

RioTinto

Annual Report 2020
Rio Tinto Iceland Ltd.



Rio Tinto á Íslandi hf.

(Rio Tinto Iceland Ltd.)

Financial Statements for the year ended
31 December 2020
USD

**Rio Tinto á Íslandi hf.
Straumsvík
222 Hafnarfirði**

kt. 680466-0179

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Endorsement and Statement by the Board of Directors and the General Manager

Report of the Board of Directors and the General Manager

Main activities

Rio Tinto á Íslandi hf. ("the Company") is a private limited company incorporated and domiciled in Iceland and is a producer of aluminium that operates a production plant in Straumsvík Hafnarfjörður, Iceland.

Market conditions and production

The COVID-19 pandemic had an influence on the operation in Straumsvík as well as on other markets in our sector. As soon as the pandemic surfaced, all our operations were organised in accordance with infection prevention rules and the employees of the Company were extremely flexible and had a clear view of their own safety, health and employing personal disinfection measures. Production was also adapted to the changes in the market, as during the early days of the pandemic, the price of aluminium decreased significantly and orders fell. Some of our customers simply needed to temporarily suspend their operations due to extremely stringent infection prevention measures. Thankfully, these measures have been lifted.

2020 was a year characterised by considerable fluctuation in the aluminium market. Aluminium prices were low at the beginning of the year and decreased even further when the COVID-19 pandemic struck. In addition, energy prices to the Company were also quite high during this period. As a result, the production of the pot rooms were at 85% capacity for a second year in a row, and the total output was 183,459 tonnes, as compared to 183,637 tonnes the year before. The cast house produced 192,584 tonnes, somewhat less than the year before. The quality of the production was exceptionally good, and as before, particular attention was paid to quality and good relations with our customers. As the year progressed, aluminium prices began to rise and demand for the Company's products increased. The pot rooms are expected to produce 204,500 tonnes in 2021.

The quality of the production has remained quite high and stable overall. This means that the Company continues to have an A-supplier rating among customers.

Main risk and uncertainty factors

The main risk and uncertainty factors related to the operation of the Company are fluctuation in aluminium market prices and demand and resources prices and availability used in the production. Rio Tinto plc the ultimate parent company publishes further information's in this matter which are available at the website www.riotinto.com. Description on main aspects of internal control and risk management can be found in special chapter for Corporate Governance in appendix A to these financial statements. The Company's market risk is insignificant and the same applies for liquidity and credit risk as majority of transactions are with other companies within Rio Tinto plc Group.

Human resources

The average number of man-years in 2020 was 384, as compared to 408 in 2019. 82% of employees were men, and the proportion of women was 18%.

In 2020, the average length of service at the Company was 13.5 years, as opposed to 12.7 years in 2019.

In 2019, the Company was awarded certification for equal pay according to the ÍST 85 2012 standard. Two wage surveys were carried out in 2020, and the latter survey measured unexplained wage differences as being only 0.6% with a 94.4% determination coefficient.

Finances

Losses before taxes in 2020 amounted to USD 87.0 million, as compared to USD 99.1 million in 2019. Sales amounted to USD 373.1 million, as compared to USD 445.7 million in 2019.

According to the balance sheet total assets at year-end 2020 amounted to USD 480 million (2019: 515 million). Total equity at year-end 2020 amounted to USD 282 million (2019: 369 million).

Endorsement and Statement by the Board of Directors and the General Manager, cont.

Non-financial information

One absence inducing accident occurred in 2020, as compared to three in 2019. Such accidents are unacceptable, and the focus will be on preventing accidents and learning from events that led to near misses.

The Company issues a Social Responsibility Report and Green accounting before 1 May each year in accordance with Regulation No. 851/2002. The report contains detailed information on the performance of the Company in the field of environmental issues and also contains a range of information on other aspects of the company's operation, including its social role and economical value. The report contains a GRI table (Global Reporting Initiative) which can be accessed, together with other appropriate information, on the website of the company, www.isal.is.

The Company has certification according to the following standards: ISO 9001 from 1992, ISO 14001 from 1997, OHSAS 18001 from 2003, Rio Tinto HSAEQ Management Standard certification and IST: 85 2012 from 2019.

The Company places considerable importance on continuously improving its performance as regards environmental issues, and we have a clear policy in this respect which is supported by our goals. Our efforts have been quite successful, and we achieved our best results to date as regards the emissions of fluorides, or 0.45 kg per tonne of aluminium. Climate issues are of great importance to us, and considerable focus is directed at minimising greenhouse gasses. We were quite successful in our efforts last year, and emissions were among the lowest known within the aluminium production sector, or 1.51 tonnes per tonne of produced aluminium.

There was one deviation from the operating permit last year when residues from one filter in the area temporarily exceeded reference levels. The deviation was reported to the Environment Agency, and repairs soon improved the situation.

In April last year, the Company sent an application to the Environment Agency for a new operating permit after careful preparations thereto. In the new operating permit, dilution areas are to be eliminated and new requirements made as regards best available techniques (BAT). Due to the scope of the changes, the decision was made to extend the operating permit by one year, or to 1 November 2021. The extension provides us with more time to implement these significant changes.

