

Press release

Landsvirkjun's Financial Statements for the year 2011 published today

Reduced debt and increased cash flow

Key figures from the financial statements

- Operating revenues amounted to USD 436.2 million, which is an increase of 15.5% from the previous year.
- EBITDA amounted to USD 345.2 million. EBITDA ratio is 79.1% of turnover, compared to 78.9% in the year 2010.
- Cash flows from operations amounted to USD 267.2 million, which is an increase of 16.4% from the previous year 2010.
- Profit after tax amounted to USD 26.5 million, compared to USD 72.9 million for the previous year.
- Landsvirkjun's liquidity balance is solid and at year end the Company had access to the amount of USD 645.7 million. Strong liquidity balance ensures the Company's ability to cover maturities on loans in the next years.
- Net liabilities decreased during the year by USD 171 million and amounted to USD 2.503 billion at year end.
- The Company's Board of Directors will during the Annual General Meeting propose a dividend payment to the owners in the amount of ISK 1.8 billion (USD 14.2 million) for the year 2011.¹
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Hordur Arnarson, the CEO:

“The Company's financial standing improved from the previous year, which is mainly explained by increased income due to renegotiations on energy prices and increasing aluminium prices.

As a result of decreased debt and improved cash flow in the year key ratios for the Company's financial strength continue to develop in the right direction, though the Company is still not able to stand the comparison with foreign energy companies and meet requirements of foreign credit rating agencies. It is therefore important that we continue to improve these key ratios even further in the next years.

¹ ISK figures are calculated on the basis of the exchange rate USD 127.



The project of Budarhals power plant is now underway and the power plant is estimated to become operative at year end 2013. The Company's next projects will be situated in North-East Iceland, where this year, significant preparation work for the power plants of Bjarnarflag and Theistareykir is being carried out.

The Company has met considerable interest from both new and older customers to buy electric power but the situation in the world economy can have a significant influence on when agreements will be reached.”

Key figures from operation

The financial statements

The financial statements of Landsvirkjun are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are in USD, which is the functional currency of the parent company. Realised aluminium hedges are now recognised among revenue but were previously recognised among financial items. Changed presentation in the income statement does not affect the return or financial position of the Group.

Income statement

Operating revenues of Landsvirkjun Group increased by USD 58.5 million between years, or from USD 377.6 million to USD 436.2 million. The increase is mainly explained by higher energy prices, but sold volume decreased remotely between years. Increased energy prices are due to higher aluminium prices in the world market and development in price level indices. Average wholesale price to retail sales companies (excluding transmission cost) was 3.6 ISK/kWh in the year 2011 compared to 3.4 ISK/kWh the previous year. Average price to industrial users was 28.7 USD/MWh in the year 2011, compared to 25.7 USD/MWh in the previous year. Average price to industrial users here includes transmission where appropriate. Transmission income remained virtually the same between years calculated in USD.

Operating expenses less depreciation and impairment loss amounted to USD 91 million in the year compared to USD 79.6 million in the previous year. The Group's EBITDA amounted to USD 345.2 million. EBIT amounted to USD 237 million. EBITDA ratio is 79.1%, compared to 78.9% in the year 2010. Interest expenses increased between years while foreign exchange gain decreased. Average nominal interests on long-term loans were around 3.5% in the year 2011 compared to 2.6% in the previous year, taking into account state guarantee fee.

A part of the parent company's electric power sales agreements are related to aluminium price development. International Financial Reporting Standards require that the aluminium price link be calculated as embedded derivatives. Calculated change in the value of the embedded derivatives is recognised in the income statement and may have considerable effect on the Company's financial items. Foreign exchange differences and fair value changes are mostly unrealised, which



must be kept in mind in the evaluation of the Company's results. Profit for the period amounted to USD 26.5 million compared to USD 72.9 million in the previous year.

Unrealised financial items are specified in the management's presentation, according to which profit before unrealised financial items amounted to USD 106.1 million in the year compared to USD 90 million in the previous year, which is an increase by 17.9%.

Balance Sheet

Landsvirkjun's total assets according to the balance sheet amounted to USD 4,622 million at year end 2011. The Company's equity amounted to USD 1,661 million and equity ratio has increased; it was 35.9% at year end 2011 but 34.0% at year end 2010.

Interest bearing liabilities amounted to USD 2,741 million at year end 2011 and decreased by USD 198 million from year end 2010 when they amounted to USD 2,939 million. Taken into account cash and cash equivalents and restricted cash Landsvirkjun's net debt amounted to USD 2,503 at year end. Weighted average maturity time of the loan portfolio was around 7.6 years.

Cash and cash equivalents at year end 2011 amounted to USD 230 million and in addition thereto the Company has access to Revolving Credit Facilities, which undrawn amount is USD 286 million. Furthermore, undrawn long term loans amount to USD 130 million. Liquid assets amounted thus to a total of USD 646 million.

