



**Landsvirkjun**

# **Situation overview**

## **October 2008**

# Executive summary

- Dominant power company in Iceland
- Strong business profile
- Kárahnjúkar Dam project successfully completed
- Sound financial position (rated A1 / BBB)
- USD functional currency
- 70% revenues in USD
  - Supported by long term “Take-or-Pay” power contracts
- Sound liquidity position
  - Cash of around USD 100M and undrawn revolver of USD 350M
  - 2009 capex and debt maturities covered
- 100% State ownership and Guarantee of Collection

- Business overview
- Financial status
- Funding and treasury policies
- Future guidance

# Landsvirkjun overview

- Established in 1965 to harness renewable power resources in Iceland
  - Developed supply to Power Intensive Industries (PII) to diversify the Icelandic economy
  - Not in retail sales of electricity
  - Hydropower and geothermal power generation
- Strategic importance
  - Generates around 75% of electricity for Iceland
  - Power sales to utilities and PII in Iceland
  - Owns 65% of Landsnet, national grid company (5% revenue)
  - Modern and efficient asset base
  - Virtually CO<sup>2</sup>-free

# Landsvirkjun customer base

- Public utilities (State or Municipalities)

- Reykjavik Energy
- State Electricity Works
- Other Municipal distribution companies

**Total 2,100 GWh per year**

- Power Intensive Industry (PII) customers

- Alcan Iceland            2,800 GWh/y
- Nordural                 1,400 GWh/y
- Icelandic Alloys       1,055 GWh/y
- Alcoa Fjardaal         4,700 GWh/y
- Becromal                 640 GWh/y

**Total 10,600 GWh per year**

# Power contracts overview

- Public Utilities
  - 3,5,7 and 12 year maturities
  - Fixed ISK price, indexed by ISK CPI
  
- Power Intensive Industries
  - Long-term contracts: 15 to 40 years
  - “Take or Pay” obligation
    - Both local subsidiary and parent companies
  - USD denominated
  - Linkage to LME Aluminium Price
  - NOK CPI indexation

