

Financial statement highlights

Financial statements 2023



Third Consecutive Year of Record Profits

Proposal of \$150 Million Dividend to the Nation

Hörður Arnarson
CEO



In 2023, Landsvirkjun had its best operating year in its nearly 60 years of history. Profit from core operations amounted to 375 million US dollars and increased by 19% from 2022, which was a record year. This performance was achieved despite a decrease in revenues from industrial customers because of lower market prices, but overall operating revenues increased significantly, particularly due to hedges. Thus, active risk management in Landsvirkjun's operations has proven its value, as it reduces income fluctuations and contributes to the steady operational performance of the company. Operating expenses only increased by 4% between years.

The company's financial position has never been better. The equity ratio is higher than it has ever been at 65.4%, but was 59.3% at year end 2022. Net debt, i.e. interest bearing debt net of cash and cash equivalents, decreased by 151 million US dollars and leverage is now down to 1.4x EBITDA. This compares favorably with or exceeds the performance of other energy companies we benchmark against in the Nordic region. This reduction in interest bearing debt has rightly had a positive impact on the company's interest coverage, as interest expenses in excess of interest income continue to decrease as in previous years. In an environment of rising interest rates, it has proven beneficial to have systematically worked in prior years to shift loan terms from variable to fixed interest rates, which do not change with increasing interest levels. Today, 77% of our loans carry fixed interest rates.

A strong financial position is reflected in the company's credit rating, as S&P Global Ratings upgraded the company's rating from BBB+ to A- at the end of the year. In light of this operational success, the company's board intends to propose a dividend of 150 million US dollars at the annual meeting for the last fiscal year, which is 72% of the profit for the year.

While the operation of the national energy company is better than ever before, there are concerns looming in Iceland's energy sector. Various factors have led to delays in energy generation projects, and it is likely that electricity generation will not meet demand due to the energy transition and general economic growth until at least 2027-28. However, there are hopes that construction on Hvammsvirkjun, hydropower, and Búrfellslundur, wind power, will commence this year, as they are the furthest along in development. Additionally, preparations for the expansion of both Þeistareykjavirkjun, geothermal power, and Sigölduvirkjun, hydropower, are underway, with plans to obtain approval from Landsvirkjun's board to initiate tenders related to these projects later in the year.

The operational years of 2022-23 have been exceptional in the company's history, especially due to renegotiations in recent years, favorable market conditions, and a power contract with a large customer linked to the price development on the Nord Pool market, which proved highly beneficial for Landsvirkjun but has now expired. Prospects for Landsvirkjun's performance remain positive in 2024, although the likelihood of achieving the same results as in these past two years is slim until renegotiations with Alcoa are concluded and new power stations commence operations.

