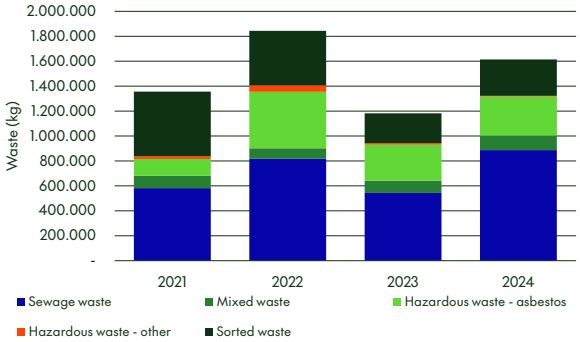
Sewage Waste

Share of sewage waste from Veitur's treatment plants accounts for approximately 60% of the company's total waste volume and has increased since 2023. Veitur is committed to utilizing the biodegradable portion of this sewage waste (such as biosolids and fats) as well as repurposing the sand that accumulates in the treatment process.

Veitur has limited control over the amount of sewage waste generated at treatment plants, as it originates from residents and businesses within the service area. Therefore, the company has launched public awareness campaigns to highlight the damage caused by wet wipes and other waste in the sewage system, aiming to influence consumer behaviour and reduce equipment failure rates

Waste classification

Waste classification at Reykjavík Energy 2021–2024



Greenhouse gas emissions from landfilled waste have decreased since 2016, primarily because sewage waste is increasingly being incinerated rather than landfilled. The emission factor for incineration, which is used in emission calculations, is different and lower than the factor previously applied to landfilled waste. More details can be found in Reykjavík Energy's 2024 Climate Accounting Report, available on the company's website.

The main hazardous substances used by Reykjavík Energy include asbestos, base materials in insulation foam, chlorine, acids and bases, welding gases, geothermal gases, oils, and solvents. In 2024, the use of hazardous substances remained significant, similar to previous years. However, accidents related to the use of hazardous materials are rare, and no incidents were reported in 2024.

ON Power's Geothermal Park

At ON Power's geothermal park at Hellisheiði Power Plant, efforts are underway to maximize resource utilization by repurposing heat, electricity, water, and geothermal gases in various ways. The goal of the Geothermal Park is to create a circular community, where partners share infrastructure, knowledge, and resources to minimize waste and maximize benefits for businesses, society, and the environment. Emphasis is placed on supporting innovation in geothermal energy and sustainability, accelerating the development of green technological solutions.

Strict requirements are imposed on companies operating in ON Power's Geothermal Park regarding water protection, visual impact, noise, and site management. During the construction phase of projects, it is mandatory to reuse any vegetation removed during excavation. This vegetation is either restored upon project completion or repurposed elsewhere within the company's operational areas where needed.

The geothermal park's Innovation Hub is currently under development, with completion targeted for 2026. The Innovation Hub will provide facilities and resource access for geothermal-related innovation, development, and research, supporting both

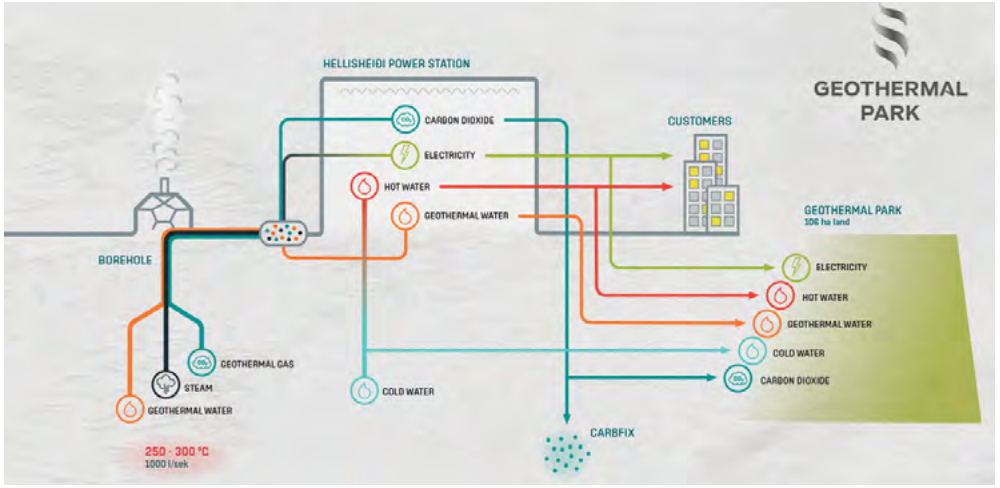
domestic and international collaborative projects. The companies currently operating in the Geothermal Park all began as promising startups in the Innovation Hub, where they had the opportunity to grow and expand.

A research and development project led by Reykjavík Energy scientists is currently underway within the geothermal park, focusing on modifying the properties of geothermal water from power plants to safely blend it with Veitur's low-temperature district heating water. This innovation has multiple benefits, as discussed in the section on increased geothermal water supply for the capital region above.

The companies currently operating in ON Power's geothermal park include Climeworks, VAXA Technologies, GeoSilica, and the hydrogen station VON. Among the potential opportunities under evaluation for the Geothermal Park is the business development of a geothermal spa in Hveradalir. Additionally, ON Power receives a high number of inquiries regarding new business opportunities within the geothermal park, reflecting the growing interest in utilizing its geothermal resource streams

Utilization of Return Water and Geothermal Water

Veitur injects hot return water into geothermal systems where applicable, such as in Stykkishólmur, and has also explored increased collaboration with the City of Reykjavík and universities to identify further opportunities for utilizing this water. The importance of geothermal water utilization at ON Power's geothermal power plants is emphasized to protect surface water and groundwater while ensuring that the injection process supports pressure maintenance in the geothermal reservoirs at Nesjavellir and Hellisheiði Power Plants.



Overview of energy-eelated eesource etreams in ON Power's Geothermal Park at Hellisheiði power plant


ON Power's Geothermal Park

Actions in 2024

In 2024, various initiatives were undertaken to mitigate risks and seize opportunities arising from the implementation of the circular economy at Reykjavík Energy:

1. **Receiving biosolids from Veitur's wastewater treatment plants.** Work was carried out to explore options for repurposing biosolids as a soil enhancer on degraded land.
2. **Reusing sand from wastewater treatment plants.** Chemical, microbiological, and physical analyses of sand from treatment facilities were conducted. Following this, Reykjavík Energy issued a call for interested service providers who could facilitate sand reuse. The project is being developed in collaboration with Reykjavík Health Authority and potential service partners.
3. **Utilizing fats from wastewater treatment plants.** Preparations began for an innovation-driven procurement process to find a sustainable application for fats collected at wastewater treatment facilities. Currently, these fats are incinerated without energy recovery, and efforts are being made to identify alternative uses.
4. **Climeworks successfully captured CO_2 from the atmosphere at ON Power's Geothermal Park** and expanded its operations by launching a new unit called Mammoth. Mammoth also utilizes the Carbfix method for carbon sequestration in bedrock, with full-scale capacity estimated at 36,000 tons of CO_2 per year.
5. **VAXA Technologies, a global high-tech company, continues to utilize geothermal resource streams** at its microalgae production facility. These microalgae are used for animal feed and dietary supplements for humans and animals.
6. **Hydrogen production at Hellisheiði Power Plant.** ON Power produces hydrogen at Hellisheiði on an experimental basis, using electricity generated during periods of low demand. The hydrogen supports energy transition in transportation for both public and commercial use and has been produced at ON Power's Geothermal Park since 2020.

Future Actions

Future initiatives aimed at reducing risks and seizing opportunities through the implementation of the circular economy include:

1. **Receiving sewerage sludge from Veitur's wastewater treatment plants** in Borgarbyggð. Further exploration of options for sustainable biosolid management will continue.
2. **Initiating sand reuse from wastewater treatment plants.** The goal is to repurpose sand collected in treatment processes for secondary applications.
3. **Integrating fats from wastewater treatment plants** into a utilization process.
4. **Completion of the Innovation Hub at ON Power's Geothermal Park.** The facility will provide infrastructure for geothermal-related research and innovation, with the aim that multiple research projects and startups can utilize the space from the outset.
5. **Continued hydrogen production at Hellisheiði Power Plant.** Demand for hydrogen as a fuel for transportation is expected to increase throughout the year. ON Power remains Iceland's sole hydrogen producer and is preparing to meet growing market demand.
6. **Further utilization of district heating water.** Veitur is working on a strategic project focused on optimizing the use of return hot water collected from customer heating systems. This initiative explores the potential to recover available heat for low-temperature heating and repurpose the water for washing and rinsing applications, independent of its thermal content.

S1 Own Workforce

From RE's strategy:

A diverse team and forward-thinking leadership in a safe and inclusive workplace

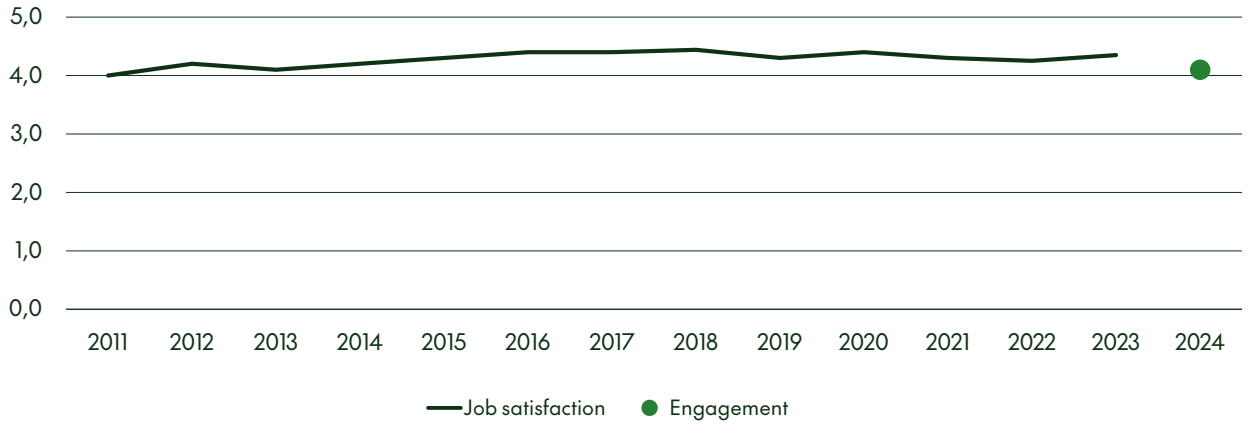
Strategy, Approach, and Objectives

There is a fundamental difference between the utilisation of natural resources and human resources at Reykjavík Energy: people have opinions on how their personal assets, in the form of skills and knowledge, are used, whereas nature often remains silent on its stance. Employee opinions can be valuable in themselves; a positive attitude towards the workplace yields better outcomes than a negative one, even when knowledge and skills are the same.

Employee satisfaction at RE has been measured at a strong level for years. In 2024, the company implemented a new approach to workplace assessments. Instead of conducting extensive annual surveys, quarterly surveys with specific thematic focuses were introduced. More frequent measurements allow for a timely response to results and quick employee feedback regarding specific actions or events within operations. The primary metric of the workplace assessment has shifted from job satisfaction to employee engagement. The previous job satisfaction measure is maintained as a reference.

Reykjavík Energy's human resources policy aims to ensure that skilled and satisfied employees work at RE and its subsidiaries, with the ambition and capacity to meet the demands of the company's operations. RE has a policy on diversity among employees and strives to be a leader in diversity and equality matters.

Job Satisfaction and Engagement 2011-2024 on a 1-5 Scale



Safety and health are always a priority at RE, with the principle that no task is so important that it justifies compromising people's safety. The company's approach to employee matters is set out in a policy that is further detailed in:

- Human resources policy
- Occupational safety and health policy
- Equality policy
- Code of conduct
- Information security and data protection policy
- Compensation policy

Workplace Diversity

RE is a relatively large workplace by Icelandic standards, with various professional groups across its subsidiaries.

Implementing a new corporate strategy in 2024 led to organisational changes and shifts in knowledge and skills requirements. These changes altered the gender balance of employees. Women have constituted about 30% of the workforce for many years, but by the end of 2024, women represented 35% of all permanent employees—the highest percentage recorded.

The number of employees of foreign origin has increased in recent years, and a significant portion of work within Carbfix is conducted in English. RE does not have reliable statistics on employees' na-

tionalities, as permission to cross-reference staff records with the National Registry has not been granted. However, it is estimated that around 30 permanent employees, or approximately 5% of the workforce, do not speak Icelandic.

Employees who do not have Icelandic as their first language are offered Icelandic language courses funded by RE during working hours. Additionally, there is an increased emphasis on providing information in English. In line with the company's inclusion policy, all new employee orientation programmes highlight the importance of workplace diversity, including different nationalities, and affirm the right of all employees to feel included.

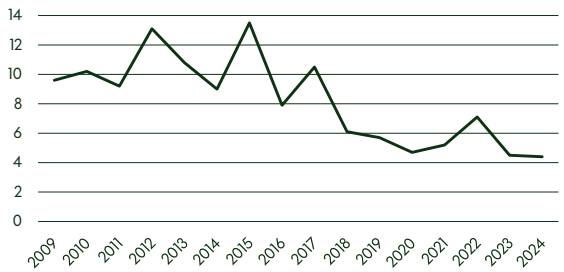
Various contractors work temporarily with RE across different fields. These individuals may be employed by consulting firms or service providers or operate as independent contractors. Many work at RE's facilities without being under the company's direct management or receiving salaries from it.

Health and Safety

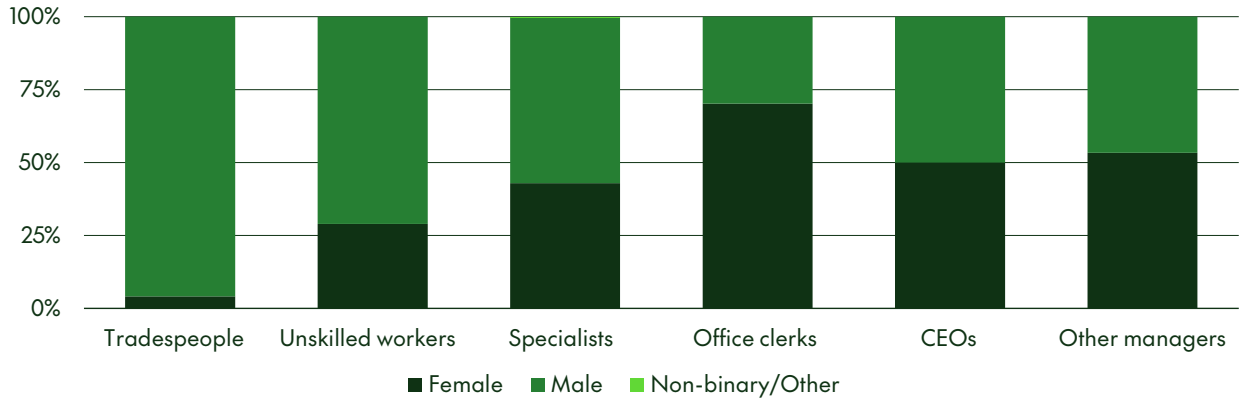
RE aims for a zero-accident workplace and believes that no task is important enough to justify compromising employee safety. The company's safety and health policies are reviewed annually by the boards of its subsidiaries.

Injury rate

Absence accidents per million working hours

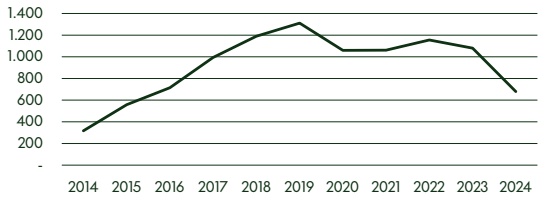


Reykjavík Energy staff by occupation and gender



RE operates an incident reporting system where employees can log incidents and suggest improvements. These reports form the foundation for continuous improvements in safety and health matters. Each report is reviewed, and resolutions must be confirmed as completed. A decline in reported workplace hazards during the COVID-19 pandemic was attributed to increased remote work. The reduction in reports compared to the previous year also reflects the completion of a specific initiative for system implementation, after which numerical reporting targets were removed from RE's workplaces.

Notifications in the safety and health database



RE has five safety and health committees, one within each company in the group. Their responsibilities include:

- Overseeing employee safety and health matters
- Collaborating with the group's safety and health team
- Promoting the importance of safety and health, acting as leaders and advocates for improvements
- Making decisions to ensure a better working environment

The CEO and executives of each subsidiary are members of their respective company's committee, reinforcing the importance of these initiatives.

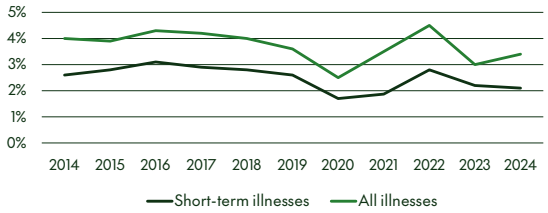
RE encourages employees to prioritise their health through various means. The company provides a free gym at its headquarters and offers fitness classes such as yoga, strength training, and CrossFit. Employees are permitted to use two hours of their workweek for exercise.

Karitas, RE's welfare centre, was launched in late 2022. It offers employees free access to licensed health and welfare professionals, allowing staff to book a limited number of sessions annually at the company's expense without managerial involvement. The aim of Karitas is to reduce employee illness and increase engagement in the workplace.

The COVID-19 pandemic significantly impacted recorded employee illnesses in recent years. In 2022, both the final year of the pandemic and a severe flu outbreak affected illness rates. Short-term illnesses have since declined, and in 2024, they were lower than pre-pandemic levels. Long-term illnesses, defined as absences exceeding 30 days, typically result from serious physical or mental health conditions.

Staff illness absence

Absence as a percentage of total working hours



Diversity and Equality

RE has been a leader in gender pay equality for years. The company received the Equality Award from the Icelandic Gender Equality Council in 2014 and the Equal Pay Encouragement Award from the Confederation of Icelandic Employers in 2015 and has held the Universal Fair Pay Leader certification since 2021.

A key factor in this success is systematic training for employees, with courses emphasising equality, inclusion, and respectful communication. In 2017, RE introduced a model analysing the impact of every salary decision on gender pay gaps, facilitating the elimination of disparities. By the end of 2017, unexplained gender pay gaps were within statistical margins of error.

