



VEITUR



GAGNAVEITA  
REYKJAVÍKUR



ORKA NÁTTÚRUNNAR



Orkuveita Reykjavíkur



## *Reykjavik Energy – Consolidated Financial Forecast*

*Forecast 2017 and Long-Term Plan 2018 – 2022*

*Approved by Board of Directors 28.11.2016*

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## REYKJAVIK ENERGY'S OPERATIONS

The forecast for Reykjavik Energy (OR) 2017 and five-year forecast for years 2018 through 2022 is consolidated for the parent company and the subsidiaries Veitur Utilities plc, OR Water&Sewer, ON Power plc, and Reykjavik Fibre Network. Each subsidiary's forecast has been approved by its respective Board of Directors prior to OR's BoD's approval. Main assumptions include OR's owner policy, various policies and KPI targets, Official National Economic Forecast, international forecasts on external factors affecting OR and the Company's and The City of Reykjavík's own forecasts.

In preparing this forecast, further steps were taken towards strategic forecasting through the Beyond budgeting method. That involves more efficient target setting. The method involves increased responsibilities by managers and other employees in finance and daily operations who base their decisions on documented policies and goals. Key financial indicators are graphically presented in this forecast.

The Plan that OR has been working towards since 2011 expires at year-end 2016. In discussions about the Plan, the question about what it will be replaced with, has come up. The simple answer being; nothing in particular. The discipline and prudence The Plan required has become intrinsic to managers and other staff and a part of OR's corporate culture.

The operations of OR and its subsidiaries are solid and foreseen changes in revenues and expenses are not significant. Considerable investments are though foreseen. Renewal of important infrastructure in utilities will be continued, among them hot-water mains in the Capital Area and in West-Iceland as well as key points in electric distribution, sub-stations included. The construction of new sewerages in West-Iceland will mostly be concluded in 2016 and that decreases the need for investments in that area of OR's operations. The fibre-optic network will continue to be rolled out in the coming years and the oldest coupling equipment in people's homes will be updated, an option of a 1,000-megabit-per-second connection speed being the result.

Steam collection and other sustainability projects at the power plants are pressing. Since it became clear that the geothermal fields closest to the Hellisheidi Power Plant would not sustain full output, extensive modelling of the geothermal reservoir has been conducted. Foreseen are considerable investments in collecting steam from nearby fields in the next few years. The steam pipeline from Hverahlíð geothermal fields, which has been up and running since the start of 2016, now produces 50 MW of electricity at Hellisheiði plant. Yet, more needs to be done and it is forecasted that approximately ISK 20 billion will be needed in the next 6 years for steam extraction at Hellisheiði plant, in addition to ISK 5 billion for reinjection. Extensive modelling of the Hengill area is currently being conducted.

OR will continue to pay down its debt in the coming years and this forecast includes lowering net-debt by one-third between the years 2016 and 2022.

OR's Financial Forecast for the year 2017 and the five-year forecast for years 2018-2022 now goes to The City of Reykjavík for consideration as a part of the consolidated financial plans for The City.

# REYKJAVIK ENERGY'S OPERATIONS

OR's operating area reaches both the south and the west part of the country, in addition to the capital region. OR owns and operates three power plants; the geothermal plants at Nesjavellir and Hellisheiði and the hydro-electrical power station at Andakill in Borgarfjörður county. Both geothermal plants are considerably more powerful than the hydro-electric power station.



## POWER PLANTS

The Geothermal plant at Nesjavellir delivers electrical power of 120 MW and the one at Hellisheiði delivers 303 MW. The power of the Hydro-Electric Power Station at Andakill is 9 MW. Customer base is spread across the country.

## ELECTRICITY DISTRIBUTION

OR's distribution of electricity reaches more than half of the Icelandic population in six municipalities by Faxaflói. The distribution system in the capital region is connected to the country's transmission system at three points; the main transmission stations at Korpa, Geitháls and Hnoðraholt. From these points, the electricity is transmitted to 13 transmission stations around the capital area.



## HOT WATER DISTRIBUTION

In the capital area, OR and subsidiaries operate a geothermal district heating system, as well as smaller geothermal systems in the south- and western parts of Iceland, which serve over 70% of the population. The most extensive production of hot water is in the high-temperature area Nesjavellir, a total of 300 MWth. In Low-temperature areas, OR produces a total of 600 MWth. The power plant at Hellisheiði produces 133 MWth of hot water.



## WATER WORKS

OR operates 13 water distribution systems in its area of operations and supplies two other systems on a wholesale basis. All in all, OR supplies more than half the Icelandic population with fresh water.



## SEWAGE SYSTEM

OR owns sewage systems in six municipalities and also operates pumping stations for two other municipalities. OR thus serves the sewage needs of more than half the population of Iceland.

