

Financial Statements 2016

Presentation March 1, 2017
Hordur Arnarson, Chief Executive Officer
Rafnar Larusson, Chief Financial Officer

Agenda:

The Icelandic energy market and Landsvirkjun

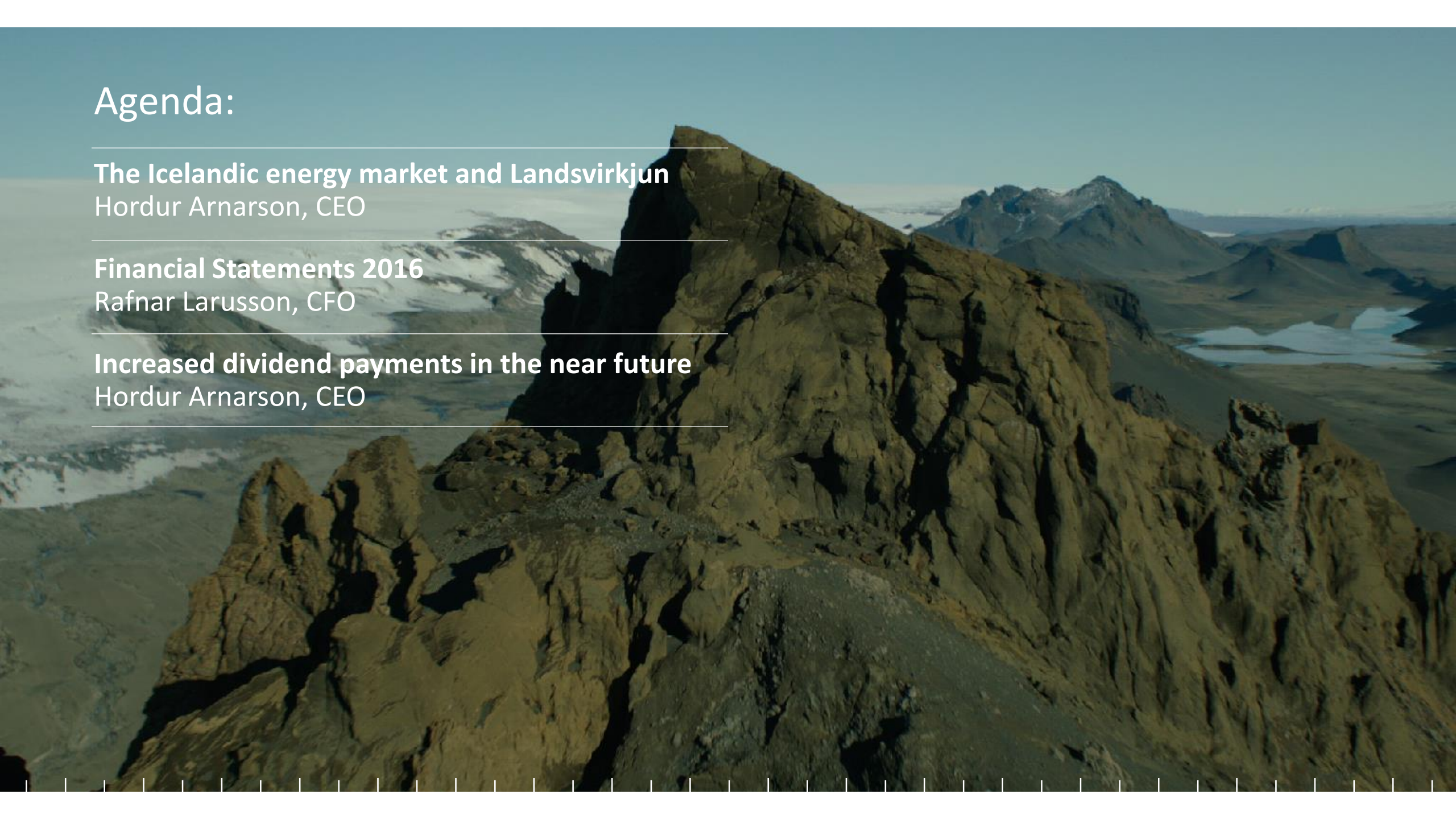
Hordur Arnarson, CEO

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Rafnar Larusson, CFO

Increased dividend payments in the near future

Hordur Arnarson, CEO



The Icelandic energy market and Landsvirkjun

Hordur Arnarson CEO

Highlights of the year

Acceptable earnings in a difficult business environment

- › Sold volume decreases due to customer operational difficulties
- › Growth in sales to data centers, silicon metal plants and wholesale market

Strong cash flow

- › Sustains substantial new investments and effective maintenance projects
- › Debt continues to decrease

Investment grade credit rating without state guarantee

Capacity to pay dividends will increase in a few years



Energy market in Iceland

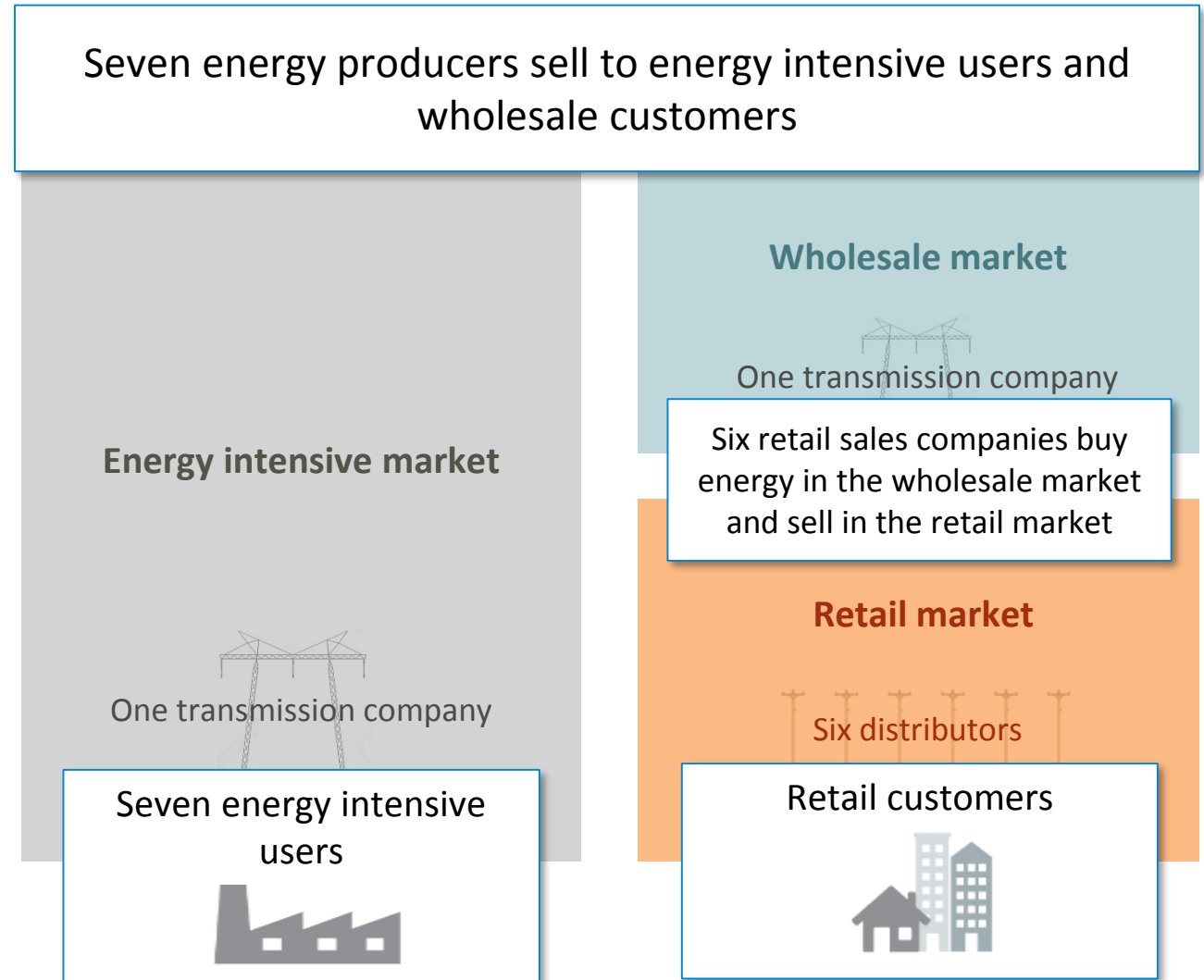
Energy market is split into

- › Energy intensive market
- › Wholesale- and retail market

Landsvirkjun sells to:

- › Energy intensive users (80%)
- › Wholesale market (20%)

Landsvirkjun does not sell into the retail market



Demanding business environment – energy intensive users

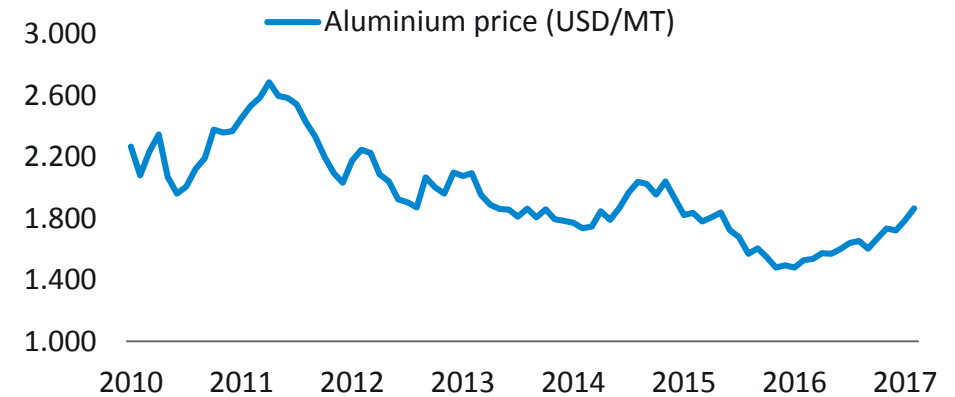
Aluminium prices low but rose in the second half of the year

- › Landsvirkjun has consistently reduced the effect of aluminium prices on revenues
- › New contracts and renegotiated contracts not linked to aluminium prices
 - › Renewed contract with Nordural is linked to the market price of electricity at Nord Pool instead of aluminium prices. Effective in 2019

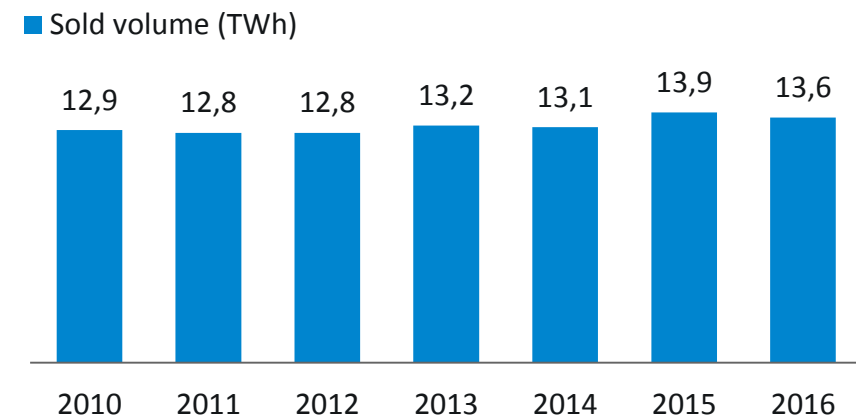
Sold volume decreased between years

- › Customers' operating difficulties reduced sales. Sales were about 450 GWh less than contractual amounts
- › Difficult to resell this energy due to contract obligations

Aluminium prices low but rose in the second half of 2016



Sales decrease in 2016 due to customers' operating difficulties



Demand from energy intensive users

Landsvirkjun not able to meet demand

- › Energy system fully utilised, other energy producers have not built new power plants
- › Confirms competitiveness compared to other countries
- › Energy price in Iceland to energy intensive users no longer the lowest

Two silicon power plants in construction

- › Raw material for solar panels

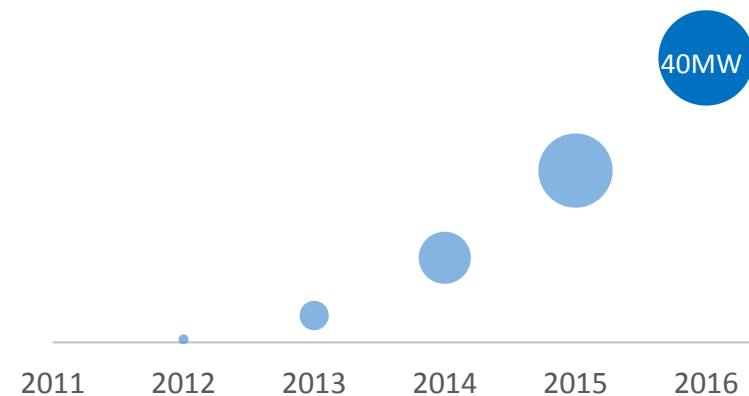
Strong increase in sales to data centers

- › Market increased from 0,5 MW in 2013 to 40 MW in 2016¹
- › Attractive business, strong competition between countries

Silicon metal is used in solar panels



Strong growth in data centers



Electricity price to energy intensive users rises

Energy price to energy intensive users in new contracts and in renegotiations has risen

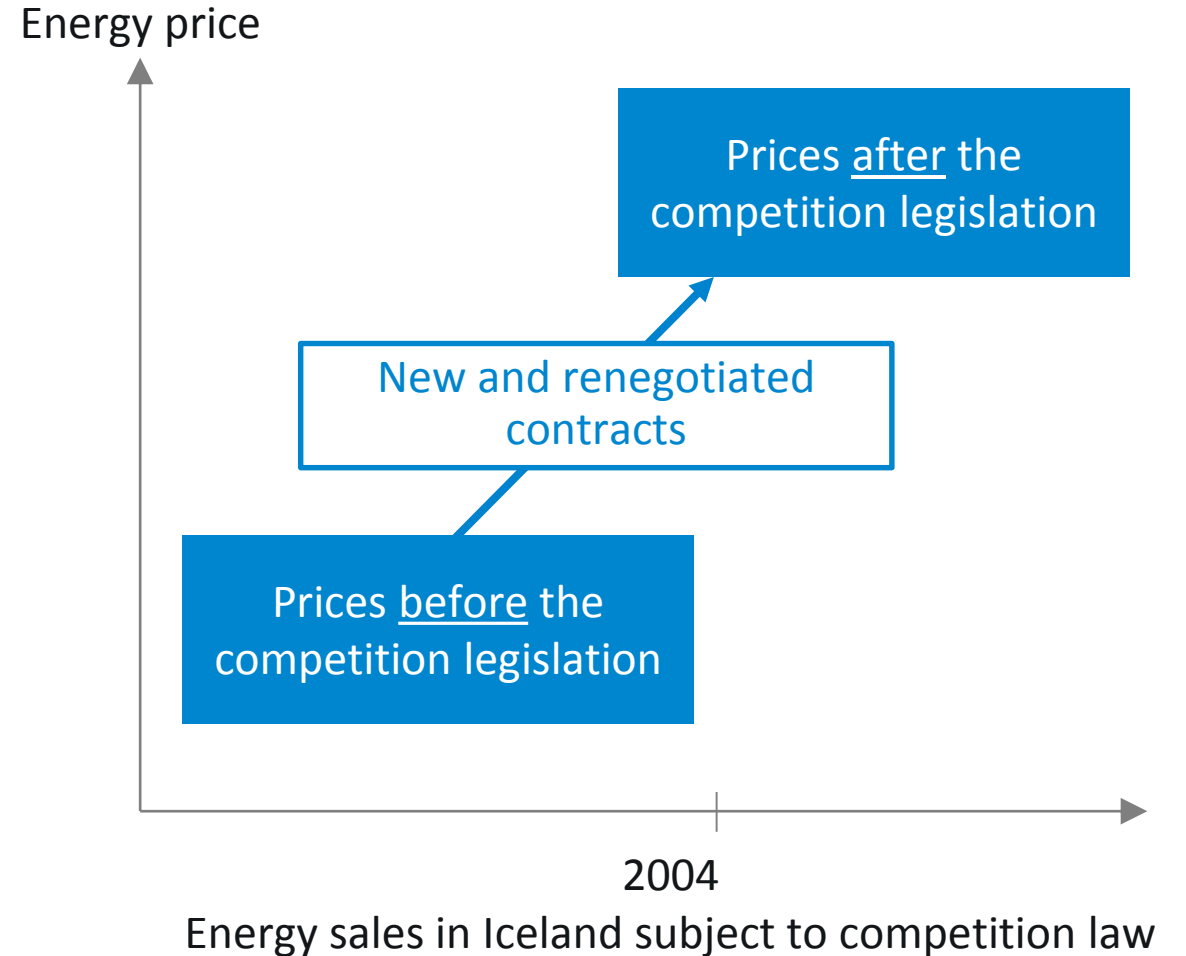
- › Energy sales subject to competition law in 2004
- › Increased demand and power system fully utilised

