



VEITUR



GAGNAVEITA  
REYKJAVÍKUR



ORKA NÁTTÚRUNNAR



Orkuveita Reykjavíkur



## Orkuveita Reykjavíkur - Consolidated Financial Forecast

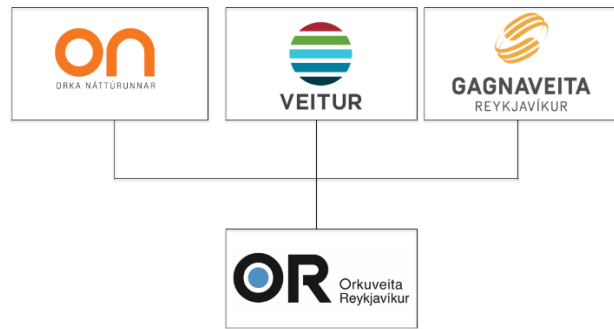
*Forecast 2019 and Long-Term Plan 2019 – 2024  
Approved by Board of Directors 5.10.2018*

## Table of Contents

Role and structure of Orkuveita Reykjavíkur.....	3
Introduction.....	4
Company focus 2019-2024.....	5
Assumptions and criteria 2019-2024.....	6
Priorities and assessment of investments .....	6
Forecast 2019-2024.....	7
Key performance indicators .....	13
Forecast 2018-2024 – Income statement .....	14
Forecast 2018-2024 – Balance sheet .....	15
Forecast 2018-2024 – Statement of Cash Flow .....	16

## Role and structure of Orkuveita Reykjavíkur

Orkuveita Reykjavíkur (OR), a utility company, provides services underpinning the 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 current structure of OR builds on 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.



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 Akranes, 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 center 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

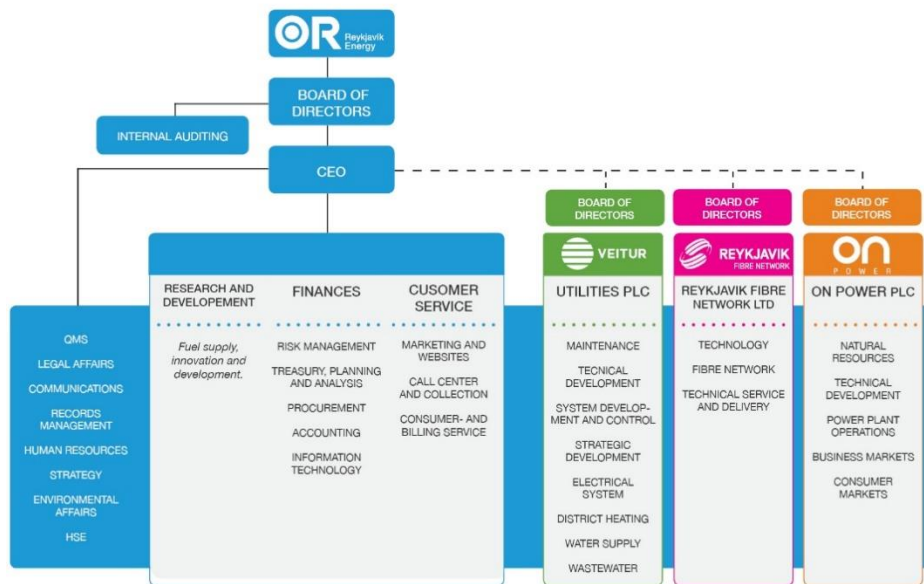
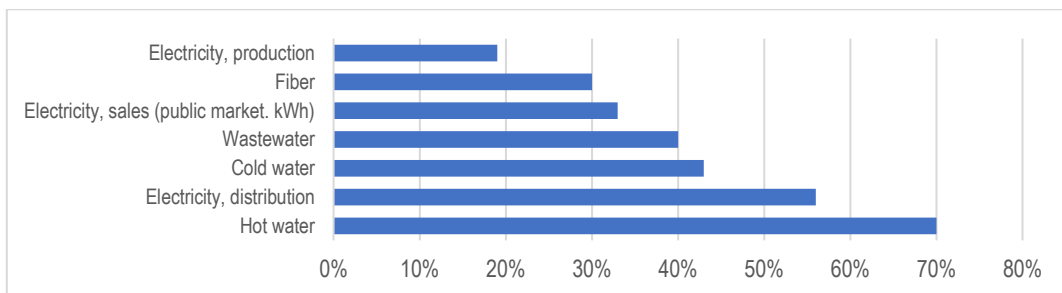


Figure 1

Figure 2: Estimated shares of OR group companies in Icelandic markets



## 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'). Forecast for each subsidiary has been approved by its respective Board of Directors, prior to OR's BoD's approval.

