



## Landsvirkjun's Financial Statements 2016

Acceptable earnings in a demanding business environment

Two power plants under construction in order to meet increased demand for electricity

### Key figures from the consolidated financial statements

- Operating revenues amounted to USD 420.4 million which is a decrease of USD 1.1 million compared to 2015.
- EBITDA amounted to USD 301.7 million, a decrease of 20 million USD from the previous year. EBITDA ratio is 71.8% of revenues, compared to 76.3% in the previous year.
- Profit before unrealised financial items amounted to USD 117.7 million compared to USD 130.6 million in the previous year, which is a decrease of 9.9% between periods.
- Profit for the year amounted to USD 66.8 million compared to USD 84.2 million in the previous year.
- Net debt decreased by USD 24.9 million in the year 2016 and amounted to USD 1,960.5 million at year end.
- Cash flow from operating activities amounted to USD 229.8 million which is a decrease of 7.7% compared to 2015.

### Hörður Arnarson, CEO:

"Landsvirkjun's earnings in the year 2016 are acceptable despite a decrease year over year.

External conditions were not favourable in the year 2016. Aluminium prices continued to be low despite moving higher in the second half of the year. Our revenues are still in some part connected to aluminium prices. Sold volume also decreased between years, contrary to plans, due to customer operational difficulties. In spite of this, revenues were nearly the same between years.

Strong cash flow enabled the Company to do more than meet its investments in the new hydro-electric power station at Burfell II and the geothermal power plant at Theistareykir. It is satisfactory to be able to continue this development without increasing debt, but on the contrary, decrease debt.

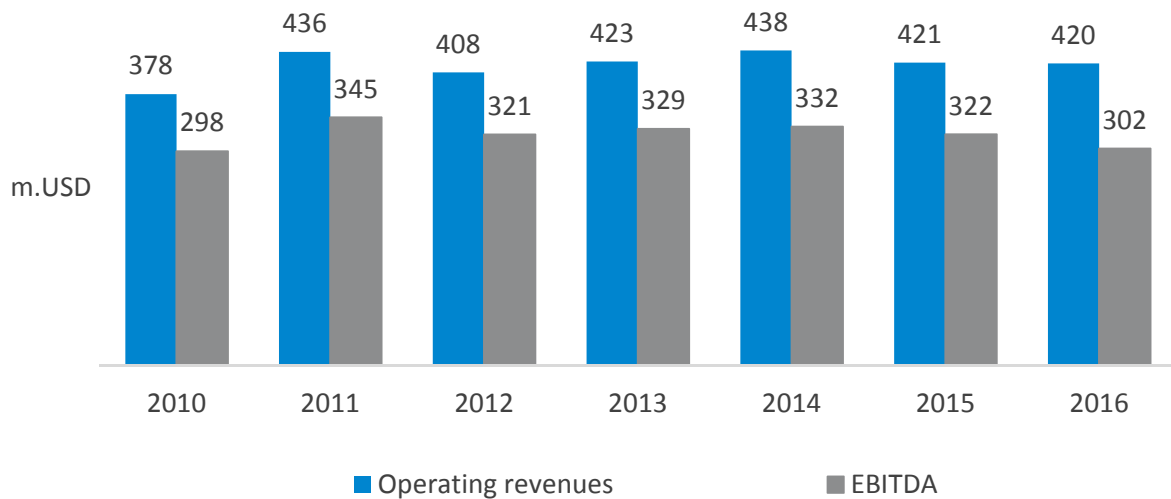
The decrease in debt during the last few years has had a good effect on the Company's operations, which can be seen by the substantially lower interest expense between years.

Landsvirkjun's credit rating was raised by one grade in January 2017 which adds up to an advancement of three grades in the last years. The Company's current credit rating, without a state guarantee, is investment grade and in this respect the company is drawing closer to comparable companies in the neighbouring countries."



## Stable operations in a demanding business environment

### Development of operating revenues and EBITDA



Operating revenues have been stable the last years even though aluminium prices have been low, as focus has been on reducing its effect on revenues. New contracts and renegotiations, which are competitively priced, are not connected to aluminium prices. A renewed contract with Nordural, which enters into effect in 2019, is connected to the market price of electricity at Nord Pool instead of aluminium.