Key figures

Energy sales

14.7 TWh $\uparrow 0.4\%$

Operating revenues

657 m. USD $\uparrow 8.1\%$

Profit before unrealised financial items

375 m. USD $\uparrow 18.8\%$

Cash flow from operations

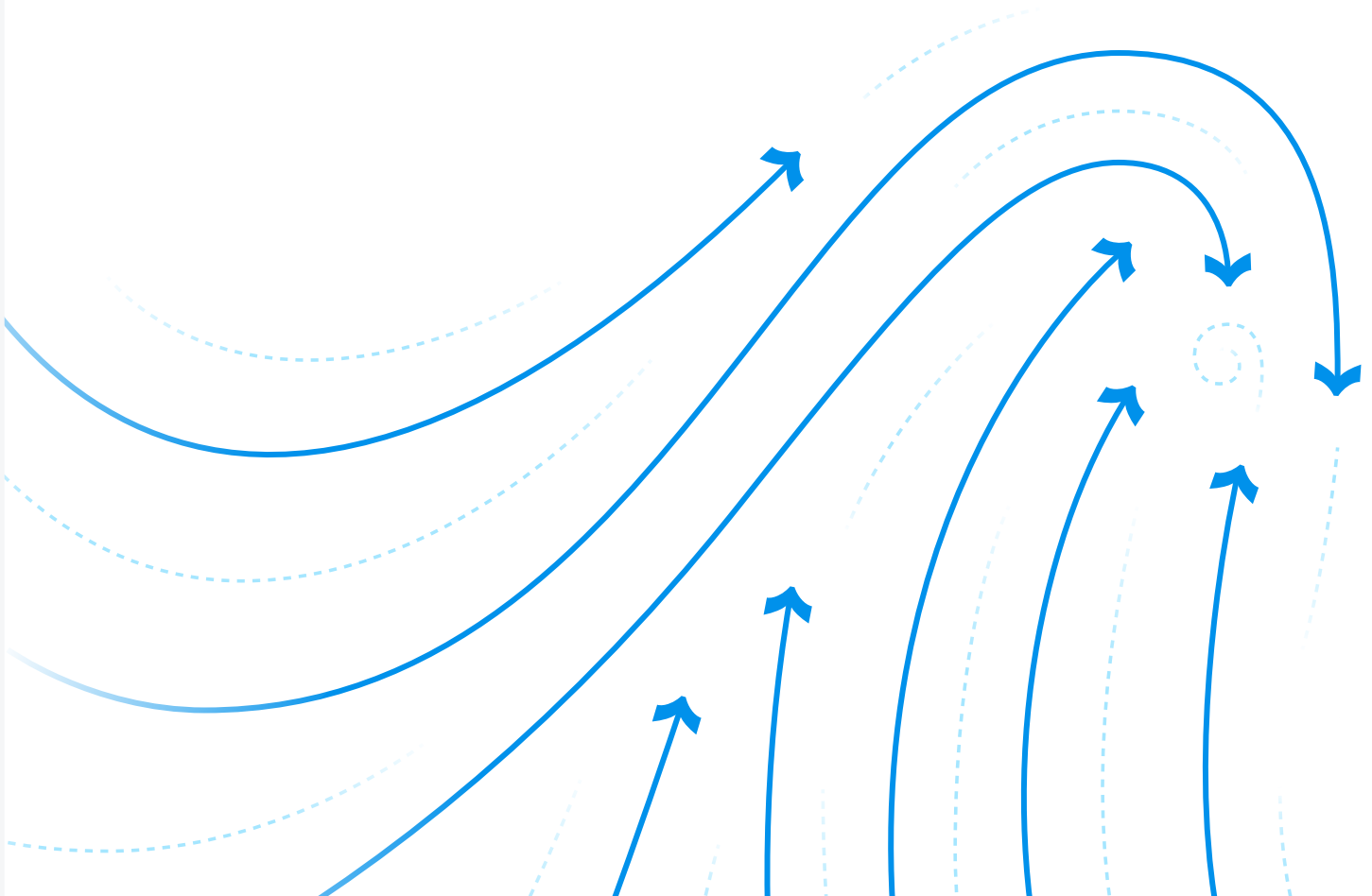
415 m. USD $\uparrow 14.9\%$

Net debt

697 m. USD $\downarrow 17.8\%$

Equity ratio

65.4% $\uparrow 6.1$ pp.



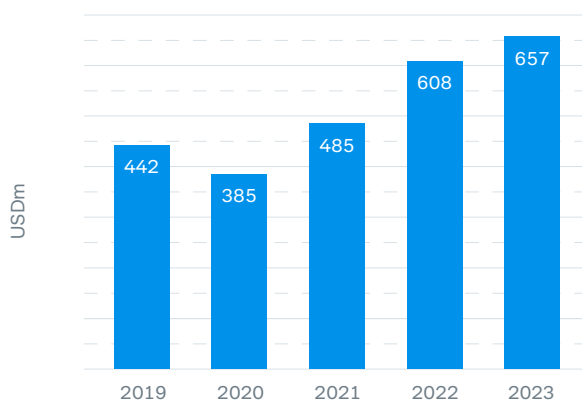
Operations

USD million	Q4		Δ %	2023		Δ %
	2023	2022		2023	2022	
Operating revenues	162.1	174.9	-7.3%	657.4	608.3	8,1%
EBITDA	119.5	135.3	-11.6%	497.5	454.4	9,5%
Profit before unr. fin. items	85.3	87.3	-2.3%	375.3	315.9	18,8%
Electricity sales (TWhr)	3.6	3.8	-4.1%	14.7	14.6	0,4%

