



## Landsvirkjun's Financial Statements 2018

Another record year for power generation and operating performance

### Key figures from the consolidated financial statements

- Operating revenues amounted to USD 533.9 million which is an increase of USD 50.8 million compared to 2017.
- EBITDA amounted to USD 389.9 million. The EBITDA margin is 73.0% compared to 71.5% for the previous year.
- Profit before unrealized financial items amounted to USD 184.1 million but was USD 153.4 million in the previous year, amounting to a 20.0% increase on the previous year.
- Profit for the year amounted to USD 121.0 million, but was USD 108.0 million in the previous year.
- Net debt amounted to USD 1,884.6 million at year end and decreased by USD 158.0 million during 2018.
- Cash flow from operating activities amounted to USD 295.8 million which is a year-on-year increase of 6.4%.

### Hörður Arnarson, CEO:

"The year was good for the operations of Landsvirkjun. Revenues increased by 11% between years and have never been higher. This is mainly due to an increase in sales volume and aluminium prices.

Landsvirkjun's eighteenth power station, Búrfellsstöð II, was commissioned during the year along with the second phase of the seventeenth power station at Þeistareykir. Power sales increased year-over-year by 430 gigawatt hours, reaching a total of 14.8 terawatt hours for the year.

The company's industrial customer base grew during the year. Power contracts were signed with two parties in the data centre industry: Advania Data Centers and Etix Everywhere Iceland. The customer base is now more diverse than ever before.

As the construction projects, which were largely financed by cash flows, draw to a close the net debt continue to decrease and reduced by 158 million dollars during the year. The net debt/EBITDA ratio is now down to 4.8, where this measure of leverage has never been lower in the company's history.

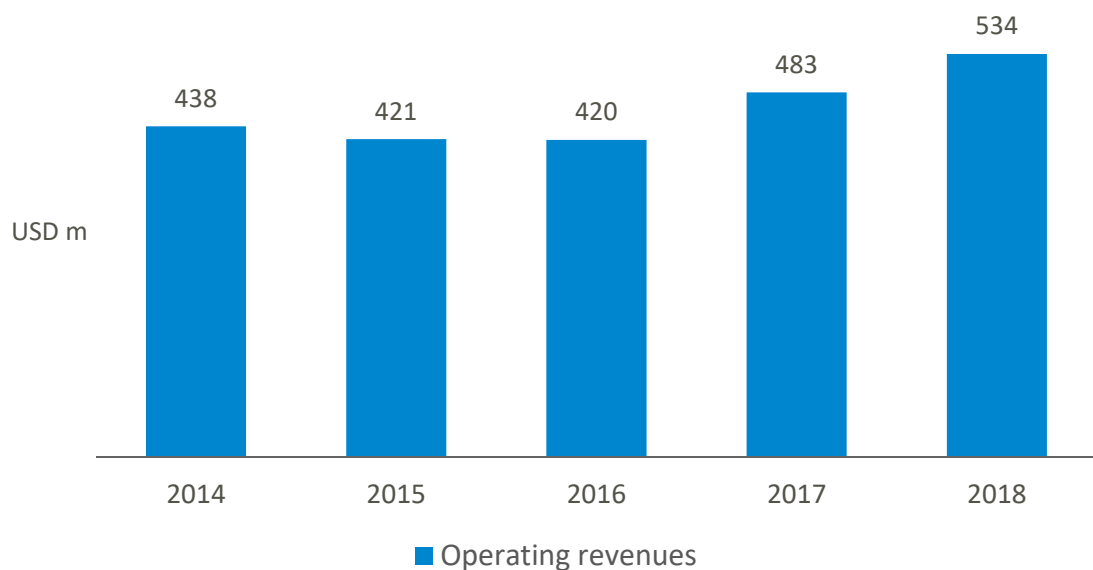
Landsvirkjun is now in the position to start stepping up dividend payments to its owners. In the last decade the company has invested one billion dollars and also paid off debt amounting to one billion dollars."



