

Finance and operating results

Landsvirkjun's energy production in the year 2013 was successful. The sold volume amounted to 13,186 GWh in the year, which is a record high in the Company's history. This year, construction work on Budarhals Hydropower Station was for the most part concluded and the new power station will result in increased production capacity for the Company in 2014.

Good return from core operation

Revenue increased between years due to the increased sale of electric power and increased transmission income. However, the world market price of aluminium decreased during the year. The return from core operation, profit before unrealised financial items, has increased in the last few years and 2013 was the most profitable year in the Company's history. Despite these results, there was a loss on the Company's operation after tax. The loss can be traced to the decrease in world market aluminium prices, reflected in the significant decrease in the carrying amount of embedded derivatives, on which the Company can have a limited effect.

Cash flow from operations amounted to USD 258.5 million, which is the second highest in the Group's history. Investments increased from the previous year but due to good cash flow the Company continued to decrease debt and improve its financial standing.

Landsvirkjun has in the past years been systematically working on reducing its exposure to risk. Its main financial risks are related to aluminium prices, interest rates and foreign exchange rates against the USD.

OPERATING REVENUE

\$423M

EBITDA

\$329M

CASH FROM OPERATION

\$258M

FREE CASH FLOW

\$248M

PROFIT BEFORE UNREALISED FINANCIAL ITEMS

\$122M

NET LIABILITIES

\$2,429M

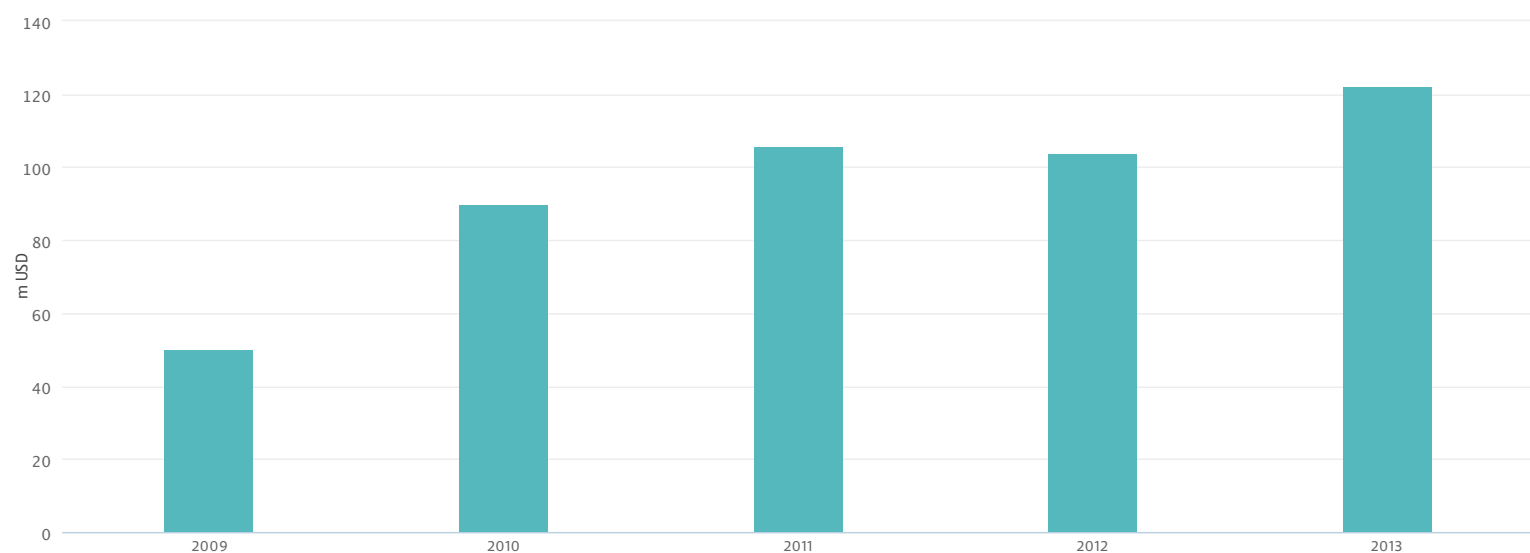
EQUITY RATIO

36.3%

SOLD VOLUME

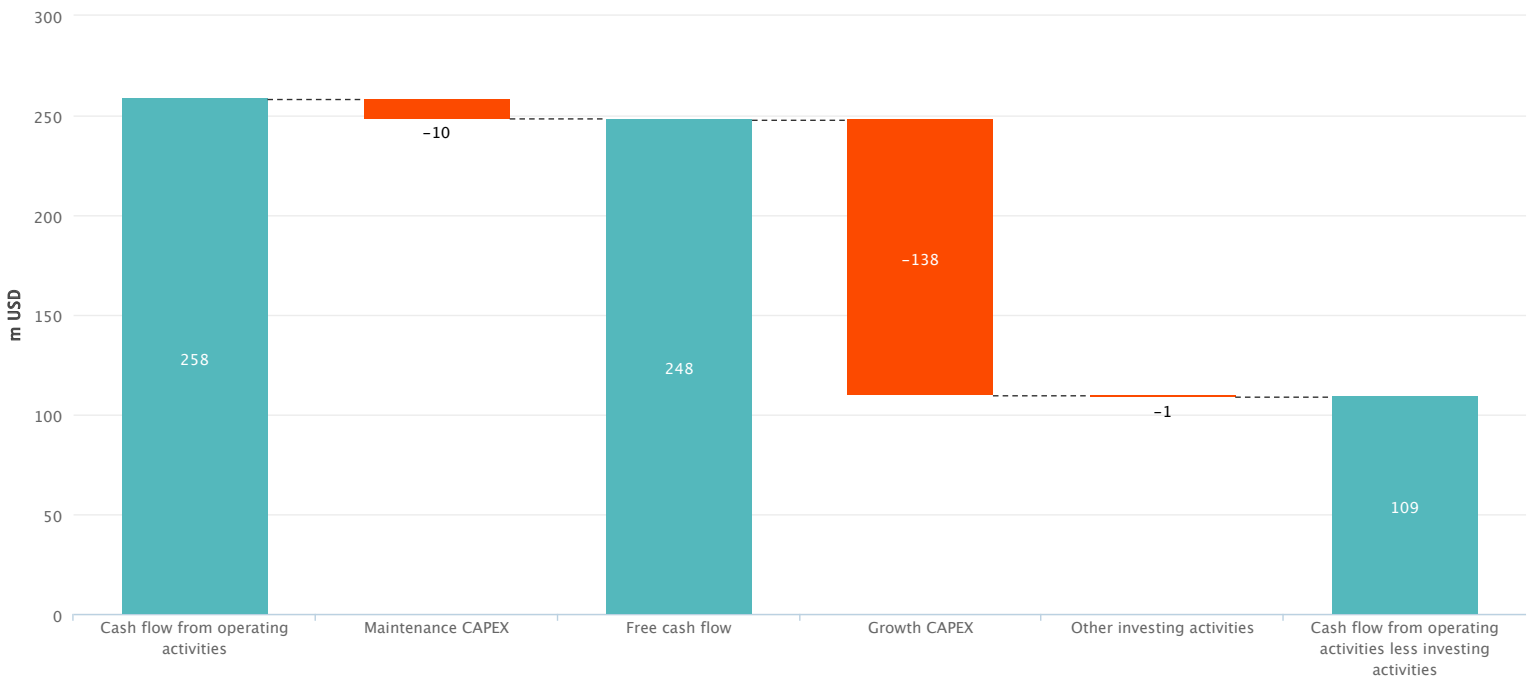
13,186^{GWst}

Profit before unrealised financial items



Profit before unrealised financial items is the criterion used by Landsvirkjun in evaluating the Company's core operation. Profit before unrealised financial items amounted to USD 121.8 million in the year 2013 compared to USD 103.7 million in the previous year. The Company uses this criterion as unrealised financial items do not affect cash flow.