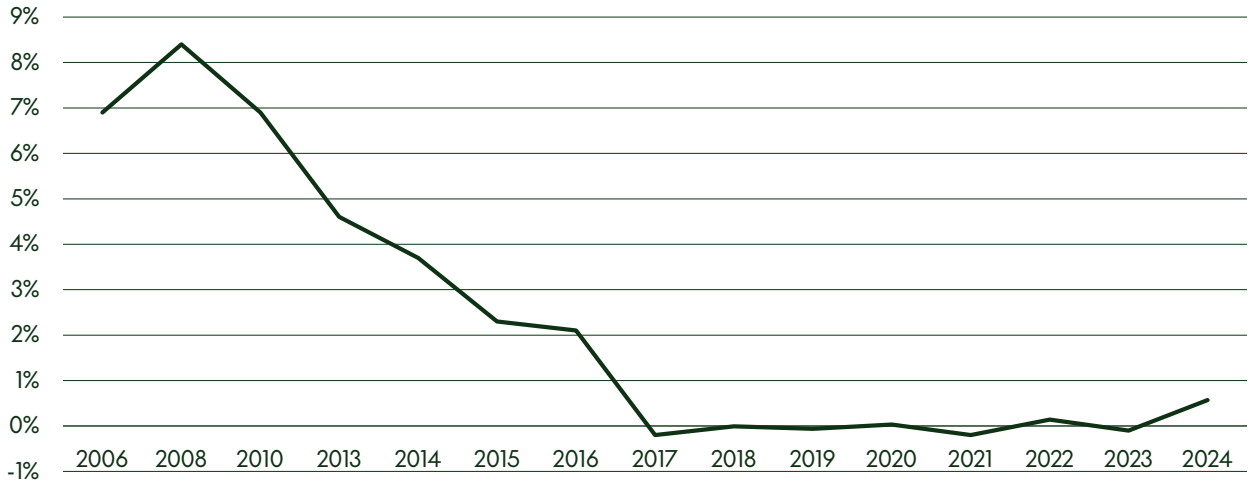
RE's equality policy aligns with the rights set forth in Iceland's constitution, prohibiting discrimination based on age or disability, among other factors. Although the company does not collect data on employee disabilities, it critically examines hiring criteria to ensure they are not unnecessarily exclusionary. Since 2022, the company has offered summer jobs to autistic individuals.

EQUAL PAY CERTIFICATE

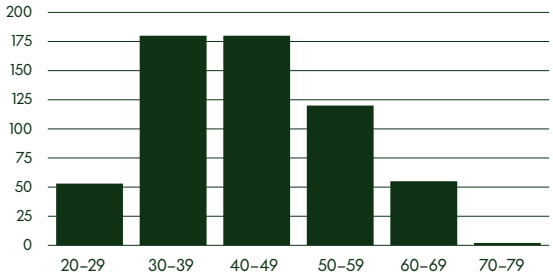
Pay Gap Adjusted +/- 1% Unadjusted +/- 10% UNIVERSAL FAIR PAY LEADER 04'2024/25

Unexplained gender-based pay gap at Reykjavík Energy 2006-2024

>0% is in men's favour



Age of permanent employees



Reykjavík Energy's equality policy is based on the rights set forth in the Constitution of Iceland. This includes the prohibition of discrimination based on age and disability. The age distribution of permanent employees at the end of 2024 was as follows, with an average age of 44.5 years. Reykjavík Energy does not record whether employees have a disability. Therefore, the proportion of disabled employees is not available. To uphold its commitment to diversity in the workplace, the company critically evaluates the requirements set for job advertisements, ensuring they are not unnecessarily exclusionary. Since 2022, Reykjavík Energy has offered summer jobs to individuals on the autism spectrum.

Communication and Compensation

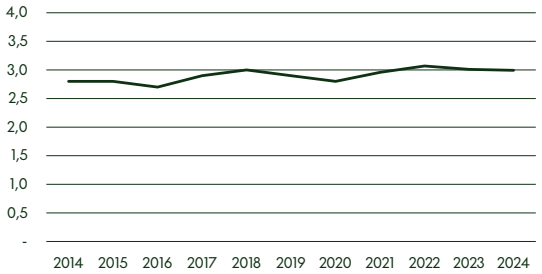
None of the employment contracts of RE's executives or other staff include a direct link between salaries and specific operational metrics, whether financial or otherwise. RE believes that such provisions may incentivise short-term performance at the expense of the long-term objectives that the nature of its operations necessitates.

RE's ownership policy stipulates that executive salaries should be comparable to similar positions while also considering the fact that the company is publicly owned. The salaries of RE's executives and other employees should not be market-leading.

The CEO's salary ratio is calculated as the total remuneration of the current CEO divided by the median salary of permanently employed staff within the group.

Launahlutfall forstjóra er reiknað sem heildarlaunagreiðslur núverandi forstjóra deilt með miðgildi launa fastráðins starfsfólks innan samstæðunnar.

CEO pay ratio



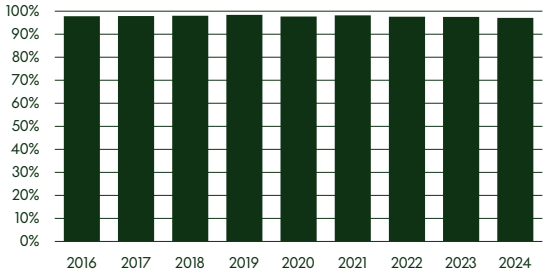
The remuneration of the board, the CEO, and the executive directors within the group is disclosed in the group's annual financial statements as well as in the financial statements of its subsidiaries.

Employment terms at RE are designed to be competitive, ensuring the company can attract and retain skilled employees to safeguard its mission. All permanent employees at RE have individual employment contracts and are entitled to an annual salary review with their supervisor. Employment terms are based on collective agreements, and the proportion of employees who are trade union members has remained stable for years. RE engages in wage negotiations with labour unions through its membership in the Confederation of Icelandic Enterprise (Samtök atvinnulífsins).

The largest labour unions among RE's employees are the Icelandic Association of Engineers (Verkfræðingafélag Íslands) and the Icelandic Electrical Industry Association (Rafiðnaðarsamband Íslands). In total, employees belong to nine different trade unions, with 15 union representatives within the workforce. The legally mandated role of union representatives is to ensure that employee rights are upheld and collective agreements are adhered to. There is considerable communication between union representatives and RE's human resources department, particularly during collective bargaining negotiations and regarding various other employment matters.

Parental leave is legally mandated in Iceland, and in 2024, 32 women and 15 men among RE's employees exercised this right.

Percentage of employees in trade unions



Annual employee meetings with managers, which previously focused on topics other than salaries, were the standard at RE. However, this practice has been replaced with shorter meetings held three to four times yearly. Executives of the group's subsidiaries regularly hold general employee meetings, and the CEO of RE conducts a monthly company-wide meeting to share information and facilitate discussions.

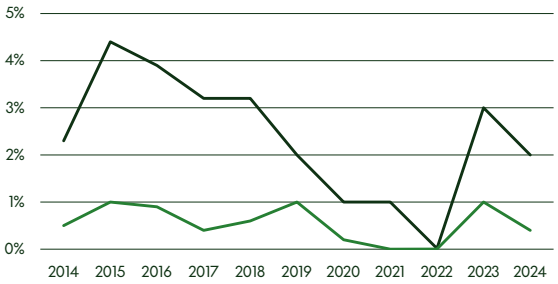
RE has an active employee association, which is supported by the company. In connection with this association, various clubs exist to encourage employee engagement in hobbies outside of work. The board of the employee association selects an observer to attend RE's board meetings.

Harassment, Discrimination, and Violence Prevention

Bullying, gender-based or sexual harassment, and violence are not tolerated at RE. Workplace surveys include questions asking employees whether they have experienced bullying, sexual harassment, or gender-based harassment. In addition to RE's Code of Conduct, which explicitly addresses behaviour of this nature, a Workplace Communication Agreement—written by the employees themselves—serves as a guide for respectful interactions with colleagues.

There are formal guidelines in place for both employees and managers on inappropriate behaviour, including instructions on how to identify such conduct. A documented response plan exists for cases of bullying, violence, sexual harassment, or gender-based harassment. Additionally, RE's whistleblower process can be used to report such incidents or any other alleged violations of employee rights. A human rights due diligence process is also in place to minimise the risk of such violations occurring.

Percentage of employees subjected to bullying or sexual harassment



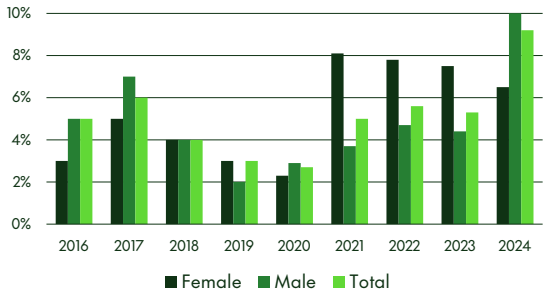
According to benchmarks from workplace surveys that RE has participated in, approximately 5% of people in the labour market have experienced bullying in the past 12 months, while around 2% have been subjected to sexual harassment.

Employee Turnover

The energy and utilities sector in Iceland is experiencing increasing activity. There are significant plans for new power plants, and many utility companies are at a similar stage in adopting new customer metering technology for billing and optimising data for infrastructure development and maintenance. As a result, competition for skilled professionals in these fields is intense. This presents a risk factor for RE, as reflected in the employee turnover figures for 2024.

Organisational changes and shifts in strategic priorities also influenced employee turnover in 2024. When looking solely at employees who voluntarily left their positions, the trend over the past few years is as follows:

Employee turnover
quit on their own accord



RE conducts surveys among employees who leave the company voluntarily to better understand and safeguard the human resources it attracts and develops.

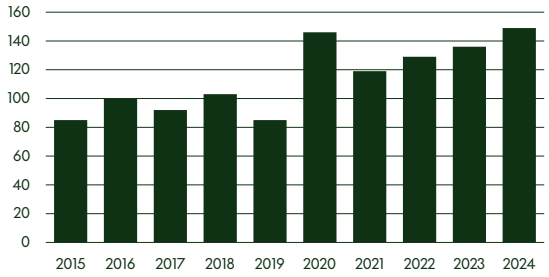
Future-looking Initiatives

There is a significant gender imbalance among RE's skilled trade workers, reflecting the broader gender disparity in the industrial fields where the company requires specialised expertise. Skilled trade workers make up approximately one-quarter of RE's workforce.

In 2024, RE continued its "Trades and Technology" project with students of all genders from Árbæjarskóli. This elective course aims to spark interest in industrial and technical careers by introducing students to the diverse job opportunities available in these fields. The programme includes theoretical instruction, field trips, and hands-on training. All companies within the RE group participate, with around 40 employees involved in teaching and programme preparation. No specific numerical targets have been set regarding gender balance outcomes for the Trades and Technology initiative.

Another way RE introduces its operations to young people of all genders is through summer employment opportunities. The company manages multiple facilities and land areas that require seasonal maintenance, which is best carried out during the summer months. RE views summer employment as a way to provide young people with insight into its operations, educate them about the industry, and encourage them to consider returning for long-term employment in the future. Additionally, there has been a growing trend of hiring university students for specific summer projects, which are advertised separately. Increasingly, university students are also joining the company on a temporary basis as part of their internships.

Summer hirings

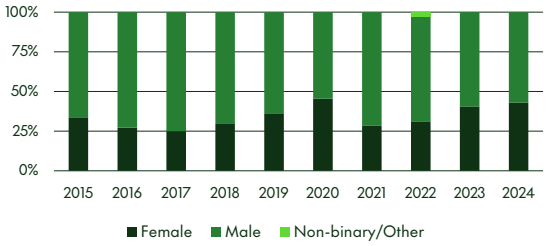


Another way to encourage interest—particularly among young people—in RE's field of work is through scholarships awarded via VOR – RE's Science and Innovation Fund. The fund was established in 2022. The maximum scholarship amounts are ISK 1,000,000 for engineering and master's students and ISK 3,000,000 for PhD students.

	Scholarships		Project grants	
	No.	Amount (ISK)	No.	Amount (ISK)
2022	9	32,650,000	8	75,000,000
2023	11	25,000,000	19	57,170,000

A key indicator of progress in improving gender balance in the workplace is the increasing proportion of women among new hires since 2021.

New permanent hirings by gender



RE's new corporate strategy states that digital competence is a key driver of increased productivity, customer satisfaction, and competitiveness. Data- and insight-driven decision-making enhances efficiency and productivity. In line with this, the strategy declares that the company will support the development of employees' knowledge and skills to meet future needs and that RE's workforce will apply its talents to drive transformation and progress within the organisation.

Following the adoption of this strategy, the IT and Human Resources divisions have been integrated—primarily to unlock the potential that lies in the synergy between people, processes, and technology.

S4 Consumers and End Users

From RE's strategy:

A diverse group of customers satisfied with smart and secure service

The customers of Reykjavík Energy and its subsidiaries – Veitur Utilities, ON Power, Reykjavík Fibre Network, and Carbfix – come from various backgrounds. Veitur Utilities' services are primarily regional, licensed services where the company does not operate in a competitive market, and service levels, quality, and pricing are regulated. The services of the other companies within the group are sold in competitive markets, where their performance is subject to market forces and competition regulation. The specific market characteristics of each company are discussed in further detail in an earlier section of the report. All these companies share a commitment to ensuring reliability, fair pricing, and customer satisfaction.

Customer Engagement

In 2023, RE relocated customer service representatives from its central service centre to its subsidiaries to increase customer proximity and enhance service quality. As a result, service was made a core function within Veitur Utilities' organisational structure, and all customer interactions and response management were consolidated into a single team.

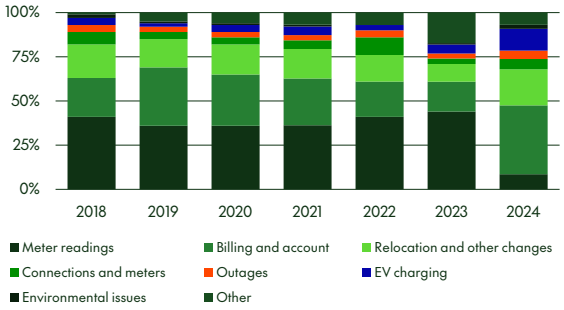
Each company manages customer inquiries through a CRM system to ensure prompt, high-quality, and traceable resolution. Reykjavík Fibre Network is unique in that customers using its systems are in direct business relationships with telecommunications companies. As a result, customer inquiries are typically directed to these telecom providers rather than directly to RFN.

International bronze award for service

Veitur Utilities secured third place in its category at the 2024 European Contact Centre and Customer Service Awards (ECCCSA). It is Europe's most significant competition recognising excellence in customer service. Veitur Utilities was among the companies visited by the competition's judges, who received an in-depth presentation of the company's services and operations during their visit.

Each company has its classification system to maintain a clear overview of the main reasons customers reach out. Information sharing, as well as digital and often automated services, have been developed based on the analysis of customer inquiries. The data shows that inquiries to Veitur Utilities, ON Power, and Reykjavík Energy totalled just over 102,000 for the year, marking a reduction of more than half. Customer inquiries to the companies can be categorised as follows:

Proportional distribution of customer service inquiries by category 2018–2024



A significant shift has occurred in the composition of customer inquiries following Veitur Utilities' rollout of smart meters. Previously, many inquiries were related to relocation, and customers often submitted meter readings for various other reasons. By the end of 2024, the energy consumption of just over 60% of Veitur Utilities' customers was being measured with smart meters. As a result, inquiries of this nature decreased by approximately 90% year-on-year.

ON Power tops the Icelandic Customer Satisfaction Index for the sixth consecutive year

For the sixth consecutive year, ON Power ranked as the top Icelandic electricity provider in the Icelandic Customer Satisfaction Index. The results for 2024 were announced in January 2025.

The aim of the Icelandic Customer Satisfaction Index, a project managed by Stjórnvísi, is to measure customer satisfaction in a standardised manner. Participating companies also receive insights into factors influencing satisfaction, such as brand perception, expectations, quality assessment, and customer loyalty.

Such measurements are considered highly significant, as research has shown that the more satisfied a company's customers are, the better the financial performance the company can expect.

Reliability and Pricing of Utility Services

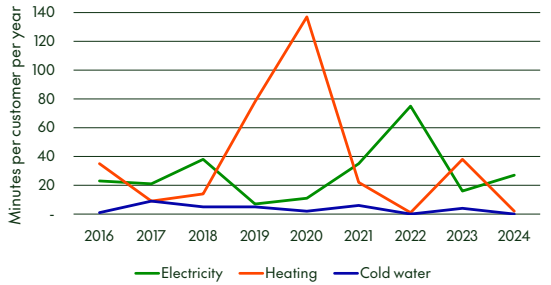
Utility systems are an inseparable part of modern society. Veitur Utilities' role is to be a forward-thinking service provider that ensures access to electricity, heating, clean water, and wastewater management. Through innovation and collaboration, the company aims to enhance the quality of life for the future.

Official requirements for the reliability of utility services are only stipulated in regulations concerning electricity distribution. Annual reports on outages are submitted to the Environment and Energy Agency. However, Veitur Utilities has applied the same methodology for electricity distribution to its district heating and water works, even though data on service disruptions and their impacts are not as precise as for electricity.

In all cases, an assessment is made of how many customers each outage affects. This number is then multiplied by the duration of the disruption and divided by the total number of customers. The result indicates the average duration each customer was without service per year. The measurement unit used is minutes per customer per year.

The figures presented here reflect unplanned operational disruptions due to faults or accidents, excluding service interruptions for scheduled maintenance, which customers were informed about in advance.

Utilities reliability 2016-2024

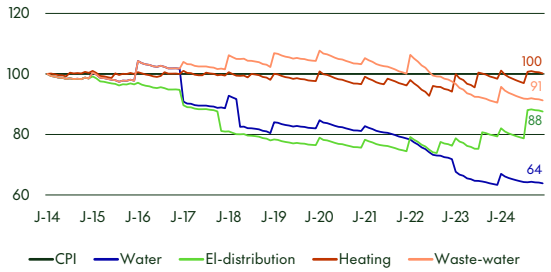


Since the regulatory unbundling of Reykjavík Energy at the beginning of 2014, the tariffs for concession services have either decreased in real terms or remained unchanged. The graph below illustrates the development of Veitur Utilities' licensed service tariffs from early 2014 compared to the Consumer Price Index (CPI), which is represented as a horizontal line.

The real term reduction in water tariffs is 36%, electricity distribution 12%, and wastewater services 9%, while the district heating tariff has remained stable in real terms from early 2014 to the end of 2024.

These tariffs, all subject to public regulation, reflect the cost of service provision. The investment needs for district heating and electricity distribution have increased due to population growth and the energy transition.

Development of tariffs for licensed services 2014-2024 compared to CPI

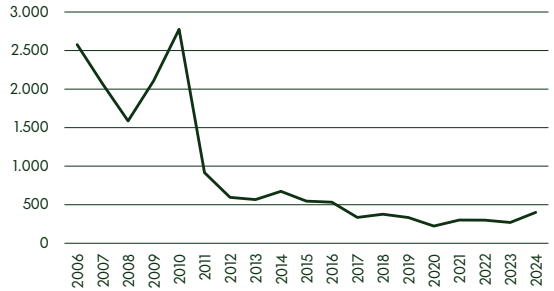


Improvements in collecting customer receivables have significantly reduced disconnections due to unpaid bills. The focus is on assisting customers who fall into arrears to help them resolve their payment issues. Customer service representatives have been given more tools to address these situations, and the entire collection process has been streamlined. These measures have contributed to a reduction in outstanding debts and a decrease in disconnections due to non-payment. Electricity distributors are now required to enforce disconnections to prompt customers to choose an electricity supplier. These cases are not included in the figures shown in the chart.

In 2024, there were a total of 501 disconnections by Veitur Utilities. Of these, 101 were due to customers' failing to select an electricity supplier, as utility companies are now obligated to enforce such measures to encourage customer choice. The remaining 400 disconnections were due to unpaid bills, 30% involving business customers. Possible explanations include growing financial difficulties among customers.

The increasing adoption of smart meters has made it easier to carry out disconnections when necessary.

Closures due to arrears 2006-2024



Risks and Opportunities

Natural hazards are a persistent risk factor affecting the reliability of Reykjavík Energy's services. Contingency plans are continuously updated, and regular drills are conducted to prepare for the potential impact of seismic activity on power plants, water sources, or utility networks.

