

Press release

Landsvirkjun's Consolidated Financial Statements 2013

Profit before unrealised financial items increased by 17.5% from the previous year

- Electric power sales increased by 416 GWh between years and have never been higher
- Due to lower aluminium prices the loss of the year amounted to USD 38.5 million

Key figures from the consolidated financial statements

- Operating revenues amounted to USD 422.9 million which is an increase of 3.7% compared to the previous year.
- EBITDA amounted to USD 329.1 million which is an increase of 2.4% compared to the previous year. EBITDA ratio is 77.8% of turnover, compared to 78.8% in the previous year.
- Profit before unrealised financial items amounted to USD 121.8 million, compared to USD 103.7 million in the previous year, or an increase of 17.5% between years.
- Cash flow from operations amounted to USD 258.5 million which is an increase of 9.4% compared to the previous year.
- Investing activities amounted to USD 149.5 million. Cash flow from operations less investing activities thus amounted to USD 109.0 million which was allocated to reduce debt and to pay out a dividend to owners.
- The loss of the year amounted to USD 38.5 million.

Hordur Arnarson, the CEO:

"In the year 2013, Landsvirkjun's energy generation and sales reached new highs in the company's history with 13,186 GWh sold, an increase by 416 GWh from the previous year. The operation was successful and for the most part incident-free. Operating revenues, EBITDA and profit before unrealised financial items increased during the year.

Despite the positive results of electric power sales in a difficult market environment there was a loss on Landsvirkjun's operation last year. The reason for the loss can be traced to the decrease in world market aluminium prices, which among others is reflected in the significant decrease in the carrying amount of embedded derivatives, on which the company can have limited effects."



Key figures from operation

Landsvirkjun's energy generation in the year 2013 was according to expectations and sold volume amounted to 13,186 GWh in the year. Landsvirkjun's energy generation is 96% hydroelectric energy and 4% geothermal energy. Operation of power stations was successful during the year, with the exception of one serious breakdown in the high voltage coupling at Burfell power station.

Key figures from the consolidated financial statements in USD thousand:

	2013	2012	2011	2010	2009
Operation					
Operating revenues	407,676	389,499	419,708	383,991	299,788
Realised aluminium hedges	15,228	18,325	16,488	(6,342)	42,526
Total operating revenues	422,904	407,824	436,196	377,649	342,314
Operating expenses	(93,768)	(86,488)	(90,993)	(79,564)	(70,655)
EBITDA	329,136	321,336	345,203	298,085	271,659
Depreciation and impairment loss	(117,670)	(112,288)	(108,200)	(107,258)	(114,321)
EBIT	211,466	209,048	237,003	190,827	157,338
Financial items	(86,988)	(103,093)	(126,877)	(99,275)	(96,102)
Associated companies	(2,647)	(2,229)	(4,014)	(1,581)	(11,193)
Profit before unrealised financial items	121,831	103,726	106,112	89,971	50,043
Unrealised financial items:					
Fair value changes in embedded derivatives	(174,641)	(3,391)	(93,197)	(55,583)	253,304
Fair value changes in other derivatives	5,014	13,653	6,959	(39,438)	(53,655)
Unrealised foreign exchange difference	(16,658)	(12,675)	22,711	87,619	(39,752)
	(186,285)	(2,413)	(63,527)	(7,402)	159,897
Profit (loss) before income tax	(64,454)	101,313	42,585	82,569	209,940
Income tax	25,913	(45,995)	(16,135)	(9,653)	(16,944)
Profit (loss)	(38,541)	55,318	26,450	72,916	192,996
Balance sheet					
Total assets	4,568,965	4,518,534	4,635,989	4,850,037	4,807,970
Total equity	1,658,134	1,697,152	1,661,312	1,644,322	1,564,487
Total liabilities	2,910,831	2,821,382	2,974,677	3,205,715	3,243,483
Net debt	2,429,176	2,435,571	2,502,873	2,673,966	2,823,872
Key figures					
Cash flow from operating activities	258,485	236,178	267,172	229,595	197,023
Investing activities	(149,455)	(122,979)	(107,689)	(53,517)	(120,533)
Financing activities	(12,893)	(151,670)	(185,328)	(106,294)	(4,572)
Total liquidity	589,934	597,895	645,709	573,208	475,848
Equity ratio	36.3%	37.6%	35.8%	33.9%	32.5%
Return on equity	(2.3%)	3.3%	1.6%	4.7%	14.0%
Interest cover (EBITDA/net interest expenses)	3.51x	3.27x	3.06x	3.68x	3.14x
Net debt / EBITDA	7.38x	7.58x	7.25x	8.97x	10.39x



The financial statements

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

Income Statement

Operating revenues

Operating revenues of Landsvirkjun Group increased by USD 15.1 million between years, or from USD 407.8 million to USD 422.9 million. The increase is mainly explained by the increase in sold volume and higher transmission income. Average wholesale price to retail sales companies (excluding transmission cost) was 4.0 ISK/kWh during the year compared to 3.9 ISK/kWh the previous year. Average price to industrial users was 25.8 USD/MWh compared to 26.2 USD/MWh in the previous year. Average price to industrial users includes transmission cost where appropriate. Transmission income increased between years from USD 44.4 million to USD 56.5 million which is mainly explained by an increase in the tariff.