Sold volume decreased between years as some customers experienced operational difficulties and needed to reduce their purchases. As a result, sold volume was 450 GWh lower than contractual amounts. Due to contract obligations it is difficult for Landsvirkjun to sell the energy to other customers. The power system is at maximum capacity and two power stations are under construction in order to meet the increasing demand for electricity.

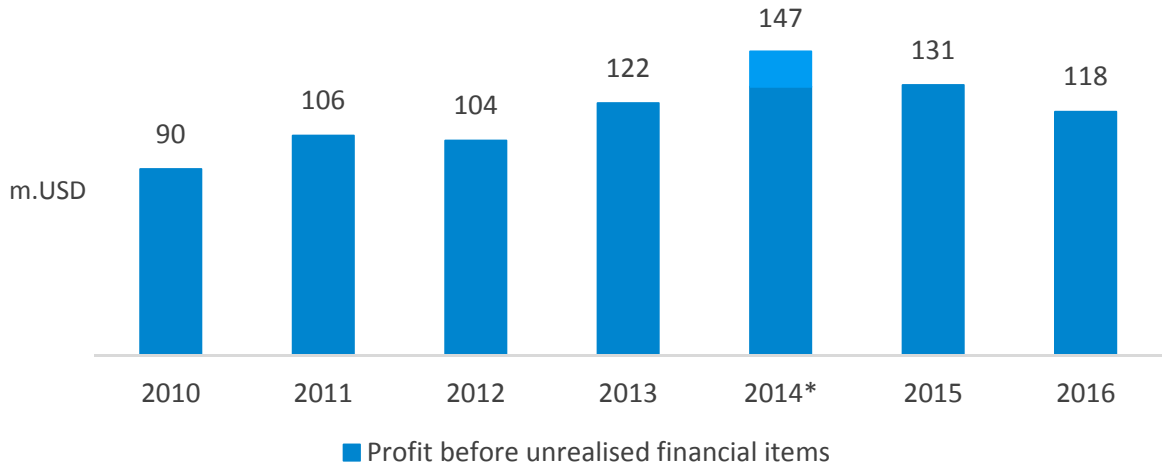
In spite of the drop in aluminium prices and a decrease in sold volume the operating revenues in 2016 remain relatively unchanged compared to the previous year. This is due to increased transmission revenues and foreign exchange rate effects. EBITDA decreased between years, which is explained by an increase in expenses, in particular due to foreign exchange rate effects, general salary development in the labour market and maintenance of power plants. The emphasis in recent years has been on reducing market risk which has led to a more stable operating performance.

### Performance of core operations

In assessing Landsvirkjun's performance of core operations, the Company considers profit before unrealised financial items. The profit amounted to USD 118 million which is a decrease of USD 13 million from the previous year. The main influential factors on the year's profit are a lower EBITDA and interest expenses. EBITDA decreased as previously mentioned. Reduced debt and low interest rates in the global market have led to a lower interest expense. Profit before unrealised financial items has a direct influence on the Company's cash flow creation.



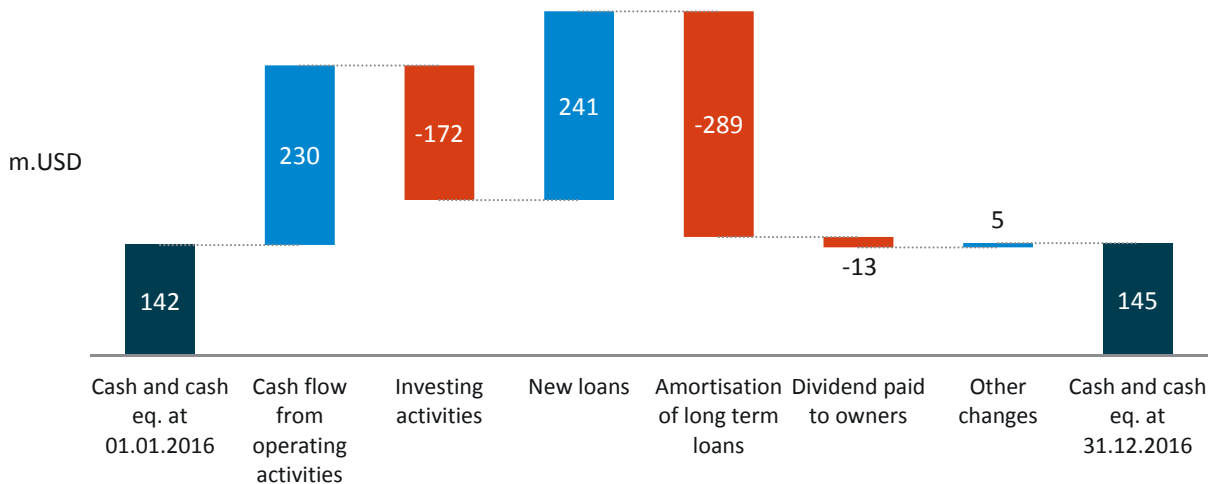
### Development of core operating performance



