

Financial Statements 2017

Presentation February 16th, 2018

Hordur Arnarson, Chief Executive Officer

Rafnar Larusson, Chief Financial Officer

An aerial photograph of a hydroelectric dam and river system during sunset. The sun is low on the horizon, casting a warm, golden glow over the landscape. The river flows through a valley, with a dam structure visible in the foreground. The surrounding terrain is rugged and hilly, with some vegetation. The sky is filled with soft, wispy clouds.

Agenda:

Financial Statements 2017

Rafnar Larusson, CFO

Record breaking year in energy production and operating performance

Hordur Arnarson, CEO

Financial Statements 2017

Rafnar Larusson CFO

Highlights of the year 2017

14.3 TWh  5%

Record breaking year in energy sales

- › Power generation records set at five power stations
- › Successful operations for most customers

278 mUSD  21%

Strong cash flow covers investing activities

- › Extensive construction period at Theistareykir and Burfell II finishing
- › One of Landsnet's most extensive investment year

153 mUSD  30%

Profit before unrealised financial items never been higher

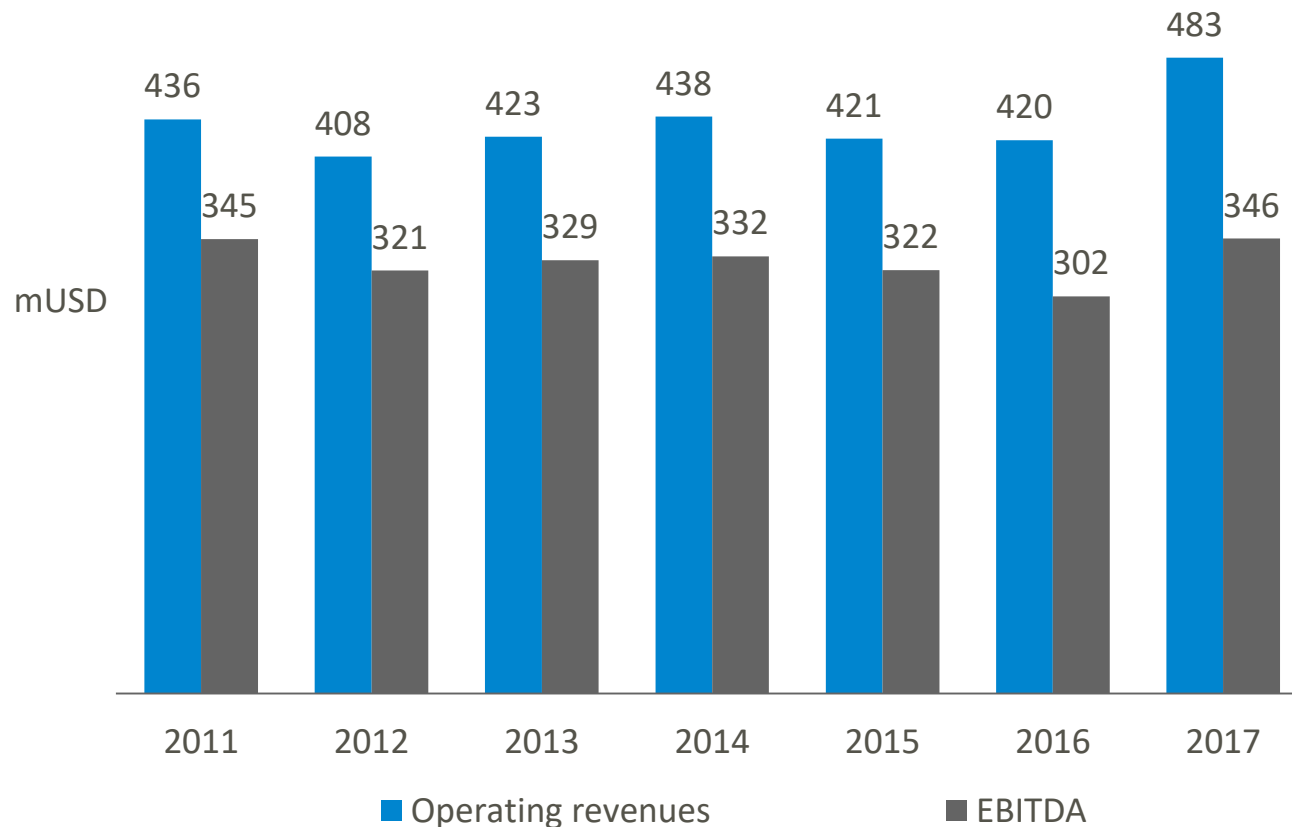
- › Highest revenues in the Company's history
- › External conditions beneficial and positive outlook

5.9x leverage  0.6x

Financials are strengthening

- › Net debt to EBITDA ratio decreases
- › Dividend capacity increases in the near future

