



## Landsvirkjun Group interim report, first nine months of 2016

Net debt continues to decrease while the company is currently constructing two power plants

### Key figures from the interim financial statements

- Operating revenues amounted to USD 307.1 million which is a decrease of USD 6.9 million (2.2%) compared to the same period in 2015.
- EBITDA amounted to USD 225.6 million. EBITDA ratio is 73.5% of revenues compared to 78.0% in the same period in 2015.
- Profit before unrealised financial items amounted to USD 88.8 million compared to USD 95.1 million in the same period in 2015, a decrease of 6.7% between periods.
- The profit for the period was USD 47.5 million compared to USD 76.3 million in the same period in 2015. The decrease between periods is in part due to lower revenues, but a large part of it is traced to unrealised financial items.
- Net debt decreased by USD 11.7 million from the beginning of the year and amounted to USD 1,973.8 million at the end of September.
- Cash flow from operations amounted to USD 172.5 million which is a decrease of 11.2% compared to the same period in 2015.

### Hörður Arnarson, CEO:

“We can be quite content with the Company’s performance in the first nine months of the year. Aluminium prices continued to decrease and are now 9% lower than in the same period last year and historically very low, which had a negative effect on revenues as a part of our electricity sales contracts are connected to the development of aluminium prices.

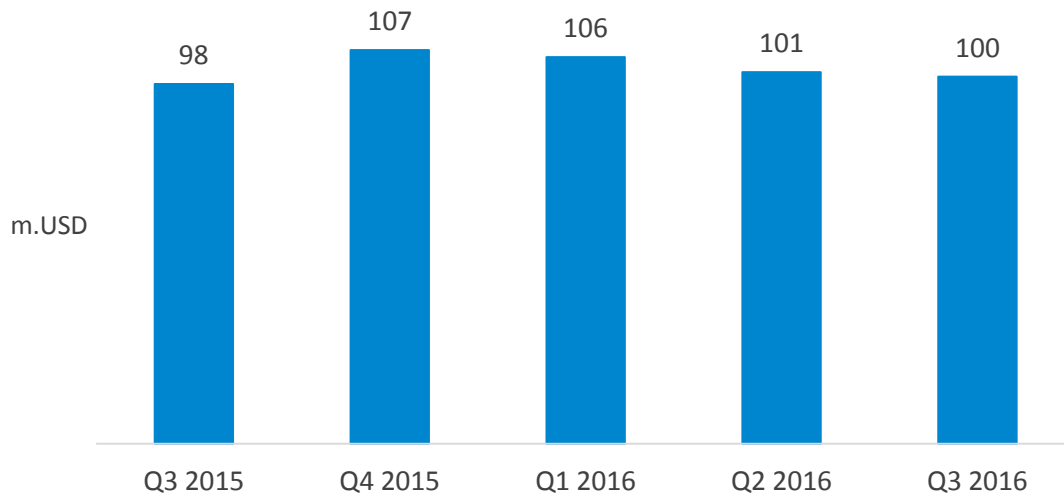
The Company is currently working on construction of two power plants, at Theistareykir and Burfell, while at the same time net debt continues to decrease which reflects powerful cash generation. It is pleasant to see that the decrease of net debt and better credit terms are leading to a considerable decrease in financial expenses.

The company is currently re-negotiating power purchase agreements with sales companies in the wholesale market. The average price to the wholesale market has been almost unchanged for the last years and that trend is not likely to change next year.”



