
Iceland Energy and Industry

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Energy

Surplus power in Iceland of 100-200 MW

State Radio News – HS Orka's income in 2012 was ISK 500 million (US\$ 4M) less than in 2011. The company's CEO Jon Jonsson said that the main reason was that the production exceeds the demand. The energy companies in Iceland produce a total of 100-200 MW in excess of what they can sell. HS Orka's EBITDA performance in 2012 was close to ISK 2.9 billion (US\$ 23.2M) and was therefore similar to its performance the year before of nearly ISK 2.7 billion (US\$ 21.6M). The pre-tax profit was more than ISK 700 million, compared to a loss of nearly ISK 1.2 billion (US\$ 9.6M) the year before last. The income was more than ISK 500 million less than the year before last. The most significant factor there was a sales agreement with Nordural in Grundartangi (W-Iceland) involving 35 MW, which expired in October 2011. Then the market conditions are rather difficult, and this decreased production a little during the year because there is no market for the productive capacity in Iceland at the moment. Jonsson said that in order to be able to sell the power, major buyers for it were required, for example an aluminium smelter in Helguvik (SW-Iceland) or a silicon factory. On the other hand, there is no prospect in the near future of them being built. Jonsson said he did not think that the situation would change until 2015. The build-up will be that time-consuming at HS Orka, and there is a delay with the expansion of Alcan in Straumsvik (SW-Iceland). Then the Budarhals Power Station will begin operating in the fall, and with it there will be even more power going into an overfilled market. He said that the surplus production capacity would be better employed for the creation of value.

Energy/Finance

Landsvirkjun's performance acceptable

Vidskiptabladid – Landsvirkjun's operational performance last year was positive: \$54.2 million. The profit in 2011 was about \$26.5 million. The EBITDA profit was \$319.6 million. The EBITDA ratio was 78.4% of income at the end of last year, compared to 79.1% the year before. The Annual Financial Report was released 21 February. The company's debts decreased during the year by \$67.3 million and at year-end were \$2436 million. Hordur Arnarson, President and CEO of Landsvirkjun said in a press release that the performance was acceptable in light of the world's economic situation. Income

decreased by 6.5%, which is in part attributable to the decreasing price of aluminium and its impact on contractual prices for electricity.

HS Orka's operations turn the corner

visir.is – Last year HS Orka's operations turned around. The company's profit was more than ISK 700 million (US\$ 5.6M), compared to a loss on operations the year before of ISK -1.2 billion (US\$ -9.6M). This was stated in a notice sent to OMX Nordic Exchange NASDAQ. According to the notice the company's power stations were reassessed at the end of the year, and their total value after the revaluation is ISK 31.5 billion, which is an increase of ISK 6.1 billion (US\$ 48M). This brings the total profit, less the tax effect of the revaluation, to ISK 5.5 billion (US\$ 44M).

Aluminium

Aluminium provides 23% of export income

mbl.is – Export income last year from aluminium was over ISK 225 billion (US\$ 1.8B). This corresponds to 23% of Iceland's export income. This information emerged at the Annual General Meeting of the Association of Aluminium Producers during a discussion of the economic impact of the Icelandic aluminium industry on Icelandic society. Last year the Icelandic aluminium industry paid very nearly ISK 5 billion (US\$ 40M) in taxes and other governmental fees. Wages and related fees amounted to ISK 14.5 billion (US\$ 115.9M). A pamphlet distributed at the meeting stated that more than ISK 100 billion (US\$ 799.5M) remain in the country because of the aluminium industry, i.e., ISK 275 million per day (US\$ 2.2M). In recent years this figure has increased steadily. The estimated purchase of power by the aluminium companies in 2012 is about ISK 40 billion (US\$ 319.8M). At the end of last year, more than 1500 people worked in the aluminium industry in Iceland. In addition, over 500 employees work for contractors operating in areas related to the aluminium smelters. The average monthly wage in the sector is nearly ISK 600,000 (US\$ 4797), according to the aforementioned pamphlet.

