

Orkuveita Reykjavíkur

Consolidated Financial Forecast

Forecast 2020
Plan 2021
Long-Term Plan 2022-2026

Approved by Board of
Directors 2.10.2020



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Role and structure of Reykjavik Energy

Orkuveita Reykjavíkur (OR; Reykjavik Energy), a utility company, provides services underpinning a high quality of life in the municipalities it serves. The company utilises resources in a responsible, sustainable and cost-effective way with respect for nature and without diminishing the rights of future generations. The values of Reykjavik Energy are;

Foresight **Efficiency** **Integrity**

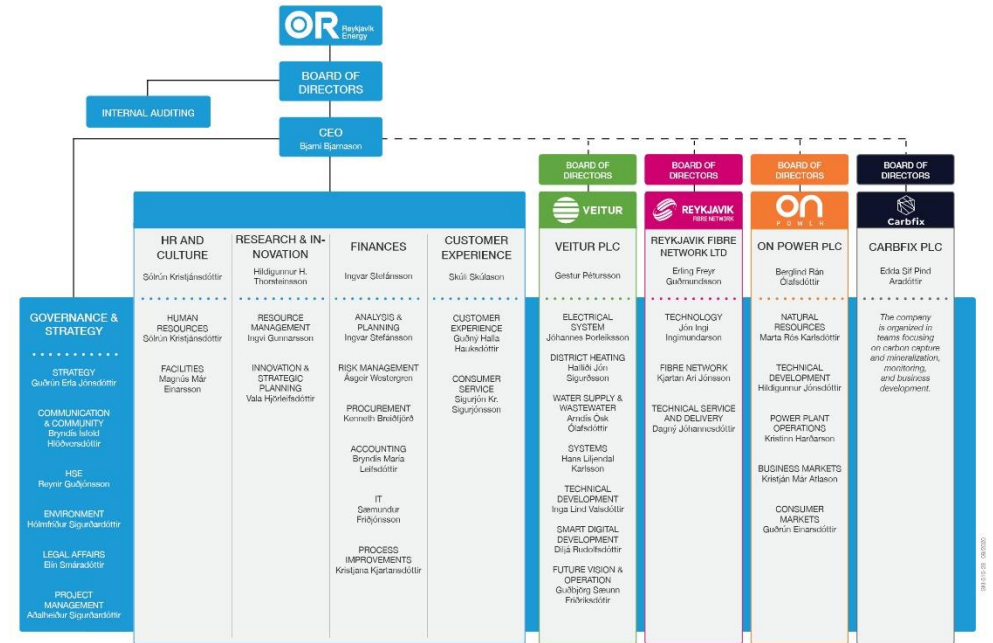
The current structure of OR was formed according to the energy laws which came into effect in the beginning of 2014. The company is a group of service companies, with the parent company OR servicing the group. The subsidiaries are Veitur, which is responsible for the construction and operation of utility systems, most of which are operated under concessions; Orka náttúrunnar, which operates power plants and sells electricity in a competitive market; Ljósleiðarinn, but under its banner builds an telecommunications system in a competitive market; and Carbfix, a start-up company developing and advancing carbon sequestration technologies.

OR Consolidation



OR is a partnership company which operates according to specific laws and is a parent company to three service companies. OR 's Board of Directors is elected by its owners: the City of Reykjavik, the municipality of Akraness, and the municipality of Borgarbyggð. The CEO of OR represents the interests of the parent company in the subsidiaries. The parent company has a joint development department comprised of scientists and technicians, a finance department servicing the subsidiaries, and a joint services division, including a service centre and invoicing department. At the CEO 's office, a group of experts in various areas of the business work together with all the companies in the group.

Organisational Chart



Owners of Reykjavik Energy

	Reykjavíkurborg 93,54%		Akraneskaupstaður 5,53%		Borgarbyggð 0,93%
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The first dividend payments to owners following the financial crisis were paid in 2017. Dividend payments always take into consideration:

- Requirements approved by OR 's Board of Directors (BoD) and owners at the end of 2015
- Goals of the BoD and owners regarding returns and other specific factors of company operations
- OR owner's policy which stipulates a fair price for services provided
- Official regulations about returns and profits of regulated operations

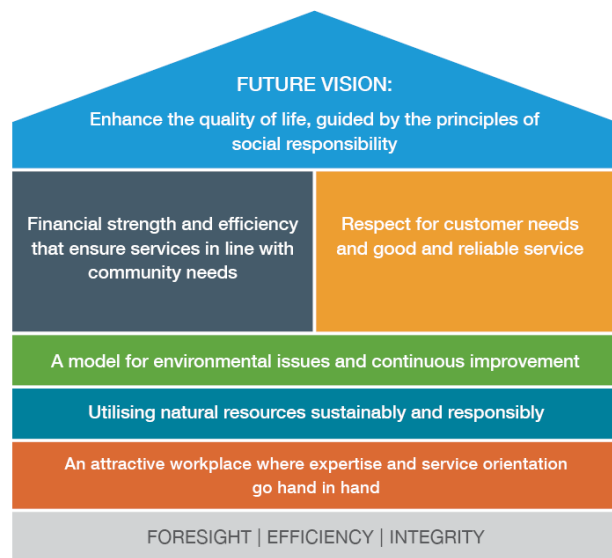
OR Policy

OR uses nature in a responsible, sustainable, and efficient way and with respect without compromising the rights of future generations. OR strives to meet the needs of customers with good service at a reasonable price, reliable operations, and a warm welcome. The group's vision rests on several pillars and is guided by social responsibility. The cornerstones which are the key focus of the business are:

- Utilization of natural resources in a sustainable and responsible way
- Be a role model in environmental issues and work for continuous improvement
- Respect customer needs and provide quality and safe service
- Have the financial strength and efficiency that ensures services in line with the needs of society
- Be a desirable workplace where professional knowledge and willingness to serve go hand in hand

OR's overall strategy is the group's strategy. Divisions and subsidiaries in the RE group have also formed a vision and policy regarding how they fulfil their role within the group so that they can jointly achieve success.

Policy house OR



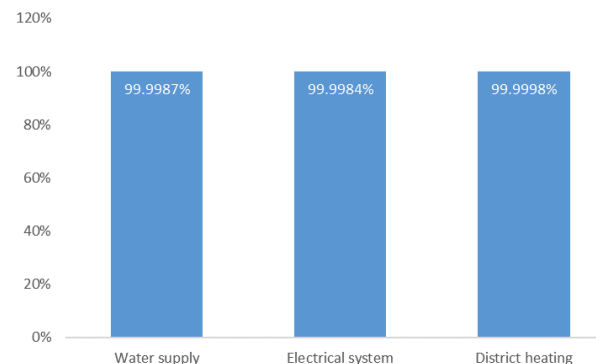
Introduction

The forecast for 2019 and the long-term plan 2020-2024 is consolidated for the parent company OR and the subsidiaries Veitur Utilities plc, ON Power plc, and Reykjavik Fibre Network ('Gagnaveita Reykjavíkur'). Forecasts for each subsidiary have been approved by its respective Board of Directors, prior to OR's BoD's approval.

When preparing a financial forecast for the OR Group, strategic budgeting (Beyond budgeting) is used. The method entails that the companies' registered policy, which is based on an ownership policy for Orkuveita Reykjavíkur, is used as a basis and the measurable goals that result from the policy.

The main objective of the OR Group is to fulfil the basic roles described in OR's ownership policy of social responsibility. The company has established various criteria for this purpose and their position is published annually in OR's Annual Report. Financial targets and key metrics are also presented graphically in this forecast.

The service security of the utilities 2019



Service security is calculated so that the total duration of unforeseen disruptions experienced by customers is divided among all customers of each provider. The ratio then indicates how large a part of the year each customer enjoyed service.

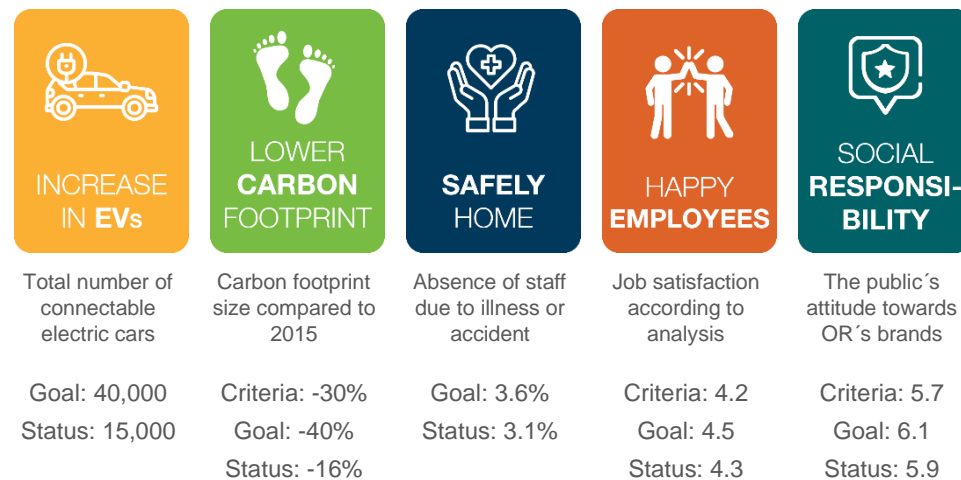
The main investments made during the forecast period to strengthen the service and strengthen the sustainability of the business were;

- General update of energy meters at customers. New smart meters create opportunities for more diverse and better customer service.
- New electricity substation at Sundahöfn in Reykjavík. It strengthens the security of electricity supply and allows for land connections for large vessels that burn less fossil fuels.
- Sewer pumping station at Elliðavogur. It is from a new generation where there is no need to discharge sewage into the sea even though maintenance is being carried out.
- Maintenance drilling and doubling of the Hverahlíðar pipeline for steam generation for the power plants in the Hengill area.
- Upgrading of the control equipment of the Nesjavellir power plant.
- Ongoing development of the ON Geothermal Park at the Hellisheidi Geothermal Power Plant to promote further multi-utilization of geothermal energy.
- Laying of fiber optic cables to homes in the urban areas of Reykjanesbær, Árborg and Vogar on Vatnsleysuströnd.

Other structure and strengthening of the data transmission system that is considered profitable, including structure of 5G mobile network. Reconstruction of the part of OR's office building at Bæjarhóls that is severely damaged by moisture.

Goals for increased quality of life.