Highest revenues in company history



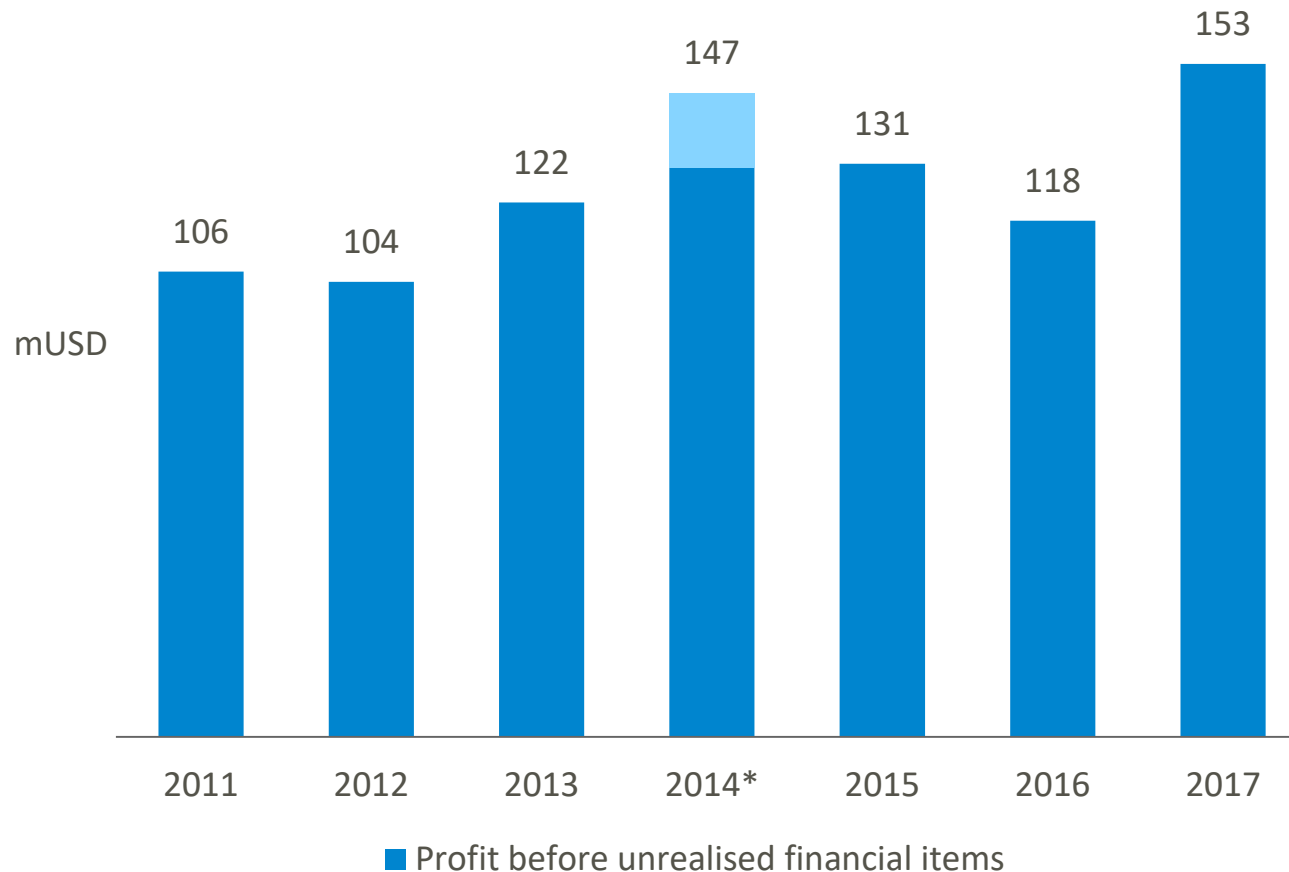
2017 highlights

- › Highest revenue year and record energy production
- › Operating expenses increase in part due to expensed maintenance projects

Trend in recent years

- › Operating revenues have been stable despite fluctuations in aluminium prices and foreign currencies
- › Operating expenses have increased. Mainly due to general salary developments and an increase in product and contractor costs
- › Effects of the Icelandic krona balances out in revenues and expenses, providing a natural hedge

Returns from core operations historically high



2017 highlights

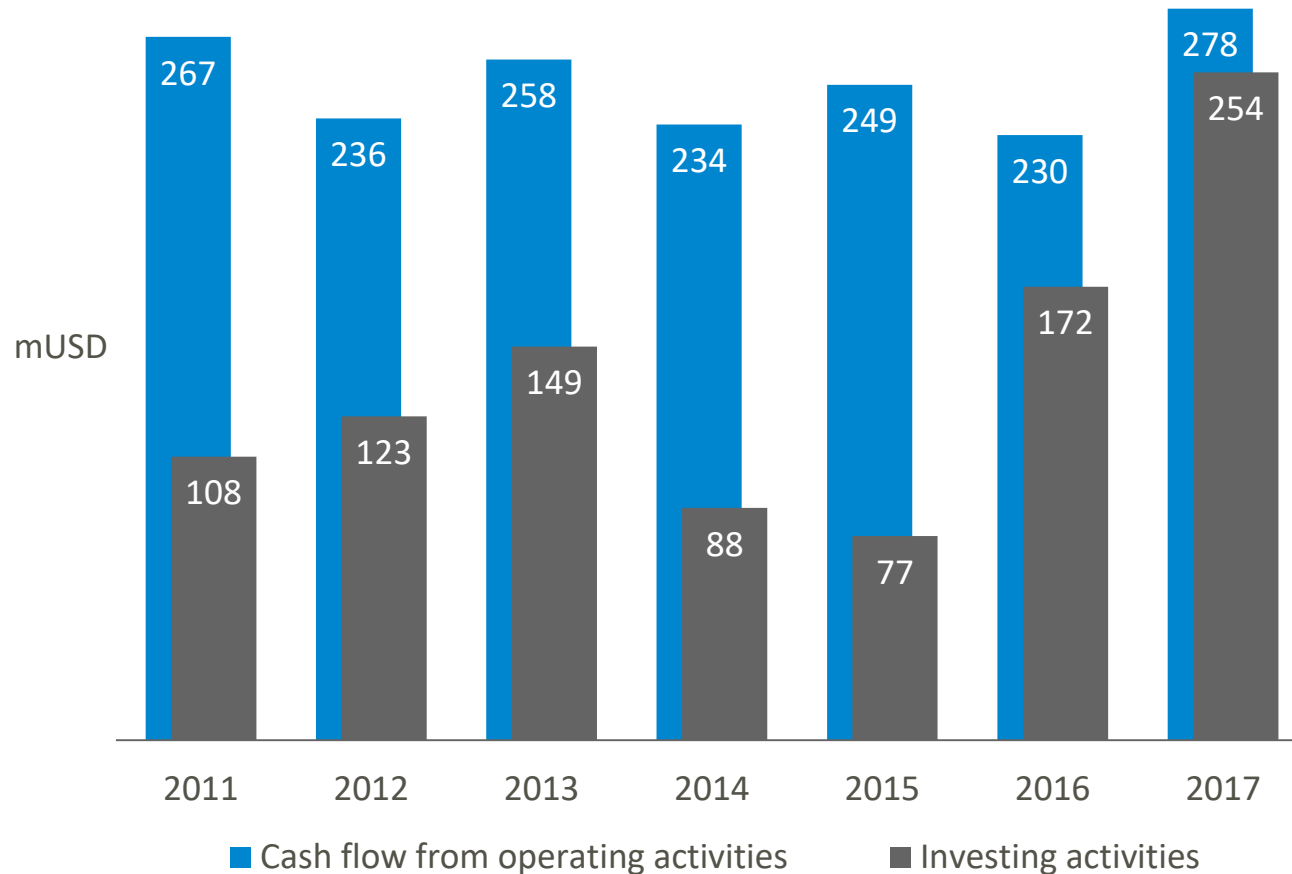
- › Highest return from core operations
- › Mainly due to higher revenues
- › 9 mUSD one-off impairment loss in geothermal heat