## FIBRE OPTIC

OR has developed a valuable fibre-optic cable system, benefitting homes and businesses in the south-west.

# REYKJAVIK ENERGY'S OPERATIONS

## MAP OF SERVICE AREA



## THE PLAN

The Plan's results for the period 2011-2016Q3 exceed expectations by ISK 8,3billion. All components of The Plan are on schedule, except sale of assets.

Actions in ISK billions	The Plan			Actual
	2011-2016	2011-2016Q3		2011-2016Q3
Reduction of investments in utility systems	15,0	14,2	✓	17,2
Sale of assets	10,0	10,0	✗	9,0
Reduction in operating costs	5,0	4,7	✓	7,3
Reduction of other investments	1,3	1,2	✓	1,5
Postponement of investments in sewerage	0,0	0,3	✓	1,1
<b>Total</b>	<b>31,3</b>	<b>30,4</b>	<b>✓</b>	<b>36,1</b>
Subordinated loans from owners	12,0	12,0	✓	12,0
Increased revenues due to higher tariffs	8,0	7,6	✓	10,2
<b>Total</b>	<b>20,0</b>	<b>19,6</b>	<b>✓</b>	<b>22,2</b>
<b>The Plan Total</b>	<b>51,3</b>	<b>50,0</b>	<b>✓</b>	<b>58,3</b>

# ASSUMPTIONS AND CRITERIA

## ASSUMPTIONS

The prerequisites for The Forecast 2017 and the forecast for the financial plans for the years 2017-2022 are based on the Economic forecast published by Iceland Statistics in November 2016. In addition, they are based on forecasts from The Central Bank of Iceland, the City of Reykjavik and forecasts by OR's staff. Criteria for the development of aluminium price are based on information from The London Metal Exchange. Forecast for interest rates was based on implied forward rate according to currencies and interest rates of discrete loan agreements.

## ASSUMPTIONS

List	2016	2017	2018	2019	2020	2021	2022
Consumer Price Index, change (%)	1,8	2,4	3,4	2,9	2,6	2,6	2,5
Building Cost Index Dec-Dec, change (%)	1,6	3,0	2,2	3,5	3,2	2,7	2,6
Wage index, change (%)	11,2	6,6	5,8	5,7	4,6	4,6	4,6
Currency, Narrow Trade Index (%)	-9,5	-5,2	0,0	0,0	0,0	0,0	0,0
Aluminium prices, average for the year (\$)	1.689	1.704	1.737	1.777	1.827	1.889	1.944

## INVESTMENT PRIORITIES AND ASSESSMENT

OR's owners' policy defines the company's role and core business. This forms the basis for assessing investment priorities. The projects detailed in the investment plan have been thoroughly considered and prioritized before presentation. In advance of a final decision, further preparatory studies are conducted as well as a comprehensive risk analysis. Following this phase, every project is considered by each subsidiary and then sent to The Board of OR and owners for approval, if appropriate, all according to predefined procedures.

Objective analysis of the following factors is considered:

- Increased use or demand
- Break-down history
- Age
- Materials
- Status analysis
- Employee and customer safety
- Service security

# ASSUMPTIONS AND CRITERIA

## FINANCIAL CRITERIA

In accordance with the owners' policy and their action plan, the Company aims at greater financial health. This entails to improve key figures in operations e.g. current ratio, equity ratio, debt coverage, etc. The following table shows key figures at the end of 2015 and estimates for the following years:

Key figures	Actual	Expected results	Budget
	2015	2016	2017
EBITDA/Operating revenue	62,4%	61,0%	60,9
Equity ratio	36,9%	40,4	43,1
Current ratio	0,8	1,1	1,1
(Interest bearing debt - cash and cash equivalents)/EBITDA	6,4	5,3	5,1
FFO interest coverage	5,5	5,1	4,6
FCF/Net debt	7,0%	6,1	6,2
RCF/Net debt	13,7%	15,6	15,3
ROCE	4,8%	4,9	5,0

In November 2015, dividend requirements were approved by OR's owners. In a proposal by the Board of Directors, it was approved not to pay out dividends except the financial position of the company would meet certain conditions. The conditions are the following:

	2016-201	2019-
1. Current ratio	>1,0	>1,0
2. Equity ratio	>35%	>40%
3. FFO interest cover	>3,5	>3,5
4. RCF / Net debt	>11%	>13%
5. FFO / det debt	>13%	>17%
6. Dividend % of each year's profit	≤50%	≤50%

*Definitions:*

*FFO = Funds from operations*

*FCF = Free cash flow*

*Net Debt = Interest bearing debt – cash and cash equivalents*

*EBITDA = Earnings before interest, taxes, depreciation and amortization*

*FFO interest cover= measures the ability to meet interest payments of liabilities*

*RCF = Operating cash - dividends*



## FORECAST 2017

Expected profit for the year 2017 is ISK 8.442 million, compared to ISK 13.341 million in 2016. This is an estimated decrease in profit of ISK 4.898 million. Equity ratio is expected to be 43,1% at year-end 2017, compared to 40,4% at year-end 2016.

