



Annual Report 2022

Rio Tinto Iceland Ltd.

Rio Tinto á Íslandi hf.
(Rio Tinto Iceland Ltd.)

Financial Statements
2022

Rio Tinto á Íslandi hf.
Straumsvík
222 Hafnarfirði

id.no. 680466-0179

Contents

	Page
Independent auditor's report	7-9
Endorsement by the Board of Directors and the General Manager	10-13
Income Statement	15
Balance Sheet	16-17
Cash Flow Statement	18
Statement of Changes in Equity	19
Notes	20-31
Annex A, Non-Financial Information	33-39
Annex B, Governance Statement	41-45

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 31 December, 2022, the income statement, statement of cash flows and statement of changes in equity 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 31 December, 2022, and of its financial performance and its cash flows for the year then ended in accordance with the Icelandic Financial Statement Act.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

Basis for Opinion

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

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were first appointed as auditors by the Annual General Meeting in March 2020. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

Key Audit Matters

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

Key Audit Matters	How the matter was addressed in the audit
Revenue recognition	
Reference is made to note 20.2 "Revenue recognition".	We assessed if the design of relevant controls were likely to ensure right timing of the 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.	We confirmed revenue by obtaining direct confirmation from related company within the group.
Almost all sale of the Company is to the related company. The control is transferred when goods leaves the harbour in Straumsvík and revenue is recognised at that time.	We evaluated whether sales transactions on either side of the balance sheet date as well as credit notes issued after year end were recognized in the correct period.
The description continues on next page.	

Independent auditor's report, cont.:

Key Audit Matters, cont.:

Key Audit Matters	How the matter was addressed in the audit
Revenue recognition, cont.:	
Local and Group management is in a position to influence the timing of the revenue recognition either by premature or late revenue recognition which gives rise to a fraud risk related to the timing of revenue recognition. The timing of revenue recognition is therefore one of the key audit matters of our audit of the financial statements.	See how the matter was addressed in the audit on prior page.
Valuation and accounting treatment of embedded derivatives	
Reference is made to note 20.5 and 9 "Embedded derivatives".	We involved our valuation specialists to:
Embedded in the Company's contract is a derivative which is based on the London Metal Exchange (LME) market price of aluminium. The embedded derivative is separated from the host contract and presented separately in the balance sheet and measured at fair value. Change in the fair value of the derivative is recorded in the income statement.	<ul style="list-style-type: none">- Challenge key assumptions relating to the valuation and calculation of embedded derivatives and to evaluated the reasonableness of management's key judgements for the selection and application of methods, models, assumptions and data sources.- Evaluate the appropriateness and test the mathematical accuracy of the calculation by recalculating using our own models.- Evaluated the completeness, accuracy and relevance of disclosures required.
Due to the complexity and sensitivity of the estimate of the fair value of the embedded derivatives and that any change in management assumptions such as future market price of aluminium and changes in billet premium can have significant effect on the income statement and balance sheet of the Company, valuation of embedded derivatives is a key audit matter in our audit of the financial statements of the Company.	We evaluated the appropriateness of the accounting treatment of the embedded derivatives and the presentation and related disclosure in the financial statements.

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, cont.:

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

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 and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements 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 Statements Act if not disclosed elsewhere in the financial statements.

Hafnarfjörður, 24 May 2023.

KPMG ehf.

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

Main activities

The ISAL aluminium smelter is operated by Rio Tinto Iceland Ltd and is part of Rio Tinto Aluminum which is the aluminum part of the Anglo Australian mining company Rio Tinto. Rio Tinto headquarters are in London, but the largest part of the operation is in Australia and North America. The Headquarters of Rio Tinto Aluminum are in Montreal in Canada.

Our purpose is to continuously find better ways to produce high quality aluminum with maximum profitability in conformance to customers' requirements by keeping environmental, safety and health affairs in the forefront. The company has resolved to be a leader in all of its operations, to be guided by continual improvements and to act at all times in reconciliation with environment and society. Our future depends on outstanding employees where equality is a guiding light. We abide entirely by laws and regulations and by Rio Tinto code of conduct. Our vision is to ensure growth and competitiveness of the company in a sustainable manner and achieve carbon neutrality by 2040.

ISAL has a combined management system for quality, health, safety and environment that is certified by international standards ISO 90001, ISO 14001 and ISO 45001 in addition to a certified equal pay system in line with ÍST 85 standard. The company is also ASI certified (Aluminum Stewardship Initiative).

The main products of ISAL are value added aluminum billets. The billets from ISAL are ready for extrusion with customers. The billets are produced in various alloys, different sizes and diameters according to the customers wishes. The products from ISAL are used for various specialized products in the construction industry, auto industry, profiles and frames around solar cells to name a few examples. ISAL's customers are around 60, mostly in Europe but the number of customers varies between years. ISAL's sales office is in Paris and is managed by Rio Tinto. The main input into the operation is alumina, electricity, and anodes. Alumina is sourced from Rio Tinto. Electricity comes from Landsvirkjun, the state-owned power company which only produces renewable energy. Anodes come from various suppliers, mostly in China.

Continuous improvements and lean management are one of the main pillars of the operation. All incidents are recorded and analyzed. Risk assessment is performed in accordance with the business, environment, health, safety and community.

On October 28th 2021 the Icelandic Environmental agency issued a new operating license for ISAL valid until November 1st 2037. Various new requirements are part of the new license and the dilution zone around the smelters is no longer part of the license. The license has implemented requirements for best available technology (BAT). In December 2021 a complaint was filed with Ruling committee on environmental issues. In November 2022 the committee ruled that the overall capacity in the operating license was lowered to 212.000 tons from 460.000 tons.

The operating license is accessible on the website of the Environmental agency. The agency is also the surveillance authority for the company. The company is registered under the company code „2.1 aluminum production” according to the regulation on the Green Account nr 851/2002.

The board of the company is represented by seven individuals. On behalf of the owner: Jean-Francois Faure, Chairman, Etienne Jacques, Maria Tournas, Brynjólfur Bjarnason and Katrín Pétursdóttir. On behalf of the Government of Iceland are Margrét Sanders and Magnús Júlíusson but they are appointed on the bases of the Master agreement with the Government from 1966. Further information on the board can be found in Annex B - Corporate Governance.

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

Health, Safety & Environment

Three lost-time incidents (LTI) occurred in 2022. All incidents at ISAL, such as accidents, near accidents and dangerous incidents are reported. They are investigated and the results are used to make appropriate reforms. We strive to learn from incidents at ISAL, from the parent company as well as outside of the company to prevent similar incidents happening at ISAL.

The emission of fluoride was 0.5 kg/t Al and dust was 0.72 kg/t Al. The emission of sulphur dioxide was 13,9 kg/t Al, which is well below the operating limit.

Emission of greenhouse gases from the production in 2022 was 1,55t/Al or 313.515 tons.

Market conditions and production

The business environment for the company fluctuated in 2022. Early on the LME price was very high and demand strong. After Russia attacked Ukraine and the war broke out, market conditions deteriorated. Global energy prices and inflation picked up and market volatility increased. Nevertheless, average prices were high, and the cash LME price average was \$2,703 per tonne, 9% higher than in 2021.

Potrooms produced 202,268 tons which is slightly above plan. This is an especially good result since ISAL was subject to energy curtailment from Landsvirkjun in the beginning of the year because of low level of waters in the reservoirs.

Casthouse produced 223,111 tons. Value added production was 219,283 tons or 98,3% of total production which is very acceptable considering market volatility, especially in Q4.

Casthouse continued to put special emphasis on quality issues and a good relationship with customers. As a result, ISAL is rated as an A-supplier among customers who issue such evaluation.

Human Resources

The number of ISAL employees at year-end 2022 was 371 in 364 full time positions. 80% of employee were male and 20% female but nobody was listed a non-binary according to the national central register. Wages and related expenses were \$45,6M.