Development in cash and cash equivalents before financing activities

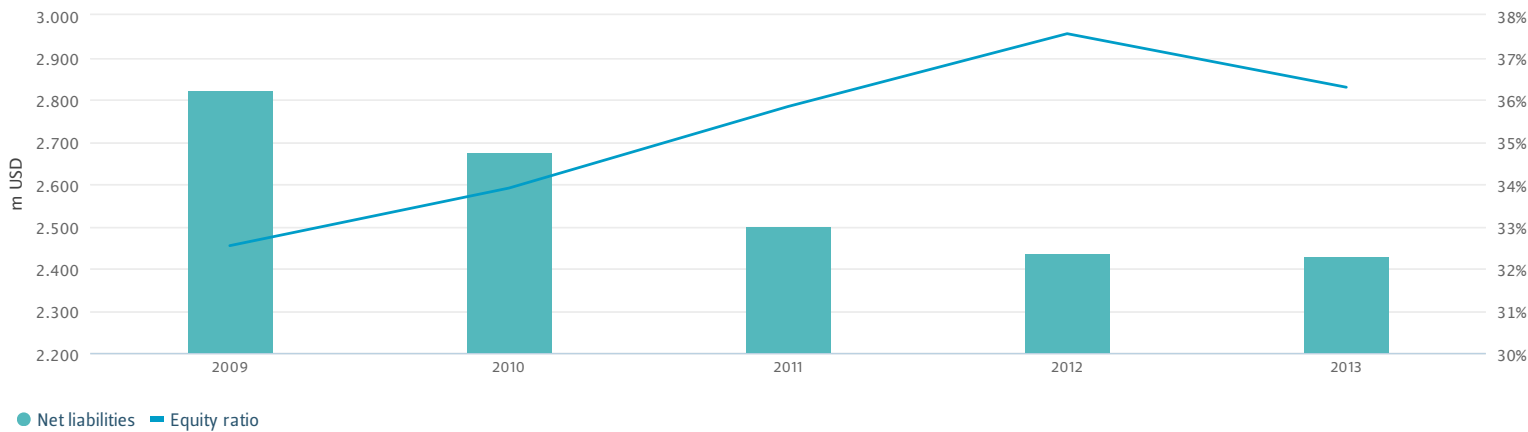


Investing activities in the year 2013 amounted to USD 149.5 million but only USD 10 million were due to maintenance investments related to power stations and the transmission system, i.e. investments which are necessary for the Company to continue its current operation. The Company's free cash flow therefore amounted to USD 248 million in the year. The Company's free cash flow can be utilised for new investments (which amounted to USD 138 million), amortisation of debt or dividend payments to owners. Cash and cash equivalents before financing activities amounted to USD 109 million in the year.

The Company's net debt amounted to USD 2,429 million at year-end, 2013 and remain unchanged despite the fact that cash from operation, taken into account investments, amounted to USD 109 million. This is mainly due to calculated foreign exchange loss on loans in other currencies than USD and indexation. The weighted average maturity time of the loan portfolio was around 6.3 years.

The Company's equity decreased slightly during the year and amounted to USD 1,658.1 million at year-end. Equity ratio also decreased and was 36.3 % at year-end, 2013 compared to 37.6 % at year-end, 2012.

Net liabilities and equity ratio



"Landsvirkjun's operations were successful in 2013 and a historical high was achieved by the Company, this year, when electricity sales increased by 416 GWh. Revenue increased by 3.7% and the profit before unrealised financial items and EBITDA also increased. Landsvirkjun suffered losses this year, despite the success of operations within a difficult market environment. This can mainly be attributed to decreasing aluminium prices worldwide and the effects of this on contractual energy prices. Landsvirkjun's performance will continue to rely on the unpredictable development of currently low aluminium prices, interest rates and exchange rates."



