

# Landsvirkjun Financial Statements 2015

Presentation 22 February 2016  
Hordur Arnarson, Chief Executive Officer  
Rafnar Larusson, Chief Financial Officer





# Agenda:

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## **Current status**

Hordur Arnarson, CEO

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## **Financial statements 2015**

Rafnar Larusson, CFO

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## **Outlook**

Hordur Arnarson, CEO

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# Current status

Hordur Arnarson CEO

# Highlights of the year

## Positive results in a demanding business environment

- › Record volume sold, demand consistently increasing
- › Stable revenues and EBITDA despite a demanding market environment
- › Cash flow covers investments

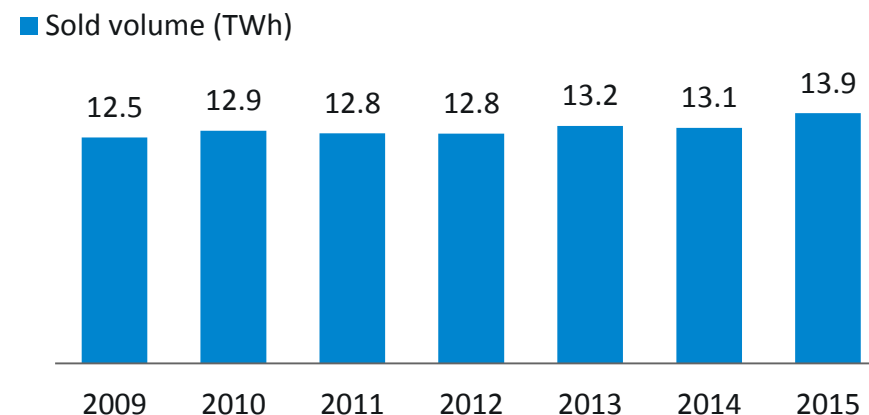
## Net debt continues to decrease

- › Net debt 2015 decreases by USD 205m from 2014
- › First time below USD 2,000m since 2005
- › Decreased by about USD 840m since 2009

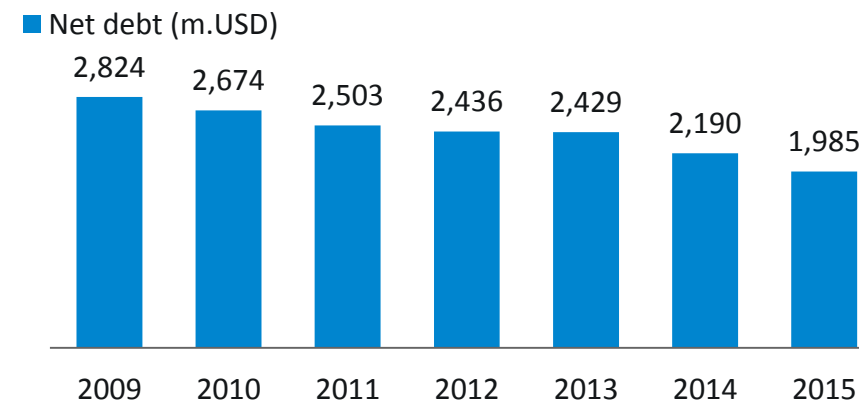
## Landsvirkjun without government guarantee back to investment grade

- › Standard & Poor's: BBB-

## 2015 record volume sold by Landsvirkjun



## Net debt below USD 2 billion



# Demanding business environment

## Stable revenues despite declining aluminium prices

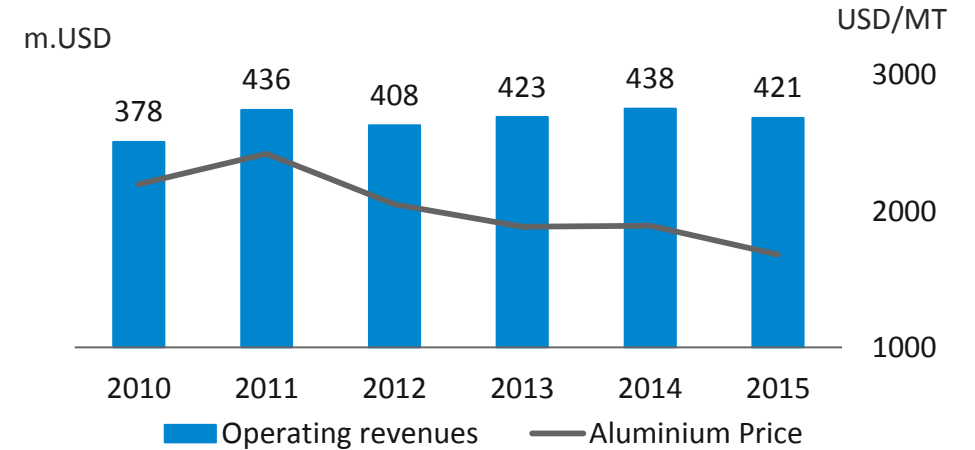
### Effect of aluminium prices on revenues consistently reduced

- › About a third of revenues linked to aluminium prices (2009 about 2/3)
- › New contracts and increase in sales not linked to aluminium prices