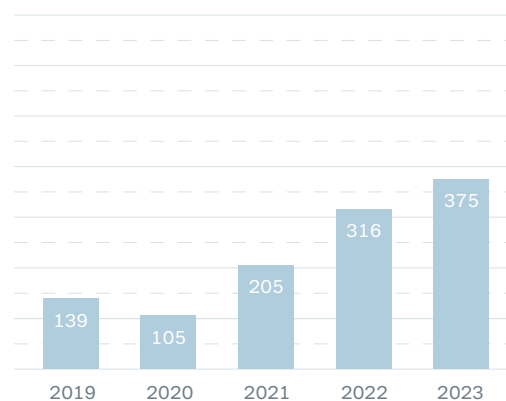
Operating revenues in 2023 were at record levels, with sales volume increasing year-over-year. At the same time, revenues from electricity sales decreased due to the impact of energy and commodity markets on prices for industrial customers, but the effects of hedges counteracted the decline. Prices in these markets were particularly favorable in 2022, and Landsvirkjun continued to benefit from this in 2023 through risk management measures.

Profit from core operations (profit before unrealised financial items) is also at record levels, reflecting the trend in operating revenues and prudent cost management.

Operating revenues



Profit before unrealised financial items



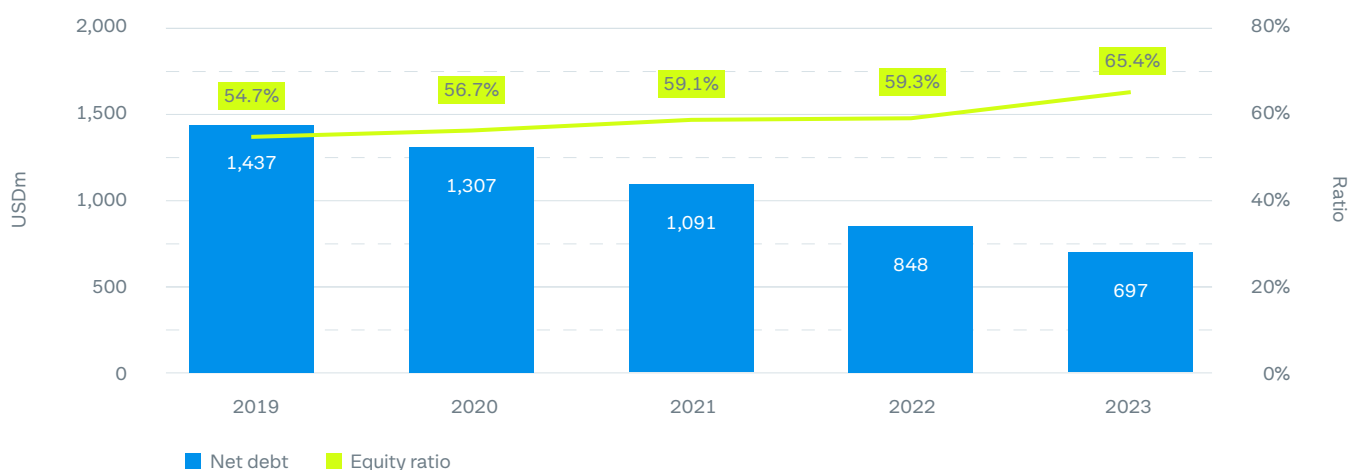
Financial position

USD million			
	2023	2022	Δ %
Total assets	3,614.2	3,872.9	-6.7%
Total liabilities	1,250.1	1,576.3	-20.7%
Net debt	697.3	848.1	-17.8%
Equity ratio	65.4%	59.3%	6.1 pp.

Landsvirkjun currently boasts a robust financial position with notably low indebtedness. The net debt to EBITDA ratio stood at approximately 1.4x at year-end, marking its lowest point since Landsvirkjun's inception. Similarly, the equity ratio has historically never been as high. In recent years, emphasis has been placed on both reducing indebtedness and mitigating interest rate risk. The proportion of loans at fixed interest rates now stands at 77%.

At the end of 2023, S&P Global Ratings upgraded the company's credit rating to A- from BBB+, reflecting a strong financial position and good prospects for the coming years.