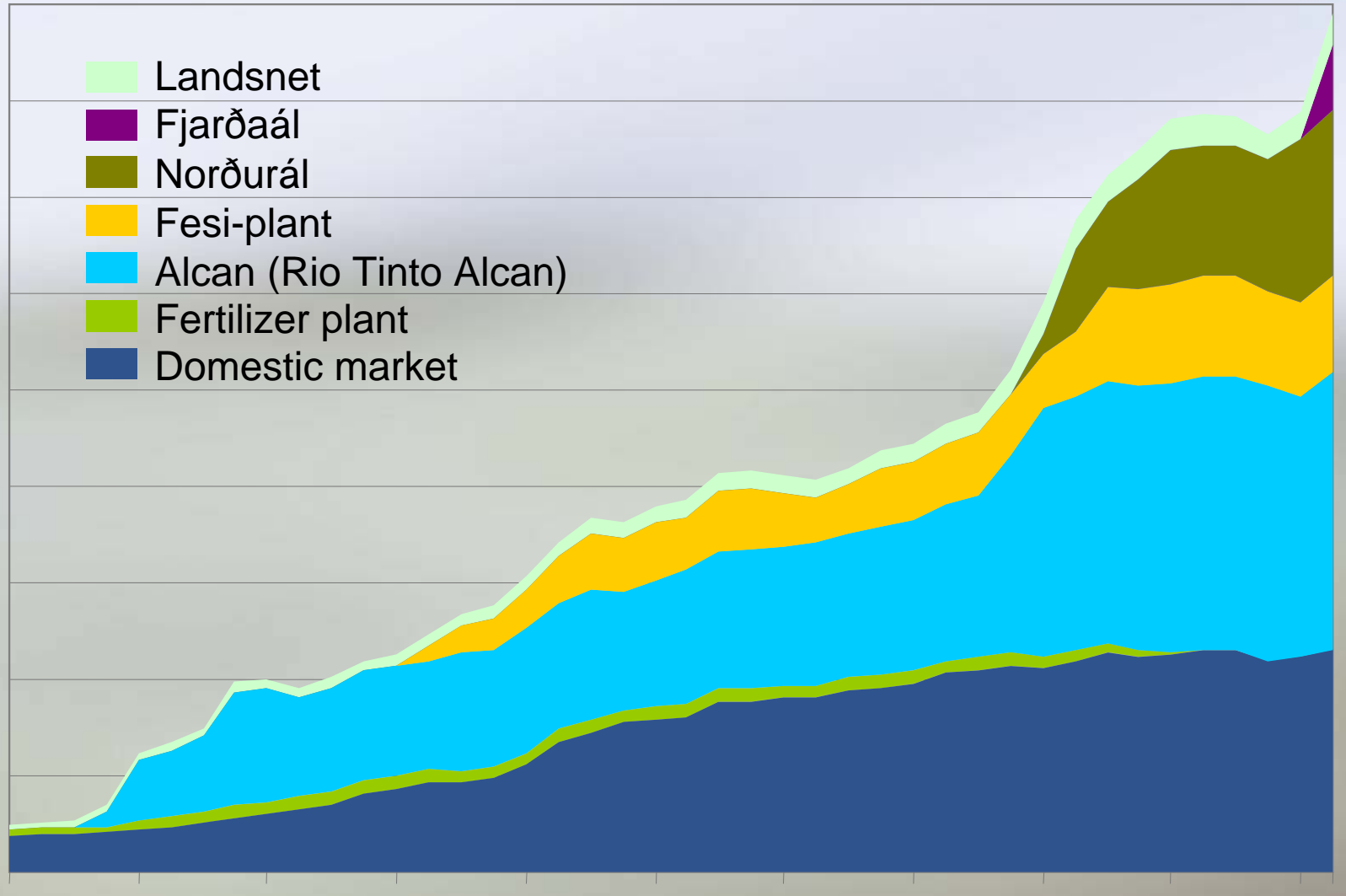
# Power sales development

GWh/a  
9.000

8.000  
7.000  
6.000  
5.000  
4.000  
3.000  
2.000  
1.000  
0

- Landsnet
- Fjarðaál
- Norðurál
- Fesi-plant
- Alcan (Rio Tinto Alcan)
- Fertilizer plant
- Domestic market

1966 1970 1974 1978 1982 1986 1990 1994 1998 2002 2006