COVID-19 had a range of effects on the operation of the Company during the year, and various changes were adopted to protect, as far as possible, the safety and health of our employees.

Rio Tinto plc the ultimate parent company of Rio Tinto á Íslandi hf. publishes in its financial statement a chapter of non-financial information. It is available on the website www.riotinto.com.

Miscellaneous

On 22 July, Rio Tinto á Íslandi hf. formally submitted a complaint to the Competition Authority regarding the abuse of Landsvirkjun's controlling position regarding the Company. Rio Tinto requested that the Competition Authority to address the anti-competitive behaviour of Landsvirkjun as regards price differences and long-term energy agreement so that the Company can compete in international markets.

Corporate Governance

The financial statements of the Company include an appendix A on the Corporate Governance of the Company.

The Board of directors consists of 57% men and 43% women.

Endorsement and Statement by the Board of Directors and the General Manager, cont.

Events occurring after the completion of the Financial Statements

On 15 February, an announcement was issued that Rio Tinto á Íslandi hf. and Landsvirkjun had signed an amendment to the power contract of the companies from 2010. The contract provides better support for the competitive ability of the aluminium plant in Straumsvík in its continued operation. The contract amendment increases the flexibility of business relations between both companies. As previously, the contract provides for the sale of 390 MW, or 3.415 GW hrs per year, and will remain in effect to 2036. The basic premise for the power price has changed but is still linked to USD and linked to the US price index (CPI). The contract is to a small extent also linked to aluminium prices, something that means price adaptations to overseas markets to some extent.

In conjunction with the contract, Rio Tinto á Íslandi hf. has decided to withdraw its complaint to the Competition Authority from July 2020 as regards power sales to the Straumsvík plant.

The agreement is a complement to the 2010 contract. The confidentiality rules that apply to that contract remain in effect, and as a result, the agreement will not be published at present.

Future prospect

The amendment of the power contract with Landsvirkjun and the fact that aluminium price has increased during the last months and that latest market forecasts are positive for the future the management of the Company has reached the conclusion that there is no indication of long lasting impairment of operating assets which is further discussed in note 7 and it is the management opinion that the Company will continue as going concern for the foreseeable future.

Disposition of loss

The Board refers to the Statement of Changes in Equity as regards the offsetting of the year's losses. The Board proposes that no dividends be paid.

Ownership

At year end as in the beginning of the year, Alcan Holdings Switzerland owned all shares in Rio Tinto á Íslandi hf.

Statement by the Board of Directors and the General Manager

To the best of our knowledge the Financial Statements give a true and fair view of the financial performance of the Company for the year 2020, its assets, liabilities and financial position as at 31 December 2020 and its cash flows for the year 2020 in accordance with Icelandic Financial Statements Act no 3/2006.

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

The Board of Directors and General Manager of Rio Tinto á Íslandi hf. hereby confirm the annual financial statements of Rio Tinto á Íslandi hf.

Straumsvík, 19 May 2021

Board of Directors:

Jean-François Faure

Sonia Lacombe

Katrín Pétursdóttir

Ingvi Már Pálsson

Francois-Pierre De Feydeau

Brynjólfur Bjarnason

Margrét Sanders

General Manager:

Rannveig Rist

Independent Auditor's Report

To the Board of Directors and Shareholders of Rio Tinto á Íslandi hf.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rio Tinto á Íslandi hf. ("the Company"), which comprise the balance sheet as at December 31, 2020, the income statement, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Icelandic Financial Statement Act.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2020.

Responsibilities of the Board of Directors and General Manager for the Financial Statements

The Board of Directors and General Manager are responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Financial Statement Act, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and General Manager are responsible for assessing the Company'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 they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report, contd.:

Auditor's Responsibilities for the Audit of the Financial Statements, contd.:

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and General Manager accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

Reykjavik, 19 May 2021

KPMG ehf.

Kristrún Helga Ingólfssdóttir

Income Statement for the year ended 31 December 2020

	Note	2020 USD '000	2019 USD '000
Sales			
Net sales	4	372.623	444.810
Other income		469	919
		<u>373.093</u>	<u>445.730</u>
Cost of sales			
Raw materials and energy		310.750	391.537
Other manufacturing cost		41.781	52.339
Salaries and related expenses	5	40.361	43.542
Administrative cost		8.554	8.307
Depreciation and amortization	6	52.260	48.578
		<u>453.706</u>	<u>544.304</u>
Operating loss		<u>(80.614)</u>	<u>(98.574)</u>
Finance income (expense)			
Interest income and other finance income		19	94
Interest expense		(955)	(1.015)
Net currency exchange (loss) gain		(5.462)	372
		<u>(6.398)</u>	<u>(548)</u>
Loss before tax		<u>(87.012)</u>	<u>(99.123)</u>
Income tax	14	0	(5.524)
Loss for the year		<u><u>(87.012)</u></u>	<u><u>(104.647)</u></u>

