



Landsvirkjun's Financial Statements 2019

Acceptable results in challenging external conditions

Key figures from the consolidated financial statements

- Profit before unrealized financial items amounted to USD 173.3 million compared to USD 184.1 million in the previous year, amounting to a 5.9% decrease between years.
- The profit for the year amounted to USD 112.7 million but was USD 121.0 in the previous year.
- Operating revenues amounted to USD 509.6 million which is a decrease of USD 24.3 million (4.6%) compared to the previous year.
- Net debt has decreased by USD 193.1 million since the end of 2018 and amounted to USD 1,691.5 million at year end 2019.
- Cash flow from operating activities amounted to USD 295.8 million which is in line with the previous year.

Hörður Arnarson, CEO:

„Challenging external conditions left their mark on the operations of Landsvirkjun during 2019, as they did the previous year. Low product prices for some of our large customers negatively affected revenues, as some contracts are still linked to aluminium prices. A shutdown of potroom three at the Rio Tinto aluminium smelter in Straumsvík resulted in a USD 16 million revenue shortfall.

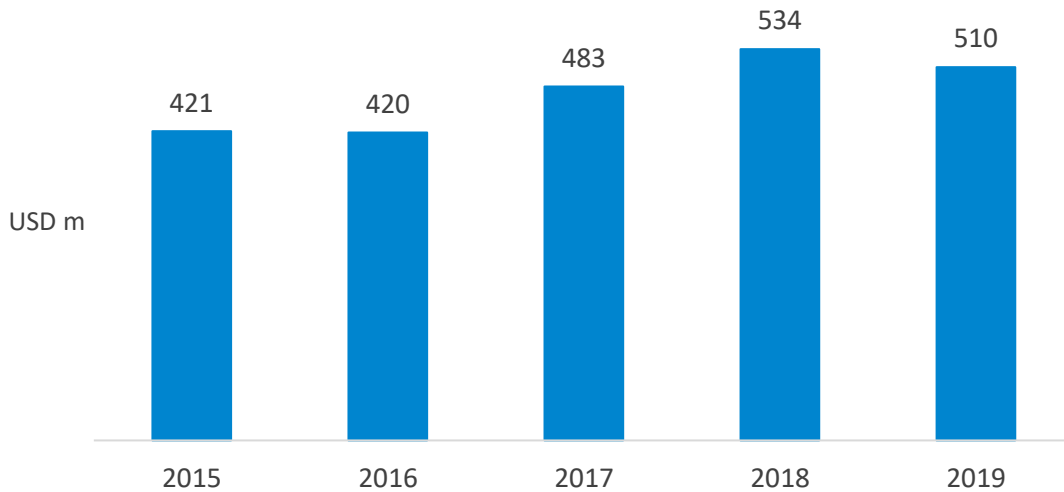
Although the storm in December did not cause disruptions to the operations of Landsvirkjun's power stations, it did affect the operation of Landsnet, a subsidiary of Landsvirkjun. This revealed the urgent need to strengthen the power distribution network in Iceland.

The company continues to lower net debt, which is now down to USD 1,691 million and has decreased by USD 193 million during the year. Moody's, the rating agency, improved the company's credit rating during the year and S&P Global Ratings changed their outlook from stable to positive. Profit before unrealized financial items, which is the benchmark Landsvirkjun uses to evaluate the company's core operations, was acceptable for these operating conditions, decreasing by 5.9% between years.“