Operating expenses

Operating expenses less depreciation and impairment loss amounted to USD 93.8 million in the year 2013 compared to USD 86.5 million in the previous year.

Results

The Group's EBITDA amounted to USD 329.1 million. EBITDA ratio is 77.8% compared to 78.8% in the year 2012. EBIT amounted to USD 211.5 million compared to USD 209.0 million in the previous year.

Foreign exchange difference is negative by USD 9.9 million compared to a negative foreign exchange difference of USD 17.5 million in the previous year. Average nominal interest rates on long-term loans were around 3.5% in the year compared to 3.3% in the previous year, taking into account the state guarantee fee. Low world 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. International Financial Reporting Standards require that the aluminium price link be calculated as embedded derivatives. Calculated changes in the values of the embedded derivatives are recognised in the income statement in the amount of USD 174.6 million as an expense in the year 2013 compared to USD 3.4 million as an expense in the previous 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 operation. The profit amounted to USD 121.8 million in the year 2013 compared to USD 103.7 million in the previous year.

The loss of the year amounted to USD 38.5 million but the profit amounted to USD 55.3 million in the previous year.



Balance Sheet

Assets

Landsvirkjun's total assets amounted to USD 4,569.0 million at year end 2013. Landsvirkjun's liquidity balance is good but cash and cash equivalents at year end 2013 amounted to USD 288.0 million. The Company has access to Revolving Credit Facilities, where the undrawn amount is USD 291.3 million. In addition, undrawn long term loans amount to USD 10.7 million. Liquid assets and undrawn loans, therefore, amount to a total of USD 590.0 million.

Liabilities and equity

Interest bearing liabilities amounted to USD 2,717.2 million at year end 2013 and increased by USD 92.7 million from year end 2012, when they amounted to USD 2,624.5 million. Taken into account cash and cash equivalents and restricted cash Landsvirkjun's net debt amounted to USD 2,429.2 million at year end compared to USD 2,435.6 million at year end 2012, and decreased by USD 6.4 million. Net liabilities remain almost unchanged even though that cash from operation, after taking into account investing activities, amounted to USD 109.0 million. This is mainly due to a calculated foreign exchange loss on loans in other currencies than USD and indexation. The weighted average maturity of the loan portfolio was around 6.3 years.

The Company's equity amounted to USD 1,658.1 million and equity ratio has decreased. Equity ratio was 36.3% at year end 2013 compared to 37.6% at year end 2012.

Cash flow

Cash flow from the Group's operations amounted to USD 258.5 million. Investing activities amounted to USD 149.5 million whereof the project at Budarhals power station weighs the most. Amortisation of loans and currency swaps in excess of borrowings amounted to USD 0.8 million and dividend paid amounted to USD 12.8 million for the operating year 2012. The Group's cash and cash equivalents increased by USD 100.1 million in the year and amounted to USD 288.0 million at year end.

Key ratios

The Group's leverage measured against operating revenues before depreciation and amortisation (net liabilities / EBITDA) decreases from 7.58x at year end 2012 to 7.38x at year end 2013. Ratio of funds from operations (FFO) to net debt went from 9.9% at year end 2012 to 10.6% at year end 2013.

Interest spread (EBITDA/net interest expenses) increases to 3.51x from 3.27x at year end 2012. Ratio of funds from operations (FFO) to interest expenses increased from 2.36x at year end 2012 to 2.66x at year end 2013.

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 3.3% in the year 2012 but negative by 2.3% in the year 2013.



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 therefore continue to have effect on Landsvirkjun's future income. Currently, the price of aluminium is low and uncertainty prevails over its development during next months.

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

Last water year (which is from 1 October to 30 September each year) was unfavourable due to lack of precipitation and cold weather in the highlands, and not all of Landsvirkjun's reservoirs were filled last fall. During this water year, inflow to the reservoirs has been well under average. Therefore, Landsvirkjun has announced that secondary energy will be curtailed. Pending curtailments are in full accordance with electric power sales agreements in force and will presumably amount to up to 2% of estimated electric power sales in the year 2014. If thawing begins the situation could change rapidly for the better and curtailments will then be cancelled.

Budarhals power station will be formally taken into operation in March. Landsvirkjun's next power station projects, estimated to be executed, are located in North-East Iceland but the progression of those projects is contingent on electric power sales agreements with electric power buyers and the relevant authorisations.

Reykjavik, 21 February 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 values 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.