

## Press release

### Landsvirkjun's results for the first six months of the year 2013

#### Cash flow from operating activities increases

#### Key figures from the interim financial statements

- Operating revenues amounted to USD 206.7 million which is an increase of 1.9% compared to the same period last year.
- EBITDA amounted to USD 165.3 million. EBITDA ratio is 79.9% of turnover, compared to 80.8% for the same period last year.
- Profit before unrealised financial items amounted to USD 67.1 million, compared to USD 47.7 million for the same period last year.
- Loss for the period, taking into account unrealised items, amounted to USD 52.2 million but for the same period last year there was a profit of USD 9 million. The loss is mainly explained by fair value changes in embedded aluminium derivatives in energy agreements which amounted to USD 169.5 million, expensed in the period.
- Cash flow from operations amounted to USD 134.4 million which is an increase of 13.8% compared to the same period last year.
- Net liabilities decreased by USD 30.1 million from the beginning of the year and amounted to USD 2,405.5 million at the end of June.

#### Hordur Arnarson, the CEO:

“The Company’s basic operation, generation and delivery of electric power, was successful throughout the first six months of the year and there was an increase in energy sales to Landsvirkjun’s customers by 5% or 300 GWh when compared to the preceding period. The Budarhals Hydropower Project is proceeding well and is on schedule. Construction work began on the project three years ago and is now in its final stages.

The results of the first six months of the year are satisfactory considering the present day world economic situation. We are pleased to see the increase in cash flow from operations reflecting the Company's strength and ability to meet its obligations. The Company's net liabilities continue to decrease by USD 30 million. The Company's net



liabilities have decreased in total by USD 418 million in the last four years, which is a positive development. However, it is important to continue along the same course with regard to the Company's leverage."

## Operational highlights

All units within the Company's power stations were available 99.7% of the time throughout the period, with the exception of scheduled maintenance. Energy production was 6,399 GWh compared to 6,096 GWh in the first two quarters of 2012. Unusual weather conditions during the previous winter had a more substantial impact on the condition of distribution reservoirs than expected, during the spring period, in the north and east of Iceland. Subsequently, energy generation in the Blanda and Fljotsdalur stations was decreased temporarily and increased instead in power stations in the water catchment areas pertaining to the Tungnaar and Thjorsar Rivers. Landsvirkjun's reservoirs have replenished at a slow rate but the overall outlook for the year is satisfactory.