Balance Sheet as of 31 December 2020

	Note	31.12.2020 USD '000	31.12.2019 USD '000
Assets			
Operating assets	7	373.396	415.775
Intangible assets	8	1.049	1.404
Shares in other companies	9	21	22
Non-Current Assets		374.466	417.201
Inventories	10	45.870	55.315
Receivables from related parties	16	41.863	28.338
Accounts receivables and other receivables		16.229	13.536
Cash and cash equivalents		1.885	432
Current Assets		105.847	97.620
Total assets		480.313	514.821
Equity			
Share capital	11	4.906	4.906
Share premium		234.024	234.024
Legal reserve		1.195	1.195
Retained earnings		41.782	128.794
Total equity		281.907	368.919
Liabilities			
Pension liabilities	12	2.684	2.668
Leases liabilities	13	5.385	6.696
Non-current liabilities		8.069	9.363
Accounts payables to related parties	16	25.604	10.021
Other liabilities to related parties	16	122.109	85.038
Current portion of pension liabilities	12	1.368	1.319
Current portion of leases liabilities	13	1.242	800
Other current liabilities		40.014	39.361
Current liabilities		190.337	136.539
Total liabilities		198.406	145.902
Total equity and liabilities		480.313	514.821

Statement of Changes in Equity for the year ended 31 December 2020

	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Changes in 2020					
USD '000					
Balance 1/1	4.906	234.024	1.195	128.794	368.919
Net loss for the year				(87.012) (	( 87.012)
Balance 31/12	4.906	234.024	1.195	41.782	281.907
Changes in 2019					
Balance 1/1	4.906	234.024	1.195	233.441	473.565
Net loss for the year				(104.647) (	( 104.647)
Balance 31/12	4.906	234.024	1.195	128.794	368.919

Statement of Cash Flows for the year ended 31 December 2020

	Note	2020 USD '000	2019 USD '000
Operating activities			
Loss for the year .....	(	87.012)	(104.647)
Adjustments for:			
Depreciation and amortization	6	52.260	48.578
Loss on sale, disposal of PPE		4.132	1.317
Change in deferred tax liability		0	5.524
Other changes .....	(	835)	210
Working capital to operating activities	(	31.454)	(49.018)
Change in operating assets and liabilities:			
Inventory, decrease		9.445	7.064
Account receivables and other receivable, (increase) decrease .....	(	2.693)	10.069
Accounts payables and other current liabilities, decrease .....	(	150)	(14.714)
Accounts receivables from related parties, (increase) decrease .....	(	13.526)	11.346
Accounts payable to related parties, increase (decrease)		15.583	(21.806)
Increase (decrease) in operating assets and liabilities		8.659	(8.041)
Net cash to operating activities	(	22.795)	(57.059)
Investing activities			
Acquisition of property, plant and equipment	7	(15.561)	(22.325)
Sale of property, plant and equipment		2.738	1
Net cash used in investing activities	(	12.824)	(22.324)
Financing activities			
Short term loan from related party, increase		37.072	79.930
Long term loan, (decrease)		0	(621)
Net cash provided by financing activities		37.072	79.308
Change in cash and cash equivalents		1.453	(75)
Cash and cash equivalents at the beginning of the year		432	506
Cash and cash equivalents at year end		1.885	432
Non-cash investing and financing activities			
Lease asset recognised		0	8.385
Lease liabilities recognised		0	(8.385)

Notes to the Financial Statements

1. Reporting entity

Rio Tinto á Íslandi hf. ("the Company") is a private limited company incorporated and domiciled in Iceland and is a producer of aluminium that operates a production plant in Straumsvík Hafnarfjörður, Iceland.

The Company is a subsidiary of Alcan Holdings Switzerland and an indirect subsidiary of Rio Tinto plc. with headquarters in London, United Kingdom. The Company's Financial statements are part of the consolidated Financial Statement of the ultimate parent company that can be found at the website: <https://www.riotinto.com/invest/financial-news-performance/results>.

2. Basis of preparation

The financial statements have been prepared in accordance with the Icelandic Financial Statements Act nr. 3/2006 ("IS-GAAP"). The accounting policies adopted are consistent with those of the previous financial year.

The Company has permission to keep books and prepare financial statements in US dollars, in accordance with the Financial Statement Act. The financial statements are therefore stated in US dollars (USD), which is the Company's functional currency.

The preparation of the financial statements requires management to use judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

3. Significant accounting policies

a. Exchange rate difference

Assets and liabilities held in currency other than USD are converted at the rate of exchange applicable on the balance sheet date. Any gains or losses arising from conversion are reported in the Income Statement.

Transactions in currencies other than USD are converted at the rate of exchange which applied at the date of the transaction. Foreign exchange difference is recorded as operating income and financial income and expense in the income statement.

b. Revenue recognition

Revenue is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. Control is transferred to the buyer, according to the agreed delivery term for each sale.

Almost all sale of the of the Company is to the related company Rio Tinto Aluminium Pechiney in France. The control is transferred when goods leaves the harbour in Straumsvík and revenue is recognised at that time.

c. Finance income and finance cost

The Company's finance income and finance costs include interest income, interest expense and foreign currency gain or loss on financial assets and financial liabilities. Interest income or expense is recognised on an accrual basis using the effective interest method.

d. Property, plant, equipment and depreciation

Property, plant and equipment (PPE) is recognised at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. Assets in constructions are assets not ready for intended use and are recognised at cost. When ready to use and it is probable that the future economic benefits associated with the item will flow to the company and that the cost can be measured reliably, assets in constructions reclassified to appropriate class of assets and depreciated. All other repair and maintenance costs are recognised in the income statement as incurred.

