



## Landsvirkjun's results for the first six months of the year 2016

### Net debt continues to decrease

### Key figures from the interim financial statements

- Operating revenue amounted to USD 206.9 million, which is a USD 8.8 million (4.1%) decrease compared to the same period in 2015.
- EBITDA amounted to USD 155.2 million. EBITDA ratio is 75.0% of revenue compared to 78.5% in the same period in 2015.
- Profit before unrealised financial items amounted to USD 64.5 million compared to USD 80.0 million in the same period in 2015, a decrease of 19.4% between periods. Decreasing aluminium prices and effects of foreign exchange rates explain the decrease.
- The profit for the period was USD 34.8 million compared to USD 63.9 million in the same period in 2015. The decrease between periods is in part due to lower revenue, but a large part of it is traced to unrealised financial expenses.
- Net debt decreased by USD 39.4 million from the beginning of the year and amounted to USD 1,946.0 million at the end of June.
- Cash flow from operations amounted to USD 123.8 million which is a decrease of 15.4% compared to the same period in 2015.

### Hörður Arnarson, CEO:

“The Company’s performance in the first half of the year was good when taking into account a difficult external environment. Profit before unrealised financial items amounted to USD 64.5 million, the fourth best period in Company history. It is a sign of strong core operations and powerful cash generation that while we are currently constructing two power plants, net debt continues to decrease.

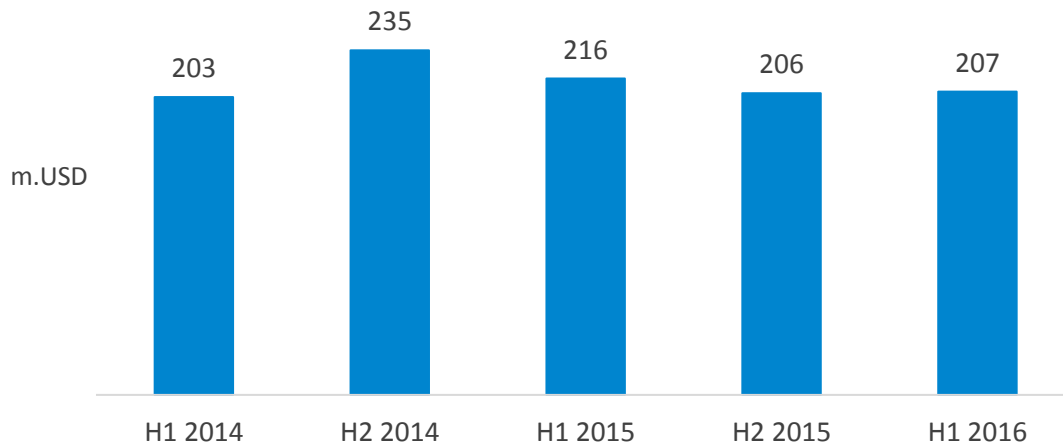
Operating revenue decreased compared to the same period in 2015, mainly due to lower aluminium prices. Prices in aluminium markets will continue to affect Landsvirkjun’s operations, but we have put an emphasis on reducing the effects of this link when contracts are renewed and new contracts are entered into. At the beginning of the year Landsvirkjun was upgraded by Standard & Poor’s to investment grade, which will contribute to a continued low interest expense, an important factor for the Company’s future operations and will give us more options to refinance debt without a state guarantee.

We are aware of strong demand for Icelandic renewable energy from various sectors. In order to increase energy generation, construction is under way at a geothermal power plant at Theistareykir and an extension of Burfell hydropower plant.”