Reykjavik Energy is also working on five defined goals by the year 2023 with increased quality of life as a guideline.



Climate criteria are applied to the Paris Agreement, job satisfaction in the Iceland at Work database and in brand surveys the average of measurements of attitudes towards the brands of Icelandic companies in the field of operation of the OR Group.





United Nations Global Goals

Reykjavik Energy is a member of the Global Compact and works towards the United Nations Global Goals, with special emphasis on five of them.



OR's 2020 forecast and the five-year forecast for years 2021-2025 will now be taken to the city of Reykjavik for review as part of the consolidated financial plans for the city.

Company focus 2021-2026

	 VEITUR	 ON	 LJÓSLEIDARINN	 Carbfix
Role	The purpose of Veitur is to develop and build utility systems that are the basis of quality of life.	Orka náttúrnar owns and operates power plants that produce electricity for companies and homes all over the country and hot water for Veitur's supply area. The purpose of ON activities is to increase the quality of life and create value in a sustainable way, as well as to be a leading force in innovation and development of renewable energy.	The purpose of Reykjavik Fibre Network is to run a telecommunication and fibre optic system, in addition to other comparable operations.	Carbfix contributes to the further development, knowledge and distribution of carbon sequestration in rocks with the aim of reducing greenhouse gas emissions and combating climate change.
Focus 2021-2026	According to Veitur's policy and vision which was approved in the spring of 2018, the company's employees are on the road to transforming the company from a traditional utility company into a progressive service and knowledge company that lays the foundation for the quality of life.	Underpinning this financial forecast is the responsible use of resources; safe, competitive and cost-effective operation; the development of a geothermal park; the ongoing development of electric vehicle charging as well as the reduction of carbon footprint.	The focus is to continue to connect fibre optic cable to Icelandic homes, increasing the number of customers in connected areas.	The financial forecast reflects the policy emphasis that Carbfix is at the forefront of environmentally friendly and cost-effective carbon disposal, works on further knowledge creation and builds efficient and cost-effective operations.
Main investments	During the year, the BoD agreed to increase investments for the years 2020 and 2021 to participate in societal resistance to the effects of the Covid-19 epidemic. These are investments that will both have a positive countervailing effect on the economic impact of the epidemic and strengthen Veitur in its journey towards the company's vision for the future.	ON investments seek to secure continued operations of power plants with solid steam extraction, and to meet the company's goals regarding the environment. The Nesjavellir power plant's control unit will be upgraded and further expansion of the heating plan in Hellisheiði.	During the forecast period, the aim is to complete the installation of fibre-optic cables for households in the urban areas of Reykjanesbær, Selfoss and Vogá on the Vatnsleysuströnd. New buildings in these areas will also be connected. This allows the fibre-optic network to be available to most households and companies in the country.	Development of further carbon sequestration and disposal at the Hellisheiði and Nesjavellir power plants. Feasibility study on CO2 disposal from Sorpa with the aim of selling carbon quotas. Feasibility study on CO2 imports for disposal.

Assumptions and criteria 2021-2026

Assumptions for the 2021-2026 budget are based on the Economic forecast published by Iceland Statistics in June 2020. In addition, assumptions are based on forecasts from the Central Bank of Iceland, the City of Reykjavik as well as forecasts from OR 's staff. Criteria for the development of aluminium price projections are based on information from The London Metal Exchange. Interest rate forecasts were based on implied forward rates according to currencies and interest rates of discrete loan agreements.

Assumptions and criteria

Description	2020	2021	2022	2023	2024	2025	2026
Consumer Price Index. change (%)	2.4	2.4	2.6	2.5	2.5	2.5	2.5
Building cost index, change (%)	2.1	2.7	3.0	2.6	2.6	2.6	2.6
Wage Index, change (%)	5.8	5.6	5.4	4.2	4.2	4.2	4.2
Currency. Narrow Trade Index. change (%)	8.9	-1.2	0.0	0.0	0.0	0.0	0.0
Aluminium price per tonne. average for the year (\$)	1,688	1,818	1,891	1,965	2,044	2,122	2,195

Priorities and assessment of investments

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 reviewed and prioritized before presentation. Investment decisions go through several stages in preparation through regular Stage-Gate processes. Where each investment project must meet both harmonized requirements for such projects and comparisons with other projects, including efficiency and benefits. Following this analysis, every project is considered by each subsidiary and consequently sent to OR 's Board of Directors as well as owners for approval, if appropriate, according to predefined conditions. Investments in utility systems are the most extensive investment category. Objective analysis of the following factors is considered:

- Increased usage or demand
- Break-down history
- Age of pipes and equipment
- Materials
- Status analysis
- Employee and customer safety
- Service security
- Risk

