

The National Power Company of Iceland

Iceland is one of the few countries in the world to generate all its energy from renewable sources such as water, geothermal energy and wind power.

Landsvirkjun is owned by the Icelandic state and generates and supplies two thirds of the electricity in Iceland. We operate thirteen hydropower stations and two geothermal stations across the country, within five operational areas. The latest addition to Iceland's fleet of hydropower stations is the Búðarháls Hydropower Station which began operations in March, 2014.

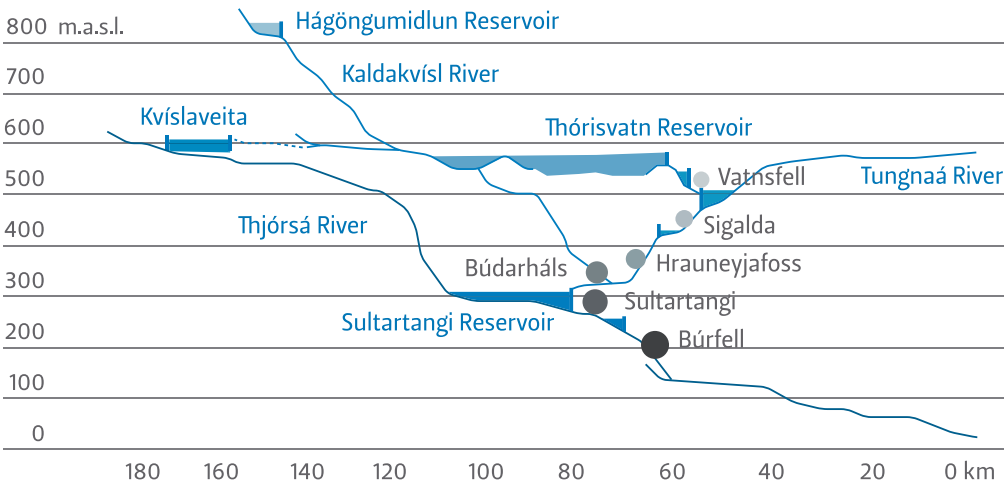
Landsvirkjun's vision for the future is to be a progressive international energy company within the field of renewable energy. There are 250 employees at Landsvirkjun and each one is committed to making Landsvirkjun a leader in the sustainable use and sale of renewable energy sources.

Newest hydropower station

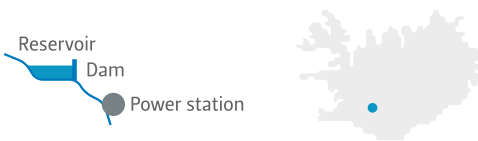
The Búðarháls Hydropower Station is the newest addition to Iceland's fleet of hydropower stations. The Station was started-up in March, 2014 and will generate approximately 585 GWh of electricity, per year, for the national grid. The Station is the 7th largest power station in Landsvirkjun's ownership, within the Þjórsá- and Tungnaá River water catchment area. The Station will create immense value by utilising the 40 metre head in the Tungnaá River, from the tailwater of the Hrauneyjafoss Power Station to the Sultartangi Reservoir.

The water source for the Þjórsá and Tungnaá water catchment area originates from the Hofsjökul and Vatnajökul Glaciers where the water drops from a height of 600 metres, supplying six hydropower stations, before making its final journey to the sea.

Head and power stations in the Þjórsá and Tungnaá area



The Búðarháls Hydropower Station utilises the 40 metre head in the Tungnaá River from the tailwater of the Hrauneyjafoss Power Station and to the Sultartangi Reservoir.



Water is stored for supply in the Þórísvatn, Hágöngulón and Kvíslaveita Storage Reservoirs. The Þjórsá and Tungnaá water system is characterised by the fact that each reservoir connects to the next and between reservoirs, there are power stations utilising the falling water to generate power.

The Búðarháls Power Station is part of a large-scale supply system in the Þjórsá and Tungnaá water catchment area which overall generates approx. 6,250 GWhr of energy annually. Locating the new station within this area meant less disruption than developing a power project in a new area. All aggregates for concrete work were available from sources in close proximity to the station and older quarries were utilised. These factors ensure efficiency in operations.

At the height of construction work, nearly 400 employees were involved in the construction of the Búðarháls Hydropower Station and nearly half of the workforce was provided by the main contractor. The measured labour force for the Búðarháls Project was approx. 900 man-years. Construction work on the Búðarháls Project was completed in 2013 and the next few months will see the removal of work camps and the clean-up and landscaping of the areas around the Station's structures.

