

Press release

Landsvirkjun's results for the first six months of the year 2011 published today Strong liquidity position and increased cash flow

Key figures from the interim financial statements

- Operating revenue amounted to USD 217.9 million, which is an increase of 20.3% compared to the same period last year.
- EBITDA was USD 179.2 million. EBITDA ratio is 82.3% of turnover, compared to 79.4% for the same period last year.
- Cash flow from operations amounted to USD 132.7 million, which is an increase of 20.6% compared to the same period last year.
- Profit after tax amounted to USD 23.4 million, compared to USD 15.7 million for the same period last year.
- Average energy price to industrial users was 29.6 USD/MWh during the period compared to 25.7 USD/MWh in the year 2010. Average energy price to wholesale companies was 3.6 ISK/kWh compared to 3.4 ISK/kWh in the previous year.
- Landsvirkjun's liquidity position is strong and at the end of June the Company had access to the amount of USD 545.0 million. Liquidity position is important for the Company in order to be able to cover maturities on loans in the next years.

Hordur Arnarson, the CEO:

„The improvement in the operating results during the first six months of the year is satisfactory, and is mainly explained by increased income due to renegotiations on energy prices and increasing aluminium prices. At the same time, there has been little increase in operating expenses between periods.

It is positive that key ratios for the Company's financial strength continue to develop in the right direction, though the Company is still not able to stand the comparison with foreign energy companies and meet requirements of foreign credit rating agencies. We will continue to improve these key ratios.

The project of Budarhals power plant is now underway and the power plant is estimated to become operative in fall 2013. The Company's next projects will be situated in North-East Iceland, where this year, significant preparation work for the power plants of Bjarnarflag and Theistareykir is being carried out.



The Company has met considerable interest from both new and older customers to buy electric power but the situation in the world economy can have an influence on when agreements will be reached. “

Key figures from operation

The interim financial statements

The interim financial statements of Landsvirkjun are prepared according to International Financial Reporting Standards (IFRS). The financial statements are in USD, which is the functional currency of the parent company. Realised aluminium hedges are now recognised among revenues, but were previously recognised among financial income and expenses. Changed presentation in the income statement does not affect the results or financial standing of the Group.

Income statement

Operating revenue of Landsvirkjun Group increased by USD 36.7 million during the first six months of the year 2011 compared to the same period last year, or from USD 181.2 million to USD 217.9 million, which is mainly explained by higher energy prices to industrial users. Higher energy prices are due to higher aluminium prices on the world market, renegotiations and price development. Average energy price to wholesale companies (excluding transmission cost) was 3.6 ISK/kWh during the period from January to June 2011 compared to 3.4 ISK/kWh in the previous year. Average price to industrial users was 29.6 USD/MWh during the period compared to 25.7 USD/MWh in the previous year. Average price to industrial users includes transmission cost where appropriate.

Operating expenses less depreciation and impairment loss amounted to USD 38.7 million in the period compared to USD 37.4 million for the same period last year. EBITDA amounted to USD 179.2 million. EBIT amounted to USD 125.4 million. EBITDA ratio is 82.3% compared to 79.4% for the same period in the year 2010. Interest expenses and realised foreign exchange differences have increased between periods. Average nominal interest on long-term loans was around 3.03% in the period from January to June 2011, but was around 2.57% in the previous year, taking into account the state guarantee fee. 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 change in the value of the embedded derivatives is recognised in the income statement and may have considerable effect on the Company's financial items. Foreign exchange differences and fair value changes are mostly unrealised, which must be kept in mind in the evaluation of the Company's results. Profit for the period amounted to USD 23.4 million compared to USD 15.7 million for the same period last year.

In order to provide a better view of the Group's operating results unrealised financial items are specified in the management's presentation, according to which, profit before unrealised financial items amounted to USD 50.5 million in the period compared to USD 47.5 million for the same period last year, an increase by 6.3%.



Balance sheet

Landsvirkjun's total assets according to the balance sheet amounted to USD 4,780 million at the end of June 2011. The Company's equity amounted to USD 1,670 million and equity ratio has increased; it was 34.9% at the end of June 2011 but 34.0% at year end 2010.

The Group's maturities in excess of borrowings amounted to USD 178.2 million during the period. The USD 116.8 million increase in debt is due foreign exchange loss on the Company's long term debt, mainly related to the EUR. Landsvirkjun's net debt amounted to USD 2,684.8 million at the end of June.

Cash and cash equivalents at the end of June 2011 amounted to USD 193.3 million and in addition thereto the Company has access to revolving credit facilities, which undrawn amount is USD 351.7 million. Liquid assets amounted thus to a total of USD 545.0 million. Weighted average maturity of the loan portfolio was around 7.5 years at the end of June.