# Power plant overview

- 13 hydroelectric and 2 geothermal power plants
- Produced 8,553 GWh in 2007  
Estimated 12,000 GWh in 2008
- Total installed capacity in 2008

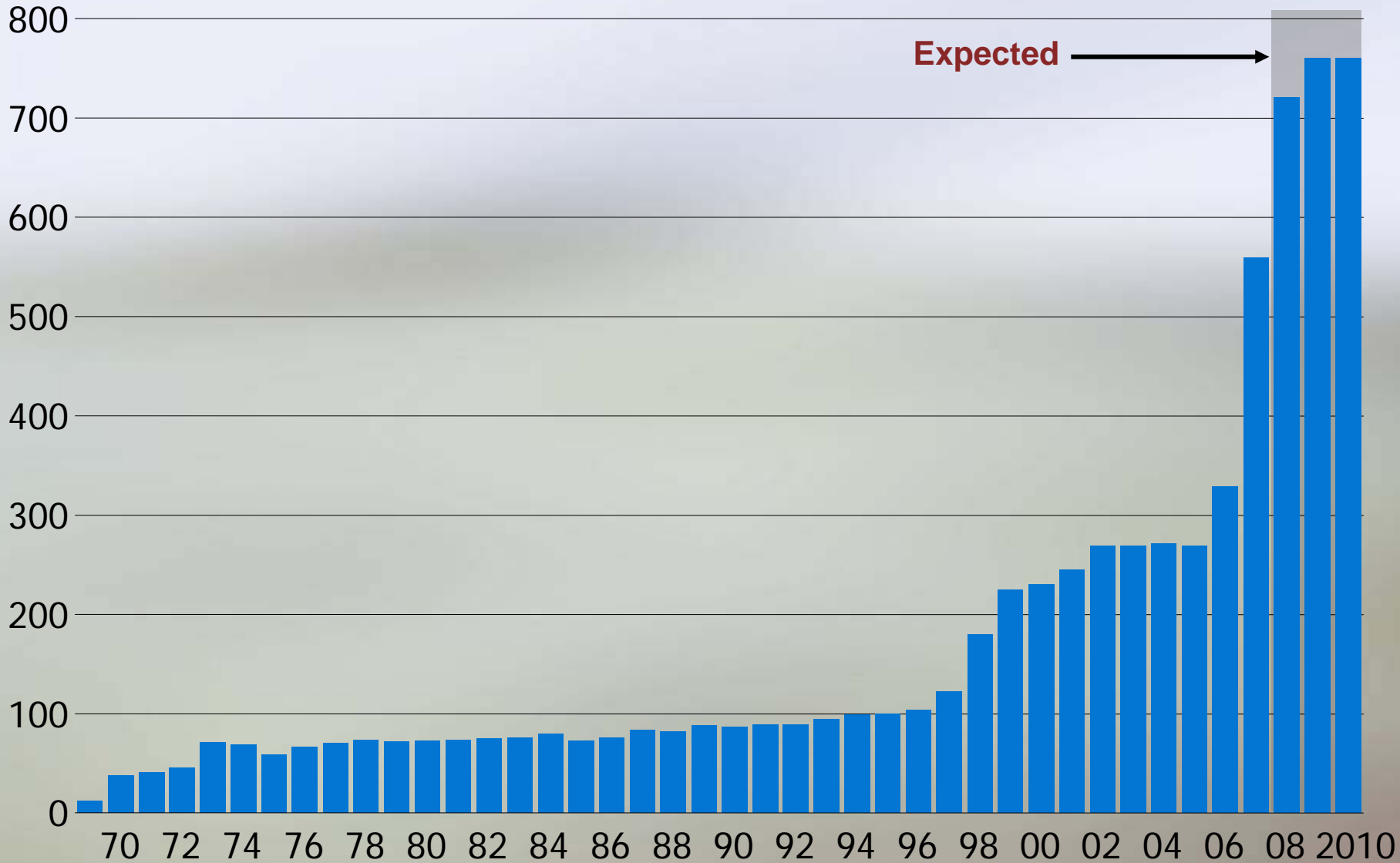
Landsvirkjun:	1,902 MW*
<u>Others:</u>	<u>528 MW</u>
Total:	2,430 MW