## Decline in market prices

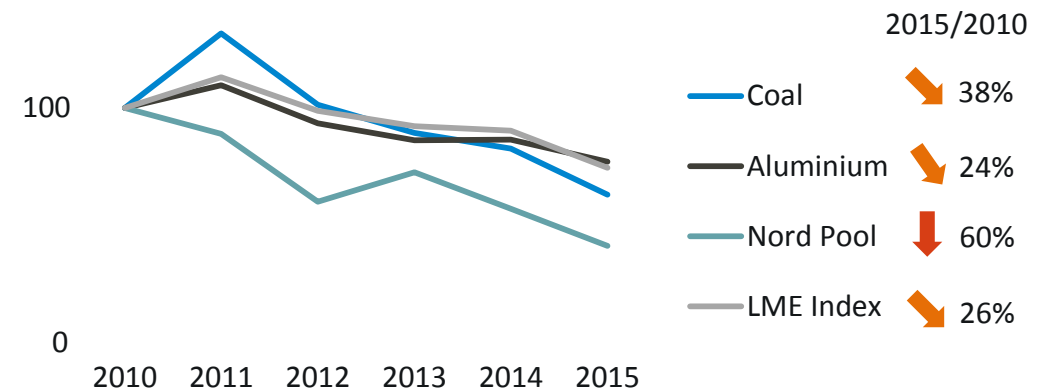
- › Aluminium and metal prices have declined
- › Other markets have also declined
  - › Energy prices, coal, gas and oil
  - › Price of carbon emission

## Stable revenues



## Decline in market prices

Source: Bloomberg



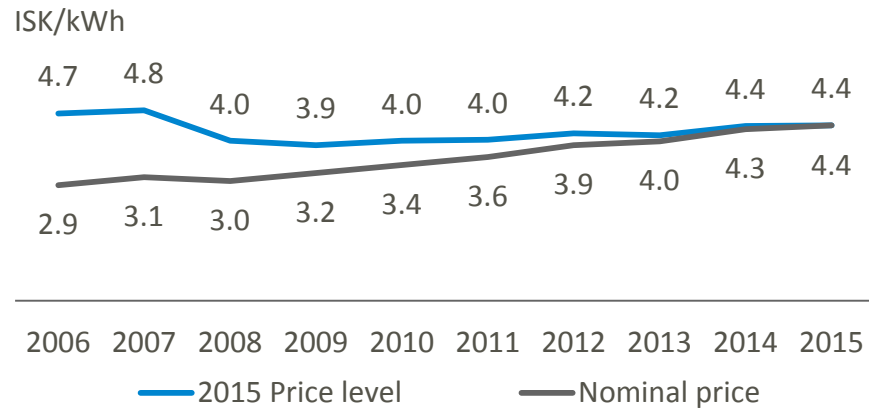
# Diverse customer base



Landsvirkjun does not sell directly to households

# Electricity prices to wholesale and industry

## Average wholesale price



## Prices to wholesale have been stable

- › At 2015 price level, wholesale price is lower than in 2006 and 2007
- › Electricity generation is about 1/3 of end consumer price

## Average price to industry including transmission



## Prices to industry have decreased

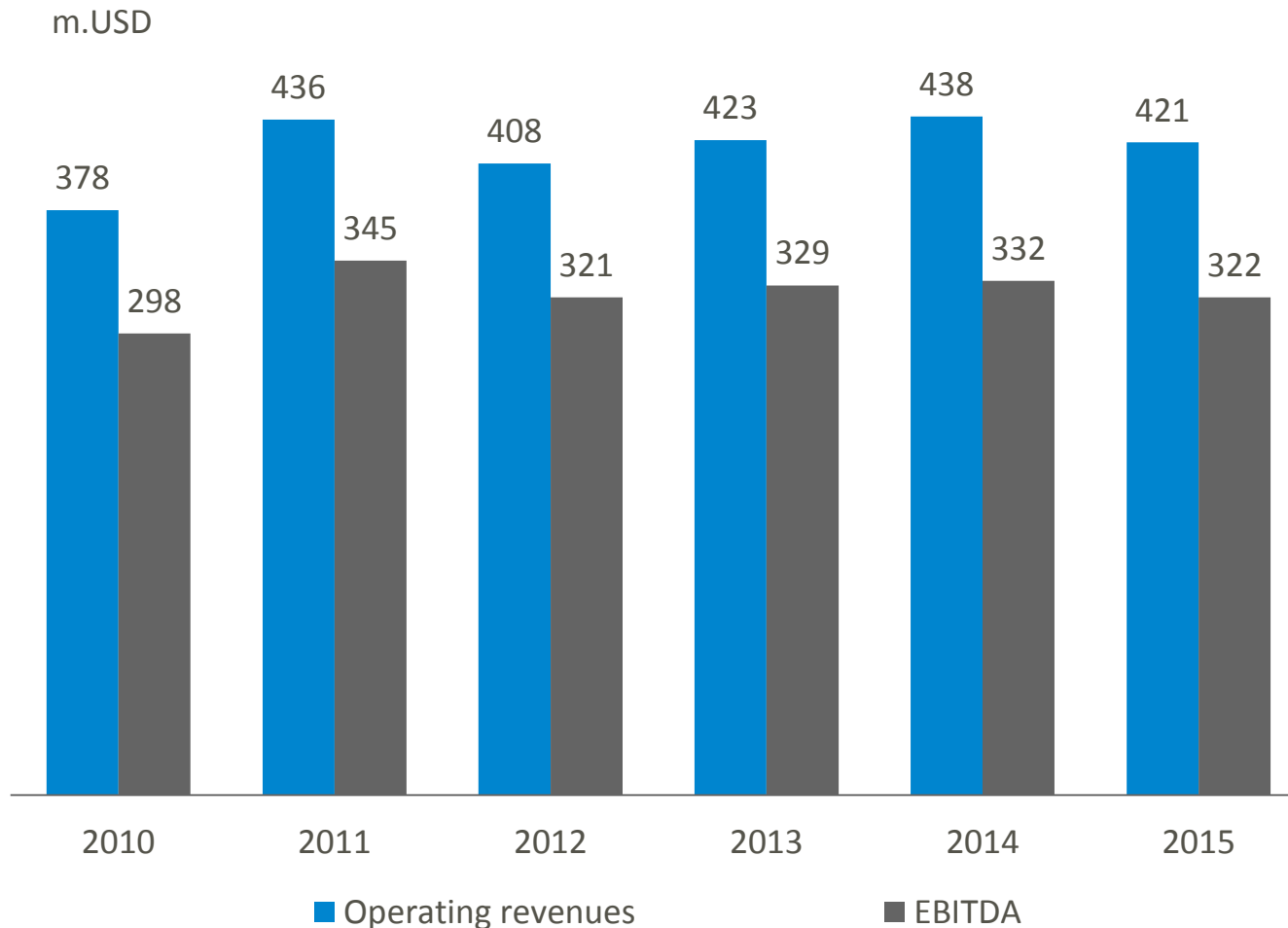
- › Decrease in price of aluminium
- › Norwegian krona depreciation