Búðarháls Hydropower Station

INSTALLED CAPACITY 95 MW	GENERATION CAPACITY 585 GWh	STEEL USED IN MANMADE STRUCTURES 4.500 TONNES
CONCRETE USED IN MANMADE STRUCTURES 65.000 m³	SIZE OF SPORÐALDA RESERVOIR 7 km²	LENGTH OF HEADRACE TUNNEL 4 KM

Our mission and objectives

At Landsvirkjun, our role is to maximise the potential yield and value of the natural resources we have been entrusted with, in a sustainable, responsible and efficient manner.

Ensuring efficient energy production and development, purposefully building an extensive and diverse client base and seeking out new business opportunities, by connecting with the European energy market, are all key factors in fulfilling this role.

Landsvirkjun encourages consensus and support by promoting open and informed communication and is committed to the professional development of its employees. Landsvirkjun's vision for the future is to become a progressive, international energy company, in the field of renewable energy.

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

Open communication and transparency

Landsvirkjun plays an important role within society and gaining an understanding of the views and interests of those affected by its operations is crucial to the Company. A survey conducted for Landsvirkjun in 2012 showed that approx. 45% of respondents believed that Landsvirkjun did not promote transparency and open communication, in its operations. The results encouraged the Company to do better and to make a concerted effort in creating effective communication strategies, with stakeholders, and to support open communication on issues pertaining to the Company's operations.

We launched the project "This is Landsvirkjun" last year, the aim of which was to facilitate public knowledge on Landsvirkjun's operations, their marketing priorities and research conducted on natural resources and the environment.

We responded to the call for better communication by opening up our Annual and Autumn Meetings and streaming them live via the Company website, where all the relevant information on the meetings was accessible. The Autumn Meeting also gave those unable to attend the opportunity to send questions, via Landsvirkjun's Twitter account.

Over 500 people attended Landsvirkjun's Autumn Meeting at Harpa last year. 1000 people watched the meeting live, via Landsvirkjun's website.



Landsvirkjun opened its doors to guests, once again, last summer. Visitors were given the opportunity to familiarise themselves with our operations and to gain insight on electricity generation from renewable energy sources. There were over 23,000 visitors to Landsvirkjun's Visitor Centres and the new wind turbines at Hafið received particular attention this year.

Last year, Landsvirkjun and the Institute of Economic Studies joined forces in an effort to support and encourage research within the field of business and economics, pertaining to energy generation. The objective is to advocate research within these particular areas and to subsequently increase public awareness on the significance of these factors with regard to the economy. Landsvirkjun will support the research by contributing 8 million ISK per annum for three years consecutively.

“This collaborative effort will give us the opportunity to be actively involved in supporting the development of expertise and professional discourse, with regard to energy matters and the energy market”

Dr. Hordur Arnarson, CEO of Landsvirkjun

Awarded the Gold Standard by PWC for Wage Equality

Landsvirkjun has been awarded the Gold Standard by PWC, for wage equality. The results of the 2013 PWC audit showed that the fixed salary rate for women is generally slightly higher than that of men, whereas the overall salary is slightly higher for men. The difference is well below the 3.5% requirement set out by PWC, in order to achieve the Gold Standard. The number of women in management and specialist roles at Landsvirkjun has increased. We are proud of the fact that our policy on gender equality is proving successful and we intend to purposefully continue this work in order to ensure that both men and women enjoy access to a competitive and vibrant working environment.

The Importance of Effective Corporate Governance

Bryndís Hlöðversdóttir, Chairman of the Board



Landsvirkjun has an important role to play within Icelandic society and the Company is committed to fulfilling its responsibilities. We have defined our role as consistently endeavouring to maximise the potential yield and value of the natural resources we have been entrusted with, in a sustainable, responsible and efficient manner. The Board of Directors, the Executive Board and Landsvirkjun's employees make every effort to conscientiously fulfil this role.

The nature of energy generation means that energy companies often find themselves at the forefront of public discussion and projects being developed by these companies frequently inspire discussions on the fine line between the utilisation and protection of natural resources. Landsvirkjun must show its ability to tread the middle road on these matters and the initiative in seeking consensus on the Company's development of projects. In keeping with this approach, Landsvirkjun has held open discussions on matters pertaining to the Company and its operations in the last few years. Since 2010, the Company has held two large meetings annually; an Annual Meeting and an Autumn Meeting. These meetings have facilitated discussions on the Company's operations and various matters connected to energy generation in general. These meetings have been well attended and have likely contributed to the improved trust the Company has enjoyed in recent years. The Board of Directors and Executive Board of Landsvirkjun have also placed a great emphasis on effective corporate governance. It is important that state-run companies, just like private companies, understand the importance of operating on such a basis.

