

## Press release

### Landsvirkjun's results for the first six months of the year 2014

#### Net liabilities decreased by USD 52.8 million

- Profit for the period amounted to USD 34.5 million

#### Key figures from the interim consolidated financial statements

- Operating revenues amounted to USD 203.2 million which is a decrease of 1.7% compared to the same period 2013.
- EBITDA amounted to USD 154.9 million. EBITDA ratio is 76.2% of turnover, compared to 79.9% in the same period 2013.
- Profit before unrealised financial items amounted to USD 54.4 million, compared to USD 67.1 million in the same period 2013, a decrease of 18.9% between periods.
- Cash flow from operations amounted to USD 114.2 million which is a decrease of 15.0% compared to the same period 2013.
- Investing activities amounted to USD 48.5 million. Cash flow from operations less investing activities thus amounted to USD 65.7 million.
- The profit for the period was USD 34.5 million.
- Net liabilities decreased by USD 52.8 million from the beginning of the year and amounted to USD 2,376.4 million at the end of June.

#### Hordur Arnarson, the CEO:

“During the first half of 2014 operations were generally successful despite temporary challenges caused by low water levels in Landsvirkjun’s reservoirs. We are pleased to report an ongoing decrease in net liabilities, which has been one of our main emphasis these last years because of the leverage of the company.

Operating revenues decreased compared to the same period last year. The decrease was mainly caused by the need to temporarily reduce the supply of secondary power due to water level in reservoirs in accordance with current agreements in place which caused income to be USD 10 million lower than expected. In addition lower aluminium prices also had a negative effect on operating revenues.

A new power station, Budarhalsstod, was launched in March. Its operation and energy generation has been in line with expectations. We plan that the next project will be executed in Northeast Iceland, where preparation measures for Theistareykir geothermal power plant continued during the period.



Electricity demand in Iceland seems now to be surpassing supply. A power purchase agreement was signed with United Silicon for 35 MW of power for a metallurgical grade silicon metal production plant in Helguvik. The contract had conditions precedent, which have all been lifted. With this agreement, we are diversifying our customer base. The project will strengthen industry development in Iceland as silicon metal has a bright future potential in this country. Additionally a power purchase agreement was signed with PCC Bakki Silicon, the contract is subject to conditions precedent which are set to be finalised later this year.”

## Operational highlights

At the beginning of 2014 the water level in Landsvirkjun’s reservoirs were low due to severely unfavourable weather conditions in the year 2013. Electricity sales amounted to 6,340 GWh for the period, which is below budget. Landsvirkjun’s energy generation is 96% hydroelectric energy and 4% geothermal energy. No serious outages occurred during the period.

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

	2014	2013	2012	2011	2010
	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.
<b>Operation</b>					
Operating revenues .....	196,877	199,266	193,454	214,370	186,005
Realised aluminium hedges .....	6,363	7,447	9,426	3,515	( 4,812)
<b>Total operating revenues .....</b>	<b>203,240</b>	<b>206,713</b>	<b>202,880</b>	<b>217,885</b>	<b>181,193</b>
Operating and maintainance expenses .....	( 48,381)	( 41,460)	( 38,932)	( 38,667)	( 37,398)
<b>EBITDA .....</b>	<b>154,859</b>	<b>165,253</b>	<b>163,948</b>	<b>179,218</b>	<b>143,795</b>
Depreciation and impairment loss .....	( 55,831)	( 60,603)	( 52,391)	( 53,777)	( 52,634)
<b>EBIT .....</b>	<b>99,028</b>	<b>104,650</b>	<b>111,557</b>	<b>125,441</b>	<b>91,161</b>
Financial items .....	( 44,601)	( 37,577)	( 63,905)	( 74,959)	( 43,667)
<b>Profit before unrealised financial items .....</b>	<b>54,427</b>	<b>67,073</b>	<b>47,652</b>	<b>50,482</b>	<b>47,494</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives .....	( 5,650)	( 169,459)	( 67,420)	59,000	( 183,236)
Fair value changes in other derivatives .....	( 6,566)	564	12,239	21,817	( 21,777)
Unrealised foreign exchange difference .....	8,779	16,510	22,018	( 94,221)	178,686
	( 3,437)	( 152,385)	( 33,163)	( 13,404)	( 26,327)
<b>Profit (loss) before income tax .....</b>	<b>50,990</b>	<b>( 85,312)</b>	<b>14,489</b>	<b>37,078</b>	<b>21,167</b>
Income tax .....	( 16,443)	33,089	( 5,470)	( 13,675)	( 5,479)
<b>Profit (loss) .....</b>	<b>34,547</b>	<b>( 52,223)</b>	<b>9,019</b>	<b>23,403</b>	<b>15,688</b>
<b>Balance sheet</b>					
	<b>30.6.2014</b>	<b>30.6.2013</b>	<b>30.6.2012</b>	<b>30.6.2011</b>	<b>30.6.2010</b>
Total assets .....	4,455,652	4,389,289	4,541,882	4,792,271	4,590,184
Total equity .....	1,681,003	1,635,705	1,651,834	1,670,073	1,579,686
Total liabilities .....	2,774,649	2,753,584	2,890,048	3,122,198	3,010,498
Net liabilities .....	2,376,422	2,405,474	2,428,898	2,684,795	2,561,291
<b>Key figures</b>					
Cash flow from operating activities .....	114,226	134,430	118,087	132,669	109,984
Investing activities .....	( 48,533)	( 75,363)	( 36,414)	( 26,226)	( 24,664)
Financing activities .....	( 139,227)	( 89,290)	( 63,106)	( 178,161)	( 97,567)
Total liquidity .....	508,284	558,905	656,143	545,004	460,363
Equity ratio .....	37.7%	37.3%	36.4%	34.8%	34.4%
Return on equity .....	2.9%	(0.4%)	0.7%	5.1%	11.4%
Interest cover (EBITDA/net interest expenses) .....	3.27x	3.59x	2.96x	3.30x	3.94x
Net liabilities / EBITDA .....	7.46x	7.48x	7.38x	8.05x	9.44x



## The interim consolidated financial statements

The interim consolidated financial statements of Landsvirkjun are prepared in accordance with The International Financial Reporting Standards (IFRS). The interim financial statements are in USD, which is the functional currency of the parent company.