Forecast 2021-2026

Income statement

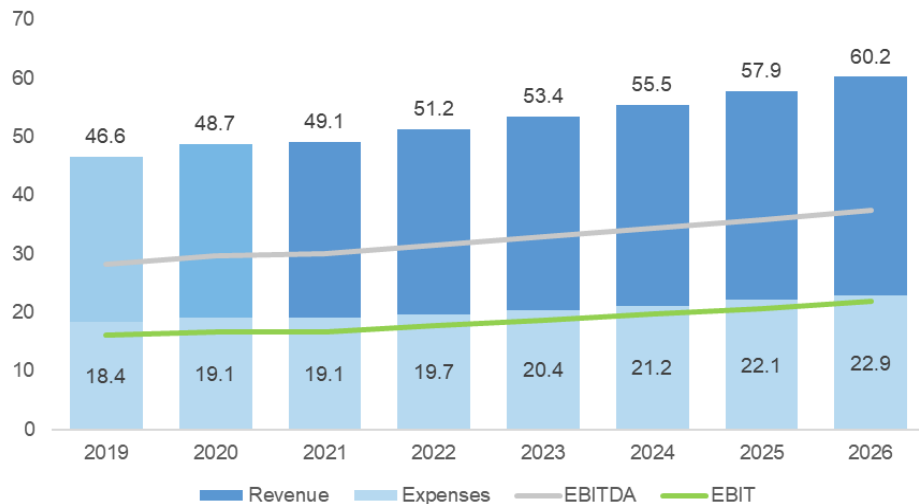


Figure 1 – ISK billions

We project income from electricity sales to increase by ISK 3.7 billion or 15.6% between 2021 to 2026 and income from hot water sales to increase by ISK 3,0 billion or 18.4%. Expenses before depreciation are expected to increase from 2021 to 2026 by ISK 3.7 billion or 16.3%. Increases in operating expenses are mainly the result of general price increases.

EBITDA stands for earnings before interest, taxes, depreciation, and amortization. EBIT stands for earnings before interest and taxes. The profitability of the OR Group has been steady and strong in recent years. This has served our operations, which require considerable investments to maintain utility systems and power plants to service new customers and to meet increased demands of the operations.

EBITDA margin

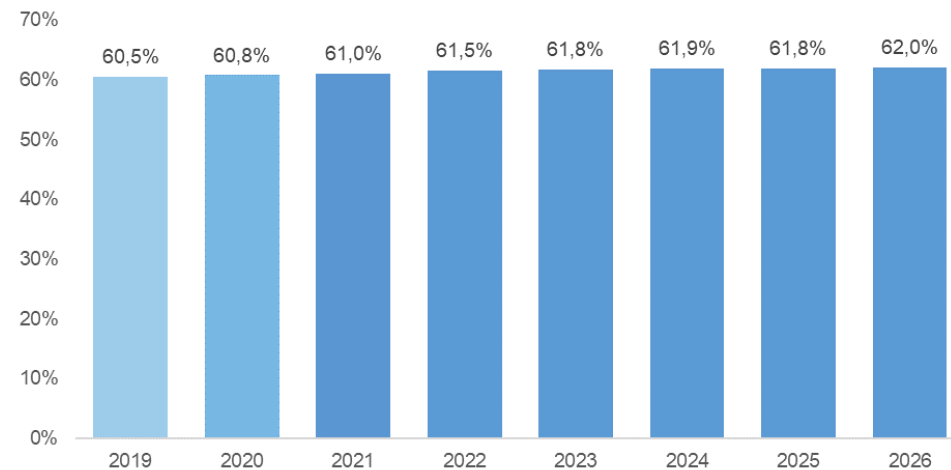


Figure 2 – EBITDA / Revenue

Income

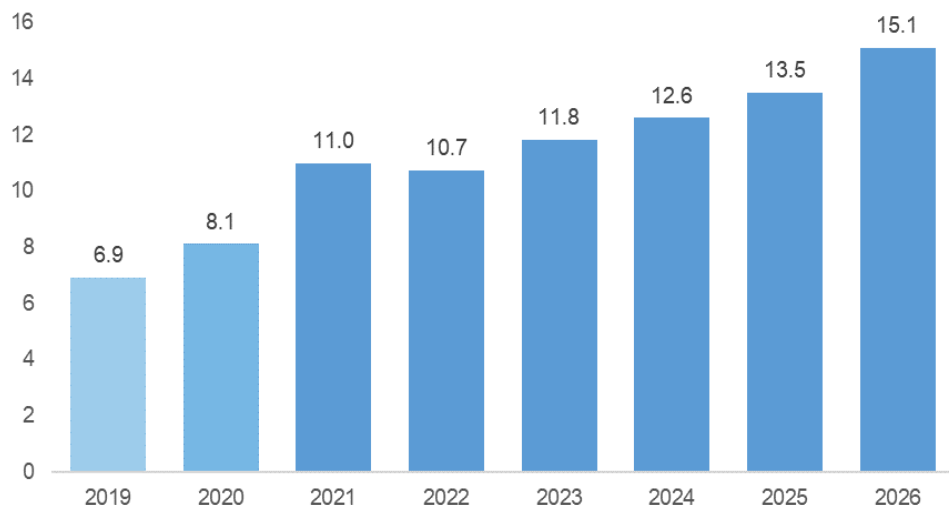


Figure 3 – ISK billions

Figure 3 shows forecasted income for the period. Income is expected to be positive by ISK 15.1 billion in 2026. Calculated items, i.e. changes in the value of derivatives embedded in electricity contracts, can have a considerable impact on income.