Operating outlook

Landsvirkjun will continue to place an emphasis on decreasing leverage and work on improving efficiency and decreasing risk exposure in the Company's operation. Landsvirkjun's results will for the most part be subject to the development in aluminium prices, interest rates and foreign exchange rates. The Company's income is partly linked to aluminium prices and changes in worldwide market aluminium prices therefore continue to have an effect on Landsvirkjun's future income. Currently, the price of aluminium is low and there is uncertainty with regard to its development in the next months. The majority of the Company's loans are on floating interest rates and continued low interest rates are therefore important for operations.

The last water year (which is from the 1st of October to the 30th of September each year) was unfavourable due to the lack of precipitation and cold weather in the highlands. Subsequently, Landsvirkjun's reservoirs did not fill last autumn and the inflow to the reservoirs was well below average. Landsvirkjun therefore made an announcement on reduced residual energy. Pending reductions are in full accordance with electricity power contracts and are assumed to amount to up to 2% of estimated electric power sales in the year 2014. However, the situation could change rapidly and reductions would then be cancelled.

Budarhals Hydropower Station was formally launched and taken into full operation in March 2014. Landsvirkjun's next potential power station projects are located in North-East Iceland but their progression is contingent upon power sales agreements and the relevant authorisation.

Continued emphasis on decreasing debt

Landsvirkjun will continue to place an emphasis on decreasing the Company's extensive debt. Landsvirkjun's mortgages on foreign loans (until the year 2018) are estimated at around ISK 128 billion. The greatest part of the Company's cash from operation will therefore (as has been the case in past years) be utilised to pay mortgages on debts.

From year-end, 2009 net liabilities have decreased by USD 395 million but that notwithstanding Landsvirkjun is still greatly leveraged. Net liabilities are now 7.4 times EBITDA, which is around twice as high as in comparable energy companies in neighbouring countries. Landsvirkjun aims to decrease this rate to below 5 within a few years, which would create more space for refinancing foreign debt, in the long term, at favourable interest terms.

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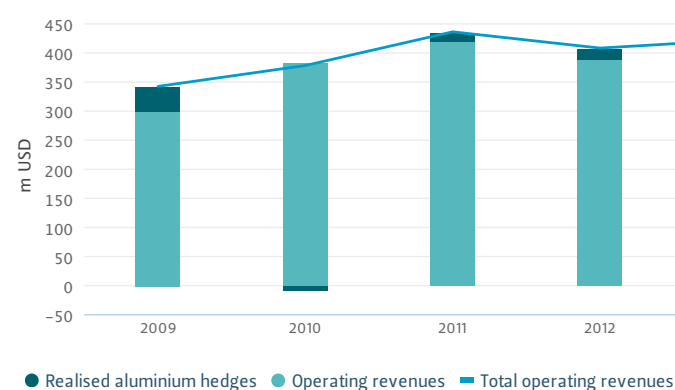


Key Figures
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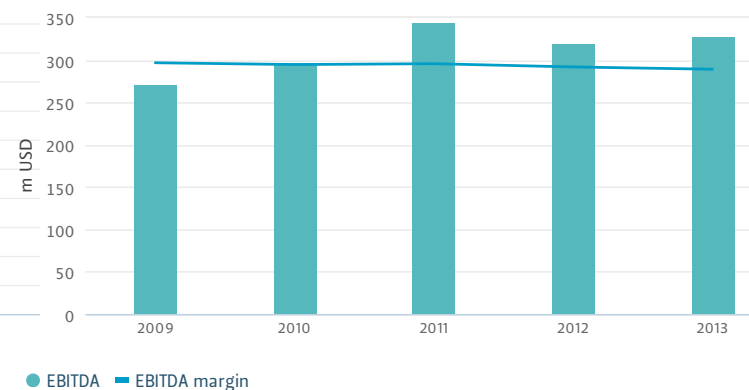
Income statement 2013

Operating revenues of Landsvirkjun Group increased by USD 15.1 million between years, or from USD 407.8 million to USD 422.9 million. The increase is mainly explained by the increase in sold volume and higher transmission income. The average wholesale price to retail sales companies (excluding transmission cost) was 4.0 ISK/kWh during the year compared to 3.9 ISK/kWh the previous year. The average price to industrial users was 25.8 USD/MWh compared to 26.2 USD/MWh in the previous year. The average price to industrial users here includes transmission cost, where appropriate. Transmission income increased between years from USD 44.4 million to USD 56.5 million which is mainly explained by an increase in the tariff. The Company hedges part of its aluminium price risk. Recognised income from realised aluminium hedges for the year amounted to USD 15 million in the year 2013 compared to USD 18 million in the year 2012.