OR uses the method of 'Beyond Budgeting' in its forecast process. This means that the policy of each subsidiary is the basis for the forecast and decisions are made based on these policies and goals. Key financial indicators and goals are graphically presented in the forecast.

The operations of OR and its subsidiaries are strong and no significant changes are foreseen during the forecast period with regard to revenues and expenses. A strong financial policy is a prerequisite for OR's current policy of looking further ahead than before in development of utility systems, sustainability of resource utilisation, and future provision of services. We expect to invest in utilities systems, many of which need to be renewed, in increased automation of services, and in energy exchange in transportation, an increasingly important environmental project. These plans extend further than the duration of this forecast.

The most extensive investment projects are at Veitur Utilities: continued renewal of pipelines in Akranes and Borgarnes – the Deildartunga pipeline – which is expected to be completed in 2025, implementation of smart meters, and projects that promote untraceable sewerage.

The most extensive investment project at ON Power are drilling to maintain steam extraction volumes for the power stations in the Hengill area, as well as continued development of reinjection solutions. The expansion of the hot water production at Hellisheiði power plant is also included in the forecast as well as environmental and R&D projects by ON Power's Hellisheiði Geothermal Power Plant.

Investments of Reykjavik Fibre Network chiefly involve laying a fiber optic cable in a selection of municipalities.

The discovery of serious moisture damages in OR's headquarter offices at Bæjarháls were extremely disappointing. In order to secure the health of employees, the damaged building was evacuated and the decision was made to redesign the outer walls of the building. Once the redesign and cost estimate is complete, a decision will be made whether to start rebuilding the damaged part.




In the coming years, the company will continue repaying debt. Net debt is expected to be reduced by ISK 14 billion from 2018 to year-end 2024.

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 owners' policy which stipulates a fair price for services provided
- official regulations about returns and profits of regulated operations

OR's 2019 forecast and the five-year forecast for years 2020-2024 will now be taken to The City of Reykjavik for review as part of the consolidated financial plans for The City.

## Company focus 2019-2024

			
Role	<p>The purpose of Veitur Utilities is to operate systems such as water distribution, the sewerage system and electricity distribution, in addition to other comparable operations.</p>	<p>The purpose of ON Power is the production and sale of electricity, hot water and geothermal energy for heating, in addition to other comparable operations.</p>	<p>The purpose of Reykjavik Fibre Network is to run a telecommunications and fiber optic system, in addition to other comparable operations.</p>
Main focus 2019-2024	<p>In the spring of 2018 an ambitious policy for Veitur Utilities was approved. The policy seeks to ensure Veitur:</p> <ul style="list-style-type: none"> <li>• offers outstanding services</li> <li>• is a desirable, knowledge-based company</li> <li>• is a leader in innovation and technological development</li> <li>• is exemplary in business operations, safety and the reduction of carbon footprint.</li> </ul>	<p>As in previous years, emphasis is placed on ensuring competitiveness. This involves maintaining safe operations, using resources responsibly, developing a geothermal park and continuing the build-up of charging stations for electric cars.</p>	<p>The focus is to continue to connect fibre optic cable to Icelandic homes, increasing the number of customers in connected areas.</p>
Main investments	<p>In the new policy, increased emphasis is put on smart meters, zero footprint sewerage, and secure delivery. This involves strengthening the power distribution system to support the transport of energy and further strengthening of the district heating system. The largest single investment project is the renewal of the pipeline in Akranes and Borgarnes, which is expected to be completed in 2025.</p>	<p>ON investments seek to secure continued operations of power plants with solid steam extraction, and to meet the company's goals with regard to the environment. ON plans to invest in a geothermal park by the Hellisheiði power plant, promoting the goal of the company for more diversified usage of geothermal heat. Increased demand for hot water in the capital area will be met with the expansion of the thermal station at Hellisheiði. This will be completed in two stages, first at the end of 2019 and the second stage in 2023-2024.</p>	<p>The build-up and structure of the fibre optic network in the capital area is expected to be completed in 2018. During the forecast period the company aims to connect homes in other urban areas in Reykjanesbær, Árborg and the municipality of Vogar in Vatnsleysuströnd.</p>