## Key figures from operation - management's presentation

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

	2013 1.1.-30.6.	2012 1.1.-30.6.	2011 1.1.-30.6.	2010 1.1.-30.6.	2009 1.1.-30.6.
<b>Operation</b>					
Operating revenues .....	199,266	193,454	214,370	186,005	139,009
Realised aluminium hedges .....	7,447	9,426	3,515	( 4,812)	40,074
<b>Total operating revenues .....</b>	<b>206,713</b>	<b>202,880</b>	<b>217,885</b>	<b>181,193</b>	<b>179,083</b>
Operating expenses .....	( 41,460)	( 38,932)	( 38,667)	( 37,398)	( 34,849)
<b>EBITDA .....</b>	<b>165,253</b>	<b>163,948</b>	<b>179,218</b>	<b>143,795</b>	<b>144,234</b>
Amortisation and impairment loss .....	( 60,603)	( 52,391)	( 53,777)	( 52,634)	( 54,801)
<b>EBIT .....</b>	<b>104,650</b>	<b>111,557</b>	<b>125,441</b>	<b>91,161</b>	<b>89,433</b>
Financial items .....	( 37,577)	( 63,905)	( 74,959)	( 43,667)	( 56,629)
<b>Profit before unrealised financial items .....</b>	<b>67,073</b>	<b>47,652</b>	<b>50,482</b>	<b>47,494</b>	<b>32,804</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives .....	( 169,459)	( 67,420)	59,000	( 183,236)	47,692
Fair value changes in other derivatives .....	564	12,239	21,817	( 21,777)	( 9,345)
Unrealised foreign exchange difference .....	16,510	22,018	( 94,221)	178,686	( 9,619)
	( 152,385)	( 33,163)	( 13,404)	( 26,327)	28,728
<b>Profit (loss) before income tax .....</b>	<b>( 85,312)</b>	<b>14,489</b>	<b>37,078</b>	<b>21,167</b>	<b>61,532</b>
Income tax .....	33,089	( 5,470)	( 13,675)	( 5,479)	( 14,274)
<b>Profit (loss) .....</b>	<b>( 52,223)</b>	<b>9,019</b>	<b>23,403</b>	<b>15,688</b>	<b>47,258</b>
<b>Balance sheet</b>					
	<b>30.6.2013</b>	<b>30.6.2012</b>	<b>30.6.2011</b>	<b>30.6.2010</b>	<b>30.6.2009</b>
Total assets .....	4,389,289	4,541,882	4,792,271	4,590,184	4,557,646
Total equity .....	1,635,705	1,651,834	1,670,073	1,579,686	1,421,455
Total liabilities .....	2,753,584	2,890,048	3,122,198	3,010,498	3,136,191
Net liabilities .....	2,405,474	2,428,898	2,684,795	2,561,291	2,797,642
<b>Key figures</b>					
Cash flow from operating activities .....	134,430	118,087	132,669	109,984	103,644
Investing activities .....	( 75,363)	( 36,414)	( 26,226)	( 24,664)	( 59,640)
Financing activities .....	( 89,290)	( 63,106)	( 178,161)	( 97,567)	( 35,815)
Total liquidity .....	558,905	656,143	545,004	460,363	478,844
Equity ratio .....	37.3%	36.4%	34.8%	34.4%	31.2%
Return on equity .....	(0.4%)	0.7%	5.1%	11.4%	(21.7%)
Interest cover (EBITDA/net interest expenses) .....	3.59x	2.96x	3.30x	3.94x	3.37x
Net liabilities / EBITDA .....	7.48x	7.38x	8.05x	9.44x	9.74x



## Income Statement

### Operating revenues

The Group's operating revenues during the first six months of the year 2013 increased by USD 3.8 million, compared to the same period last year, or from USD 202.9 million to USD 206.7 million. The average wholesale price to retail sales companies (excluding transmission cost) was 4.0 ISK/kWh during the period compared to 3.9 ISK/kWh the previous year. The average price to industrial users was 26.0 USD/MWh compared to 26.2 USD/MWh in the previous year. The average price to industrial users includes transmission cost where appropriate.

### Operating expenses

Operating expenses less depreciation and impairment loss amounted to USD 41.5 million during the period from January to June 2013 compared to USD 38.9 million for the same period last year.

### Results

The Group's EBITDA amounted to USD 165.3 million. EBITDA ratio is 79.9% compared to 80.8% for the same period of the year 2012. EBIT amounted to USD 104.7 million

The foreign exchange difference is positive by USD 26.7 million in the period from January to June 2013 compared to USD 14.8 million for the same period last year. Average nominal interest rates on long-term loans were around 3.3%, taking into account the state guarantee fee. Low world market interest rates have positive effects on the Company's results.

Profit before unrealised financial items is the criterion used by Landsvirkjun in evaluating the Company's basic operation. The profit amounted to USD 67.1 million for the period compared to USD 47.7 million for the same period last year.

Parts of the company's electric power sales agreements are related to aluminium price developments. International Financial Reporting Standards require that the aluminium price link be calculated as embedded derivatives. Calculated changes in the value of the embedded derivatives are recognised as an expense in the income statement in the amount of USD 169.5 million for the period from January to June 2013 compared to USD 67.4 million for the same period last 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.

Loss for the period, taking into account unrealised items, amounted to USD 52.2 million but for the same period last year there was a profit of USD 9 million. The loss is mainly explained by a calculated change in aluminium derivatives in energy sale agreements as previously mentioned.