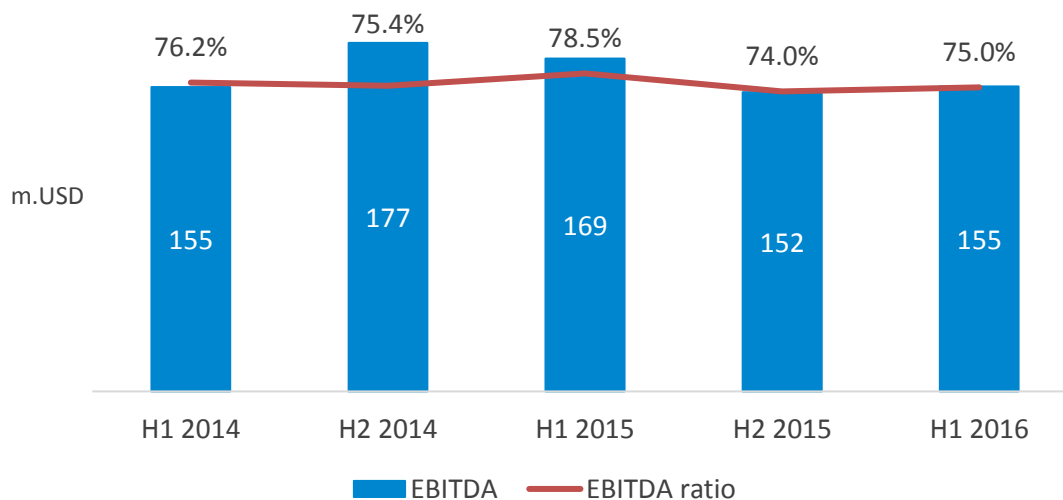
## Operations

### Development of operating revenue



Operating revenue decreased by USD 9 million compared to the same period in 2015. Conditions in foreign markets are currently demanding and aluminium prices are low, which for the most part explains the change between periods.

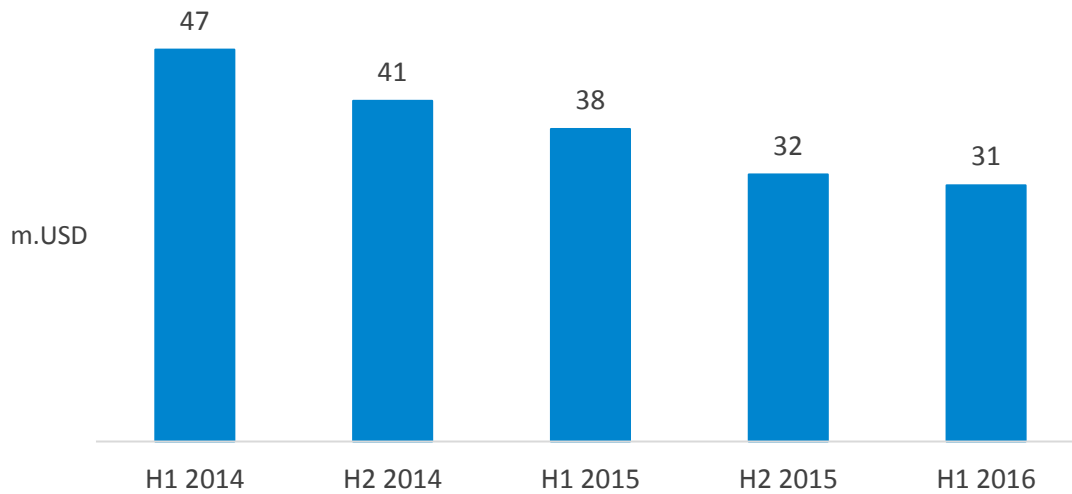
### EBITDA og EBITDA ratio



Operating profit of the Group before depreciations, EBITDA, amounted to USD 155 million. The EBITDA trend has been in sync with the Company's revenue trend.

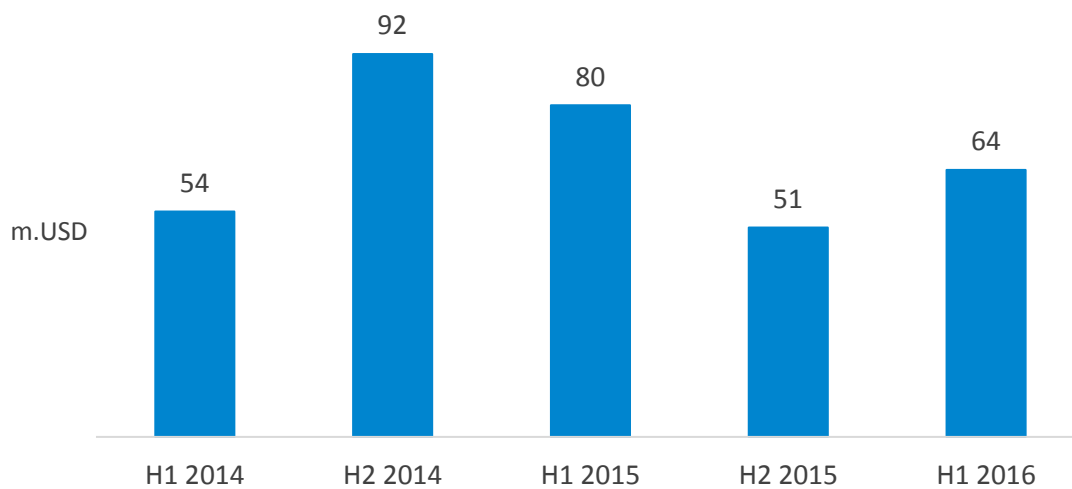


### Development in net interest expense



Low interest rates in global markets and decreasing debt in the last few years has had a positive effect on the development in net interest expense. This has helped greatly while the environment in foreign markets has been challenging.