Contracts with new customers

- › Silicon metal plants: PCC Bakki Silicon, Thorsil and United Silicon
- › Data centres: Verne Global and Advania

Renegotiations with current customers

- › Rio Tinto Alcan and Nordural
- › Renegotiations in progress with Elkem Iceland



Wholesale market in Iceland

Prices to wholesale have been stable

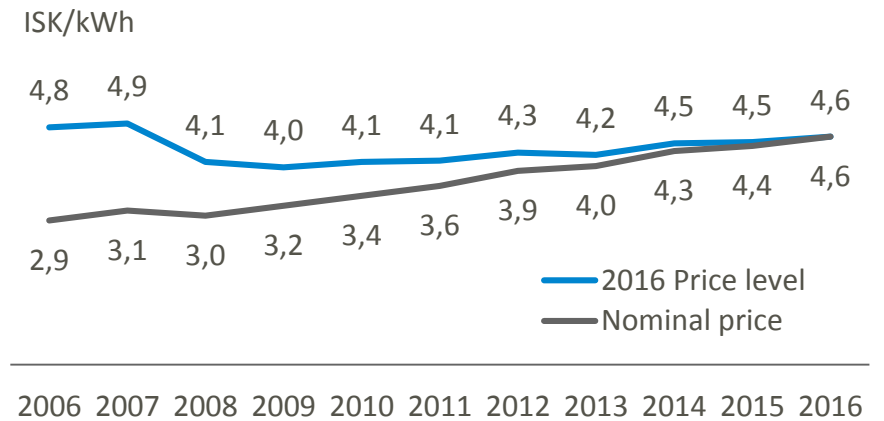
- › Wholesale contracts renegotiated in 2016 without price increases in real terms
- › At 2016 price level, wholesale price is lower than in 2006 and 2007
- › Energy prices to households among the lowest known¹
- › Electricity generation is about 1/3 of end consumer price

Price to wholesale market and in new contracts with energy intensive users almost the same

Wholesale market will increase

- › Annual growth around 6-12 MW until 2050, equivalent to one geothermal turbine every 5 years