# Financial statements 2015

Rafnar Larusson CFO



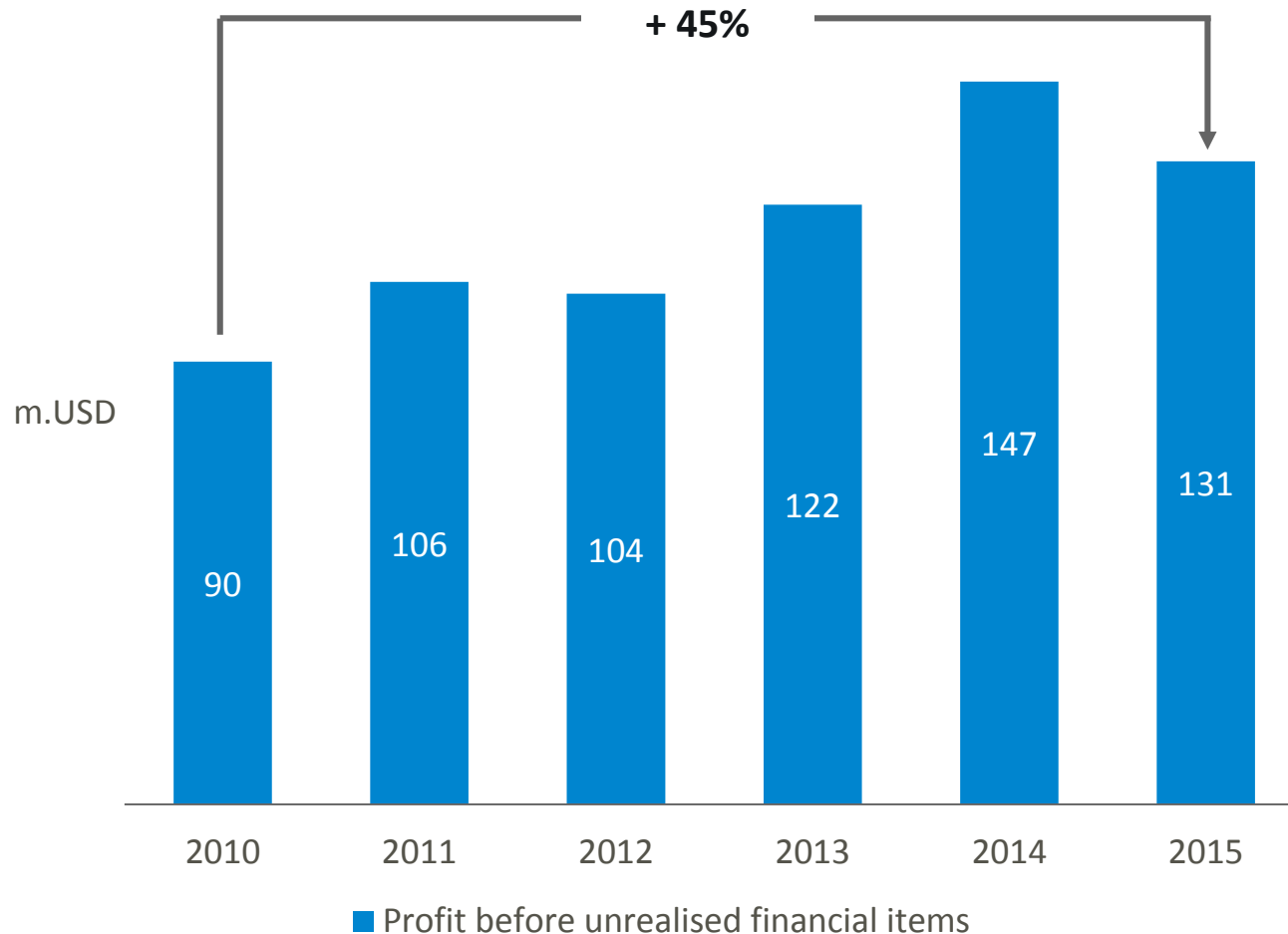
# Stable operating results



Despite a demanding business environment, revenues and expenses have been stable

An increase in sold volume has counterbalanced decreased aluminium prices

# Strong return from core operations



Improvement in core operations has a direct impact on Landsvirkjun's cash generation

