



VEITUR



GAGNAVEITA
REYKJAVÍKUR



ORKA NÁTTÚRUNNAR



Orkuveita Reykjavíkur



Reykjavik Energy – Consolidated Financial Forecast

Forecast 2018 and Long-Term Plan 2019 – 2023

Approved by Board of Directors 20.10.2017

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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 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.

The main investment projects of the power plants are related to environmental issues and steam generation. Among them are the drilling of production wells for both power plants in the Hengill area and a re-injection project. During the forecast period it is also planned to build the second phase of the Hellisheiði power plant hot water unit, which serves the district heating system. Emphasis will be placed on multi-use and continuing construction of the Geothermal Park at Hellisheiði Power Plant. A new re-injection basin, located on the outskirts of the existing production area, is planned, but there is also an option to deliver the water to the sea. The overall assessment of the Andakílsá Power Plant is ongoing. There are no investments at Andakílsá Power Plant within the forecast. The outcome of an audit can change that.

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 2017 and 2023.

Dividen will be paid again in 2017. It is based on the strict dividend terms agreed by the Board of Directors and owners at the end of 2015

OR's Financial Forecast for the year 2018 and the five-year forecast for years 2019-2023 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 Andakíll 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 Andakíll 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



ASSUMPTIONS AND CRITERIA

ASSUMPTIONS

The prerequisites for The Forecast 2018 and the forecast for the financial plans for the years 2018-2023 are based on the Economic forecast published by Iceland Statistics in May 2017. 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	2017	2018	2019	2020	2021	2022	2023
Consumer Price Index, change (%)	1,9	2,7	2,9	2,7	2,6	2,5	2,5
Building Cost Index Dec-Dec, change (%)	1,4	2,9	2,4	3,3	2,7	2,6	2,5
Wage index, change (%)	6,7	6,5	5,9	4,6	4,3	4,2	4,2
Currency, Narrow Trade Index, change (%)	-14,1	-3,1	-0,3	0,0	0,0	0,0	0,0
Aluminium prices, average for the year (\$)	2.061	2.121	2.159	2.195	2.227	2.262	2.307

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 2016 and estimates for the following years:

Key figures	Actual	Expected results	Budget
	2016	2017	2018
EBITDA/Operating revenue	61,2%	61,5%	62,4%
Equity ratio	40,4%	46,9%	47,8%
Current ratio	0,8	1,1	1,0
(Interest bearing debt - cash and cash equivalents)/EBITDA	5,2	4,4	4,3
FFO interest coverage	5,0	4,5	3,8
FCF/Net debt	6,1%	4,3%	-4,0%
RCF/Net debt	16,5%	16,6%	13,7%
ROCE	5,2%	6,3%	6,2%

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:

	2016-2018	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

Interest cover= measures the ability to meet interest payments of liabilities

RCF = Operating cash - dividends

FORECAST 2018

Expected profit for the year 2018 is ISK 8.651 million, compared to ISK 18.462 million in 2017. This is an estimated decrease in profit of ISK 9.811 million. Equity ratio is expected to be 47,8% at year-end 2018, compared to 46,9% at year-end 2017.

INCOME STATEMENT

Revenue

Operating revenues are expected to be ISK 43.249 million compared to ISK 42.996 million in 2017, an increase of 0,6%.

Expenses

Budgeted operating costs before depreciation for the year 2018 are ISK 16.256 million compared to ISK 16.538 million in 2017, an decrease of 1,7%.

EBIDTA is expected to be ISK 26.993 million in 2018, compared to ISK 26.457 million in 2017.

BALANCE SHEET

Assets

Total assets are expected to be ISK 292.086 million at year end 2018 compared to ISK 284.944 million at year end 2017, an increase of 2,5%.

Equity and liabilities

Equity is expected to be ISK 139.637 million at year end 2018 compared to ISK 133.525 million at year end 2017. Liabilities are expected to increase from ISK 151.419 million to ISK 152.449 million at year end 2018, an increase of 0,7% year on year.

CASH FLOW

Net cash from operating activities

Cash flow from operations is expected to be ISK 18.195 million for the year 2018 compared to ISK 20.071 million for the year 2017.