## Assumptions and criteria 2019-2024

Assumptions for the 2019-2024 budget are based on the Economic forecast published by Iceland Statistics in May 2017. 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							
Description	2018	2019	2020	2021	2022	2023	2024
Consumer Price Index, change (%)	2,7	2,9	2,7	2,6	2,6	2,5	2,5
Wage Index, change (%)	5,9	6,0	4,4	4,2	4,2	4,1	4,1
Currency, Narrow Trade Index, change (%)	0,0	0,3	0,0	0,0	0,0	0,0	0,0
Aluminium prices per tonne, average for the year (\$)	2.161	2.154	2.183	2.208	2.231	2.273	2.317

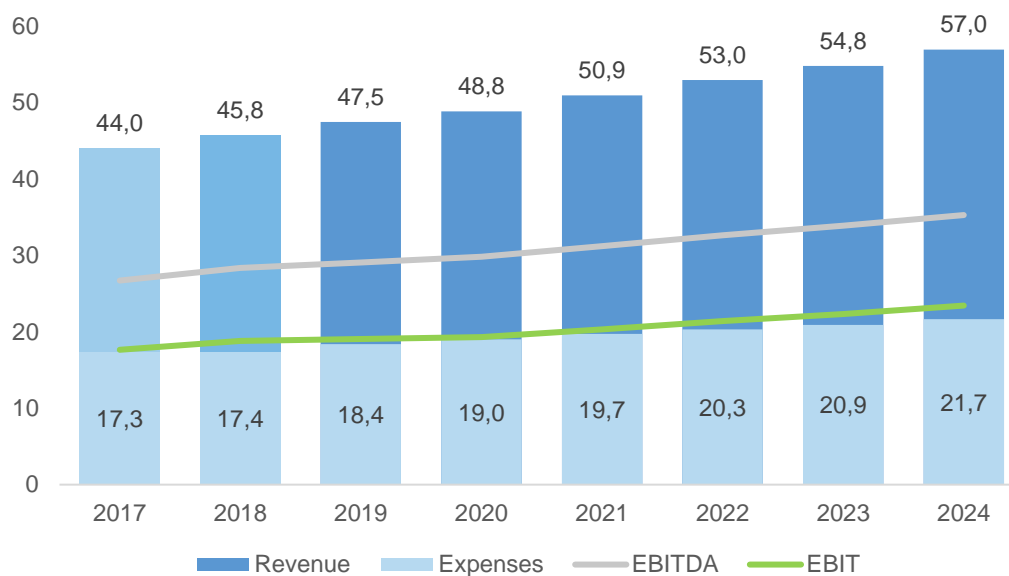
## Priorities and assessment of investments

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 prioritised before presentation. Before the final decision is made regarding an investment project, further preparation work is conducted as well as a comprehensive risk analysis. 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. 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

## Forecast 2019-2024

Figure 3: Income statement – Revenue, expenses, EBITDA and EBIT (billions, ISK)



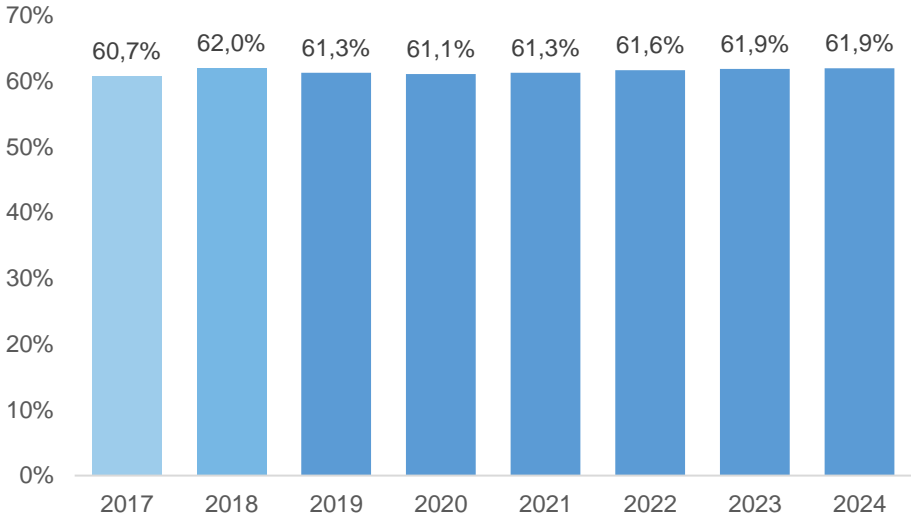
OR's key financial figures in recent years are characterised by stability. Cost-cutting measures implemented during the Plan between 2011-2016 are still in action in the operations of the company. We project income from electricity sales to increase by ISK 3.6 billion or 18.7% between 2018 to 2024 and income from hot water sales to increase by ISK 2.7 billion or 24.6%.