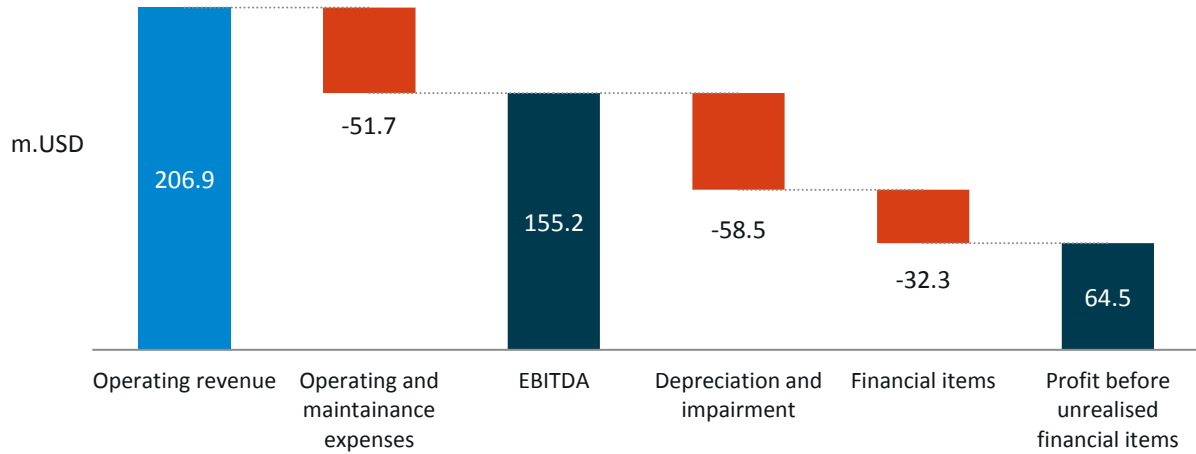
### Profit before unrealised financial items



Profit before unrealised financial items is the criterion used by Landsvirkjun in evaluating the Company's core operation. The profit amounted to USD 64 million but was USD 80 million in the same period in 2015. This decrease between periods is mainly due to decreasing revenue and effects of foreign exchange rates. Profit for the period was USD 35 million.