Significant lessons have been learned from responses to volcanic eruptions on the Reykjanes Peninsula in recent years.

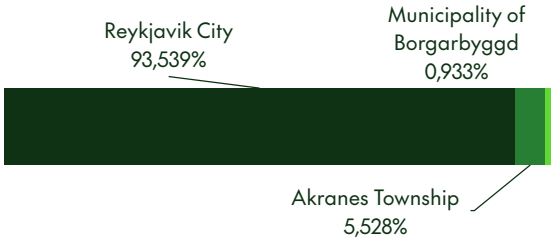
G1 Business Conduct

From RE's strategy:

Clear responsibility, target-setting, and follow-up in a reliable operation in effective collaboration.

The operations of Reykjavík Energy are governed by specific laws, namely Act No. 136/2013 on Orkuveita Reykjavíkur. By this, a partnership agreement between the company's owners is in effect, further specifying the main aspects of RE's corporate governance. The ownership is divided as follows:

Reykjavík Energy ownership



In drafting the partnership agreement, the articles of association for RE's subsidiaries, and the rules of procedure for all boards, consideration was given to the guidelines developed by the Iceland Chamber of Commerce in collaboration with the Confederation of Icelandic Enterprise and Nasdaq. Additionally, an Ownership Policy for RE, approved by all owners, is in effect, reflecting the owners' objectives regarding their ownership and priorities in RE's operations.

In 2022, Reykjavík City, the company's largest owner, adopted a general ownership policy that aligns with the OECD guidelines on the corporate governance of state-owned enterprises. This policy sets the framework for Reykjavík City's ownership while also clarifying the management of ownership stakes within the municipality's administration. Furthermore, a nomination committee was established to appoint board members representing the City of Reykjavík.

In early 2024, the Board of RE approved the following resolution:

> "The Board of Orkuveita Reykjavíkur urges the owners to appoint a working group to review the ownership policy, the co-ownership agreement, and, if applicable, the legislation governing Orkuveita Reykjavíkur, including aspects such as the company's legal form. As per the existing draft, the articles of association should be finalised upon completion of this review."

An owners' meeting in June 2024 approved the board's resolution, and preparations for this review process are underway.

Owners' Representation and the Board of Directors

The mayors of the three municipalities that own Reykjavík Energy exercise their voting rights at owners' meetings. Their mandate covers routine matters at annual general meetings and owners' meetings. If an extraordinary, significant, or strategic decision is to be made at an owners' meeting, the ownership representative must seek a mandate from the respective municipal council.

The municipal councils elect the board members, with Reykjavík City Council appointing the chairperson and vice-chairperson. Board members must:

- Be independent regarding connections with companies that compete with or have substantial business dealings with RE.
- Possess knowledge and experience suited to the responsibilities of serving on the board.
- Be able to dedicate sufficient time to board duties.

Ownership representatives are not eligible for board membership. The board of RE consists of six members: five elected by Reykjavík City Council and one by the Akranes Town Council. If the votes are tied in a board meeting election, the chairperson's vote counts double. There are two non-voting representatives: one on behalf of Borgarbyggð and one representing the employees.

The members of RE's board are:

Dr. Gylfi Magnússon, Chairperson

Gylfi is a professor of finance and economics at the University of Iceland. Alongside his teaching and research, he has held various board positions, including chairing the board of the Icelandic Competition Authority and the board of the Central Bank of Iceland. Gylfi has served as an independent board member of RE since 2011 and has been its chairperson since 2022.

Vala Valtýsdóttir, Vice-Chair

Vala is a district court attorney at Lögfræðistofa Reykjavíkur with extensive experience in tax and

corporate law. She has served as an independent board member of RE since 2021. Vala is also the chairperson of the board's remuneration committee.

Ragnhildur Alda Vilhjálmsdóttir

Ragnhildur Alda is a Reykjavík City Council member with a BSc in psychology and a master's degree in service management. She has served on RE's board since 2023 as a representative affiliated with the City of Reykjavík.

Skúli Helgason

Skúli is a Reykjavík City Council member and holds a degree in political science. He has served on RE's board since 2022 as a representative affiliated with the City of Reykjavík.

Valgarður Lyngdal Jónsson

Valgarður is the president of Akranes Town Council and a secondary school teacher. He has served on RE's board since 2019 as a representative affiliated with Akranes Municipality.

Þórður Gunnarsson

Þórður is a resource economist and an independent consultant. He has served as an independent board member of RE since 2022. Þórður is also a member of the board's remuneration committee.

Non-Voting Representatives are Guðveig Lind Eyglóardóttir, representing Borgarbyggð and Helena Guðrún Guðmundsdóttir, representing RE's Employee Association.

The minutes of board meetings are public and published on Reykjavík Energy's website.

Two committees operate under the authority of the board. The Remuneration Committee consists of board members Vala Valtýsdóttir and Þórður Gunnarsson, along with Drífa Sigurðardóttir, a human resources specialist.

The Audit Committee for Reykjavík City also serves as the Audit Committee for Reykjavík Energy, with one committee member appointed based on the nomination of RE's Board. This provision is also stated in Article 9 of the Partnership Agreement on Reykjavík Energy.

The Audit Committee of RE consists of the following members:

- Lárus Finnbogason, Chair
- Einar Sveinn Hálfdánarson
- Sigrún Guðmundsdóttir
- Sunna Jóhannsdóttir – appointed based on the nomination of the Board of RE

Alternate members:

- Danielle Pamela Neben
- Páll Grétar Steingrímsson
- Ólafur Kristinsson

The Audit Committee operates as a subcommittee of RE's Board and functions under its authority. The purpose of establishing the Audit Committee is to enhance governance in financial oversight matters. The role of audit committees is outlined in Chapter IX A of the Financial Statements Act.

The statutory responsibilities of the Audit Committee include:

- Monitoring the financial reporting process.
- Overseeing the organisation and effectiveness of the entity's internal controls, internal audit (if applicable), and risk management.
- Supervising the audit of the entity's financial statements and consolidated accounts.
- Assessing the independence of the auditor or audit firm and monitoring other services provided by them.
- Recommending the selection of an auditor or audit firm to the Board.

The Audit Committee of RE monitors corporate governance, risk management effectiveness, and internal controls by reviewing and approving the internal audit plan. A key aspect of internal audit activities is ensuring oversight and assessing the effectiveness of risk management and internal controls.

The committee reviews and receives presentations on the internal and external audit plans, where risk and uncertainty factors within the company's operations are assessed. External auditors also evaluate internal controls related to financial reporting. The Audit Committee monitors the progress of the audit, reviews the external auditors' findings, and submits its opinion on the annual financial statements to the Board of RE. The committee discusses reports from both internal and external auditors and specifically follows up on their recommendations concerning internal control.

The Board of RE maintains active oversight of key risk factors affecting the Group's operations. It receives monthly reports on financial status, resource management, safety and health issues, and significant environmental factors, including climate-related matters. Risk management, operational risks, and other business risks are regularly discussed at Board meetings. Furthermore, the Internal Audit Department of Reykjavík City is responsible for financial and administrative oversight at OR on behalf of the Board. This involves assessing the effectiveness of risk management, control measures, and governance practices, with a focus on continuous improvement.

During the year, the Board reviewed an opinion from the internal auditor, prepared at the request of the Boards of Reykjavík Fibre Network and RE, regarding handling confidential information. Recommendations from the audit are currently being addressed.

CEO and Subsidiaries

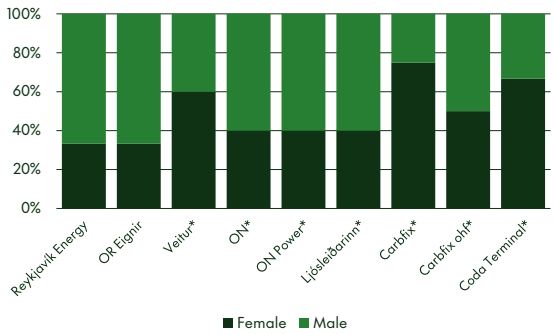
The board of RE appoints the CEO and defines the role's responsibilities.

Sævar Freyr Þráinsson is the CEO of RE. He holds a Cand.Oecon degree in business administration from the University of Iceland, with a focus on marketing. His previous roles include CEO positions at Síminn and 365 Media. Before joining RE in 2023, he served as the mayor of Akranes, one of RE's owners.

The CEO manages the company's ownership stakes in its subsidiaries and associated companies and presents proposals regarding board appointments for these entities to RE's board. Board members of RE are not permitted to serve on the boards of its subsidiaries or associated companies.

Gender diversity on boards of directors within Reykjavík Energy

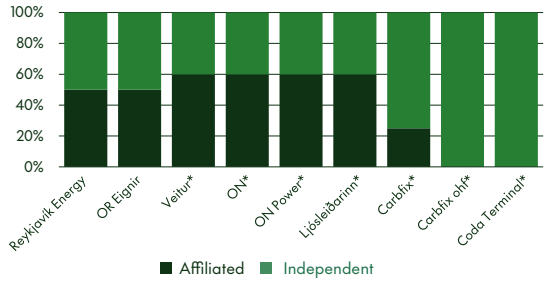
* means the chairperson is female



A recommendation from the internal auditor suggested that the representation of independent members on the boards of RE's subsidiaries should be increased. This was addressed during the board elections at the 2024 annual general meetings.

Independent and affiliated board members

* means the chairperson is independent



Risks and Opportunities

RE has established a risk management policy, which is reviewed annually by the board, with any changes confirmed at an owners' meeting. The primary objective of RE's risk management policy is to ensure that the company fulfils its role safely and efficiently, within acceptable risk limits appropriate to its operations and in accordance with approved policies and objectives for strong risk management.

The key focuses of the risk management policy are to:

- Reduce fluctuations in performance over time by identifying, assessing, and managing risks.
- Ensure sufficient liquidity and access to funding to support service development and ongoing operations.
- Identify risks and opportunities to enhance operations and support informed decision-making.
- Promote risk awareness among employees.

RE's risk management handbook and related documents outline the framework, overall risk perspective, and risk appetite set by the board. The board entrusts the CEO with implementing the risk management policy and regularly reporting on risk categories and any risks outside the board's defined thresholds.

RE has placed greater emphasis on identifying opportunities within its risk management policy, and the boards of all companies in the group have incorporated similar priorities into their own risk policies. Work is underway to develop an opportunity database, similar to RE's risk database. Risk councils operate within each company in the group.

The policies of RE and its subsidiaries are implemented through quality management systems. The company operates under independent certification according to the following standards:

- ISO 9001 - International Quality Management Standard
- ISO 27001 - International Information Security Management Standard
- ISO 45001 - International Occupational Health and Safety Management Standard
- IST 85 - Icelandic Standard for Equal Pay Systems
- Statutory electrical safety management systems of the Housing and Construction Authority

The management systems are particularly useful for overseeing the large number of operating licenses that Reykjavík Energy operates under, which amount to approximately 70.[1]

RE and its subsidiaries have implemented an information security management system covering all aspects of the group's operations. The ISO

1 RE's operating licenses 2024

27001-certified information security management system is audited annually by accredited evaluators. In September 2024, BSI audited the information security management system, which resulted in one minor nonconformity being recorded. Additionally, two other audits were carried out. An internal audit by Reykjavík City on business continuity and a self-assessment audit by the Electronic Communications Office, on behalf of the National Energy Authority, focusing on the group's companies classified as critical infrastructure under Act No. 78/2019 on Network and Information Security of Critical Infrastructure (ON Power and Veitur Utilities). The findings of these audits are being systematically addressed.

In November 2024, RE's board approved a new information security policy aligned with the company's overall strategy. In December 2024, a crisis response exercise was conducted for the management team to prepare for the company's new business continuity framework.

In 2024, the Icelandic Data Protection Authority issued one advisory regarding a potential security breach, which was resolved following the agency's guidelines. Since the introduction of new data protection laws in 2018, no rulings against companies in the RE group have been issued in data protection cases. However, a case related to RE's 2023 security breach notification concerning the "Mínar síður" (My Pages) system is still under review by Persónuvernd.

For a detailed discussion of financial risk, please refer to Notes 26–31 in this annual report.

Business Ethics and Anti-Corruption Measures

RE's Code of Ethics is based on integrity, one of the company's core values. The code is documented and publicly available and is intended to help employees ensure that integrity, respect, and equality characterise all interactions—whether with customers, colleagues, the board, contractors, or other stakeholders. While the code provides guidelines, it is not exhaustive, and employees are still responsible for using their judgment and conscience when faced with ethical dilemmas. In 2020, RE introduced a Workplace Conduct Agreement for its employees.

RE first introduced a Code of Ethics in 2000, established by company leadership. It was later reviewed, revised, and approved by the board in 2017 and is regularly assessed, most recently in March 2022. The Code of Ethics is incorporated into the board's rules of procedure, introduced to all new employees, and made easily accessible. Additionally, it is explicitly referenced in employment contracts signed by new hires, with at least half of the workforce having signed contracts that reference the code.

If an employee believes there has been a code violation or encounters an ethical dilemma, they are encouraged to seek guidance from a supervisor or a trusted colleague. If the employee feels personally affected by a violation—such as in cases of bullying or harassment—they may also contact an external consultant directly, initiating a documented and confidential process if requested. RE's internal audit function also manages a whistleblower process, allowing employees and other stakeholders to report concerns anonymously.

RE has documented procedures for handling cases where an employee or manager is suspected of violating company policies or engaging in fraud. These procedures are accessible to all employees. If there is suspicion of misconduct, it must be reported to the immediate supervisor or the internal auditor, who is responsible for investigating the matter while maintaining strict confidentiality, including protecting the whistleblower's identity. The internal auditor reports directly to the board and is, therefore, independent of company management and employees within the group.

In 2024, no cases were reported where fraud was suspected.

RE's executive leadership, division directors, and department heads are responsible for internal control within their respective areas. The company's quality management systems are independently certified by external auditors. RE adheres to the professional standards set by the Institute of Internal Auditors (IIA) for internal audit practices. Reykjavík City's internal audit department acts as the internal auditor for RE and its subsidiaries in accordance with a service agreement. RE also has a compliance officer responsible for overseeing information disclosures to the stock exchange (Nasdaq Iceland) and the Financial Supervisory Authority (FME).

Supplier Relations

RE's procurement policy is based on the following principles:

- Utilising open tenders for procuring goods, services, and construction projects. Sustainability considerations are factored into the tendering process, and contracts are awarded to the most economically advantageous bid. Alternative procurement methods may be used in accordance with applicable laws and regulations.
- Ensuring clear and transparent procurement rules and procedures.
- Maintaining fairness, transparency, and cost-effectiveness in all purchasing activities.
- Incorporating sustainability considerations—including quality, health, human rights, environmental impact, information security, and safety—into procurement processes and contract management.

In 2020, RE reinforced its sustainability goals within its procurement policy. In 2021, the company issued a Supplier Code of Conduct based on the procurement policy and the Ten Principles of the UN Global Compact, which RE has adhered to since 2019. At the same time, a response procedure was developed and documented for handling reports of non-compliance.

The requirements outlined in the Supplier Code of Conduct are now included in all of RE's tender terms, ensuring that sustainability criteria apply to large and smaller suppliers.

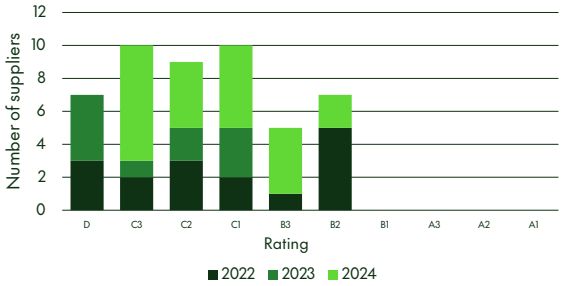
By the end of 2024, 121 suppliers had formally confirmed their compliance with the Supplier Code of Conduct. Additionally, the code is now explicitly referenced in all tenders.

RE has implemented a process to assess human rights impacts within its supply chain. During an S&P Global assessment of RE's green financing framework, a human rights risk was identified regarding sourcing rare metals used in various electrical equipment. A draft version of the assessment process was presented to representatives from the Icelandic Confederation of Labour (ASÍ) and Amnesty International Iceland during a meeting with RE's Human Rights Council established within the company.

From 2022 to 2024, RE's suppliers underwent ESG evaluations conducted by Reitun. The initial selection of suppliers for assessment was based on the volume of business transactions and the diversity of goods and services. The objective was to measure how suppliers are positioned in terms of sustainability.

Results of Reitun's ESG-rating of RE's suppliers 2022-2024

Each supplier's ESG performance is evaluated. RE's current rating on this scale is A3.



As shown in the chart above, supplier performance varies significantly. Larger suppliers (mostly assessed in 2022) performed better than smaller ones. In 2023 and 2024, RE met with key suppliers to present the overall assessment results and clarify the company's expectations. During these meetings, suppliers and manufacturers highlighted their ongoing efforts in sustainability, particularly regarding climate-related initiatives. The 2024 ESG assessment by Reitun revealed that six out of the 22 evaluated suppliers utilised temporary staffing agencies.

RE follows the practice of paying submitted invoices on their due date unless a different arrangement has been agreed upon. In 2024, the company's average payment term was 24 days. A total of 88.4% of invoices were paid within this timeframe, with the primary reason for delays being requests for additional clarifications regarding invoices. The average time from invoice receipt to payment in 2024 was 17 days.

Two contractor disputes were brought before the courts during the year. In one case, the District Court upheld the legality of contract termination with a contractor. In the other case, a court-appointed expert was assigned to evaluate a contractor's dispute regarding withheld payments due to project delays.

Interest Representation

RE systematically monitors the government's consultation portal for issues relevant to the company's interests. When appropriate, this monitoring may result in official comments from the company.

RE does not provide financial support to political organisations, as this is prohibited for publicly owned companies under Icelandic law on the operations of political organisations.

RE holds direct and indirect memberships in organisations registered as interest groups in accordance with Act No. 64/2020 on Conflict of Interest Prevention in the Icelandic Government. These organisations include Samorka, the association of energy and utility companies, which is also a member of the Confederation of Icelandic Enterprise. According to Samorka's registration, its primary purpose is to operate as a credible, educational, and positive platform for the energy and utility sector, strengthening its role and operations in the interest of society. The association's lobbying efforts focus on positively influencing the regulatory environment to enable member companies to fulfil their essential societal role.

RE is also a member of the Iceland Chamber of Commerce (Viðskiptaráð Íslands). The role and purpose of the Chamber are to protect the interests of businesses, promote an understanding of the importance of economic freedom, advocate for minimal government intervention, a favourable tax environment, and other factors that enhance Iceland's competitiveness.

Statement of the BoD and the CEO

Reykjavík Energy (Orkuveitan) is a partnership company operating under the provision of Act No. 136/2013 on Reykjavík Energy. The statutory role of Reykjavík Energy is to engage in the production, generation, and sale of electricity, hot water, and steam, as well as the operation of fundamental infrastructure, such as electricity distribution, district heating, water supply, wastewater management, and data networks, in addition to other activities of a similar nature.

Furthermore, Reykjavík Energy and its subsidiaries are engaged in activities that can utilize the research, knowledge, or equipment of the companies, as well as industrial development and innovation, provided that they are linked to the core business of the company, including the storage of carbon dioxide and other water-soluble gases in the ground.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union and additional requirements set forth in Icelandic laws and regulations on annual financial statements of companies with listed bonds.