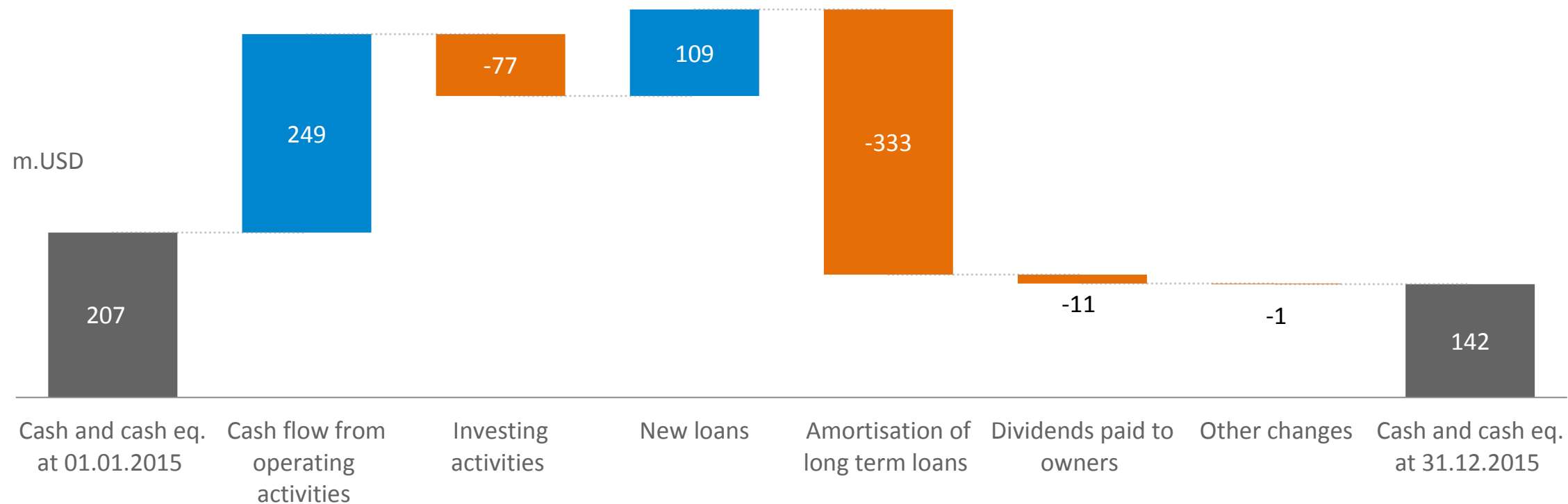
- › One time revenue recognition of USD 17m in 2014 due to an agreement with Rio Tinto Alcan

