

Press release

Landsvirkjun's results for the first six months of the year 2012

Satisfactory performance given the global economic conditions

Debt continues to decrease

Key figures from the interim financial statements

- Operating revenue amounted to USD 202.9 million which is a decrease of 6.9% compared to the same period last year.
- EBITDA amounted to USD 163.2 million. EBITDA ratio is 80.4% of turnover, compared to 82.3% for the same period last year.
- Profit before unrealised financial items amounted to USD 46.9 million, compared to USD 50.5 million for the same period last year.
- Cash flow from operations amounted to USD 118.1 million which is a decrease of 11% compared to the same period last year.
- Net debt decreased by USD 74 million during the period and amounted to USD 2,429 million at the end of June.

Hordur Arnarson, the CEO:

“Landsvirkjun's operations during the first six months of the year have been successful, energy power sales agreements were concluded with two new customers, electric generation has gone according to plan and the project at Budarhals power station is for the most part on schedule.

The profit for the first six months of the year is acceptable taking the world's economic conditions into account. Revenue decreases by 6.9% partly due to lower aluminium prices and its influence on price according to power sales agreements. Realised aluminium hedges had a positive influence during the period and in these circumstances we benefit from the renegotiation with Rio Tinto Alcan where energy price was higher and not linked to aluminium price.

Net debt of the Company continues to decrease, now by USD 74 million despite the fact that the Company paid dividends and increased investments compared to previous year. It is important to continue to decrease debt because of the high leverage of the Company.”



Operational highlights

Generation and delivery of electric power was successful during the first six months of the year 2012. All units in the Company's power stations were available for generation 99.8% of the time with the exception of scheduled maintenance. Energy generation was 6,096 GWh compared to 6,268 GWh in the first six months of the year 2011. The outlook for energy generation over the entire year is good.

The key element in the operation of energy companies is safety. Landsvirkjun obtained satisfying results on July 30 this year when one year had passed from the recording of the last accident-related absence.

Key figures from the interim financial statements in USD thousand:

Group - management's presentation

	2012 1.1.-30.6.	2011 1.1.-30.6.	2010 1.1.-30.6.	2009 1.1.-30.6.	2008 1.1.-30.6.
Operation					
Operating revenues	193,454	214,370	186,005	139,009	239,623
Realised aluminium hedges	9,426	3,515 (	4,812)	40,074 (	35,721)
Total operating revenues	202,880	217,885	181,193	179,083	203,902
Operating expenses	(39,729)	(38,667)	(37,398)	(34,849)	(50,250)
EBITDA	163,151	179,218	143,795	144,234	153,652
Depreciation and impairment loss	(52,391)	(53,777)	(52,634)	(54,801)	(51,333)
EBIT	110,760	125,441	91,161	89,433	102,319
Financial items	(63,905)	(74,959)	(43,667)	(56,629)	(65,943)
Profit before unrealised financial items	46,855	50,482	47,494	32,804	36,376
Unrealised financial items:					
Fair value changes in embedded derivatives	(67,420)	59,000 (	183,236)	47,692	414,919
Fair value changes in other derivatives	12,239	21,817 (	21,777)	(9,345)	(155,256)
Unrealised foreign exchange difference	22,018 (	94,221)	178,686 (	9,619)	(161,613)
	(33,163)	(13,404)	(26,327)	28,728	98,050
Profit before income tax	13,692	37,078	21,167	61,532	134,426
Income tax	(5,183)	(13,675)	(5,479)	(14,274)	(50,977)
Profit for the period	8,509	23,403	15,688	47,258	83,449
Balance sheet					
	30.6.2012	30.6.2011	30.6.2010	30.6.2009	30.6.2008
Total assets	4,528,177	4,779,918	4,584,038	4,555,338	5,505,319
Total equity	1,651,834	1,670,073	1,579,686	1,421,455	1,758,031
Total liabilities	2,876,343	3,109,845	3,004,352	3,133,883	3,747,288
Net liabilities	2,428,898	2,684,795	2,561,291	2,797,642	3,020,832
Key ratios					
Cash flow from operation	118,087	132,669	109,984	103,644	76,356
Investing activities	(36,414)	(26,226)	(24,664)	(59,640)	(213,623)
Financing activities	(63,106)	(178,161)	(97,567)	(35,815)	97,071
Total liquid assets	656,143	545,004	460,363	478,844	487,459
Equity ratio	36.5%	34.9%	34.5%	31.2%	31.9%
Return on equity	0.7%	5.1%	11.4%	(21.7%)	14.3%
Interest cover (EBITDA/net interest expenses)	2.96x	3.30x	3.94x	3.37x	1.87x
Net liabilities / EBITDA	7.38x	8.05x	9.44x	9.74x	11.36x



Income statement

Operating revenue

The Group's operating revenue during the first six months of the year 2012 decreased by USD 15 million, compared to the same period last year, or from USD 217.9 million to USD 202.9 million. The decrease is mainly explained by lower energy prices to industrial users. Other elements include foreign exchange effects and lower energy demand. Decreased energy prices are caused by decreased world market aluminium prices, which decreased by 18% between periods. Average wholesale price to retail sales companies (excluding transmission cost) was 3.8 ISK/kWh during the period compared to 3.6 ISK/kWh the previous year. Average price to industrial users was 26.5 USD/MWh compared to 28.7 USD/MWh in the previous year. Average price to industrial users here includes transmission cost where appropriate. Transmission income decreased between periods from USD 24.2 million to USD 22.2 million, which is mainly explained by foreign exchange effect.

