

## Press release

### Landsvirkjun's Consolidated Financial Statements 2012

### Landsvirkjun's debt continues to decrease

#### Key figures from the consolidated financial statements

- Total operating revenues amounted to USD 407.8 million, a decrease of 6.5% from the previous year.
- EBITDA amounted to USD 319.6 million. The EBITDA ratio was 78.4%, compared to 79.1% in the previous year.
- Profit before unrealised financial items amounted to USD 102.0 million, compared to USD 106.1 million in the previous year.
- Cash flow from operations amounted to USD 236.2 million, a decrease of 11.6% from the previous year.
- Net debt decreased by USD 67.3 million during the year and amounted to USD 2,436 million at year end 2012.

#### **Hordur Arnarson, the CEO:**

“Landsvirkjun's operation and energy generation was in line with expectations in the year 2012, and the Budarhals hydropower project is on schedule. Power sales agreements were signed with two new customers.

The profit of the year was satisfactory with respect to global economic conditions. Revenue decreased by 6.5% due to lower aluminium prices and the effect thereof on contractual energy prices. Under these conditions, we benefitted from the renegotiation with one of our biggest customers on higher energy prices not linked to the price of aluminium.

The Company's net debt continues to decrease and the equity ratio continues to increase. In the last three years, the Company's net debt has decreased by USD 389 million. It is necessary for Landsvirkjun to take advantage of the current low interest rate environment in order to continue on that course. “



## Key figures from operation

Landsvirkjun's energy production in the year 2012 was on track and sold volume amounted to 12,770 GWh for the year. The proportion of hydroelectric power is around 96% of Landsvirkjun's production and geothermal power is 4%. The operation of power plants was in line with expectations during the year, without setbacks and serious unforeseeable events.

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

	2012	2011	2010	2009	2008
<b>Operation</b>					
Operating revenues .....	389,499	419,708	383,991	299,788	452,027
Realised aluminium hedges .....	18,325	16,488	( 6,342)	42,526	( 54,759)
<b>Total operating revenues .....</b>	<b>407,824</b>	<b>436,196</b>	<b>377,649</b>	<b>342,314</b>	<b>397,268</b>
Operating expenses .....	( 88,225)	( 90,993)	( 79,564)	( 70,655)	( 100,512)
<b>EBITDA .....</b>	<b>319,599</b>	<b>345,203</b>	<b>298,085</b>	<b>271,659</b>	<b>296,756</b>
Depreciation and impairment loss .....	( 112,288)	( 108,200)	( 107,258)	( 114,321)	( 105,532)
<b>EBIT .....</b>	<b>207,311</b>	<b>237,003</b>	<b>190,827</b>	<b>157,338</b>	<b>191,224</b>
Financial items .....	( 103,093)	( 126,877)	( 99,275)	( 96,102)	( 142,452)
Associated companies .....	( 2,229)	( 4,014)	( 1,581)	( 11,193)	( 4,100)
<b>Profit before unrealised financial items .....</b>	<b>101,989</b>	<b>106,112</b>	<b>89,971</b>	<b>50,043</b>	<b>44,672</b>
<b>Unrealised financial items:</b>					
Fair value changes in embedded derivatives .....	( 3,391)	( 93,197)	( 55,583)	253,304	( 497,167)
Fair value changes in other derivatives .....	13,653	6,959	( 39,438)	( 53,655)	186,284
Unrealised foreign exchange difference .....	( 12,675)	22,711	87,619	( 39,752)	( 148,369)
	( 2,413)	( 63,527)	( 7,402)	159,897	( 459,252)
<b>Profit (loss) before income tax .....</b>	<b>99,576</b>	<b>42,585</b>	<b>82,569</b>	<b>209,940</b>	<b>( 414,580)</b>
Income tax .....	( 45,370)	( 16,135)	( 9,653)	( 16,944)	70,048
<b>Profit (loss) .....</b>	<b>54,206</b>	<b>26,450</b>	<b>72,916</b>	<b>192,996</b>	<b>( 344,532)</b>
<b>Balance sheet</b>					
Total assets .....	4,518,534	4,635,989	4,850,037	4,807,970	4,621,384
Total equity .....	1,697,152	1,661,312	1,644,322	1,564,487	1,376,792
Total liabilities .....	2,821,382	2,974,677	3,205,715	3,243,483	3,244,592
Net debt .....	2,435,571	2,502,873	2,673,966	2,823,872	2,850,276
<b>Key figures</b>					
Cash flow from operating activities .....	236,178	267,172	229,595	197,023	184,350
Investing activities .....	( 122,979)	( 107,689)	( 53,517)	( 120,533)	( 374,797)
Financing activities .....	( 151,670)	( 185,328)	( 106,294)	( 4,572)	168,586
Total liquidity .....	597,895	645,709	573,208	475,848	474,993
Equity ratio .....	37.6%	35.8%	33.9%	32.5%	29.8%
Return on equity .....	3.3%	1.6%	4.7%	14.0%	(21.5%)
Interest cover (EBITDA/net interest expenses) .....	3.25x	3.06x	3.68x	3.14x	1.83x
Net debt / EBITDA .....	7.62x	7.25x	8.97x	10.39x	9.60x



## 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

#### Total operating revenues

Operating revenues of Landsvirkjun Group decreased by USD 28.4 million between years, from USD 436.2 million to USD 407.8 million. The decrease is mainly explained by lower energy prices to industrial users due to lower aluminium prices, despite being partly offset by power contracts with power prices linked to general price development. Lower energy prices were caused by lower world market aluminium prices, which decreased by 15% between years. The average wholesale price to the retail industry (excluding transmission cost) was 3.9 ISK/kWh during the year compared to 3.6 ISK/kWh in the previous year. The average price to industrial users was 26.2 USD/MWh compared to 28.7 USD/MWh in the previous year. Average price to industrial users includes transmission cost where appropriate. Transmission income decreased between years from USD 46.9 million to USD 44.4 million, which is mainly explained by a foreign exchange effect.