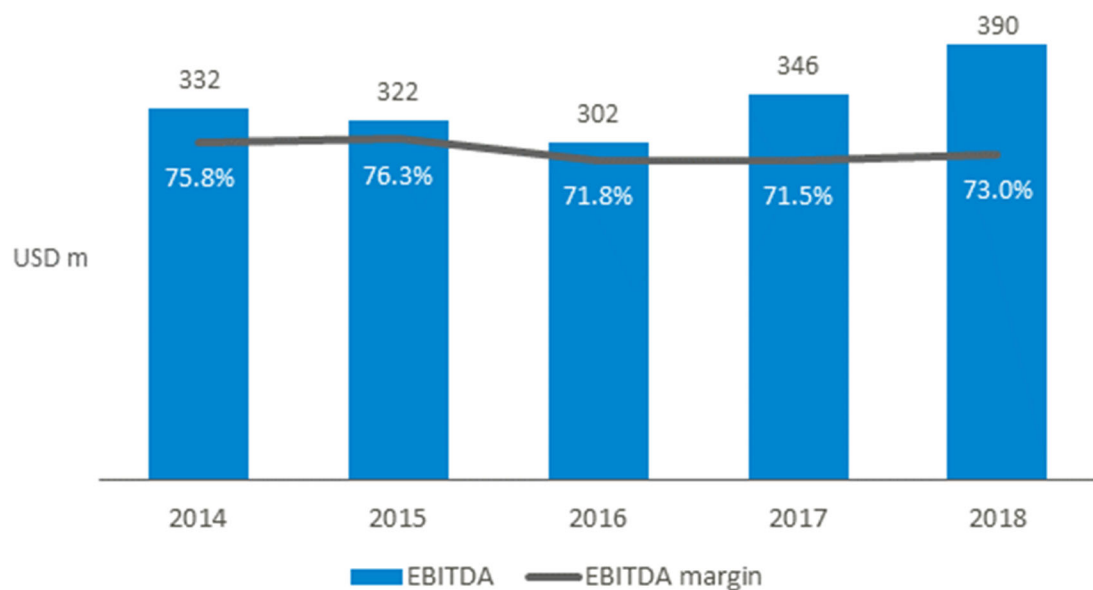
## Operations

### Development of operating revenues

Operating revenues have historically been stable at Landsvirkjun, despite fluctuations in the price of aluminium and exchange rates. Operating revenues have increased over the past two years and have never been higher than in 2018, increasing by USD 51 million year-over-year. This increase is mostly explained by an increase in the volume energy sold, higher transmission revenues and higher aluminium prices. Some of the power contracts are linked to aluminium prices.



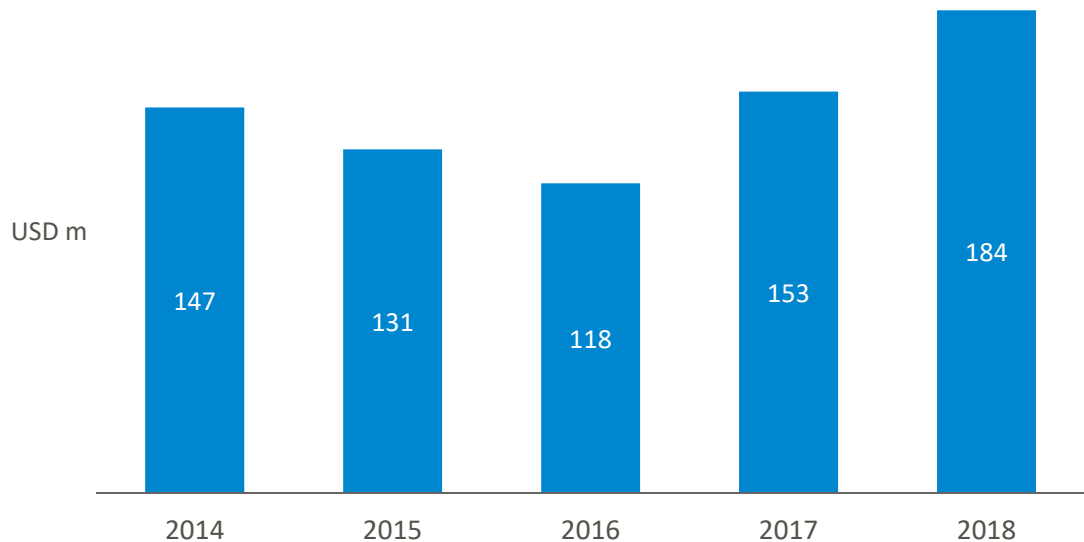
### EBITDA and EBITDA margin





The Group's operating profit before depreciation and amortisation, EBITDA, amounted to USD 390 million in 2018. The EBITDA development has been in line with the company's revenues. Costs have also been increasing, mainly due to general salary cost developments and an increase in purchased services and products. The effects of the ISK on revenues and costs even each other out, forming a natural hedge.