### INCOME STATEMENT

#### Revenue

Operating revenues are expected to be ISK 41.028 million compared to ISK 41.260 million in 2016, an increase of 0,6%.

#### Expenses

Budgeted operating costs before depreciation for the year 2017 are ISK 16.030 million compared to ISK 16.098 million in 2016, an increase of 0,4%.

EBIDTA is expected to be ISK 25.194 million in 2017, compared to ISK 25.127 million in 2016.

### BALANCE SHEET

#### Assets

Total assets are expected to be ISK 301.866 million at year end 2017 compared to ISK 307.349 million at year end 2016, an increase of 1,8%.

#### Equity and liabilities

Equity is expected to be ISK 129.975 million at year end 2017 compared to ISK 124.200 million at year end 2016. Liabilities are expected to be reduced from ISK 183.149 million down to ISK 171.892 million at year end 2017, a reduction of 6,1% year on year.

### CASH FLOW

#### Net cash from operating activities

Cash flow from operations is expected to be ISK 20.215 million for the year 2017 compared to ISK 21.586 million for the year 2016.

#### Investment activities

Investment in fixed assets is expected to be ISK 14.077 million for the year 2017 compared to ISK 13.231 million for the year 2016.

In 2016 and 2018, OR is expecting a settlement of a bond linked to aluminum price up to a certain point, ISK 4.280 million each year.

Main investments in 2017 are linked to steam extraction and environmental projects at ON Power. In the utilities area, main investments include the renewal of main pipes for hot water distribution in addition to rebuilding and renewing transmission centers for electricity.

## FORECAST 2017

### **Financing activities**

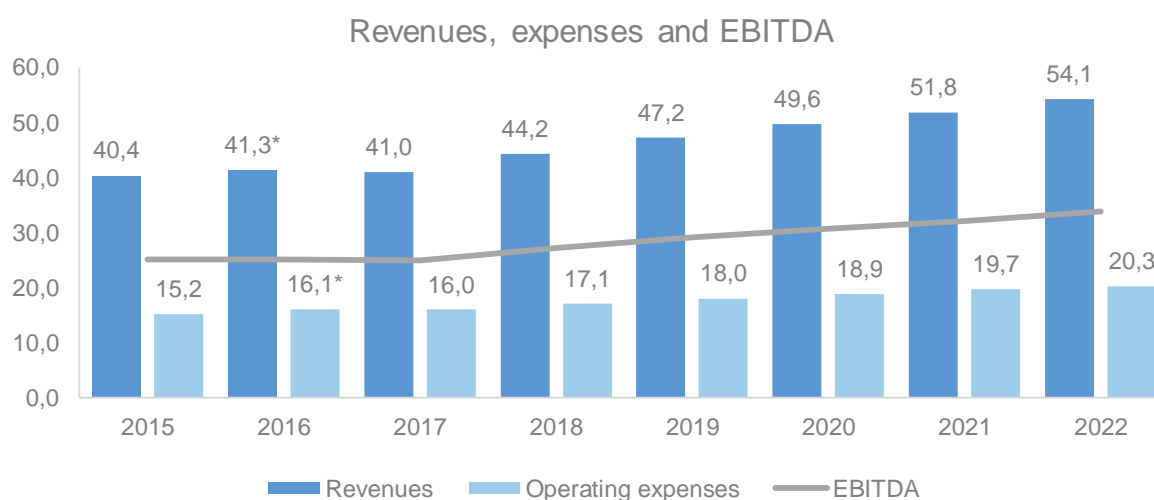
Repayment of liabilities is expected to be ISK 19.025 million and borrowing a total of ISK 9.875 million. Cash flow from operations at year end 2017 is expected to be ISK 14.859 million, compared to ISK 17.880 million in 2016.

# LONG TERM PLAN 2018 - 2022

## INCOME STATEMENT

### Revenue

Operating revenue is expected to increase by ISK 9.891 million from 2018 to 2022 or by 22,4%. Retail sales of electricity are to increase by ISK 3.345 million or 25,3% and retail sales of hot water by ISK 2.362 million or 20,5%. Wholesale revenue is to increase by ISK 1.144 million or by 17,7%.