Employee turnover rate was 6,7% in 2022 compared to 4% in 2021. 22% of new employees in 2022 were women and 78% men if summer workers are excluded.

Main Risks and uncertainty factors

The main risks and uncertainty factors related to the operation of the Company are fluctuation in aluminium market prices and demand, and raw material prices and availability. Rio Tinto plc the ultimate parent company publishes further information 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 a special chapter for Corporate Governance in Annex B to the 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 Group.

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

Finances

In 2022 revenues were \$873,9M compared to \$706,8M the previous year. The increase is 23,6% because of higher aluminum price and premium.

Operating profit is \$159,7M compared to \$119,3M the previous year.

According to the balance sheet total assets at year-end 2022 amounted to \$729,4M compared to \$626,7M the previous year. Total equity at year-end 2022 amounted to \$543,6M compared to \$417,9M the previous year.

Corporate governance

The financial statements of the Company include an Annex B on the Corporate Governance of the Company.

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

Non-financial information

Annex A of the financial statements includes various non-financial information necessary to evaluate various aspects of the operation relating to environment, health, safety, human resources, community, stakeholders and code of conduct. Annex B includes Corporate Governance statement.

Miscellaneous

During the annual meeting of 2022 changes were made on the board of ISAL. Ingvi Már Pálsson left the board and was replaced by Magnús Júlíusson.

Events after the completion of the Financial Statements

ISAL requested that case no. 173/2021 where the Environmental and Natural Resources Appeals Committee (ÚUA) reduced the permitted production volume of the operating license to 212,000 tons per year, to be re-opened. The company believes that the ÚUA's decision was based on incorrect assumptions. ISAL requested that ÚUA changed its ruling in line with ISAL's actual production capacity of up to 260,000 tons. As a reserve, it is requested that the production volume of the operating license will be changed to 230,000 tons. The ÚUA has rejected the request.

Future prospects

The outlook for ISAL is favorable. Aluminum prices remained high throughout early part of 2022 but conditions deteriorated in latter part of the year. In general, the market outlook for aluminum with low carbon footprint like ISAL produces is good and market position among customers good. The amended power agreement with Landsvirkjun, that was signed in 2021, and a new operating license valid until 2037 further secure the foundation of the operation.

Disposition of profits

The Board refers to the Statement of Changes in Equity as regards the offsetting of the year's profit. 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 Iceland Idt.

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

Statement by the Board of Directors and 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 2022, its assets, liabilities and financial position as at 31 December 2022 and its cash flows for the year 2022 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 Iceland Ltd. hereby confirm the annual financial statements of Rio Tinto Iceland Ltd.

Straumsvík, 24th May 2023

Board of Directors

General Manager

Jean-Francois Faure, Chairman

Rannveig Rist

Etienne Jacques

Maria Tournas

Brynjólfur Bjarnason

Katrín Pétursdóttir

Margrét Sanders

Magnús Júlíusson

Income Statement for the year 2022

	Note	2022 USD '000	2021 USD '000
Operating revenue	20.2	873.386	706.209
Other income		543	593
		<u>873.929</u>	<u>706.803</u>
Raw materials and energy		(505.509)	(415.099)
Other manufacturing expenses		(63.546)	(52.573)
Salaries and related expenses	4	(45.588)	(47.166)
Administrative expenses		(10.435)	(9.706)
Fair value change of embedded derivatives	9	(37.175)	(7.229)
Depreciation and amortization	6	(51.982)	(55.752)
		<u>(714.235)</u>	<u>(587.525)</u>
Operating profit		159.695	119.278
Interest income		2.152	19
Interest expense		(484)	(490)
Net currency exchange gain		206	6.247
		<u>1.874</u>	<u>5.776</u>
Profit before tax		161.568	125.054
Income tax	7	(35.933)	10.968
Profit for the year		<u><u>125.635</u></u>	<u><u>136.021</u></u>

Balance Sheet as of 31. December 2022

Assets	Note	31.12.2022 USD '000	31.12.2021 USD '000
Non-current assets			
Intangible assets		1.459	290
Property, plant and equipment	8	329.103	341.544
Embedded derivatives	9	23.684	34.262
Shares in other companies		23	20
Deferred tax asset	14	0	10.968
		354.269	387.084
Current assets			
Inventories	10	128.277	100.047
Trade and other current receivables		22.708	28.972
Trade receivables from related companies	16	37.514	92.086
Other receivables from related companies	16	184.993	0
Embedded derivatives	9	0	17.271
Cash and cash equivalents		1.606	1.217
		375.100	239.593
Assets		729.369	626.677

Balance Sheet, cont.:

Equity and liabilities	Note	31.12.2022 USD '000	31.12.2021 USD '000
Capital and reserves	12		
Share capital		4.906	4.906
Share premium		234.024	234.024
Statutory reserve		1.195	1.195
Retained earnings		303.439	177.804
Equity		<u>543.563</u>	<u>417.928</u>
Non-current liabilities			
Pension liability	13	2.444	3.111
Deferred tax liability	14	17.032	0
Provisions	15	9.130	0
Leases liability	11	4.265	4.985
Embedded derivatives	9	13.045	44.488
		<u>45.916</u>	<u>52.585</u>
Current liabilities			
Trade payables		45.800	36.503
Trade payables to related companies	16	25.061	25.946
Other liabilities to related companies	16	1.195	50.449
Current portion of pension liability	13	1.565	1.446
Current portion of leases liability	11	817	1.149
Embedded derivatives	9	8.495	2.087
Income tax payable	7	7.934	0
Other current liabilities		49.024	38.583
		<u>139.889</u>	<u>156.165</u>
Liabilities		<u>185.806</u>	<u>208.749</u>
Total equity and liabilities		<u><u>729.369</u></u>	<u><u>626.677</u></u>

Statement of Cash Flows for the year 2022

	Notes	2022 USD '000	2021 USD '000
Operating activities			
Profit for the year		125.635	136.021
<i>Adjustments for:</i>			
Depreciation and amortization	6	51.982	55.752
Loss on sale of assets		261	1.473
Change in deferred tax asset/liability		27.999	(10.968)
Change in fair value of embedded derivatives		1.593	(7.229)
Net financial (income) expense		(1.668)	472
Other changes		(667)	758
Working capital from operating activities		205.136	176.279
Inventories, (increase)		(28.231)	(54.177)
Trade and other current rec., decrease, (increase)		6.263	(12.743)
Trade and other current liab., increase		27.330	35.072
Trade rec. from rel. comp., decrease, (increase)		54.572	(50.223)
Trade payables from related comp., increase		310	342
Cash generated from operating activities		265.380	94.550
Interest received		2.152	19
Interest paid		(324)	(490)
Net cash from operating activities		267.207	94.079
Investing activities			
Acquisition of equipment and intangible assets		(30.200)	(21.791)
		(30.200)	(21.791)
Financing activities			
Change in current account with related company.....		(235.443)	(71.660)
Repayment of lease liability		(1.176)	(1.295)
		(236.618)	(72.955)
Net increase (decrease) in cash and cash equivalents		389	(668)
Cash and cash equivalents at beginning of the year		1.217	1.885
Cash and cash equivalents at year-end		1.606	1.217

Statement of Changes in Equity for the year ended 31. December 2022

	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Changes in 2022					
Equity at 1.1.2022	4.906	234.024	1.195	177.804	417.928
Profit for the year				125.635	125.635
Equity at 31.12.2022	<u>4.906</u>	<u>234.024</u>	<u>1.195</u>	<u>303.439</u>	<u>543.563</u>
Changes in 2021					
Equity at 1.1.2021	4.906	234.024	1.195	41.782	281.907
Profit for the year				136.021	136.021
Equity at 31.12.2021	<u>4.906</u>	<u>234.024</u>	<u>1.195</u>	<u>177.804</u>	<u>417.928</u>

For further information see note 12.