\* After adding 690MW from completion of Karahnjúkar in 2008

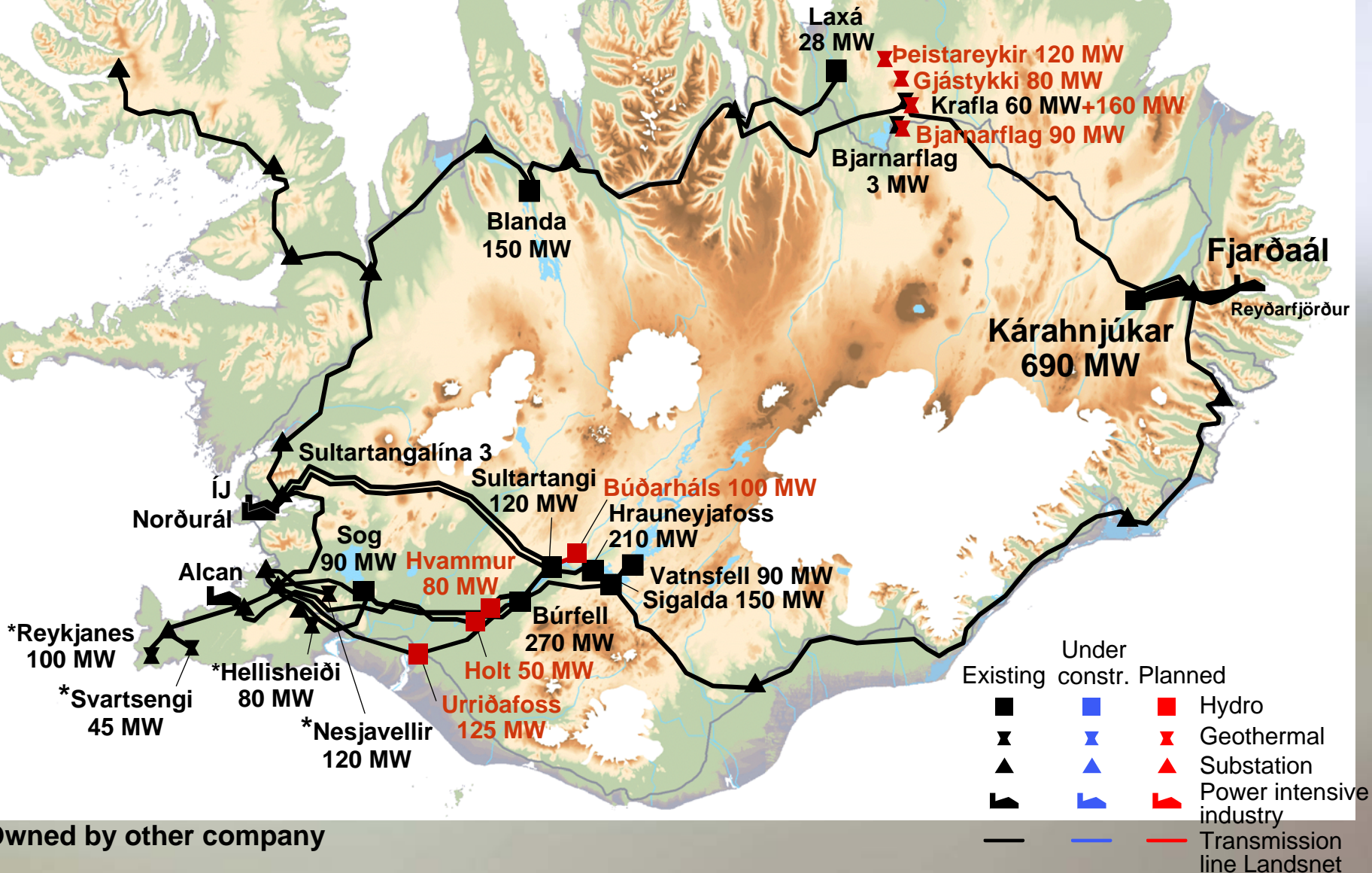


# Aluminium production in Iceland

tons 000s



# Iceland's power system and future projects



\*Owned by other company

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# Consolidated results

	IFRS				IS-GAAP		
	Jan. - June 2008	2007	2007	2006	2005	2,004	2,003
Functional currency	USD millions	USD millions	ISK millions	ISK millions	ISK millions	ISK millions	ISK millions
Operating revenues	239.6	356.4	22,867	21,298	15,552	13,701	13,009
Operating expenses							
Operating and maintenance expenses	50.3	102.2	6,559	6,374	5,913	4,691	4,498
Depreciation and amortization	51.3	79.2	5,082	4,770	4,904	5,347	5,274
Total operating expenses	101.6	181.4	11,641	11,144	10,817	10,038	9,772
Profit from operations	138.0	174.9	11,226	10,154	4,735	3,663	3,237
Financial income (financial expenses)	-3.6	430.6	27,630	-16,333	1,596	3,532	-1,686
Profit (loss) before taxes	134.4	605.5	38,856	-6,179	6,331	7,195	1,551
Income tax	-51.0	-161.8	-10,382	17,188			
Net profit	83.4	443.7	28,474	11,009	6,331	7,195	1,551
Total assets	5,505.3	5,129.9	318,823	265,347	181,985	154,685	134,528
Equity	1,758.0	1,596.3	99,209	70,883	59,723	51,377	41,180
Liabilities	3,747.3	3,533.6	219,614	194,464	122,262	103,308	93,348
Net cash provided by operating activities	76.4	138.2	8,588	9,101	5,927	4,622	5,601
Investments	213.6	531.2	33,017	45,382	28,582	20,897	16,877
EBITDA	189.4	262.4	16,308	14,924	9,639	9,010	8,512
Equity ratio	31.9%	31.1%	31.1%	26.7%	32.8%	33.2%	30.6%

# IFRS Accounting

- International Accounting Standards (IFRS)
- USD is the functional currency
  - Very limited ISK risk
- Revenue mix
  - USD        70%
  - ISK        25%
  - NOK        5%
- Mark-to-market changes on all derivatives taken through income statement

# Ownership & Guarantee

- Fully State-owned public partnership
  - Since 1 January 2007 (previously 50% with City of Reykjavik 45% and Township of Akureyri 5%)
  - Ratings mirror those of Republic of Iceland
    - Moody's                      A1              Under review for downgrade
    - Standard & Poor's      BBB          Negative outlook
- Privatisation not currently on agenda
- Guarantee of Collection for debt and derivatives
  - Joint & several by the State, City of Reykjavik and Township of Akureyri before the end of 2006
  - 100% by the State since 1 January 2007
  - Provides for 0% risk weighting



Recent history

23 May 08	Aa1	Stable
05 Mar 08	Aaa	Negative
31 Oct 02	Aaa	Stable

**STANDARD  
& POOR'S**

Recent history

18 Apr 08	A	Negative
01 Apr 08	A+	Stable
22 Dec 06	A+	Negative
22 Feb 05	AA-	Negative
10 Feb 05	AA-	Stable

# Ratings history

- **A1** (Under review for possible downgrade) / **P-1**
  - Downgraded on 10 October 2008 in line with that of Republic of Iceland (A1 since 9 October 2008)
- **Rationale**
  - Iceland's dominant electric utility
  - Owns majority of transmission grid and supplies around 75% of the power needed by domestic users
  - Strategic importance in supplying power to PII
  - GRI methodology adopted (BCA Ba3)
- **BBB** (Negative) / **A-3**
  - Downgraded on 7 October 2008 in line with that of Republic of Iceland (BBB since 6 October 2008)
- **Rationale**
  - Dominant position in Icelandic electricity market as largest generator and the monopoly grid operator
  - Modern and efficient asset base
  - Guarantee from Republic of Iceland