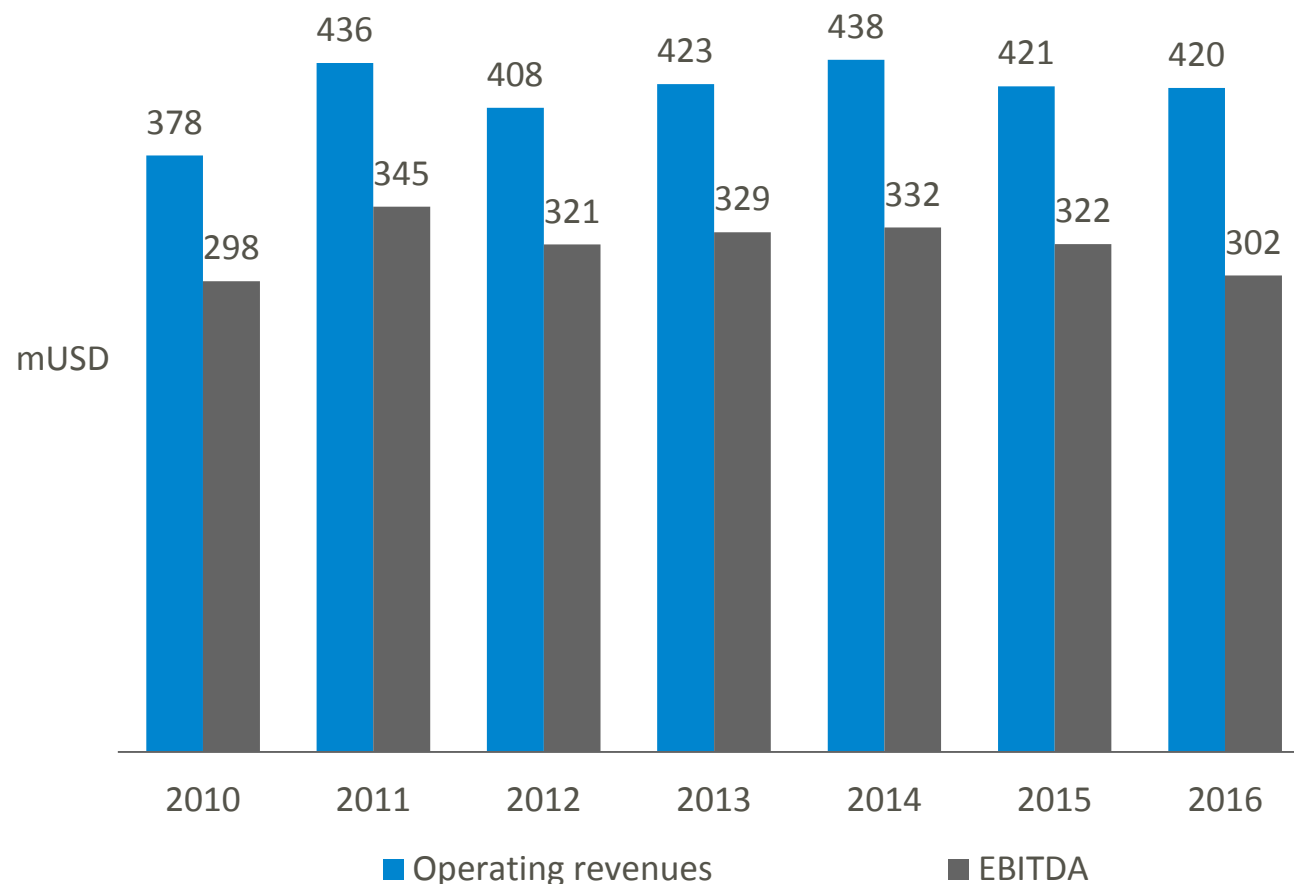
Average wholesale price



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Rafnar Larusson CFO

Stable operations in a demanding business environment



Operating revenues unchanged

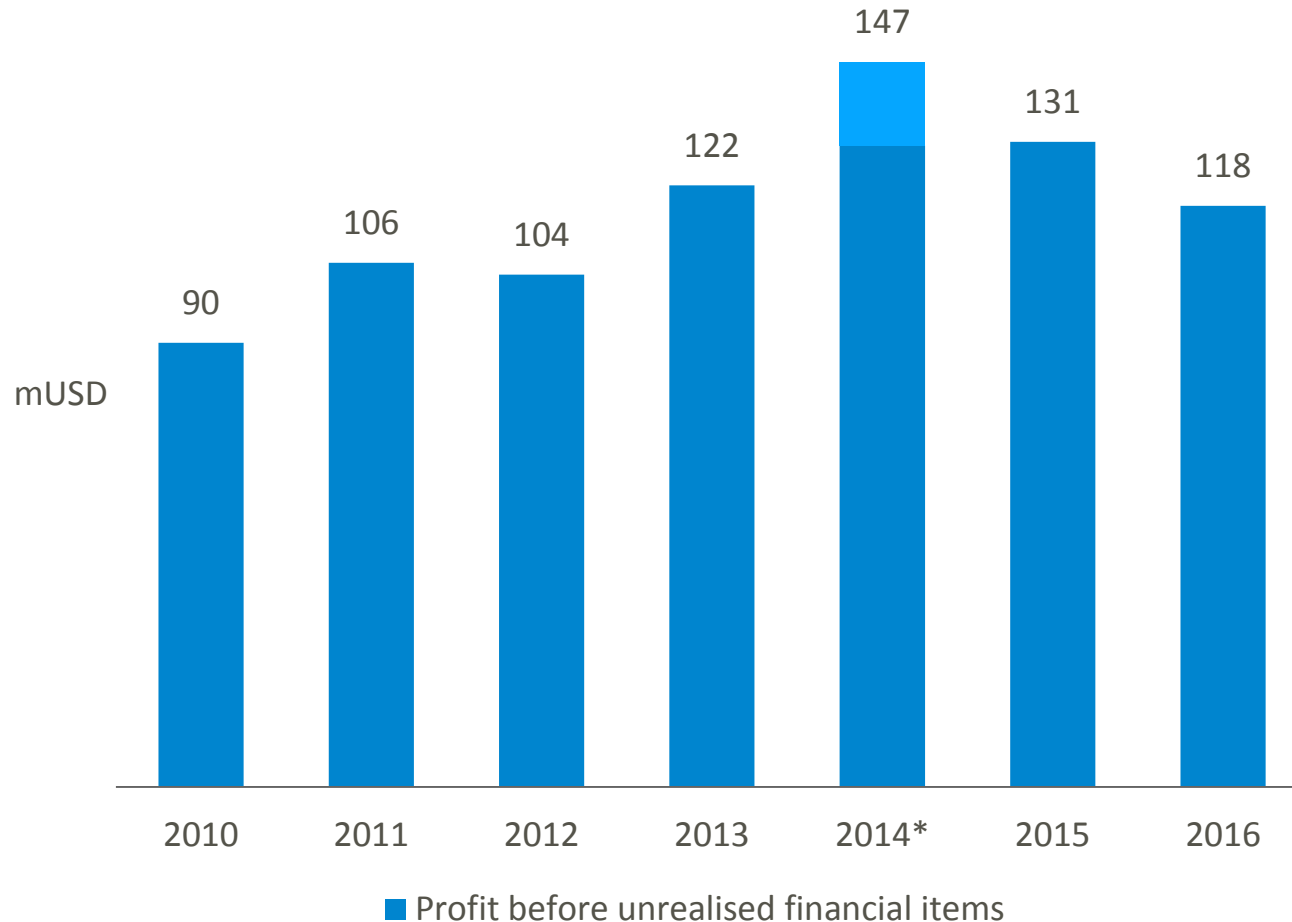
- › Higher transmission revenues and foreign currency developments counter lower aluminium prices and reduced sales

Operating expenses increase

- › Mainly due to foreign currency developments, general salary developments and expensed maintenance of power stations

Emphasis on reducing risk has led to more stable results in a demanding business environment

Acceptable returns from core operations



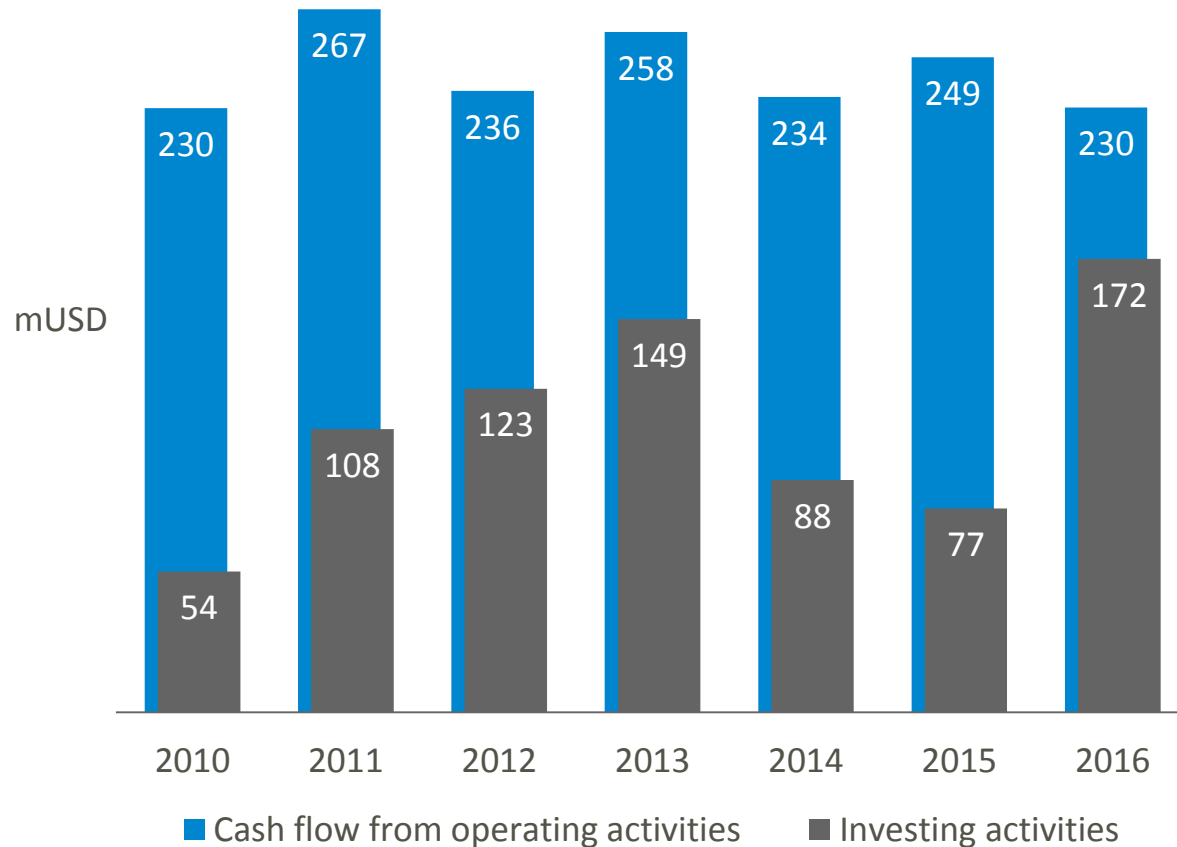
Main factors

- › Increased expenses
- › Interest expenses decrease in line with reduced debt
 - › About 23m USD lower than in 2010

Returns from core operations have 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