It is often thought that the operation of a state-run company is merely an extension of the political party policy at any given time, the shackles of which would prove an impossible environment for any Board of Directors to fulfil their legally defined role. The Board of Directors at state-run companies share the same responsibilities as those running and operating privately run companies, be they politically appointed or not. They are first and foremost responsible for fulfilling the legally binding role of the company and their loyalty is primarily bound to the company itself. Political conflict on utilisation should remain within the political arena and should not inhibit the boards of companies from retaining their professionalism as a guiding principle in their work. A part of this professionalism is assessing what the company represents to the outside world and what it stands for. In an attempt to strengthen the Company's position, Landsvirkjun has placed an emphasis on developing an ownership policy for the Company where the government's intentions for exercising its ownership rights are clearly outlined. The dividends policy and compensation policy for senior directors are normal aspects of such an ownership policy and are outlined to increase stability surrounding the Company. Stability, professionalism and open and honest discussion are all aspects that strengthen Landsvirkjun's position as one of the most dynamic companies in Iceland and can lay the foundation for its directors to fulfil their role with integrity and dedication.

Bryndís Hlöðversdóttir

Increasing the Value of Natural Resources

Dr. Hordur Arnarsson, CEO of Landsvirkjun



Landsvirkjun's operations were successful in 2013 and a historical high was achieved by the Company, this year, when electricity sales increased by 416 GWh. Revenue increased by 3.7% and the profit before unrealised financial items and EBITDA also increased.

Landsvirkjun suffered losses this year, despite the success of operations within a difficult market environment. This can mainly be attributed to decreasing aluminium prices worldwide and the effects of this on contractual energy prices. Landsvirkjun's performance will continue to rely on the unpredictable development of currently low aluminium prices, interest rates and exchange rates. The net debt of the Company has decreased by 395 million USD since year-end, 2009. However, the Company's debts are still substantial and the reduction of debt remains a key area of focus for Landsvirkjun.

A milestone was reached in Landsvirkjun's history when construction was completed on the Company's sixteenth power station, the Búðarháls Hydropower Station. Construction was successful, safety matters were exemplary and the project was on budget. The project was a unified effort and truly reflected Landsvirkjun's commitment to increasing societal consensus on the Company's operations.

Landsvirkjun is fully aware of the important role it plays within Icelandic society and has established a clear policy on social responsibility. Implementing the Social Responsibility Policy was a priority in 2013 and dozens of employees were involved in its development. Landsvirkjun's Policy outlines the Company's commitment to "take care when working with the natural resources we have been entrusted with and to share the knowledge we acquire to contribute to a better society."

Iceland is rich in natural resources and there are various opportunities to be found in the further development of energy intensive industries, creating value for Icelandic society.

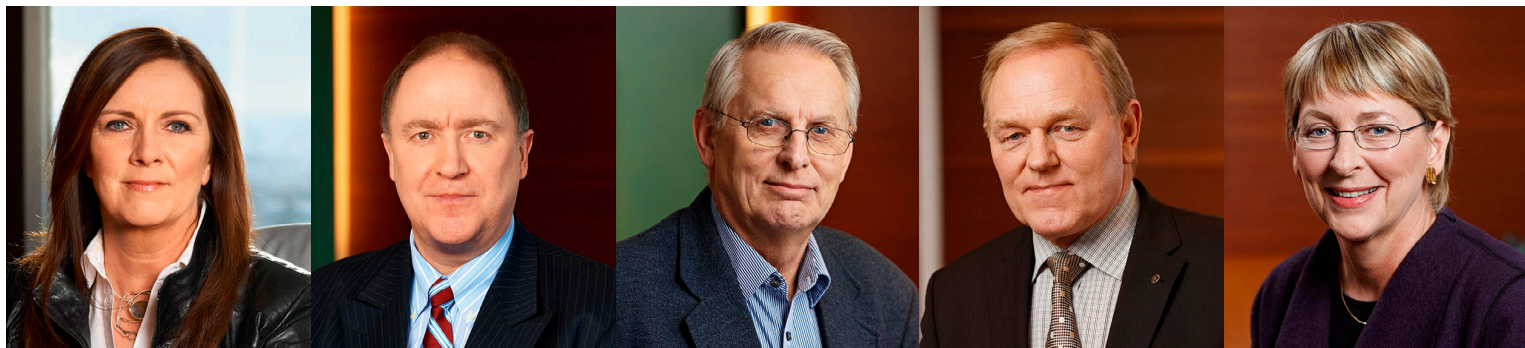
The rapid development seen in recent decades is interesting and potentially an indicator of how Icelandic ingenuity could be utilised in the development of new ideas and technology in energy generation and the utilisation of energy resources.