Paid income tax is expected to be ISK 3.248 million for the year 2018 and ISK 1.720 million at year end 2017

Investment activities

Investment in fixed assets is expected to be ISK 20.169 million for the year 2018 compared to ISK 13.676 million for the year 2017.

In 2018, OR is expecting a settlement of a bond linked to aluminum price up to a certain point, ISK 4.270 million each year.

Main investments in 2018 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.

The reasons for higher investments in 2018 is repurchase and renovation of real estate at Bæjarháls. However, no decisions have been taken yet.

Financing activities

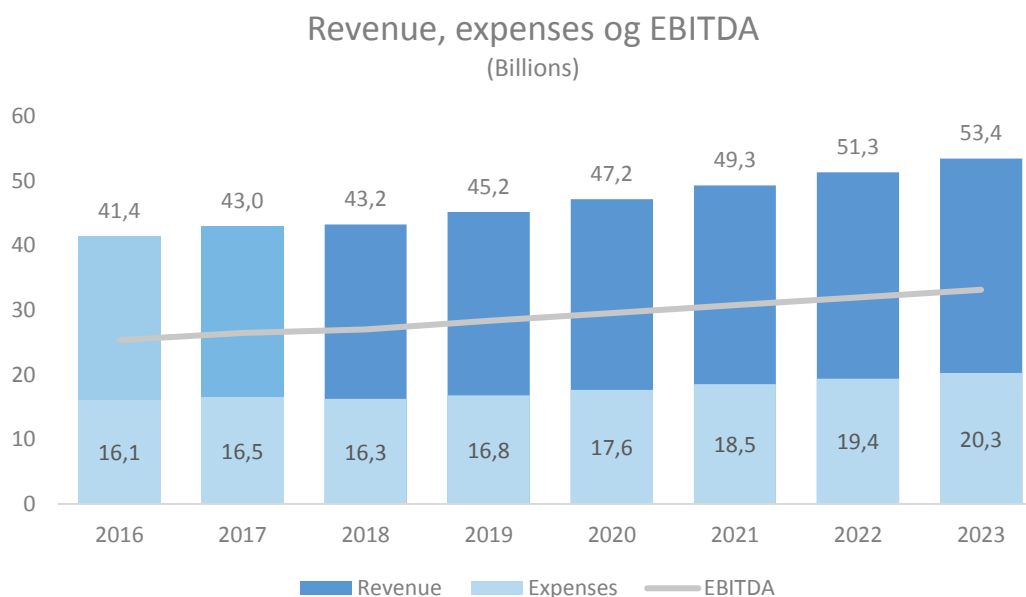
Repayment of liabilities is expected to be ISK 14.215 million and borrowing a total of ISK 14.725 million. Cash flow from operations at year end 2018 is expected to be ISK 12.810 million, compared to ISK 11.258 million in 2017.

In 2017, OR is expecting to pay dividends to the owners ISK 750 million and ISK 1.250 million in the year 2018.

INCOME STATEMENT

Revenue

Operating revenue is expected to increase by ISK 10.184 million from 2018 to 2023 or by 23,5%. Retail sales of electricity are to increase by ISK 3.278 million or 26,1% and retail sales of hot water by ISK 2.311 million or 21,0%. Wholesale revenue is to increase by ISK 803 million or by 12,2%.



Picture 1 – Revenue, expenses and EBITDA (ISK 'Bn)