Trend in recent years

- › The return from core operations has improved over the last years, excluding 2016
- › Interest expenses decrease in line with reduced debt
 - › About 40 mUSD lower in 2017 compared to 2011 (before capitalized interest costs)

*) One time revenue recognition of USD 17m in 2014 due to an agreement with Rio Tinto Alcan

Cash flow covers investing activities



Cash flow from operating activities has covered investing activities in recent years

- › Investing activities about 1 billion USD over the period

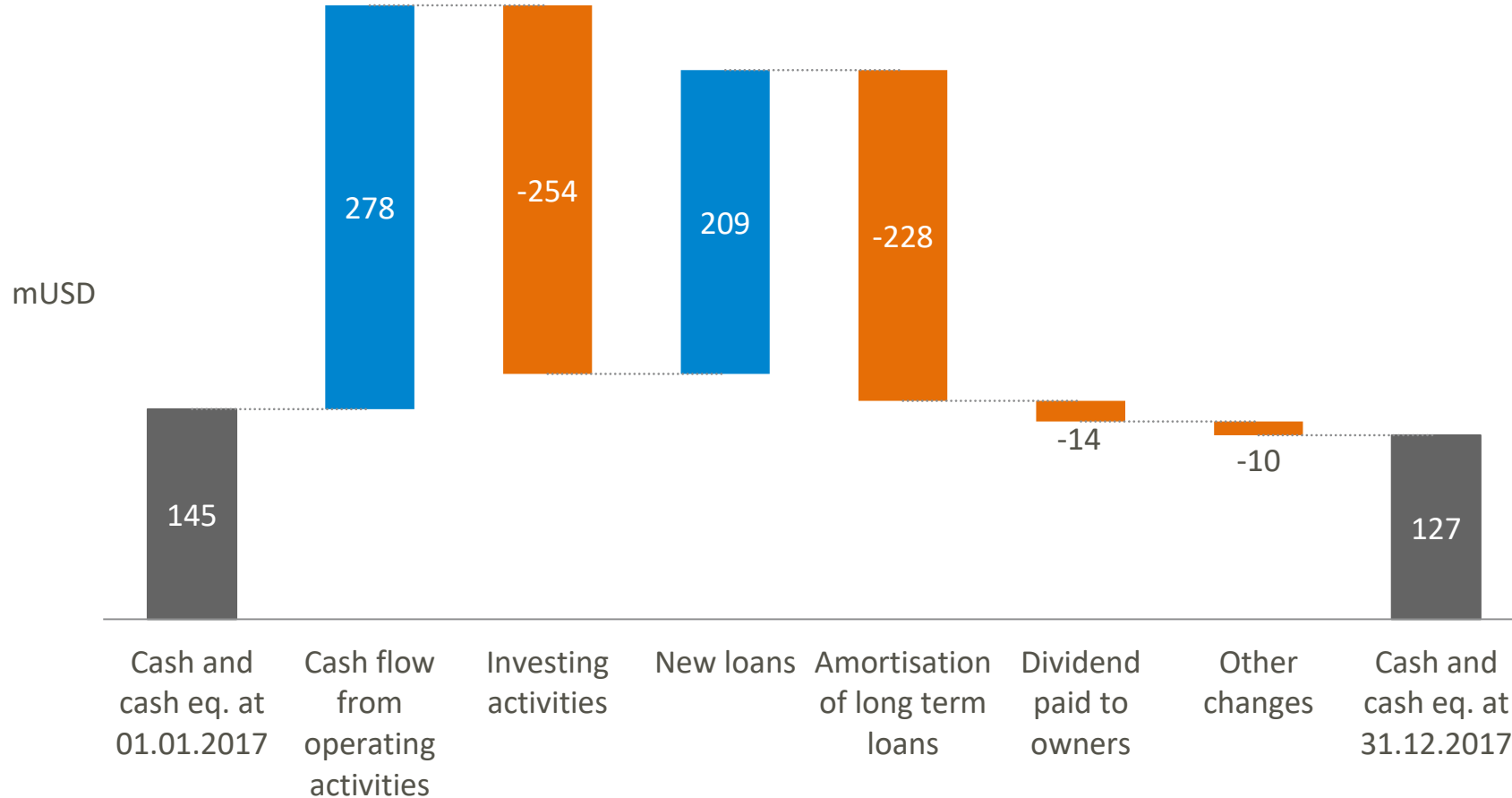
Budarhals hydro power plant became operational in 2014

Two power stations under construction concurrently

- › Theistareykir
 - › Turbine 1 (45 MW) commissioned in Nov. 2017
 - › Turbine 2 (45 MW) expected to be commissioned in the second quarter of 2018
- › Burfell II
 - › Commissioned mid year 2018