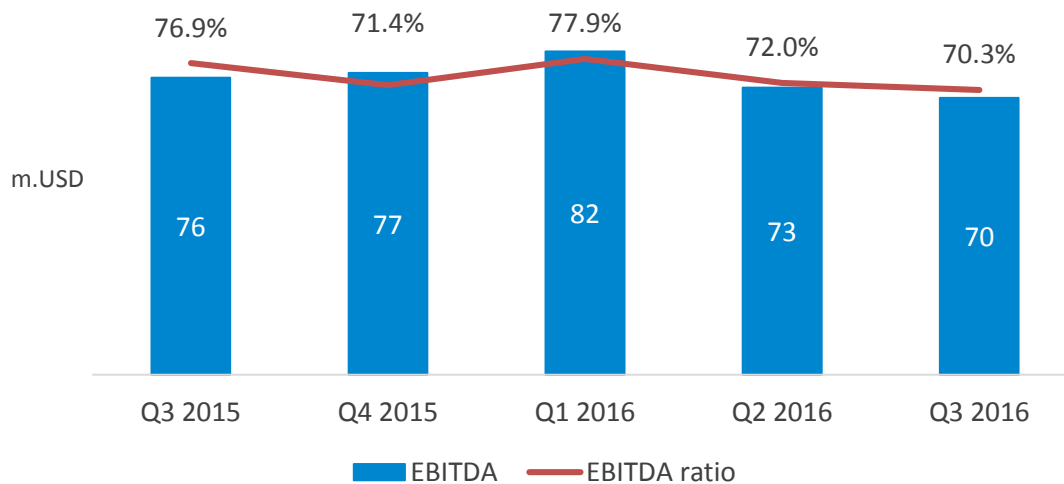
## Operations

### Development of operating revenues



Operating revenues for the first nine months of 2016 are lower compared to the same period in 2015. The difference is mainly due to aluminium prices. Aluminium prices have been low the last few years and conditions in foreign markets are currently demanding.

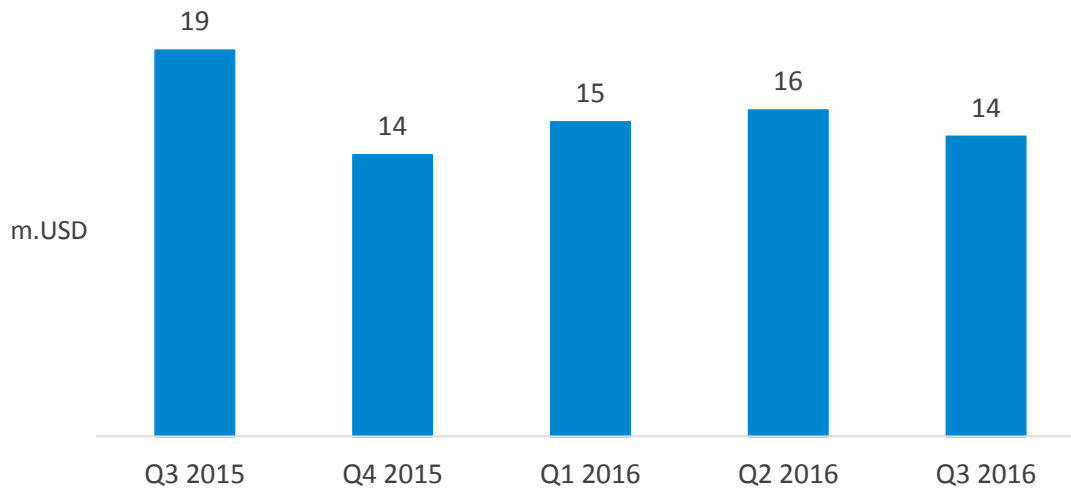
### EBITDA and EBITDA ratio



The EBITDA trend has been in sync with the Company's revenue trend.