Expenses

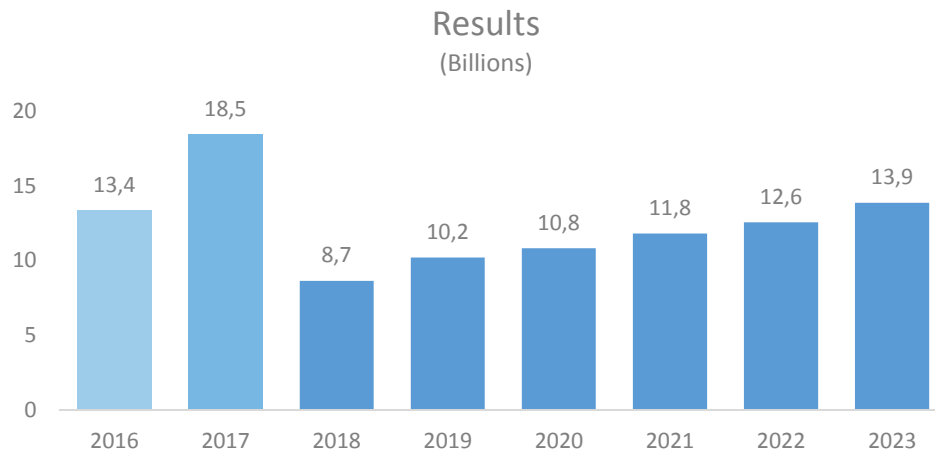
Expenses before depreciation are assumed to increase from 2018 to 2023 by ISK 4.035 million or 24,8%. Energy purchases and transmission costs are expected to increase by ISK 1.748 million or 27,1%. Wages and other operating expenses are expected to increase by ISK 2.286 million or 17,1%. Increases in operating expenses are mainly the result of general price increases.

EBITDA rises from ISK 26.993 million in 2018 to ISK 33.142 million in 2023 or by 22,8%.

LONG TERM PLAN 2019- 2023

Income

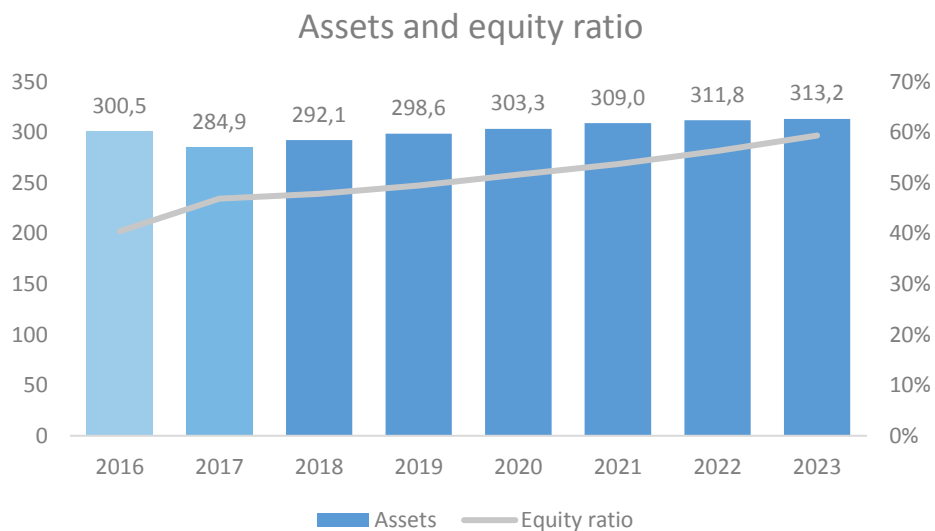
Picture 2 shows forecasted income for the period but income is expected be positive by 13.866 million in 2023. Calculated items, i.e. changes in the value of derivatives embedded in electricity contracts, can have a considerable impact on income, as can be shown in the years 2016-2018



Picture 2 – Results (ISK 'Bn)

BALANCE SHEET

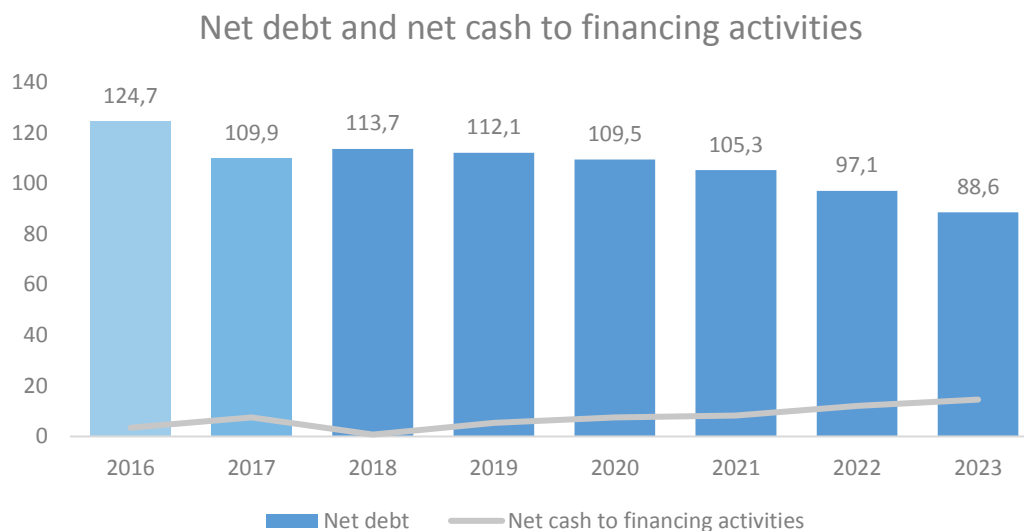
The forecast shows an increase in total assets 2018 to 2023 by ISK 21.100 million or 7,2%. This amounts to ISK 313.186 million in total assets in 2023. The equity ratio improves constantly during this period from being 47,8% at year end 2018 to 59,3% at year end 2023.