### Income Statement

#### Operating revenues

Operating revenues of Landsvirkjun for the first half of 2014 decreased by USD 3.5 million, compared to the same period last year, or from USD 206.7 million to USD 203.2 million. The decrease is mainly explained by the decrease in the volume of electricity sales and lower aluminium prices. The average wholesale price to retail sales companies (excluding transmission cost) was 4.4 ISK/kWh during the period compared to 4.0 ISK/kWh the previous year. The average price to industrial users was 25.0 USD/MWh compared to 25.8 USD/MWh in the previous year. The average price to industrial users includes transmission cost where appropriate. Transmission income increased between years from USD 24.7 million to USD 29.5 million which is mainly explained by foreign exchange effects.

#### Operating expenses

Operating expenses less depreciation and impairment loss amounted to USD 48.4 million during the period compared to USD 41.5 million for the same period last year.

### Results

The Group's EBITDA amounted to USD 154.9 million. EBITDA ratio is 76.2% compared to 79.9% for the same period last year. EBIT amounted to USD 99.0 million compared to USD 104.7 million for the same period last year.

The foreign exchange difference is positive by USD 12.6 million in the period from January to June 2014 compared to a positive foreign exchange difference of USD 26.7 million in the same period the previous year. Average nominal interest rates on long-term loans were around 3.5% taking into account the state guarantee fee which is nearly unchanged from the previous year. Low global market interest rates have positive effects on the Company's results.

A part of the parent company's electric power sales agreements are related to aluminium price development. Calculated changes in the values of the embedded derivatives are recognised in the income statement in the amount of USD 5.7 million as an expense in the period from January to June 2014 compared to USD 169.5 million as an expense in the same period last year. Foreign exchange differences and fair value changes are mostly unrealised, which must be kept in mind in the evaluation of the Company's results. Therefore, unrealised financial items are specified separately in management's presentation.

Profit before unrealised financial items is the criterion used by Landsvirkjun in evaluating the Company's basic operations. The profit amounted to USD 54.4 million in the period from January to June 2014 compared to USD 67.1 million in the same period last year.

The profit for the period amounted to USD 34.5 million compared to a loss of USD 52.2 million for the same period last year.



## Balance Sheet

### Assets

Landsvirkjun's total assets amounted to USD 4,455.7 million at the end of June 2014. Landsvirkjun's liquidity balance is good but cash and cash equivalents at the end of June 2014 amounted to USD 215.2 million. The Company has access to Revolving Credit Facilities, where the undrawn amount is USD 293.0 million. Liquid assets and undrawn loans, therefore, amounted to a total of USD 508.2 million.

### Liabilities and equity

Interest bearing liabilities amounted to USD 2,591.7 million at the end of June 2014 and decreased by USD 125.5 million from year end 2013, when they amounted to USD 2,717.2 million. Taking into account cash and cash equivalents Landsvirkjun's net liabilities amounted to USD 2,376.4 million at the end of June 2014 compared to USD 2,429.2 million at year end 2013, and decreased by USD 52.8 million. The weighted average maturity of the loan portfolio was around 6.0 years.

The Company's equity amounted to USD 1,681.0 million and the equity ratio has increased. Equity ratio was 37.7% at the end of June 2014 compared to 36.3% at yearend 2013.

### Cash flow

Cash flow from the Group's operations amounted to USD 114.2 million. Investing activities amounted to USD 48.5 million whereof the project at Budarhalsstod power station weighs the most. Amortisation of loans in excess of borrowings amounted to USD 132.5 million and dividend paid amounted to USD 6.7 million for the operating year 2013. The Group's cash and cash equivalents decreased by USD 72.7 million in the period and amounted to USD 215.2 million at the end of June 2014.

### Key ratios

The Group's leverage measured against operating revenues before depreciation and amortisation (net liabilities / EBITDA) increases from 7.38x at yearend 2013 to 7.46x at the end of June 2014. The ratio of funds from operations (FFO) to net liabilities went from 10.6% at yearend 2013 to 10.2% at the end of June 2014.

Interest coverage (EBITDA/net interest expenses) decreases to 3.27x from 3.51x at yearend 2013. The ratio of funds from operations (FFO) to interest expenses decreased from 2.66x at yearend 2013 to 2.42x at the end of June 2014.

As return on equity is calculated on results, embedded derivatives and unrealised foreign exchange difference can have considerable effects on the results. Return on equity was negative by 2.3% in the year 2013 but positive by 2.9% at the end of June 2014.

### Operating outlook

Landsvirkjun's results will for the most part continue to be subject to the development in aluminium prices, interest rates and foreign exchange rates. Landsvirkjun's income is partly linked to aluminium prices, therefore changes in world market aluminium prices continue to have an effect on Landsvirkjun's future income. Currently, the price of aluminium is low and uncertainty prevails over its development over the coming months.



The majority of the Company's loans are on floating interest rates and therefore the continuation of low interest rates are important for operations.

Reykjavik, 29 August 2014

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 value and efficiency. 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.