- Business overview
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# Debt maturity analysis



# Funding activities

- Successful financing initiatives in 2008
  - Have already raised USD 450M despite challenging market conditions for most of the year
  - Maturities from 1 to 15 yrs, average 6 yrs
  - Margins from 10 to 105 bp, average 65 bp
  
- Limited funding need for 2009
  - Approximately USD 150M equivalent
  - Refinancing and limited investments, offset by free operating cash flow generation

# Risk management policies

- Hedging activities encompass management of aluminium price risk, FX, interest rates and liquidity
- Policies
  - Aluminium hedging out to 7 years
    - Cash flow protection
    - Counter effecting M2M on embedded derivatives
  - FX risk limited both regarding translation and transaction
  - Fixed interest rate benchmark 50%
    - Flexibility in the risk management policy
  - Liquidity risk
    - Cash on hand at least above 6 months financial need
  - Counterparty credit rating in swap transactions
    - Financial counterparties must be rated above A-

# Liquidity analysis

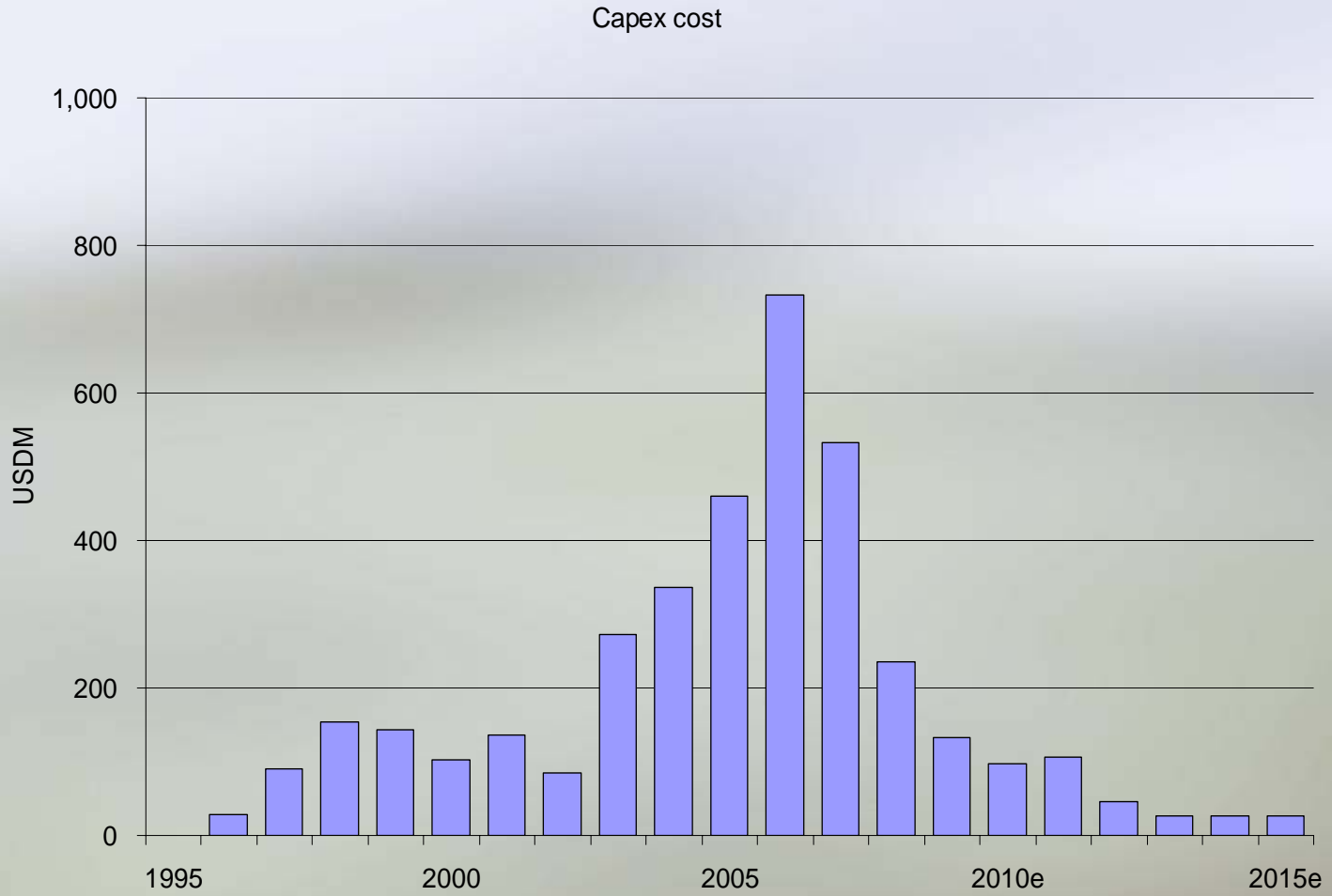
- Cash and cash equivalents around USD 100M
  