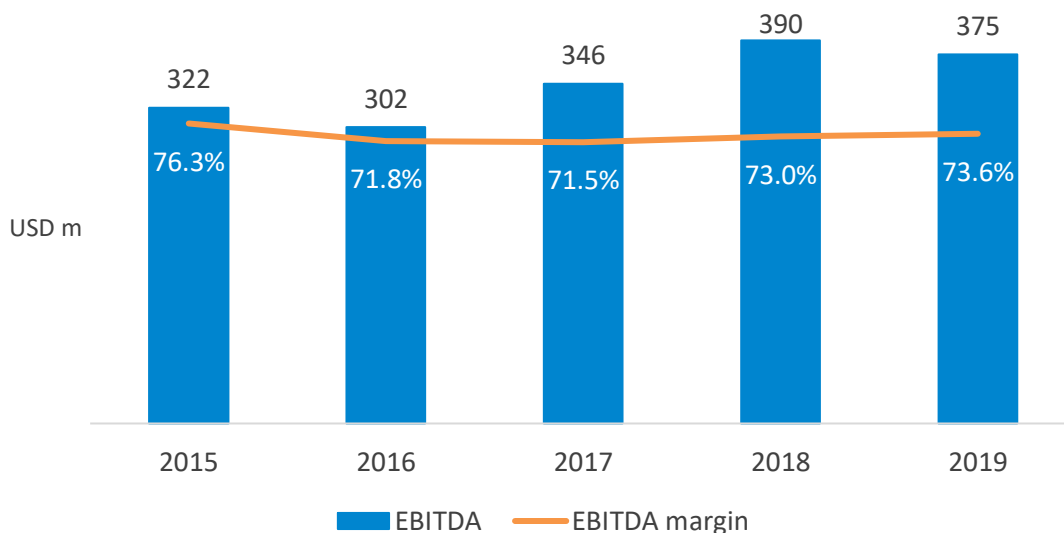
Operations

Development of operating revenues



Operating revenues continue to be historically strong despite a 4.6% decrease from last year, which was the strongest year ever for Landsvirkjun. Some of Landsvirkjun’s largest customers have been faced with challenging operational conditions, as their product prices have decreased during the year. A weaker Icelandic króna has had a negative effect on wholesale revenues.

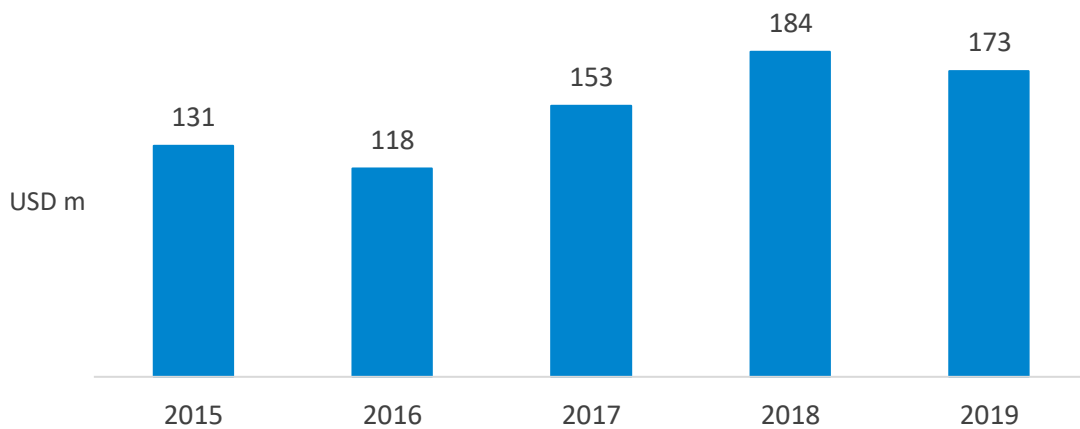
EBITDA and EBITDA margin



The Group’s operating profit before depreciation and amortisation, EBITDA, amounted to USD 375 million in 2019 but was USD 390 million in 2018. Operating expenses denominated in ISK form a natural hedge against revenue from the wholesale market due to changes in the USD/ISK exchange rate.