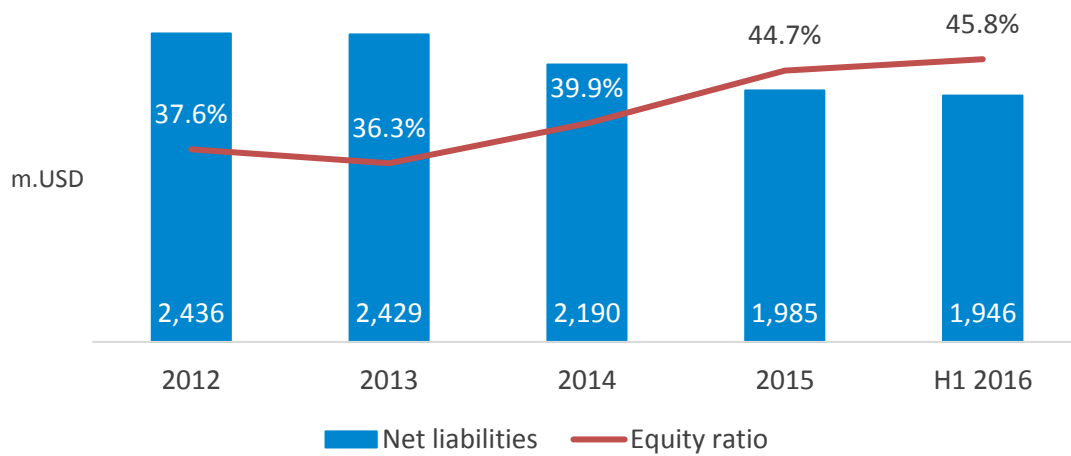


### Items affecting profit before unrealised financial items in H1 2016



### Focus on decreasing debt

#### Net debt and equity ratio



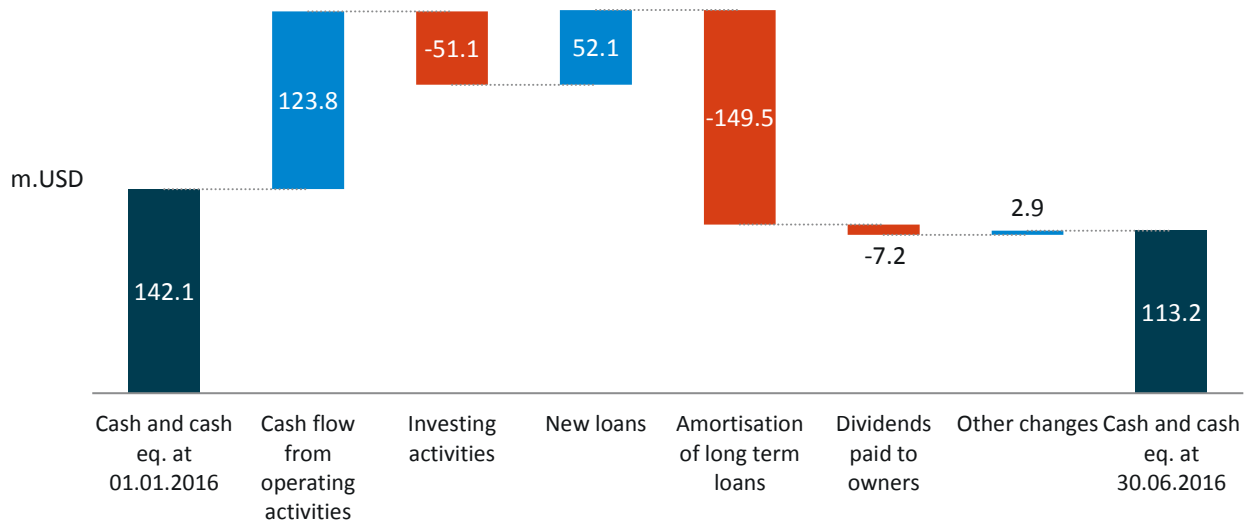
Landsvirkjun’s focus in the last years has been on decreasing debt. Net debt is calculated as interest bearing liabilities less cash and cash equivalent. Landsvirkjun’s net debt has decreased by USD 39 million from year end 2015. When taking a longer period into account, net debt has decreased by USD 490 million from year end 2012.

The Company's equity amounted to USD 1,938 million at the end of June 2016. The equity ratio has increased since 2012 by just over 8%. Total assets of Landsvirkjun were USD 4,233 million at the end of June 2016.



### Strong cash generation

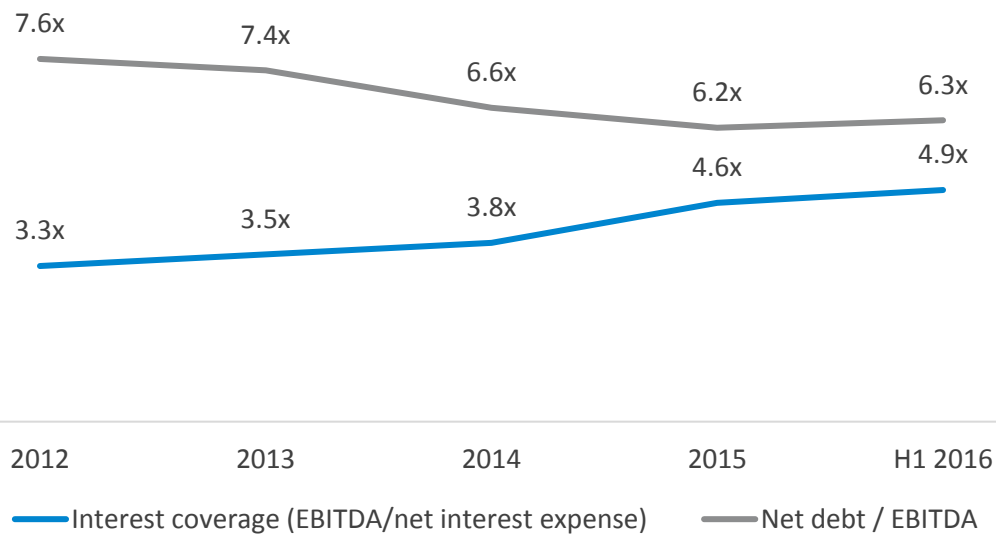
The Group’s cash amounted to USD 113 million at the end of June 2016. The development can be seen in the graph below. Cash flow from operating activities has sustained the last years’ investing activities which is the prerequisite of the Company’s improved debt level.