- Revolving Credit Facility (RCF) USD 400M
  - USD 350M undrawn
  - Uncertainty about Icelandic banks (USD 70M)
  - Maturity 2012
  
- Combination of cash, available RCF and ongoing cash flow sufficient to cover 2009 capex and debt repayments

# Revolving Credit Facility

- Barclays
- Citibank
- Landsbanki
- SEB
- Societe Generale
- SMBC
- Depfa Bank
- Dexia
- Fortis
- Glitnir
- IXIS
- JP Morgan Chase
- West LB
- Deutsche bank
- Kaupthing
- KBC Bank

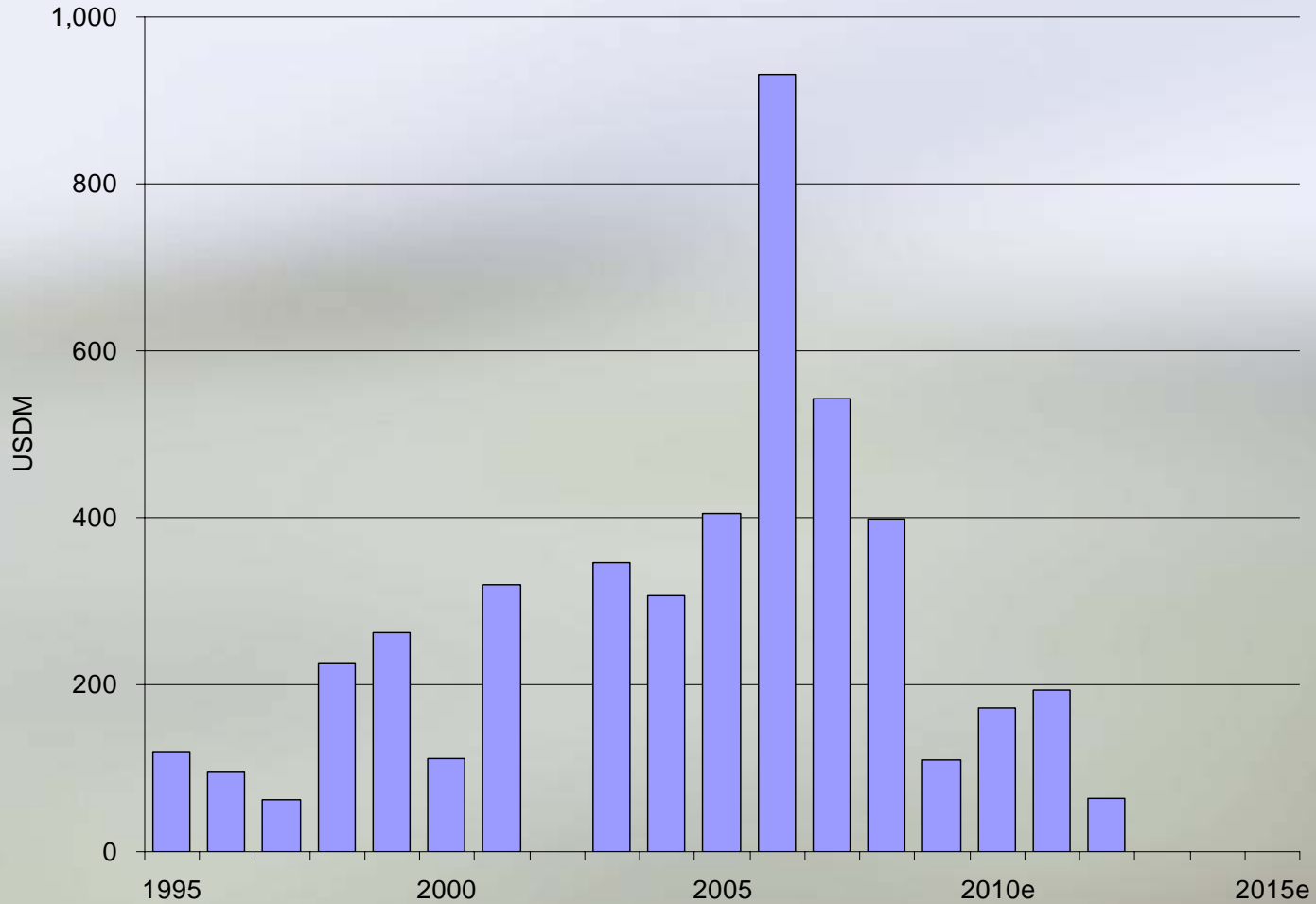
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# Capex has peaked ...