Operating revenues

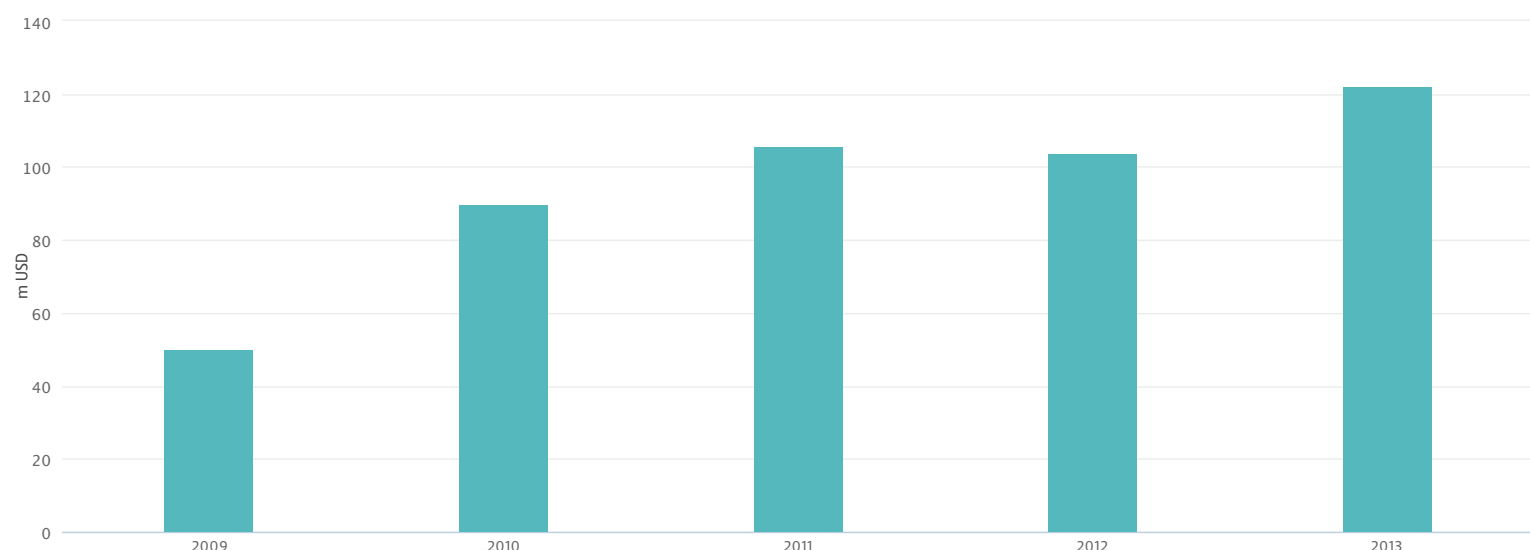


EBITDA and EBITDA margin



Operating expenses less depreciation and impairment loss amounted to USD 93.8 million in the year 2013 compared to USD 86.5 million in the previous year. The Group's EBITDA amounted to USD 329.1 million and increased between years. EBITDA ratio as a proportion of revenue is 77.8% compared to 78.8% in the year 2012 but the ratio has been in a similar range since 2009. EBIT amounted to USD 211.5 million compared to USD 209.0 million in the previous year.

Profit before unrealised financial items



Profit before unrealised financial items is the criterion used by Landsvirkjun in evaluating the Company's core operation. Profit before unrealised financial items amounted to USD 121.8 million in the year 2013 compared to USD 103.7 million in the previous year.

The realised foreign exchange difference was positive by USD 7 million in the year 2013 (negative by USD 5 million in the previous year) and is partly the reason for better operating results of core operations. The average nominal interests on long-term loans were approx. 3.5% compared to 3.3% in the previous year, taking into account the state guarantee fee. A low world market interest rate and decreased debt in the last years has had a positive effect on the Company's return.

A part of the parent Company's electric power sales agreements are related to aluminium price development. International Financial Reporting Standards require that the aluminium price link be calculated as embedded derivatives. Calculated change in the value of the embedded derivatives is recognised in the income statement in the amount of USD 174.6 million as an expense in the year 2013 compared to USD 3.4 million in the previous year. Foreign exchange differences and fair value changes are mostly unrealised, which must be kept in mind in the evaluation of the Company's results. Unrealised financial items are therefore recognised as a separate item in management's presentation.

The return of the year, after tax, is contingent on changes in unrealised financial items, on which the Company has limited effect. Due to decreased world market energy prices in the year 2013 there was a loss on Landsvirkjun's operation in the amount of USD 38.5 million compared to a profit in the amount of 55.3 million in the previous year.

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Balance Sheet

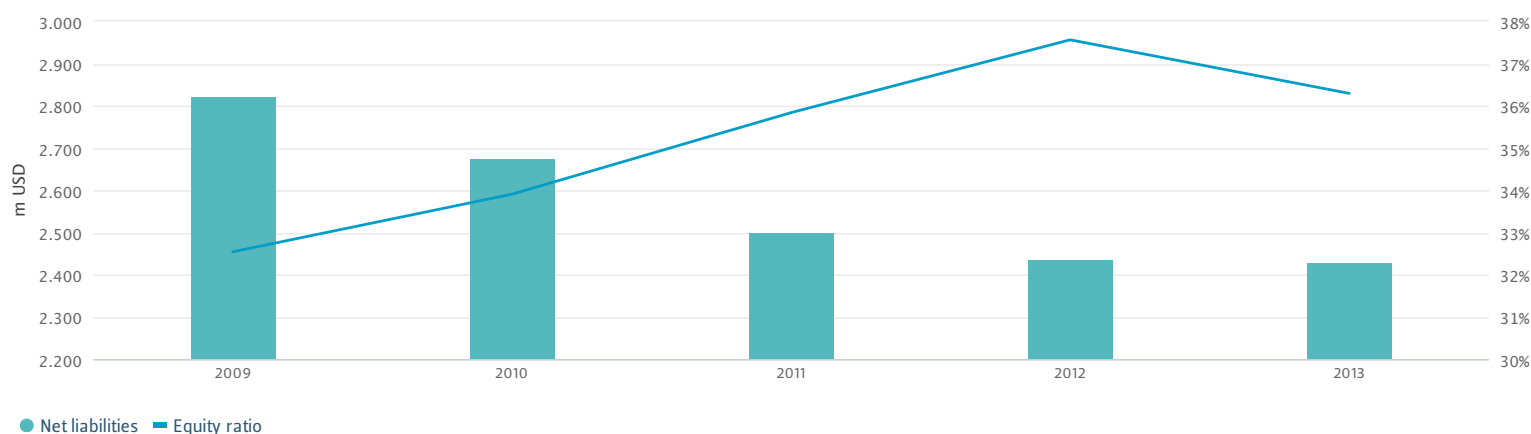
Landsvirkjun's total assets amounted to USD 4,569 million at year-end 2013. Landsvirkjun's liquidity balance is good but cash and cash equivalents at year-end 2013 amounted to USD 288 million. The Company has access to Revolving Credit Facilities, the undrawn amount of which is USD 291 million. In addition, undrawn long term loans amount to USD 10.7 million. Liquid assets and undrawn loans, therefore, amounted to a total of USD 590 million.

Interest bearing liabilities amounted to USD 2,717 million at year-end, 2013, or an increase by USD 93 from year-end, 2012 when they amounted to USD 2,625 million. Taking into account cash and cash equivalents and restricted cash Landsvirkjun's net debt amounted to USD 2,429 million at year-end compared to USD 2,436 million at year-end, 2012 and decreased by USD 6.4 million.