Cash flow

The Company's cash flow was good during the period, taken into account the income base. Working capital from operation (FFO) amounted to USD 129.6 million compared to USD 114.2 million in the same period of the year 2010. Cash flow from the Group's operation amounted to USD 132.7 million. Emphasis was placed on liquidity management instead of investments and investing activities amounted to around USD 26.2 million. The Group's maturities in excess of borrowings amounted to USD 178.2 million as mentioned before.

The Company's cash and cash equivalents decreased by USD 72.2 million during the period and at the end of June cash and cash equivalents amounted to USD 193.3 million.

Key ratios

Despite an increase in net debt during the period due to calculated items, key ratios related thereto have improved. The Company's leverage measured against operating revenue before depreciation and amortisation (net debt/EBITDA) decreases from 8.97x at year end 2010 to 8.05x at the end of June 2011. The ratio of working capital from operation (FFO) against net debt has also improved and increases from 8.2% to 8.7% at the end of June 2011.

As for financial items, interest coverage ratio (EBITDA/interest expenses) decreases to 3.2x, compared to 3.51x at year end 2010. The ratio of working capital from operation (FFO) against interest expenses decreases from 2.58x at year end 2010 to 2.32x.

As return on equity is calculated from profit the calculation of embedded derivatives and unrealised foreign exchange differences can have considerable effect on the results, but return on equity increased from 4.7% for the year 2010 to 5.1% at the end of June 2011.



Operating outlook

The construction of Budarhals power plant is on schedule. Landsvirkjun has secured the financing of the project. Preparation work for the next power plant projects, which are assumed to be located at Bjarnarflag and Theistareykir, is being carried out and involves further drilling for geothermal heat, road construction and tenders for the work of projecting and designing the power plants.

Landsvirkjun's income is still considerably contingent on the world market price of aluminium. Aluminium prices are currently at acceptable levels though price development in coming periods is uncertain. Interest rates in the main financial markets are currently low, which is good for Landsvirkjun as the main part of its loans carry floating interests. Therefore, the Company has hopes that cash flow generation continues to be good. The Company's results will therefore, as before, for the most part be subject to the development in aluminium prices, interest rates and foreign exchange rates.

Further information is provided by Rafnar Larusson, the Company's CFO, via telephone number +354 515 9000.

Reykjavik, 16 August 2011

Landsvirkjun

Landsvirkjun was established in the year 1965 and is an energy production company owned by the Icelandic nation. The Company produces electricity from renewable energy resources, hydroelectric power and geothermal heat. Landsvirkjun produces 75% of all electricity in the country and is the biggest energy producer 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.



Key figures in the interim financial statements in thousands of USD:

	2011 1.1.-30.6	2010 1.1.-30.6	2009 1.1.-30.6	2008 1.1.-30.6	2007 1.1.-30.6
Operating revenues	214,370	186,005	139,009	239,623	173,427
Realised aluminium hedges	3,515 (	4,812)	40,074 (	35,721)	(34,027)
Total operating revenues	217,885	181,193	179,083	203,902	139,400
Operating expenses	(38,667)	(37,398)	(34,849)	(50,250)	(48,079)
EBITDA	179,218	143,795	144,234	153,652	91,321
Depreciation and impairment loss	(53,777)	(52,634)	(54,801)	(51,333)	(37,142)
EBIT	125,441	91,161	89,433	102,319	54,179
Financial items	(74,959)	(43,667)	(56,629)	(65,943)	(22,966)
Profit before unrealised financial items	50,482	47,494	32,804	36,376	31,213
Unrealised financial items:					
Fair value changes in embedded derivatives	59,000 (	183,236)	47,692	414,919	79,196
Fair value changes in other derivatives	21,817 (	21,777)	(9,345)	(155,256)	20,304
Unrealised foreign exchange difference	(94,221)	178,686 (	9,619)	(161,613)	288,903
	(13,404)	(26,327)	28,728	98,050	388,403
Profit bef. tax acc. to interim financial statements	37,078	21,167	61,532	134,426	419,616
	30.06. 2011	30.06. 2010	30.06. 2009	30.06. 2008	30.06. 2007
Total assets	4,779,918	4,584,038	4,555,338	5,505,319	4,734,247
Total equity	1,670,073	1,579,686	1,421,455	1,758,031	1,632,894
Total liabilities	3,109,845	3,004,352	3,133,883	3,747,288	3,101,353
Cash flow from operating activities	132,669	109,984	103,644	76,356	64,932
Total liquidity	545,004	460,363	478,844	487,459	590,265
Investing activities	26,226	24,664	59,640	213,623	191,053
Equity ratio	34.9%	34.5%	31.2%	31.9%	34.5%
Return on equity	5.1%	11.4% (	21.7)%	14.3%	46.3%
EBITDA/interest expenses	3.20x	3.65x	3.14x	1.68x	2.46x
Net debt / EBITDA	8.05x	9.44x	9.74x	11.36x	14.03x