Picture 1 – Revenues, Expenses and EBITDA (ISK 'Bn)

\* Forecast

### Expenses

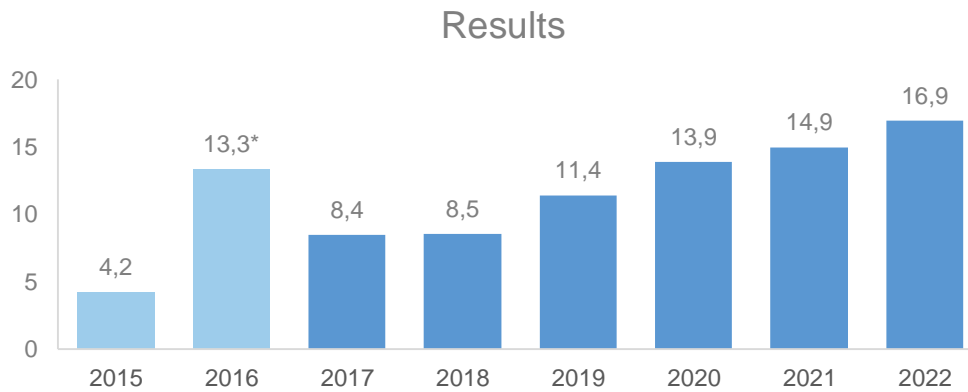
Expenses before depreciation are assumed to increase from 2018 to 2022 by ISK 3.230 million or 19,1%. Energy purchases and transmission costs are expected to increase by ISK 1.610 million or 24,8%. Wages and other operating expenses are expected to increase by ISK 1.650 million or 15,6%. Increases in operating expenses are mainly the result of general price increases.

EBITDA rises from ISK 27.160 million in 2018 to ISK 33.792 million in 2022 or by 24,4%.

# LONG TERM PLAN 2018 - 2022

## Income

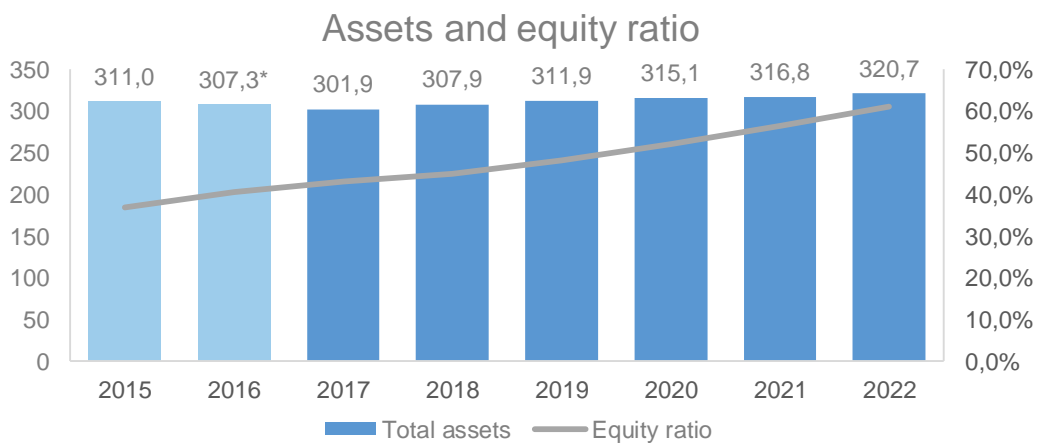
Picture 2 shows forecasted income for the period but income is expected to be positive by 16.934 million in 2022. Calculated items, i.e. changes in the value of derivatives embedded in electricity contracts, can have a considerable impact on income.



Picture 2 – Results (ISK 'Bn)  
\* Forecast

## BALANCE SHEET

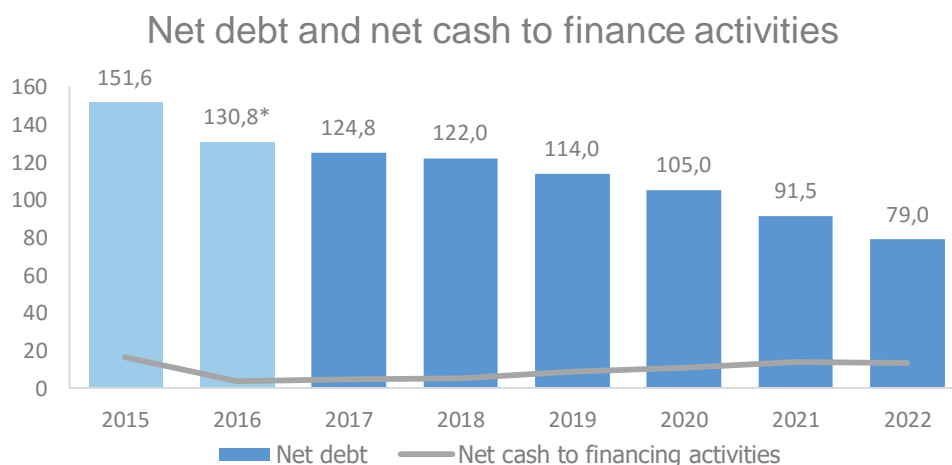
The forecast shows an increase in total assets by ISK 12.820 million or 4,2%. This amounts to ISK 320.713 million in total assets in 2022. The equity ratio improves constantly during this period from being 45,0% at year end 2018 to 61,0% at year end 2022.