Aluminium industry not restrictive

mbl.is – Gunnar Haraldsson at the University of Iceland's Institute of Economic Studies (IES) spoke last week at the Annual General Meeting of the Icelandic Association of Aluminium Producers (SAMAL). In speaking on the topic of whether the

aluminium industry was too big for Iceland, he stated that the industry did not restrict growth and development of other industries in the country. He also said that the question about whether the aluminium industry was too big was perhaps not the right one. Rather, the focus should be on whether the aluminium industry creates more value than other industrial operations, directly and indirectly. Consideration ought to be given to the aluminium industry growing in value as well as to its conditions, so that it manages to prosper. He said that great opportunities lie in further development of an aluminium cluster, and that it was important to foster and promote build-up of the aluminium industry and its related operations. A new report from IES assessed the direct and indirect contribution of the aluminium industry to Iceland's national economy, which has been ISK 85-96 billion (US\$ 679.6M to 767.5M) per year for the period 2008-2010 (6.8%). By comparison, in 2010 the fishing industry's contribution was 17.5%. The aluminium industry has helped even out fluctuations in the Icelandic economy. According to Haraldsson, as the industry grows, it can be expected to reduce the impact of these fluctuations. In comparison with the fisheries industry, the aluminium industry has more leeway for greater indirect added value, providing opportunities to further develop it.

Industry News

Environmental impact deemed acceptable

State Radio News – The initial assessment report for the environmental impact assessment of a metal silicon factory of the German company PCC in Bakki at Husavik (NE-Iceland) states that the impact is deemed to be acceptable in the overall context. Various measures will be taken to minimise the factory's environmental impact during the periods of construction and operations. The EIA is based on a productive capacity of 66,000 t. The initial assessment report prepared by the engineering firm Efla states that the construction associated with the project will involve considerable environmental intrusion. Direct impact, for example, on appearance, will be limited to the company's plot and the immediate surroundings. The emissions of substances into the atmosphere are deemed to be below the set limits, but the operations of the factory in Bakki can create certain synergistic risk from emissions of chemical compounds. Even though the factory's operations and harbour activities will be noisy, the acoustical impact is deemed to be insubstantial, except in the immediate neighbourhood. The impact on vegetation is deemed to be quite negative, and there will be major disturbance to the vegetative cover in the area. It is not thought that the project will have substantial impact on birds, except within the factory grounds. The effect on the landscape and visual impact are deemed to be quite negative, but the

impact on relics insubstantial. Cooling the manufacturing of the factory with seawater, if decided, would have considerably negative impact on a limited area of Bakki's beach. Other factors will not affect the marine and coastal areas. Overall the operations of PCC's factory are deemed to have a considerably positive impact on population development and the labour market, and the overall environmental impact, according to the report, is deemed acceptable.

Production costs up in January

visir.is – The Production Price Index in January was 223.1, an increase from the month before of 4.3%, according to figures from Statistics Iceland. The PPI for seafood products was 271.2, a 0.5% increase (index impact 0.2%) from the previous month. The index for power-intensive industry was 245.4, increasing by 8.7% (3.0%). The index for food increased by 0.6% (0.1%), but the index for other industry increased by 5.8% (1.0%). The PPI for goods manufactured and sold domestically increased by 1.8% from the previous month, while the index for exported products increased by 5.0% (3.9%). Relative to January 2012, the PPI increased by 4.4%, and the index for seafood products increased by 0.1%. For the same period the price for products from power-intensive industry increased by 8.0%, but the price of food increased by 3.3%.