Landsvirkjun will continue to focus on decreasing the Company’s debt. This focus has resulted in that net debt is now 6.3 x EBITDA. It is the goal of Landsvirkjun that this ratio will be below 5. If the Company succeeds it will have more opportunities to pay dividends to owners and refinance debt for long-term at favorable interest rates.



### Key performance indicators



### Purpose and future vision

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.

### Operating outlook

Landsvirkjun's results will, as before, for the most part be subject to the development in aluminium prices, interest rates and foreign exchange rates. Landsvirkjun's income is partly linked to aluminium prices and changes in world market aluminium prices will therefore continue to have an effect on Landsvirkjun's future income. With renewals of contracts and hedge agreements the Company has been successful in decreasing the effect of aluminium prices on the Company's revenues, but low aluminium prices will continue to have negative effects on the operating results of Landsvirkjun.

Around half of the Company's loans are on floating interest rates and therefore continued low interest rates are important for the operations.

Reykjavik, 24 August 2016

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## About the interim financial statements

The Interim 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 interim financial statements in USD thousand:

	2016	2015	2014	2013	2012
	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 .....	204,452	210,979	196,877	199,266	193,454
Realised aluminium hedges .....	2,475	4,764	6,363	7,447	9,426
<b>Total operating revenues .....</b>	<b>206,927</b>	<b>215,743</b>	<b>203,240</b>	<b>206,713</b>	<b>202,880</b>
Operating and maintenance expenses .....	( 51,720)	( 46,483)	( 48,381)	( 41,460)	( 38,932)
<b>EBITDA .....</b>	<b>155,207</b>	<b>169,260</b>	<b>154,859</b>	<b>165,253</b>	<b>163,948</b>
Depreciation and impairment loss .....	( 58,471)	( 57,399)	( 55,831)	( 60,603)	( 52,391)
<b>EBIT .....</b>	<b>96,736</b>	<b>111,861</b>	<b>99,028</b>	<b>104,650</b>	<b>111,557</b>
Financial items .....	( 32,256)	( 31,822)	( 44,601)	( 37,577)	( 63,905)
<b>Profit before unrealised financial items .....</b>	<b>64,480</b>	<b>80,039</b>	<b>54,427</b>	<b>67,073</b>	<b>47,652</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives .....	14,391	( 13,591)	( 5,650)	( 169,459)	( 67,420)
Fair value changes in other derivatives .....	( 2,908)	( 3,475)	( 6,566)	564	12,239
Unrealised foreign exchange difference .....	( 20,914)	34,130	8,779	16,510	22,018
	( 9,431)	17,064	( 3,437)	( 152,385)	( 33,163)
<b>Profit (loss) before income tax .....</b>	<b>55,049</b>	<b>97,103</b>	<b>50,990</b>	<b>( 85,312)</b>	<b>14,489</b>
Income tax .....	( 20,216)	( 33,203)	( 16,443)	33,089	( 5,470)
<b>Profit (loss) .....</b>	<b>34,833</b>	<b>63,900</b>	<b>34,547</b>	<b>( 52,223)</b>	<b>9,019</b>
<b>Balance sheet</b>					
	<b>30.6.2016</b>	<b>30.6.2015</b>	<b>30.6.2014</b>	<b>30.6.2013</b>	<b>30.6.2012</b>
Total assets .....	4,233,437	4,150,537	4,455,652	4,389,289	4,541,882
Total equity .....	1,937,653	1,750,658	1,681,003	1,635,705	1,651,834
Total liabilities .....	2,295,784	2,399,879	2,774,649	2,753,584	2,890,048
Net liabilities .....	1,946,033	2,018,559	2,376,422	2,405,474	2,428,898
<b>Key figures</b>					
Cash flow from operating activities .....	123,841	146,428	114,226	134,430	118,087
Investing activities .....	( 51,132)	( 21,774)	( 48,533)	( 75,363)	( 36,414)
Financing activities .....	( 103,290)	( 148,425)	( 139,227)	( 89,290)	( 63,106)
Total liquidity .....	617,498	461,859	508,284	558,905	656,143
Equity ratio .....	45.8%	42.2%	37.7%	37.3%	36.4%
Return on equity .....	3.1%	6.4%	2.9%	(0.4%)	0.7%
Interest cover (EBITDA/net interest expenses) .....	4.87x	4.39x	3.35x	3.62x	2.90x
Net liabilities / EBITDA .....	6.33x	5.82x	7.46x	7.46x	7.36x

## About Landsvirkjun

Landsvirkjun was established in the year 1965 and is an energy generation 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  $\frac{3}{4}$  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 utilisation of energy resources and contributes to increased knowledge, innovation and technical development.