Assets and equity ratio

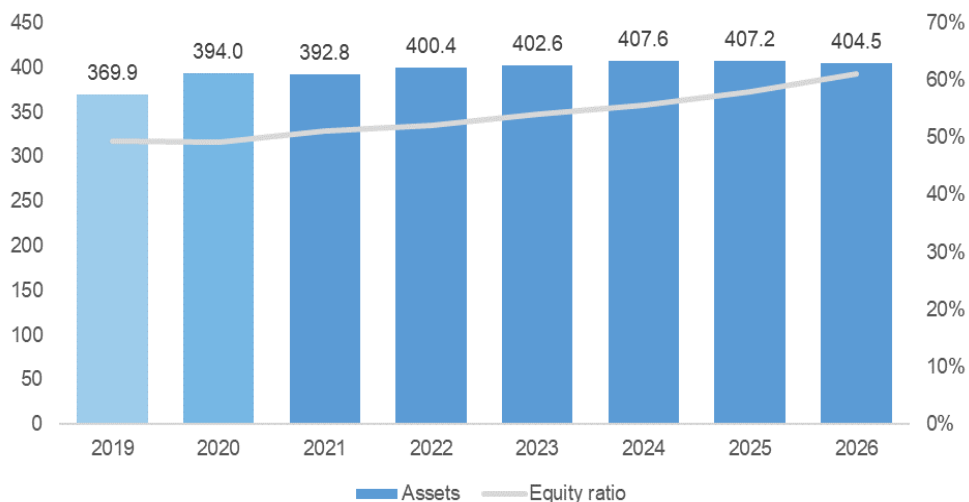


Figure 4 – Equity in ISK billions

Assets are expected to grow in value in the coming years as a result of increased investments in utilities systems. The company will continue to repay debt during the forecast period. The equity ratio is furthermore expected to improve between 2021-2026, from 51.2% at year-end 2021 to 61.1% by the end of 2026.

Cash flow with deposits and marketable securities

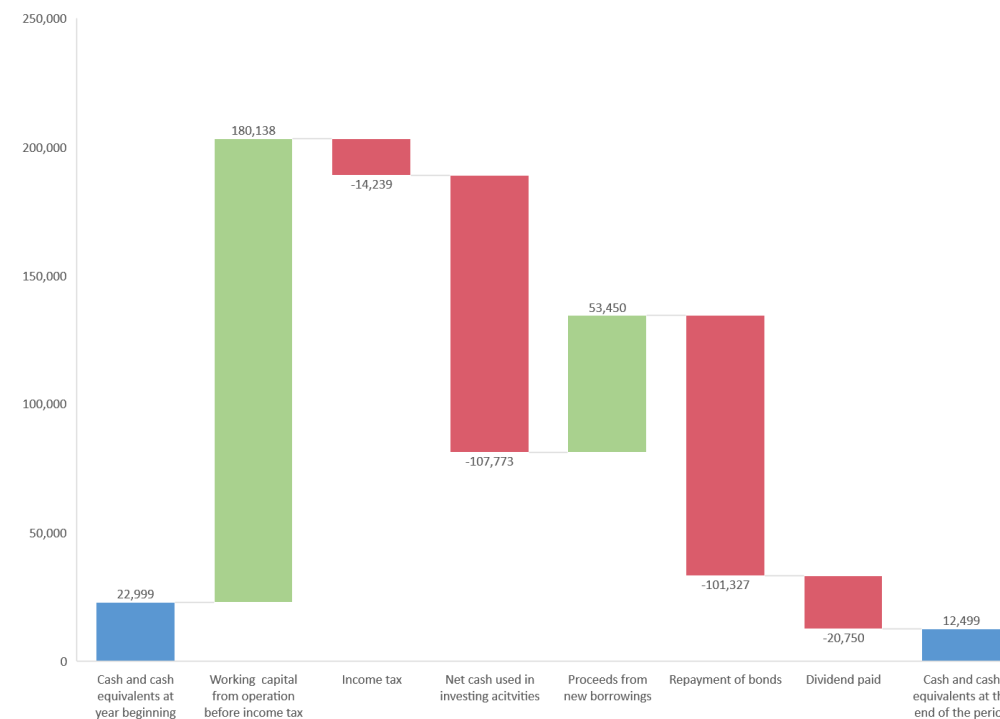


Figure 5 – ISK billions

Working capital from operation before income tax is mainly used for investments and loan repayments. Part of the debt will be refinanced during the period with new borrowing. Considering expected income tax payments and dividend payments, cash and cash equivalents at the end of 2026 is expected to be ISK 2.7 billion but ISK 12.5 billion including deposits and marketable securities.