The report includes the financial statements of Reykjavík Energy and its subsidiaries.

This board report has been prepared with consideration of the forthcoming changes in the Annual Accounts Act due to the implementation of the EU Directive 2022/2464 on corporate sustainability reporting (Corporate Sustainable Reporting Directive – CSRD), as outlined in the consultation document published on 19 August 2024. It is also considered to meet the requirements of all relevant sections of Article 66 of the applicable Annual Accounts Act No. 3/2006.

For many years, Reykjavík Energy has published a variety of sustainability information in its Annual Report regarding non-financial matters of the group, in accordance with international standards. This publication, however, has now ceased. The presentation and reliability of the information in the Annual Report were subject to audit and certification by independent auditors, and the board endorsed the report.

The implementation of sustainability reporting will require an audit by Reykjavík Energy's authorized auditors, as specified by the forthcoming legislation. The sustainability information presented in this board report has not been subject to such an audit. However, the board of Reykjavík Energy received permission from the Audit Committee of Reykjavík City to collaborate with Reykjavík Energy's audit firm, Grant Thornton, for a specific review of key methodologies regarding:

- Determining which aspects should be included in the report (Double Materiality Assessment)
- Classification of revenue, expenses, and investments with respect to sustainability (EU Taxonomy).

The board and management of Reykjavík Energy will use the results of this review to develop their reporting in alignment with the forthcoming legislation.

To the best of Reykjavík Energy´s board of directors and its CEO's knowledge, the Consolidated Financial Statements are in accordance with International Financial Reporting Standards, as approved by the European Union and additional requirements set forth in Icelandic laws and regulations on annual Financial Statements of companies with listed bonds. In the opinion of the board of directors and CEO, the Financial Statements give a true and fair view of the group´s assets, liabilities, and financial position as of 31 December 2024, together with its operating results and changes in cash flow during the year, as well as describing major risks and uncertainties facing the group.

Reykjavík, 7 March 2025

Board of Directors:

Gylfi Magnússon

Vala Valtýsdóttir

Ragnhildur Alda Vilhjálmsdóttir

Þórður Gunnarsson

Skúli Helgason

Valgarður Lyngdal Jónsson

CEO:

Sævar Freyr Þráinsson

Independent Auditor's Report

To the Board of Directors and Owners of Reykjavik Energy.

Opinion on the Consolidated Financial Statement

Opinion

We have audited the accompanying Consolidated Financial Statements (excluding Statement by the Board of Directors and CEO) of Reykjavik Energy (hereafter the Group) for the year 2024. The Consolidated Financial Statements comprise the Statement by the Board of Directors and CEO, the Statement of Income, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Changes in Equity, a summary of significant accounting policies and other explanatory information.

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated results of operations of the Group. for the year 2024, its consolidated financial position as at December 31, 2024, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act.

The audit and the audit opinion cover:
Our audit and opinion on the Consolidated Financial Statements cover the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity, information on significant accounting policies, and other disclosures. We have not audited and therefore do not provide an opinion on the Statement by the Board of Directors and CEO beyond what is required of us, as stated in the statement below.

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the Statement by the Board of Directors and CEO accompanying the Consolidated Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

Our opinion is in accordance with the information presented in our audit report to the audit committee, in accordance with Article 11 of the EU Directive No. 537/2014 of the European Parliament and of the Council.

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 the Group in accordance with the Code of Ethics for Professional Accountants in Iceland, and we have fulfilled all ethical requirements therein. 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 for the year 2023. 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.

In our opinion the following matters were key audit matters:

Explanation of Key Audit Matter	Responses to Key Audit Matter
Valuation of production and distribution systems See note 41 (d) pages 65-66 on significant accounting policies and note 13 page 35-37: on property, plant and equipment. We have defined the valuation of production and distribution systems as a key audit matter in our audit. The Group's production and distribution sy-stems are carried at revalued amount. An assessment is made of the changes in construction costs of similar types of assets and both cost and accumulated depreciation are revalued accor-dingly. The Group performs impairment tests on the reporting date and recognises impairment loss if value in use is lower than book value of an asset. Revalu-ed amount will also not be higher than value in use. The assumptions used for revaluation and impairment tests are based on management assessments and are partly subjective. With production and distribution systems being a significant part of the consolidated financial statements, any change in assumptions can have significant effect on the income statement and balance sheet of the Group. Our work both included estimates of the revaluation assessments and the impairment tests of the production and distribution systems.	As part of our audit, we reviewed the Group's methodology for valuing the production and distribution systems and its consistency with international financial reporting standards. We reviewed the Group's processes for the revaluation and impairment tests. We also reviewed the functionality of models used in the assessments. We evaluated management assumptions by comparing to public information where applicable. Where assumptions are not based on public information, we made our own evaluation on management assumptions. We used the work of a valuation specialist to assist in this evaluation.
Revenue recognition See note 41 (j) page 68 on significant accounting policies and note 4 pages 27-28 on operation and revenue recognition of Group's components. Revenue from sale and distribution of electricity and hot water is recognised based on measurements into the systems, taking into account energy losses occurring in the distribution systems. Differences between the actual amounts that go into the systems, minus losses and invoiced usage, leads to a period correction. Due to the fact that income recognition at the end of the year is based on management estimates, there is uncertainty regarding revenue recognition relating to revenue cut-off and existence. For that reason, we focus specifically on revenue cutoff in our audit, as well as performing other audit procedures relating to revenue recognition.	In our audit of revenues, we have assessed controls relating to revenues in the Group. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Group, including review of how access to finance and accounting related IT systems is controlled. We have used substantive testing methods where we have for example reviewed reconciliations between accounting systems and subsystems and received third par-ty confirmation of energy usage, turnover and outstanding balances at year-end from specific customers. We have also reviewed deposits after year-end where balance con-firmations from customers were not available. We have also performed su-bstantive tests where we have compared our expectations to actual revenue recognition in the Group.
Valuation of embedded derivatives See note 41 (c) pages 63-65 on significant accounting policies, note 19 page 41 on embedded derivatives in electricity sales contracts and note 34 pages 57-58 on fair value hierarchy. Because prices of specific electricity sales contracts with large counterparties are tied to aluminium prices, the Group recognises embedded derivatives on the balance sheet. As electricity and aluminium prices are generally not closely related, financial reporting standards require the risk relating to this relationship to be evaluated specifically. The embedded derivatives are considered to be third level financial items, where estimates are based on management assumptions and unobservable inputs. Because of the vulnerability of the estimate, any change in assumptions can have significant effect on the income statement and balance sheet of the Group. For these reasons, we assume there is significant risk related to embedded derivatives and have therefore defined them as a key audit matter.	In our audit, we reviewed the Group's pricing methodology and consistency with international financial reporting standards. We reviewed the Group's process for analysing and assessing assumptions used in the valuation, as well as reviewing valuation models used. We recalculated derivative valuations based on information we collected. We used the work of a valuation specialist to assist with this review.

Other Information

The Board of Directors and the CEO are responsible for all information presented by the Group, both the Consolidated Financial Statements as well as other information. Our opinion does not cover other information other than we specificly discuss in our opinion here above. The other information comprises for example endorsment of the Board of directors and the CEO and unaudited report on governance report of the information included in the Annual Report, but does not include the Consolidated Financial Statements and our Auditor's Report thereon. Our opinion on the Consolidated Financial Statements does not cover other information issued by the Group, and we do not express any form of assurance on the information in those documents thereon. In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The board's report is prepared with regard to the anticipated changes in the Annual Accounts Act due to the implementation of EU Directive 2022/2464 on Corporate Sustainability Reporting (CSRD). We have not audited this information and do not express an opinion on it.

The Board of Directors and CEO's Responsibilities for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act, and for such internal control as management 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 CEO are responsible for assessing the Group'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 CEO either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's 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 the Group´s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group 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.
- 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 communicated 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 identified during our audit. Our Audit Report, which has been provided to the Board of Directors and the Audit Committee, reports these matters and is in accordance with this report.

We have not provided the Group with any services that are prohibited according to laws on auditors. We have provi-ded the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicated 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 determined those matters that were of most significance in the audit of the Consolidated Financial Statements of the current year and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulations preclu-des 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.

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Orkuveita Reykjavíkur we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of the Group for the year 2023 with the file name 5493004ARP9VPUIX5B73-2024-12-31-is.zip are prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

The Board of Directors and CEO are responsible for preparing the consolidated financial statements in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag. This responsibility includes preparing the consolidated financial statements in a XHTML format in accordance to EU regulation 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the Consolidated Financial Statements of Reykjavik Energy for the year 2023 with the file name 5493004ARP9VPUIX5B73-2024-12-31-is.zip prepared, in all material respects, in compliance with the ESEF Regulation.

We were elected auditors for the Group in the Group's annual general meeting on 26 April 2023 and this is therefore the 6th continuous fiscal year where we are the Group's auditors.

On behalf of Grant Thornton endurskoðun ehf.

Reykjavik, 7 March 2025

Davíð Arnar Einarsson,
State Authorized Public Accountant

Theodór Sigurbergsson,
State Authorized Public Accountant


Finance

Income Statement 2024

	Notes	2024	2023
Operating revenue	4	66.591.502	60.510.641
Redemption of aluminium derivatives		152.473	632.381
Profit from sale of assets		37.976	26.337
Operating revenues, total		66.781.952	61.169.358
Energy purchase and distribution	6	(7.191.229)	(7.264.400)
Salaries and salary related expenses	8	(10.724.400)	(9.799.488)
Other operating expenses		(9.804.020)	(8.404.698)
Operating expenses, total		(27.719.649)	(25.468.586)
EBITDA		39.062.303	35.700.772
Depreciation and amortisation	10	(16.830.274)	(15.797.262)
Results from operating activities, EBIT		22.232.029	19.903.510
Interest income		1.055.993	573.409
Interest expenses		(13.816.459)	(14.606.144)
Other income on financial assets and liabilities		523.018	909.225
Total financial income and expenses	11	(12.237.447)	(13.123.511)
Share in profit (loss) of associated companies	16	3.939	(36)
Profit before income tax		9.998.521	6.779.964
Income tax	12	(689.453)	(380.010)
Profit for the year		9.309.068	6.399.954
Attributable to:			
Equity holders of the Company		9.309.582	6.399.997
Minority interest in subsidiaries		(514)	(43)
Profit for the year		9.309.068	6.399.954

The notes on pages 83 to 129 are an integral part of these Consolidated Financial Statements.

Statement of Comprehensive Income 2024

	Notes	2024	2023
Profit for the year		9.309.068	6.399.954
Other comprehensive income			
Items moved to equity that will not be moved later to the income statement			
Revaluation reserve, increase	13	2.974.065	16.933.584
Income tax effect of revaluation	12	(594.813)	(2.710.069)
Changes in fair value for financial assets at fair value through OCI	17	0	575.000
		2.379.252	14.798.515
Items moved to equity that could be moved later to the income statement			
Translation difference	23	1.059.716	(2.764.695)
Other comprehensive income, after taxes		3.438.968	12.033.819
Total comprehensive income for the year		12.748.035	18.433.773

The notes on pages 83 to 129 are an integral part of these Consolidated Financial Statements.

Statement of Financial Position
31 December 2024

	Notes	31.12.2024	31.12.2023
Assets			
Property, plant and equipment	13	449.315.631	430.996.271
Intangible assets	14	6.246.068	5.950.008
Right-of-use assets	15	2.346.362	2.293.737
Investments in associated companies	16	88.667	81.228
Investments in other companies	17	6.243.980	55.680
Embedded derivatives in electricity sales contracts	18	406.754	1.914.127
Hedge contracts		63.086	50.239
Deferred tax assets	20	6.166.858	4.792.026
Total non-current assets		470.877.406	446.133.316
Inventories	21	1.632.118	1.706.770
Trade receivables	22	7.829.583	6.580.535
Embedded derivatives in electricity sales contracts	18	275.913	15.306
Investments in other companies for sale	17	0	6.207.000
Hedge contracts		94.574	218.901
Other receivables	22	927.652	1.086.871
Prepaid expenses		283.101	382.182
Marketable securities		11.594.110	8.670.016
Cash and cash equivalents		16.438.122	10.342.367
Total current assets		39.075.173	35.209.949
Total assets		509.952.580	481.343.265
Equity			
Revaluation reserve		127.809.202	130.534.225
Equity reserve		94.950.622	82.377.266
Development reserve		218.177	137.330
Fair value reserve		5.807.000	5.807.000
Translation reserve		9.838.598	8.778.883
Retained earnings		27.108.582	31.348.927
Equity attributable to equity holders of the Company		265.732.181	258.983.631
Minority interest		(219)	290
Total equity	23	265.731.962	258.983.922
Liabilities			
Loans and borrowings	24	184.597.864	165.248.925
Lease liabilities	15	2.308.413	2.227.221
Pension liability	25	739.347	721.527
Hedge contracts		10.643	110.834
Deferred revenue	19	1.873.970	1.817.841
Deferred tax liabilities	20	23.153.094	23.064.598
Total non-current liabilities		212.683.332	193.190.946
Accounts payables		3.924.652	4.010.900
Loans and borrowings	24	19.958.999	16.928.649
Lease liabilities	15	177.887	176.490
Hedge contracts		117.432	82.057
Deferred revenue	19	266.018	383.835
Current tax liability	12	2.812.055	1.887.042
Other current liabilities	26	4.280.241	5.699.424
Total current liabilities		31.537.286	29.168.398
Total liabilities		244.220.617	222.359.343
Total equity and liabilities		509.952.580	481.343.265

The notes on pages 83 to 129 are an integral part of these Consolidated Financial Statements.

Statement of Changes in Equity 2024

	Revaluation reserve	Equity reserve	Develop-ment reserve	Fair value reserve	Translation reserve	Retained earnings	Attributable to equity holders of the Company	Minority interest	Total equity
The year 2024									
Equity at 1 January 2024	130.534.225	82.377.266	137.330	5.807.000	8.778.883	31.348.927	258.983.631	290	258.983.922
Revaluation, increase	2.974.065						2.974.065		2.974.065
Income tax effect of revaluation	(594.813)						(594.813)		(594.813)
Translation difference					1.059.716		1.059.716		1.059.716
Profit for the year						9.309.582	9.309.582	(514)	9.309.068
Total comprehensive income	2.379.252	0	0	0	1.059.716	9.309.582	12.748.549	(514)	12.748.035
Depreciation transferred to retained earnings	(5.104.275)					5.104.275	0		0
Share in profit of subsidiaries and associates transferred to equity reserve		12.573.356				(12.573.356)	0		0
Other changes								5	5
Development reserve, amortisation			80.846			(80.846)	0		0
Dividends to owners						(6.000.000)	(6.000.000)		(6.000.000)
Equity at 31 December 2024	127.809.202	94.950.622	218.176	5.807.000	9.838.598	27.108.583	265.732.181	(219)	265.731.962
The year 2023									
Equity at 1 January 2023	121.092.491	74.657.104	111.277	5.232.000	11.543.578	33.413.364	246.049.815	337	246.050.152
Revaluation, increase	16.933.584						16.933.584		16.933.584
Income tax effect of revaluation	(2.710.069)						(2.710.069)		(2.710.069)
Changes in fair value for financial assets at fair value through OCI				575.000			575.000		575.000
Translation difference					(2.764.695)		(2.764.695)		(2.764.695)
Profit for the year						6.399.997	6.399.997	(43)	6.399.954
Total comprehensive income	14.223.515	0	0	575.000	(2.764.695)	6.399.997	18.433.817	(43)	18.433.773
Depreciation transferred to retained earnings	(4.781.781)					4.781.781	0		0
Share in profit of subsidiaries and associates transferred to equity reserve		7.720.162				(7.720.162)	0		0
Other changes								(4)	(4)
Transfer to development reserve			26.053			(26.053)	0		0
Dividends to owners						(5.500.000)	(5.500.000)		(5.500.000)
Equity at 31 December 2023	130.534.225	82.377.266	137.330	5.807.000	8.778.883	31.348.927	258.983.632	290	258.983.922

The notes on pages 83 to 129 are an integral part of these Consolidated Financial Statements.

Statement of Cash Flows 2024

	Notes	2024	2023
Cash flows from operating activities			
Profit for the year		9.309.068	6.399.954
Adjusted for:			
Financial income and expenses	11	12.237.447	13.123.511
Share in P/L of associates	16	(3.939)	36
Income tax	12	689.453	380.010
Depreciation and amortisation	10	16.830.274	15.797.262
Profit from sale of property, plants and equipment		(37.976)	(26.337)
Pension liability, change		21.820	58.067
Working capital from operation before interest and taxes		39.046.147	35.732.502
Inventories, decrease		74.652	1.048.369
Current assets, increase		(1.082.621)	(887.857)
Current liabilities, increase (decrease)		280.040	(486.660)
Cash generated from operations before interests and taxes		38.318.218	35.406.355
Received interest income		1.065.593	590.870
Paid interest expenses		(8.037.389)	(7.039.761)
Dividend received		122.466	191.155
Paid taxes		(1.744.015)	(1.476.383)
Net cash from operating activities		29.724.872	27.672.235
Cash flows from investing activities			
Acquisition of property, plant and equipment	13	(29.930.261)	(27.226.197)
Acquisition of intangible assets	14	(2.968.600)	(1.602.703)
Proceeds from sale of property, plant and equipment		144.176	137.893
Acquisition of associated companies		(3.300)	0
Change in marketable securities		(2.024.862)	3.008.322
Net cash used in investing activities		(34.782.848)	(25.682.685)
Cash flows from financing activities			
Proceeds from new borrowings	24	34.509.164	30.120.839
Repayment of borrowings	24	(17.324.222)	(24.580.559)
Deferred revenue		(33.934)	1.896.603
Dividends paid	23	(6.000.000)	(5.500.000)
Repayment of lease liability	15	(118.304)	(149.522)
Net cash used in financing activities		11.032.705	1.787.361
Increase in cash and cash equivalents		5.974.729	3.776.911
Cash and cash equivalents at year beginning		10.342.367	6.650.749
Effect of currency fluctuations on cash and cash equivalents		121.226	(85.293)
Cash and cash equivalents at year-end		16.438.322	10.342.367
Other information			
Working capital from operation	37	29.113.463	27.464.676

The notes on pages 83 to 129 are an integral part of these Consolidated Financial Statements.

Notes

1. Reporting entity

Reykjavik Engergy (RE) is a partnership that complies with the Icelandic law no. 136/2013 on Reykjavik Energy. RE's headquarters are at Bæjarháls 1 in Reykjavik. RE's consolidated financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and a share in associated companies. The consolidated financial statments of Reykjavik Energy is a part of the consolidated financial statements of Reykjavík city.

The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems, a fiber optic system and provide a carbon capture service in its service area.

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements set out in the local rules and regulations regarding financial statements of companies with listed bonds.

The consolidated financial statements were approved by the Board of Directors on 7 March 2025.