The rapidly changing environment of the international energy market has created new business opportunities for Landsvirkjun. International corporations see Iceland as an attractive option and Landsvirkjun has been involved in discussions with a number of corporations within various industries. New business opportunities will enable the Company to further diversify its customer base and minimise risk factors for Landsvirkjun in the future.

A handwritten signature in blue ink, appearing to read 'Hordur Arnarsson', located at the bottom left of the page.

Landsvirkjun's Board of Directors

Landsvirkjun is the largest energy company in Iceland, is owned by the Icelandic state and is under the auspices of the Ministry of Finance and Economic Affairs. The Board is appointed by the Minister of Finance and Economic Affairs, on an annual basis, and is responsible for the finances and the operation of the Company. Landsvirkjun's Board of Directors was appointed on the 10th of April, 2013. Bryndís Hlöðversdóttir was appointed as the Chairman of the Board and Sigurbjörg Gísladóttir as the Vice Chairman of the Board, at the first meeting held by the Board.



Board of Directors

Bryndís Hlöðversdóttir
HR Director – The National University Hospital of Iceland

Arnar Bjarnason
Managing Director of Reykjavík Capital

Stefán Arnórsson
Professor at the University of Iceland

Ingimundur Sigurpálsson
CEO of Iceland Post

Sigurbjörg Gísladóttir
Chemist

Reserve Members

Magnús Árni Magnússon

Baldvin H. Sigurðsson

Jóna Jónsdóttir

Anna Dóra Sæþórsdóttir

Vigdís M. Sveinbjörnsdóttir

The Executive Board of Directors

Landsvirkjun's Board of Directors appoint the CEO. The Board and the CEO are responsible for the operation of the Company. The Deputy CEO oversees the joint affairs of the Company as well as directing policy development and ensuring the quality of corporate governance. There are currently five Directors at Landsvirkjun.



CEO

Hordur Arnarson, Ph.D

Hordur Arnarson completed his electrical engineering studies at the University of Iceland in 1986 and went on to obtain a doctorate from the Technical University of Denmark, in Copenhagen four years later, in 1990. Hordur began working for the food processing developer Marel in 1985 and became CEO in 1999, a position he held for ten years. He was then appointed Managing Director at the Sjóvá insurance company, leading the restructure of the organisation.



Corporate Office

Ragna Árnadóttir, Deputy CEO

ROLE To oversee the Company's joint matters of concern and policy formulation, as well as to ensure professional management practices. Support divisions handling Landsvirkjun's joint matters are located in the Corporate Office.



Energy Division

Einar Mathiesen, Executive Vice President

ROLE To ensure that electricity generation and delivery is secure and efficient and fulfills the terms of the agreements signed with Landsvirkjun's customers.



Marketing and Business Development Division

Björgvin Skúli Sigurðsson, Executive Vice President

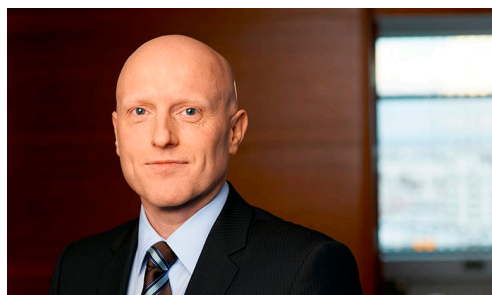
ROLE To maximise Landsvirkjun's long-term profit potential, through the innovative and effective promotion and sale of products and services, within the national and international energy sector.



Research and Development Division

Óli Grétar Blöndal Sveinsson, Executive Vice President

ROLE To manage the preparation of new power projects and to conduct research on the existing power systems. We ensure the efficient implementation of new power projects, increase the flexibility of energy production options and support innovation in energy production with a long-term view of future energy supplies.