Picture 3 – Total assets and equity ratio (ISK 'Bn)  
\* Forecast

## LONG TERM PLAN 2018 - 2022

Equity at year end 2022 is forecasted to be ISK 195.667 million, an increase of ISK 57.167 million from 2018. Assuming that total liabilities for the same period will be reduced from ISK 169.392 million to ISK 125.046 million, or by 26,2%.



**Picture 4 –Net debt and net cash to financing activities (ISK 'Bn)**  
\* Forecast

### Investment activities

The forecast for investments for the period 2018 – 2022 is ISK 71.385 million.

Investment in distribution systems is forecasted to be ISK 38.177 million. Primary projects are renewal of main supply pipeline for hot water, renewal of transmission- and sub stations and joint projects with the municipalities in OR's service area.

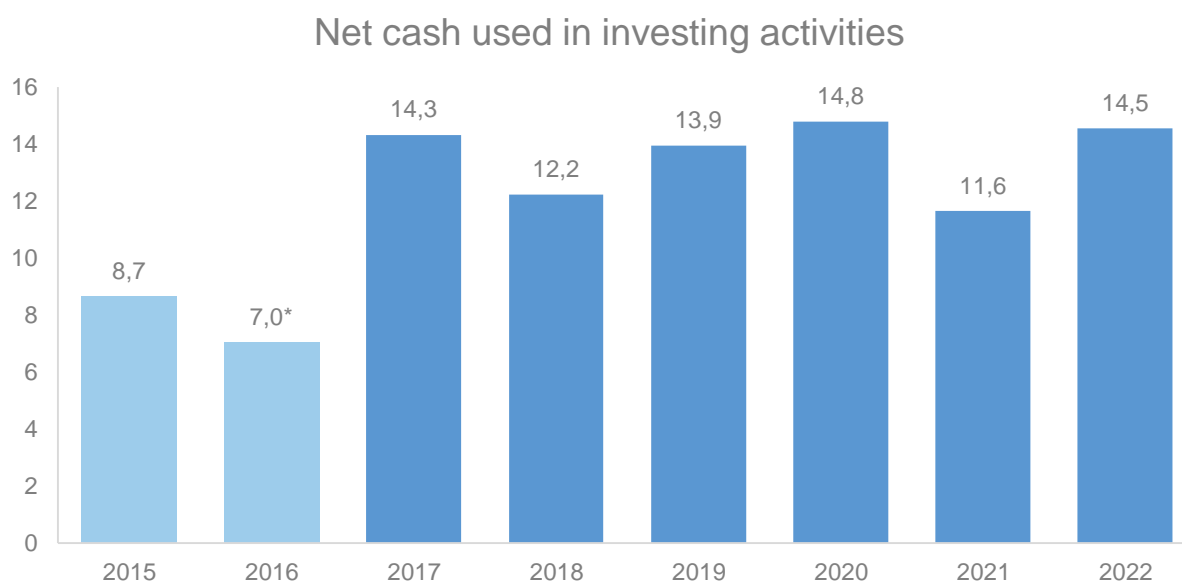
Investment in power plants is forecasted to be ISK 28.367 million. Primary projects are concerned with steam extraction and environmental projects.

### Investments

Investment overview in ISK millions.

INVESTMENTS							
LIST	2016	2017	2018	2019	2020	2021	2022
Power Plant	3.532	5.306	6.923	5.398	6.356	3.683	6.007
Distribution system	9,099	8.597	8.351	7,591	7.484	7.099	7.653
Other investment	920	1.207	796	639	696	599	620
<b>Total Investments</b>	<b>13.551</b>	<b>14.110</b>	<b>16.070</b>	<b>13.628</b>	<b>14.536</b>	<b>11.380</b>	<b>14.281</b>

## LONG TERM PLAN 2018 - 2022



Picture 5 – Investment activities – (ISK 'Bn)  
\* Forecast

## INVESTMENT PRIORITIES 2018-2022

	ISK million
ON Power plc	28.347
Hot water	14.575
Electricity	8.619
Fresh water	4.676
Sewage system	6.406
Fibre Optic	3.843
Information technology	1.558
Other	1.851