Notes to the Financial Statements

1. General information

Rio Tinto á Íslandi hf. (the Company) is a limited company and complies with the Icelandic limited companies law nr. 2/1995.

The Company is domiciled in Iceland and is a producer of aluminium that operates a production plant at its legal residence in Straumsvík, 220 Hafnarfirði.

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 on the website: <https://www.riotinto.com/invest/financial-news-performance/results>.

2. Basis of preparation

The Financial Statements have been prepared in accordance with Icelandic Financial Statements Act no. 3/2006 and the regulation no. 696/2019 on the content and presentation of financial statements. The accounting policies applied are consistent with those of the previous financial year. For further information on accounting policies refer to Note 20.

The Financial Statements have been prepared on the historical cost basis, except for embedded derivatives which are measured at fair value and defined benefit pension liabilities and restoration provision which are measured at the present value of the obligation.

The Financial Statements are presented in US dollar (USD) which is the Company's functional currency.

3. Estimates and decisions

In applying the Company's accounting policies, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The following are the critical judgements and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- The useful lives and impairment of property, plant and equipment - refer to note 8.
- Fair value measurement of embedded derivatives - refer to note 9.
- Fair value measurement of restoration provision - see note 15.

4. Salaries and other employee expenses

	2022	2021
Salaries	37.441	37.616
Pension fund contribution	5.166	5.171
Other salary related expenses	2.671	3.620
Other employee related expenses	310	759
	<u>45.588</u>	<u>47.166</u>
Average number of full time employees (FTE)	387	380

Notes, cont.:

5. Fees to auditors

Fees to auditors of the Company are specified as follows:

	2022	2021
Audit of financial statements	161	80
Other services	4	5
	<u>164</u>	<u>85</u>

6. Depreciation and amortization

Depreciation and amortization is specified as follows:

	2022	2021
Amortization of intangible assets	86	38
Depreciation of property, plant and equipment (see note 8)	50.675	53.509
Amortization of embedded derivatives (see note 9)	1.222	2.204
	<u>51.982</u>	<u>55.752</u>

7. Income tax

Income tax has been calculated and recorded in the Financial Statements. The amount charged to the Income Statement is USD 35,9 million (2021: 11,0 million income). Income tax payable in the year 2023 is USD 7,9 million (2022: 0 million).

Active income tax is analyzed as follows:

	2022		2021	
	Amount	%	Amount	%
Profit before tax	161.568		125.054	
Tax rate	32.314	20,0%	25.011	20,0%
Exchange rate difference	683	0,4%	236	0,2%
Change in estimate of tax assets	(2.855)	(1,8%)	(43.209)	(34,6%)
Other items	5.791	3,6%	6.995	5,6%
Income tax acc. to income statement	<u>35.933</u>	<u>22,2%</u>	<u>(10.968)</u>	<u>(8,8%)</u>

8. Property, plant and equipment

	Buildings and land	Plant and machinery	Assets under construction	Total
Cost				
Balance at 1.1.2021	257.290	684.659	13.455	955.404
Fully depreciated assets		(2.813)		(2.813)
Additions			21.791	21.791
Additions right-of-use asset	403	214		617
Transfer from assets under constr.	610	16.294	(16.904)	(0)
Disposals		(7.067)	(9)	(7.077)
Balance at 1.1.2022	<u>258.304</u>	<u>691.287</u>	<u>18.333</u>	<u>967.923</u>
Additions		9.312	29.587	38.899
Additions right-of-use asset	238			238
Additions from assets under constr.	703	25.688	(27.248)	(857)
Disposals		(9.941)	(39)	(9.980)
Balance at 31.12.2022	<u>259.245</u>	<u>716.346</u>	<u>20.633</u>	<u>996.224</u>

Notes, cont.:

8. Property, plant and equipment (continued)

Depreciation

Balance at 1.1.2021	162.055	419.953	0	582.008
Fully depreciated assets		(2.813)		(2.813)
Depreciation for the year	7.473	46.036		53.509
Disposals		(6.325)		(6.325)
Balance at 1.1.2022	169.529	456.851	0	626.379
Depreciation for the year	7.498	43.176		50.675
Disposals		(9.933)		(9.933)
Balance at 31.12.2022	177.027	490.094	0	667.121

Book value

Balance at 1.1.2021	95.235	264.706	13.455	373.396
Balance at 1.1.2022	88.775	234.436	18.333	341.544
Balance at 31.12.2022	82.219	226.252	20.633	329.103

Depreciation rates 0-20% 3-25% 0%

Assets under construction are not depreciated. They are reclassified to the relevant category (*Buildings and land* or *Plant and machinery*) once construction is completed and the assets are available for their intended use.

The assessment- and insurance value for the Buildings and Land is specified as follows:

	31.12.2022		31.12.2021	
	Assessment value	Insurance value	Assessment value	Insurance value
Buildings	96.383	238.000	97.231	217.456
Land	47.210		45.807	

9. Embedded derivatives

Embedded in the Company's contracts is a derivative which is based on the global market price of aluminium. The embedded derivative has been extracted from the contract and is shown separately in the balance sheet. Change in the fair value of the derivative is recorded in the income statement as follows:

	2022	2021
Raw materials and energy	(35.582)	(14.392)
Fair value change of embedded derivatives	37.175	7.229
Depreciation and amortization	1.222	2.204
	2.815	(4.959)

Notes, cont.:

9. Embedded derivatives (continued)

Embedded derivatives are presented as follows in the balance sheet:	31.12.2022	31.12.2021
Non-current assets	23.684	34.262
Current assets	0	17.271
	<u>23.684</u>	<u>51.534</u>
Non-current liabilities	13.045	44.488
Current liabilities	8.495	2.087
	<u>21.540</u>	<u>46.575</u>

The method used to evaluate the embedded derivatives is the Black-Sholes model. The fair value estimates are subject to assumption, mainly due to developments of aluminium prices. The actual results may differ from these estimates. An increase in aluminium prices will result in higher costs. A 10% increase in prices underlying the derivative will result in a pre-tax loss of 27 million USD. A 10% decrease in prices underlying the derivative will result in a pre-tax gain of 31 million USD.

10. Inventories

	31.12.2022	31.12.2021
Raw material and other inventory	92.011	72.965
Work in progress	15.865	12.016
Finished goods	8.814	4.619
Operating materials and spare parts	11.588	10.448
	<u>128.277</u>	<u>100.047</u>

During the year the Company recognised expenses in the amount of USD 599 thousand as a result of an increase in the write down of spare parts inventories. There is no write-down recognised for raw materials, WIP and finished goods inventories.

11. Leases

The Company has entered into agreements for the lease of land and equipment that are recognised on the balance sheet. The single most significant lease is for the lease of the site in Straumsvík, which expires in 2024. The Company has a right to extend the lease and has recognised a liability for a lease period ending in 2035.

Lease assets and liabilities recognized on the balance sheet

	Lease liabilities		Lease assets	
	2022	2021	2022	2021
Balance at beginning of year	6.134	6.627	6.257	6.635
Additions	238	617	238	617
Repayments / depreciation	(1.175)	(1.295)	(959)	(995)
Interest expenses	305	391	0	0
Exchange rate differences	(420)	(206)	0	0
Balance at year end	<u>5.082</u>	<u>6.134</u>	<u>5.536</u>	<u>6.257</u>

Maturity analysis of lease liabilities:	31.12.2022	31.12.2021
Payable within 12 months	817	1.149
Payable within 2 - 5 years	2.013	2.437
After year 5	2.253	2.548
	<u>5.082</u>	<u>6.134</u>

Notes, cont.:

11. Leases (continued)

Amounts recognised in the income statement	2022	2021
Depreciation of lease assets	(959)	(995)
Interest expense from lease liabilities	(305)	(392)
Payments for short-term leases	(236)	(156)
Payments for the lease of low value assets	0	(1)
Total expenses from leases in income statement	(1.499)	(1.544)

12. Equity

Share capital

The number of issued and fully paid ordinary shares at year-end is 161.456.521 (2021: 161.456.521). The nominal value of each share is ISK 1 and each share carries one vote. The Company does not hold any treasury shares at 2022 year-end (2021: 0).