Significant accounting policies for the Group are described in note 40.

b. *Change in presentation*

The presentation of the balance sheet has been changed from last year. Work in progress will be sold within the group and have therefore been reclassified among property, plant and equipment and intangible assets in accordance with their final classification.

c. *Functional and presentation currency*

The consolidated financial statements are presented in Icelandic kronas, which is RE’s functional currency. All financial information has been rounded to the nearest thousand unless otherwise stated.

d. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 40.

e. *Use of estimates and judgements*

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- note 13 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment)
- note 17 - Investments in other companies (presumptions made when calculating fair value of assets classified as Financial assets at fair value through OCI)
- note 40a i) og ii) - Investments in subsidiaries and associated companies (Management uses professional judgment in determining whether definitions of control indicate that the group controls an investment)
- note 18 - Embedded derivatives in electricity sales contracts (presumptions when calculating fair value)
- note 20 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax losses)
- note 28 - Market risk

3. Operation and revenue recognition of Group's components

The following provides information about the operation of Group's components. Breakdown of revenue for different operations is given in note 4 and income by segment in note 5.

	Products and services	Nature, timing of revenue recognition and payments terms
a.	Electricity	ON Power ohf. and Orka náttúrunnar ohf. generate electricity and sell electricity and Utilities distribute electricity according to law no. 65/2003. Revenue from the sale and distribution of electricity is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. Upon connection of new users to distribution systems of electricity and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of electricity generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
b.	Hot water	ON Power, Orka náttúrunnar and Utilities generate harness hot water and Utilities distribute harness hot water. Revenue from the sale and distribution of harness hot water is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. Upon connection of new users to distribution systems of harness hot water or upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of harness hot water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
c.	Cold water	OR - vatns- og fráveita collects and distributes cold water from reservoirs. Revenue from the sale of cold water is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate value. In addition revenue is stated for cold water according to measurement from specific industries. Upon connection of new users to distribution systems of cold water and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale of cold water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.

3. Operation and revenue recognition of Group's components, contd.

	Products and services	Nature, timing of revenue recognition and payments terms
d.	Sewer system	OR - vatns- og fráveita runs the sewer system. Revenue is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate rateable value. Upon connection of new users to sewage system and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new sewer systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sewer system generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
e.	Other revenues	Ljósleiðarinn operates fiber optics data system. Revenue from fiber optics data system is recognised in the income statement upon delivery of the goods and service. This is a competitive practice that is supervised by The Electronic Communications Office of Iceland. Reykjavík Energy the parent company operates rental of housing and equipment, incidental sale of specialist consultancy services and more. The income of the Carbfix companies is due to consulting, construction and operation of disposal sites. Rental income is recorded as income in the income statement linearly over the lease term and other revenue is recognised upon delivery of goods or services. Trade receivables from other revenues generally have a 30 day grace period.

4. Revenues from sales of goods and services

The Group's income from sales of goods and services is specified as follows:

	2024	2023
Electricity	25.763.221	23.979.310
Hot water	20.600.025	17.739.370
Cold water	3.985.630	3.703.242
Sewer system	7.102.767	6.624.847
Other revenues	9.139.860	8.463.871
Revenues from sales of goods and services total	66.591.502	60.510.641

5. Segment reporting

Business divisions and sectors

The Group's service area is mainly in the Reykjavík city area, but it also extends to the southern and western parts of Iceland. The Group is divided into three separate divisions: Energy sale and production, Utilities and Other Operation.

Energy sale and production generate electricity and harness hot water from the power plants, sells electricity to wholesale and retail customers.

Utilities distribute electricity, harnessing hot water from low-temperature fields and the geothermal plants and distribute it for space heating. It also collects and distributes cold water from reservoirs and runs a sewerage system.

Other operations cover the fiber optic system, rental of housing and equipment, incidental sale of specialist consultancy services and more. Also development and distribution of the Carbfix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change.

The Group is income taxed and collects value added tax, except for operations regarding cold water and sewer but they are regulated by law no. 32/2004 concerning cold water suppliers of municipalities and law no. 9/2009 concerning the operations of sewer. The provision of hot water supply is subject to law no. 58/1967, concerning earnings from hot water. The distribution of electricity is subject to law no. 65/2003, which stipulates revenue caps that are decided by the National Energy Authority.

Sector	Official obligations
Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	Price rates are subject to authorisation from The National Energy Authority. Rates are officially published.
Electricity, production	Energy sales are subject to the open market, electricity rate changes are therefore not subject to government
Cold water	The legal limitation on the upper limit of the rate is 0,5% of the real estate value. Rates are officially published in the Ministerial
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fiber-optic data system	This is a competitive practice that is supervised by The Electronic Communications Office of Iceland.

Customers that have significant effect on the Group's revenues

One customer of Energy sale and production has significant effect on the Group's revenues in the year 2024 due to the purchase of electricity for heavy industry. The Group´s revenues from this customer represents approximately ISK 9.085 million or 13,6% of total revenues. (2023: ISK 8.461 million, or 13,8% of total revenue).

5. Segment reporting, contd.

Segment information is presented by the Group's internal reporting. Business segments presented are Utilities, that represent licensed operations in hot and cold water, distribution of electricity and sewage, Energy sale and production, representing the competitive operations in producing and sale of electricity and hot water and Other Operation, that represents the activities of the parent company, the fiber optic operations and the Carbfix companies. The parent company's main activities is providing service to subsidiaries, rental of housing and equipment, incidental sale of specialist consultancy services and more. Ljósleiðarinn represents the fiber optic operations and the Carbfix companies are working on development and distibution the of the Carbfix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 40.

Business segments - divisions **The year 2024**	**Utilities**	**Energy sale and production**	**Other Operation**	**Adjust-ments**	**IFRS 16***	**Total**
External revenue	42.671.377	17.907.572	6.203.003	0		66.781.952
Inter-segment revenue	6.702.794	9.878.170	13.336.918	(29.917.882)		0
Total segment revenue	49.374.171	27.785.741	19.539.922	(29.917.882)		66.781.952
Segment operation expenses	(28.307.367)	(12.273.037)	(17.096.271)	29.756.124	200.902	(27.719.649)
Segment profit EBITDA	21.066.803	15.512.704	2.443.651	(161.758)	200.902	39.062.303
Depreciation and amortisation	(7.608.738)	(6.150.451)	(3.104.375)	179.777	(146.486)	(16.830.274)
Segment results, EBIT	13.458.065	9.362.253	(660.724)	18.020	54.416	22.232.029
Financial income and expenses	(4.854.194)	(2.524.503)	(3.576.496)	(1.197.875)	(84.379)	(12.237.447)
Share in loss of associated companies	0	0	3.939	0		3.939
Income tax	(989.256)	(1.399.794)	1.219.547	468.784	11.266	(689.453)
Profit (loss) for the period	7.614.615	5.437.955	(3.013.734)	(711.071)	(18.697)	9.309.068
The year 2023						
External revenue	37.876.204	18.241.946	5.051.208	0		61.169.358
Inter-segment revenue	5.897.878	7.190.259	11.414.838	(24.502.975)		(0)
Total segment revenue	43.774.082	25.432.205	16.466.047	(24.502.975)		61.169.358
Segment operation expenses	(24.545.796)	(11.563.011)	(13.982.051)	24.406.470	215.802	(25.468.586)
Segment profit EBITDA	19.228.286	13.869.194	2.483.996	(96.506)	215.802	35.700.772
Depreciation and amortisation	(7.115.782)	(5.843.621)	(2.745.778)	77.818	(169.899)	(15.797.262)
Segment results, EBIT	12.112.504	8.025.573	(261.783)	(18.688)	45.904	19.903.510
Financial income and expenses	(6.875.888)	(3.038.480)	(3.543.468)	404.160	(69.835)	(13.123.511)
Share in loss of associated companies	0	0	(36)	0		(36)
Income tax	(555.736)	(1.000.360)	1.362.151	(195.063)	8.998	(380.010)
Profit (loss) for the period	4.680.880	3.986.733	(2.443.135)	190.409	(14.933)	6.399.954

* Segment reporting as used by management does not take into account the guidance of IFRS 16.

5. Segment reporting, contd.

Business segments - divisions, contd.	**Utilities**	**Energy sale and production**	**Other Operation**	**Adjust-ments**	**IFRS 16***	**Total**
Balance sheet (31.12.2024)						
Property, plant and equipment and intangible assets	239.425.677	155.293.802	61.051.212	(208.991)		455.561.699
Right-of-use assets					2.346.362	2.346.362
Other assets	28.982.860	10.579.703	205.143.898	(192.661.943)		52.044.518
						509.952.580
Loans and borrowings	89.246.676	56.188.927	208.956.863	(149.835.603)		204.556.863
Lease liabilities					2.486.300	2.486.300
Other liabilities	20.116.367	13.825.084	46.260.508	(43.024.505)		37.177.454
						244.220.617
Investments						
Property, plant and equipment and intangible assets	16.712.096	7.415.206	6.818.563			30.945.866
Balance sheet (31.12.2023)						
Property, plant and equipment and intangible assets	230.353.938	152.358.342	54.495.239	(261.239)		436.946.279
Right-of-use assets					2.293.737	2.293.737
Other assets	25.611.049	10.055.838	178.977.733	(172.541.371)		42.103.249
						481.343.266
Loans and borrowings	82.731.886	55.536.810	184.377.574	(140.468.696)		182.177.574
Lease liabilities					2.403.711	2.403.711
Other liabilities	18.802.222	13.418.382	38.857.702	(33.300.248)		37.778.058
						222.359.343
Investments						
Property, plant and equipment and intangible assets	14.479.775	6.095.801	10.491.329	(984.944)		30.081.961

* Segment reporting as used by management does not take into account the guidance of IFRS 16.

6. Energy purchase and distribution

	2024	2023
Energy purchase and distribution are specified as follows:		
Energy purchase	1.855.515	2.282.179
Distribution	5.335.714	4.982.221
Total energy purchase and distribution	7.191.229	7.264.400

7. Analysis of geothermal power plant operation

Return analysis of production of electricity and hot water, cf. Article 41, paragraph 5 of law no. 65/2003:

	Electricity 2024	Hot water 2024	Electricity 2023	Hot water 2023
Geothermal power plant				
Revenue	14.051.335	7.288.687	13.188.023	5.523.888
Operating expenses	(3.692.670)	(2.079.968)	(2.858.400)	(1.679.752)
Depreciation and amortisation	(4.399.554)	(1.631.589)	(4.104.342)	(1.335.121)
Profit before financial expenses	5.959.111	3.577.130	6.225.280	2.509.015
Return on investment	5,2%	9,3%	5,6%	6,1%

The power plants at Hellisheiði and Nesjavellir are mixed production plants, where both hot water and energy are produced.
The cost allocation is based on Orka náttúrunnar and ON Power´s methods, that the National Energy Authority "NEA" has not approved. NEA is obligated to set new cost allocation rules after having disapproved the companies proposal, NEA has not yet carried this out. Until NEA sets new rules for cost allocation, the return of the sectors are reported using Orka náttúrunnar and ON Power's methods.

8. Salaries and salary related expenses

	2024	2023
Salaries and salary related expenses are specified as follows:		
Salaries	10.067.823	9.126.856
Defined contribution pension expenses	1.325.854	1.204.726
Defined benefit pension expenses, changes	68.592	100.057
Other salary related expenses	982.153	809.326
Total salaries and salary related expenses	12.444.422	11.240.966
Salaries and salary related expenses are stated in the financial statements as follows:		
Expensed in the income statement	10.724.400	9.799.488
Capitalised on projects	1.720.021	1.441.478
Total salaries and salary related expenses	12.444.422	11.240.966
Number of employees:		
Number of annual working units	671,8	637,0
Management's salaries and benefits for the parent company and subsidiaries are specified as follows:		
Salaries to the Board of Directors of the Parent Company	25.339	25.704
Salaries of the CEO of the Parent Company	50.570	48.226
Salaries of Managing Directors of the Parent Company*	116.156	114.924
Salaries to the Board of Directors of subsidiaries**	33.435	23.108
Salaries of four Managing Directors of subsidiaries	170.568	156.169
Termination expenses	0	91.147
	396.068	459.278

* For the first two months of 2023 there were four Managing Directors, from 1 March 2023 there were three.

** Four board of Directors until 31 May 2023, five from 1 June 2023. During the year 2024, the percentage of bordmembers working outside RE changed and salaries were increased moderately.

9. Auditors fee

	2024	2023
Audit of financial statements and review of interim financial statements	33.365	27.831
Other services	2.669	3.342
Total auditors fee	36.034	31.173

10. Depreciation, amortisation and impairment

	2024	2023
Depreciation, amortisation and impairment is specified as follows:		
Depreciation of property, plant and equipment cf. note 13	15.902.311	15.042.464
Amortisation of intangible assets, cf. note 14	781.477	584.899
Depreciation of Right-of-use assets, cf. Note 15	146.486	169.899
Depreciation, amortisation and impairment expensed in income statement	16.830.274	15.797.262

11. Financial income and expenses

	2024	2023
Financial income and expenses are specified as follows:		
Interest income	1.055.993	573.409
Interest expenses and paid indexation	(7.949.762)	(6.775.310)
Indexation	(5.494.977)	(7.392.363)
Guarantee fee to owners 1)	(371.720)	(438.471)
Total interest expenses	(13.816.459)	(14.606.144)
Fair value changes of embedded derivatives in electricity sales contracts	(1.246.766)	370.324
Fair value changes of financial assets and financial liabilities through P/L	880.731	607.734
Unredeemed fair value changes of hedge contracts	(46.665)	(167.008)
Foreign exchange difference	813.252	(146.649)
Dividends	122.466	244.825
Total of other income (expenses) on financial assets and liabilities	523.018	909.225
Total financial income and expenses	(12.237.447)	(13.123.511)

1) The Group paid a guarantee fee to the owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Reykjavik Engergy in 2005. The fee on yearly basis for its licensed operations is 0,86% (2023: 0,81%) and 0,66% (2023: 0,65%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 372 million in the year 2024 (2023: ISK 438 million) and is accounted for among interest expenses.

Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed In note 40. Change in fair value that is recognized in the income statement amounts to ISK 413 million income in the year 2024 (2023: revenue ISK 811 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 1.247 million income in the year 2024 (2023: revenue ISK 370 million).

12. Income tax

The Group's companies are tax liable according with Article 2 of law no. 90/2003 on income tax. The part of the Group's operation concerning operation of cold water supply and sewer is though exempt from income tax.

In the year 2024, the corporate income tax was temporarily increase, the increase is valid only for the year 2024. The parent Company´s tax rate is 38,4% (2023: 37,6%), other taxable subsidiaries have a 21% (2023: 20%) tax rate.

Income tax recognised in the income statement is specified as follows:	2024	2023
Current income tax	2.812.055	1.887.042
Change in deferred income tax	(2.122.602)	(1.507.032)
Income tax recognised through P/L	689.453	380.010

Reconciliation of effective tax rate:		2024		2023
Profit before income tax		9.998.521		6.779.964
Income tax according to tax ratio of parent company	38,40%	3.839.432	37,60%	2.549.267
Effect of tax rates of subsidiaries	(13,35%)	(1.334.341)	(16,34%)	(1.107.967)
Non-taxable operation of water supply and sewer	(15,05%)	(1.504.984)	(13,63%)	(924.192)
Effect of change in tax rate	(1,18%)	(117.681)	0,00%	0
Effect of different functional currencies in the Group	(1,39%)	(139.430)	0,17%	11.745
Other items	(0,54%)	(53.544)	(2,20%)	(148.843)
Effective income tax	6,90%	689.453	5,60%	380.010

Income tax recognised in other comprehensive income

Deferred tax

Due to income and expenses moved direct to equity	2024	2023
Tax effect of revaluation	594.813	2.710.069
Deferred tax, total	594.813	2.710.069

13. Property, plant and equipment

The year 2024	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	375.981.252	465.614.035	13.431.037	5.545.699	860.572.022
Additions during the period	11.375.835	14.756.516	2.245.868	1.466.593	29.844.812
Reclassification of assets	0	0	0	(89.115)	(89.115)
Translation difference	2.137.243	0	0	(50.671)	2.086.572
Sold or disposed of	3.654	(50.526)	0	(315.150)	(362.022)
Revaluation, increase	0	4.211.421	0	0	4.211.421
Balance at period end	389.497.984	484.531.446	15.676.905	6.557.355	896.263.689
Depreciation					
Balance at year beginning	175.082.753	250.788.956	1.210.036	2.494.006	429.575.751
Depreciated during the period	7.898.033	7.373.831	144.591	485.856	15.902.311
Reclassification of assets	0	0	0	(89.115)	(89.115)
Translation difference	581.786	0	0	(2.759)	579.027
Sold or disposed of	6	(1.671)	0	(255.606)	(257.272)
Revaluation, increase	0	1.237.356	0	0	1.237.356
Balance at period end	183.562.578	259.398.471	1.354.626	2.632.383	446.948.058
Carrying amounts					
At 1.1. 2024	200.898.499	214.825.078	12.221.001	3.051.693	430.996.271
At 31.12. 2024	205.935.405	225.132.975	14.322.278	3.924.973	449.315.631

The year 2023	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	355.699.819	432.329.044	12.220.189	4.631.954	804.881.006
Additions during the year	10.268.182	13.905.247	1.262.575	1.159.893	26.595.898
Translation difference	(6.107.551)	0	0	85	(6.107.467)
Sold or disposed of	22.753	0	(51.727)	(246.233)	(275.207)
Revaluation, increase	16.098.048	19.379.744	0	0	35.477.792
Balance at year end	375.981.252	465.614.035	13.431.037	5.545.699	860.572.022
Depreciation					
Balance at year beginning	161.908.071	232.571.539	978.205	2.245.457	397.703.273
Depreciated during the year	7.544.640	6.823.342	231.830	442.652	15.042.464
Translation difference	(1.492.108)	0	0	5	(1.492.103)
Sold or disposed of	(27.983)	0	0	(194.108)	(222.091)
Revaluation, increase	7.150.133	11.394.075	0	0	18.544.208
Balance at year end	175.082.753	250.788.956	1.210.036	2.494.006	429.575.751
Carrying amounts					
At 1.1. 2023	193.791.749	199.757.504	11.241.984	2.386.497	407.177.733
At 31.12. 2023	200.898.499	214.825.078	12.221.001	3.051.693	430.996.271

Investments during the year without payment effect amounted to ISK 2.337,2 million at year-end 2024. (2023: ISK 4.290,2 million). The year's change in investments without payment effect amounts to ISK 1.953,0 million.

13. Property, plant and equipment, contd.

Revaluation

When revaluating, the relevant asset groups are measured at fair value. The aforementioned revaluation is recognised in a revaluation reserve among equity taken into account effects of deferred income tax as further explained in note 40 d. The revaluation is carried out by experts within the Group.

Revaluation was last conducted according to the following table:

	Date of Revaluation
Production systems	
Hot water	30.9.2023
Cold water	30.9.2022
Electricity	30.9.2023
Distribution systems	
Hot water	30.9.2023
Cold water	30.9.2023
Sewage	30.9.2023
Electricity	30.9.2023
Fiber-optic cable system	30.9.2024

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Group's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within the Group. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems. Revaluation is classified as level 3 of the hierarchy of fair value, further explained in note 33.

Information on revalued assets at year end **31.12.2024**	**Production system**	**Distribution system**	**Total**
Revalued carrying amount	205.935.405	225.132.975	431.068.380
Thereof effect of revaluation	(65.678.109)	(85.820.958)	(151.499.067)
Carrying amount before effect of revaluation	140.257.296	139.312.017	279.569.313
31.12.2023			
Revalued carrying amount	200.898.499	214.825.078	415.723.578
Thereof effect of revaluation	(68.302.794)	(81.760.155)	(150.062.949)
Carrying amount before effect of revaluation	132.595.705	133.064.924	265.660.629

13. Property, plant and equipment, contd.

Impairment tests

Impairment tests were performed at the end of December 2024 for distribution systems, production systems and power plants. The tests were performed using the balance at the end of September 2024 in order to confirm if both carrying amounts of assets and main assets under construction would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the distribution and production systems.