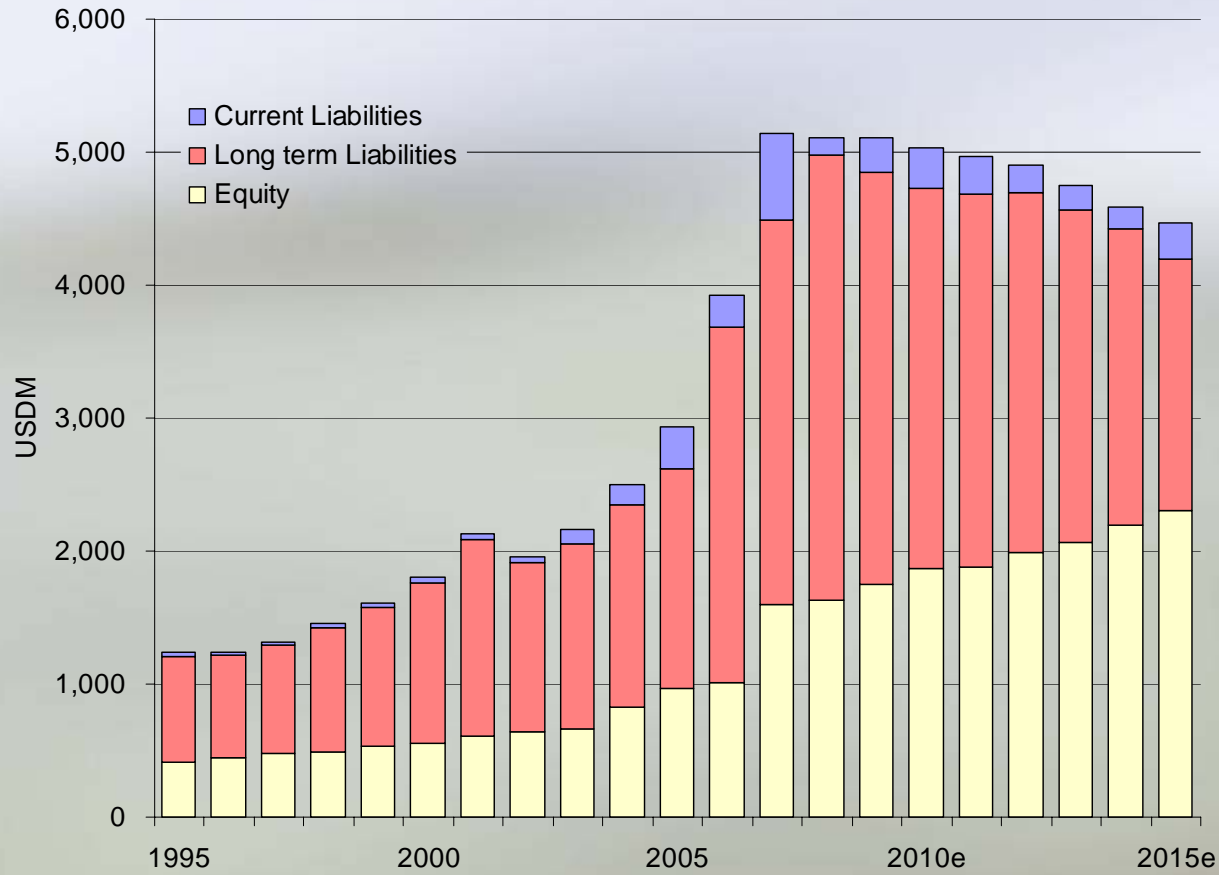
*Based on base case + Budarhals HEP 90MW due 2012*