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

LONG TERM PLAN 2019- 2023

Equity at year end 2023 is forecasted to be ISK 185.823 million, an increase of ISK 46.186 million from 2018. Assuming that total liabilities for the period 2018-2023 will be reduced from ISK 152.449 million to ISK 127.363 million, or by 16,5%.



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

CASH FLOW

Net cash from operating activitie

Net cash from operating activite is estimated to be ISK 117.872 million in period 2018-2023.

Paid income tax is estimated to be ISK 15.780 million in the same period.

Investment activities

The forecast for investments for the period 2018 – 2023 is ISK 91.312 million.

Investment in distribution systems is forecasted to be ISK 49.217 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 29.975 million. Primary projects are concerned with steam extraction and environmental projects.

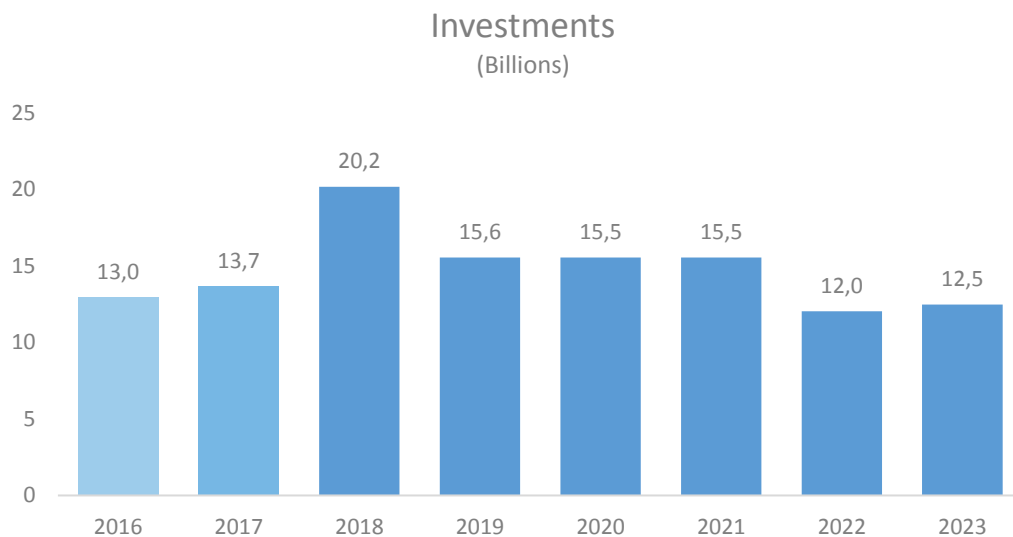
LONG TERM PLAN 2019- 2023

Investments

Investment overview in ISK millions.