Cash flow covers investing activities

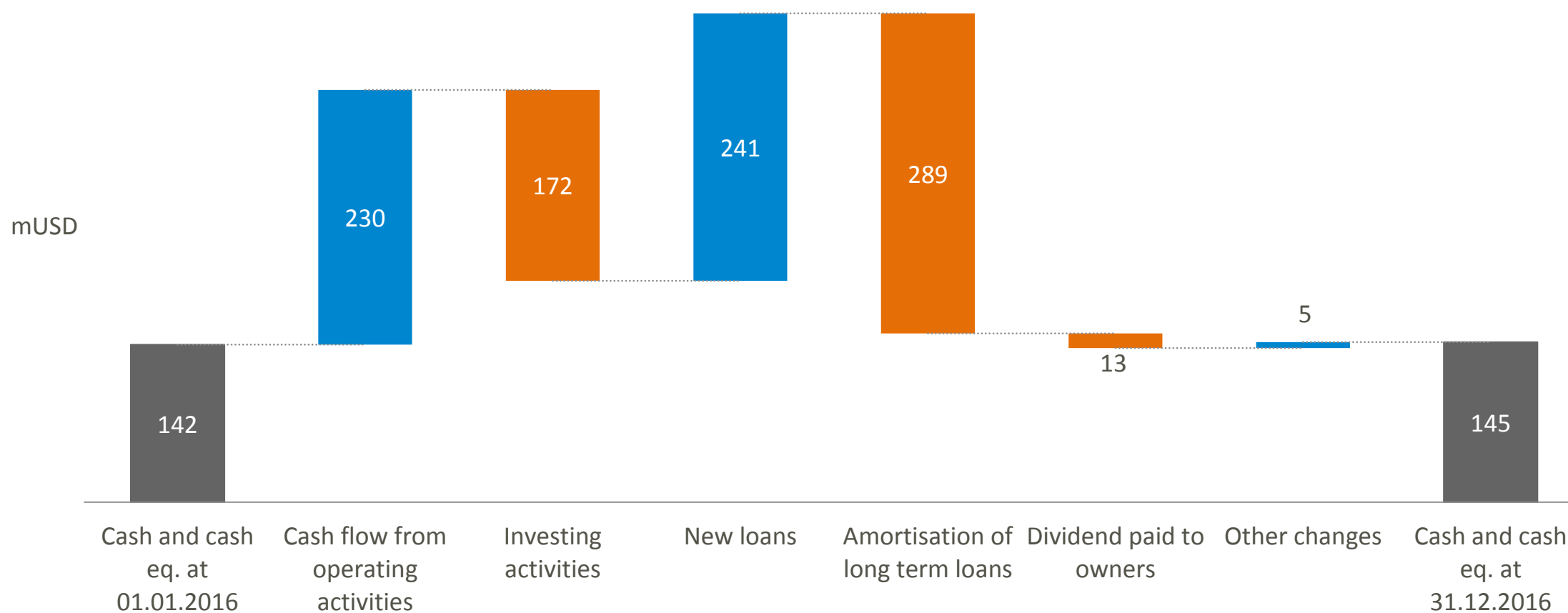


Cash flow from operating activities has been strong in the last few years

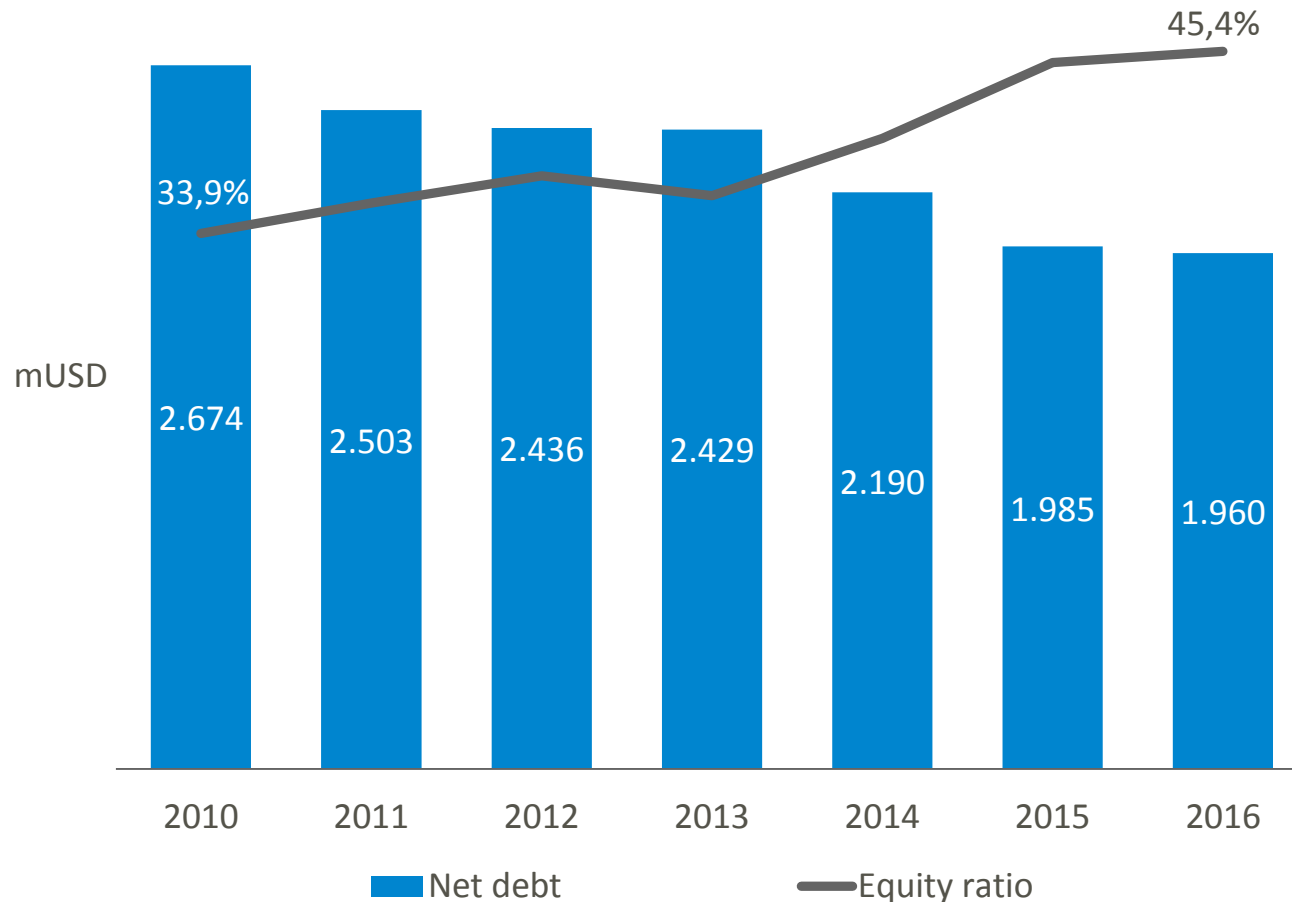
Cash flow from operating activities covers investing activities

- › Budarhals hydro power plant became operational in 2014
- › Two power stations under construction concurrently, Theistareykir and Burfell II

Cash used for investments and amortisation of loans



Debt continues to decrease while investing



Net debt decreases

- › Investments in Theistareykir and Burfell II temporarily slows the decrease of debt