Expenses before depreciation are expected to increase from 2018 to 2024 by ISK 4.3 billion or 23.1%. Increases in operating expenses are mainly the result of general price increases.

EBITDA stands for earnings before interest, taxes, depreciation and amortisation. 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 attend to new customers and to meet increased demands of the operations.

### EBITDA margin

Figure 4: EBITDA margin (EBITDA / revenue)



### Income

Figure 5: Income (ISK, billions)

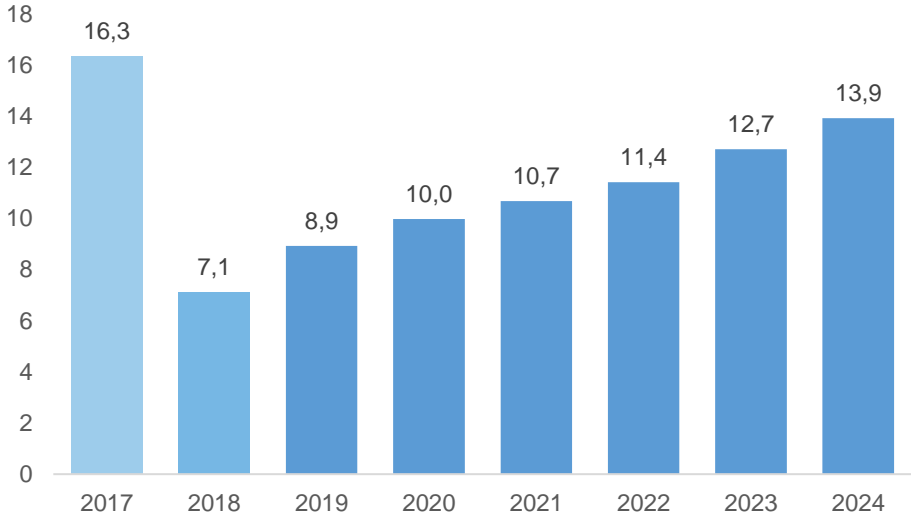
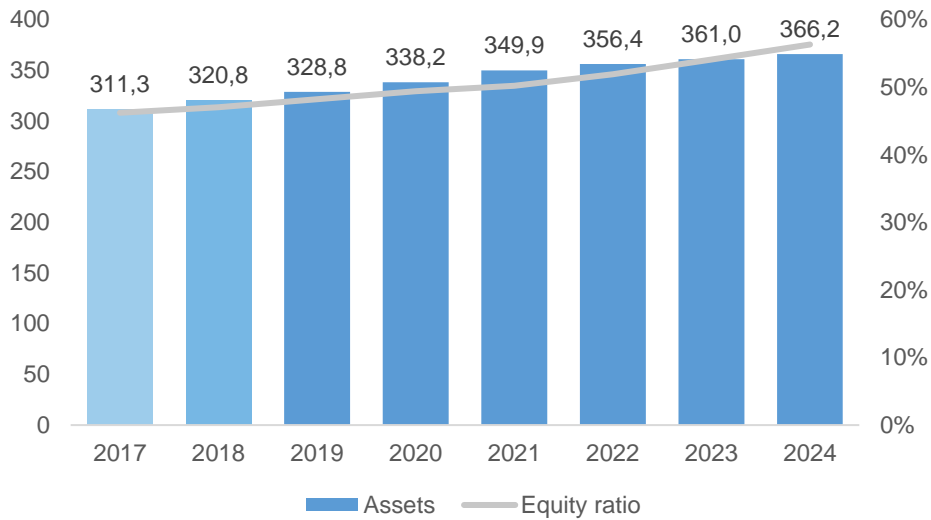


Figure 5 shows forecasted income for the period. Income is expected to be positive by ISK 13.9 billion in 2024. Calculated items, i.e. changes in the value of derivatives embedded in electricity contracts, can have a considerable impact on income, which is evident in the numbers for 2017.