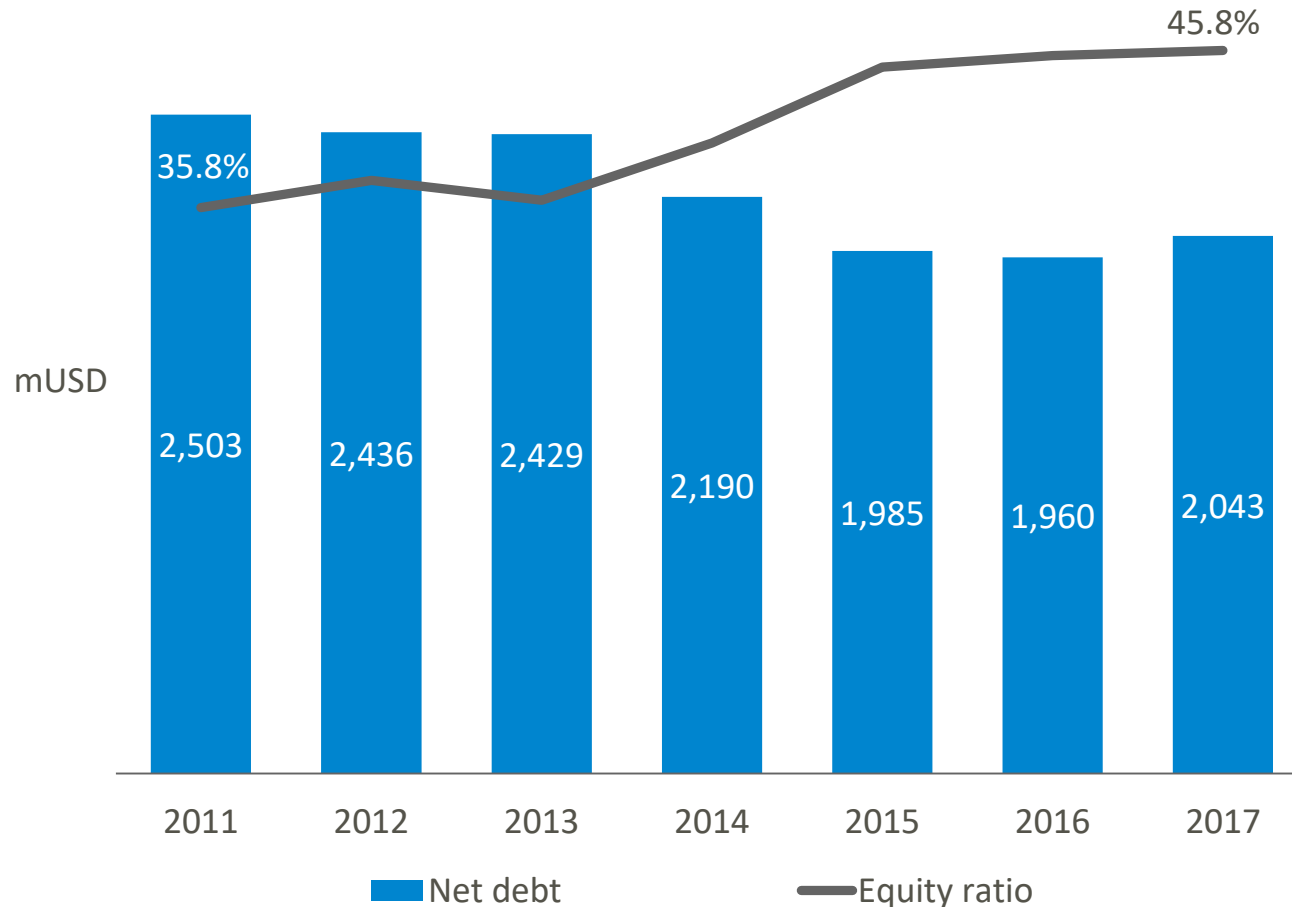
Extensive construction period coming to an end

Cash flow used mostly for investing activities in 2017



As the construction period comes to an end, cash flow over the next years will largely be used for reducing debt

The highest equity ratio in the Company's history



Net debt

- › Net debt increased in 2017 mainly due to negative foreign exchange changes (75 mUSD)
 - › Negative foreign exchange change about 54 mUSD incl. derivative agreements
- › Continued emphasis on debt reduction

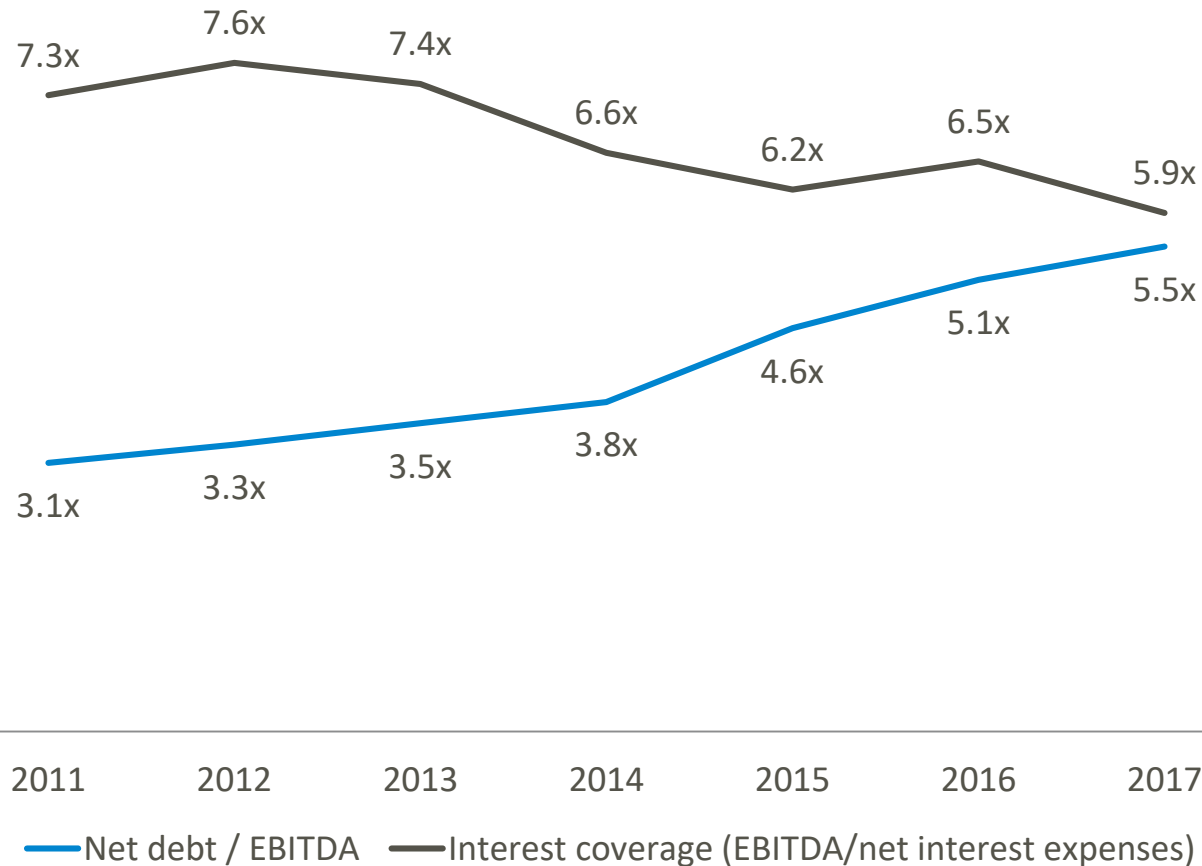
State guarantees on interest bearing loans significantly reduced