INVESTMENTS

LIST	2017	2018	2019	2020	2021	2022	2023
Power Plant	3.075	4.304	4.209	6.191	7.090	3.798	4.385
Distribution system	9.268	8.955	8.976	8.495	7.768	7.592	7.432
Other investment	1.333	6.911	2.370	863	684	644	648
Total Investments	13.676	20.169	15.554	15.548	15.541	12.034	12.465



Picture 5 – Investment activities – (ISK 'Bn)

LONG TERM PLAN 2019- 2023

INVESTMENT PRIORITIES 2018-2022

	ISK million
ON Power plc	29.975
Hot water	17.494
Electricity	10.213
Fresh water	5.488
Sewage system	8.478
Fibre Optic	7.478
Information technology	1.871
Other	10.315

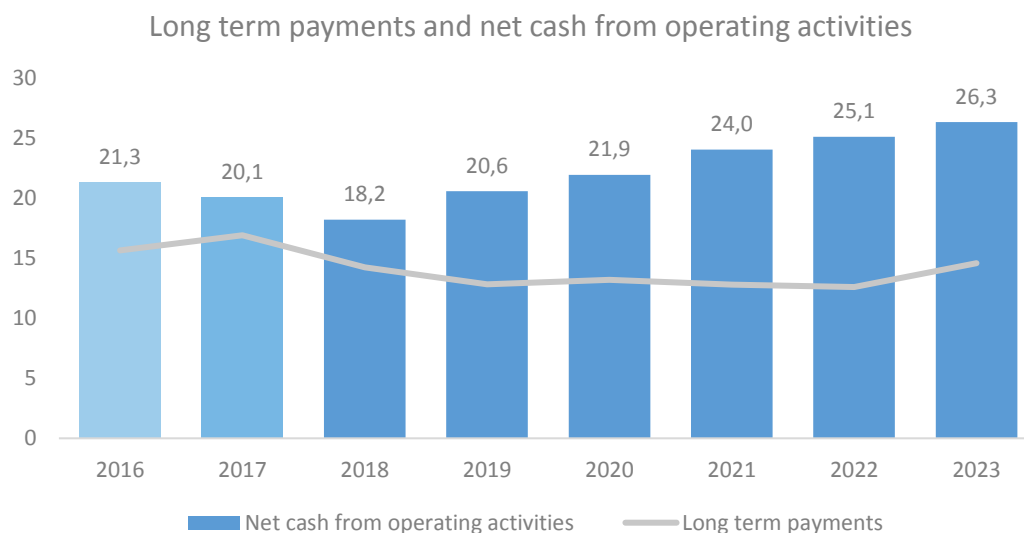
Financing activities

Repayment of borrowings is forecasted to be between ISK 12.581 – 14.565 million in the period between 2018 and 2023, a total of ISK 80.147 million.

New borrowings are expected to be ISK 45.900 million for the period or 50,3% of investment and 57,3% of repayment of borrowings.

Dividend to owners are expected to be ISK 14.250 million in this period.

Cash and cash equivalents at year end increase from ISK 12.810 million in 2018 to ISK 12.162 million in 2023.



Picture 6 – Amounts (ISK 'Bn)

LONG TERM PLAN 2019- 2023

REYKJAVIK ENERGY – KEY FIGURES



ESTIMATED 2017 AND FORECAST 2018-2023

Income statement (ISK million)	Actual 2016	Estimated 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Operating income total	41.423	42.996	43.249	45.168	47.163	49.301	51.344	53.433
Retail	31.029	31.757	32.048	33.235	34.722	36.280	37.827	39.537
Electricity	11.850	12.656	12.579	13.116	13.708	14.385	15.093	15.857
Hot water	10.816	10.869	11.026	11.387	11.866	12.354	12.845	13.337
Cold water	3.482	3.200	3.275	3.388	3.549	3.702	3.836	4.012
Sewerage	4.881	5.033	5.167	5.344	5.599	5.840	6.053	6.330
Wholesales	6.815	7.000	6.823	7.105	7.186	7.357	7.498	7.679
Electricity	6.606	6.747	6.573	6.847	6.916	7.077	7.206	7.376
Hot water	140	194	192	198	206	215	223	232
Cold water	69	59	59	61	63	66	69	72
Other income	3.576	4.238	4.378	4.828	5.255	5.664	6.020	6.216
Operating expenses	16.062	16.538	16.256	16.828	17.648	18.546	19.382	20.290
Power purchases	2.798	2.496	2.075	2.097	2.293	2.512	2.822	3.122
Transmission	3.407	3.473	3.589	3.734	3.860	4.001	4.143	4.290
Employee salaries	5.241	6.371	6.661	7.061	7.367	7.708	8.044	8.385
Other operational expenses	4.617	4.199	3.932	3.936	4.129	4.325	4.373	4.493
EBITDA	25.361	26.457	26.993	28.340	29.515	30.755	31.962	33.142
Depreciation	10.392	9.029	9.421	9.931	10.287	10.629	10.912	11.134
EBIT	14.968	17.429	17.572	18.409	19.228	20.127	21.049	22.008
Financial items	3.089	8.446	-7.420	-6.361	-6.092	-5.919	-5.687	-5.349
Interest income	433	702	636	680	701	783	784	786
Interest expenses	-5.190	-5.352	-6.041	-6.624	-6.591	-6.671	-6.628	-6.348
Other (expenses) income on financial items	7.845	13.096	-2.015	-417	-202	-31	157	213
Profit (Loss) before income tax	18.053	25.874	10.152	12.048	13.135	14.207	15.362	16.659
Income tax	-4.702	-7.212	-1.301	-1.645	-1.683	-1.771	-2.097	-2.040
Capital gains tax	0	-200	-200	-200	-610	-620	-690	-740
Profit (Loss) for the year	13.352	18.462	8.651	10.203	10.843	11.816	12.575	13.879