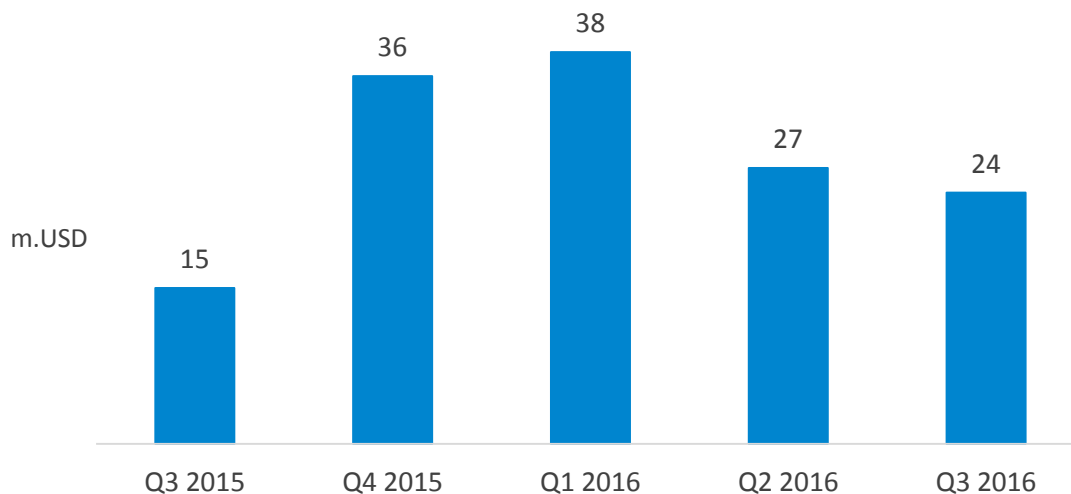


### Development in net interest expense



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

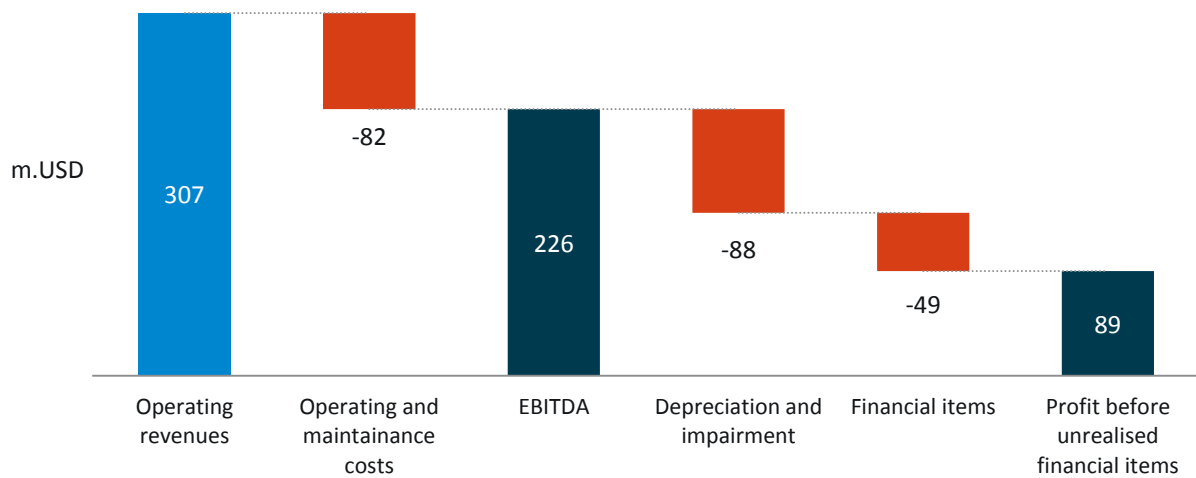
### Profit before unrealised financial items



Profit before unrealised financial items is the criterion used by Landsvirkjun in evaluating the Company's core operation. The profit amounted to USD 89 million in the first nine months of the year compared to USD 95 million in the same period in 2015. This decrease between periods is mainly due to decreasing revenues. Profit for the period was USD 47 million.

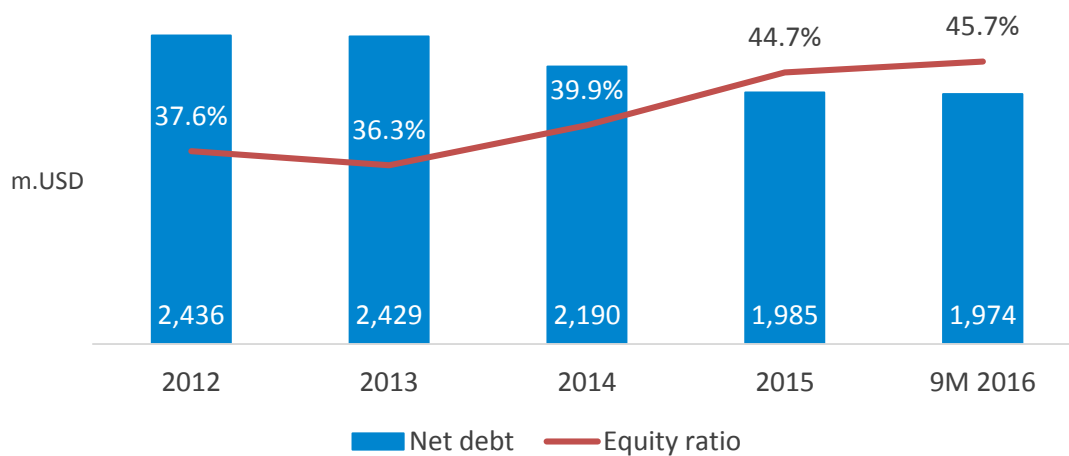


### Items affecting profit before unrealised financial items in 9M 2016



### Focus on decreasing debt

#### Net debt and equity ratio



Landsvirkjun’s focus in the last years has been on decreasing debt. Net debt is interest bearing debt after deducting cash and cash equivalent. Net debt of Landsvirkjun has decreased by USD 12 million from year end 2015. When taking a longer period into account, net debt has decreased by USD 462 million from year end 2012.