Notes, cont.:

3. Significant accounting policies, cont.:

d. Property, plant, equipment and depreciation, cont.:

Depreciations are calculated based on estimated useful life and expected residual value for each item of PPE and are recognised in the statement of income using the straight-line method. The estimated useful lives, residual values (if any) and depreciation method are reviewed, and if necessary adjusted. Depreciation commences when the assets are ready for their intended use. Land is not depreciated. The depreciation charge for each year is recognized as an expense, on the following basis:

	Useful life
Buildings	8-40 years
Machinery and plant	5-30 years

An item of PPE is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of PPE, determined as the difference between the sales proceeds and the carrying amount of the asset, is recognised under other operating income or other operating expenses in the statement of income.

Periodically, the carrying amounts of tangible assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the individual asset is estimated in order to determine the extent of the impairment loss. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the lowest possible cash generating unit, to which the asset belongs, is estimated. The recoverable amount is the higher of fair value less costs to sell, or its value in use. Value in use is the present value of the future cash flows expected to be derived from use of the cash generating unit, after taking into account all other relevant information. If an impairment loss for tangible assets is recognised in a previous period, the entity assesses whether there are indications that the impairment may have decreased or no longer exists. If so, the impairment loss is reversed, based on an updated estimate of the recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset. Impairment expenses are presented as impairment losses in the income statement.

e. Intangible assets

CO2 allowances allocated from the government are measured at nominal value (zero). If actual emissions exceed the amount of allocated emission allowances, additional allowances are purchased. Purchased CO2 allowances are recognised at cost.

Computer software are recognised at cost. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is calculated to write off the cost of the computer software less their estimated residual values using the straight-line method over estimated useful lives and is recognised in profit or loss. Estimated useful lives of computers software are not expected to be longer than 5 years.

f. Investments in other companies

Investments in other companies are recognised at cost in Icelandic Krona. The change in value due to currency exchange change is recorded in profit or loss.

g. Inventories

Inventories are measured at the lower of cost and net realisable value. Inventory consists of raw materials, semi-finished goods and finished goods, in addition to operating materials and spare parts that do not meet the definition of property, plant and equipment. Raw materials, and operating materials and spare parts, are recognised at cost of purchase including transport and handling to their present location. The cost of finished and semi-finished goods is measured at the cost of raw materials, energy for production, direct labour, other direct costs and production overhead cost based on the higher of actual and normal capacity. Net realisable value represents the estimated selling price for inventories less estimated costs of completion and variable selling expenses. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the income statement. Cost of goods sold is recognised in different lines in the statement of income based on nature; raw materials and energy for production, employee benefits, other operating cost and amortisation and depreciation.

Notes, cont.:

3. Significant accounting policies, cont.:

h. Accounts receivables

Accounts receivables are recognised at the transaction price. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

i. Cash and cash equivalents

Cash on hand and deposits are recognised as cash and cash equivalents.

j. Share capital

Ordinary shares are classified as equity.

k. Pension liabilities

Employee benefits are all forms of considerations given by an entity in exchange for service rendered by employees or for termination of employment. Employee benefits include both current and non-current benefits and are expensed as incurred when the company enters into binding agreement with employees that is not part of monthly contribution to pension funds. The obligation is recognised at present value of future obligation discounted at 2% interest at the end of the reporting period.

l. Leases

At inception of a contract, the Company 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.

The right-of-use asset is initially measured at cost and subsequently depreciated using the straight-line method to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease or the Company incremental borrowing rate.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases.

m. Current and deferred tax

The tax expense for the period comprises current and deferred tax. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

n. Accounts payables

Accounts payables are recognised at the transaction price.

Notes, cont.:

4. Sales

Other sales are specified as follows:

	2020	2019
Sales	378.244	451.493
Sales commission	(5.620)	(6.682)
	<u>372.623</u>	<u>444.810</u>

5. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2020	2019
Salaries	32.437	35.473
Pension contribution	4.422	4.756
Other salary related expenses	2.837	2.358
Other related expenses	665	956
	<u>40.361</u>	<u>43.542</u>

Average number of employees	384	408
Salaries paid to the Board of Directors and the General Manager	896	1.073

Reference is made to note 12 for pension liabilities that is not part of monthly contributions to pension funds.