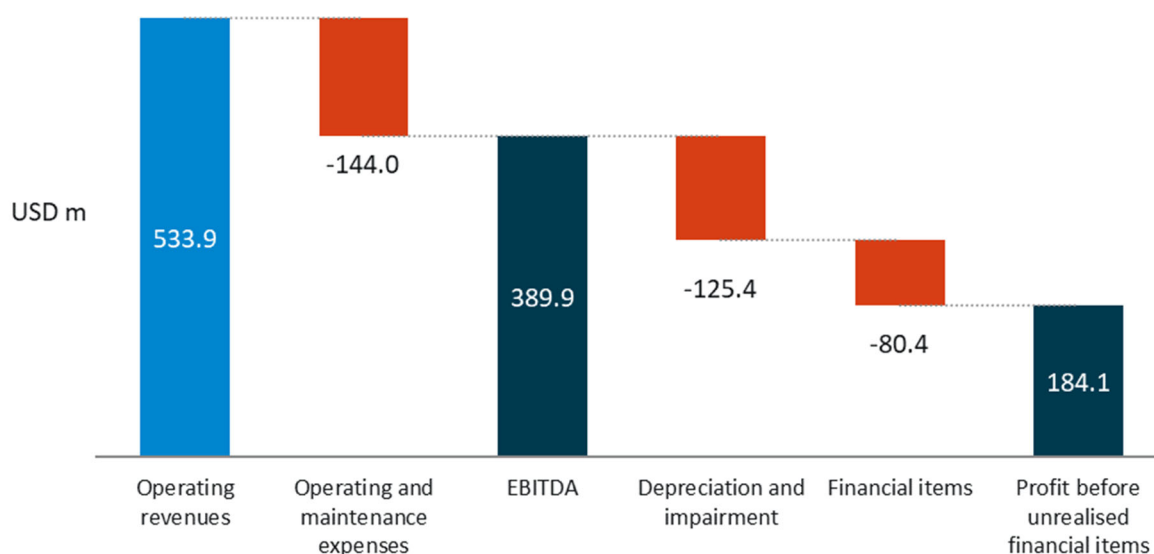
#### Profit before unrealized financial items



Profit before unrealised financial items is the benchmark Landsvirkjun uses to evaluate the company's core operations. Profit from core operations has been improving over the past few years, with the exception of 2016. In 2018 the profit was the largest in the company's history, amounting to USD 184 million. Increasing operating revenues are the main reason for the increase in profit between years. An increase in interest expenses is negatively affecting the profit. This is due to a one-off interest expenses in relation to the prepayment of a bond and a loan in the second quarter of 2018, amounting to USD 10.5 million.



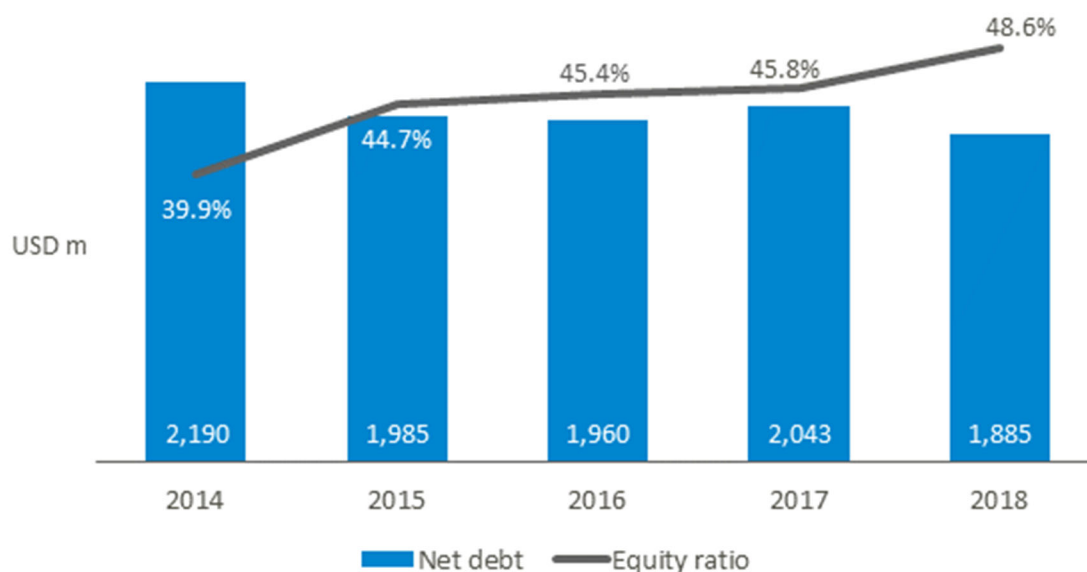
## Items affecting profit before unrealized financial items in 2018