Cash flow

Landsvirkjun improved its cash flow in the year 2011. Funds from operation (FFO) amounted to USD 255.6 million compared to USD 218.6 million in the year 2010. Cash flow from the Group's operation amounted to USD 267.2 million. Investment activities amounted to USD 107.7 million whereof the project at Budarhals power plant weighs the most. Amortisation of loans in excess of borrowings amounted to USD 185.3 million. The Company's cash and cash equivalents decreased by USD 35.6 million in the year and amounted to USD 230 million at year end.

Key ratios

The Company's net debt decreased during the year and key ratios related thereto improved. The Group's leverage measured against operating revenue before depreciation and amortisation (net liabilities / EBITDA) decreases from 8.97 at year end 2010 to 7.25 at year end 2011. The Company aims at decreasing this ratio even further by continuing to decrease debt. Ratio of funds from operations (FFO) to net debt has also improved and increases from 8.2% to 10.2% at year end 2011.

Taking into account financial items interest spread (EBITDA / net interest expenses) decreases to 3.06 from 3.68 at year end 2010 due to higher interest expenses. Ratio of funds from operations (FFO) to interest expenses decreased due to the same reason from 2.58 at year end 2010 to 2.19 at year end 2011.



As return of equity is calculated on profit, embedded derivatives and unrealised foreign exchange difference can have considerable effect on the result, but return on equity decreased from 4.7% in the year 2010 to 1.6% at year end 2011.

Operating outlook

The construction of Budarhals power plant is on schedule and the power plant is estimated to become operative at year end 2013. Landsvirkjun has secured the financing of the project. The Company continues the preparation work for the next power plant projects, among others geothermal heat power plants in North-East Iceland, in order to meet the demand of new and existing customers.

Landsvirkjun's income is still considerably contingent on the world market price of aluminium, but aluminium prices during the first months of the year 2012 are quite lower than last year's average. Interest rates in the main financial markets are currently low, which is good for Landsvirkjun as the main part of its loans carry floating interests. The Company's results will therefore, as before, for the most part be subject to the development in aluminium prices, interest rates and foreign exchange rates.

Reykjavik, 16 March 2012

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. The Company produces electricity from renewable energy resources, hydroelectric power and geothermal heat. Landsvirkjun produces 75% of all electricity in the country and is the biggest energy producer in Iceland. The Company is at the same time leading in sustainable utilization of energy resources and contributes to increased knowledge, innovation and technical development.



Main figures from the financial statements in USD thousand

Group - management's presentation

	2011	2010	2009	2008	2007
Operating revenues	419,708	383,991	299,788	452,027	368,824
Realised aluminium hedges	16,488 (	6,342)	42,526 (	54,759)	(59,447)
Total operating revenues	436,196	377,649	342,314	397,268	309,377
Operating and maintenance cost	(90,993)	(79,564)	(70,655)	(100,512)	(105,800)
EBITDA	345,203	298,085	271,659	296,756	203,577
Depreciation and impairment loss	(108,200)	(107,258)	(114,321)	(105,532)	(81,960)
EBIT	237,003	190,827	157,338	191,224	121,617
Financial items	(130,891)	(100,856)	(107,295)	(146,552)	(62,408)
Profit before unrealised financial items	106,112	89,971	50,043	44,672	59,209
Unrealised financial items:					
Fair value changes in embedded derivatives	(93,197)	(55,583)	253,304 (	497,167)	326,835
Fair value changes in other derivatives	6,959 (	39,438)	(53,655)	186,284	35,337
Unrealised foreign exchange difference	22,711	87,619 (	39,752)	(148,369)	205,321
	(63,527)	(7,402)	159,897 (	459,252)	567,493
Profit (loss) before income tax	42,585	82,569	209,940	(414,580)	626,702
Income tax	(16,135)	(9,653)	(16,944)	70,048 (	167,444)
Profit (loss)	26,450	72,916	192,996	(344,532)	459,258
Total assets	4,622,424	4,837,486	4,803,522	4,619,220	5,142,303
Total equity	1,661,312	1,644,322	1,564,487	1,376,792	1,600,145
Total liabilities	2,961,112	3,193,164	3,239,035	3,242,428	3,542,158
Net debt	2,502,873	2,673,966	2,823,872	2,850,276	2,903,504
Cash flow from operating activities	267,172	229,595	197,023	184,350	138,522
Investing activities	(107,689)	(53,517)	(120,533)	(374,797)	(532,526)
Financing activities	(185,328)	(106,294)	(4,572)	168,586	506,937
Total liquidity	645,709	573,208	475,848	474,993	529,578
Equity ratio	35.9%	34.0%	32.6%	29.8%	31.1%
Return on equity	1.6%	4.7%	14.%	(21.5%)	40.2%
Interest spread (EBITDA/net interest expenses)	3.06x	3.68x	3.14x	1.83x	2.37x
Net debt / EBITDA	7.25x	8.97x	10.39x	9.60x	14.26x