#### Operating expenses

Operating expenses less depreciation and impairment loss amounted to USD 88.2 million during the year 2012 compared to USD 91.0 million in the previous year.

#### Return

The Group's EBITDA amounted to USD 319.6 million. The EBITDA ratio is 78.4% compared to 79.1% in the year 2011. EBIT amounted to USD 207.3 million compared to USD 237.0 million in the previous year.

The foreign exchange difference is negative by USD 17.5 million compared to a positive USD 8.6 million difference in the previous year. Average nominal interest on long-term loans were around 3.3% in the year 2012 compared to 3.5% in the previous year, taking into account the state guarantee fee. Low interest rates in global financial markets had a positive effect on the Company's return.

A part of the parent company's electric power sales agreements are linked to aluminium price developments. International Financial Reporting Standards require the aluminium price link to be calculated as an embedded derivative. A calculated change in the value of the embedded derivative is recognised in the income statement for the year 2012 in the amount of USD 3.4 million as an expense compared to USD 93.2 million in the previous year. Foreign exchange differences and fair value changes are mostly unrealised, which must be kept in mind when evaluating 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 when evaluating the Company's underlying operation. The profit amounted to USD 102.0 million for the year 2012 compared to USD 106.1 million the previous year.

The profit of the year amounted to USD 54.2 million compared to USD 26.5 million the previous year.

## **Balance sheet**

### **Assets**

Landsvirkjun's total assets amounted to USD 4,519 million at year end 2012. Landsvirkjun's liquidity balance is good and cash and cash equivalents at year end 2012 amounted to USD 188 million and in addition thereto the Company has access to Revolving Credit Facilities, with an undrawn amount of USD 282 million. Furthermore, undrawn long term loans amount to USD 128 million. Liquid assets and undrawn loans amounted thus to a total of USD 598 million.

### **Liabilities and equity**

Interest bearing liabilities amounted to USD 2,624 million at year end 2012 and decreased by USD 117 million from year end 2011, when they amounted to USD 2,741 million. Taken into account cash and cash equivalents and restricted cash, Landsvirkjun's net debt amounted to USD 2,436 million at year end compared to USD 2,503 million at year end 2011, a decrease of USD 67 million. The weighted average maturity period of the loan portfolio was around 6.5 years.

The Company's equity amounted to USD 1,697 million at year end. The equity ratio was 37.6% at year end 2012 compared to 35.8% at year end 2011.

### **Cash flow**

Cash flow from the Group's operations amounted to USD 236.2 million. Investment activities amounted to USD 123 million, mostly due to the Budarhals hydropower project. Amortisation of loans in excess of borrowings amounted to USD 139 million and dividends paid amounted to USD 14.2 million for the operating year 2011. The Company's cash and cash equivalents decreased by USD 42 million in the year and amounted to USD 187.9 million at year end.

### **Key ratios**

The Group's leverage measured against operating revenue before depreciation and amortisation (net liabilities/EBITDA) increased from 7.25x at year end 2011 to 7.62x at year end 2012. The ratio of funds from operations (FFO) to net debt has slightly moved and went from 10.2% at year end 2011 to 9.9% at year end 2012.

Interest cover (EBITDA/net interest expenses) increased to 3.25x from 3.06x at year end 2011. The ratio of funds from operations (FFO) to interest expenses increased from 2.19x at year end 2011 to 2.36x at year end 2012.



As return on equity is calculated on profit, embedded derivatives and unrealised foreign exchange differences can have considerable effects on the result. The return on equity increased from 1.6% in the year 2011 to 3.3% at year end 2012.

### **Operating outlook**

Delivery of electric power from Budarhals hydropower plant (95 MW) is estimated to begin at year end 2013. The plant will mostly be utilised to increase energy delivery to Rio Tinto Alcan á Íslandi hf. which was negotiated in 2010.

During the first half of the year, two new electric power sales agreements were concluded. On the one hand with GMR Endurvinnslan ehf. on delivery of up to 10 MW at the beginning of 2013, and on the other hand, with PCC BakkiSilicon hf. on delivery of 52 MW at year end 2015 to a silicon metal plant near Husavik. The agreement with PCC BakkiSilicon hf. was signed with certain conditions, including appropriate licenses, agreements with the Icelandic State, Landsnet hf. and financing, which are expected to be met by May 2013.

The Company's results for the most part, will continue to be subject to changes in aluminium prices, interest rates and foreign exchange rates. Despite the fact that the aluminium price link in electric power sales agreements has decreased from 70% to 45% in recent years, Landsvirkjun's income is still considerably contingent on the world market price of aluminium. Landsvirkjun will benefit if interest rates remain low as the majority of its loans are on floating interest rates.

Reykjavik, 22 February 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 state. Landsvirkjun's objective is to maximize the potential yield and value of the natural resources entrusted to the Company in a sustainable, responsible and efficient manner. The Company generates electricity from renewable energy resources, hydroelectric power and geothermal power and produces 73% of all electricity in Iceland. The Company is at the same time a leader in sustainable use of renewable energy sources and contributes to increased knowledge, innovation and technical development.