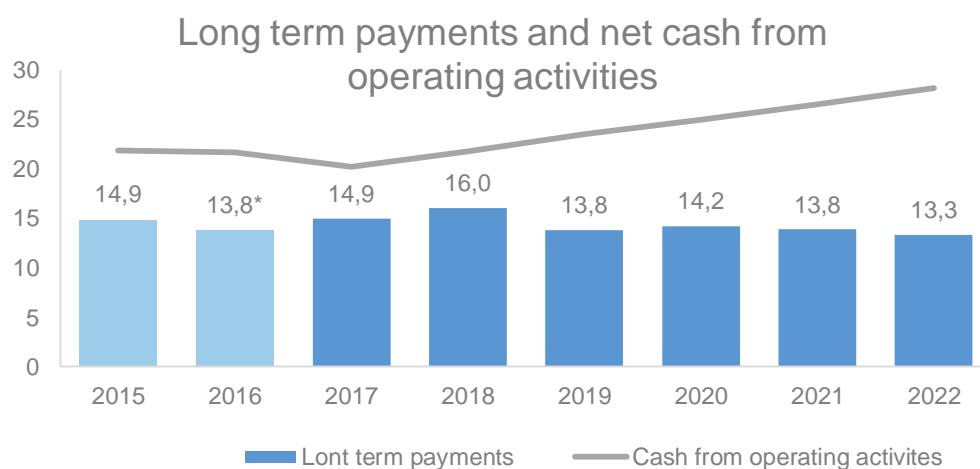
## LONG TERM PLAN 2018 - 2022

### Financing activities

Amortization of debt is forecasted to be between ISK 13.266 – 16.046 million in the period between 2018 and 2022, a total of 71.113 million.

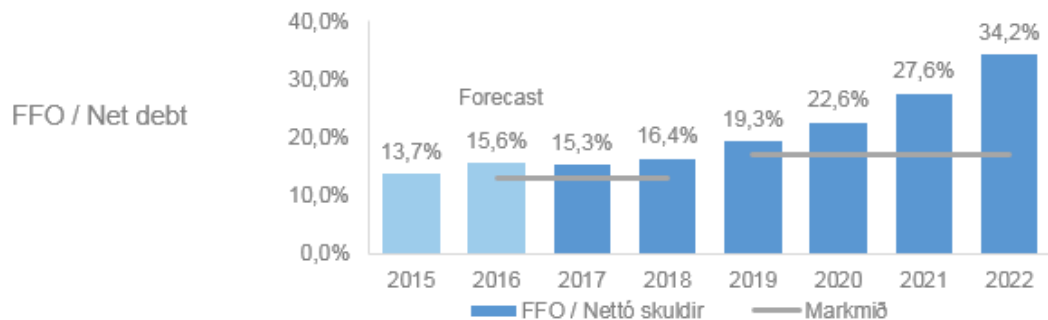
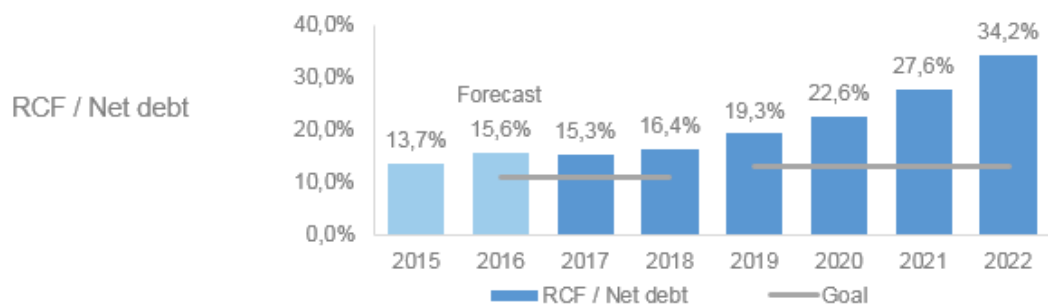
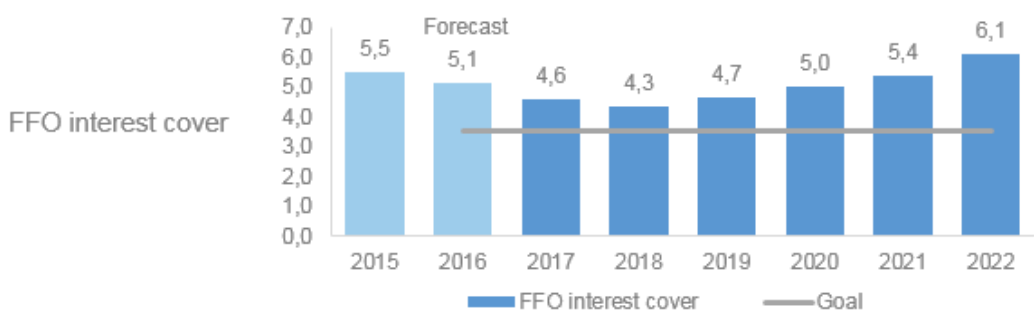
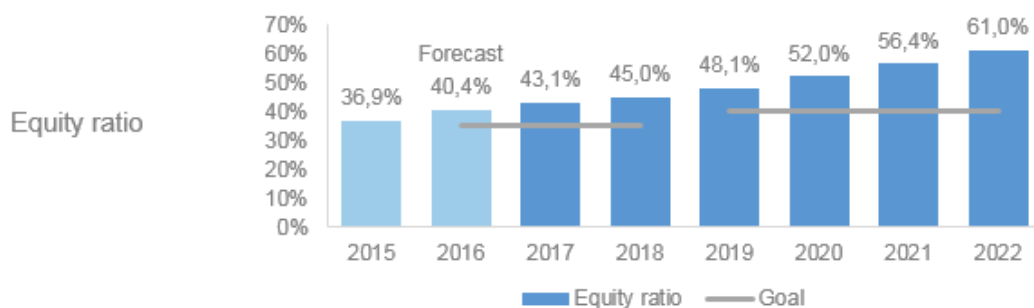
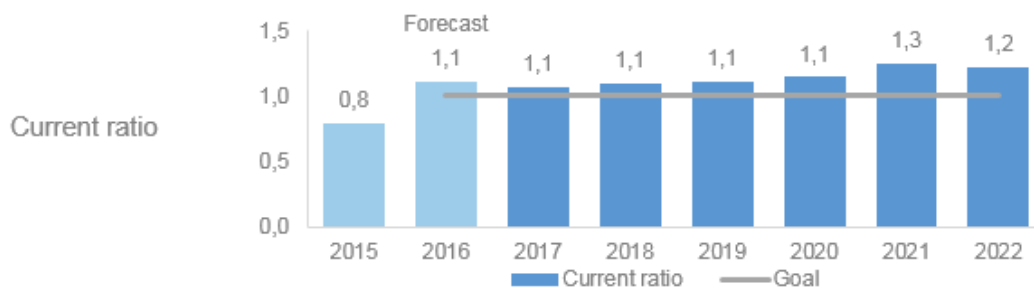
Borrowings of new loans are expected to be ISK 19.375 million for the period or 27,7% of investment and 27,2% of amortization of debt.