\* In 2014 there was a USD 17 million revenue recognition relating to an agreement between Landsvirkjun and Rio Tinto Alcan á Íslandi hf

### Strong cash flow financed investments

The Group’s cash and cash equivalents amounted to USD 145 million at year-end 2016. The development can be seen in the graph below. Cash flow from operations has financed investing activities in the last years and has been essential for the improved debt level of the company.

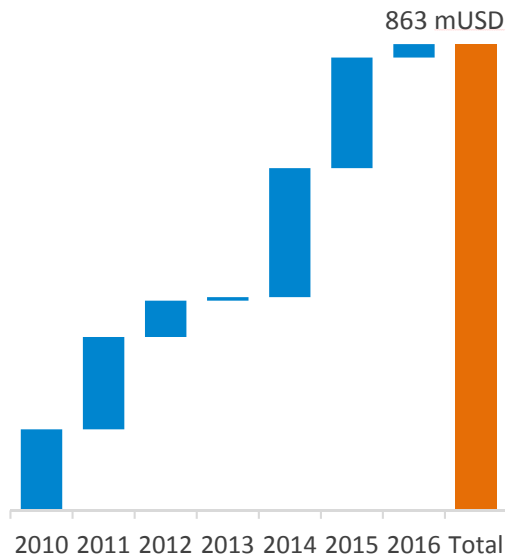


### Decreasing debt while investing in new power plants at the same time

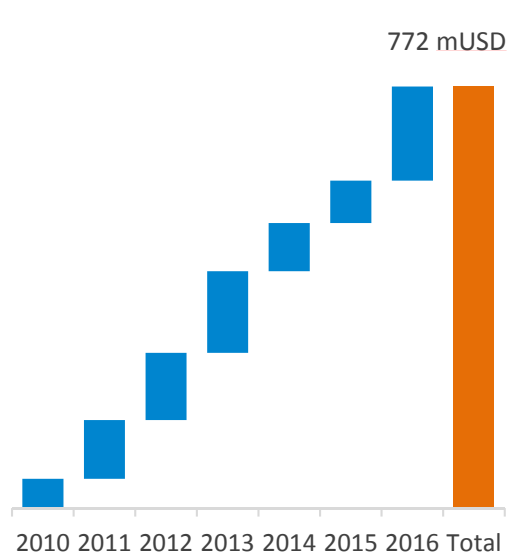
Landsvirkjun has focused on decreasing debt in the last years. Net debt are interest bearing liabilities less cash and cash equivalents. Landsvirkjun’s net debt has decreased by USD 25 million from year end 2015 and by USD 863 million from year end 2009.



## Decrease of net debt



## Investments



This decrease in debt has coincided with the Company investing in maintenance and better utilisation of power plants and continued industry development in Iceland with investments in new power plants. Budarhalsvirkjun began operations in 2014 and currently there are two power stations under construction simultaneously, Burfell II and Theistareykir. Landsvirkjun will continue to emphasis reducing the Company's debt, which has led to a net debt ratio of 6.5x EBITDA. The objective is to reach below 5x EBITDA in the coming years. The Company's credit rating has been raised by three grades in the last years. The credit rating at the end of January 2017, without government guarantee, is BBB and investment grade. Landsvirkjun's equity ratio was 45.4% at year-end 2016 and has never been higher.

### Operating outlook

With continued operational improvements and debt reduction the Company will have more opportunities to pay dividends to owners and refinance foreign debt for long-term at favorable interest rates. Landsvirkjun has focused on reducing the effect of aluminium prices, interest rates and foreign exchange rates on the Company's performance, the result will though continue to be based on the developments of these factors to some extent.