- › New debt without state guarantees
- › Old loans with a state guarantee maturing
- › 66% of the loan portfolio with a state guarantee

Equity ratio 45.8%

- › Highest in Landsvirkjun's history

Key financial ratios improving



Both ratios have strengthened significantly with debt reduction

Overall development of ratios heading in the right direction

- › Short-term goal is to get below 5x net debt to EBITDA

Market risk management

Actions

Aluminium risk reduced with use of derivatives and through renegotiations and contracts with new customers

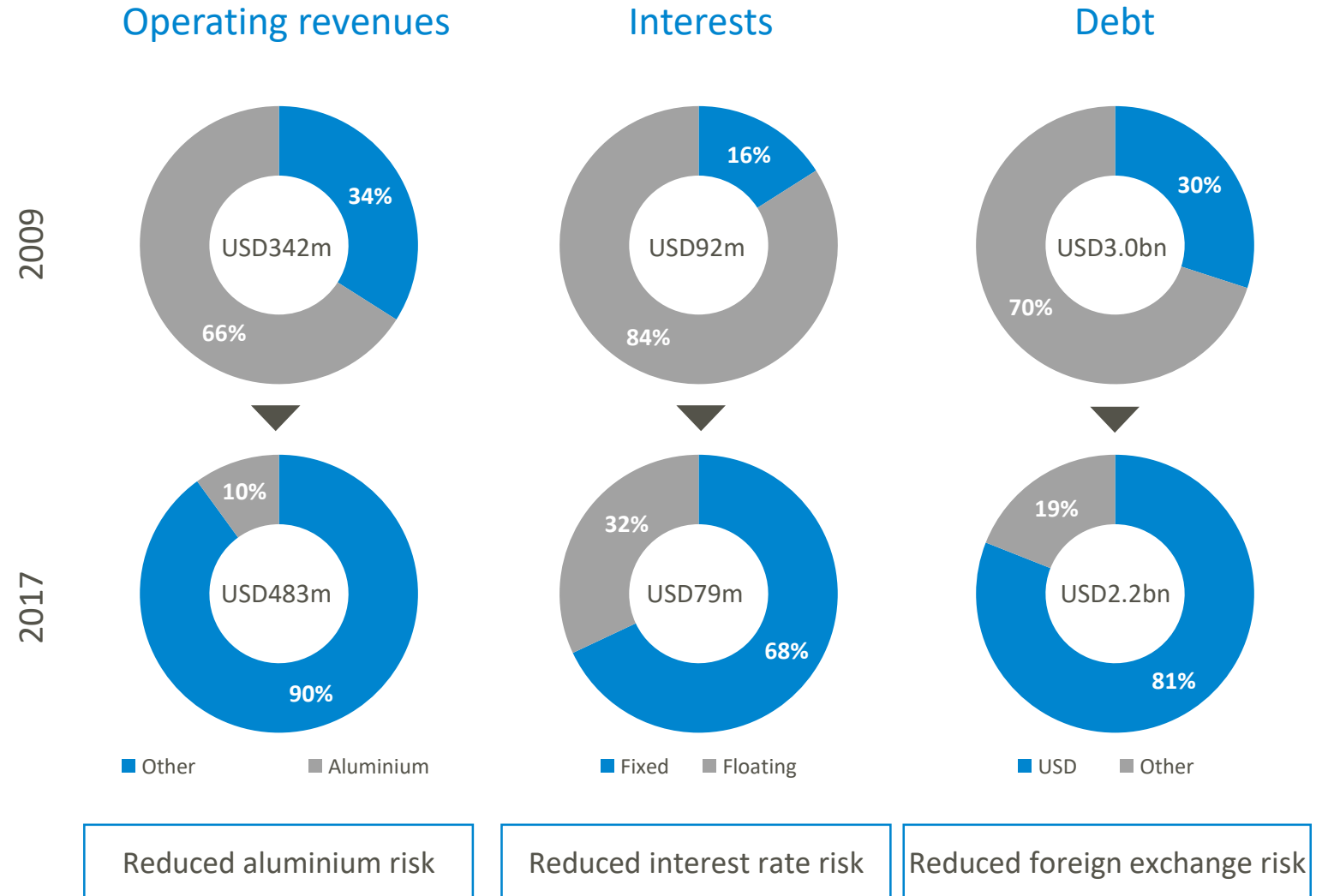
- › Renegotiated contract with Nordural effective in 2019 with power price linked to Nord Pool
- › Contract with Elkem extended to 2029 (contract price in arbitration)

Interest rate risk reduced with increased ratio of fixed interest rates through derivatives and new funding







Foreign exchange rate risk reduced with derivatives and new funding in USD

Derivatives used to manage market risk

- › Counterparties are international banks with limited counterparty risk



Investment grade and approaching peer companies

Investment grade	AAA	
	AA+	
	AA	
	AA-	
	A+	
	A	
	A-	 Statkraft
	BBB+	 Orsted  VATTENFALL
	BBB	 Landsvirkjun (2018)  fortum
	BBB-	
Speculative	BB+	
	BB	 Landsvirkjun (2013)
	BB-	