6. Depreciation and amortization

Depreciation and amortization are specified as follows:

	2020	2019
Depreciation Property, plant and equipment	50.968	47.289
Amortization intangible assets	1.292	1.288
Total net currency exchange difference	<u>52.260</u>	<u>48.578</u>

7. Property, plant and equipment

Property, plant and equipment consists of the following:

	Buildings and Land	Machinery and Plant	Assets under construction	Total
31 December 2019				
Cost 1/1	251.798	646.443	25.549	923.790
Accumulated depreciation	(147.363)	(342.756)	0	(490.118)
Disposals and reclassification		(1.318)	(24.611)	(25.929)
Additions	59	24.552	22.325	46.936
Additions lease assets	5.433	2.952	0	8.385
Depreciation charge	(7.341)	(39.949)	0	(47.289)
Book value 31/12	<u>102.587</u>	<u>289.925</u>	<u>23.262</u>	<u>415.775</u>
Cost 31/12	257.290	665.996	23.262	946.549
Accumulated depreciation	(154.703)	(376.071)	0	(530.774)
Book value 31/12	<u>102.587</u>	<u>289.925</u>	<u>23.262</u>	<u>415.775</u>
31 December 2020				
Cost 1/1	257.290	665.997	23.528	946.815
Accumulated depreciation	(154.703)	(376.337)	0	(531.040)
Disposals cost price		(374)	(6.496)	(6.870)
Additions			15.561	15.561
Additions from assets under construction		19.036	(19.138)	(102)
Depreciation charge	(7.352)	(43.616)		(50.968)
Book value 31/12	<u>95.235</u>	<u>264.706</u>	<u>13.455</u>	<u>373.396</u>
Cost 31/12	257.290	684.659	13.455	955.506
Accumulated depreciation	(162.055)	(419.953)	0	(582.008)
Book value 31/12	<u>95.235</u>	<u>264.706</u>	<u>13.455</u>	<u>373.396</u>
Depreciation ratios	0-13%	3-20%	0%	

Notes, cont.:

7. Property, plant and equipment, cont.:

Official real estate and insurance value

Insurance value, official real estate value and carrying amount is specified as follows:

	Real estate valuation	Land valuation	Insurance valuation	Book value
Buildings and land 31.12.2019	104.023	46.908	223.982	102.587
Buildings and land 31.12.2020	97.231	45.807	217.456	95.235

Indicators of impairment

On 15 February 2021, agreement was reached on an amended power contract with the energy supplier, Landsvirkjun, that will allow the Company's aluminium smelter to continue operating with an improved competitive position. Market conditions have improved significantly during the last months. In April 2020 the market price for aluminium was around USD 1.400 pr. ton but at end of the year 2020 around USD 2.000 pr. ton and at end of April 2021 the market price was around USD 2.400 pr. ton and there is an positive outlook on aluminum market price.

According to Article 30 of the Icelandic Financial Statements Act no. 3/2006 (IS-GAAP), if the book value of non-current assets and intangible assets is lower than fair value and the reasons are not expected to be for short term, impairment shall be recognised. The signed agreement with Landsvirkjun in February 2021 along with the facts that aluminum price has increased significantly in recent months and latest market forecasts are positive for the future, the local management of the Company has reached the conclusion that there is no indication of long lasting impairment.

8. Intangible assets

Intangible assets are specified as follows:

	Computer software	CO2	Total
31 December 2019			
Book value 1/1	2.595	1.309	3.904
Depreciation charge	(1.288)	(	1.288)
Used emission allowances		(1.212)	(1.212)
Book value 31/12	1.307	97	1.404
31 December 2020			
Book value 1/1	1.307	97	1.404
Depreciation charge	(1.292)	(	1.292)
Additions	102	933	1.035
Used emission allowances		(97)	(97)
Book value 31/12	117	933	1.049

9. Shares in other companies

Shares in other companies are specified as follows:

	Share	Nominal value ISK	Net carrying value USD '000 31.12.2020
Endurvinnslan hf.	7,4%	2.625	21

10. Inventories

Inventories are specified as follows, amounts are in thousands:

	2020	2019
Raw material and other inventory	26.481	26.679
Work in progress	7.480	8.181
Finished goods	2.401	10.249
Operating materials and spare parts	9.507	10.205
	45.870	55.315

Notes, cont.:

11. Equity

Share capital

Total share capital amounts to ISK 161.456.521 at nominal value. One vote corresponds to each krona of nominal share value.

Statutory reserve

Statutory reserve may be used to settle losses, which can not be settled by using other reserves. When the statutory reserve amounts to one fourth of share capital the amount which is in excess may be used to increase share capital or for other needs.

12. Pension liability

Pension liability are specified as follows:

	Retirement benefit obligations	Early retirement benefits	Total
Changes in 2019			
Balance in the beginning of the year	2.682	2.040	4.723
Exchange rate difference	(450)	(73)	(523)
Payments during the year	(320)	(862)	(1.182)
Change during the year	259	710	969
Balance at end of the year	2.171	1.816	3.987
Current portion of pension liability	362	957	1.319
Non-current portion of pension liability	1.809	858	2.668
	2.171	1.816	3.987
Changes in 2020			
Balance in the beginning of the year	2.171	1.816	3.987
Exchange rate difference	90	(94)	(4)
Payments during the year	(274)	(846)	(1.120)
Change during the year	166	1.023	1.189
Balance at end of the year	2.153	1.899	4.052
Current portion of pension liability	362	1.006	1.368
Non-current portion of pension liability	1.791	893	2.684
	2.153	1.899	4.052

13. Leases

Leases are specified as follows:

Leases assets

	2020	2019
Book value 1/1	7.603	8.385
Depreciation charge	(968)	(782)
Book value 31/12	6.635	7.603

Leases assets are classified as PPE.