Interest payments decreased by USD 18m USD between years

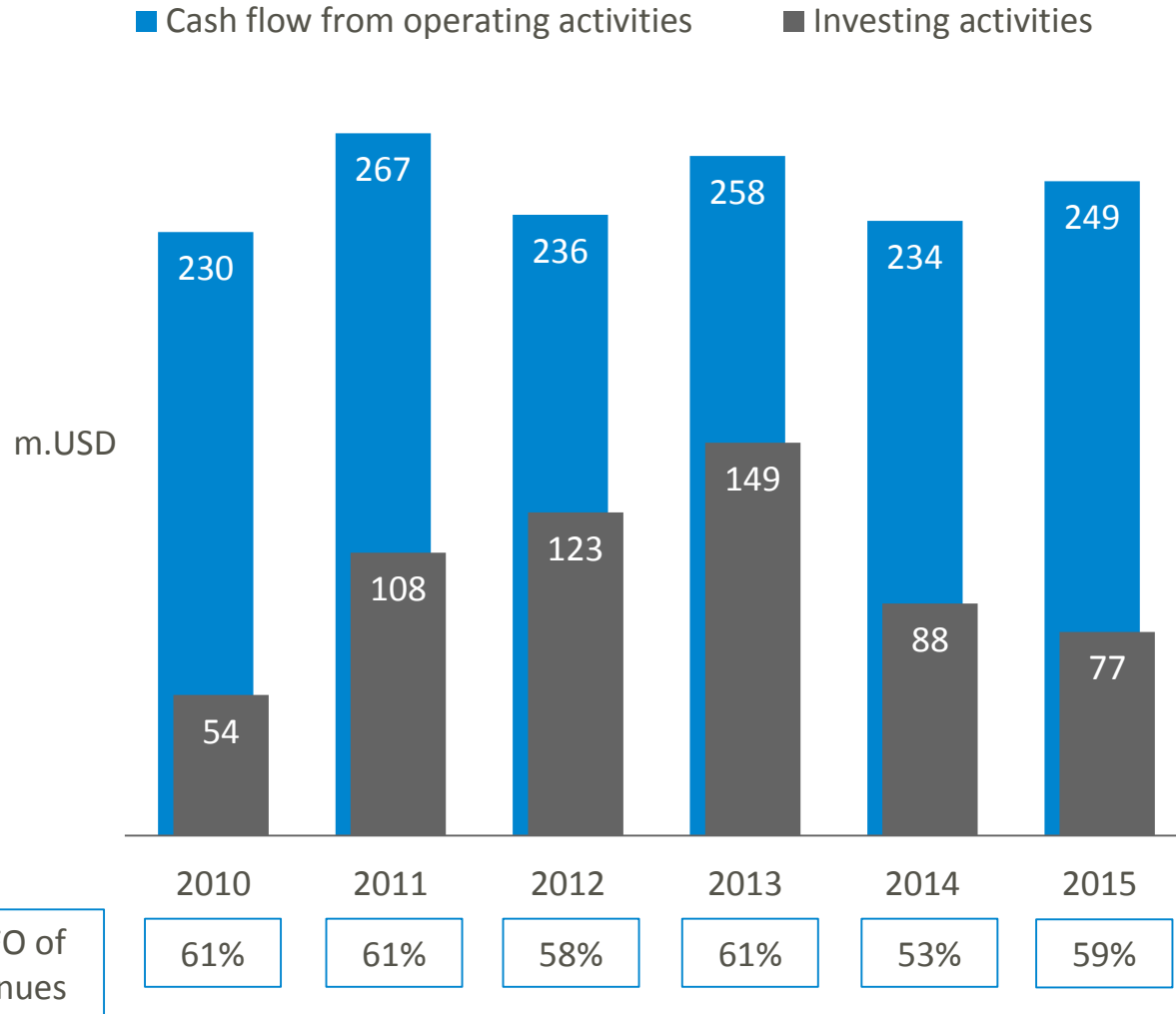
- › In line with debt reduction



# Cash utilized for investments and amortisation of loans



# Cash flow covers investing activities



Cash flow from operations has been strong in the last few years

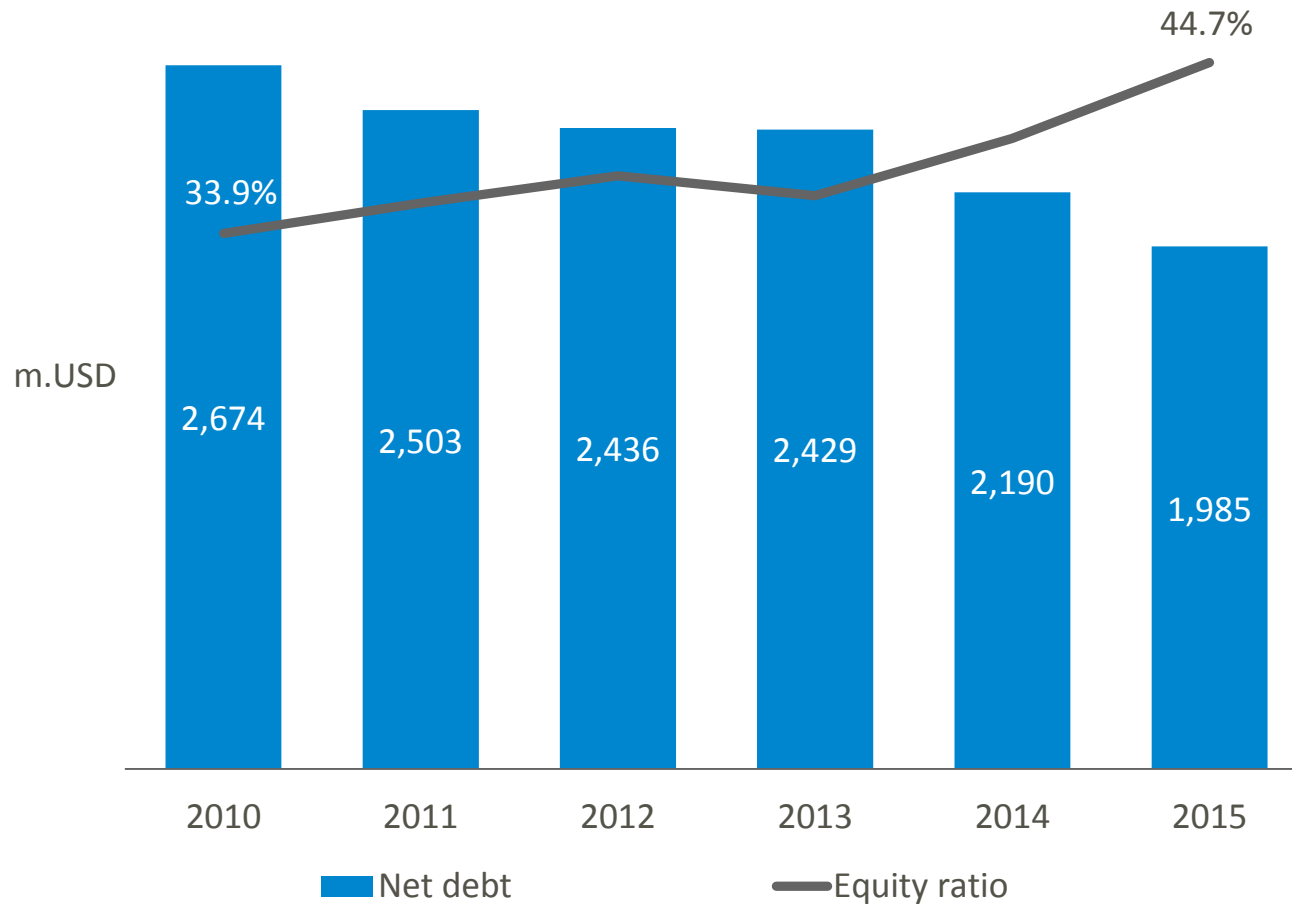
Cash flow from operations is about 60% of revenues

Cash flow from operations covers investing activities

- › Prerequisite for continuing decrease of debt



# Net debt below USD 2,000m



## Significant debt reduction

Net debt below USD 2,000m for the first time since 2005

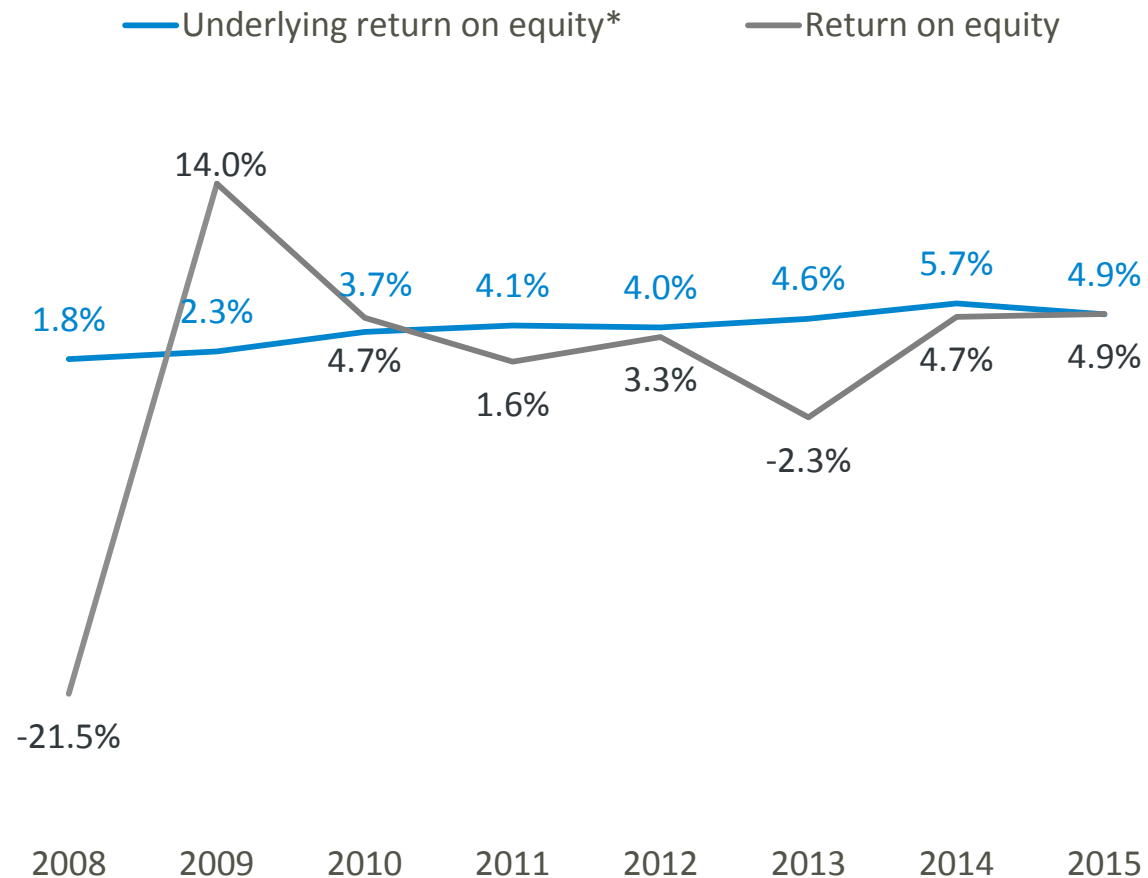
Government guarantees have been significantly reduced