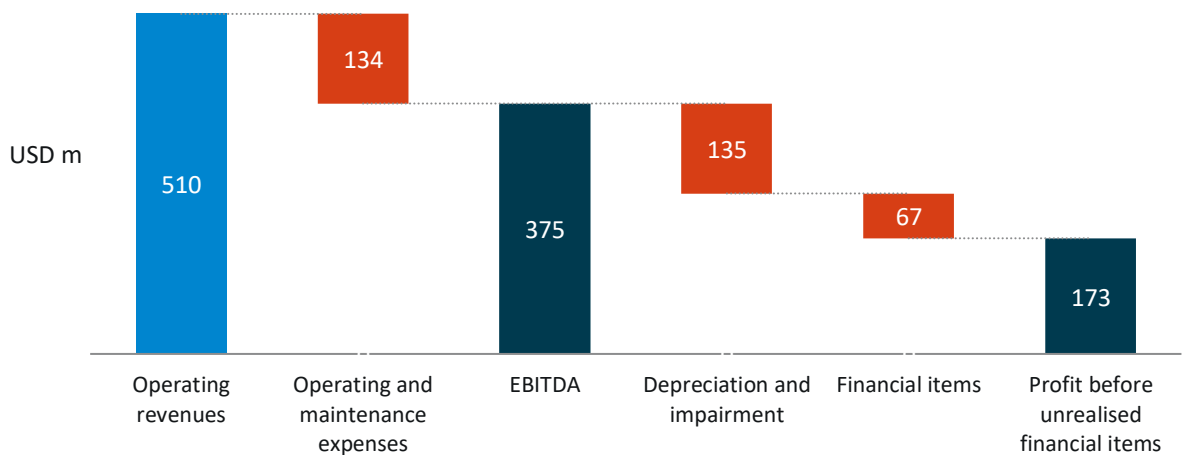


Profit before unrealized financial items



Profit before unrealised financial items is the benchmark Landsvirkjun uses to evaluate the company’s core operations. The profit has developed in line with operating revenues and was USD 173 million in 2019, decreasing by 5.9% between years.

Items affecting profit before unrealized financial items in 2019

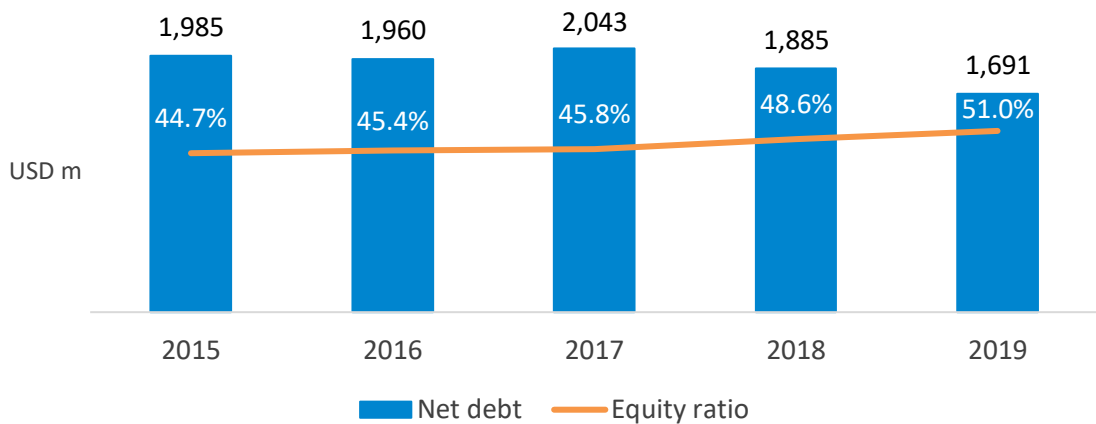


Strong equity position

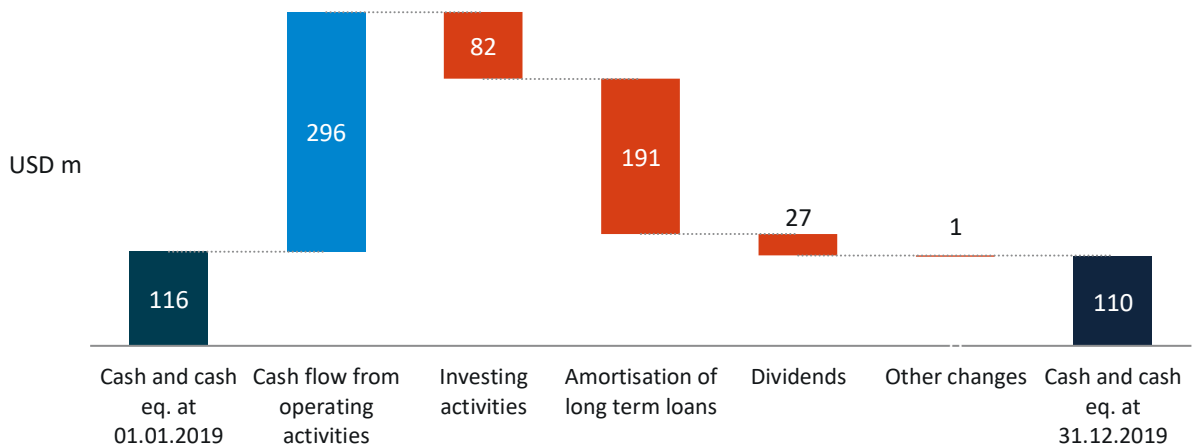
Cash flow from operations was USD 296 million in 2019 which is in line with the previous year. Net debt (interest bearing debt less cash and cash equivalent) has decreased by USD 193 million from year end. The equity ratio has now reached 51% for the first time in Landsvirkjun’s history.