Credit rating of Landsvirkjun without a state guarantee is Investment grade, BBB

Major influences for higher credit rating

- › Decreased debt
- › Reduced market risk
- › Stable operations

Peer companies within the Nordic Countries

- › Credit ratings are similar
- › Approaching peers in key ratios

Record breaking year in energy production and operating performance

Hörður Arnarson forstjóri

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

Record year in energy sales and power generation

Energy sales were 14,325 GWh

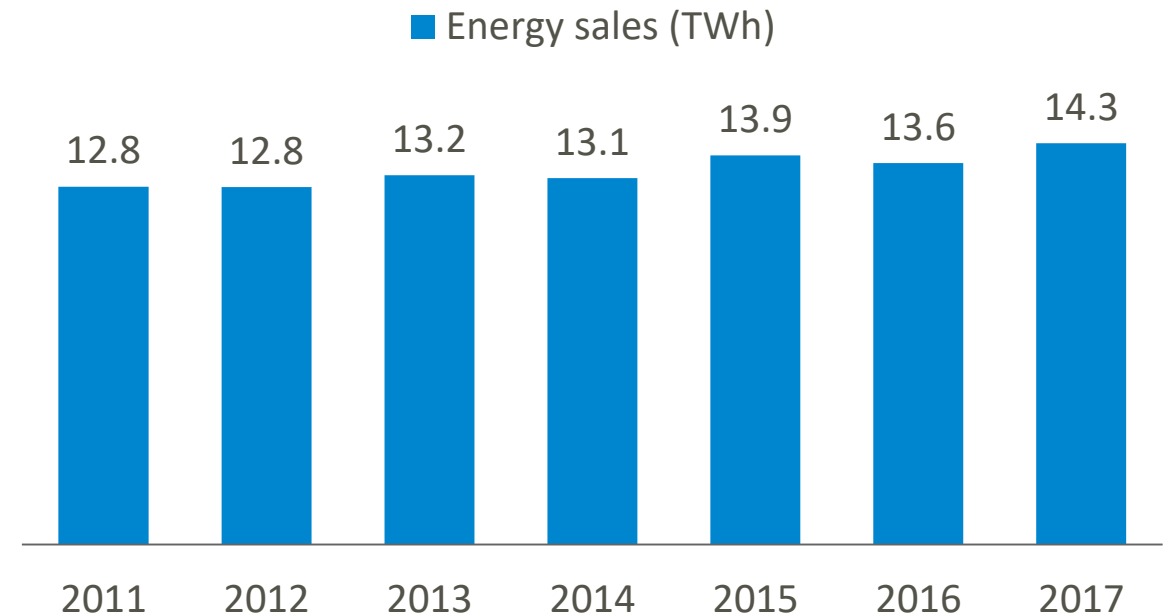
- › An increase of 700 GWh from 2016, thereof 604 GWh came from energy intensive users

An extensive construction period ends in mid 2018

- › Theistareykir and Burfell II power stations
 - › A total of 1,038 GWh will be brought online
 - › In November 2017 the first turbine at Theistareykir was commissioned
- › Budarhals power station (585 GWh) commissioned in 2014

1.6 TWh brought online from the three new power plants

- › About a 12% increase in generation capacity



The power stations

Power generation records set at five power stations

- › Fljotsdalur, Sigalda, Budarhals, Sultartangi og Steingrimsstod

HSAP* assessment of Fljotsdalur power station

- › The assessment revealed operations at Fljotsdalur were rated outstanding regarding the sustainable utilisation of hydropower

Older power stations still going strong

- › Ljosafossstod at Sog turned 80 years old
 - › Utilisation was 97.5%



Blanda power station received the Blue Planet award

- › Awarded by the International Hydropower Association, IHA

Energy market in Iceland

Icelandic energy market is split into

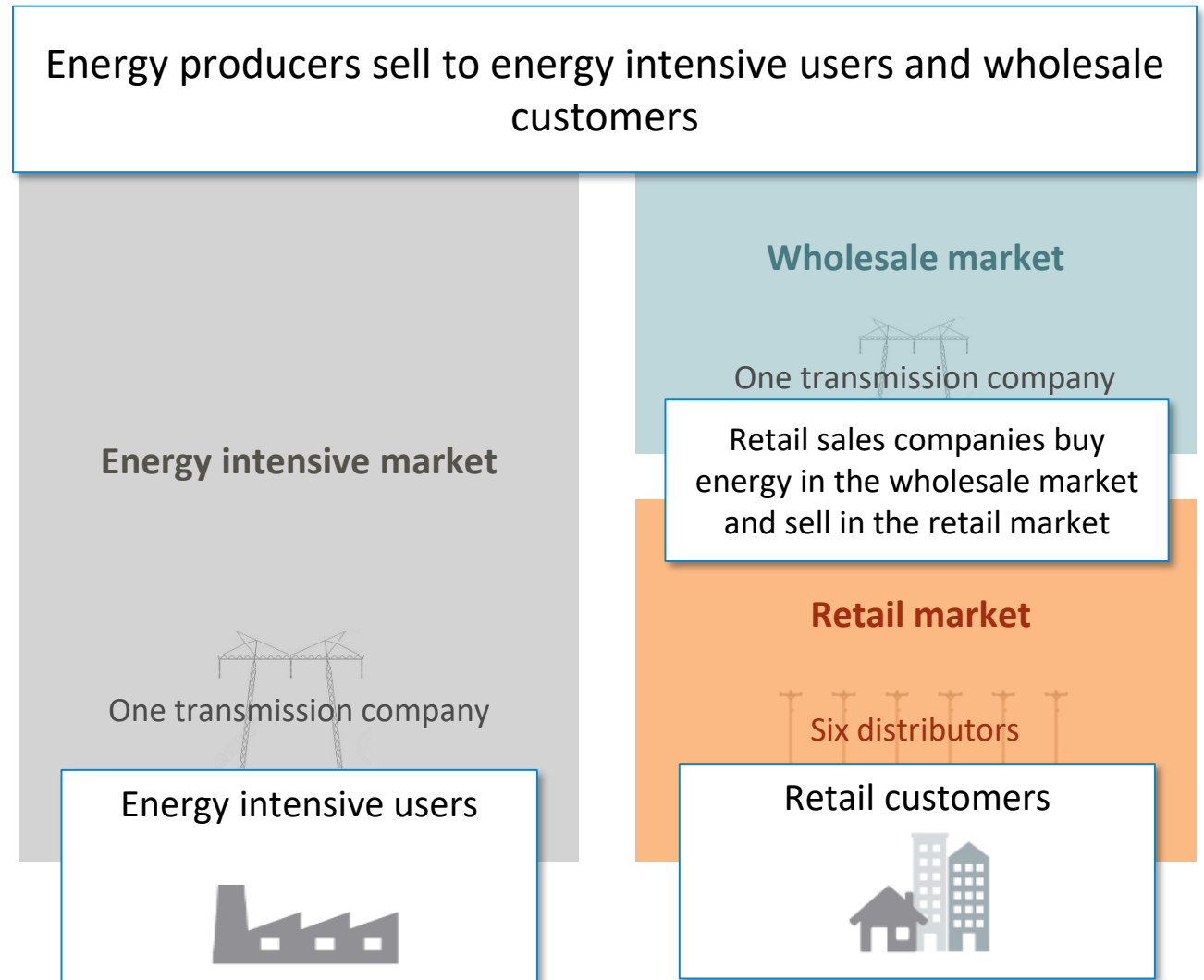
- › Energy intensive market
- › Wholesale- and retail market