Share premium

The share premium account represents the amount received or receivable from the issuance of the Company's shares in excess of nominal value.

Statutory reserve

In accordance with the Icelandic Act no 2/1995 on Public Limited Companies, the Company is to retain 10% of its annual profit in a statutory reserve until it equals 10% of the outstanding shares. After that, the Company is to retain 5% until the reserve equals 25% of the outstanding shares.

Retained earnings

Retained earnings represents the earned capital of the Company. Earned capital is the capital that develops and builds up over time from profitable operations after deducting dividends declared and paid to shareholders, and any transfers to or from restricted reserves in accordance with the applicable laws and regulations.

13. Pension liability

	Retirement benefit obligation	Early retirement benefits	Total
Changes in 2021			
Balance at beginning of year	2.153	1.899	4.052
Exchange rate difference	(64)	(62)	(126)
Payments during the year	(274)	(947)	(1.221)
Charged to profit and loss	240	1.613	1.853
Balance at year end	2.055	2.502	4.558
Classified as current	285	1.161	1.446
Classified as non-current	1.770	1.341	3.111
	2.055	2.502	4.558
Changes in 2022			
Balance at beginning of year	2.055	2.502	4.558
Exchange rate difference	(12)	(282)	(294)
Payments during the year	(184)	(907)	(1.091)
Charged to profit and loss	(725)	1.562	837
Balance at year end	1.134	2.875	4.009
Classified as current	70	1.495	1.565
Classified as non-current	1.064	1.380	2.444
	1.134	2.875	4.009

Notes, cont.:

13. Pension liability (continued)

The Retirement benefit obligation of the Company at 31. December 2022 amounts to CHF 1.047.000 which is equivalent to USD 1.133.733. The calculation is according to an actuarial statement of the balance at year end 2022.

Employees who meet certain requirements can apply for an early retirement. The agreement stipulates that the employee can retire from work up to three years before reaching the age of 64 – 67 (depending on which contract they are under). They continue to receive certain payments and benefits from the Company for maximum of 3 years or when they reach formal retirement age (67 – 70 depending on the contract) which ever comes first.

14. Deferred tax assets/ (-liabilities)

	Asset / (liability)	
	2022	2021
Balance at beginning of year	10.968	0
Income tax expense for the year	(35.933)	10.968
Income tax payable for the year	7.934	0
Balance at year-end	(17.032)	10.968

Deferred tax assets/(-liabilities) is specified as follows by individual items at year-end:

	31.12.2022	31.12.2021
Property, plant and equipment	(18.722)	(2.541)
Current assets	646	526
Deferred exchange rate difference	(345)	(435)
Other items	1.389	1.147
Effects of tax losses carried forward	0	12.271
	(17.032)	10.968

Income tax loss carry forward amounted to zero at year end 2022 (2021: 97.645 thousand)

15. Provisions

Restoration provision

	2022
Balance at beginning of year	0
Restoration provision recognised	8.971
Effects of discounting	159
Balance at year-end	9.130

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. As a result the Company has recognised a provision for the restoration of its site in Straumsvík. Due to associated uncertainty, it is possible that estimates may need to be revised during the next accounting periods when the extent of restoration procedures are assessed in more detail. Changes to the restoration provision are recognised as an adjustment to property, plant and equipment.

Notes, cont.:

16. Related parties

Related parties are those parties which have considerable influence over the Company, directly or indirectly, including parent company, owners or their families, large investors, key employees and their families and parties that are controlled or dependent on the Company, i.e. affiliates and joint ventures. Business with related parties has been done on a similar basis as business with unrelated parties.

Total salaries and pension fund contributions for the Company's board of directors, general manager and key manager personnel amounted to USD 3.245 thousand for the year 2022 (2021: 3.766 thousand). Transactions with board members, general manager and key manager personnel are solely related to salaries and pension benefits.

Transactions with related entities 2022:

	Sale of goods and services	Purch. goods and services	Other income	Receivables	Payables
Sister companies	873.386	221.090	493	222.508	25.388
Other related parties	0	5.189	0	0	868
	<u>873.386</u>	<u>226.279</u>	<u>493</u>	<u>222.508</u>	<u>26.256</u>

Operating revenues are entirely from sales to a sister company in France.

At 2022 year-end, the Company has a receivable from its sister company in the amount of USD 184 million (2021: 50,5 million payable) which is related to treasury management within the group. The balance of the treasury management account is classified as current receivable/payable and bears fixed interest. Interest revenue for the year 2022 amounted to USD 2.042 thousand (2021: 97 thousand in interest expense).

Transactions with related entities 2021:

	Sale of goods and services	Purch. goods and services	Other income	Receivables	Payables
Sister companies	706.209	243.535	2	92.086	75.740
Other related parties		4.176	0	0	655
	<u>706.209</u>	<u>247.711</u>	<u>2</u>	<u>92.086</u>	<u>76.396</u>

17. Financial instruments

The Company manages capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company is not subject to external requirements for a minimum equity ratio.

Management monitors and analyses financial risks in the operations of the Company. Methods for financial risk management are reviewed on a regular basis to analyse any changes in the market or the Company's operations. The following risks have been identified for the Company's financial instruments.

Market risk

Market risk consists of currency risk. The Company's objective is to manage and limit risk within defined limits, as well as to maximise returns.

Notes, cont.:

17. Financial instruments (continued)

Currency risk

Part of the Company's monetary assets and liabilities is denominated in foreign currencies and consequently exposures to exchange rate fluctuations arise, predominantly receivables and payables in ISK and EUR. The Company seeks to minimise currency risk through the monitoring of exchange rate fluctuations and the appropriate combination of monetary assets and liabilities in main transaction currencies.

The exchange rates and carrying amounts of the Company's foreign currency denominated monetary assets and liabilities are as follows:

31 December 2022:	Exchange rate	Assets	Liabilities	Net balance
ISK	0,007	21.705	30.083	(8.378)
EUR	1,067	377	3.379	(3.002)
Other currencies		15	1.048	(1.033)
		22.097	34.509	(12.412)
31 December 2021:	Exchange rate	Assets	Liabilities	Net balance
ISK	0,008	1.008	32.129	(31.121)
EUR	1,132	195	2.893	(2.698)
Other currencies		2	267	(265)
		1.205	35.289	(34.084)

A 10% strengthening of the USD against foreign currencies would have a negative pre-tax effect of USD 1,24 million on profit for the year (2021: negative 3,4 million). This analysis includes the foreign denominated monetary items detailed in the table above, with all other factor remaining constant. A 10% weakening of the USD against these currencies would have the same effect but in the opposite direction.

Credit risk

Credit risk is the risk of a counterparty defaulting on a loan or a payable, resulting in a loss for the Company. Receivables are predominantly from related companies as all operating revenues are from sales to a sister company in France. As a result balances of receivables from non-related entities are not material. The Company does not recognise any write down of receivables as its effects are deemed immaterial.

Liquidity risk

Liquidity risk is the risk inherent in the loss that the Company may incur because it cannot meet its obligations within the required time limits. The Company's management monitors the liquidity position by analysing the maturity of financial assets and liabilities to ensure that the Company can repay all debt at maturity. In addition, the Company regularly monitors the development on the market and the effect it may have on the Company's future prospects. At year-end the Company has a strong liquidity position with a current ratio of 2,6 (2021: 1,5) and quick ratio of 1,7 (2021: 0,9).

18. Contract obligations

The Company is obligated by the terms of the power contract with the energy supplier Landsvirkjun.

19. Other matters

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.