The Company's net debt amounted to USD 2,429 million at year-end 2013 and remain almost unchanged despite the cash from operation taken into account investments amounted to USD 109 million. This is mainly due to calculated foreign exchange loss on loans in other currencies than USD and indexation. The weighted average maturity time of the loan portfolio was around 6.3 years.

The Company's equity decreased in the year and amounted to USD 1,658 million at year-end. Equity ratio also decreased and was 36.3% at year-end 2013 compared to 37.6% at year-end 2012.

Net liabilities and equity ratio



Key ratios

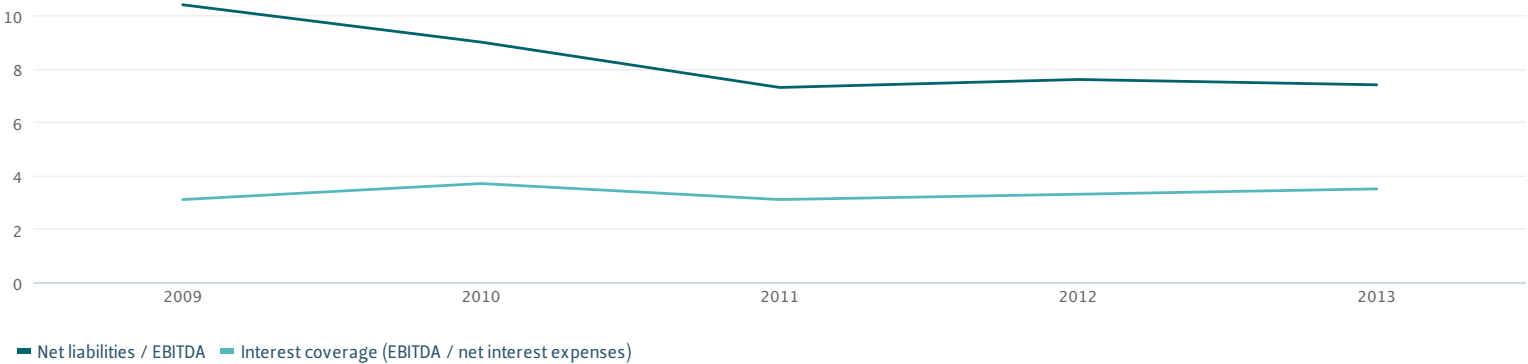
Landsvirkjun is still leveraged but in the last years the Company has systematically decreased its debt and improved the criterion that affects the Company's credit rating.

The Group's leverage measured against operating revenue before depreciation and amortisation (net liabilities / EBITDA) decreased from 7.58x at year-end 2012 to 7.38x at year-end 2013. The ratio of funds from operations (FFO) to net debt went from 9.9% at year-end, 2012 to 10.6% at year-end, 2013.

The interest spread (EBITDA/net interest expense) increased to 3.51x from 3.27x at year-end, 2012. The ratio of funds from operations (FFO) to interest expenses increased from 2.36x at year-end, 2012 to 2.66x at year-end, 2013.

As return on equity is calculated on return, embedded derivatives and unrealised foreign exchange differences can have a considerable effect on the results. The return on equity was 3.3% in the year 2012 but negative by 2.3% in the year 2013.

Interest coverage and net liabilities / EBITDA



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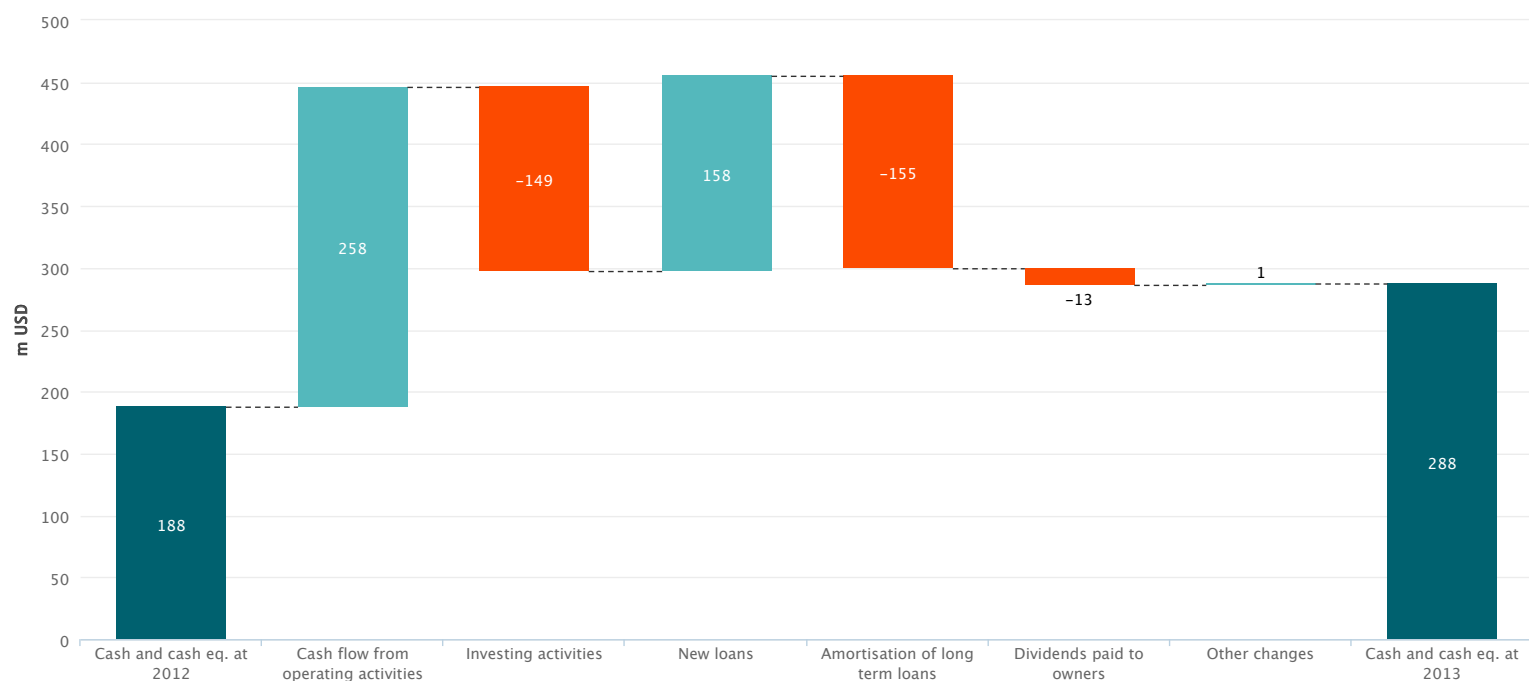