Leases liability

	2020	2019
Book value 1/1	7.496	8.385
Interest expenses	379	376
Leases payments	(1.248)	(1.265)
	6.627	7.496
Current portion of leases liability	1.242	800
Non-current portion of leases liability	5.385	6.696
	6.627	7.496

Leases liabilities are due to leases of land and equipment.

Notes, cont.:

14. Deferred tax liability

Changes in deferred tax liability during the year:	2020	2019
Deferred tax liability 1 /1	0 (	5.524)
Income statement charge	0	5.524
Deferred tax liability 31/12	0	0

Deferred tax liability is specified as follows:

Property, plant and equipment	9.868	15.393
Inventories	(424)	(500)
Pension liabilities	(810)	(797)
Exchange difference	(751)	108
Tax losses carried forward	(7.883)	(14.204)
	0	0

Deferred income tax liability generally reflects the income tax under the current tax which would be payable if the assets were sold or redeemed at book value.

No income taxes are payable in the year 2021. Carry-forward tax losses not utilised against profits within ten years from their formation expire. Carry-forward tax loss can be used as follows:

Loss of the year 2012, can be carried forward to 2022	2.213
Loss of the year 2013, can be carried forward to 2023	32.612
Loss of the year 2016, can be carried forward to 2026	26.652
Loss of the year 2018, can be carried forward to 2028	16.405
Loss of the year 2019, can be carried forward to 2029	79.281
Loss of the year 2020, can be carried forward to 2030	69.024
	226.186
Forward taxable loss tax asset used against tax liability	39.413
Total forward taxable loss not recognized as tax asset	186.773
	226.186

Total forward taxable loss of USD 187 million is not recognized as tax assets due to the uncertainty of the possible amount and timing that the Company can use the forward taxable loss against taxable profit in the future.

15. Income tax

Effective income tax is specified as follows:

	2020		2019	
	Amount	%	Amount	%
Profit before taxes	(87.012)		(99.123)	
Calculated tax based on current tax ratio	(17.402)	20,00%	(19.825)	20,00%
Non-deductible expenses	390	-0,45%	0	0,00%
Exchange rate difference	1.462	-1,68%	777	-0,78%
Write-down of tax assets	17.781	-20,44%	24.763	-24,98%
Non-taxable income	1	0,00%	(1)	0,00%
Adjustm. from prior year and other changes ..	(2.232)	2,56%	(191)	0,19%
Effective income tax	(0)	0,00%	5.524	-5,57%

Notes, cont.:

16. Related party disclosures

The Company has a related party relationship with its shareholder, subsidiaries of its shareholder, board members and managing director. Terms and conditions of transactions with related parties were equivalent with transactions with unrelated parties.

The following gives an overview of the transactions with related parties during the last two years as well as a statement of receivables and payables:

	2020	2019
Sales to related parties	378.244	451.493
Purchases from related parties ..... (	190.098) (	233.274)
Receivables from related parties	41.863	28.338
Accounts payables to related parties ..... (	25.604) (	10.021)
Short term loans from related parties	122.109	85.038

The short term loans are in EUR and USD. Interest expense related to the intercompany loan amounted to USD 575 thousand and currency exchange loss amounted to 4.448 thousand.

17. Auditor's fee

Audit fee for audit of financial statements and related service provided in year 2020 amounted to USD 71 thousand (2019: USD 72 thousand). Other service rendered by the audit firm in year 2020 amounted to USD 20 thousand (2019: USD 7 thousand).

18. Contract obligation

In February 2021, the Company signed a power contract with the energy supplier Landsvirkjun of buying 390 MW per year until 2036. The Company is obligated in terms of the contract.

19. Provision

In the terms of leasing contract for leased land under the operation, the Company is obligated to dismantling and removing all buildings and equipment from its premises and to restore the land to initial condition. Due to the uncertainty in timing and future expenditure required and to what extend, no provision has been recorded in the balance sheet.

20. Other matter

The Smelter is insured against operational stop due to failure of supplied energy caused by events outside the operation, subject to policy terms and conditions of contract with the power supplier. The Company also has an indemnity insurance towards 3rd party.

Corporate Governance (unaudited)

This statement is based on the corporate governance guidelines issued by Nasdaq, the SA Confederation of Icelandic Enterprise and the Icelandic Chamber of Commerce. It is adapted to the special circumstances contained in the Master Agreement between Rio Tinto á Íslandi hf. and the Icelandic government enacted by Act No. 76 of 1966 (available on the website of the Icelandic Parliament: <https://www.althingi.is>).

1. Mission and role

Our mission is to produce high-quality aluminium with maximum profitability in line with our customers' requirements, while prioritising health, safety and the environment. We resolve to be a leader in all areas of our operations, to strive for continual improvement and to act in harmony with the environment and society at all times. Our operations depend on outstanding employees and are guided by the principle of equality. We abide fully by all laws and regulations and adhere to the Rio Tinto code of conduct. Our vision is to ensure sustainable growth and competitiveness in the long term.