Notes, cont.:

20. Significant accounting policies

20.1 Foreign currencies

Foreign currency transactions, in other currency than USD, are entered at the prevailing exchange rate on the day of the transaction. Monetary assets and liabilities in foreign currencies are recognised at the exchange rate at the end of the reporting date. The resulting exchange rate difference is recognised in the income statement within financial income and expense.

20.2 Revenue recognition

Revenue from sales of goods is recognised when earned. Sale of goods are recognised when the Company has transferred the significant risks and rewards of ownership of the goods to the buyer, according to the agreed delivery term for each sale. Revenue collected during the accounting period but relating to subsequent periods is recognised in the balance sheet as deferred income. Revenue earned in the accounting period but collected after the end of it is recognised in the balance sheet as trade receivables.

All of the operating revenues of the Company is from sales to the related Company Rio Tinto Aluminium Pechiney in France. The control is transferred when goods leave the harbour in Straumsvík and revenue is recognised at that time.

20.3 Expense recognition

Expenses incurred to earn revenue during the period are recognised as operating expenses. Expenses incurred during the fiscal year but relating to subsequent fiscal years are recognised in the balance sheet as prepaid expenses. Expenses relating to the fiscal year but payable later are recognised as liabilities as accrued expenses in the balance sheet.

20.4 Financial income and expenses

Interest income is recognised for the period in accordance with the relevant principal and interest rate.

Financial expenses are recognised in the income statement during the period in which they accrue. Borrowing costs are capitalised and amortised on a straight-line basis using the effective interest rate method over the duration of the loan.

20.5 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 derivatives 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.

The Company has a long term agreement which contains embedded derivatives. Income from this agreement is directly correlated to changes in the future price of aluminium. Changes in the fair value of derivatives is not designated as a hedge and separable embedded derivatives are recognized immediately in profit or loss.

Non-option like derivatives are bifurcated so as to have an initial fair value of zero but a option-like derivative embedded in the contract give rise to a liability and correspondingly to the recognition of an asset that is amortised over the life of the contract.

20. Significant accounting policies (continued)

20.6 Taxation

Income tax is calculated and recognised in the financial statements. The calculation is based on earnings before taxes, adjusted for the permanent difference between taxable results and results according to the income statement. The income tax rate is 20%.

Income tax payable is an income tax that is estimated to be paid next year due to taxable profits for the year as well as adjustments to income tax payable for previous years.

Deferred tax is due to the difference between the carrying amounts of balance sheet items in the tax settlement and the financial statements. The difference is because the Company's income tax base is based on other assumptions than its financial statements.

Deferred tax assets are evaluated on the reporting date and only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

20.7 Property, plant and equipment

Assets are recognised as property, plant and equipment when it is probable that the future economic benefits associated with the asset will flow to the entity and the cost of the assets can be measured reliably. Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment consists of the purchase price and all direct costs of bringing the property into a revenue-generating state.

Property, plant and equipment are amortised on a straight-line basis over their estimated useful lives, taking into account their expected residual value.

Gains or losses on the sale of property, plant and equipment is the difference between the sales price and the carrying amount of the asset on the date of the sale, and is recognised in the income statement on sale.

20.8 Intangible assets

Intangible assets are recognised when it is probable that the future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

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, and expensed as Other manufacturing cost in the income statements when used. If production for the period exceeds allocated and purchased emission allowances, the Company recognises a liability for the excess usage based on the market price for emission allowances at the reporting date.

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

20. Significant accounting policies (continued)

20.9 Impairment of non-financial assets

At the reporting date, the carrying amount of assets is assessed for impairment. If there is an indication of impairment, the recoverable amount of the asset is assessed in order to determine the amount of impairment (if any).

The recoverable amount is either the net realisable value or the value in use of an asset, whichever is higher. To estimate the value in use, expected discounted cash flows are used at the interest rate that is appropriate for financing such assets, net of tax. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable value of an asset or cash-generating unit is lower than the carrying amount for reasons not considered temporary, the carrying amount of the asset is reduced to its recoverable value. Impairment of cash-generating units is recognised initially as a decrease in related goodwill, and then at a proportional decrease in the carrying amount of other assets of the entity. Impairment losses are recognised in the income statement.

If previously recognised impairment no longer applies, the carrying amount of the asset is increased again, but not in excess of the initial cost or amortised cost if the asset has a limited useful life. Impairment of goodwill is not reversible.

20.10 Investment in other companies

Investments in shares in other companies are investments over which the Company has neither control or significant influence. Currently, the Company only holds one such investment in an unlisted company of an immaterial amount and its fair value is measured by reference to its cost. Fair value changes of investments in other companies are recognised in the income statement in the period in which they occur.

20.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

20.12 Trade receivables

Trade receivables are recognised at nominal value, taking into account an allowance for doubtful accounts. The allowance is not a final write-off, but only a reserve for estimated future losses.

20.13 Cash and cash equivalents

The Company's cash and cash equivalent consist of cash and on-demand bank balances.

20. Significant accounting policies (continued)

20.14 Leases

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

The lease liability and the right-of-use asset is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the exercise price of purchase options if the Company expects to exercise the option. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group re-measures the lease liability if the lease term has changed, when lease payments changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a separate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. Variable rent payments that are not index-linked are not included in the measurement of the lease liability or the right-of-use asset, but are expensed in the period in which they occur.

20.15 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, payment is probable and the amount can be estimated reliably.

Provisions for the costs to restore leased land to its original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred at the commencement date, at management's best estimate of the expenditure that would be required to restore the land. Restoration costs are included in the right-of-use asset for the leased land. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

20.16 Trade payables

Trade payables are recognised at nominal value, taking into account any accrued costs.

Non-Financial Information

Non-financial information is separated into three main categories: Environment, Social factors and Governance. The material regarding environmental factors come from the ISAL Green account that is audited by KPMG and submitted to the Environmental Agency of Iceland. Material on socio-economic factors come from internal management review process held annually by the ISAL senior management team.

Annex A focuses on environment and social factors while Annex B contains the Company's Governance Statement.

Annex A

ISAL' management systems is compliant with ISO 9001, ISO 14001 and ISO 45001 international standards. Internationally recognized auditors perform the audits. All records are on file and up to date. The management system is a combined system which integrates environment, safety, security, community and quality related issues into one system. This system ensures that mission and policy are put into practice and are third party verified.

In addition, ISAL and Rio Tinto perform various internal audits to further ensure our compliance and performance with regards to the above-mentioned standards but also various internal Rio Tinto performance standards.

ISAL has ÍST 85 certification which ensures compliance with regards to equal pay rights. ISAL has an ASI (Aluminum Stewardship Initiative) certification. All records are on file. The standard is a performance standard with regards to environment, social and governance and a chain of Custody Standards with a set of requirements for a sustainable production, sourcing, and stewardship of aluminum.

All environmental data and information is taken from ISAL's Green Account which is made according to regulation 851/2002 and independently verified by KPMG. The Green account is available on the company's website and the National Environmental Agency.

Environment

ISAL emphasizes on continually improving its performance in environmental issues. We resolve to act in harmony with the environment and society at all times and aim to be carbon neutral by 2040. Important environmental factors are closely monitored, in addition to which environmental monitoring takes place in the vicinity of Straumsvík. Here is an account of the environmental factors that we define as important. A more detailed overview can be found in ISAL's Green Accounting, which is accessible on the Company's website.

Emissions into atmosphere

Potrooms are the main source of pollutants in emissions and include fluoride, dust, and sulphur dioxide as well as greenhouse gases. The emission of fluoride was 0.5 kg/t Al and dust was 0.72 kg/t Al. The emission of sulphur dioxide was 13,9 kg/t Al, which is well below the operating limit. Other emissions into the atmosphere are mainly from dust filters, and automatic measurements are used to monitor their activity. Dust was also measured manually from three dust filters, and the results were all well below the operating limit of 50 mg/Nm³.