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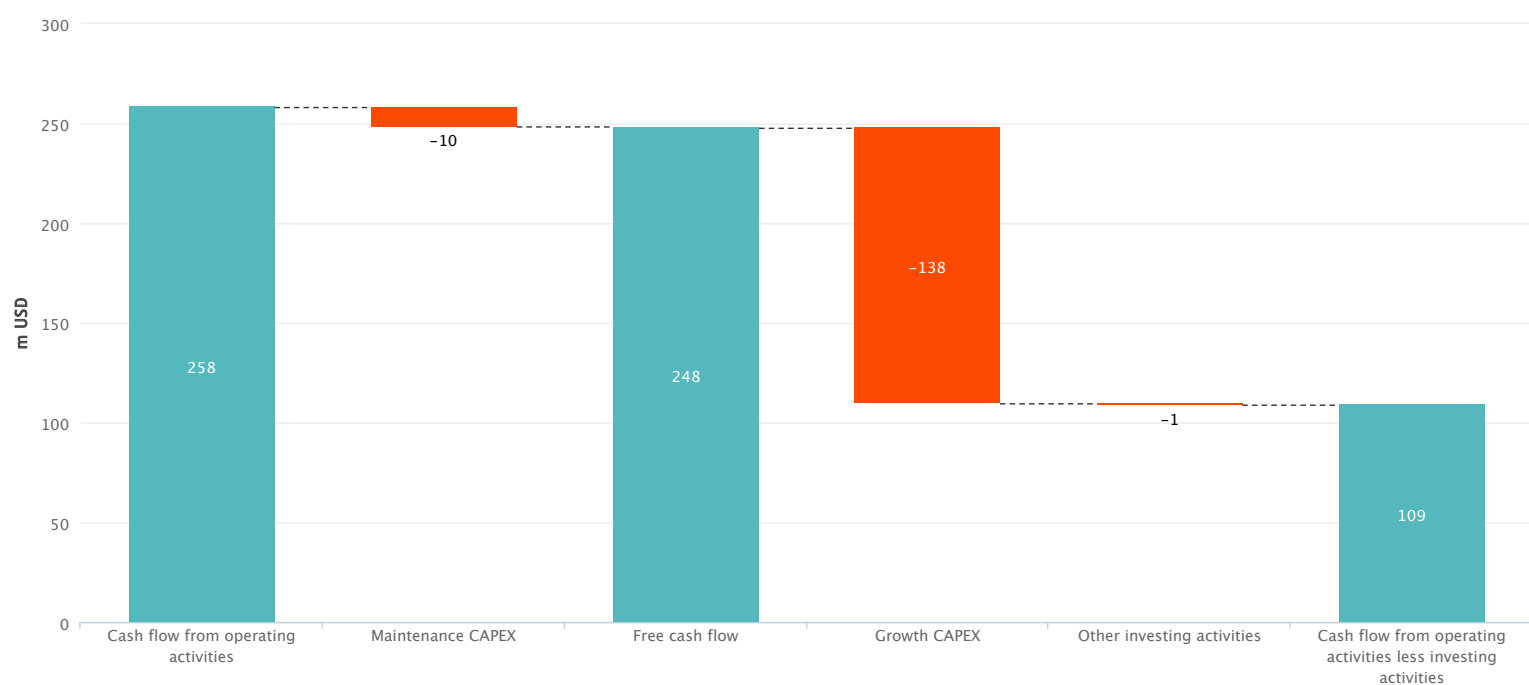
Cash flow statement

The Group's cash and cash equivalents increased by USD 100.1 million in 2013 and amounted to USD 288.0 million at year-end. The development is presented in the following chart. Cash flow from the Group's operations amounted to USD 258.5 million, which is the second best result in the Company's history. Investing activities increased between years and amounted to USD 149.5 million, whereof the project at Budarhals Hydropower Station weighs the most. Amortisation of loans and currency swaps in excess of borrowings amounted to USD 0.8 million and dividends paid amounted to USD 12.8 million for the operating year 2012.

Cash flow



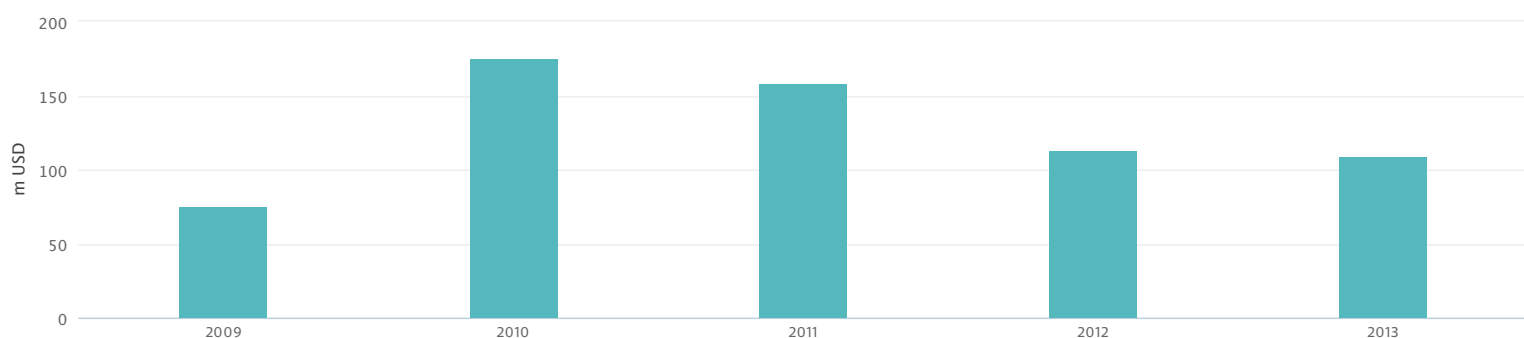
Development in cash and cash equivalents before financing activities