Investments

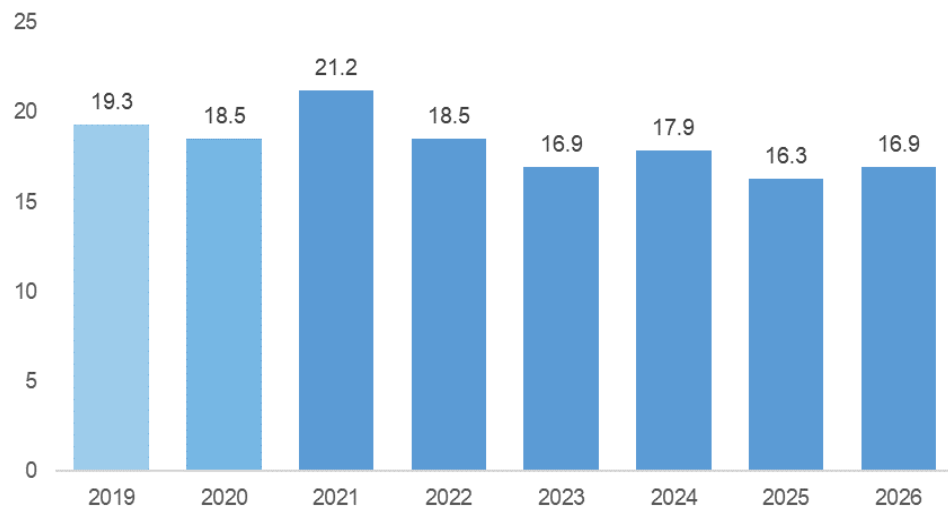


Figure 6 – ISK billions

Financing

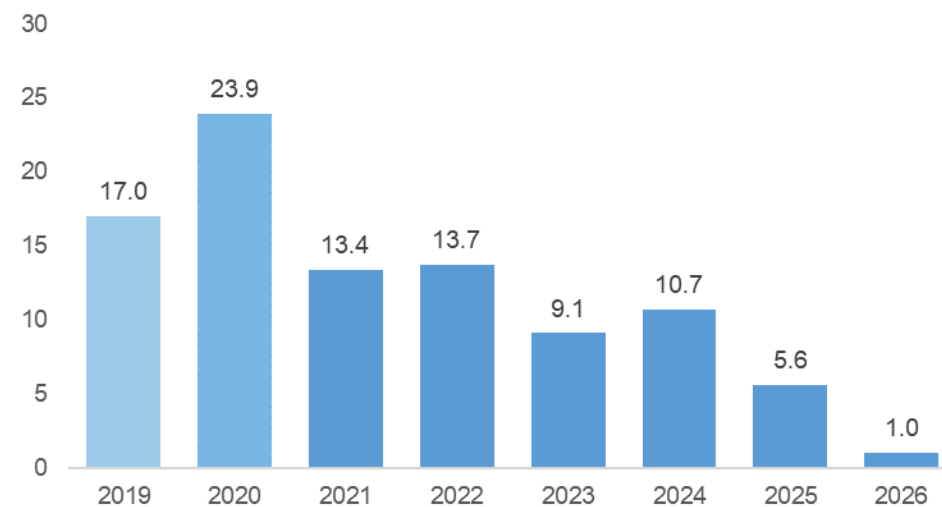


Figure 7 – ISK billions

Table 1

Main investments 2021-2026	ISK billions
Utilities	68.7
Power stations	28.1
Other investments	11.1
Investment total	107.9

Long-term payments and net cash from operating activities (ISK billions)

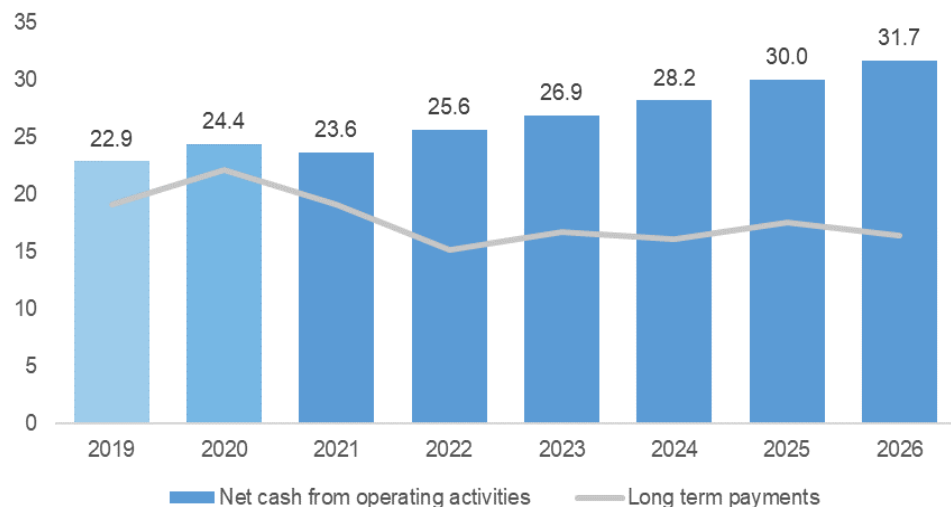


Figure 8 – ISK billions

Debt repayments are estimated between ISK 15.2 – 19.1 billion per year between 2021 - 2026, a total of ISK 101.0 billion.
 Borrowing is estimated at ISK 53.4 billion during the period.
 Dividend payments to owners are estimated at ISK 20.7 billion during the forecast period.