Non-Financial Information, cont.:

Greenhouse gas emissions

Greenhouse gas emissions are one of ISAL's most important environmental factors. Emissions are divided into two sections: on the one hand, the section that falls under the European Emissions Trading Scheme (ETS) and on the other hand, the section that is outside it and falls under the commitments of the Icelandic government (see Green Accounting available on ISAL website). Greenhouse gas emissions from production processes are covered by the European Emissions Trading Scheme, while other emissions, e.g. emissions from vehicles, refrigerants and waste, are outside the Trading Scheme and fall under the commitments of the Icelandic government.

The greenhouse gases from production processes are carbon dioxide (CO₂) and fluorocarbon (PFC). Carbon dioxide weighs the most and comes mainly from the anodes in the potrooms process but also due to the combustion of fossil fuels, which is mostly used in the casthouse. The production of aluminium requires a lot of energy, and it is therefore important that ISAL uses electricity that is produced with hydropower. Greenhouse gas emissions from production processes in 2022 were 1.55 t/t aluminium.

Emissions that do not fall under the Trading Scheme but are generated within the site are diesel oil used for vehicles, refrigerants, SF₆ used in switches and from landfill of waste. These emissions are covered by the Icelandic government's commitments, and ISAL has set goals for how the Company can support the government's action plan on climate issues. The largest part of emissions is from vehicles, but the primary goal at ISAL are to always have electric vehicles as the first option for renewing vehicles. The goal until 2030 is to reduce emissions from vehicles by 600 tons and refrigerants by 100 tons per year compared to 2015.

Waste issues and hazardous substances

The majority of waste generated by the Company is recycled or reused, but the aim is always to reduce the generation of waste as much as possible. Extensive recycling takes place within the site, and for example, all cuttings of billets are re-melted in the casthouse.

Water consumption and wastewater

ISAL uses a considerable amount of water for cooling. Electrical equipment is, e.g., cooled with water, and water is also used for cooling when the aluminium is cast into billets. The water comes from one of the largest groundwater streams in the country, which flows into the sea in Straumsvík. The water intake has a negligible effect on the groundwater stream. Waste water from the smelter is treated in two ways before being discharged into the sea. They are regularly monitored and emptied as needed. Samples are taken annually from all outlets and sent for chemical analysis. The results can be found in Green Accounting. All measurements were well within the limits of the operating license.

Noise

Noise levels from the smelter are measured annually at 16 measuring points on the Company's site boundaries. The main sources of noise are alumina unloading and Gas Treatment Center, and measurements are conducted while alumina landing is in progress. Noise levels at the boundaries measured well within the limits of the operating license.

Environmental incidents

In 2022, 27 environmental incidents were recorded, in addition to 41 near-misses. One of them indicates deviations from the operating license when suspended solid was slightly over limit in the operation license. This was an isolated incident possibly due to sampling difficulty, but all measurements after that were well below the limit. Their consequences were insignificant.

Non-Financial Information, cont.:

Monitoring

Air quality is monitored at Hvaleyrarholt and west of ISAL, where the concentration of fluoride, sulfur dioxide (SO₂) and hydrogen sulfide (H₂S) are measured. The air quality stations are operated by ISAL and the Environment Agency. In addition to air quality measurements, samples of vegetation (pine needles, leaves and grass) are taken and the fluoride content is measured, but fluoride can have a detrimental effect on vegetation and herbivores. Every five years, the impact of the operation on the marine ecosystem is monitored. The next study will take place in 2023.

Vegetation

The fluorine content in vegetation is high compared to the period from 1992, and the distribution of the increase indicates an effect from the eruption at Fagradalsfjall that started in 2021. However, all values outside the area of limited liability are below the reference values for the tolerance limits of herbivores and the tolerance limits of deciduous and coniferous trees. Further results can be found in the MRI report: Fluoride Measurements in Vegetation in the Environment – Rio Tinto in Iceland, Measurement Data 2022, which can be found on the ISAL website.

Social

Health issues

ISAL is concerned about the health of its employees and emphasises “promoting a healthy lifestyle that provides fulfilment throughout life”. The aim is to build a good and healthy work environment that does not cause occupational diseases and at the same time to encourage employees to take responsibility for their own health, both mental and physical. Annual monitoring of the working environment with regard to strains due to substances, noise, vibration and strains on the musculoskeletal system is an important step in ensuring a healthy working environment. On average, 350 measurements of various aspects of the work environment are carried out annually. The same applies to regular health check-ups where emphasis is placed on monitoring the impact of the work environment on health, e.g. respiratory diseases and hearing loss as well as general health. Every year, on average, 300 employees undergo regular health check-ups performed by a nurse and the Company physician at the ISAL office.

Improvements in the work environment are important, and it is important to keep in mind how improvements can be made so that workload can be reduced. In 2020, a five-year project plan was drawn up, which is a list of improvement projects that aim to reduce the workload on staff. Fifteen projects were completed in 2022. Special focus was on mental health in 2022.

Safety issues

The Company's view is that nothing is more important than that employees return home from work healthy and that no work is so important that safety can be sacrificed in its implementation. Dangers in the work environment are systematically identified and ways found to minimise the risk. There are various types of risk analysis, depending on the severity of the consequences. A risk analysis is performed for all work areas, and jobs and it is also part of the preparation of all projects.

ISAL has an active Safety Committee composed of representatives of the Company and its employees, and it is a forum for communication between these parties in matters relating to health and safety.

The Company's main operational risks have been assessed and contingency and recovery plans prepared for them. The Emergency Management Board is convened in the event of an incident and then works according to appropriate plans. In addition, there are at least two Emergency Management Board drills a year, where a certain risk is highlighted each time. During the year, responses to volcanic eruptions were practiced specifically.

Non-Financial Information, cont.:

All new employees receive basic health, safety, and environmental training before starting work. Meetings are held monthly which all staff attend, where the main issues concerning health, safety and the environment are discussed.

Safety procedures

ISAL's safety guide is a safety maturity model released by Rio Tinto in 2019. The intention is to work according to this model until the year 2025 to improve the Company's safety culture. The model contains four main elements: the activity of managers in relation to safety issues, risk management, work organization in relation to safety issues, lessons learned and improvements. The model also specifically addresses the risk of fatal accidents, for which a special system called Critical Risk Management (CRM) is used.

Accidents and other safety incidents

All incidents that occur at ISAL, such as accidents, near-accidents, and emergencies, are reported, subsequently investigated further and the results used to make appropriate improvements. We learn from the incidents that occur at ISAL, the parent company and outside the Company so that similar incidents can be prevented. Accidents are reported to the relevant bodies, and statistics on accidents and other incidents are kept in accordance with accepted methods.

A total of 800 notifications were received concerning health, safety or the environment. Of these, six were first aid accidents and three serious accidents. The rate of accidents is calculated for every 200,000 working hours and was 0.76 for serious accidents and 2.3 for all accidents, i.e. first aid accidents and serious accidents.

The people in Straumsvík

Our most important resource is qualified, enthusiastic and positive employees who create a safe and desirable workplace where diversity and equality are a guiding principle. We therefore place a lot of importance on having excellent staff and place great emphasis on career development and on-the-job training.

The number of employees at ISAL was 371 at the end of 2022 in 364 jobs.

The majority of employees follow the collective wage agreement between ISAL and the relevant trade unions, i.e. Verkalýðsfélagið Hlíðar, VM, FIT, Rafiðnaðarsambands Íslands and VR. Specialists and managers have individual agreements that take into account Rio Tinto's salary and performance appraisal system and agreements in the Icelandic labour market. Further details on our people can be found in ISAL sustainability report.

Equal rights

ISAL policy is to create a desirable workplace where diversity and equality are the guiding principles. The policy promotes gender equality, including comparable pay for the same jobs or jobs of equal value. The goal of ISAL's equality and equal pay policy is to establish and maintain equality and equal opportunities for employees so that their experience, knowledge and talents are utilised in the best possible way. We fully comply with laws, rules and collective wage agreements on equality and employment terms for employees. The Company has an active anti-bullying team and expert panel.