Net debt and equity ratio



Cash flows from operating activities continue to be strong and Landsvirkjun will continue to emphasise operational prudence and to maximise value creation for the Icelandic nation. The Group’s cash and cash equivalent at year end amounted to USD 110 million and have decreased by USD 6 million from year end.



Operational outlook

The company’s core operations continue to thrive despite challenging operating conditions. Cash generation has been strong and there will be continued focus placed on reducing debt and paying dividends to the company’s owners, the Icelandic nation. Systematic effort has been placed on reducing market risk over the past few years, where the proportion of loans bearing fixed rates has increased, and foreign exchange risk has also 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.

Reykjavík, 28 February 2020
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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:

	2019	2018	2017	2016	2015
Operation					
Operating revenues	499,547	538,455	491,175	415,480	410,496
Realised aluminium hedges	10,047	(4,534)	(8,098)	4,890	10,956
Total operating revenues	509,594	533,921	483,077	420,370	421,452
Operating expenses	(134,307)	(144,041)	(137,503)	(118,630)	(99,932)
EBITDA	375,287	389,880	345,574	301,740	321,520
Depreciation and impairment loss	(134,779)	(125,448)	(127,086)	(118,571)	(115,554)
EBIT	240,508	264,432	218,488	183,169	205,966
Financial items	(67,231)	(80,178)	(64,844)	(60,045)	(73,418)
Associated companies	(27)	(179)	(228)	(5,448)	(1,921)
Profit before unrealised financial items	173,250	184,075	153,416	117,676	130,627
Unrealised financial items:					
Fair value changes in embedded derivatives	(1,323)	(49,410)	84,494	21,164	(59,925)
Fair value changes in other derivatives	(8,011)	24,878	(12,990)	(1,269)	5,466
Unrealised foreign exchange difference	8,290	21,014	(60,745)	(23,314)	47,657
	(1,044)	(3,518)	10,759	(3,419)	(6,802)
Profit before income tax	172,206	180,557	164,175	114,257	123,825
Income tax	(59,529)	(59,528)	(56,211)	(47,437)	(39,652)
Profit	112,677	121,029	107,964	66,820	84,173
Balance sheet					
Total assets	4,381,633	4,451,081	4,506,392	4,332,864	4,284,703
Total equity	2,235,399	2,163,056	2,063,112	1,969,088	1,916,634
Total liabilities	2,146,234	2,288,025	2,443,280	2,363,776	2,368,069
Net debt	1,691,462	1,884,603	2,042,642	1,960,497	1,985,411
Key figures					
Cash flow from operating activities	295,764	295,761	277,937	229,827	248,955
Investing activities	(82,420)	(150,864)	(253,740)	(172,277)	(77,486)
Financing activities	(218,261)	(151,876)	(45,282)	(59,305)	(235,465)
Total liquidity	290,487	469,433	547,907	616,982	502,951
Equity ratio	51.0%	48.6%	45.8%	45.4%	44.7%
Return on equity	5.2%	5.9%	5.5%	3.5%	4.9%
Interest cover (EBITDA/net interest expenses)	5.54x	4.76x	5.53x	5.15x	4.60x
Net debt / EBITDA	4.51x	4.83x	5.91x	6.50x	6.18x

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.