Trade

Trade balance negative by ISK 12.6 billion

vb.is – According to the Central Bank of Iceland, there was a deficit in the balance of trade in the fourth quarter last year in the amount of ISK 12.6 billion (US\$ 100.7M), compared to a surplus for the same period the year before of ISK 31.7 billion (US\$ 253.4M). There was a surplus of trade of ISK 27.9 billion (US\$ 223.1M) but a deficit of ISK 6.8 billion (US\$ 54.4M) on the services account. The balance of factoring income, on the other hand, was negative in the amount of ISK 31 billion (US\$ 247.8M). The balance of trade without the effect of deposit institutions undergoing winding-up was negative in the amount of ISK 1.5 billion (US\$ 12M), compared to a surplus the year before of ISK 51.9 billion (US\$ 414.9M). The deficit in factor income, as previously, is due mainly to deposit institutions undergoing winding-up. The calculated costs because of them are ISK 16.3 billion (US\$ 130.3M) and income approximately ISK 5.2 billion (US\$ 41.6M). The negative effect of deposit institutions undergoing winding-up on the factor income account was ISK 11.1 billion (US\$ 88.7M). The factor income account without the effect of these institutions is negative in the amount of ISK 22.6 billion (US\$ 180.7M). The national economy's foreign assets at the end of Q4 last year totalled ISK 4430 billion (US\$ 35.4B) and debts ISK 13,352 billion (US\$ 106.7B). The trade balance's net deficit was therefore ISK 8922 billion

(US\$ 71.3B), and net debts rose by ISK 14.6 billion (US\$ 116.7M), compared to the previous quarter. Excluding deposit institutions undergoing winding-up, the assets of the national economy were ISK 2453 billion (US\$ 19.6M) and the debts ISK 3495 billion (US\$ 27.9B). The net balance was therefore negative by ISK 1042 billion (US\$ 8.3B). The net debt decreased by ISK 95 billion (US\$ 759.5M) from the previous quarter.

Important for Iceland to keep up

State Radio News – According to the Federation of Trade & Services (FTS), it is important to ensure Icelandic interests not be left out if a free trade agreement is signed between the EU and the United States. FTS's Managing Director Andrés Magnusson said that there are enormous export markets in the US. In early February the EU and US declared their intention to begin discussions on a free trade agreement. Iceland would not be a part of this alliance, but the specialists contacted by *SRN* deem it not unlikely that if such an agreement is signed, the EFTA states would also seek free trade discussions with the US. However, it is completely uncertain whether the US would be interested in such discussions. Magnusson said that Iceland was somewhere in the middle and could remain on the sideline regarding this development. "There is every reason to fear this," he said. He said that imports from the US have decreased since Iceland became part of the European Economic Area. For example, various foods have disappeared from markets because of different labelling rules in Europe and the US, and such technical hindrances are one of the matters addressed in such free trade agreements. Also, exports to the US are but a fraction of Iceland's foreign trade. Nevertheless, Magnusson finds it difficult to see that it would be acceptable if Iceland remained outside such agreements between the EU and US. He pointed out that Iceland's interests in exports to the US were enormous. Likewise, interests in importing products manufactured there are also great since they are in great demand in Iceland. "It is extremely important for the Icelandic Government to

engage in and closely monitor how agreements like these are developing, for the purpose of ensuring that Icelandic interests are not left out," said Magnusson.

Economy

State Treasury's balance improved in 2012

visir.is – The State Treasury's balance improved considerably last year. Cash from operations improved from the previous year to nearly ISK -35 billion (US\$ -279.8M), compared to more than ISK -53 billion (US\$ 423.7M) the year before. Income increased by nearly ISK 38 billion (US\$ 303.8M), and expenditures increased by over ISK 21 billion (US\$ 167.9M). The Ministry Offices' website stated that the outcome was better than anticipated since forecasts called for cash from operations to be negative by nearly ISK 54 billion (US\$ 431.7M).

Telecommunications

Continued losses at Farice

Frettabladid – According to Farice's annual settlement for 2012, Farice lost €6.1 million. By comparison the company lost €8.55 million in 2011. Farice's income from operations last year increased from €7.2 million to €10.2 million. During the same period costs from operations increased from €5.8 million to €6.3 million. The profit from operations increased for financial items, write-downs and taxes from €1.3 million to €3.9 million. Most of operational improvement can be attributed to a service agreement that the company entered into with the Icelandic State last April. The government paid Farice nearly €2.2 million per year under the agreement that was entered into to ensure the public's Internet connection with other countries. Also, during the year Farice raised its prices considerably. Farice operates two of three submarine cables connecting Iceland with the rest of the world. Icelandic telecommunications companies, larger network companies and data centres purchase access to the cables. Farice's biggest owner is the Icelandic State, owning 30% of the company, Landsvirkjun owns 29%, and Arion Bank owns 39.3% of Farice.