The recoverable amount of each sector was evaluated based on value in use. The value in use was determined by discounting the expected future cash flows at the continued use in each sector. Cash flows were based on the future cash flow of the next five years. In assessing value in use, management make the plan for business development, based on both internal and external information.

The following criteria was used in assessing the value in use:

	Year 2024				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2025-2029	1,8%	2,8%	1,5%	2,0%	2,9%
CAGR w.r.t. to price changes	0,5%	0,8%	0,5%	0,4%	0,0%-2,2%
EBITDA CARG 2025-2029	3,3%	5,6%	2,1%	3,1%	5,4%
WACC	5,9%	6,0%	5,2%	5,2%	5,73% - 9,74%

	Year 2023				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2024-2028	2,6%	3,3%	3,4%	2,4%	3,9%
CAGR w.r.t. to price changes	0,0%	0,0%	0,4%	0,4%	0,0%-5,3%
EBITDA CARG 2024-2028	4,2%	4,9%	2,8%	2,4%	6,1%
WACC	6,1%	6,2%	5,7%	5,8%	6,13%-9,97%

Impairment for distribution system for Utilities or Power plants is unlikely because of additional value. However the test for electricity in power plants is sensitive to changes in key assumptions. If the required rate of ROCE increased by 0,1 percentage points, and other criteria are kept unchanged the calculated impairment of additional value in electricity for power plants would be ISK 1,6 billion. If the projected EBITDA is 1% lower during the planning period and other terms are unchanged, calculated impairment would be ISK 1,7 billion. However in neither case is there an impairment.

Rateable value and insurance value

The rateable value of the Group's assets measured in the rateable value assessment amounted to ISK 45.040 million at year end 2024 (2023: ISK 42.446 million). The fire insurance value of the company's assets amounted to ISK 65.427 million at the same time (2023: ISK 63.577 million). Among those assets are real estates capitalised among production and distribution systems. The insurance value of the Group's assets amounted to ISK 627.187 million at year end 2024 (2023: ISK 591.728 million).

The Group has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at year end is estimated at ISK 10.176 million (2023: ISK 13.689 million).

14. Intangible assets

Intangible assets are specified as follows:

The year 2024	Heating rights	Software	Development cost	Business relations	Total
Cost					
Balance at year beginning	1.478.758	5.521.463	446.062	1.908.000	9.354.283
Additions during the period	35.000	806.112	259.941	0	1.101.054
Reclassification of assets	0	44.142	44.972	0	89.115
Sold or disposed of	0	0	(1.449)	0	(1.449)
Translation difference	0	0	(22.341)	0	(22.341)
Balance at period end	1.513.758	6.371.718	727.185	1.908.000	10.520.662
Amortisation					
Balance at year beginning	457.768	2.888.453	20.206	37.847	3.404.275
Amortisation during the period	0	592.678	12.786	176.013	781.477
Reclassification of assets	0	44.142	44.972	0	89.114
Translation difference	0	0	(272)	0	(272)
Balance at period end	457.768	3.525.273	77.692	213.860	4.274.594
Carrying amounts					
At 1.1. 2024	1.020.990	2.633.010	425.855	1.870.153	5.950.008
At 31.12. 2024	1.055.990	2.846.446	649.493	1.694.140	6.246.068
31.12.2023					
Cost					
Balance at year beginning	1.427.031	4.484.555	182.982	0	6.094.568
Reclassification of assets	51.727	0	0	0	51.727
Additions during the year	0	1.259.477	318.404	1.908.000	3.485.881
Sold or disposed of	0	(222.568)	(56.039)	0	(278.607)
Translation difference	0	0	714	0	714
Balance at year end	1.478.758	5.521.463	446.062	1.908.000	9.354.283
Amortisation					
Balance at year beginning	457.768	2.516.136	13.885	0	2.987.789
Amortisation during the year	0	540.731	6.321	37.847	584.899
Sold or disposed of	0	(168.413)	0	0	(168.413)
Balance at year end	457.768	2.888.453	20.206	37.847	3.404.275
Carrying amounts					
At 1.1. 2023	969.263	1.968.419	169.097	0	3.106.779
At 31.12. 2023	1.020.990	2.633.010	425.855	1.870.153	5.950.008

Among intangible assets, salaries amounting to ISK 94,0 million have been capitalized due to capitalized software and ISK 88,3 million due to development costs.

15. Lease agreements

Significant accounting policies are described in note 40t.

The Group rents office space and land. These leases are for varying lengths of time, but usually with the possibility of renewal at the end of the lease. Some leases include additional lease payments that are based on a change in certain indices. The Group may not enter into sublease agreements for certain leases.

The Group has elected not to recognise right-of-use assets and lease liabilities for some short-term leases and leases of low-value assets. The Group charges lease payments for these leases on a straight-line basis during the lease term.

Changes in right-of-use assets in the year are specified as follows:

	2024	2023
Right-of-use assets		
Right-of-use assets at year beginning	2.293.737	2.180.951
Additions or extended contracts during the year	111.637	197.809
Increase (decrease) due to changes in rent payments or termination of contracts	33.528	7.664
Indexation	53.946	77.212
Depreciation of the year	(146.486)	(169.899)
Right-of-use assets at year end	2.346.362	2.293.737
Amounts in Income statement:		
Right-of-use assets, depreciation	146.486	169.899

Changes in lease liabilities in the year are specified as follows:

	2024	2023
Lease liabilities		
Lease liabilities at year beginning	2.403.711	2.266.994
New lease liabilities or extended contracts during the year	111.637	197.809
Increase due to changes in rent payments or termination of contracts	33.528	7.664
Interests	84.379	69.835
Repayment of lease liabilities	(200.902)	(215.802)
Indexation	53.946	77.212
Lease liabilities at year-end	2.486.300	2.403.711
Amounts in Balance Sheet:		
Lease liabilites, current liabilities	177.887	176.490
Lease liabilites, non-current liabilities	2.308.413	2.227.221
	2.486.300	2.403.711

Undiscounted cash flow due to lease payments is as follows:

	Within a year	In 1 to 5 years	After 5 years	Total
Lease payments	177.887	616.759	3.124.478	3.919.124
Interests	(82.028)	(284.899)	(1.065.897)	(1.432.824)
Total	95.859	331.860	2.058.581	2.486.300

15. Lease agreements, contd.

Amounts in Income statement:	2024	2023
Interest expenses:	84.379	69.835
Amounts in Statement of Cash Flows:		
Interest rate of rent payments (presented in cash flow statement in line "Paid interest expenses")	82.598	66.411
The installment element of the lease payments (presented in cash flow statement in the line "Payments of lease liabilities")	118.304	149.392

Most of the Group's leasing contracts for real estate include extension permits that the Group may use up to one year before the end of an unenforceable lease period. At the beginning of the lease, the Group assesses whether it is considered likely that it will utilize extensions. If there are significant changes in circumstances that are within the control of the Group, it will reassess whether the extension rights will be used.

16. Investments in associated companies

	2024		2023	
	Share	Carrying amount	Share	Carrying amount
Íslensk Nýorka ehf., Reykjavík	28,56%	22.992	28,81%	24.567
Netorka hf., Hafnarfjörður	38,41%	62.325	38,41%	53.308
Orkuskólinn REYST hf., Reykjavík	45,00%	3.349	45,00%	3.353
Total		88.667		81.228

The Group's share in the profit of its associated companies amounted to ISK 3,9 million in 2024 (2023: loss of ISK 36 thousand).

17. Investments in other companies

	Share	2024	Share	2023
Non-current assets				
Other shares in companies		36.980		55.680
Landsnet hf. 1)	6,8%	6.207.000		0
		6.243.980		55.680
Current assets				
Landsnet hf. 1)		0	6,8%	6.207.000
Investments in other companies, total		6.243.980		6.262.680

Fair value of financial assets classified at fair value through OCI is based on generally accepted valuation methods performed by independent experts and internal experts. The experts advised that a change in fair value should not be applied in the year 2024 to the ownership share in Landsnet hf. (2023 increase: ISK 575 million, the increase was transferred to a fair value reserve among equity). See further discussion in note 33.

1) Legal provisions on the changed ownership of electricity transmission companies came into effect on 1 July 2022, according to Article 19 Act no. 74/2021. The law stipulates a change in Landsnet's ownership in such a way that it becomes directly owned by the state and/or municipalities. The sale of the RE's share has not been completed in 2024 as planned, despite the legal obligation to do so. RE's share in Landsnet hf. at the end of 2024 is valued at ISK 6,2 billion and has been reclassified from current assets to fixed assets. See note 38 for details.

18. Embedded derivatives in electricity sales contracts

	2024	2023
Fair value of embedded derivatives at the beginning of the year	1.929.433	1.559.109
Fair value changes during the year	(1.246.766)	370.324
Fair value of embedded derivatives at year-end asset/(liability)	682.667	1.929.433

The allocation of embedded derivatives in electricity sales contracts is specified as follows:

Non-current embedded derivatives asset/(liability)	406.754	1.914.127
Current embedded derivatives, asset/(liability)	275.913	15.306
Total embedded derivatives at year-end	682.667	1.929.433

Further discussion regarding embedded derivatives can be found in note 28 c.

19. Deferred revenue

Deferred revenues are on the one hand due to an agreement for the leasing of fiber optics, which is valid until 2031. On the other hand, they are related to deferred revenues from an agreement for the use of Carbfix injection services, with the contract lasting 12 years.

Deferred revenue is specified as follows:

	2024	2023
Balance at year beginning	2.201.676	596.681
Additions during the year	195.190	1.619.844
Capitalised	(105.809)	0
Recognized as revenue	(136.410)	(14.849)
Translation difference	(14.658)	0
Balance at year end	2.139.989	2.201.676
Short-tearm Deferred revenue	266.018	383.835
Long-Learm Deferred revenue	1.873.970	1.817.841
	2.139.989	2.201.676

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

2024	Tax assets	Tax liabilities	Net amount
Deferred tax assets/(liabilities) at year beginning	4.792.026	(23.064.598)	(18.272.572)
Calculated income tax for the year	1.516.691	(2.206.144)	(689.453)
Current tax liability	26.943	2.785.113	2.812.055
Tax effect on the revaluation account	0	(594.813)	(594.813)
Other changes	(168.801)	(72.652)	(241.453)
Deferred tax assets/(liabilities) at year end	6.166.858	(23.153.094)	(16.986.236)
2023			
Deferred tax assets/(liabilities) at year beginning	3.759.231	(21.042.540)	(17.283.310)
Calculated income tax for the year	1.030.840	(1.410.851)	(380.010)
Current tax liability	53.670	1.833.372	1.887.042
Tax effect on the revaluation account	0	(2.710.069)	(2.710.069)
Other changes	(51.715)	265.491	213.775
Deferred tax assets/(liabilities) at year end	4.792.026	(23.064.598)	(18.272.572)

20. Deferred tax assets and liabilities, cont.

Deferred tax assets and liabilities are attributable to the following:

	31.12.2024		31.12.2023	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment and intangible assets	23.846	(23.684.817)	993.585	(23.408.063)
Embedded derivatives	(256.683)	0	(725.467)	0
Other items	(141.151)	160.009	66.641	144.960
Effect of carry forward taxable loss	6.540.846	371.714	4.457.267	198.505
Deferred tax assets/(liabilities) at year end	6.166.858	(23.153.094)	4.792.026	(23.064.598)

Carry forward taxable loss

Based on current tax law, a carry forwards taxable loss can be used against taxable profit within 10 years from when it was incurred. Carry forward taxable loss at year end can be used as follows:

	2024	2023
Carry forward taxable loss for the year 2018, usable until year 2028	41.429	41.429
Carry forward taxable loss for the year 2019, usable until year 2029	2.059.754	2.059.754
Carry forward taxable loss for the year 2020, usable until year 2030	2.398.725	2.398.725
Carry forward taxable loss for the year 2021, usable until year 2031	2.332.165	2.332.165
Carry forward taxable loss for the year 2022, usable until year 2032	2.833.270	2.833.270
Carry forward taxable loss for the year 2023, usable until year 2033	2.771.468	3.542.730
Carry forward taxable loss for the year 2024, usable until year 2034	7.813.439	-
Carry forwards taxable loss at year end	20.250.250	13.208.073

Management has evaluated the utilization of income tax losses and made plans for taxable profit for the next years. Deferred tax assets due to the taxable loss carried forward is recognized to the extent that it is believed to be useful.

21. Inventories

	2024	2023
Inventory of materials	1.632.118	1.706.770
	1.632.118	1.706.770

The Group's material inventories consist of material for maintenance, renewal and construction of the Group's production and distribution systems. A part of the inventories is defined as safety inventories, i.e. inventories that are necessary to have on hand in case of malfunction or maintenance even though their turnover is low. The value of inventories is estimated regularly. Inventories for renewal and new constructions are accounted for among property, plant and equipment as part of building cost of assets under construction.

22. Receivables

Trade receivables is specified as follows at year end:	2024	2023
Trade receivables, industrial consumers	1.212.125	1.027.154
Trade receivables, retail	6.783.297	5.700.398
Trade receivables, total	7.995.422	6.727.553
Allowance for doubtful accounts	(165.839)	(147.018)
	7.829.583	6.580.535
Other current receivables are specified as follows at year end:		
Capital income tax	295.201	300.782
Value added tax	308.461	461.656
Receivables from employees	3.405	4.036
Accrued interest income	4.146	13
Other receivables	316.440	320.384
	927.652	1.086.871

23. Equity

Equity ratio of the Group at year end 2024 is 52,1% (2023: 53,8%). Return on equity was positive by 3,6% in the year 2024 (2023: positive by 2,6%).

Revaluation reserve

Revaluation reserve comprises of increase in the value of properties, plant and equipment after taking tax effects into account. Depreciation of the revaluated price are expensed in the income statement and transferred at the same time from the revaluation reserve account to retained earnings.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of financial statements of operations with other functional currency than ISK.

Fair value reserve

Fair value reserve comprises change of the value of assets categorised at fair value through OCI after taking tax effects into account.

Equity reserve

According to the Financial Statements Act no. 3/2006, share in profit of subsidiaries and associates, which exceeds the dividends received or the dividend decided of retained earnings, is accounted for on a restricted reserve account among equity.

Development reserve

According to the Financial Statement Act no. 3/2006, companies that capitalize development cost should account for the same amount on a restricted reserve account among equity.

Retained earnings

Dividend in the amount of ISK 6.000 million was paid to the owners of the parent Company in the year 2024. (2023: ISK 5.500 million).

24. Loans and borrowings

Interest bearing loans are recorded using the method of amortised cost. Further information on the Group's exposure to interest rate and foreign currency risk, see note 28. Loans and borrowings are specified as follows:

	31.12.2024	31.12.2023
Bank loans	95.345.604	71.392.731
Bond issuance	109.211.259	110.784.843
	204.556.863	182.177.574
Current portion of bank loans	(13.131.115)	(11.368.271)
Current portion of bond issuance	(6.827.884)	(5.560.378)
	184.597.864	165.248.925

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		31.12.2024		31.12.2023	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	1.10.2027	0,82%	3.830.755	0,98%	5.436.478
Liabilities in EUR	16.12.2027	3,38%	8.222.714	4,26%	12.399.882
Liabilities in USD	26.11.2035	5,41%	42.568.553	6,01%	38.576.287
Liabilities in JPY	1.10.2027	0,08%	851.147	0,03%	1.239.401
Liabilities in GBP	26.2.2024	0,00%	0	6,20%	396.560
Liabilities in SEK	1.10.2027	3,26%	903.452	4,17%	1.300.074
			56.376.622		59.348.681
Liabilities in Icelandic kronas:					
Indexed	18.2.2055	3,11%	129.077.309	2,87%	111.629.668
Non-indexed	18.2.2042	8,02%	19.102.932	7,68%	11.199.224
			148.180.242		122.828.893
Total interest-bearing loans and borrowings			204.556.863		182.177.574

Repayment of loans and borrowings are specified as follows on the next years:

31.12.2024

The year 2024	19.958.999
The year 2025	21.071.885
The year 2026	16.091.432
The year 2027	18.949.892
The year 2028	12.618.497
Later	115.866.159
Total loans and borrowings, including next year's repayment	204.556.863

31.12.2023

The year 2023	16.928.649
The year 2024	16.130.075
The year 2025	19.058.074
The year 2026	13.440.172
The year 2027	15.078.408
Later	101.542.195
Total loans and borrowings, including next year's repayment	182.177.573

24. Loans and borrowings, contd.

Changes in loans and borrowings in the year are specified as follows:

The year 2024

Movements with payment effects	Loans and borrowings	Lease liabilities	Total
Balance at year beginning	182.177.573	2.403.580	184.581.154
New borrowings	34.509.164	0	34.509.164
Repayment of borrowings	(17.324.222)	0	(17.324.222)
Repayment of lease liability	0	(118.304)	(118.304)
	199.362.516	2.285.277	201.647.793
Other changes			
Currency fluctuation and indexation	5.194.347	0	5.194.347
New lease	0	145.165	145.165
Indexation and interest expense of lease liabilities	0	138.325	138.325
Paid interests	0	(82.598)	(82.598)
Loans and borrowings, total	204.556.863	2.486.169	207.043.032

The year 2023

Movements with payment effects			
Balance at year beginning	170.806.194	2.266.994	173.073.188
New borrowings	30.120.839	0	30.120.839
Repayment of borrowings	(24.580.559)	0	(24.580.559)
Repayment of lease liability	0	(149.522)	(149.522)
	176.346.474	2.117.471	178.463.945
Other changes			
Currency fluctuation and indexation	5.831.099	0	5.831.099
New lease	0	205.473	205.473
Indexation and interest expense of lease liabilities	0	147.047	147.047
Paid interests	0	(66.411)	(66.411)
Loans and borrowings, total	182.177.573	2.403.580	184.581.154

Guarantees and pledges

Reykjavik Energy is allowed to make financial obligations for the company's needs and to undertake responsibility for respective payments. Financial obligations that shall be the responsibility of the owners are subject to their approval. If responsibility for financial obligations is accepted by the owners, the internal division of responsibility must be in proportion to their share of ownership in the company. Owners' liability does not cover other obligations of the company and it cannot amount to a higher percentage than 80% of the financial needs of a project for which owner's liability is granted. Owners' responsibility of financial obligations incurred before the Act no. 144/2010 entered into force, remain valid until the day they are fully fulfilled. At the reporting date the owners were responsible pro rata for 20% of the Group's loans and borrowings. The Group has not pledged its assets to secure debts.

Covenants

Loans for the amount of ISK 158.204 million have certain covenants that regard repayment time as a proportion of EBITDA and as interests as a proportion of EBITDA as well as reviewing that budgets are within set limits (31.12.2023: ISK 131.120 million). Management regularly evaluate the covenants and in their view there is not risk of them being breached. At the end of the year the Group measured up to all financial covenants of loan agreements.

25. Retirement benefit obligation

The Group has retirement benefit obligation due to benefits of current and former employees in pension benefit plans.