Investing activities amounted to USD 149.5 million but only USD 10 million are due to maintenance investment related to the Company's power stations and transmission system. Free cash flow therefore amounted to USD 248 million. The Company can utilise free cash flow for new investments, which amounted to USD 138 million, amortisation of debt or dividend payment to owners. Cash and cash equivalents before financing activities therefore amounted to USD 109 million.

Cash flow from operating activities has sustained investments in the last years, i.e. after taking into account investments the remaining cash flow from operation has been positive. Landsvirkjun has therefore been able to decrease its net debt in the last years.

Cash flow from operating activities before financing activities



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Risk management

The objectives of risk management are to analyse, manage, and monitor Landsvirkjun's risks in order to stabilise operating return by reducing operating fluctuations. Financial risk is divided into market risk, liquidity risk and counterparty risk. The Company's market risk consists mainly of three risk categories: aluminium price risk, interest rate risk and foreign exchange risk.

Aluminium price risk

The Company is exposed to substantial risk due to possible aluminium price fluctuations as around 40% of its income is linked to aluminium prices. The Company has therefore entered into derivative agreements in order to secure its income base and reduce fluctuations. Around 50% of the 2014 estimated cash flow and 25% of 2015 estimated cash flow has been hedged.

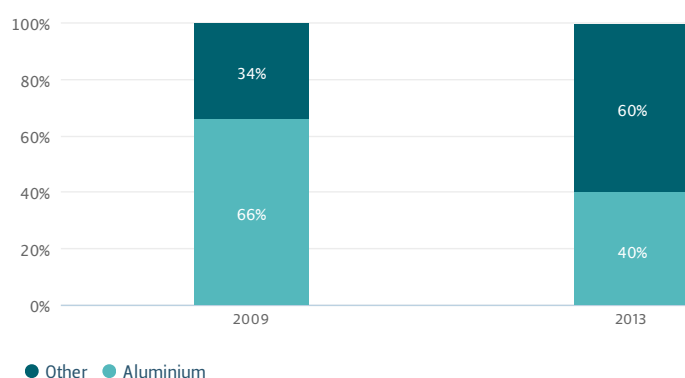
Aluminium price risk has reduced significantly since 2009, the proportion of revenue linked to the price of aluminium has decreased from 66% to 40%.

Interest rate risk

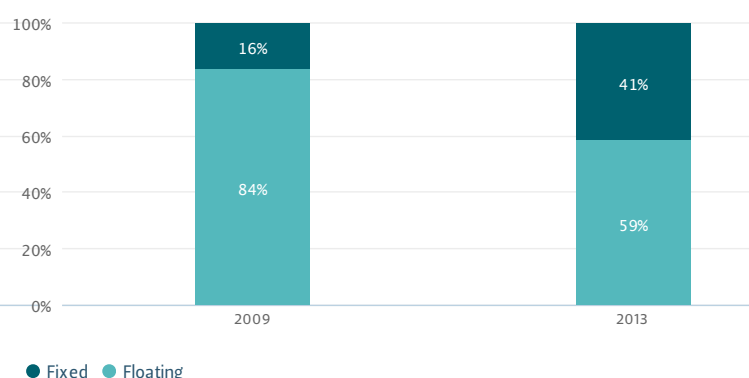
Landsvirkjun is exposed to interest rate risk as the Company has interest bearing assets and liabilities. The Company's liabilities carry both fixed and floating interest rates and interest rate derivatives are used in order to hedge against interest rate risk. Interest bearing financial liabilities are higher than interest bearing financial assets and the Company's risk therefore consists of a possible increase in interests and increased interest expenses. At year-end 2013, the proportion of loans with floating interest rates was 59% compared to 64% at year-end 2012.

In the past years, interest rate risk has decreased significantly as the proportion of fixed interests has increased from 16% to 41% in the years 2009 to 2013.

Revenues from energy sales



Interest rates

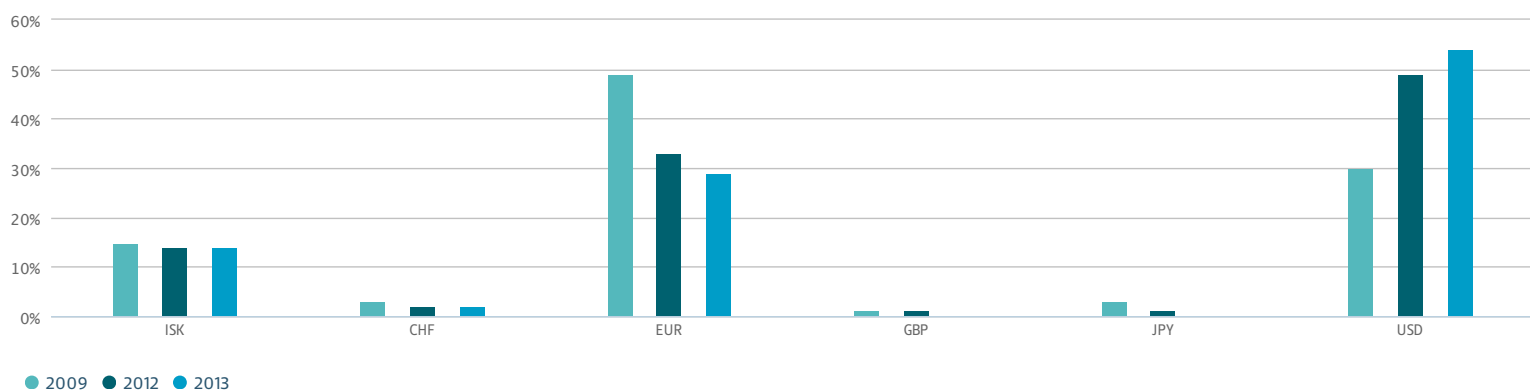


Foreign exchange risk

Foreign currency risk is the risk of loss due to unfavourable changes in foreign exchange rates. Landsvirkjun's foreign exchange risk is due to payment flow, assets and liabilities in addition to all general transactions in other currencies than the functional currency. The Company's functional currency is the USD and therefore a foreign exchange risk arises from cash flow and open balance in currencies other than the USD.