Landsvirkjun sells to:

- › Energy intensive users (80%)
- › Wholesale market (20%)

Landsvirkjun does not sell into the retail market

Energy price in Iceland to energy intensive users no longer the lowest



Customers – Aluminium plants

Aluminium plants are Landsvirkjun's largest customers

- › They had in general a good operating year in 2017

Aluminium prices were historically low in 2016 but increased in 2017

- › Average price increased 23% from 2016 to 2017

Renegotiated with Rio Tinto Alcan in 2010

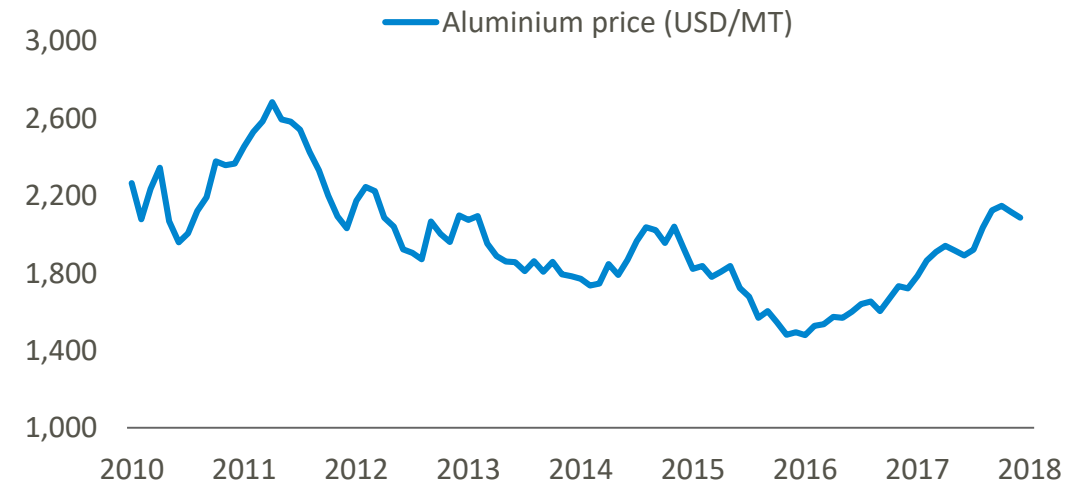
- › Contract price linked to US CPI instead of aluminium prices

Renegotiated with Nordural in 2016

- › Contract effective in 2019
- › Contract price linked to the market price of electricity at Nord Pool instead of aluminium prices



Nordural Grundartanga



Customers - Silicon metal plants

Contract with Elkem extended to 2029

- › Current contract is from 1975 and expires in 2019
- › Elkem utilised a provision in the current contract to extend the contract by 10 years
 - › Submitted the contract price decision to arbitration
- › Elkem is Landsvirkjun's fourth largest customer
 - › Contract amounts to 127 MW and 1,035 GWh

Contract with United Silicon

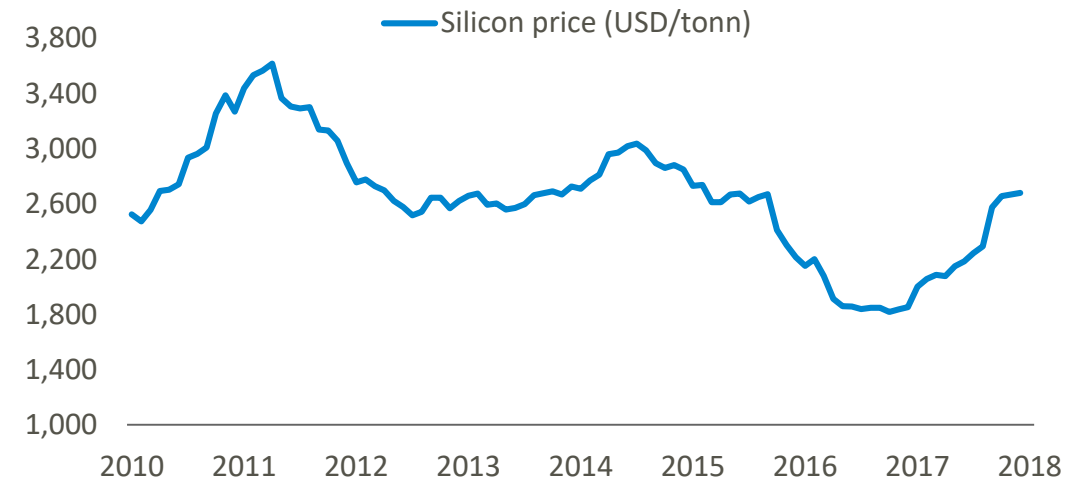
- › The power contract's fate depends in part on the bankruptcy estate's position