ESTIMATED 2017 AND FORECAST 2018-2023

Balance sheet	Actual	Estimated	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
(ISK million)	2016	2017	2018	2019	2020	2021	2022	2023
Assets	300.450	284.944	292.086	298.590	303.280	309.006	311.817	313.186
Non-current Assets	277.843	259.718	269.394	275.716	281.395	286.796	288.496	290.428
Property, plant and equipment	264.823	254.210	261.904	266.692	271.785	276.540	277.516	278.712
Intangible assets	1.504	1.725	1.924	2.106	2.275	2.433	2.578	2.713
Investments in associated companies	59	59	59	59	59	59	59	59
Investments in other companies	3.285	3.285	3.285	3.285	3.285	3.285	3.285	3.285
Hedge contracts	365	438	452	454	454	454	454	454
Deferred tax assets	3.715	0	1.770	3.120	3.538	4.025	4.604	5.205
Current Assets	22.607	25.226	22.692	22.874	21.885	22.210	23.320	22.758
Inventories	583	576	574	574	574	574	574	574
Trade receivables	4.597	4.134	4.164	4.320	4.475	4.643	4.813	4.994
Hedge contracts	393	513	513	513	513	513	513	513
Other financial assets	0	4.092	0	0	0	0	0	0
Other receivables	545	521	498	476	445	428	402	382
Deposits	4.132	4.132	4.132	4.132	4.132	4.132	4.132	4.132
Cash and cash equivalents	12.357	11.258	12.810	12.858	11.745	11.919	12.885	12.163
Equity and liabilities	300.450	284.944	292.086	298.590	303.280	309.006	311.817	313.186
Equity	121.476	133.525	139.637	147.709	156.552	165.868	175.443	185.823
Revaluation reserve	72.918	72.918	72.918	72.918	72.918	72.918	72.918	72.918
Equity reserve	7.060	7.060	7.060	7.060	7.060	7.060	7.060	7.060
Translation reserve	-1.786	-7.449	-8.737	-8.868	-8.868	-8.868	-8.868	-8.868
Fair value reserve	2.822	2.822	2.822	2.822	2.822	2.822	2.822	2.822
Retained earnings	40.461	58.173	65.574	73.776	82.619	91.935	101.510	111.890
Liabilities	178.974	151.419	152.449	150.881	146.728	143.138	136.373	127.363
Non-Current liabilities	149.881	129.038	130.448	128.672	125.539	121.861	112.800	103.714
Loans and borrowings	129.317	115.661	117.234	115.175	111.813	107.995	98.696	89.773
Pension liability	592	623	665	710	756	805	855	908
Other liabilities	2.713	2.745	2.712	2.697	2.697	2.697	2.697	2.697
Embedded derivatives	8.913	1.414	1.409	1.467	1.579	1.559	1.387	1.170
Deferred tax liabilities	8.345	8.595	8.427	8.623	8.694	8.806	9.164	9.166
Current liabilities	29.094	22.381	22.001	22.209	21.189	21.276	23.573	23.649
Accounts payable	2.318	2.432	2.534	2.708	2.901	3.102	3.297	3.498
Current loans and borrowings	1.304	0	847	924	971	982	992	1.003
Loans and borrowings	14.029	13.147	11.861	12.240	11.797	11.573	13.559	13.181
Tax liability	1.737	3.248	3.215	2.774	2.003	2.122	2.293	2.613
Other liabilities	2.312	2.467	2.473	2.474	2.474	2.474	2.474	2.474
Embedded derivatives	1.406	68	85	140	179	211	223	227
Other current liabilities	5.989	1.020	986	949	864	812	736	654