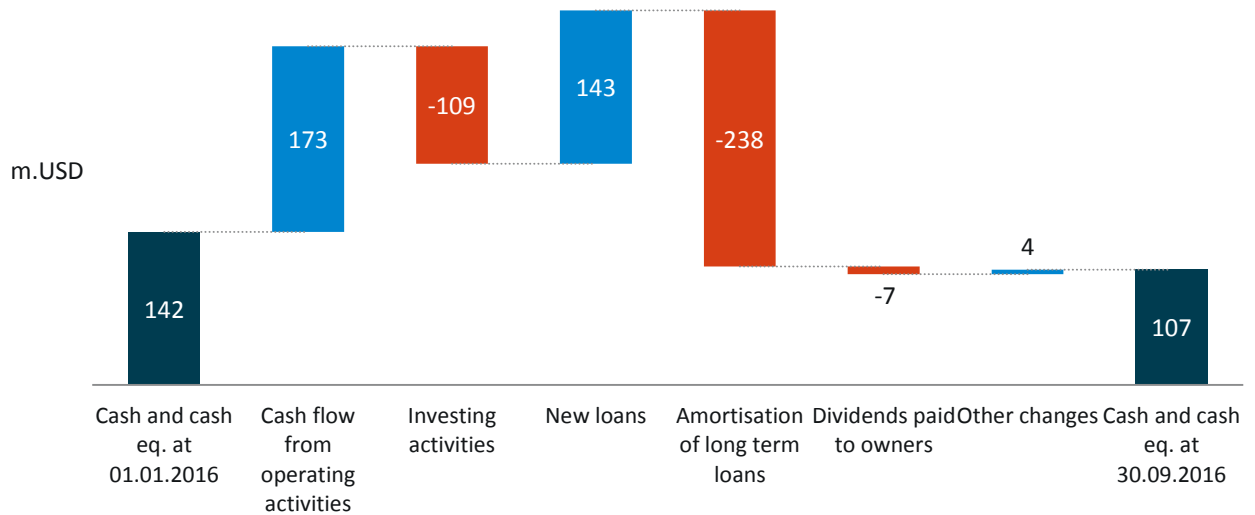
The Company’s equity amounted to USD 1,950 million at the end of September 2016. The equity ratio has since 2012 increased by just over 8% and is currently at 45.7%. Total assets of Landsvirkjun were USD 4,262 million at the end of September 2016.

### Robust cash generation

The Group’s cash and cash equivalents amounted to USD 107 million at the end of September 2016. The development can be seen in the graph below. Cash flow from operating activities

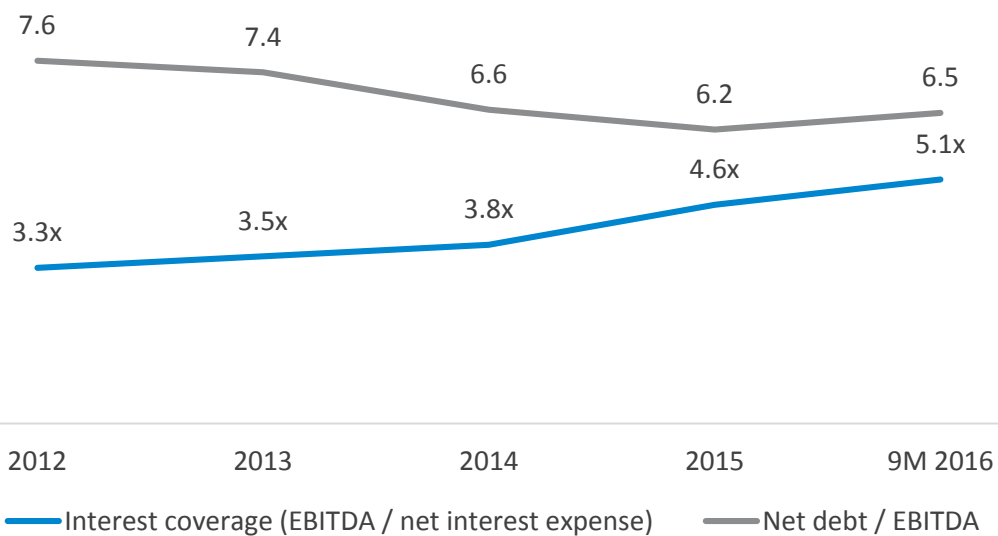


has sustained the last years' investing activities which is the prerequisite of the Company's improved debt level.



Landsvirkjun will continue to focus on decreasing the Company's debt. This focus has resulted in that net debt is now 6.5 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 produce 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 revenues are partly linked to aluminium prices and changes in world market aluminium prices will therefore continue to have an effect on Landsvirkjun's future revenues. 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.