Cash and cash equivalents at year end increase from ISK 18.518 million in 2018 to ISK 20.897 million in 2022.



Picture 6 – Amounts (ISK 'Bn)  
\* Forecast

## REYKJAVIK ENERGY – KEY FIGURES





## FORECAST 2016 AND LONG TERM PLAN 2017-2022

<b>Income statement (mkr)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Operating income total</b>	<b>41.260</b>	<b>41.028</b>	<b>44.232</b>	<b>47.178</b>	<b>49.599</b>	<b>51.809</b>	<b>54.123</b>
<b>Operating cost total</b>	<b>16.098</b>	<b>16.030</b>	<b>17.072</b>	<b>18.049</b>	<b>18.895</b>	<b>19.682</b>	<b>20.332</b>
Power purchases	2.756	2.697	3.010	3.377	3.786	3.945	4.117
Transmission	3.436	3.329	3.478	3.612	3.746	3.843	3.981
Employee salaries	6.047	6.496	6.889	7.342	7.676	8.016	8.394
Other operational expenses	3.858	3.508	3.695	3.719	3.687	3.878	3.840
<b>Operating income before depreciation and amortization (EBITDA)</b>	<b>25.162</b>	<b>24.999</b>	<b>27.160</b>	<b>29.129</b>	<b>30.704</b>	<b>32.128</b>	<b>33.792</b>
Depreciation	10.721	10.443	10.428	10.751	11.051	11.303	11.553
<b>Results from operating activities (EBIT)</b>	<b>14.441</b>	<b>14.555</b>	<b>16.732</b>	<b>18.377</b>	<b>19.653</b>	<b>20.824</b>	<b>22.239</b>
<b>Financial income and expenses</b>	<b>3.469</b>	<b>-4.297</b>	<b>-6.992</b>	<b>-5.031</b>	<b>-3.556</b>	<b>-3.532</b>	<b>-2.927</b>
Interest income	506	692	695	700	782	784	786
Interest expenses	-4.915	-5.289	-6.007	-5.973	-5.888	-5.768	-5.303
Other (expenses) income on financial items	7.878	301	-1.679	242	1.550	1.452	1.590
<b>Profit before income tax</b>	<b>17.909</b>	<b>10.259</b>	<b>9.741</b>	<b>13.346</b>	<b>16.097</b>	<b>17.293</b>	<b>19.312</b>
Income tax	-4.569	-1.816	-1.215	-1.929	-2.231	-2.343	-2.378
<b>Profit for the year</b>	<b>13.341</b>	<b>8.442</b>	<b>8.525</b>	<b>11.417</b>	<b>13.866</b>	<b>14.950</b>	<b>16.934</b>