Landsvirkjun aims to reduce the foreign exchange risk by increasing the weight of USD in the Company's loan portfolio. In the past two years, Landsvirkjun has been systematically reducing foreign exchange risk and has for that purpose entered into agreements to change the terms of loans from EUR to USD, in the amount of EUR 190 million. Since 2009, the USD proportion in the loan portfolio has increased from 30% to 54%.

Interest bearing long-term debt



The Company's income flow is mainly in USD. Other income is in ISK and NOK but foreign exchange risk due to those currencies is limited, due to netting in the cash flow in ISK and income in NOK is relatively low. Currency risk due to amortisation and interest payments in EUR over the next years has been limited with derivative agreements.

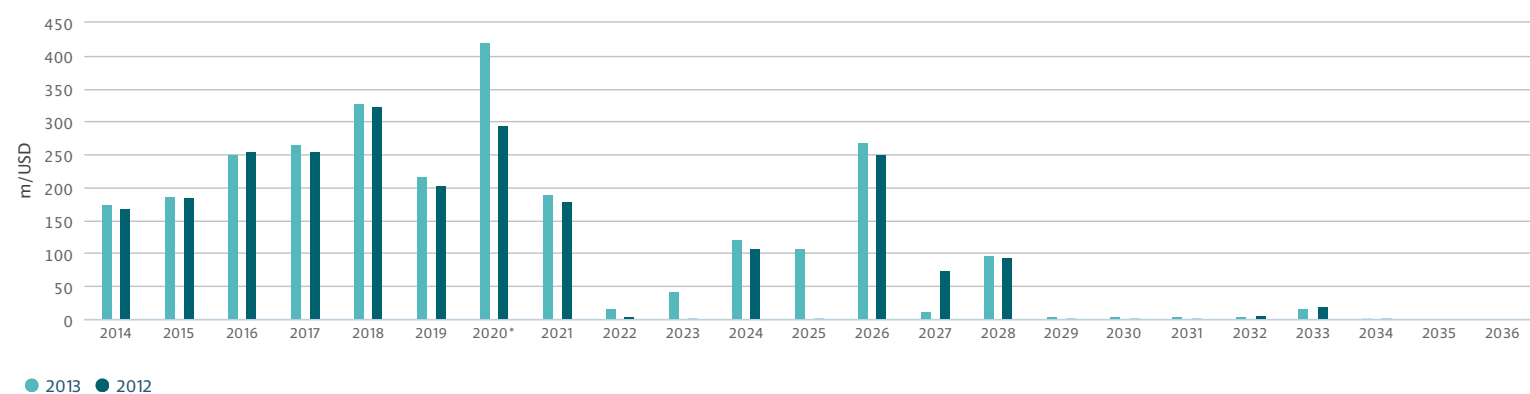
Liquidity risk

Liquidity risk consists of risk of losses should the Company not be able to meet its obligations at maturity date. The Company limits liquidity risk with effective liquidity management by ensuring that there is sufficient cash flow at each time in order to be able to meet with the Company's obligations. In order to limit such risk, the Company's liquidity balance is monitored and emphasis is placed on having a sufficient cash position and access to Revolving Credit Facilities.

In order to ensure access to capital and maintain flexible funding possibilities, Landsvirkjun has used different types of funding. In past years, financing has mostly been facilitated via a Euro Medium Term Note Programme (EMTN). At year-end, the balance of loans under the EMTN was USD 1.82 billion but the total amount that the Company can borrow under the programme is USD 2.5 billion.

In the year 2013, Landsvirkjun signed a new EMTN framework agreement on international bond issue, without state guarantee. The total amount of the framework agreement is USD 1 billion. At year-end, the balance of loans under the EMTN without state guarantee was around USD 30 million.

Debt Maturity Profile



The Company's risk related to refinancing is reduced with a well distributed maturity profile and long terms of outstanding loans. The weighted average life of the loan portfolio was 6.3 years and the proportion of loans with maturity within 12 months was 6.5%.

In the year 2013, an agreement was reached with the holder of a bond to abolish a provision which granted the holder the annual right to call in the bond. Landsvirkjun had up until then defined the bond as short-term loans, due to the provision but following the change it will be recognised among long term debt. The bond amounts to EUR 50 million and final maturity is in March 2020.

The Company's cash and cash equivalents amounted to USD 288 million at year-end, 2013 but when taken into account undrawn credit facilities (USD 200 million and ISK 10,500 million) and undrawn long-term loans in the amount of USD 10.7 million the Company has access to a total of USD 590 million. Taking into consideration cash flow from operation the Company believes that access to liquid assets is ensured until year-end, 2015.

Counterparty risk

Counterparty risk is the risk that a counterparty to an agreement does not comply with provisions of the agreement. Landsvirkjun's counterparty risk arises first and foremost due to the Company's energy contracts and derivatives entered into for hedging purposes. Though the amounts involved are considerably high, the risk is limited with the Company's requirements for counterparty quality. Landsvirkjun has set a benchmark for derivatives which involves that no derivative agreements are made with financial companies that have a lower rating than A- from Standard and Poor's or a comparable rating from other recognised credit rating agencies. Before energy contracts are made the financial standing of the relevant companies and their parent companies are thoroughly reviewed, if applicable.

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