- › Debt reduction
- › New financing without government guarantee

Equity ratio 44.7%

- › Highest in Landsvirkjun's history

# Underlying return on equity



\* Based on profit before unrealised financial items and a 36% income tax

## Return on equity volatile despite stable core operations

- › Caused by fluctuations in unrealised financial items

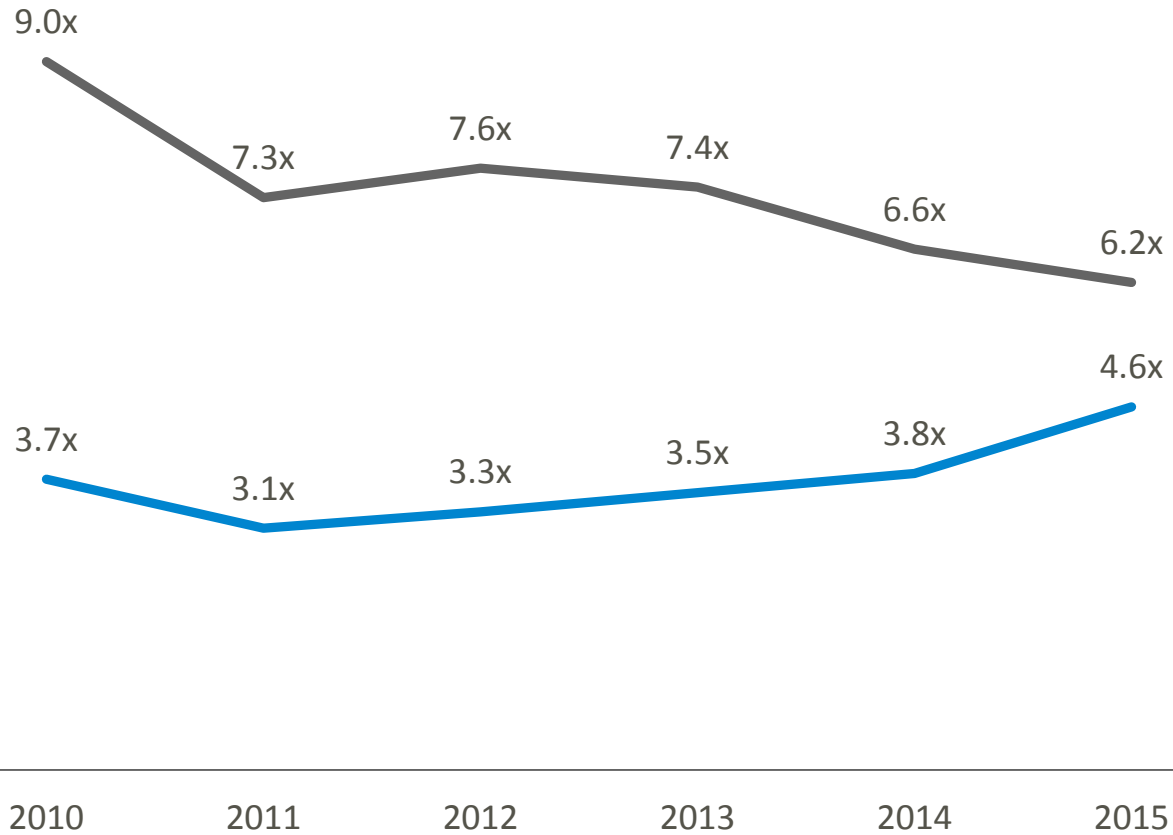
Underlying return on equity can be estimated by a simple approach which is based on profit before unrealised financial items and after a 36% income tax

- › Underlying return on equity is stable and improving

Return on equity should preferably be higher



# Key financial ratios improving








## Positive trend in key financial ratios

- › Debt reduction
- › Improving EBITDA

Interest coverage has improved in line with debt reduction and lower nominal interest rates

— Net debt / EBITDA — Interest coverage (EBITDA/net interest expenses)

# Credit rating upgraded to investment grade

Investment grade	AAA	
	AA+	
	AA	
	AA-	
	A+	
	A	
	A-	
	BBB+	  
	BBB	
	BBB-	
Non-investment grade	BB+	
	BB	
	BB-	