Rio Tinto á Íslandi hf. has five main policy focuses:

ZERO HARM
PEOPLE
VALUE CREATION
PARTNERSHIP
GROWTH

You can find out more about each of these policy focuses on Rio Tinto á Íslandi hf. website.

Rio Tinto á Íslandi hf. values are:

SAFETY
TEAMWORK
INTEGRITY
RESPECT
EXCELLENCE

You can find out more about these values in Rio Tinto á Íslandi hf. code of conduct – entitled 'The way we work' – on our website.

2. Legislation and regulations specifically governing Rio Tinto á Íslandi hf. governance and operations

Rio Tinto á Íslandi hf. field of operations is extensive and therefore subject to various pieces of legislations. As well as the Master Agreement between Rio Tinto á Íslandi hf and the Icelandic government, such legislation as the Hygiene and Pollution Prevention Act and the Annual Accounts and Public Limited Companies Act plays a major role.

Our operations require an operating licence, and Rio Tinto á Íslandi hf. was issued with an operating licence by the Environment Agency of Iceland on 7 November 2005, with an initial validity to 1 November 2020. At the initiation of the Environment Agency, the licence was extended to 1 November 2021 while work on a new licence continues. The Environment Agency also acts as a regulator. Rio Tinto á Íslandi hf. quality system includes a specific register of the laws and regulations relevant to our operations, which is reviewed and updated regularly.

3. Other rules, criteria and standards relevant to Rio Tinto á Íslandi hf. operations

- a. Rio Tinto Code of Conduct – The way we work. Available in Icelandic at riotinto.is and in English at riotinto.com
- b. Various Rio Tinto standards, e.g. Business Integrity Standard, Communities & Social Performance Standard, Disclosure & Communications Policy, Health, Safety, Environment & Communities Policy. All available at riotinto.com
- c. Rio Tinto á Íslandi hf. Equality and Equal Pay Policy. Available at riotinto.is
- d. Rio Tinto á Íslandi hf. Policy on Bullying. Available at riotinto.is
- e. Rio Tinto á Íslandi hf. Data Protection Policy. Available at riotinto.is
- f. ISO 9001
- g. ISO 14001
- h. OHSAS 18001
- i. ASI (Aluminium Stewardship Initiative) certification

4. Main aspects of internal control and risk management

Rio Tinto á Íslandi is responsible for putting in place an active system of internal control and risk management and ensuring that it is formalised, documented and verified on a regular basis. The main aims of internal control and risk management in our operations is to give reasonable assurance of satisfactory results and efficiency in our operations, to provide external and internal parties with reliable and legitimate financial information and to comply with the laws and regulations applicable to our operations.

Rio Tinto á Íslandi hf. adheres to ISO standards 9001, 14001 and 45001 and the equal pay standard ÍST 85. Our Quality Manager is responsible for conducting and processing internal audits.

There is regular assessment of the risks posed by our operations to health, the environment, safety, society and operations. These assessments are the responsibility of the company heads for each of these areas and are approved by the Executive Board.

Internal control of financial reporting is designed in such a way as to give reasonable assurance that financial reports comply with recognised financial reporting standards and present no significant shortcomings, e.g. procedural problems, errors.

One of the CEO's obligations is to keep an organisational chart clearly specifying the areas of responsibility, the powers of employees and the channels of communication within the company. The CEO must also analyse, measure and monitor the risks facing the company in its operations.

As part of the annual management review, the Executive Board and the CEO receive a presentation of key figures from the company's operations from the relevant department heads. The Quality Manager takes the minutes at such meetings. The external auditor conducts surveys on the effectiveness of internal control in connection with the audit of the company's annual accounts. Certain aspects of internal control have been regularly inspected in recent years by the internal audit department of Rio Tinto plc.

5. Policy on social responsibility and ethical standards

Rio Tinto á Íslandi hf. policy sets out that the company resolves to be a leader in all areas of its operations, to strive for continual improvement and to act in harmony with the environment and society at all times.

Rio Tinto's Communities and Social Performance standard (available on www.riotinto.is) frames the requirements the company sets and works towards as regards social responsibility. Rio Tinto's Business Integrity standard addresses in detail the ethical standards to which the company adheres and is available at riotinto.com.

Our code of conduct is entitled 'The way we work' and sets out how we conduct ourselves in line with our values and standards. It applies to all Rio Tinto staff, as well as consultants, agents, contractors and suppliers working for the company. We endeavour to ensure these fundamental rules are respected in the companies we work and deal with. Our code of conduct is available on the Rio Tinto á Íslandi hf. website.

5. Policy on social responsibility and ethical standards, cont.:

Every year, we issue a CSR report and green accounting setting out in detail our achievements and environmental and social criteria. The report is issued in accordance with Global Reporting Initiative (GRI) standards. Past reports may be consulted here: <https://www.riotinto.is/?PageID=292>.