The Group's accrued retirement benefit obligation amounted to ISK 785,3 million at year end 2024, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2023: ISK 763,5 million). The Group updates the obligation according to an assessment from an actuary each year when that assessment is available. Premises for life expectancy are in accordance with provisions of Regulation no. 391/1998 on obligatory insurance of pension benefits and operation of pension funds. The estimated increase in the obligation in the year is based on general increase in salaries taken into account interests. The part of the obligation that is estimated to be payable in the year 2025 is recognised among current liabilities.

	2024	2023
Retirement benefit obligation at year beginning	763.527	705.460
Contribution due to pension payments during the year	(46.772)	(41.990)
Increase in the pension fund obligation during the year	68.592	100.057
Retirement benefit obligation at year end	785.347	763.527
Non-current component of retirement benefit obligation	739.347	721.527
Current component of retirement benefit obligation	46.000	42.000
Retirement benefit obligation at year end	785.347	763.527

26. Current liabilities

Other current liabilities is specified as follows:	2024	2023
Unpaid taxes	523.476	365.374
Unpaid salaries and salary related items	2.199.038	2.117.594
Accrued interest expenses	1.510.318	1.241.953
Current component of retirement benefit obligation	46.000	42.000
Liabilities due to investment in Sýn's network	0	1.900.294
Other liabilities	1.410	32.209
Total current liabilities	4.280.241	5.699.424

27. Risk management and financial instruments

RE's activities are characterized by prudence in accordance with the obligations of a company owned by municipalities, as a public entity according to Act on Reykjavik Energy and other laws, rules and standards on duties and good governance.

The primary objective of risk management is to ensure that RE can perform its basic function in a safe and cost-effective manner with minimal risk. RE does this by:
• reducing fluctuations in the group's performance at all times with regard to the underlying risks in the operation and that risk factors are always within defined limits set by the board and recorded in a risk manual,
• ensuring that RE has enough funds to support the development of services and regular operations,
• identifying, assessing and managing risks in operations taking into account activities, RE's policies and defined limits.

Risk appetite is based on:
• RE's financial position being solid
• preservation of assets,
• protection of the company's reputation,
• operation in accordance with the law as well as external and internal rules,
• fraud not being tolerated,
• the safety and health of employees and users of the service is guaranteed,
• responsible use of resources,
• information being secured, accessible and available and
• environmental considerations being in forefront of operations.

The villingness to take risk is further defined in RE's specific policies and rules.

Financial risk is divided into:
• Market risk, further discussed in note 28
• Liquidity risk, further discussed in note 29
• Credit risk, further discussed in note 30
• Operational risk, further discussed in note 31
• Project and investment risk, further discussed in note 32

28. Market risk

Market risk is the risk that changes in the exchange rate of foreign currencies, aluminium price, interests and other price changes will affect the Group’s income or the value of its financial instruments. With regards to the current balance sheet, market risk is mainly due to changes in interest, exchange rates, CPI and aluminium price but risk regarding marketable securities such as shares in companies and bonds is minimal. The risk that weighs the most in the Group is divided into:

a. Currency risk due to assets and liabilities in the balance sheet and cash flow in foreign currencies.
b. Interest rate risk due to loans and contracts made by the Group with regards to cashflow and fair value of financial instruments
c. Risk due to changes in the market price of aluminium.

28. Market risk, contd.

a. ***Currency risk***

Currency risk is the risk of changes in exchange rates having a negative effect on the Group's income. Currency risk is measured as the difference between assets and liabilities in each currency with regards to all assets, liabilities and derivatives. The finance departments is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations. Limits on the minimum/maximum currency imbalance in cash flows for the next 5 financial years have been approved.

The Group is exposed to currency risk on sales, purchases and borrowings in different currencies. Main currency exposures are in United States dollar (USD), Euro (EUR) and Swiss Francs (CHF).

Approx. 28% of the Group's interest bearing loans are in foreign currencies. The Group has entered into long term electricity sales contracts in foreign currency. The expected future revenues from these contracts on the accounting date amount to approx. ISK 46.977 million (2023: ISK 57.210 million). That amount is based on the forward price of aluminium on the LME (London Metal Exchange), the USD/ISK exchange rate and long term expectations of price development of aluminium according CRU, an independent party, as available on the accounting date. In addition to the above, other smaller sales agreements have been made in foreign currency.

Exchange rates of main currencies:	2024	2023	31.12.2024	31.12.2023
	Average exchange rate		Exchange rate at year end	
CHF	156,825	153,490	152,700	162,530
EUR	149,310	149,140	143,900	150,500
USD	137,928	137,980	138,200	136,200
JPY	0,912	0,984	0,882	0,963
GBP	176,402	171,460	173,300	173,180
SEK	13,067	13,004	12,570	13,563
CAD	100,752	102,210	96,080	102,790
TWI	195,230	195,166	189,330	196,860

28. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk

The Group's exposure to currency risk is specified as follows:

31.12.2024	CHF	EUR	USD	JPY	SEK	ISK*	Other currencies	Total
Loans and borrowings	(3.830.755)	(8.222.714)	(42.568.553)	(851.147)	(903.452)		0	(56.376.622)
Trade receivables (accounts payables)	2.541	(236.442)	1.006.039			(143.215)	(14.250)	614.672
Bank deposits	648	310.981	7.829.360	1.060	5.354	7.001	1.761	8.156.165
Embedded derivatives			682.667					682.667
Hedge contracts			29.584					29.584
Receivables/(payables) within the Group		(101.976)	(1.133.432)			(3.708.510)		(4.943.918)
Loans and borrowings to related parties*			41.939.467			(4.400.000)		37.539.467
Total risk through P/L	(3.827.566)	(8.250.151)	7.785.131	(850.086)	(898.098)	(8.244.724)	(12.489)	(14.297.984)
Subsidiaries equity in foreign currency**		(488.578)	72.385.615					71.897.037
Investments in other companies			6.207.000					6.207.000
Total risk through P/L and in equity	(3.827.566)	(8.738.729)	86.377.746	(850.086)	(898.098)	(8.244.724)	(12.489)	63.806.053

(*) The functional currency of ON Power is in USD and of Carbfix is EUR and exchange gains/losses from assets and liabilities in ISK are accounted for through P/L. In addition the exchange gains/losses for foreign assets and liabilities of the parent company towards it´s subsidiaries, ON Power and Carbfix, are accounted for through P/L.

(**) The translation differences in the Group's equity is due to translation of subsidiaries' equity with a foreign functional currency.

28. Market risk, contd.

a. ***Currency risk, contd.***

Balance sheet currency risk, contd.

31.12.2023	CHF	EUR	USD	JPY	SEK	ISK*	Other currencies	Total
Loans and borrowings	(5.436.478)	(12.399.882)	(38.576.287)	(1.239.401)	(1.300.074)		(396.560)	(59.348.681)
Trade receivables (accounts payables)	3.804	(183.113)	845.073			(192.436)	(31.128)	442.200
Bank deposits	325	88.239	7.402.183	71	489	3.209	352	7.494.869
Embedded derivatives			1.929.433					1.929.433
Hedge contracts			76.249					76.249
Receivables/(payables) within the group			(2.330.441)			(2.147.736)		(4.478.178)
Loans and borrowings to related parties*			41.220.352			(2.200.000)		39.020.352
Total risk through P/L	(5.432.350)	(12.494.755)	10.566.562	(1.239.330)	(1.299.585)	(4.536.963)	(427.336)	(14.863.757)
Subsidiaries equity in foreign currency**		712.337	70.070.762					70.783.099
Investments in other companies			6.207.000					6.207.000
Total risk through P/L and in equity	(5.432.350)	(11.782.419)	86.844.325	(1.239.330)	(1.299.585)	(4.536.963)	(427.336)	62.126.342

(*) The functional currency of ON Power is in USD and of Carbfix is EUR and exchange gains/losses from assets and liabilities in ISK are accounted for through P/L. In addition the exchange gains/losses for foreign assets and liabilities of the parent company towards it´s subsidiaries, ON Power and Carbfix, are accounted for through P/L.
(**) The translation differences in the Group's equity is due to translation of subsidiaries' equity with a foreign functional currency.

Sensitivity analysis
Appreciation by 10% of the Icelandic krona against the following currencies at year-end would have increased (decreased) equity and profit or (loss) by the amounts shown below, taking into account tax effects. Depreciation by 10% of the Icelandic krona against the following currencies would have had the equivalent, but opposite effect. This analysis assumes that all other variables, in particular interest rates and aluminium prices, remain constant.

	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
				Profit or (loss)				
The year 2024	382.757	825.015	(778.513)	85.009	89.810	824.472	1.249	1.429.798
The year 2023	543.235	1.249.476	(1.056.656)	123.933	129.958	233.696	42.734	1.266.376
				Equity				
The year 2024	382.757	873.873	(8.637.775)	85.009	89.810	824.472	1.249	(6.380.605)
The year 2023	543.235	1.178.242	(8.684.432)	123.933	129.958	233.696	42.734	(6.432.634)

28. Market risk, contd.

b. *Interest rate risk*

Interest rate risk is the risk of changes in interest rates having a negative effect on the Group's income. The Group is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Group´s liabilities both have fixed and variable interest rates, majority being subject to fixed interest rates. It is especially monitored that the interest rate risk is within defined limits and approvals are in place to manage the interest rate risk with hedging contracts for the next 5 financial years with regards to the minimum/maximum hedge percentage in cash flow. On the accounting date 88% of interest payments 1 year ahead have been fixed.

Interest-bearing financial assets and liabilities are specified as follows:

Fixed rate instruments	**31.12.2024**	**31.12.2023**
Financial liabilities	(138.986.312)	(126.200.867)
Variable rate instruments		
Financial liabilities	(65.570.551)	(55.976.706)
Financial instruments at fair value		
Marketable securities	11.594.110	8.670.016
Hedge contracts	29.584	76.249
	11.623.694	8.746.265

The following table shows the calculated effect of changes in interest on one year cash flows and on the value of financial instruments measured at fair value, taken into account the effect of taxes. The analysis was done in the same way for the year 2023.

Sensitivity analysis on interest	**Cash flow sensitivity analysis**		**Fair value sensitivity analysis**	
31.12.2024	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(29.135)	32.703
Investments in other companies	0	0	(724.971)	765.738
Hedge contracts	0	0	(414)	425
Interest bearing liabilities	(156.624)	156.624	0	0
	(156.624)	156.624	(754.520)	798.865
31.12.2023	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(62.517)	66.899
Investments in other companies	0	0	(724.971)	765.738
Hedge contracts	0	0	62	(68)
Interest bearing liabilities	(165.988)	165.988	0	0
	(165.988)	165.988	(787.425)	832.568

28. Market risk, contd.

c. *Aluminium risk*

Aluminium risk is the risk that changes in the price of aluminium has a negative impact on the income of the Group.

The group has entered into electricity sales contracts in dollars that are linked to the development of world market prices for aluminum. Income from electricity sales contracts linked to aluminum prices amounted to 13,6% of the group's total income in 2024 (2023: 13,8%)

To reduce risk due to aluminium prices the Group has entered into derivative contracts to reduce the fluctuation of income affected by aluminium prices. The finance department has approvals to hedge this risk within approved limits for the next 5 financial years. At the accounting date hedges amounted to 47% of expected income affected by aluminium price for the next 12 months (31.12 2023: 51%).

Embedded derivatives in electricity sales contracts

The aluminium linked electricity sales contracts include embedded derivatives as income is subject to changes in the future market price of aluminium. In accordance with provisions of International standards on financial instruments, the fair value of embedded derivatives for Grundartangi has been measured and recognised in the financial statements and partly for the contracts with Helguvík.

As the market value of the embedded derivatives is not available their fair value has been measured with generally accepted evaluation methods. The expected net present value of the cash flow of a contract on the accounting date has been measured, based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and long term expectations of price development of aluminium according to the assessment of CRU, an independent evaluation party, as available on the accounting date. From the expected net present value of cash flow of the contract on the accounting date the expected net present value based on premises on aluminium price on the initial date of the contract is deducted. The difference is the fair value of the derivative. The valuation is based on the premises that the derivative has no value at the initial date of the contract.

Embedded derivatives of the electricity sales contracts recognised in the financial statements are capitalised in the balance sheet at fair value at the accounting date and fair value changes during the year are recognised in the income statement among income on financial assets and liabilities.

28. Market risk, contd.

c. *Aluminium risk, contd.*

The following table shows the calculated effect on financial instruments measured at fair value due to change in aluminium price, taking tax effect into account.

Sensitivity analysis on the price of aluminium	**Sensitivity of Fair value**	
31.12.2024	**10% decrease**	**10% increase**
Embedded derivatives	(2.896.047)	2.896.047
Aluminium hedges	383.941	(383.941)
Total	(2.512.107)	2.512.107

31.12.2023	**Sensitivity of Fair value**	
	10% decrease	**10% increase**
Embedded derivatives	(3.452.220)	3.452.220
Aluminium hedges	390.697	(390.697)
Total	(3.061.523)	3.061.523

d. *Other market risk*

Other market risk such as interest spread risk and risk due to shares in other companies is limited as investments in such securities is an insubstantial part of the Group's operation with the exception of liquity management. The value of the financial assets tied up in funds or in asset management is subject to changes in the market, e.g. due to price changes in the bond- and equity markets. For further information, see note 29.

29. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Group's cash and cash equivalents at year end amounted to ISK 16.438 million as well as marketable securities amounting to ISK 11.594 million. Therefore the Group owned ISK 28.032 million in bank deposits at year end 2024. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 4.550 million. The Group had thus in total ensured capital at year end to the amount of approx. ISK 32.582 million. The corresponding amount at year end 2023 amounted to ISK 33.672 million.

29. Liquidity risk, contd.

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

31.12.2024	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Trade receivables	7.829.583	7.829.583	7.829.583	0	0	0
Other receivables	927.652	927.652	927.652	0	0	0
Marketable securities	11.594.110	11.594.110	11.594.110	0	0	0
Cash and cash equivalents	16.438.122	16.438.122	16.438.122	0	0	0
Interest-bearing liabilities	(204.556.863)	(262.198.250)	(27.134.546)	(27.419.925)	(62.552.474)	(145.091.305)
Accounts payable	(3.924.652)	(3.924.652)	(3.924.652)	0	0	0
Other liabilities ..	(4.280.241)	(4.280.241)	(4.280.241)	0	0	0
	(175.972.289)	(233.613.675)	1.450.028	(27.419.925)	(62.552.474)	(145.091.305)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivatives	682.667	46.977.292	9.892.278	9.515.495	12.404.172	15.165.348
Hedge contracts	29.584	46.499	(5.769)	48.750	3.519	0
	712.251	47.023.791	9.886.508	9.564.245	12.407.690	15.165.348
31.12.2023						
Non-derivative financial instruments						
Trade receivables	6.580.535	6.580.535	6.580.535	0	0	0
Other receivables	1.086.871	1.086.871	1.086.871	0	0	0
Marketable securities	8.670.016	8.670.016	8.670.016	0	0	0
Cash and cash equivalents	10.342.367	10.342.367	10.342.367	0	0	0
Interest-bearing liabilities	(182.177.574)	(232.494.962)	(23.416.425)	(21.849.310)	(59.987.100)	(127.242.126)
Accounts payable	(4.010.900)	(4.010.900)	(4.010.900)	0	0	0
Other liabilities ..	(5.699.424)	(5.699.424)	(5.699.424)	0	0	0
	(165.208.109)	(215.525.498)	(6.446.961)	(21.849.310)	(59.987.100)	(127.242.126)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivatives	1.929.433	57.210.011	9.324.007	9.821.444	20.904.545	17.160.014
Hedge contracts	76.249	115.017	159.109	(36.737)	(7.355)	0
	2.005.682	57.325.028	9.483.116	9.784.708	20.897.190	17.160.014

If non-current loans are refinanced in order to prolong the loan terms, it can be assumed that the distribution of the repayments will be different from the above.

30. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly due to wholesale electricity contracts and derivatives that the Group has entered into for hedging purposes. There is also credit risk due to retail sales, but possible losses due to unpaid receivables are insubstantial and have limited effect on the Group's return. The Group disregards the financing factors of receivables that are expected to be collected within a year according to authorization in IFRS 15.

When entering into contracts it shall be insured, as possible, that the counterparty is trustworthy and settlement with large counterparties shall be looked into regularly as well as their credit rating.

The carrying amount of financial assets represents the maximum credit exposure, which is specified as follows:

	31.12.2024	31.12.2023
Trade receivables	7.829.583	6.580.535
Other current receivables	927.652	1.086.871
Hedge contracts	157.659	269.140
Marketable securities	11.594.110	8.670.016
Cash and cash equivalents	16.438.122	10.342.367
Total	36.947.127	26.948.929

Financial assets as stated above are categorised at amortised cost or at fair value through P/L. Their categorisation can be seen in note 34.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

Trade receivables, industrial consumers	1.212.125	1.027.154
Trade receivable, retail	6.617.459	5.553.381
Total	7.829.583	6.580.535

Impairment of trade receivables

The year 2024	Gross balance	Impairment	Book value
Not past due receivables	7.182.496	85.180	7.097.316
Past due, 1 to 30 days	575.027	7.991	567.036
Past due, 31 to 90 days	54.304	6.693	47.610
Past due, 91 days and older	183.596	65.975	117.621
Total	7.995.422	165.839	7.829.584

The year 2023	Gross balance	Impairment	Book value
Not past due receivables	6.143.902	77.795	6.066.107
Past due, 1 to 30 days	283.891	16.172	267.719
Past due, 31 to 90 days	178.407	11.962	166.445
Past due, 91 days and older	121.353	41.089	80.264
Total	6.727.553	147.018	6.580.535

30. Credit risk, contd.

Changes in impairment of Trade receivables is specified as follows:	2024	2023
Balance at year beginning	147.018	135.622
Receivables written off	20.162	36.682
Impairment	(1.341)	(25.287)
Balance at year end	165.839	147.018

Allowance due to receivables is valuated at each reporting date by management. Collectability is valuated both in general using historic evidence and economic conditions and also specifically for receivables that are in default. Allowance is only deemed necessary for trade receivables.

Receivables due to sewage and cold water have statutory lien in properties and therefore allowance is not considered for those claims.

The Customer Services department governs the collection of receivables and supplies customers with information regarding claims. Collection is done in a well defined process where among other things, consistency in procedures is maintained as much as possible.

Impairment of trade receivables is among other operating expenses in P/L.

31. Operational risk

Operational risk is defined as the risk of loss or damage that may occur due to inadequate internal processes or systems, equipment failure, personnel behavior or due to external factors in the operating environment. RE's Risk Council monitors risks in the group, changes that occur in them as well as key measures regarding the effectiveness of risk management within all units of the group.

32. Project and investment risk

Profitability assessment is carried out in accordance with the procurement process of each company. It should be considered that the expected profit or expected profitability meets the objectives of the profitability policy and supports other policies of the company. Projects are evaluated in accordance with the overall strategy and aim for the expected profit or expected profitability to meet the objectives of the profitability strategy and support other policies of the company.

33. Fair value

Fair value measurement

A part of the Group´s financial assets and financial liabilities are measured at fair value. Fair value of these assets and liabilities are determined by market data or price in recent transactions if that is available. Otherwise, accepted valuation methods are used. Further information on fair value calculations can be found in the discussion of the relevant assets and liabilities in notes 17 and 18.