Credit rating without government guarantee is upgraded to investment grade: **BBB-**

- › Debt reduction
- › Decreasing market risk
- › Stable operations in a demanding business environment

Approaching market peers, which are 2 to 3 grades above

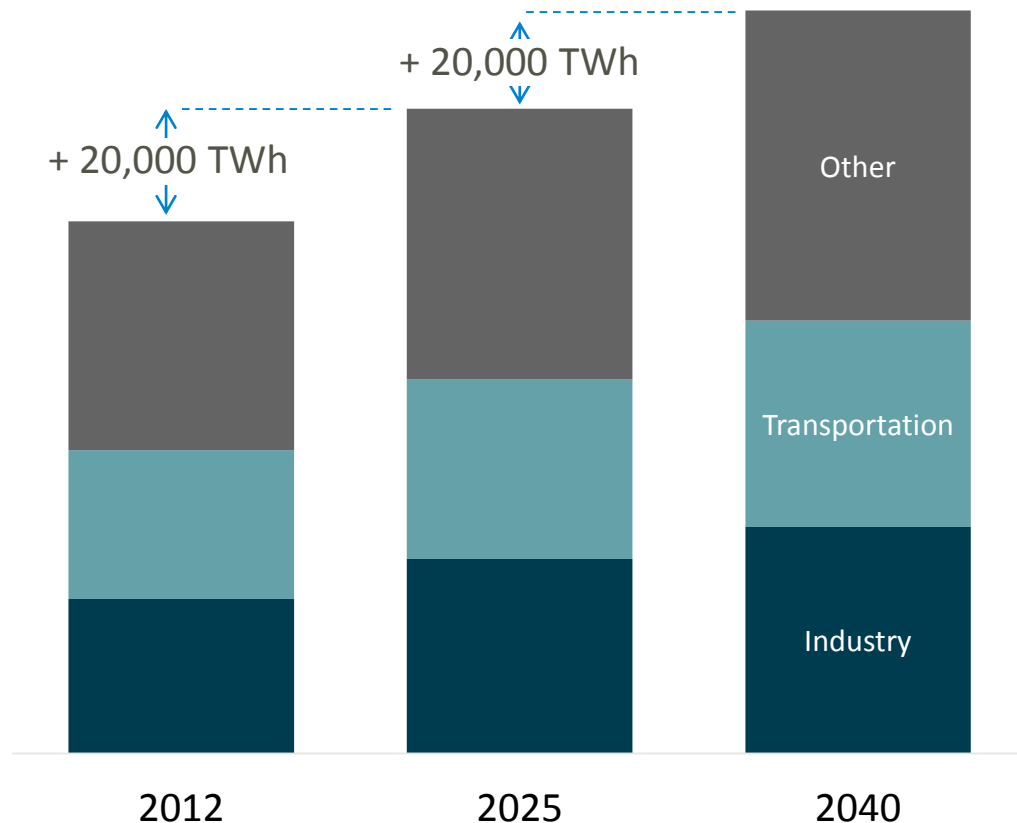


# Outlook

Hordur Arnarson CEO

# Global energy demand growing

Total global energy demand



Source: International Energy Agency

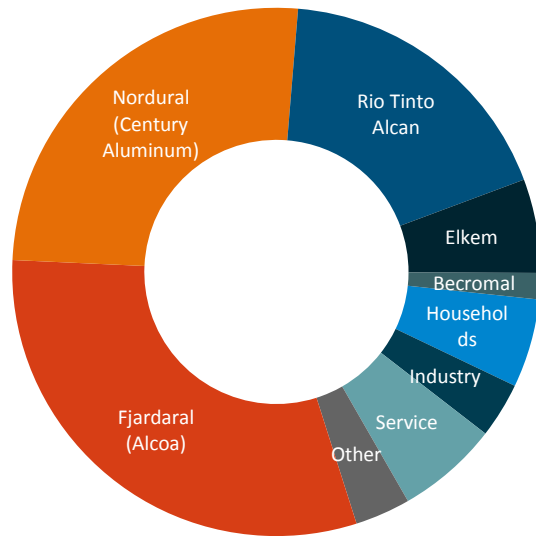
Global energy demand growing and changes in the energy sector

- › Threats to energy security of nations
- › Energy prices currently low but expected to increase
- › Increasing pollution

Landsvirkjun's aim is to offer competitive terms for electricity with long term agreements, favorable prices and unparalleled security of supply

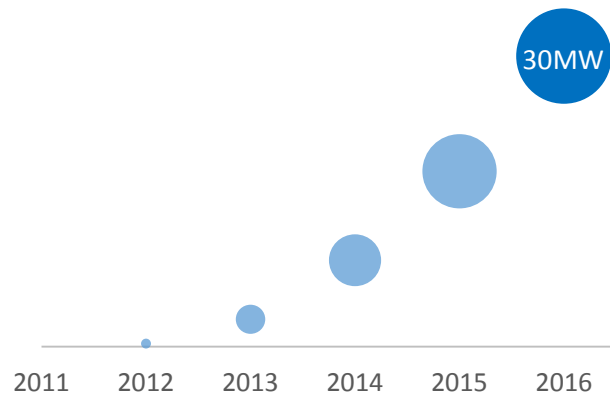
- › Long term agreements and unparalleled security of supply provide Landsvirkjun with a competitive edge

# Industrial demand in Iceland exceeds supply



High demand for electricity in Iceland

Source: National Energy Authority in Iceland



Strong growth in data centers

Source: Landsvirkjun estimates

Landsvirkjun is currently not able to meet total industrial demand

- › Confirms competitiveness compared to other countries
- › Risk and power prices are deciding factors for determining which companies are offered electricity