The 2016 full year results will be presented to the media and financial analysts at Landsvirkjun's headquarters at Haaleitisbraut 68 on the 1<sup>st</sup> of March at 10:30 local time. Please notify your attendance by sending an email to the following address: [samskiptasvid@landsvirkjun.is](mailto:samskiptasvid@landsvirkjun.is)

Reykjavik, 28 February 2017

Further information is provided by:

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## About Landsvirkjun

Landsvirkjun was established in the year 1965 and is an energy production company owned by the Icelandic nation. Landsvirkjun's objective is to maximize yield on the energy sources entrusted to the Company with emphasis on sustainable utilization, creation of values and efficiency. Landsvirkjun's vision is to be a progressive power company in the field of renewable power sources. The Company works in a global environment and wants to be among the best of those who generate and sell energy. The Company produces 3/4 of all electricity in Iceland from renewable energy resources, hydroelectric energy, geothermal energy and wind energy. The Company is at the same time leading in sustainable utilization of energy resources and contributes to increased knowledge, innovation and technical development.

## About the financial statements

The Financial Statements of Landsvirkjun are prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in USD which is the parent Company's functional currency.

### Key figures from the consolidated financial statements in USD thousand:

	2016	2015	2014	2013	2012
<b>Operation</b>					
Operating revenues .....	415,480	410,496	428,655	407,676	389,499
Realised aluminium hedges .....	4,890	10,956	9,629	15,228	18,325
<b>Total operating revenues</b> .....	<b>420,370</b>	<b>421,452</b>	<b>438,284</b>	<b>422,904</b>	<b>407,824</b>
Operating expenses .....	( 118,630)	( 99,932)	( 106,126)	( 93,768)	( 86,488)
<b>EBITDA</b> .....	<b>301,740</b>	<b>321,520</b>	<b>332,158</b>	<b>329,136</b>	<b>321,336</b>
Depreciation and impairment loss .....	( 118,571)	( 115,554)	( 114,045)	( 117,670)	( 112,288)
<b>EBIT</b> .....	<b>183,169</b>	<b>205,966</b>	<b>218,113</b>	<b>211,466</b>	<b>209,048</b>
Financial items .....	( 60,045)	( 73,418)	( 69,838)	( 86,988)	( 103,093)
Associated companies .....	( 5,448)	( 1,921)	( 1,419)	( 2,647)	( 2,229)
<b>Profit before unrealised financial items</b> .....	<b>117,676</b>	<b>130,627</b>	<b>146,856</b>	<b>121,831</b>	<b>103,726</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives .....	21,164	( 59,925)	( 88,484)	( 174,641)	( 3,391)
Fair value changes in other derivatives .....	( 1,269)	5,466	( 8,426)	5,014	13,653
Unrealised foreign exchange difference .....	( 23,314)	47,657	60,271	( 16,658)	( 12,675)
	( 3,419)	( 6,802)	( 36,639)	( 186,285)	( 2,413)
<b>Profit (loss) before income tax</b> .....	<b>114,257</b>	<b>123,825</b>	<b>110,217</b>	<b>( 64,454)</b>	<b>101,313</b>
Income tax .....	( 47,437)	( 39,652)	( 31,797)	25,913	( 45,995)
<b>Profit (loss)</b> .....	<b>66,820</b>	<b>84,173</b>	<b>78,420</b>	<b>( 38,541)</b>	<b>55,318</b>
<b>Balance sheet</b>					
Total assets .....	4,332,864	4,284,703	4,270,098	4,568,965	4,518,534
Total equity .....	1,969,088	1,916,634	1,704,724	1,658,134	1,697,152
Total liabilities .....	2,363,776	2,368,069	2,565,374	2,910,831	2,821,382
Net debt .....	1,960,497	1,985,411	2,190,459	2,429,176	2,435,571
<b>Key figures</b>					
Cash flow from operating activities .....	229,827	248,955	233,816	258,485	236,178
Investing activities .....	( 172,277)	( 77,486)	( 88,271)	( 149,455)	( 122,979)
Financing activities .....	( 59,305)	( 235,465)	( 220,687)	( 12,893)	( 151,670)
Total liquidity .....	616,982	502,951	407,070	589,934	597,895
Equity ratio .....	45.4%	44.7%	39.9%	36.3%	37.6%
Return on equity .....	3.5%	4.9%	4.7%	( 2.3%)	3.3%
Interest cover (EBITDA/net interest expenses) .....	5.15x	4.60x	3.76x	3.51x	3.27x
Net debt / EBITDA .....	6.50x	6.18x	6.59x	7.38x	7.58x