Reykjavík, 23 November 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.-30.9.       | 1.1.-30.9.       | 1.1.-30.9.       | 1.1.-30.9.       | 1.1.-30.9.       |
| <b>Operation</b>                                      |                  |                  |                  |                  |                  |
| Operating revenues .....                              | 303,485          | 306,457          | 299,953          | 294,659          | 285,376          |
| Realised aluminium hedges .....                       | 3,632            | 7,529            | 7,854            | 11,239           | 15,563           |
| <b>Total operating revenues .....</b>                 | <b>307,117</b>   | <b>313,986</b>   | <b>307,807</b>   | <b>305,898</b>   | <b>300,939</b>   |
| Operating and maintenance expenses .....              | ( 81,502)        | ( 69,216)        | ( 77,087)        | ( 62,654)        | ( 60,963)        |
| <b>EBITDA .....</b>                                   | <b>225,615</b>   | <b>244,770</b>   | <b>230,720</b>   | <b>243,244</b>   | <b>239,976</b>   |
| Depreciation and impairment loss .....                | ( 87,721)        | ( 87,314)        | ( 85,302)        | ( 86,812)        | ( 78,361)        |
| <b>EBIT .....</b>                                     | <b>137,894</b>   | <b>157,456</b>   | <b>145,418</b>   | <b>156,432</b>   | <b>161,615</b>   |
| Financial items .....                                 | ( 49,137)        | ( 62,346)        | ( 62,027)        | ( 62,704)        | ( 86,286)        |
| <b>Profit before unrealised financial items .....</b> | <b>88,757</b>    | <b>95,110</b>    | <b>83,391</b>    | <b>93,728</b>    | <b>75,329</b>    |
| <b>Unrealised financial items:</b>                    |                  |                  |                  |                  |                  |
| Fair value changes in embedded derivatives .....      | 29,828           | ( 26,237)        | 22               | ( 123,937)       | 21,881           |
| Fair value changes in other derivatives .....         | ( 921)           | 6,464            | ( 11,487)        | 1,028            | 10,402           |
| Unrealised foreign exchange difference .....          | ( 38,179)        | 39,972           | 51,147           | ( 6,313)         | ( 1,657)         |
|   | ( 9,272)         | 20,199           | 39,682           | ( 129,222)       | 30,626           |
| <b>Profit (loss) before income tax .....</b>          | <b>79,485</b>    | <b>115,309</b>   | <b>123,073</b>   | <b>( 35,494)</b> | <b>105,955</b>   |
| Income tax .....                                      | ( 31,997)        | ( 39,012)        | ( 41,106)        | 15,970           | ( 37,341)        |
| <b>Profit (loss) .....</b>                            | <b>47,488</b>    | <b>76,297</b>    | <b>81,967</b>    | <b>( 19,524)</b> | <b>68,614</b>    |
| <b>Balance sheet</b>                                  |                  |                  |                  |                  |                  |
|   | <b>30.9.2016</b> | <b>30.9.2015</b> | <b>30.9.2014</b> | <b>30.9.2013</b> | <b>30.9.2012</b> |
| Total assets .....                                    | 4,261,610        | 4,085,272        | 4,363,098        | 4,443,861        | 4,520,272        |
| Total equity .....                                    | 1,949,506        | 1,768,147        | 1,716,517        | 1,670,792        | 1,714,105        |
| Total liabilities .....                               | 2,312,104        | 2,317,125        | 2,646,581        | 2,773,069        | 2,806,167        |
| Net liabilities .....                                 | 1,973,757        | 2,027,487        | 2,263,318        | 2,432,527        | 2,450,893        |
| <b>Key figures</b>                                    |                  |                  |                  |                  |                  |
| Cash flow from operating activities .....             | 172,545          | 194,302          | 168,908          | 192,036          | 164,377          |
| Investing activities .....                            | ( 109,293)       | ( 47,379)        | ( 82,739)        | ( 119,966)       | ( 71,489)        |
| Financing activities .....                            | ( 101,229)       | ( 241,607)       | ( 185,381)       | ( 106,939)       | ( 154,813)       |
| Total liquidity .....                                 | 528,125          | 382,989          | 472,471          | 554,302          | 579,581          |
| Equity ratio .....                                    | 45.7%            | 43.3%            | 39.3%            | 37.6%            | 37.9%            |
| Return on equity .....                                | 3.1%             | 4.2%             | 3.8%             | (1.9%)           | 6.4%             |
| Interest cover (EBITDA/net interest expenses) .....   | 5.12x            | 4.59x            | 3.35x            | 3.49x            | 3.12x            |
| Net liabilities / EBITDA .....                        | 6.53x            | 5.86x            | 7.15x            | 7.51x            | 7.79x            |

## 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 ¾ 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.