

## Press release

### Landsvirkjun's Consolidated Financial Statements 2014

#### Profit for the year amounted to USD 78.4 million

- Net debt decreased by USD 238.7 million from the previous year

#### Key figures from the consolidated financial statements

- Operating revenues amounted to USD 438.3 million which is an increase of 3.6% compared to the previous year.
- EBITDA amounted to USD 332.2 million which is an increase of 0.9% compared to the previous year. EBITDA ratio is 75.8% of revenues, compared to 77.8% in the previous year.
- Profit before unrealized financial items amounted to USD 146.9 million, compared to USD 121.8 million in the previous year, which is an increase of 20.5% from the previous year.
- Profit for the year amounted to USD 78.4 million compared to a loss of USD 38.5 million in the previous year.
- Net debt decreased by USD 238.7 million from the previous year and amounted to USD 2,190.5 million at the year end.
- Cash flow from operating activities amounted to USD 233.8 million which is a decrease of 9.5% compared to the previous year.
- Investing activities amounted to USD 88.3 million. Net cash from operating activities less investing activities amounted to USD 145.5 million which was used to reduce debt and to pay dividend to owners.

#### Hordur Arnarson, CEO:

"The operations of Landsvirkjun went well during the year 2014, despite demanding business environment, especially due to low aluminium prices and limitations in the delivery of electricity due to low levels in water reservoirs. Profit before unrealized financial items amounted to USD 146.9 million, which is an increase of 20% from the previous year and has never been higher.

The Company is built on a solid foundation by its employees in power generation all over the country on its 50<sup>th</sup> anniversary year and the success of a robust financial management along with increased efforts in marketing and research have already delivered results.



Net debt continues to decrease and has decreased by roughly USD 633 million from year end 2009. By increased cash flow generation due to an increase in sale of electricity, higher electricity prices and lower leverage, opportunities for dividend payments in the coming years will increase significantly.”

### Key figures from operation

Electricity generation of Landsvirkjun decreased slightly during the year 2014, sold volume was 13,082 GWh during the year. Hydroelectric energy is 96% of Landsvirkjun’s generation and geothermal energy 4%. During the year Budarhalsstod power station came into operation and overall operations of power stations were successful. Due to low water levels in Landsvirkjun’s water reservoirs at the beginning of the year and dry seasons during the winter, Landsvirkjun had to limit delivery of power in the spring of 2014. The emergency management of Landsvirkjun was activated due to eruptions in Bardarbunga and possible effects on the operations of Landsvirkjun’s power stations.

### Key figures from the consolidated financial statements in USD thousand:

	2014	2013	2012	2011	2010
<b>Operation</b>					
Operating revenues .....	428,655	407,676	389,499	419,708	383,991
Realised aluminium hedges .....	9,629	15,228	18,325	16,488	( 6,342)
<b>Total operating revenues .....</b>	<b>438,284</b>	<b>422,904</b>	<b>407,824</b>	<b>436,196</b>	<b>377,649</b>
Operating expenses .....	( 106,126)	( 93,768)	( 86,488)	( 90,993)	( 79,564)
<b>EBITDA .....</b>	<b>332,158</b>	<b>329,136</b>	<b>321,336</b>	<b>345,203</b>	<b>298,085</b>
Depreciation and impairment loss .....	( 114,045)	( 117,670)	( 112,288)	( 108,200)	( 107,258)
<b>EBIT .....</b>	<b>218,113</b>	<b>211,466</b>	<b>209,048</b>	<b>237,003</b>	<b>190,827</b>
Financial items .....	( 69,838)	( 86,988)	( 103,093)	( 126,877)	( 99,275)
Associated companies .....	( 1,419)	( 2,647)	( 2,229)	( 4,014)	( 1,581)
<b>Profit before unrealised financial items .....</b>	<b>146,856</b>	<b>121,831</b>	<b>103,726</b>	<b>106,112</b>	<b>89,971</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives .....	( 88,484)	( 174,641)	( 3,391)	( 93,197)	( 55,583)
Fair value changes in other derivatives .....	( 8,426)	5,014	13,653	6,959	( 39,438)
Unrealised foreign exchange difference .....	60,271	( 16,658)	( 12,675)	22,711	87,619
	( 36,639)	( 186,285)	( 2,413)	( 63,527)	( 7,402)
<b>Profit (loss) before income tax .....</b>	<b>110,217</b>	<b>( 64,454)</b>	<b>101,313</b>	<b>42,585</b>	<b>82,569</b>
Income tax .....	( 31,797)	25,913	( 45,995)	( 16,135)	( 9,653)
<b>Profit (loss) .....</b>	<b>78,420</b>	<b>( 38,541)</b>	<b>55,318</b>	<b>26,450</b>	<b>72,916</b>
<b>Balance sheet</b>					
Total assets .....	4,270,098	4,568,965	4,518,534	4,635,989	4,850,037
Total equity .....	1,704,724	1,658,134	1,697,152	1,661,312	1,644,322
Total liabilities .....	2,565,374	2,910,831	2,821,382	2,974,677	3,205,715
Net debt .....	2,190,459	2,429,176	2,435,571	2,502,873	2,673,966
<b>Key figures</b>					
Cash flow from operating activities .....	233,816	258,485	236,178	267,172	229,595
Investing activities .....	( 88,271)	( 149,455)	( 122,979)	( 107,689)	( 53,517)
Financing activities .....	( 220,687)	( 12,893)	( 151,670)	( 185,328)	( 106,294)
Total liquidity .....	407,070	589,934	597,895	645,709	573,208
Equity ratio .....	39.9%	36.3%	37.6%	35.8%	33.9%
Return on equity .....	4.7%	( 2.3%)	3.3%	1.6%	4.7%
Interest cover (EBITDA/net interest expenses) .....	3.76x	3.51x	3.27x	3.06x	3.68x
Net debt / EBITDA .....	6.59x	7.38x	7.58x	7.25x	8.97x