PCC begins energy offtake in the first half of 2018

- › Preparations have gone well



Computer generated image of PCC's silicon metal plant at Bakka, Husavik



Customers - Wholesale market

About 20% of Landsvirkjun's energy sales go to the wholesale market

Energy prices have been stable to the wholesale market

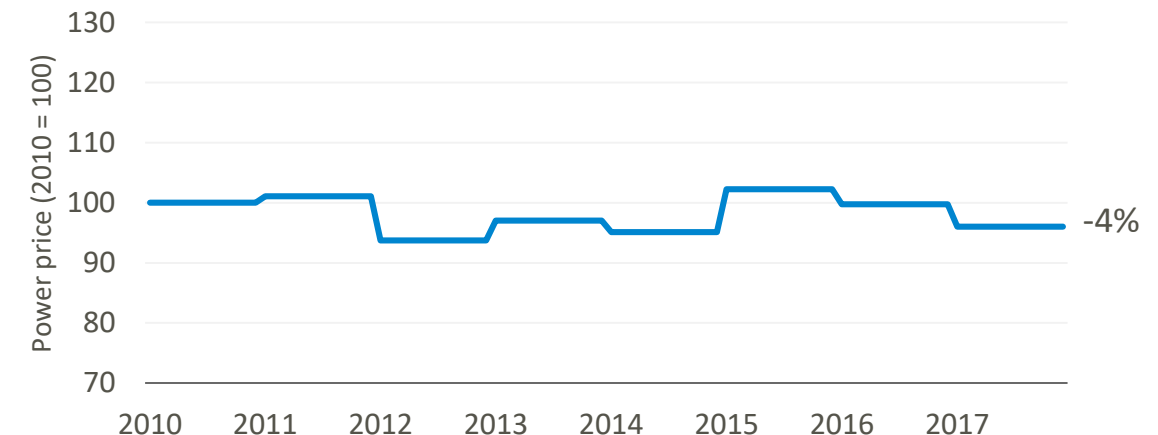
- › A new wholesale contract arrangement effective in 2017 has been successful
- › Power commitments decreased significantly while short-term energy sales increased fourfold between years
- › At a 2017 price level, wholesale price is lower than in 2015 and 2016
- › Electricity generation is about 1/3 of end consumer price

Wholesale market will increase

- › Annual growth around 6-12 MW until 2050, equivalent to one geothermal turbine every 5 years



Landsvirkjun's wholesale price trend at a 2017 price level



Customers – New opportunities

Demand for energy still strong

- › New contract with Advania Data Centers last week
 - › Strong increase in sales to data centers
 - › Attractive business, strong competition between countries
- › Confirms competitiveness compared to other countries

Focus on multiple integrated use of geothermal resources for value creation

External conditions beneficial

- › Market price of electricity at Nord Pool increased 9% between years



Important strategy ahead under
the auspice of the government

Important strategy ahead under the auspice of the government

Shaping energy strategy for Iceland

Important to ensure energy security

- › Ensured that there is sufficient supply in the wholesale market

Special legislation for wind power

Emphasis on strengthening the electricity transmission system

Emphasis on nature conservation

- › Central highlands National park

Establish a National fund on dividends from energy resources



The increased dividend capacity
target is within reach

Increased cash flow and financials strengthen

The last three power station investments form the base for stronger and safer revenue sources

- › Temporarily slowed down the decrease in debt

No decision on new power projects

Renegotiated contracts effective 2019

- › Nordural and Elkem

Landsvirkjun's foundations are strengthening and the company is in a stronger position to take on future projects

- › Landsvirkjun expects to achieve comparable financial strength to Nordic power companies in the next years



Dividend capacity – future outlook

Emphasis on attaining an adequate debt leverage

- › Having ready access to favorable long term financing without a state guarantee

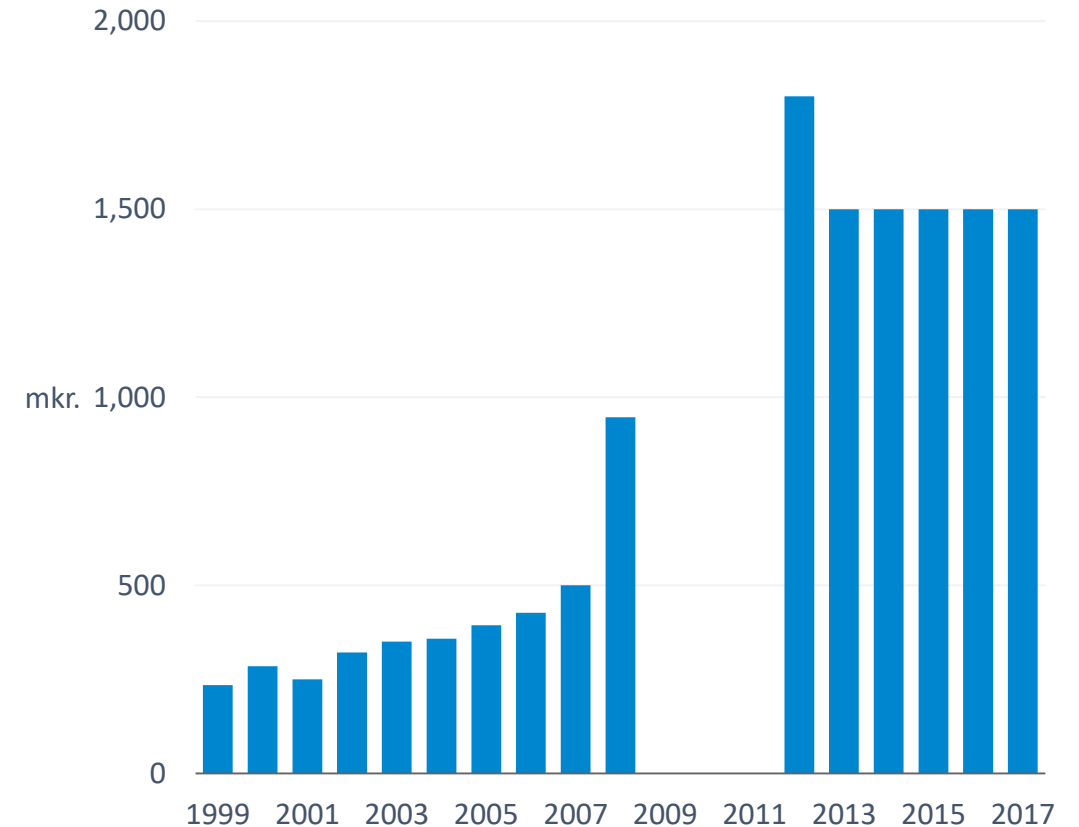
Projections indicate that operations will continue to improve

- › Two new power plants become operational
- › Renegotiations with existing customers and new customers commence operations
- › Further debt reduction

Landsvirkjun is ready to begin increasing dividends in stages

- › Aim to increase dividend payments from ISK 1.5 billion to ISK 10-20 billion in the coming years

Landsvirkjun's dividend payments from 1999-2017



Summary

Record breaking year in energy production and operating performance

- › Improved business environment for energy intensive users

Financials strengthen

- › Cash flow covers investing activities
- › Extensive construction period ending

Landsvirkjun is ready to begin increasing dividends in stages





Landsvirkjun

National Power Company of Iceland



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