## Net debt decreases

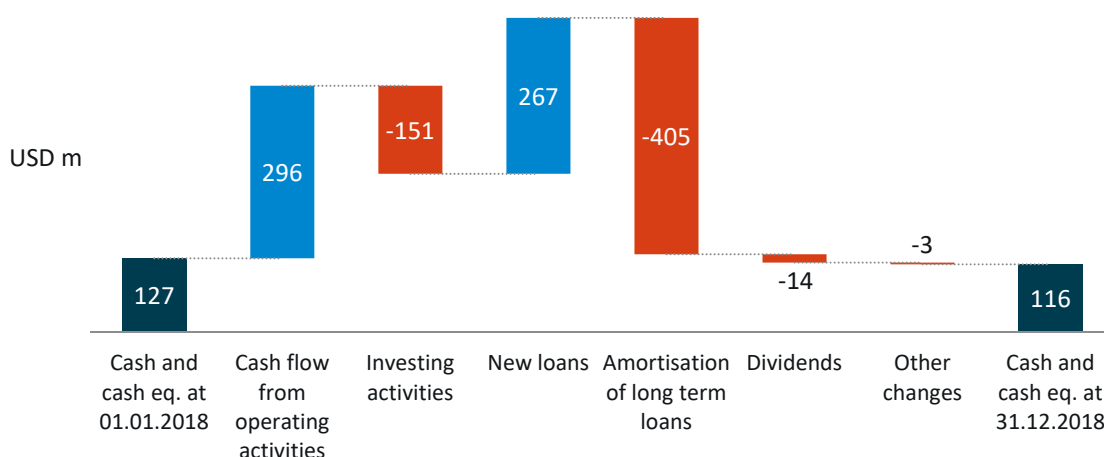
Landsvirkjun has put great emphasis on decreasing debt during the past few years. Net debt is interest bearing debt less cash and cash equivalent. Net debt decreased by USD 158 million during the year. An extensive construction phase is coming to an end with USD 151 million invested in 2018. The most prominent projects are the two power plants Þeistareykir and Burfell II which are now both fully operational. Cash flow from operations was USD 296 million during the year and therefore covered in full the investment requirement for the period.

## Net debt and equity ratio





The Group's cash and cash equivalent at year end amounted to USD 116 million, the development can be seen on the graph below. Cash flows from operating activities have met the investment needs of the past few years, which is a prerequisite for an improved capital structure. As the construction projects draw to a close, emphasis will be placed on reducing debt in the coming years.



## The year in brief and operating outlook

Landsvirkjun's operations went well during 2018. Power generation and sales have never been higher and revenues were the highest ever recorded in the company's history. Landsvirkjun is in a strong position and most financial ratios, along with the credit rating, improved over the past few years. The company will continue to place emphasis on asset maintenance. Debt reduction and dividend increases are foreseeable with continued strong cash generation.

Landsvirkjun has systematically worked on reducing market risk over the past few years where the proportion of loans bearing fixed rates has increased and foreign exchange risk has been reduced. Aluminium price risk has been reduced, firstly by removing the link in some contracts with current and new customers, and secondly with the use of derivative contracts. Operating performance will however still be affected by developments in global markets and the demand from customers.

The annual meeting will be held in Harpa at 14:00 GMT today. For further information and registration please use the following link:

<https://www.landsvirkjun.is/fyrirtaekid/fjolmidlatorsorg/vidburdir/arsfundur-2019/>

Reykjavík, 28 February 2019

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## About the financial statements

The Financial Statements of Landsvirkjun are prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in USD which is the parent Company's functional currency.