State guarantees significantly reduced

- › Decrease of debt
- › New debt without state guarantee

Equity ratio 45.4%

- › Highest in Landsvirkjun's history

Market risk consistently reduced

Aluminium risk reduced

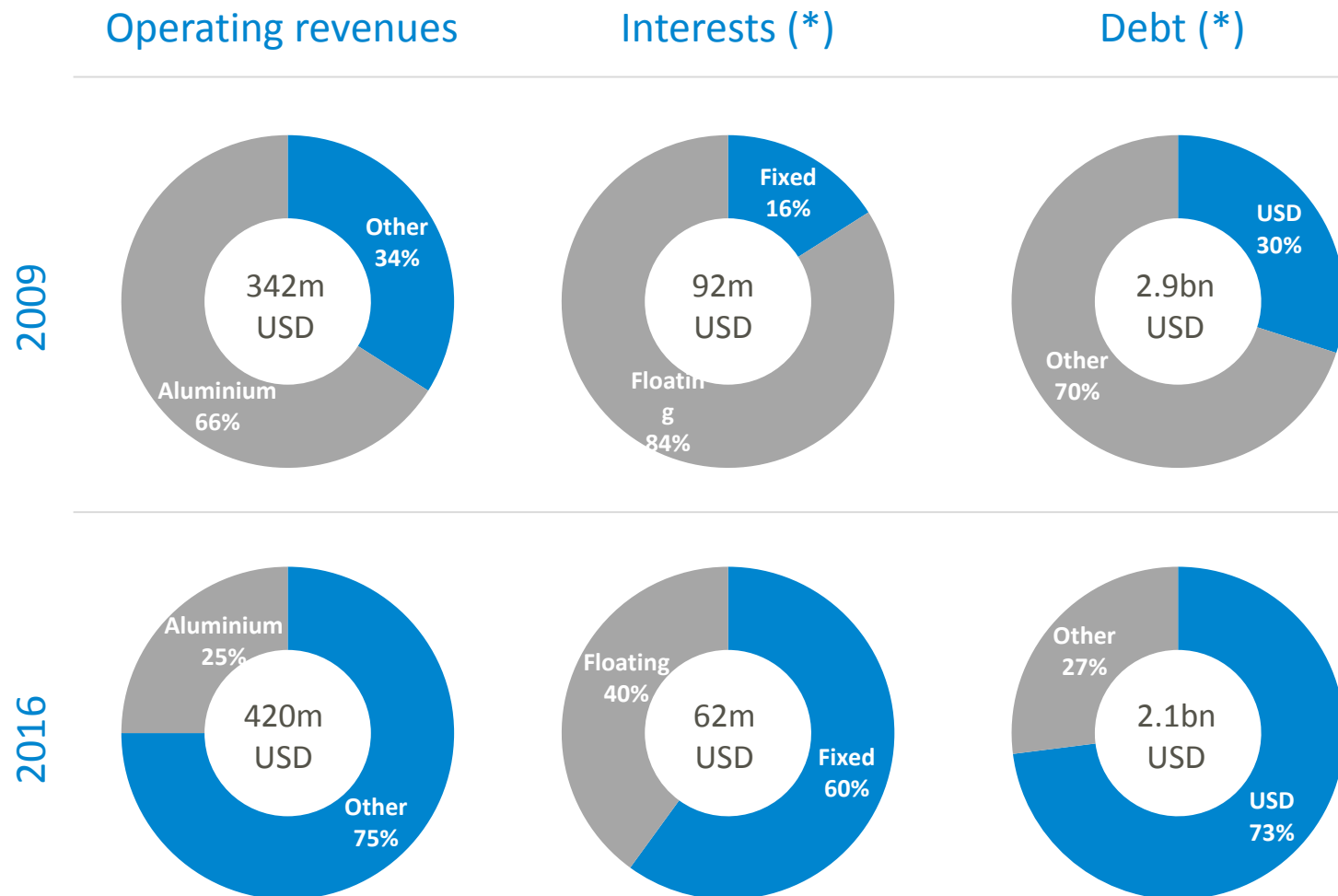
- › Through contracts with new customers
- › Through renegotiations with Rio Tinto Alcan and Nordural effective in 2019

Interest rate risk reduced

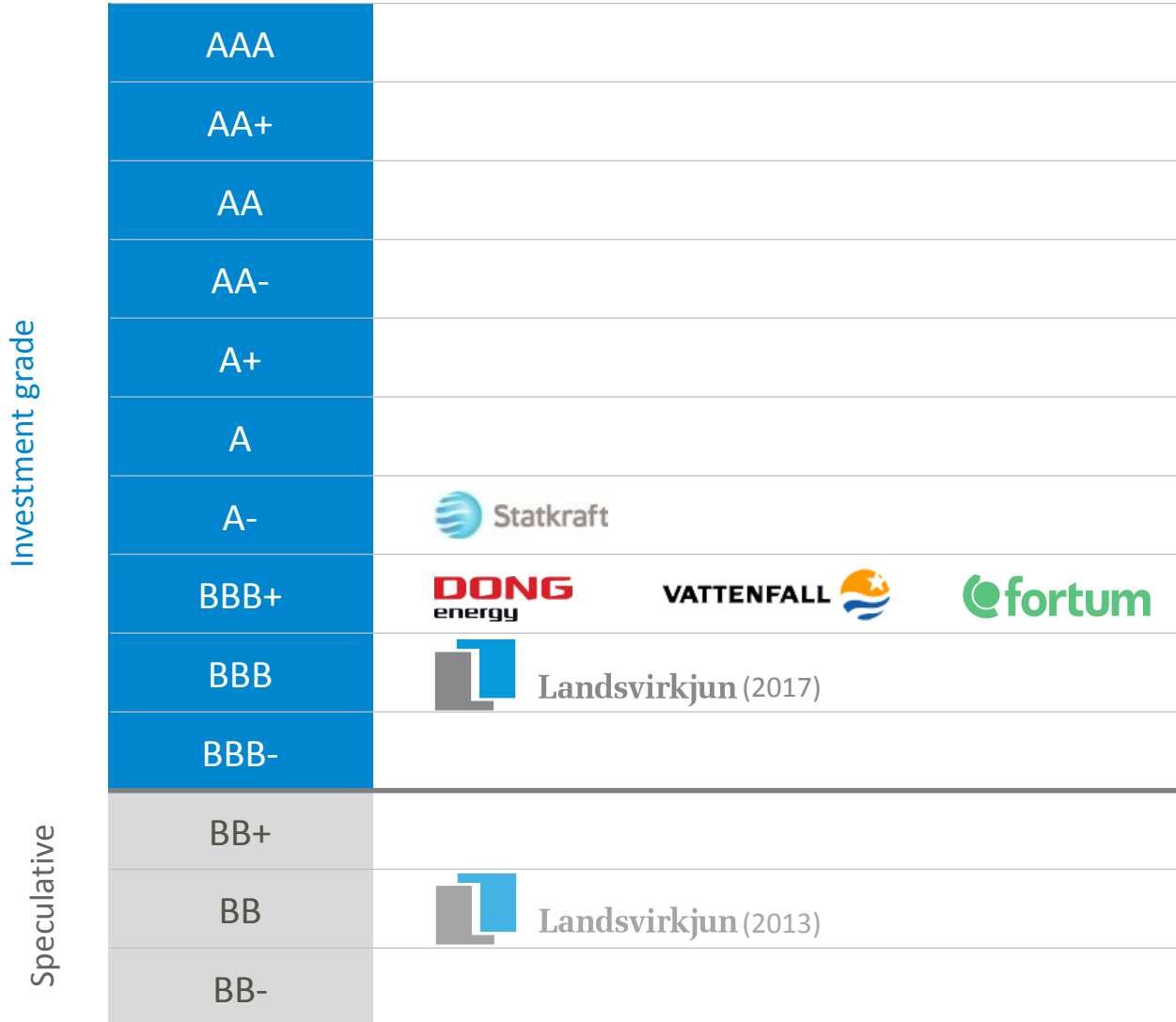
- › New funding with fixed interest rates
- › With use of swaps

Foreign exchange risk reduced

- › New funding in USD
- › With use of swaps



Investment grade and approaching peer companies



Credit rating of Landsvirkjun without state guarantee upgraded in January 2017 to BBB

- › Decreased debt
- › Reduced market risk
- › Stable operations in a demanding business environment

Approaching peer companies

- › Currently 1-2 notches above
- › Key ratios approaching peers in a few years

Increased dividend payments in the near future

Hordur Arnarson CEO

At Landsvirkjun, we consistently endeavour to maximise the potential yield and value of the natural resources we have been entrusted with, in a sustainable, responsible and efficient manner