Net debt and net cash to financing activities

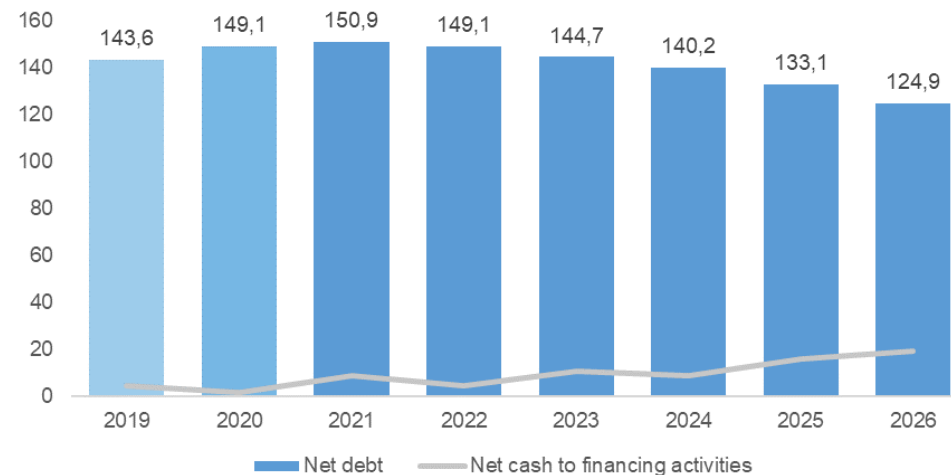
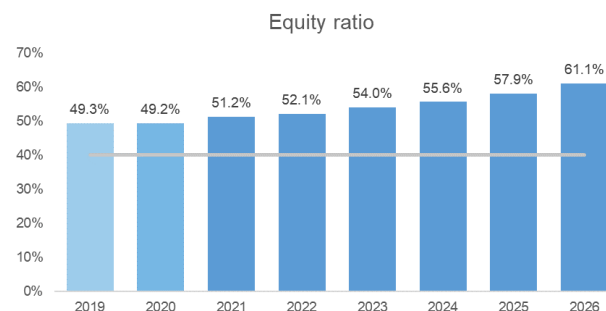


Figure 9 – ISK billions

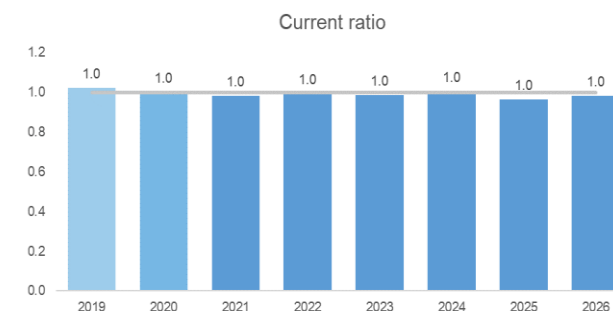
Debt is projected to fall by ISK 26.0 billion over 2021-2026 according to the long-term plan.

Key performance indicators

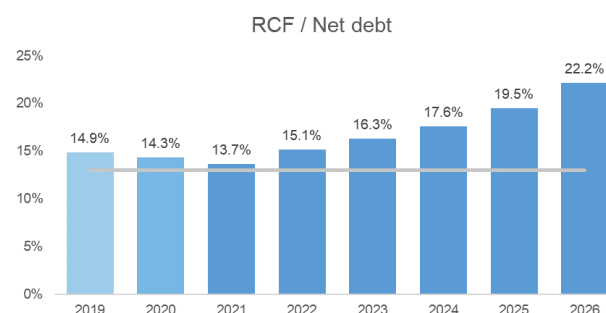
In line with OR's owners' policy and other financial plans, the company focuses on implementing policies that nurture healthy finances. This involves continuously improving key financial indicators such as current ratio, equity ratio, interest coverage etc. The forecast is based on certain key financial indicators in line with owners' policy and the method of Beyond Budgeting. Dividend requirements are determined in conjunction with OR's owners' policy, which stipulates that the requirements must be approved by The Board of Directors and consequently confirmed by OR's owners. Key financial indicators must be met before and after dividend payment is approved.



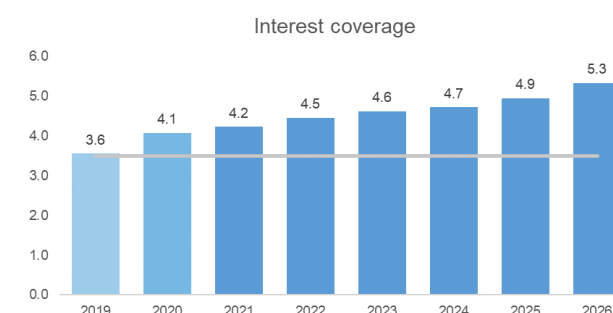
Goal > 40%



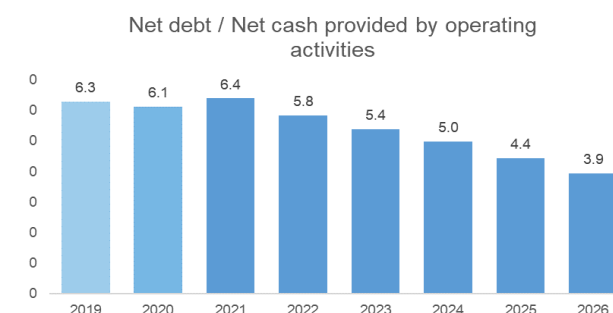
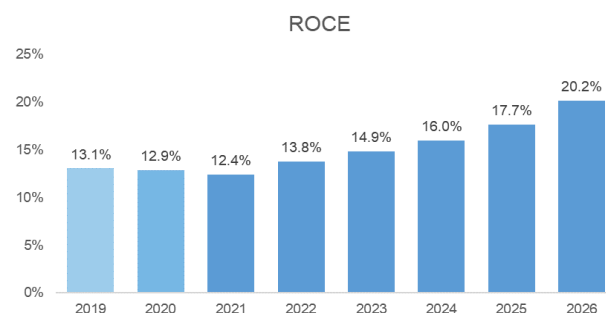
Goal > 1,0