Comparison of fair value versus carrying amounts

The carrying amounts of financial assets and financial liabilities is equal to their fair value with the exception that interest bearing loans are stated at amortised cost. The fair values of interest bearing liabilities, together with the carrying amounts are specified as follows:

	31.12.2024		31.12.2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	204.556.863	195.716.102	182.177.574	171.579.725

The fair value of interest bearing liabilities is calculated based on present value of future principal and interest cash flows, discounted at the interest rate plus appropriate interest rate risk premium at the reporting date. The fair value of interest bearing liabilities is defined at Level 2.

Interest rates used for determining fair value

Where applicable, the interest yield curve at the reporting date is used in discounting estimated cash flow. The interests are specified as follows:

	31.12.2024	31.12.2023
Embedded derivatives in electr. sales contr.	7,28% to 7,67%	7,32% to 9,24%
Hedge contracts	4,35% to 4,55%	4,3% to 5,6%
Interest bearing liabilities	2,05% to 10,31%	2,05% to 11,46%

Fair value hierarchy

The table below analysis financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). Valuation of shares in other companies is prepared by specialists within the company and other specialists and based on the results and official data on future earnings and investments in underlying assets.

31.12.2024	Level 1	Level 2	Level 3	Total
Shares in other companies	0	0	6.243.980	6.243.980
Embedded derivatives in sales contracts	0	0	682.667	682.667
Hedge contracts	0	29.584	0	29.584
Marketable securities	11.594.110	0	0	11.594.110
	11.594.110	29.584	6.926.647	18.550.341
31.12.2023				
Shares in other companies	0	0	6.262.680	6.262.680
Embedded derivatives in sales contracts	0	0	1.929.433	1.929.433
Hedge contracts	0	76.249	0	76.249
Marketable securities	8.670.016	0	0	8.670.016
	8.670.016	76.249	8.192.113	16.938.379

33. Fair value, contd.

Changes in assets and liabilities defined at level 3 is specified as follows:	2024	2023
Balance at year beginning	8.192.113	7.246.789
Sold/redemption	(18.700)	0
Valuation changes	(1.246.766)	945.324
Balance at year end	6.926.647	8.192.113

Embedded derivatives in electricity sales contracts that have more than ten years duration is classified under level 3 due to the fact that the forward market for aluminium only reaches maximum of ten years.

34. Overview of financial instruments

Financial assets and financial liabilities are specified in the following financial groups:

	31.12.2024			31.12.2023		
	Amortised cost	Financial asset/ financial liability at fair value through P/L	Financial asset/ financial liability at fair value through OCI	Amortised cost	Financial asset/ financial liability at fair value through P/L	Financial asset/ financial liability at fair value through OCI
Shares in other companies		36.980			55.680	
Shares in other companies			6.207.000			6.207.000
Embedd. contr.		682.667			1.929.433	
Hedge contr.		157.659			269.140	
Trade receivab.	7.829.583			6.580.535		
Other receivab.	927.652			1.086.871		
Marketable securities		11.594.110			8.670.016	
Cash	16.438.122			10.342.367		
Interest-bearing liabilities	(204.556.863)			(182.177.574)		
Hedge contr.		(128.075)			(192.891)	
Account payab.	(3.924.652)			(4.010.900)		
Other liabilities	(4.280.241)			(5.699.424)		
Total	(187.566.398)	12.343.341	6.207.000	(173.878.126)	10.731.379	6.207.000

35. Related parties

Definition of related parties

Reykjavik city, institutions and companies ruled by the city, associated companies, Board members, Directors and key management are considered as the Group's related parties. Spouses of the before mentioned and financially dependent children are also considered as related parties as well as companies owned by or directed by those in question.

Transactions with related parties

The parties mentioned here above have had transactions with the Group within the year.

The following gives an overview of the transactions with related parties during the year as well as a statement of receivables and payables at year end. Transactions and positions with subsidiaries are eliminated in the consolidated financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

Sale to related parties:	2024	2023
Reykjavik City	1.719.442	1.712.275
Institutions and companies controlled by Reykjavik City	789.594	658.213
	2.509.036	2.370.488
Purchases from related parties:		
Reykjavik City	111.433	106.256
Institutions and companies controlled by Reykjavik City	14.358	36.588
Associates	115.229	118.176
	241.020	261.020

	31.12.2023	31.12.2022
Receivables for related parties:		
Reykjavik City	285.531	320.908
Institutions and companies controlled by Reykjavik City	50.994	37.299
	336.525	358.207
Payables for related parties:		
Reykjavik City	109.358	197.221
Institutions and companies controlled by Reykjavik City	57	1.879
Associates	0	14
	109.415	199.114

	2024	2023
Interest expense on loans from owners of the parent Company:		
Reykjavik City	347.703	408.104
Akranes town	20.549	28.189
Borgarbyggð, municipality	3.468	2.178
	371.720	438.471

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 11. Management´s salaries and benefits are listed in note 8.

36. Group entities

Subsidiaries	Main operation	Functional currency	Share 31.12.2024	Share 31.12.2023
Ljósleiðarinn ehf.	Data transfer		100,0%	100,0%
OR Eignir ohf.	Holding company	ISK	100,0%	100,0%
Veitur ohf.	Distrib. of electricity and hot water	ISK	100,0%	100,0%
Orka náttúrunnar ohf.	Production and sale of electricity	ISK	100,0%	100,0%
ON Power ohf.	Production and sale of electricity	USD	100,0%	100,0%
OR vatns- og fráveita sf.	Cold water and sewage	ISK	100,0%	100,0%
Eignarhaldsfélagið Carbfix ohf.	Consulting, researches and innov.	ISK	99,9%	99,9%
Carbfix hf.	Consulting, researches and innov.	EUR	100,0%	100,0%
Coda Terminal hf.	Construction of a carbon disposal plant	EUR	100,0%	100,0%

37. Statement of cash flows

Working capital from operation is specified as follows:	2024	2023
Profit for the year	9.309.068	6.399.954
Operating items that do not affect cash flow:		
Depreciation and amortisation	16.830.274	15.797.262
Profit from sale of assets	(37.976)	(26.337)
Profit from sale of investments in other companies	18.500	0
Share in (profit) loss of associated companies	(3.939)	36
Pension liability change	21.820	58.067
Currency fluctuation and indexation on loans and borrowings	4.797.772	7.605.073
Embedded derivatives in electricity sales contracts	777.982	(231.082)
Fair value changes of hedge contracts	47.691	150.907
Deferred tax liability	(1.636.689)	(1.695.264)
Fair value changes of financial assets and liabilities through P/L	(899.231)	(607.734)
Effects of currency fluctuation on cash and cash equivalents	(108.150)	95.256
Other items	(3.658)	(81.462)
Working capital from operation	29.113.463	27.464.676

38. Other matters

Arbitration on the interpretation of the provision of the electricity contract with Norðurál

In 2024, the arbitration process continued regarding the interpretation of the provisions of the electricity sales contract with Norðurál, which ON Power is in charge of implementing. The case pertains to RE's demand for a review of contracts, where the balance between the interests of the contracting parties has been disturbed due to events and assumptions over which RE has no control. In this phase of the case, will result of the arbitration only refer to whether the balance between the contracting parties has been disturbed due to unforeseeable incidents, resulting in a discussion of changes in contracts, but not to take a position on possible amounts. It is expected that the result of the arbitration will be available at the beginning of March 2025.

Sale of shares in Landsnet

Over the past periods, the aim has been to sell RE’s shares in Landsnet, as the Electricity Act stipulates that the transmission company must be directly owned by the Icelandic state and/or municipalities. At the end of 2020, RE's board agreed that a declaration of intent regarding a change in Landsnet's ownership would be signed, and to begin negotiations regarding the sale of the shares. As a result, negotiations began with representatives of the Ministry of Finance on the matter. At the end of 2022, the ministry negotiated with state-owned companies to purchase their shares in Landsnet, but the ministry wanted to finalise those agreements before its purchase of RE's shares was completed. The sale of RE's shares in Landsnet was not finalised in the year 2024 as had been planned. The book value of the shares in Landsnet is estimated at ISK 6,2 billion on 31.12.2024 and has been transferred from current assets to fixed assets, as it is uncertain when the asset will be sold, see note 17 for details.

Repair at headquarters

In 2015, severe water damage occurred at the company's headquarters on Bæjarháls 1. The renovation of the exterior walls of the building has been completed and the construction of the interior has begun. RE has entered into a construction contracts for the internal work, and the total liability for these contracts are ISK 755 million. The estimated completion is now in May 2025.

39. Events after the reporting period

Management is not aware of events that have occurred after the reporting period and affected the financial statements or need to be disclosed.

40. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a. Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are entered in the Group's financial statements by using the equity method.
Associated companies are reported at original cost, including business cost. After the original transaction the share of the Company is reported until significant influence ceases or joint control is concluded.

iii) Transactions eliminated on consolidation

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 Group’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.

b. Foreign currency

i) Trade in foreign currencies

Trade in foreign currencies is reported into each consolidation company at the rate of the business day. Monetary assets and debts in foreign currencies are reported in the rate of the reporting date. Other assets and debts reported at fair value in foreign currency are reported at the rate of the day the fair value was set. Exchange difference due to foreign trade is reported through P/L.

ii) Subsidiaries with other currencies than the Icelandic krona

Assets and debts in the operations of companies of the consolidated financial statements that have USD and EUR as its functional currencies are calculated into Icelandic kronas at the rate of the reporting date. Income and expenses of this companies operation is calculated into Icelandic kronas at the average exchange rate of the year. The exchange difference due to this is reported in a special account in the statement of comprehensive income. When operations with another functional currency than the Icelandic krona are sold, partly or in full, the accommodating exchange difference is recognised in P/L.

c. Financial instruments

i) Non-derivative financial assets

Loans, receivables and cash in bank are recognised when received. All other financial instruments are recognised in the financial statements when the Company becomes a party of contractual provisions of the relevant financial instruments.

40. Significant accounting policies, contd.

c. Financial instruments, contd.

i) Non-derivative financial assets, contd.

Financial assets are eliminated from the financial statements if the Company's contractual right to cash flow due to the financial asset expires or if the Group transfers the assets to another party without retaining control or nearly all risk and gain inherent with their ownership. Any interest in transferred financial assets that is created or retained by the group is recognized as a separate asset or liability.

Non-derivative financial instruments comprise of; financial assets at fair value throught OCI, financial assets at fair value through P/L and financial assets at amortised cost.

Financial assets at fair value through OCI

The Group's investments in equity securities are classified as financial assets at fair value throught OCI. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss is transferred to retained earnings. Dividends are recognised af income in profit or loss.

Financial assets at fair value through profit or loss

A Financial asset is classified at fair value through profit or loss if it is current asset or if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if purchase and sale decisions are based on their fair value in accordance with the Company´s risk policy or investment plan. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Direct transaction cost is recognised in the income statement as it is incurred.

Financial assets af amortised cost

Financial assets at amortised cost are financial assets with certain or determinable payments and are not listed in active markets. Such assets are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial assets at amortised cost are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets at amortised cost comprise of receivables and other current assets.

Cash and cash equivalents comprise cash balances and deposits available within three months.

ii) Non-derivative financial liabilities

Financial liabilities are eliminated from the financial statements when the contractual agreements of the instrument are no longer valid.

The Group classifies non-derivative financial liabilities as financial liabilities at amortised cost. Such liabilities are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

Other non-derivative financial liabilities comprise of borrowings, accounts payable and other current liabilities.

iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value in the balance sheet and fair value changes are recognised in the income statement. Fair value changes from hedging instruments are entered among financial income and expenses in the income statement apart from redemption of aluminium derivatives that are separately identified among operating revenues. More information can be found in notes 28a, 28b and 28c.

40. Significant accounting policies, contd.

c. Financial instruments, contd.

iv) Embedded derivatives

Embedded derivatives 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, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. More information can be found in note 28c.

d. Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment, except distribution and production systems, are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Interest expenses on loans used to finance cost of buildings in construction are capitalised over the construction period. Interest is not calculated on preparation cost. After the assets have been taken into use interest expenses are expensed in the income statement.

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

The Group's distribution- and production systems, are stated at revalued carrying amount in the balance sheet, which is their fair value at the revaluation date less additional depreciation from that date. Revaluation of those assets is made on a regular basis. Value surplus due to the revaluation is recognised in a revaluation reserve among equity after taking the effect on deferred tax liability into consideration. Depreciation on the revalued carrying amount is recognised in the income statement. Upon sale or discontinuance of the asset the part of the revaluation reserve belonging to the asset is transferred from the revaluation reserve to retained earnings after taking tax effect into consideration. No recognition takes place from the revaluation reserve to retained earning unless the relevant asset is sold or discontinued.

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Company's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within and outside of the Company. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the Construction cost index. This is taken into consideration when revaluating these systems.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. All other cost is expensed in the income statement when incurred.

40. Significant accounting policies, contd.

d. Property, plant and equipment, contd.

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Estimated useful lives are specified as follows:

Production system	7-60 years
Electricity distribution systems	15-50 years
Heating distribution systems	10-60 years
Cold water distribution systems	30-90 years
Sewer distribution system	15-60 years
Fiber-optic distribution system	9-46 years
Other real estate	25-50 years
Other equipment	3-25 years

Depreciation methods, useful lives and scrap value are reviewed on the accounting date.

e. Intangible assets

i) Heating rights

Heating rights have indefinite useful life. They are recognised in the balance sheet at cost. Heating rights are separated from land up on purchase.

ii) Other intangible assets

Other intangible assets are measured at cost less accumulated depreciation and impairment losses.

iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives is determined as follows:

Software	5-12 years
Development cost	10 years
Business relations	10-12 years

f. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

40. Significant accounting policies, contd.

g. Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value at each time. The Group defines decrease in fair value below cost as a subjective indication of impairment of available-for-sale financial assets when:

- decrease is 15% below cost or
- fair value decrease lasts for at least six months.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

ii) Non-financial assets

The carrying amounts of the Group's non-financial 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.

Impairment is recognized if the carrying amount of an asset or a cash generating unit exceeds its estimated recoverable amount. A cash generating unit is the smallest separable group of assets that form a cash flow that is mostly independent of other units or groups of units. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve.

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

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 amortization, if no impairment loss had been recognized.

h. Employee benefits

i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the income statement when they are due.

ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method. Changes in the obligation are recognised in the income statement as incurred.

40. Significant accounting policies, contd.

i. Obligations

An obligation is recognised in the balance sheet when the Group has the legal right or has entered into an obligation due to previous events and it is likely that it will incur cost upon settling the obligation. The obligation is measured on the basis of the estimated future cash flow, discounted based on interests reflecting market interests, and the risk inherent with the obligation.

j. Revenue

i) Revenues from sale and distribution of electricity and hot water
Revenue from the sale and distribution of electricity and hot water is recognised in the income statement according to measured delivery to purchasers during the year plus a fixed fee.

The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. The revenue cap is based on actual figures from prior years from the operation of distribution utilities, the depreciation of assets, real losses in the distribution system and return on equity. When setting the revenue cap financial income and expenses are not taken into account. The rate is decided from the revenue cap and projections of sale of electricity in the Group´s utilities area.

ii) Revenues from sale of cold water and sewage
Revenue from the sale of cold water and sewage are based on the size of properties plus a fixed fee and are set forth linearly in the income statement. In addition revenue is stated for cold water according to measurement from specific industries.

iii) Connection revenues
Upon connection of new users to distribution systems of electricity, water and sewage or upon renewal of connection an initial fee is charged. The initial fee meets cost due to new distribution systems or their renewal. Income on connection fees is recognised in the income statement upon delivery of the service.

iv) Rental income
Rental income is recorded as income in the income statement linearly over the lease term.

v) Other revenues
Other revenue is recognised when generated or upon delivery of goods or services.

40. Significant accounting policies, contd.

k. Financial income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gain and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement. Borrowing cost is recognised in the income statement based on effective interests.

Effective interest is the required rate of return used when discounting estimated cash flow over the estimated useful life of a financial instrument or a shorter period when applicable, so that it equals to the book value of the financial asset or liability in the balance sheet.

Currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

l. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The income tax ratio for the parent company is 38,4% and the tax ratio for the subsidiaries is 21,0%. Cold water supply and sewage is exempt from tax.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax was measured in accordance with the current tax rate, which is 37,6% for the parent company that is a partnership and 20,0% for the subsidiaries that are companies with limited liability.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m. Segment reporting

A segment is a distinguishable component of the Group that is engaged in business and is capable to earn revenues and accept cost, both within and outside of the Group. The return of all segments is overviewed by management to value their performance.

Segment results and their assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment investments are investments in property, plant and equipment and intangible assets.

40. Significant accounting policies, contd.

n. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.
The Group´s CFO is responsible for overseeing all significant fair value measurements, including Level 3 fair values. Risk management, led by the CFO, regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then that information is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.
When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarch, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values can be found in relevant notes and in note 33 regarding fair value.

o. Property, plant and equipment

The fair value of production- and fiber-optic systems that have undergone a revaluation is determined on the basis of the depreciated replacement cost, which consists in the assessment of changes in construction cost of comparable assets and both cost and accumulated depreciation are revalued in accordance with those changes. The results of the impairment tests are also taken into consideration and revaluation is not recognised beyond the expected future cash flow of those assets.

p. Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss is determined on the basis of their market value at the reporting date. If the market value is not known the valuation is based on generally accepted valuation methods. Valuation methods can be based on known recent financial transactions between unrelated parties. In applying these valuation methods factors are considered which would be used in the respective market concerning calculation of fair value and the methods are in accordance with generally accepted methods concerning valuation of financial assets.

40. Significant accounting policies, contd.

q. Derivatives

The fair value of derivatives is based on their market value, if available. If the market value is not available the fair value is determined on the basis of generally accepted valuation methods.

Valuation methods may be based on prices in recent transactions between unrelated parties. The measurement is based on the value of other financial instruments comparable to the instrument in question, methods in order to evaluate the present value of cash flow or other valuation methods, which may be applied in order to reliably assess the real market value. When valuation methods are applied all factors are used, which market parties would use in price evaluations, and the methods are in accordance with generally accepted methods for the price evaluation of financial instruments. The Group verifies on a regular basis its valuation methods and tests them by using a price obtained in a transaction on an active market with the same instrument, without adjustments and changes, or are based on information from an active market.

The fair value of derivative agreements not listed in active markets is determined by use of valuation methods, which are regularly reviewed by qualified employees. All valuation models used must be approved and tested in order to ensure that the results reflect the data used.

The most reliable indication of the fair value of derivative agreements at the beginning is the purchase value, unless the fair value of the instruments is verifiable in comparison with other listed and recent market transactions with the same financial instrument or based on a valuation method where variables are only based on market data. When such data is available the Group recognises profit or loss at the initial registration date of the instruments.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

r. Trade and other receivables

The fair value of trade and other receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date if applicable. This fair value is determined for disclosure purposes.

s. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

t. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

40. Significant accounting policies, contd.

t. Leases, contd.

i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
– fixed payments, including in-substance fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable under a residual value guarantee; and
– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets and lease liabilities are listed in the balance sheet.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

40. Significant accounting policies, contd.

t. Leases, contd.

ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

41. New accounting standards not yet adopted

The group has adopted all international accounting standards, amendments to them and interpretations confirmed by the European Union and which are valid for the year 2024.

A few new standards are effective for annual periods beginning after 1 January 2025 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.