## FORECAST 2016 AND LONG TERM PLAN 2017-2022

<b>Balance sheet (mkr)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Assets</b>	<b>307.349</b>	<b>301.867</b>	<b>307.892</b>	<b>311.858</b>	<b>315.124</b>	<b>316.831</b>	<b>320.713</b>
<b>Non-current Assets</b>	<b>279.270</b>	<b>276.877</b>	<b>283.311</b>	<b>286.248</b>	<b>289.560</b>	<b>289.706</b>	<b>292.698</b>
<b>Current Assets</b>	<b>28.080</b>	<b>24.990</b>	<b>24.581</b>	<b>25.610</b>	<b>25.564</b>	<b>27.125</b>	<b>28.015</b>
<b>Equity and liabilities</b>	<b>307.349</b>	<b>301.867</b>	<b>307.892</b>	<b>311.858</b>	<b>315.124</b>	<b>316.831</b>	<b>320.713</b>
<b>Equity</b>	<b>124.200</b>	<b>129.975</b>	<b>138.500</b>	<b>149.917</b>	<b>163.783</b>	<b>178.733</b>	<b>195.667</b>
<b>Liabilities</b>	<b>183.150</b>	<b>171.892</b>	<b>169.392</b>	<b>161.941</b>	<b>151.340</b>	<b>138.098</b>	<b>125.046</b>
<b>Non-Current liabilities</b>	<b>157.796</b>	<b>148.451</b>	<b>147.117</b>	<b>138.883</b>	<b>129.057</b>	<b>116.459</b>	<b>102.215</b>
<b>Current liabilities</b>	<b>25.353</b>	<b>23.441</b>	<b>22.275</b>	<b>23.059</b>	<b>22.283</b>	<b>21.639</b>	<b>22.830</b>

## FORECAST 2016 AND LONG TERM PLAN 2017-2022

### Statement of Cash Flow (mkr)

	2016	2017	2018	2019	2020	2021	2022
<b>Working capital from operation before interest and taxes</b>	<b>25.224</b>	<b>25.037</b>	<b>27.201</b>	<b>29.172</b>	<b>30.749</b>	<b>32.175</b>	<b>33.841</b>
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>700</b>	<b>85</b>	<b>-36</b>	<b>-39</b>	<b>-155</b>	<b>-153</b>	<b>-226</b>
Received interest income	506	692	695	700	782	784	786
Paid interest expenses	-4.386	-4.215	-4.328	-4.444	-4.470	-4.332	-4.017
Paid income tax	0	-290	-754	-1.687	-1.931	-1.988	-2.273
Payments due to other financial income and expenses	-458	-1.094	-1.078	-235	-23	2	0
<b>Net cash from operating activities</b>	<b>21.586</b>	<b>20.215</b>	<b>21.699</b>	<b>23.467</b>	<b>24.952</b>	<b>26.488</b>	<b>28.111</b>
<b>Cash flows from investing activities</b>							
Power plants	-3.211	-4.273	-6.913	-5.398	-6.346	-3.683	-6.007
Utilities system	-9.099	-8.597	-8.351	-7.591	-7.484	-7.099	-7.653
Other investments	-920	-1.207	-796	-639	-696	-599	-620
<b>Investing activities total</b>	<b>-13.231</b>	<b>-14.077</b>	<b>-16.060</b>	<b>-13.628</b>	<b>-14.526</b>	<b>-11.380</b>	<b>-14.281</b>
<b>Other investing activities</b>	<b>6.188</b>	<b>0</b>	<b>4.280</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash used in investing activities</b>	<b>-7.042</b>	<b>-14.077</b>	<b>-11.780</b>	<b>-13.628</b>	<b>-14.526</b>	<b>-11.380</b>	<b>-14.281</b>
<b>Cash flows from financing activities</b>							
Proceeds from new borrowings	9.888	9.875	10.875	5.000	3.500	0	0
Repayment of borrowings	-14.793	-16.035	-17.135	-14.037	-14.188	-13.833	-13.266
Current liabilities, change	2.990	-2.990	0	0	0	0	0
<b>Net cash to financing activities</b>	<b>-1.915</b>	<b>-9.150</b>	<b>-6.260</b>	<b>-9.037</b>	<b>-10.688</b>	<b>-13.833</b>	<b>-13.266</b>
<b>Increase in cash and cash equivalents</b>	<b>12.629</b>	<b>-3.011</b>	<b>3.659</b>	<b>802</b>	<b>-262</b>	<b>1.275</b>	<b>565</b>
<b>Cash and cash equivalents at year beginning</b>	<b>5.264</b>	<b>17.880</b>	<b>14.859</b>	<b>18.518</b>	<b>19.319</b>	<b>19.057</b>	<b>20.332</b>
<b>Effect of currency fluctuations on cash and cash equivalents</b>	<b>-13</b>	<b>-10</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at end of period</b>	<b>17.880</b>	<b>14.859</b>	<b>18.518</b>	<b>19.319</b>	<b>19.057</b>	<b>20.332</b>	<b>20.897</b>