# ...and so has borrowing



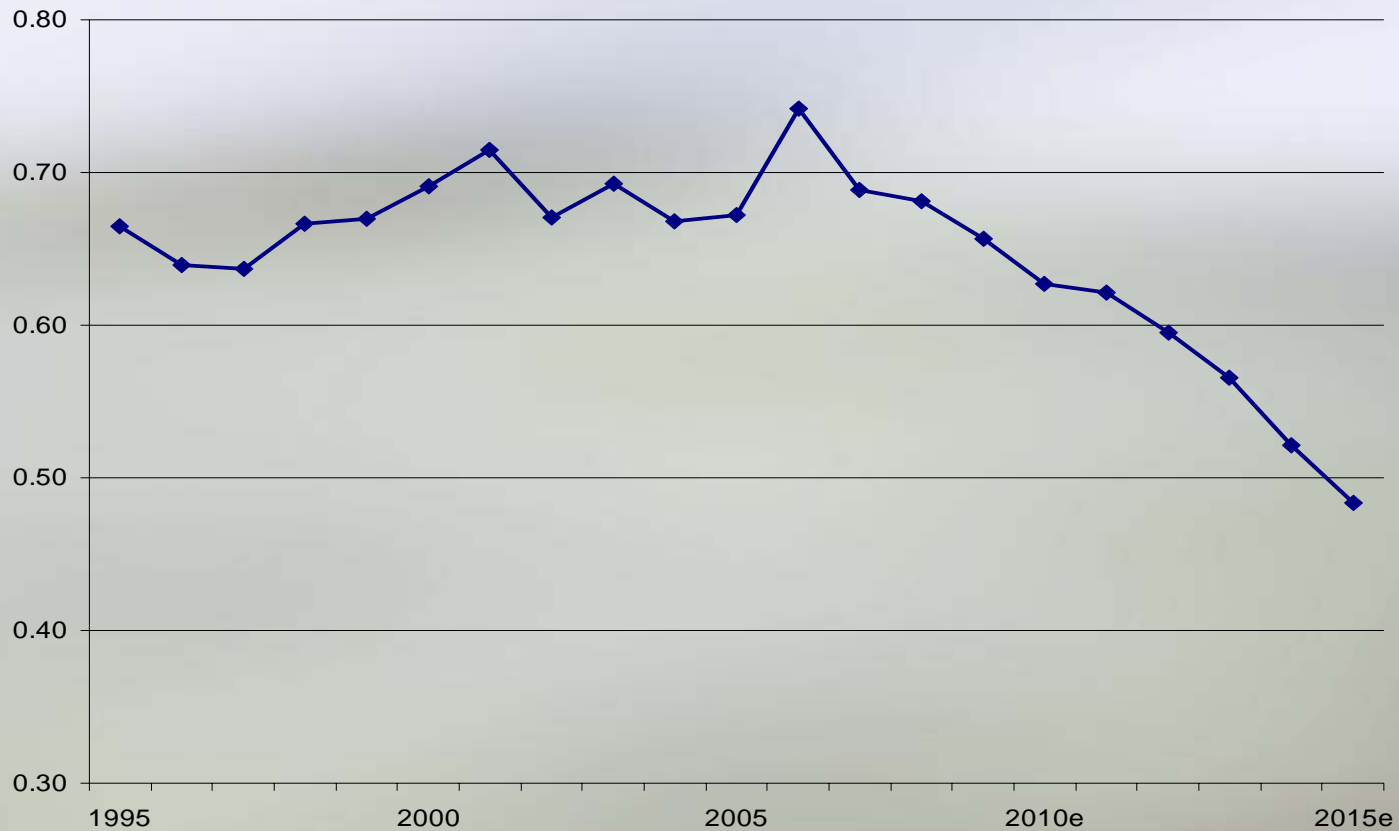
*Based on base case + Budarhals HEP 90MW due 2012*

# Balance sheet will steadily improve post extensive capex...



Based on base case + Budarhals HEP 90MW due 2012

# ...with desired effect on debt-to-capital ratio as well



*Based on base case + Budarhals HEP 90MW due 2012*

# New Budarhals project

- No commitments as of yet
- Currently talking with EIB and NIB
  - Both parties can lend up to 50% of project cost
  - Positive reaction sofar
  - Market turmoil most likely to postpone commitments
- New projects will only be undertaken if funding is secure

# Conclusions

- Heavy bias toward USD contracted revenues
- Cash flow is steadily improving
- Strong customer base
- Capex is much reduced going forward
- Rating outlook linked to Republic of Iceland
- Sound liquidity position
- Landsvirkjun remains strategically important to Iceland