Key figures from the consolidated financial statements in USD thousand:

|   | 2018           | 2017           | 2016           | 2015           | 2014           |
|---|----------------|----------------|----------------|----------------|----------------|
| <b>Operation</b>                                      |                |                |                |                |                |
| Operating revenues .....                              | 538,455        | 491,175        | 415,480        | 410,496        | 428,655        |
| Realised aluminium hedges .....                       | ( 4,534)       | ( 8,098)       | 4,890          | 10,956         | 9,629          |
| <b>Total operating revenues .....</b>                 | <b>533,921</b> | <b>483,077</b> | <b>420,370</b> | <b>421,452</b> | <b>438,284</b> |
| Operating expenses .....                              | ( 144,041)     | ( 137,503)     | ( 118,630)     | ( 99,932)      | ( 106,126)     |
| <b>EBITDA .....</b>                                   | <b>389,880</b> | <b>345,574</b> | <b>301,740</b> | <b>321,520</b> | <b>332,158</b> |
| Depreciation and impairment loss .....                | ( 125,448)     | ( 127,086)     | ( 118,571)     | ( 115,554)     | ( 114,045)     |
| <b>EBIT .....</b>                                     | <b>264,432</b> | <b>218,488</b> | <b>183,169</b> | <b>205,966</b> | <b>218,113</b> |
| Financial items .....                                 | ( 80,178)      | ( 64,844)      | ( 60,045)      | ( 73,418)      | ( 69,838)      |
| Associated companies .....                            | ( 179)         | ( 228)         | ( 5,448)       | ( 1,921)       | ( 1,419)       |
| <b>Profit before unrealised financial items .....</b> | <b>184,075</b> | <b>153,416</b> | <b>117,676</b> | <b>130,627</b> | <b>146,856</b> |
| <b>Unrealised financial items:</b>                    |                |                |                |                |                |
| Fair value changes in embedded derivatives .....      | ( 49,410)      | 84,494         | 21,164         | ( 59,925)      | ( 88,484)      |
| Fair value changes in other derivatives .....         | 24,878         | ( 12,990)      | ( 1,269)       | 5,466          | ( 8,426)       |
| Unrealised foreign exchange difference .....          | 21,014         | ( 60,745)      | ( 23,314)      | 47,657         | 60,271         |
|   | ( 3,518)       | 10,759         | ( 3,419)       | ( 6,802)       | ( 36,639)      |
| <b>Profit before income tax .....</b>                 | <b>180,557</b> | <b>164,175</b> | <b>114,257</b> | <b>123,825</b> | <b>110,217</b> |
| Income tax .....                                      | ( 59,528)      | ( 56,211)      | ( 47,437)      | ( 39,652)      | ( 31,797)      |
| <b>Profit .....</b>                                   | <b>121,029</b> | <b>107,964</b> | <b>66,820</b>  | <b>84,173</b>  | <b>78,420</b>  |
| <b>Balance sheet</b>                                  |                |                |                |                |                |
| Total assets .....                                    | 4,451,081      | 4,506,392      | 4,332,864      | 4,284,703      | 4,270,098      |
| Total equity .....                                    | 2,163,056      | 2,063,112      | 1,969,088      | 1,916,634      | 1,704,724      |
| Total liabilities .....                               | 2,288,025      | 2,443,280      | 2,363,776      | 2,368,069      | 2,565,374      |
| Net debt .....  | 1,884,603      | 2,042,642      | 1,960,497      | 1,985,411      | 2,190,459      |
| <b>Key figures</b>                                    |                |                |                |                |                |
| Cash flow from operating activities .....             | 295,761        | 277,937        | 229,827        | 248,955        | 233,816        |
| Investing activities .....                            | ( 150,864)     | ( 253,740)     | ( 172,277)     | ( 77,486)      | ( 88,271)      |
| Financing activities .....                            | ( 151,876)     | ( 45,282)      | ( 59,305)      | ( 235,465)     | ( 220,687)     |
| Total liquidity .....                                 | 469,433        | 547,907        | 616,982        | 502,951        | 407,070        |
| Equity ratio .....                                    | 48.6%          | 45.8%          | 45.4%          | 44.7%          | 39.9%          |
| Return on equity .....                                | 5.9%           | 5.5%           | 3.5%           | 4.9%           | 4.7%           |
| Interest cover (EBITDA/net interest expenses) ....    | 4.76x          | 5.53x          | 5.15x          | 4.60x          | 3.76x          |
| Net debt / EBITDA .....                               | 4.83x          | 5.91x          | 6.50x          | 6.18x          | 6.59x          |

## About Landsvirkjun

Landsvirkjun was established in the year 1965 and is a power 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, value creation and efficiency. The Company produces around 70% of all electricity in Iceland from renewable energy resources, hydroelectric energy, geothermal energy and wind energy. The Company is a leader in the sustainable utilization of energy resources and promotes the development of knowledge, innovation and technology.