Project Planning and Construction Division

Pálmar Óli Magnússon, Executive Vice President

ROLE To oversee Landsvirkjun's power station projects from the preparation stage to their completion. We monitor the costs and safeguard the quality and progress of the various projects, keeping them in accordance with the expectations, plans and needs outlined by the company.

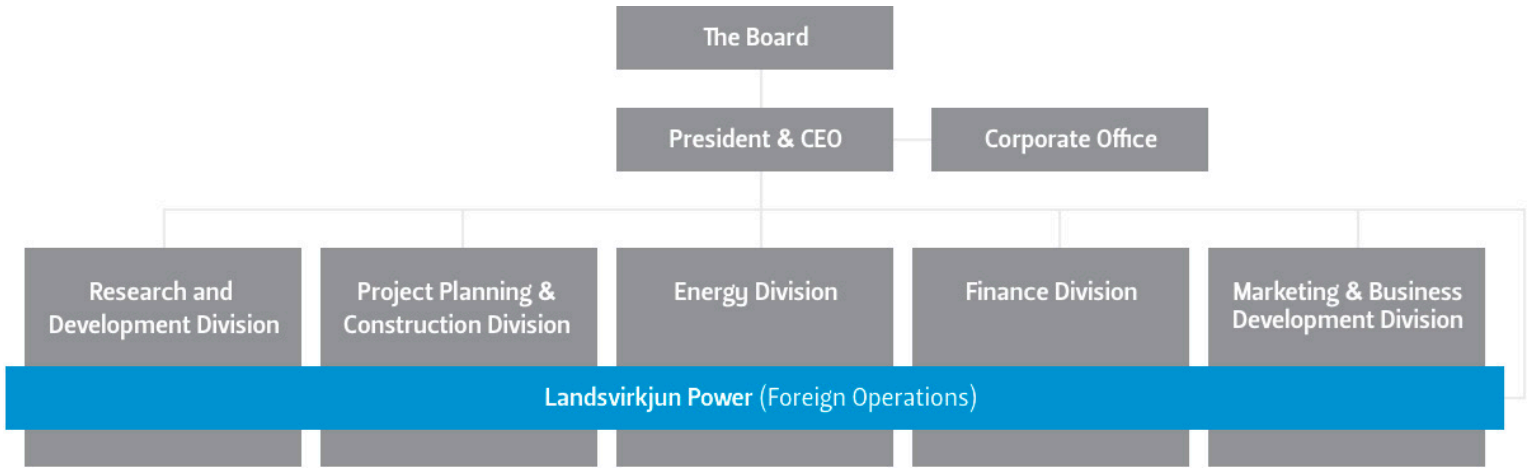


Finance Division

Rafnar Lárusson, Executive Vice President

ROLE To create a foundation for efficient operations and to promote maximum results in all units of the Landsvirkjun Group.

Company Structure

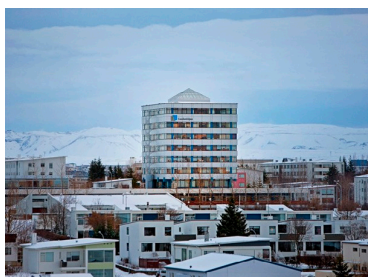


An Eventful Year

Landsvirkjun enjoyed a number of successes this year. Búðarháls Hydropower Station began operations, the new Policy on Corporate Social Responsibility was implemented, a cooperation agreement was signed with the various research universities and the Company was awarded the Gold Standard for Wage Equality by PWC. These events were shared, via the news link on the Company website, throughout the year.



February
2013



Landsvirkjun Power Listed as an Outstanding Company

12.2.2013



Dr Bjorgvin Skuli Sigurdsson appointed Executive Vice president of the Marketing and Business Development Division

18.2.2013

MOODY'S

Moody's changes Landsvirkjun's outlook from negative to stable

18.2.2013



First Wind Turbines begin operation

18.2.2013

The New York Times

Iceland looks to Export Power Bubbling From Below

21.2.2013



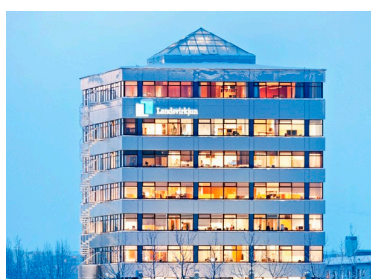
Landsvirkjun Join Forces with Landsnet and the Fire Protection Association of East Iceland on Safety Issues