Operating expenses

Operating expenses less depreciation and impairment loss amounted to USD 39.7 million during the period from January to June 2012 compared to USD 38.7 million for the same period last year.

Profit

The Group's EBITDA amounted to USD 163.2 million. EBITDA ratio is 80.4% compared to 82.3% for the same period of the year 2011. EBIT amounted to USD 110.8 million.

Foreign exchange difference is positive by USD 14.8 million for the period from January to June 2012 compared to a negative foreign exchange difference of USD 113.4 million during the same period last year. Average nominal interest on long-term loans was around 3.3% taking into account the state guarantee fee compared to 3.5% in the previous year. Low interest rates in the global financial markets have positive influence on profit of the Company.

A part of the parent company's electric power sales agreements are linked 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 in the amount of USD 67.4 million as expense for the period from January to June 2012 compared to the amount of USD 59 million recognised as income 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 the management's presentation.

Profit before unrealised financial items is the criterion used by Landsvirkjun in evaluating the Company's underlying operation. Profit before unrealised items



amounted to USD 46.9 million compared to USD 50.5 million for the same period last year.

The profit of the period was USD 8.5 million compared to USD 23.4 million for the same period last year.

Balance sheet

Assets

Landsvirkjun's total assets amounted to USD 4,528 million at the end of June 2012. Landsvirkjun's liquidity balance is good, cash and cash equivalents at the end of June amounted to USD 245 million and in addition thereto the Company has access to Revolving Credit Facilities, which undrawn amount is USD 283 million. Furthermore, undrawn long term loans amount to USD 128 million. Liquid assets amounted thus to a total of USD 656 million.

Liabilities and equity

Interest bearing liabilities amounted to USD 2,674 million at the end of June 2012 and decreased by USD 67 million from year end 2011, when they amounted to USD 2,741 million. Taken into account cash and cash equivalents Landsvirkjun's net debt amounted to USD 2,429 million at the end of June compared to USD 2,503 million at year end 2011, or a decrease by USD 74 million. Weighted average maturity time of the loan portfolio was around 7.2 years.

The Company's equity amounted to USD 1,652 million and equity ratio has increased. Equity ratio was 36.5% at the end of June 2012 compared to 35.9% at year end 2011.

Cash flow

Cash flow from the Group's operations amounted to USD 118.1 million. Investment activities amounted to USD 36.4 million whereof the project at Budarhals power station weighs the most. Amortisation of loans in excess of borrowings amounted to USD 48.9 million and dividend paid amounted to USD 14.2 million for the operating year 2011. The Group's cash and cash equivalents increased by USD 15 million during the period and amounted to USD 245 million at the end of June.

Key ratios

The Group's leverage measured against operating profit before depreciation and amortisation (net liabilities / EBITDA) increases from 7.25 at year end 2011 to 7.38 at the end of June 2012. Ratio of funds from operations (FFO) to net debt has virtually remained unchanged and goes from 10.2% at year end 2011 to 10.1% at the end of June 2012.

Interest cover (EBITDA/net interest expenses) decreases to 2.96 from 3.06 at year end 2011. Ratio of funds from operations (FFO) to interest expenses decreased from 2.19 at year end 2011 to 2.07 at the end of June 2012.



Return of equity is calculated on net profit which means that embedded derivatives and unrealised foreign exchange difference can have considerable effect on the results. Return on equity decreased from 1.6% in the year 2011 to 0.7% at the end of June 2012.

Operating outlook

Delivery of electric power from Budarhals power station (95 MW) is estimated to begin at year end 2013, which will among others be utilised to increase energy supply to Rio Tinto Alcan á Íslandi hf. contracted in the year 2010.

During the first six months of the year, two new energy sales agreements were concluded; on the one hand with GMR Endurvinnslan ehf. on the delivery of 10 MW at the beginning of the year 2013, and on the other, with PCC BakkiSilicon hf. on the delivery of 52 MW at year end 2015 for a silicon metal factory in Husavik. Currently the contract with PCC BakkiSilicon hf. is subject to certain conditions precedent including permits, an agreement with the Icelandic transmission system Company Landsnet hf., the government of Iceland and financing set to be finalized before May 2013.

Research and development of new power stations continues. The Company aims at installing two wind turbines near Burfell power station in the second half of the year for research purposes. Furthermore, the Company continues to explore geothermal power potential and preparation of power stations in Bjarnarflag and Theistareykir in North-East Iceland. Design memoranda of power stations in Thjorsa River have been reviewed to increase efficiency and decrease negative environmental impact.

Landsvirkjun's profit is still considerably contingent on the development of world market price of aluminium, interest rates and foreign exchange rates. The price of aluminium has continued to decrease during the period and although aluminium price link in power agreements has been reduced from 72% to 47% over the last years, the revenue of Landsvirkjun will continue to be subject to the development in aluminium prices. On the other hand the prospect is that interest rates will continue to be low in the financial markets which is favourable for Landsvirkjun as the main part of its loans are floating rate.

Reykjavik, 24 August 2012

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 generates 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.