New customers commencing operations

- › United Silicon 35 MW in 2016
- › PCC 58 MW in 2017

Strong increase in sales to data centers

- › The Icelandic market now around 30 MW

Annual growth in wholesale around 6 - 12 MW

- › Equivalent to one geothermal turbine every 5 years



# Investing activities

## Theistareykir geothermal power plant

- › Utilises geothermal heat in Northeast Iceland
- › Power 90 MW, generation capacity 738 GWh/year
- › Conservative development of a sustainable geothermal power generation
- › In operation in autumn 2017

## Expansion of Burfell hydro power plant

- › Utilizes increased runoff due to global warming
- › Power 100 MW, generation capacity about 300 GWh/year
- › No new dams or reservoirs
- › In operation in spring 2018



# Renegotiations with customers

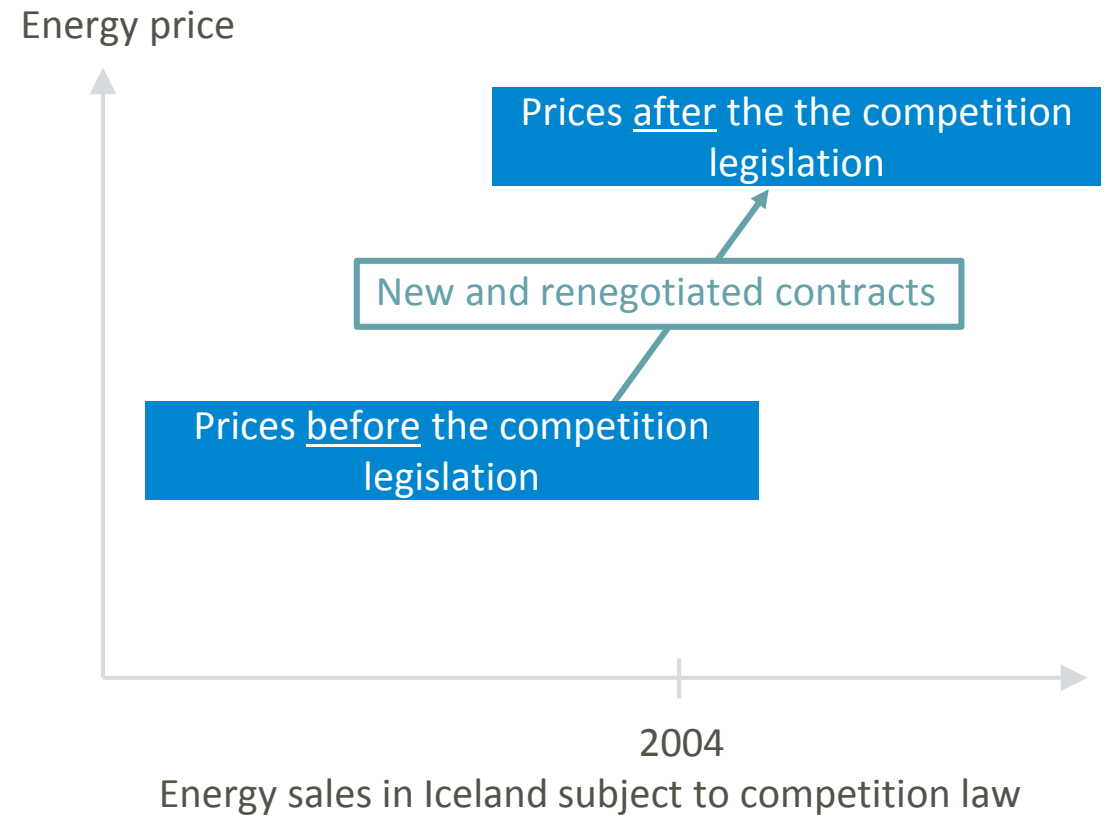
Renegotiations with important customers in progress

## Elkem Iceland

- › Original contract from 1975

## Nordural

- › Original contract from 1997



# Ability to pay dividends: Future outlook

Core operations of Landsvirkjun continue to improve

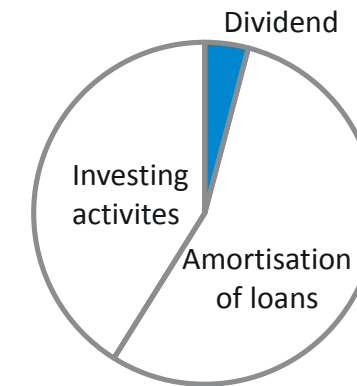
Focus on attaining an adequate debt leverage and having ready access to favourable long term financing without a government guarantee

- › Ability to pay dividends is limited while debt is being reduced

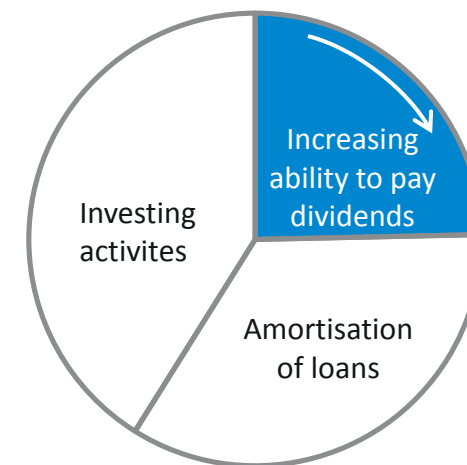
External and internal conditions affect when Landsvirkjun will be able to increase dividend payments

- › Optimistic that in 2 to 3 years dividend payments can be increased with continuing improvements in operations
- › The aim is to increase dividend payments from ISK 1.5 billion to 10-20 billion per year

Use of funds 2010 - 2015



Future use of funds



# Key message

## Strong performance in a demanding business environment

- › Challenging conditions in commodity and energy markets continue

## Considerable success in reducing debt

- › Continued focus on debt reduction

## Demand for electricity exceeds supply

- › Need for investments
- › Confirms competitiveness

## A number of opportunities to improve Landsvirkjun results





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