## Balance Sheet

### Assets

Landsvirkjun's total assets amounted to USD 4,389.3 million at the end of June 2013. Landsvirkjun's liquidity balance is good but cash and cash equivalents at the end of June 2013 amounted to USD 158.8 million. Furthermore, the Company has access to Revolving Credit Facilities, with an undrawn amount of USD 285.2 million. In addition, undrawn long term loans amounted to USD 114.9 million. Liquid assets thus amounted to a total of USD 558.9 million.

### Liabilities and equity

Interest bearing liabilities amounted to USD 2,564.3 million at the end of June 2013 and decreased by USD 60.2 million from year end 2012, when they amounted to USD 2,624.5 million. Taking into account cash and cash equivalents, Landsvirkjun's net liabilities amounted to USD 2,405.5 million at the end of June compared to USD 2,435.6 million at year end 2012, a decrease by USD 30.1 million. The weighted average maturity time of the loan portfolio was around 6.4 years.

The Company's equity amounted to USD 1,635.7 million at the end of June 2013 and the equity ratio was 37.3% compared to 37.6% at year end 2012.

### Cash flow

Cash flow from the Group's operations amounted to USD 134.4 million. Investing activities amounted to USD 75.4 million whereof the Budarhals Hydropower Project weighs the most. Amortisation of loans in excess of borrowings amounted to USD 76.5 million and dividend paid amounted to USD 12.8 million for the operating year 2012. The Group's cash and cash equivalents decreased by USD 29.1 million in the period and amounted to USD 158.8 million at the end of June.

### Key ratios

The Group's leverage measured against operating revenue before depreciation and amortisation (net liabilities / EBITDA) decreased from 7.62x at year end 2012 to 7.48x at the end of June 2013. The ratio of funds from operations (FFO) to net liabilities increased and went from 9.9% at year end 2012 to 10.7% at the end of June 2013.

Interest coverage (EBITDA/net interest expenses) increased to 3.59x from 3.25x at year end 2012. The ratio of funds from operations (FFO) to interest expenses increased from 2.36x at year end 2012 to 2.80x at the end of June 2013.

As return on equity is calculated on operating results, embedded derivatives and the unrealised foreign exchange difference can have considerable effects on the results. Return on equity decreased from 3.3% for the year 2012 to -0.4%.

### Operating outlook

Construction of the Budarhals Hydropower Project (95MW) is on schedule and is estimated to increase the Company's production capacity at year end 2013.



The research and development of new power projects continues. The operation of Landsvirkjun's first wind turbines began in February of this year in an area called "Hafid", in close proximity to the Burfell Power Station. Data collection will be ongoing in the next few months and the operational experience acquired during the process will prove to be an important base for any further potential projects with regard to the utilisation of wind power in Iceland. Landsvirkjun's next project will in all likelihood take place in the northeast of Iceland and preparation work has already begun. An evaluation of the current Environmental Impact Assessment on the possible effects of the Bjarnarflag Power Station is currently being carried out with the assistance of various consultants.

Landsvirkjun has been assessing the feasibility of connecting to the European electricity market via sub-sea cable for some time and estimates that the preliminary results of the evaluation will be available at the end of this year.

The key influential factors on the Company's results are as before; aluminium prices, interest rates and foreign currencies. Aluminium price development in the year has had a negative effect on the Company despite the fact that aluminium price links in electric power agreements have decreased in the last years, Landsvirkjun's income is still considerably contingent upon the world market price of aluminium. The majority of Landsvirkjun's loans are on floating interest rates and therefore low interest rates on financial markets have had positive effects on the Company.

Reykjavik, 23 August 2013

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 electricity from renewable energy resources, hydroelectric power and geothermal heat. Landsvirkjun produces 75% of all electricity in Iceland. The Company is at the same time leading in sustainable utilization of energy resources and contributes to increased knowledge, innovation and technical development.