6. Appointment of the Board and Board members

The Executive Board of Rio Tinto á Íslandi hf. is appointed on the basis of the Master Agreement between the government of Iceland and Alcan Holding Switzerland, which was signed on 28 March 1966 and ratified by the Icelandic Parliament by means of Act No. 76/1966. This Act lays down that the Executive Board is composed of seven members, of whom two are appointed by the government. A majority of Board members must be Icelandic citizens. The Board (except for the two appointed government representatives) is elected annually at the Rio Tinto á Íslandi hf. AGM. The current members of the Rio Tinto á Íslandi hf. Executive Board are:

Jean-François Claude A. Faure, Chair

Sonia Lacombe

François-Pierre Defeydeau

Brynjólfur Bjarnason

Katrín Pétursdóttir

Margrét Sanders*

Ingvi Már Pálsson*

*Icelandic government representatives

More information on the Rio Tinto á Íslandi hf. Board:

Jean-Francois Claude A. Faure (born 1960), Chair. Rio Tinto á Íslandi hf. Board member since 2016. Graduate in Engineering from the École des Mines de Paris (France). Current occupation: consultant. Diverse experience in managerial positions in the aluminium industry spanning over 37 years (e.g. Pechiney, Alcan, Rio Tinto). Board member at Aluchemie. No connection with major clients or competitors and not a shareholder of the company.

Sonia Lacombe (born 1965). Rio Tinto á Íslandi hf. Board member since 2014. M.Sc. & MBA, Managing Director of Rio Tinto Procurement Singapore. Over 35 years' experience in aluminium and mining consulting. No connection with major clients or competitors and not a shareholder of the company.

Francois-Pierre Defeydeau (born 1979). Rio Tinto á Íslandi hf. Board member since 2016. M.Sc. in Finance. Managing Director of Rio Tinto Minerals Europe Business Development. Chairman of the Board and Managing Director of Borax Rotterdam NV, 100% subsidiary of Rio Tinto International Holdings. No other connections with customers or competitors. Not a shareholder of the company.

Brynjólfur Bjarnason (born 1948). Rio Tinto á Íslandi hf. Board member since 2016. MBA, University of Minnesota (USA) and Cand.oecon from the University of Iceland. Long career as manager and Board member in various companies (e.g. Managing Director of Enterprise Investment Fund and CEO of Skipti, Síminn and Grandi). Full Board member at Arion Banki and Marininvest and alternate Board member at Ferguson. No connection with major clients or competitors and not a shareholder of the company.

Katrín Pétursdóttir (born 1962). Rio Tinto á Íslandi hf. Board member since 2011. Graduate in Industrial Operations from the Technical College (Iceland). CEO of Lýsi and Managing Director of a company owned by Lýsi. Board member at Rammi and Akraborg and other smaller companies. No connection with major clients or competitors and not a shareholder of the company.

Margrét Sanders (born 1960). Rio Tinto á Íslandi hf. Board member since 2016. MBA, Western Carolina University (USA). Partner and consultant at Strategia. Extensive experience of management and finance, e.g. consultant at Deloitte for 17 years. Board member at HS Veita. No connection with major clients or competitors and not a shareholder of the company.

Ingvi Már Pálsson (born 1972). Rio Tinto á Íslandi hf. Board member since 2019. Director-General for Energy Industry at the Ministry for Industries and Innovation. Lawyer with an LL.M degree. Board member at ISOR. No connection with major clients or competitors and not a shareholder of the company.

7. Board activities

The Rio Tinto á Íslandi hf. Board usually meets formally twice a year. One Board meeting and the AGM usually take place in May and the second Board meeting in November. Between these formal meetings, the Board meets as and when required.

In view of the company's specific position and the composition of its Board, the company does not intend to enact special rules of procedure or conduct a performance appraisal.

8. Performance appraisal of the Board and sub-committees

Rio Tinto á Íslandi hf. has not conducted a specific performance appraisal of its activities. There are no operational sub-committees to the Board.

There is, however, an audit committee operating under the aegis of the parent company, Rio Tinto.

9. General Manager and senior management

Rannveig Rist (born 1961) has been the General Manager of Rio Tinto á Íslandi hf. since 1997. She holds an MBA degree from the University of San Francisco, an AMP diploma from Reykjavík University, a degree in Mechanical Engineering from the University of Iceland, a Master's degree in Mechanical Engineering and Level 4 Mechanical Engineering diploma. She has no connection with major clients or competitors and is not a shareholder of the company.

Reporting to the General Manager are six Managing Directors:

Árni Stefánsson	Casthouse
Birna Pála Kristinsdóttir	HSEQ and Technology
Einar Aron Einarsson	Electrolysis
Gaukur Garðarsson	Maintenance
Jakobína Jónsdóttir	Human Resources
Sigurður Þór Ásgeirsson	Finance

10. Convictions or fines

Under the Master Agreement between Rio Tinto á Íslandi hf. and the Icelandic government ratified by the Icelandic Parliament in 1966, Rio Tinto á Íslandi hf. pays fees to its parent company for various types of assistance and consultancy. The Icelandic tax authorities ruled that these arrangements did not comply with new legislation on transfer pricing between related parties as regards the period 2014–16. Mid-2020, Rio Tinto Iceland referred the matter to the State Internal Revenue Board, which upheld the tax authorities' ruling. Since then, Rio Tinto á Íslandi hf. has been working together with its parent company on adapting these payments to bring them in line with the requirements of the tax authorities.

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