Investing in maintenance of power stations

Sixteen power stations in operation in five areas

- › 14 Hydropower plants
- › 2 Geothermal plants
- › 2 Wind turbines

Weighted average life of power stations around 25 years

Emphasis on good maintenance

- › Basis for long life of power stations
- › Increases operating security

Largest projects in 2016

- › Intake facility at Laxarvirkjun 3
- › Renewal of water wheel at Burfell

Intake facility at Laxarvirkjun 3



Renewal of water wheel at Burfell



Two power stations under construction

Theistareykir



90 MW / 738 GWh

Expected to be operational in autumn 2017

Burfell II

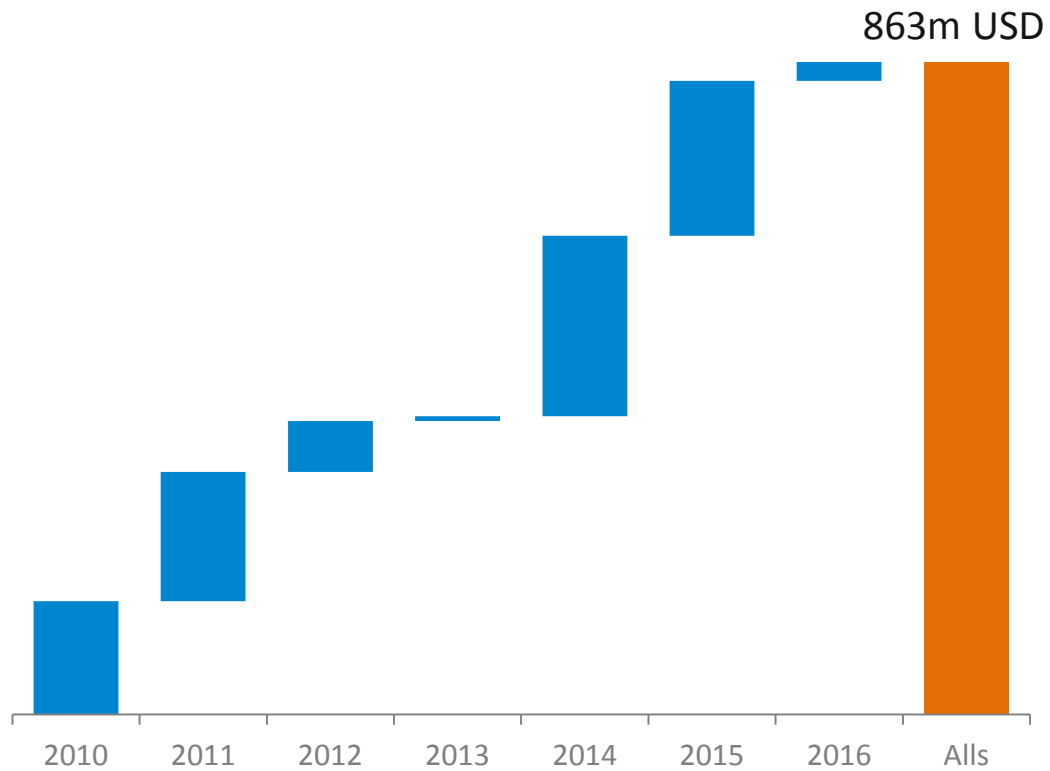


100 MW / 300 GWh

Expected to be operational in spring 2018

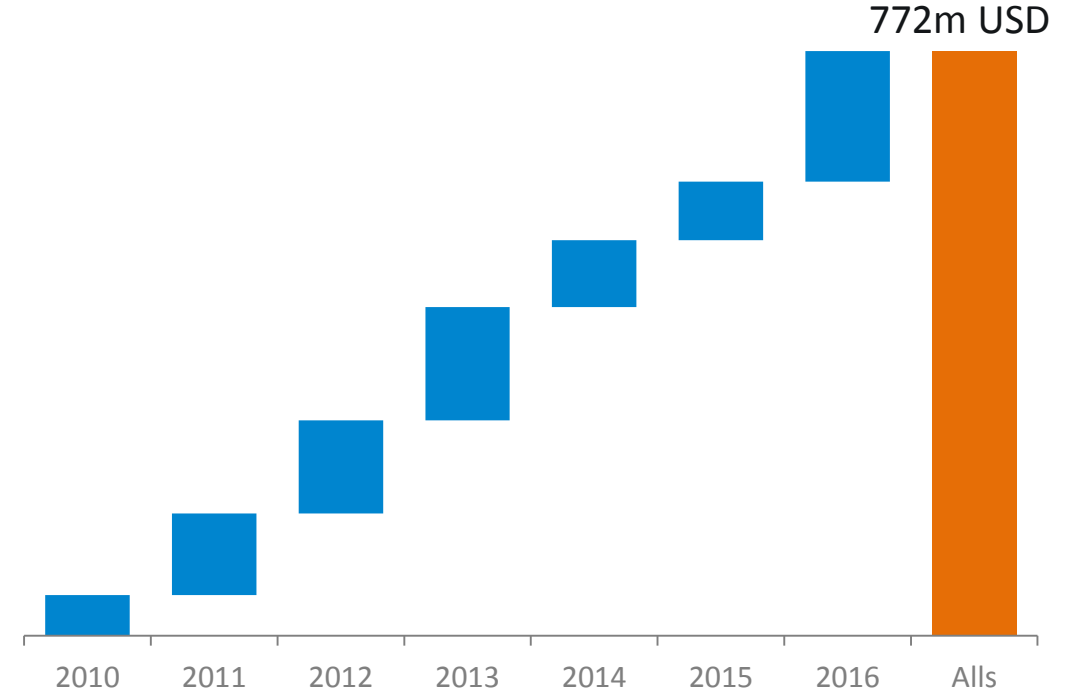
Investing while paying down debt

Decrease of net debt



Net debt decreased by ISK 100 billion since 2009

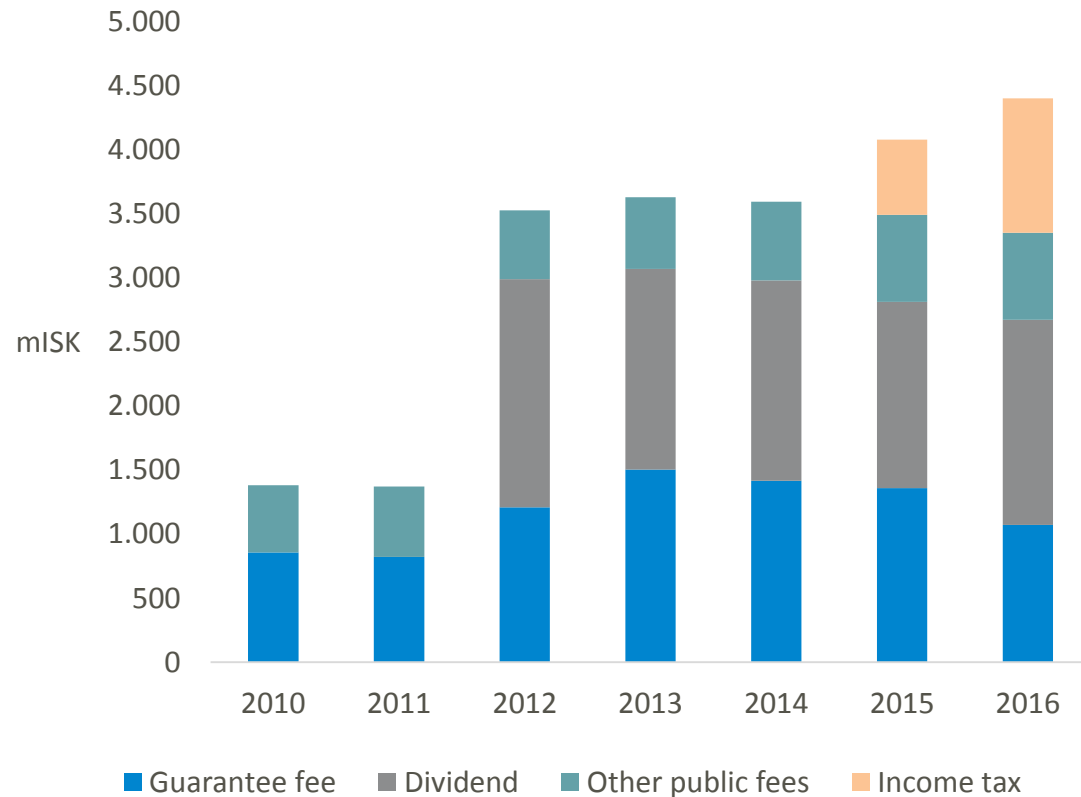
Investments



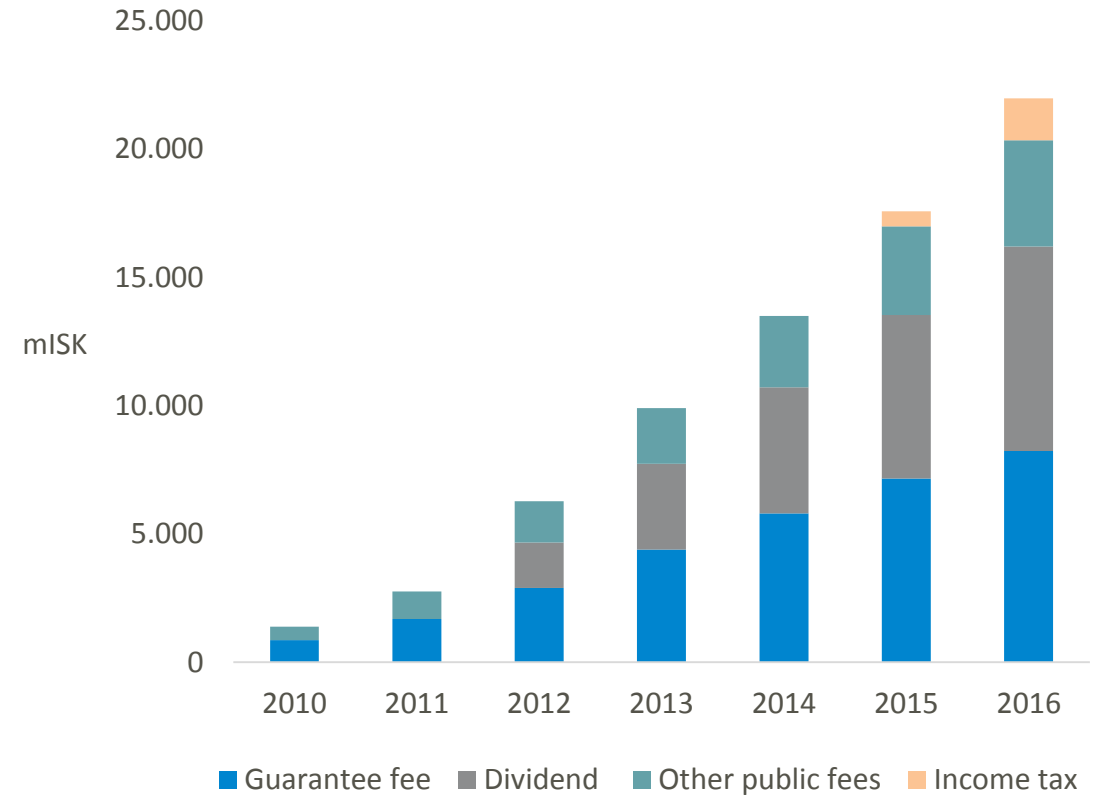
Around ISK 90 billion in investments since 2009

Payments to public entities 2010-2016

Annual payments to public entities



Accumulated payments to public entities

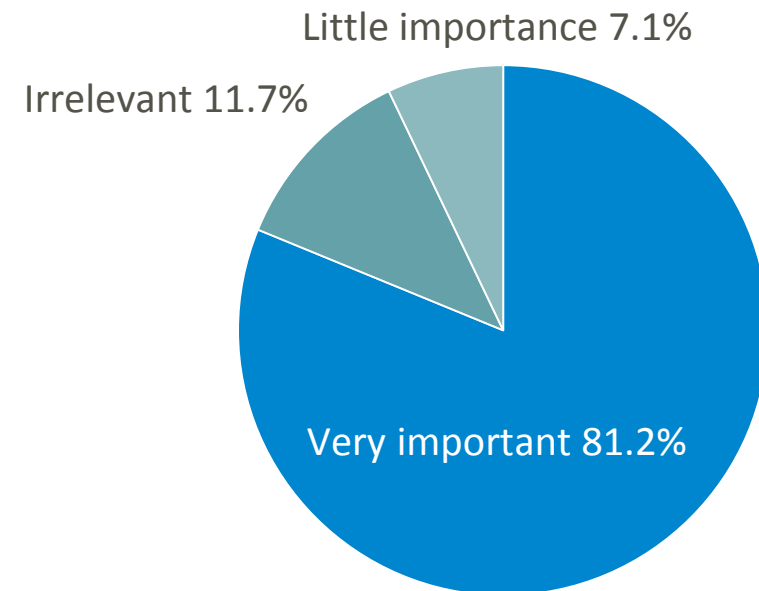


Figures are on group level except other public fees, which are presented on parent level