Goal > 13%



Goal > 3,5



Forecast 2020-2026 – Income statement

	Actual 2019 (ISK millions)	Forecast 2020 (ISK millions)	Forecast 2021 (ISK millions)	Forecast 2022 (ISK millions)	Forecast 2023 (ISK millions)	Forecast 2024 (ISK millions)	Forecast 2025 (ISK millions)	Forecast 2026 (ISK millions)
Operating income total	46,570	48,748	49,122	51,242	53,415	55,494	57,874	60,239
Operating expenses total	18,398	19,126	19,138	19,722	20,431	21,164	22,093	22,872
EBITDA	28,172	29,622	29,984	31,519	32,985	34,330	35,781	37,367
Deprecation	12,121	12,983	13,388	13,848	14,262	14,661	15,060	15,417
EBIT	16,051	16,639	16,596	17,671	18,723	19,669	20,721	21,951
Financial items	-8,798	-7,662	-2,601	-4,778	-4,457	-4,610	-4,702	-3,967
Interest income	1,231	394	341	365	389	423	457	466
Interest expenses	-7,934	-7,240	-6,722	-6,821	-6,838	-6,958	-6,971	-6,754
Other (expenses) income on financial items	-2,094	-815	3,780	1,678	1,992	1,926	1,812	2,321
Profit (loss) before income tax	7,253	8,977	13,995	12,894	14,266	15,059	16,019	17,984
Income tax	337	873	3,020	2,184	2,436	2,465	2,509	2,893
Profit (loss) for the year	6,916	8,104	10,975	10,709	11,830	12,595	13,510	15,091

Forecast 2020-2026 – Balance sheet

	Actual 2019 (ISK millions)	Forecast 2020 (ISK millions)	Forecast 2021 (ISK millions)	Forecast 2022 (ISK millions)	Forecast 2023 (ISK millions)	Forecast 2024 (ISK millions)	Forecast 2025 (ISK millions)	Forecast 2026 (ISK millions)
Assets	369,884	394,033	392,785	400,382	402,642	407,617	407,182	404,544
Non-current assets	344,342	363,492	368,923	373,717	376,398	379,421	380,575	381,853
Current assets	25,542	30,541	23,861	26,666	26,244	28,195	26,608	22,691
Equity and liabilities	369,884	394,033	392,785	400,382	402,642	407,617	407,182	404,544
Equity	182,299	193,868	201,064	208,774	217,353	226,448	235,958	247,049
Liabilities	187,585	200,165	191,720	191,609	185,288	181,169	171,224	157,495
Non-current liabilities	162,635	169,616	167,463	164,781	158,705	153,066	143,621	134,432
Current liabilities	24,950	30,549	24,258	26,828	26,584	28,102	27,603	23,062

Forecast 2020-2026 – Statement of Cash Flow

	Actual 2019 (ISK millions)	Forecast 2020 (ISK millions)	Forecast 2021 (ISK millions)	Forecast 2022 (ISK millions)	Forecast 2023 (ISK millions)	Forecast 2024 (ISK millions)	Forecast 2025 (ISK millions)	Forecast 2026 (ISK millions)
Cash generated from operations before interest and taxes	28,994	29,872	30,044	31,662	33,053	34,407	35,841	37,402
Paid interest expenses	337	391	269	207	193	185	180	197
Received interest income	-5,317	-5,275	-4,781	-4,723	-4,550	-4,467	-4,277	-4,021
Paid income taxes	-1,477	-1,718	-2,367	-2,038	-2,411	-2,544	-2,375	-2,505
Paid due to other financial income and expenses	328	1,099	439	479	600	600	600	600
Net cash from operating activities	22,864	24,368	23,604	25,587	26,885	28,182	29,969	31,673
Cash flow from investing activities								
Acquisition of property, plant and equipment	-19,310	-18,513	-21,176	-18,529	-16,947	-17,921	-16,309	-16,938
Other financing activities	-1,771	0	0	0	0	48	0	0
Cash flow from investing activities total	-21,080	-18,513	-21,176	-18,529	-16,947	-17,874	-16,309	-16,938
Cash flows from financing activities								
Proceeds from new borrowing	16,967	23,899	13,350	13,700	9,100	10,700	5,600	1,000
Repayment of borrowings	-19,629	-22,354	-19,264	-15,313	-16,708	-16,130	-17,519	-16,392
Dividends paid	-1,500	-3,000	-3,000	-3,000	-3,250	-3,500	-4,000	-4,000
Net cash used in financing activities	-4,163	-1,455	-8,914	-4,613	-10,858	-8,930	-15,919	-19,392
Increase (decrease) in cash and cash equivalents	-2,523	4,401	-6,487	2,445	-919	1,378	-2,260	-4,658
Cash and cash equivalents at year beginning	10,988	8,765	13,166	6,679	9,123	8,204	9,583	7,323
Exchange difference on cash and cash equivalents	192	0	-1	0	0	0	0	0
Cash and cash equivalents at end of period	8,657	13,166	6,679	9,123	8,204	9,583	7,323	2,666