ISAL is certified according to the equal pay standard ÍST 85: 2012 since 2019. The result of the wage analysis in January 2022 was a 0.83% unexplained wage difference in favour of men, with a 95.7% explanatory ratio. ISAL's aim is for the proportion of the lesser represented gender in each job category to be at least 20%.

Training and Education

The average number of training hours per employee was 22 compared to 12 the year before. The previous year was unusually low because of Covid-19. Educational courses, refresher courses and regular training are part and parcel of everyday working life. Organised training and learning takes place all year round.

Non-Financial Information, cont.:

At ISAL, the ISAL School has been in operation since 1998. The goal of the school is to increase value creation and competitive capability, facilitate the implementation of changes and make the workplace more desirable.

A new group of 15 employees began their studies at the beginning of 2022. The number of those who have graduated from undergraduate studies is 253, and 49% of them are employed by the Company today. A total of 50 have graduated from secondary studies, and 70% of them are employed today.

Employees can apply for formal grants for studies, on the one hand for university studies alongside work, and on the other hand for vocational studies alongside work. A maximum of 2 grants are awarded per year for university studies and 4 per year for vocational studies.

Community

Working in harmony with the environment and society is one of ISAL's priorities. This includes, e.g. showing responsibility in the operations, explaining it in detail and giving those who have an interest in our operations the opportunity to get to know it and make comments. ISAL carefully monitors views towards the company and media coverage.

One of the priorities of the year was to renew and update our agreement with ÍBH and Hafnarfjarðarbær on sports activities for children and teenagers. A new three-year agreement was signed in December 2021 and further developed in late 2022. A special emphasis is placed on equality and education issues in the agreement. The total amount provided by ISAL during the agreement period is at least ISK 30 million, or the equivalent of ISK 10 million each year with the support going to ISK 11 million in 2023. Several smaller grants were also awarded.

The Icelandic Optimism Award is a cultural award that has been awarded annually since 1981. ISAL has been a sponsor of the award since 2000. The President of Iceland has been the patron of the awards from the beginning. Sigríður Soffía Níelsdóttir received the award in 2022, which is ISK1.5 million and an inscribed trophy made of aluminium produced in Straumsvík.

Visits to Straumsvík

We emphasize welcoming guests and introducing them to our operation. The number of registered visits to ISAL 2022 was 285 but was much lower the two years before because of COVID-19 pandemic.

Complaints and suggestions

The Company emphasizes that all our stakeholders can freely provide suggestions, complaints and compliments to the Company. Suggestions can be made on the Company's website, www.isal.is and on the Company's Facebook page. People can also call, and our staff is trained to receive complaints and suggestions. In the year 2022, the company did not receive any complaints.

The UN Goals and ISAL

The Company is committed to working in line with the United Nations Sustainable Development Goals. The UN Goals are a guiding principle in our emphases, and we take them into account in the Company's operations, policy formulation and decision-making. Our operations are related to all the UN Goals, to varying degrees. Our analysis of the goals indicated that we have the most impact on Global Goals 4, 5, 7, 8, 9, 12 and 13. This policy was set in 2018, and work has since been done in various projects and emphases in these areas.

Non-Financial Information, cont.:

Stakeholders

ISAL continuously evaluates our key stakeholders and their expectations of us and make our communication with them consistent with that.

Stakeholder	Expectations	Communications	Responsible
Employees	Safe and healthy work environment Collective wage agreements Career development and training Equality and diversity Personal data protection	Continuous	General Manager (GM) Other Managers
Local community	Environmental impact Employment and tax revenue Indirect economic impact	Publication of a sustainability report Suggestions from the community The Company's Facebook page	GM & CSP
Suppliers and contractors	Project status and production Investments and improvements	As often as needed	Procurement
Customers	High-quality products in accordance with the customers' wishes Timely delivery Green metal	As often as needed Supplier assessment Visits	Casthouse
Government	Tax revenue and employment Exports and economic contribution Progress in environmental issues Progress in climate issues	As often as needed	GM, HSEQ, CSP
Owner / Rio Tinto	Financial performance Progress in safety issues Progress in environmental issues Progress in health issues Production	Constant communication with the parent company and regular Board meetings	GM
Landsvirkjun	Electricity use Energy prices Water budget and electricity delivery	Regular communication	GM & Finance
Regulatory authorities	Progress in environmental and safety issues	Regular and formal consultation meetings Inspection reports	GM, HSE & CSP
Employers' Association	Collective wage agreements Competitiveness and economic development	As often as needed	GM & CSP
Other business associations	Corporate social responsibility Dissemination of information and experience	As often as needed	CSP
Media	Transparent information and frank communication	As often as needed	CSP & C

Membership of associations

ISAL is a member of various employers' interest groups. We are members of the Confederation of Icelandic Employers (SA), but SA carries out collective wage bargaining on behalf of the Company. Rannveig Rist, General Manager of ISAL, sits on the Board. We are members of the Federation of Icelandic Industries and Samál, the association of aluminium producers. Rannveig Rist sits on the Board of Samál, and Bjarni Már Gylfason is an alternate. We are a member of Samorka, the association of utility companies. Finally, we are founding members of Festa, a knowledge centre for corporate social responsibility, and member of Stjórnvísir and Green by Business Iceland.

Policy on social responsibility, ethical standards and human rights

Rio Tinto Iceland's 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. The Company has set a goal of carbon-neutrality by 2040. Rio Tinto's Communities and Social Performance standard is available on our parent company's website, riotinto.com, and 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 on riotinto.com.

Our Code of Conduct is entitled *The Way We Work*. Available in Icelandic at riotinto.is and in English at riotinto.com. Our Code of Conduct 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. The Code of Conduct is presented to all staff and contractors working on the site. The Company has established a special human rights policy based on the parent company's policy on human rights issues. The policy is presented to staff and is part of recruit training. All contractors working on the site need to familiarise themselves with the policy before they can start working on the site.

Non-Financial Information, cont.:

Rio Tinto Iceland's Data Protection Policy

ISAL endeavours to ensure that the protection of personal data and its processing is in accordance with applicable laws and regulations. The Company's Data Protection Policy provides information on why ISAL collects personal information and how it is handled. This Data Protection Policy is based on Act No. 90/2018 on the Protection of Personal Privacy and Processing of Personal Data. The processing of personal information refers to the action or sequence of operations where personal information is processed. Personal information that ISAL processes can be divided into two categories: employees and job applicants on the one hand, and for external parties, e.g. contractors and customers, on the other hand. Further information on the Company's Data Protection Policy is available on the Company's website.

Governance Statement 2022

Rio Tinto Iceland Ltd.

Annex B

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 Iceland Ltd. (ISAL) and the Icelandic government enacted by Act No. 76/1966.

1. Purpose and mission

Our purpose is to continuously find better ways to produce high quality aluminium with maximum profitability in conformance to customers' requirements by keeping environmental, safety and health affairs in the forefront. The company has resolved to be a leader in all its operations, to be guided by continual improvements and to always act in reconciliation with environment and society. Our future depends on outstanding employees where equality is a guiding light. We abide entirely by laws and regulations and by Rio Tinto code of conduct. Our vision is to ensure growth and competitiveness of the company in a sustainable manner and achieve carbon neutrality by 2040.

2. Legislation and Regulations Specifically Governing Rio Tinto Iceland's Governance and Operations

Rio Tinto Iceland's field of operations is extensive and therefore subject to various pieces of legislations. As well as the Master Agreement between ISAL and the Icelandic government, legislation such 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 license, and ISAL was issued with an operating license by the Environment Agency of Iceland on 28 October 2021, which is valid until 1 November 2037. The operating license is accessible on the company's website and on the Environment Agency's website. The Environment Agency also acts as a regulator.