Is it important that Landsvirkjun pays dividend?

How important is it that Landsvirkjun returns financial gain to the nation?

Gallup survey Nov/Dec 2016



Dividend capacity – future outlook

Emphasis on attaining adequate debt leverage and having ready access to favorable long term financing without a state guarantee

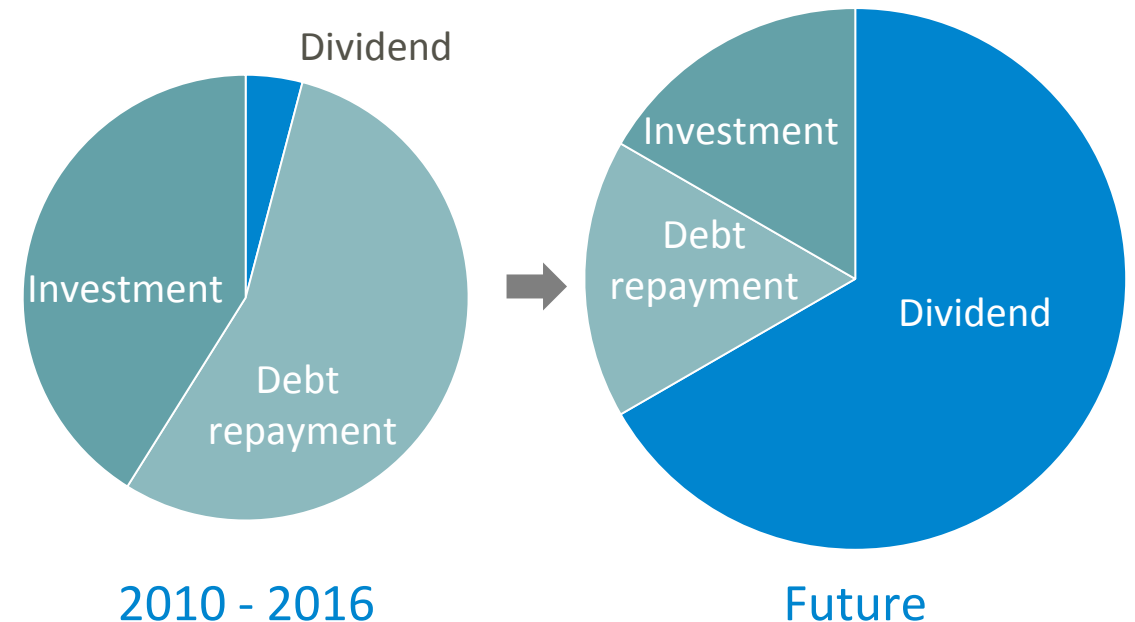
Landsvirkjun expects to achieve comparable financial strength to Nordic power companies in the next 3-4 years

Projections indicate that operations will continue to improve as two new power plants become operational, through renegotiations with existing customers and with further debt reduction

With continued improvements in operations and debt reduction, dividend payments can start to increase in 1-2 years

- › The aim is to increase dividend payments from ISK 1.5 billion to ISK 10-20 billion in 3-4 years

Use of funds



Summary

Acceptable results in a demanding business environment

- › Strong cash flow
- › Continued emphasis on debt reduction

Demand for energy exceeds supply

- › Confirms competitiveness
- › Two power plants under construction

Dividend payments will increase in 1-2 years



DISCLAIMER

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