21.2.2013



60 Million ISK Allocated from Landsvirkjun's Energy Research Fund

22.2.2013



Landsvirkjun's Consolidated Financial Statements 2012

22.2.2013

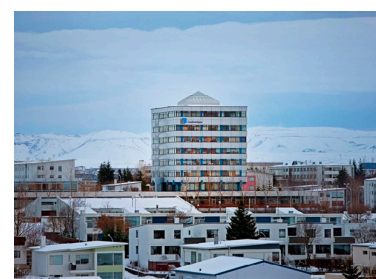


April
2013



Landsvirkjun renews its cooperation agreement with the Reykjavík Arts Festival

11.4.2013



Landsvirkjun's Board Members Appointed at the Annual Meeting

15.4.2013



May
2013



Agreement signed with Kolviður, the Iceland Carbon Fund

3.5.2013



Change to the scope of the production upgrade project of Rio Tinto Alcan in Iceland

16.5.2013

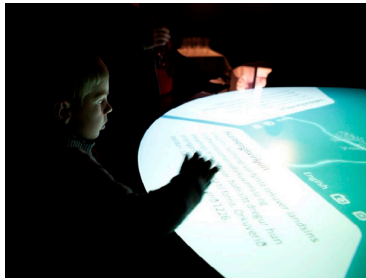


Iceland positioned to become international datacenter hub

29.5.2013



June
2013



Visitor centers at our power station open all summer

11.6.2013



Web of Science sponsorship renewed

12.6.2013



June 15 is Global Wind Day

14.6.2013



Roots of Geothermal Systems Researched

20.6.2013



July
2013



Landsvirkjun, the University of Iceland and Reykjavík University promote university education and research on renewable energy sources

1.7.2013



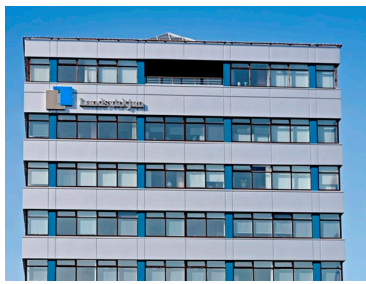
Significant Milestone Reached with the Consensus of the Advisory Group on the Sub-Sea Electrical Cable

1.7.2013



Road Construction at Þeistareykir

18.7.2013



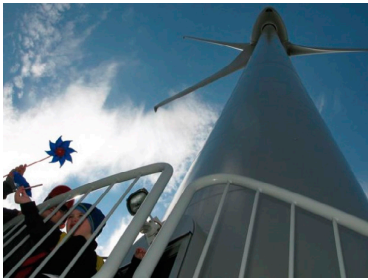
Standard and Poor's changes Landsvirkjun's outlook from stable to negative

29.7.2013



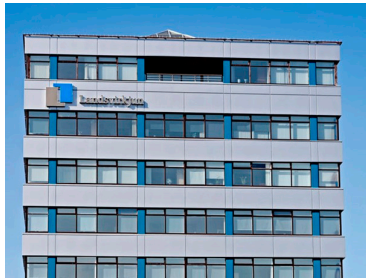
A New EMTN programme for Debt Issuance

2.8.2013



Over 10.000 guests have visited Landsvirkjun this summer

12.8.2013



Landsvirkjun issues a 10 year bond

14.8.2013



Cash flow from operating activities increases

23.8.2013



Hálslón Reservoir fills up

9.9.2013



81% of the Icelandic Public is in Favour of the Development of Wind Power in Iceland

9.9.2013



Landsvirkjun supports a review of the environmental impact assessment for the Bjarnarflag Power Station

11.9.2013





Jafnlaunaúttekt
PwC
2013

Landsvirkjun Awarded the Gold Standard by PwC for Wage Equality

8.11.2013



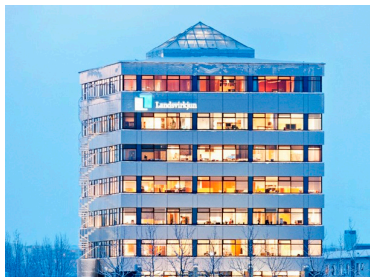
Landsvirkjun and the Institute of Economic Studies Join Forces to Support Research

8.11.2013



Landsvirkjun signs the UN Global Compact

12.12.2013



Landsvirkjun restructures outstanding bonds

17.12.2013