Net debt and equity ratio

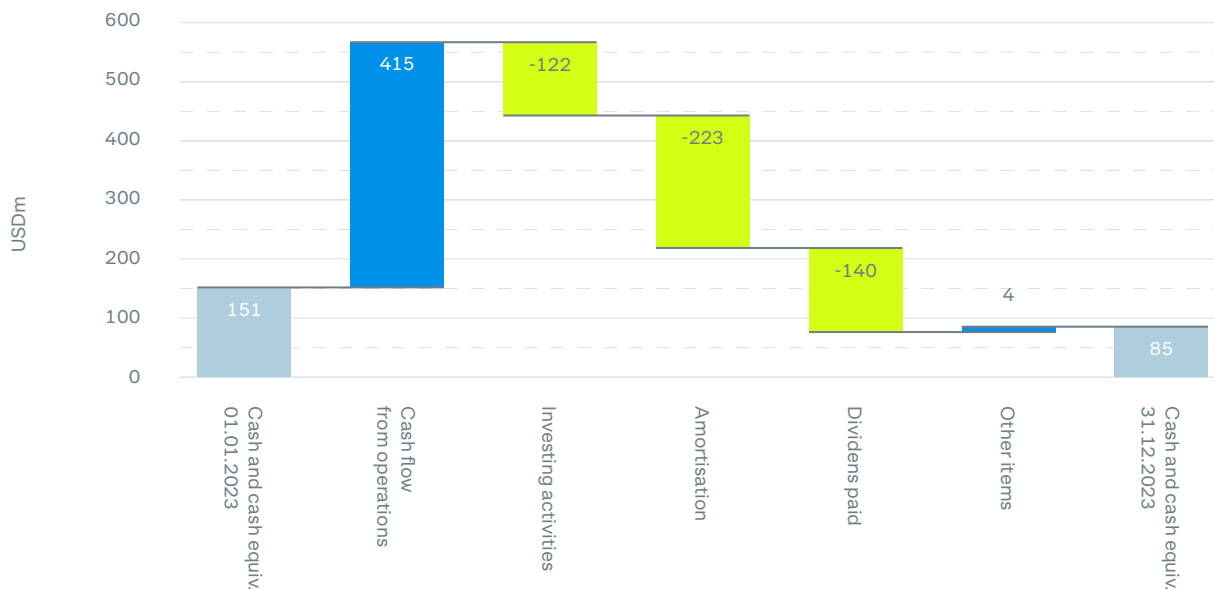


Cash flow

USD million	Q4		Δ %			Δ %
	2023	2022		2023	2022	
Funds from operations (FFO)	114.8	126.8	-9.4%	479.4	422.3	13.5%
Cash flow from operations	52.6	70.9	-25.8%	415.2	361.4	14.9%
Investing activities	109.6	6.9	1,492.5%	121.8	5.7	2,028.7%
Financing activities	71.5	117.7	39.3%	362.9	268.5	35.1%

A strong operational performance resulted in significant cash generation. Cash flow from operations reached historical highs in 2022 and increased by 15% year-over-year, amounting to USD 415 million for the year. Investment activities increased year-on-year due to the income tax on the sale of Landsnet in 2022.

Cash flow

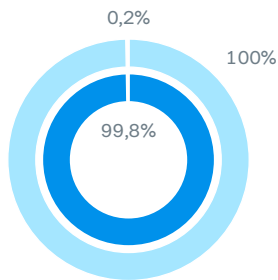


Taxonomy

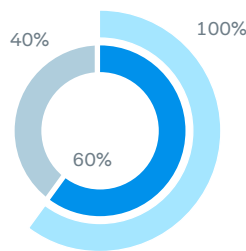
Landsvirkjun has assessed which activities are eligible and aligned according to the requirements of the EU Taxonomy regulation on environmentally sustainable economic activities. This includes all of our electricity generation, whether it be hydroelectric, geothermal, or wind. Revenues, operating expenses, and investments related to eligible and aligned activities as defined by the regulation are presented for the first time in the financial statements. It should be noted that Landsvirkjun’s revenues related to renewable energy and revenue streams related to electricity sales, including the sale of guarantees of origin and realised hedges, fall within the classification system.

■ Eligible
 ■ Non-eligible
 ■ Aligned

Revenues



Operating expenses



Investments