ESTIMATED 2017 AND FORECAST 2018-2023

Statement of Cash Flow (ISK million)	Actual 2016	Estimated 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Cash flow from operating activities								
Profit (loss) for the year	13.352	18.462	8.651	10.203	10.843	11.816	12.575	13.879
Financial income and expense	-3.089	-8.446	7.420	6.361	6.092	5.919	5.687	5.349
Share in profit of associated companies	3	0	0	0	0	0	0	0
Income tax	4.702	7.412	1.501	1.845	2.293	2.391	2.787	2.780
Depreciation and amortization	10.392	9.029	9.421	9.931	10.287	10.629	10.912	11.134
Pension liability, change	49	31	42	44	47	49	51	53
Working Capital from operation before interest and taxes	25.407	26.489	27.035	28.384	29.562	30.804	32.012	33.195
Inventories, increase	27	0	0	0	0	0	0	0
Current assets, change	12	178	-77	-163	-157	-169	-171	-183
Current liabilities, change	-465	235	128	176	193	201	195	201
Changes in operating assets and liabilities	-427	413	51	13	36	32	24	18
Cash generated from operations before interests and taxes	24.981	26.901	27.086	28.397	29.598	30.836	32.036	33.213
Paid interest expenses	461	702	485	438	411	487	506	525
Received interest income	-4.146	-4.479	-4.413	-4.632	-4.654	-4.661	-4.622	-4.372
Paid income taxes	0	-1.921	-3.448	-3.438	-3.409	-2.649	-2.838	-3.058
Capital income tax	0	-200	-200	-200	-610	-620	-690	-740
Paid due to other financial income and expenses	-1	-1.132	-1.514	-204	-26	-9	-1	0
Net cash from operating activities	21.324	20.071	18.195	20.561	21.919	24.004	25.081	26.307
					610			
Cash flows from investing activities								
Power plants	-3.849	-3.075	-4.304	-4.209	-6.191	-7.090	-3.798	-4.385
Utility system	-8.214	-9.268	-8.955	-8.976	-8.495	-7.768	-7.592	-7.432
Other investments	-890	-1.333	-6.911	-2.370	-863	-684	-644	-648
Cash flows from investing activities	-12.953	-13.676	-20.169	-15.554	-15.548	-15.541	-12.034	-12.465
Installments on long term receivables	0	0	4.270	0	0	0	0	0
Investments in deposit	-2.446	0	0	0	0	0	0	0
Investments in marketable securities	375	0	0	0	0	0	0	0
Net cash used in investing activities	-15.003	-13.676	-15.900	-15.174	-15.548	-15.541	-12.034	-12.465
Net cash from financing activities								
Proceeds from new borrowing	8.162	11.253	14.725	9.475	7.700	7.000	3.500	3.500
Repayment of borrowings	-15.631	-16.886	-14.215	-12.814	-13.184	-12.789	-12.581	-14.565
Dividends paid	0	-750	-1.250	-2.000	-2.000	-2.500	-3.000	-3.500
Current liabilities, change	3.958	-1.098	0	0	0	0	0	0
Net cash from financing activities, total	-3.511	-7.481	-740	-5.339	-7.484	-8.289	-12.081	-14.565
Increase (decrease) in cash and cash equivalents	7.363	-1.086	1.555	48	-1.113	174	966	-723
Cash and cash equivalents at year beginning	5.264	12.357	11.258	12.810	12.858	11.745	11.919	12.885
Exchange difference on cash and cash equivalents	-270	-13	-3	0	0	0	0	0
Cash and cash equivalents at end of the period	12.357	11.258	12.810	12.858	11.745	11.919	12.885	12.162