## 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 the Group increased by USD 15.4 million from the previous year or from USD 422.9 million to USD 438.3 million. Recognized in other revenues are USD 17 million relating to an agreement between Landsvirkjun and Rio Tinto Alcan Iceland hf. Average wholesale price to retail sales companies (excluding transmission cost) was ISK 4.3 per kWh during the year compared to ISK 4.0 per kWh in the previous year. Average price to industrial users was USD 25.9 per MWh compared to USD 25.8 per MWh in the previous year. Average price to industrial users includes transmission cost where it is contractual. Revenues from transmission increased between years from USD 56.5 million to USD 59.0 million.

#### Operating expenses

Operating expenses less depreciation and impairment loss amounted to USD 106.1 million in the year 2014 compared to USD 93.8 million in the previous year.

### Results

The Group's EBITDA amounted to USD 332.2 million. EBITDA ratio is 75.8% compared to 77.8% in the year 2013. EBIT amounted to USD 218.1 million compared to USD 211.5 million in the previous year.

Foreign exchange difference is positive by USD 78.9 million compared to a negative foreign exchange difference of USD 9.9 million in the previous year. Average nominal interest rates on long-term loans were around 3.5% in the year, taking into account the state guarantee fee, and are almost unchanged from the previous year. Low interest rates have had 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 recognized in the income statement in the amount of USD 88.5 million as an expense in the year 2014 compared to USD 174.6 million as an expense in the previous year. Foreign exchange differences and fair value changes are mostly unrealized, which must be kept in mind in the evaluation of the Company's results. Therefore, unrealized financial items are specified separately in management's presentation.

Profit before unrealized financial items is the criterion used by Landsvirkjun in evaluating the Company's basic operation. The profit amounted to USD 146.9 million in the year 2014 compared to USD 121.8 million in the previous year.

The profit for the year amounted to USD 78.4 million compared to USD 38.5 million loss in the previous year.



## Balance sheet

### Assets

Landsvirkjun's total assets amounted to USD 4,270.1 million at year end 2014. Cash and cash equivalent at year end 2014 amounted to USD 207.1 million. The Company has access to Revolving Credit Facilities, where the undrawn amount is USD 200.0 million. Cash, cash equivalent and undrawn credit facilities therefore amount to a total of USD 407.1 million.

### Liabilities and equity

Interest bearing liabilities amounted to USD 2,397.5 million at year end 2014 and decreased by USD 319.7 million from year end 2013, when they amounted to USD 2,717.2 million. Taking cash and cash equivalents into account, Landsvirkjun's net debt amounted to USD 2,190.5 million at year end compared to USD 2,429.2 million at year end 2013, and decreased by USD 238.7 million. The weighted average duration of the loan portfolio was around 5.4 years.

The Company's equity amounted to USD 1,704.7 million and the equity ratio has increased. Equity ratio was 39.9% at year end 2014 compared to 36.3% at year end 2013.

### Cash flow

The Group's cash flow from operating activities amounted to USD 233.8 million. Investing activities amounted to USD 88.3 million. Amortization of loans in excess of borrowings amounted to USD 207.3 million and dividend payment amounted to USD 13.4 million for the operating year 2013. The Group's cash and cash equivalents decreased by USD 80.9 million in the year and amounted to USD 207.1 million at year end.

### Key ratios

The Group's leverage measured against operating revenues before depreciation and amortization (net debt / EBITDA) decreases from 7.38x at year end 2013 to 6.59x at year end 2014. Ratio of funds from operations (FFO) to net debt went from 10.6% at year end 2013 to 11.8% at year end 2014.

Interest coverage (EBITDA/net interest expenses) increases to 3.76x from 3.51x at year end 2013. Ratio of funds from operations (FFO) to interest expenses increased from 2.66x at year end 2013 to 2.82x at year end 2014.

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 negative by 2.3% in the year 2013 but positive by 4.7% in the year 2014.

### Operating outlook

Interesting changes have occurred in the business environment of electricity companies in Iceland in the recent years. Diverse demand is now for electricity in Iceland. It has been a long term interest to attract industries like silicon metal plants and data centers which are now preparing increased operations in Iceland. Demand for electricity is now higher than the supply which creates both opportunities and challenges. It is essential to increase power generation in order to meet those demands. Landsvirkjun's next project will be at Theistareykir power plant but it is important that the Company will be allowed to start



new power projects in order to meet the current opportunities and in that respect the focus is on constructions of power plants in the lower region of Thjorsa river.

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. Currently, the price of aluminium is low and uncertainty prevails over its development during the 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.

Reykjavik, Iceland, February 25, 2015

Further information is provided by:  
Rafnar Larusson, CFO  
Tel. + 354 515 9000

### **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.