ISAL's 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 Iceland's Operations

The company has been certified to the following standards certified by external auditors: ISO 9001, ISO 14001, ISO 45001 and ASI.

4. Main Aspects of Internal Control and Risk Management

The company's Board of Directors is responsible for putting in place an active system of internal control and risk management and ensuring that it is formalized, documented and verified on a regular basis. The main aims of internal control and risk management in our operations are 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.

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 recognized financial reporting standards and present no significant shortcomings, e.g. procedural problems, errors.

One of the General Manager's obligations is to maintain an organizational chart clearly specifying the areas of responsibility, the powers of employees and the channels of communication within the company. The General Manager must also analyze, measure, and monitor the risks facing the company in its operations.

As part of the annual management review, the Executive Board and the General Manager 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, ISAL's parent company.

Equality and diversity are one of the guiding lights of ISAL and main aspects of the policy is laid out in Annex A under Social in the Financial statements. A special consideration, in line with the policy, is taken towards gender balance when appointing both members of ISAL senior leader team and ISAL board members. Appointments to the board are in line with requirements in law nr. 2/1995 with later changes.

5. Appointment of the Board of Directors and Board Members

The Board of Directors of ISAL is appointed based on 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 states that ISAL's Board of Directors is composed of seven members, two of whom are appointed by the government. A majority of Board Members must be Icelandic citizens. The Board is elected annually at the ISAL Annual General Meeting.

The current members of ISAL Board of Directors are:

Jean-Francois Claude A. Faure, Chairman of the Board
Etienne Jacques
Maria Tournas
Brynjólfur Bjarnason
Katrín Pétursdóttir
Margrét Sanders*
Magnús Júlíusson*
*Icelandic government representatives

Governance Statement 2022, cont.:

The gender ratio on the company's Board is such that 57% are male and 43% female.

ISAL does not have an appointing committee as appointments are made based on the Master Agreement and the fact that Rio Tinto owns 100% share of ISAL.

More Information on the Rio Tinto Iceland Board

Jean-Francois Claude A. Faure (B. 1959). Chairman of the Board. Has been a Rio Tinto Iceland 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, i.a. with Pechiney, Alcan, Rio Tinto. No connection with major clients or competitors and not a shareholder of the company.

Etienne Jacques (B. 1961). Joined the Board in 2021. A chemical engineer from Laval University but also has a postgraduate degree in finance from CIREM HEC and IMPM from Lancaster University. Has more than 35 years of experience in various management positions within Alcan and Rio Tinto and sits on the boards of various organizations. No connection with major clients or competitors and not a shareholder of the company.

Maria Tournas. Joined the Board in 2021. Is an accountant from McGill University. Has held various management positions at Alcan and Rio Tinto since 2002, but was previously an accountant at Arthur Andersen & Co. No connection with major clients or competitors and not a shareholder of the company.

Brynjólfur Bjarnason (B. 1946). Joined the Board in 2016. Has an MBA from the University of Minnesota (USA) and Cand.oecon from the University of Iceland. Has had an extensive career as manager and board member in various companies. Was the Executive Director of Enterprise Investment Fund and CEO of Skipti, Síminn and Grandi. Is the Chairman of the Board at Arion Banki, a Board Member at Marininvest and alternate Board member at Ferguson. No connection with major clients or competitors and not a shareholder of the company. Has not worked for Rio Tinto.

Katrín Pétursdóttir (B. 1962). Joined the Board in 2011. Graduate in Industrial Operations from the Technical College (Iceland). CEO of Lýsi and Executive 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. Has not worked for Rio Tinto.

Margrét Sanders (B. 1959). Joined the Board in 2016. Has an MBA from Western Carolina University (USA). Partner and consultant at Strategía. 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. Appointed by the Icelandic Government and has not worked for Rio Tinto.

Magnús Júlíusson (B. 1986). Joined the Board in 2022. Has and M.Sc. degree in Energy Science from the Royal Technical University of Stockholm and a B.Sc. degree in high-tech engineering from Reykjavík University. Has worked as a political advisor to the Minister of Industry, founded Íslensk Orkumiðlun in 2017 and worked as an electricity specialist at the National Energy Authority. Board member of Festi since 2022. No connection with major clients or competitors and not a shareholder of the company. Appointed by the Icelandic Government and has not worked for Rio Tinto.

6. Board Activities

The Board of ISAL 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.

Two meetings were held this year. In May, a general board meeting and the AGM were held in Straumsvík. Attendees: Jean Francois Faure, Etienne Jacques, Maria Tournas, Brynjólfur Bjarnason, Ingvi Már Pálsson, Margrét Sanders and Rannveig Rist.

At the AGM the board was re-elected until the next AGM except for Ingvi Már Pálsson. He was replaced by Magnús Júlíusson.

The second board meeting of the year took place in Paris in November. Attendees: Jean Francois Faure, Etienne Jacques, Maria Tournas, Brynjólfur Bjarnason, Magnús Júlíusson, Katrín Pétursdóttir and Rannveig Rist.

7. Performance Appraisal of the Board and Audit Committee

ISAL's Board has not conducted a specific performance appraisal of its activities. The Board's Audit Committee is active. The role of the Audit Committee is to review the Annual Financial Statements and ensure that they are in accordance with the law and review the audit plan and internal controls and internal audit. The Audit Committee addresses issues that may arise in connection with the Annual Financial Statements. The Audit Committee members are Herbert Baldursson, Chairman, Jean Francois Faure and Margrét Sanders. The committee met two times in 2022 and all committee members attended the meeting.

8. General Manager and Executive Board

Rannveig Rist (b. 1961) is General Manager (GM). She has been the GM since 1997. She holds an MBA degree from the University of San Francisco, an AMP diploma from Reykjavík University, is Mechanical Engineer from the University of Iceland, a craftsman master's degree in mechanical engineering and Level 4 Mechanical Engineering diploma. Prior to joining ISAL in 1990 assuming a management position she worked at the Hydrological institute at the National Energy Authority and was a First Engineer at sea on a sea trawler. She has no connection with major clients or competitors and is not a shareholder of the company. She does not hold a stock option in the company.

The GM is the principal executive point of contact for the company and is generally accountable for ensuring that appropriate business strategies are in place and that these are acted upon according to the priorities established by the Board of Directors as well as the priorities of the parent company Rio Tinto and in a manner that is consistent with accepted and necessary business practices.

The GM is responsible for ensuring that the company's strategies are acted upon successfully and that the operation respects Icelandic and international laws. The GM is accountable for the direction of all aspects of the plant operation, including HSEC performance and customer satisfaction.

Rannveig is chairman of the Board of Samál, Icelandic Association of Aluminium producers. She is a Board member of Lýsi hf. and is an executive board member of the Confederation of Icelandic Business (SA). Previously she was a chairman of the board of Síminn and Skipti and board member at SPRON, Jarðborannir, HB Grandi, Promens and Chamber of Commerce.

Governance Statement 2022, cont.:

Reporting to the General Manager are six managers:

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

Together with the General Manager, the managers form ISAL Senior Leadership Team (SLT) and manage the company daily. SLT meet every day on a short Lean 1 meeting and once a week formally. The Organization Chart and structure is publicly available on ISAL website.

9. Convictions or Fines

Under the Master Agreement between Rio Tinto Iceland's parent company and the Icelandic government ratified by the Icelandic Parliament in 1966, ISAL pays fees to the 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 2014–2016. In mid-2021 the issue was referred to the State Internal Revenue Board, which upheld the tax authorities' ruling. Since then, ISAL has been working together with its parent company on adapting these payments to bring them into line with the requirements of the tax authorities.

In 2022 the Tax authorities ruled for years 2017 and 2018 that fees paid to the parent company were not considered operational cost even though Rio Tinto had submitted new documents for those years to comply with the ruling from 2021. The new ruling was referred to the State Internal Ruling Board.

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