## Assets and equity ratio

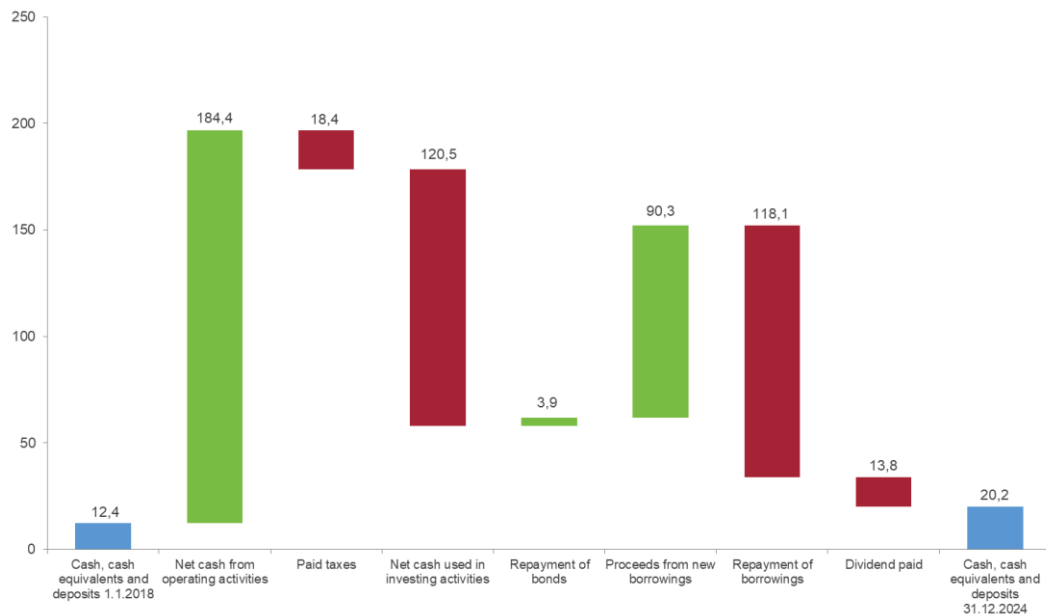
Figure 6: Assets (ISK, billions) and equity ratio



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 2019-2024, from 47% at year-end 2018 to 56% by the end of 2024.

## Cash Flow

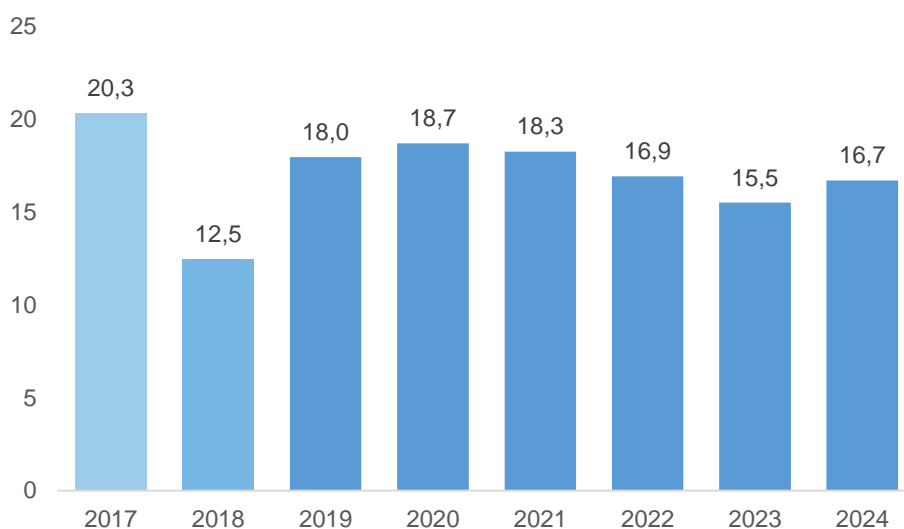
Figure 7: Cash flow (ISK, billions)



Cash flow from operations and new borrowings cover all investments, debt repayments and dividend payments. Cash, cash equivalents and deposits at the end of 2024 is expected to be ISK 20.2 billion.

## Investments

Figure 8: Investments (ISK, billions)



MAIN INVESTMENTS 2018-2024		ISK billions
Utilities		62,4
Power stations		34,7
Other investments		23,4
<b>Investment total</b>		<b>120,5</b>

Table 1

## Financing

Figure 9: New loans (ISK, billions)

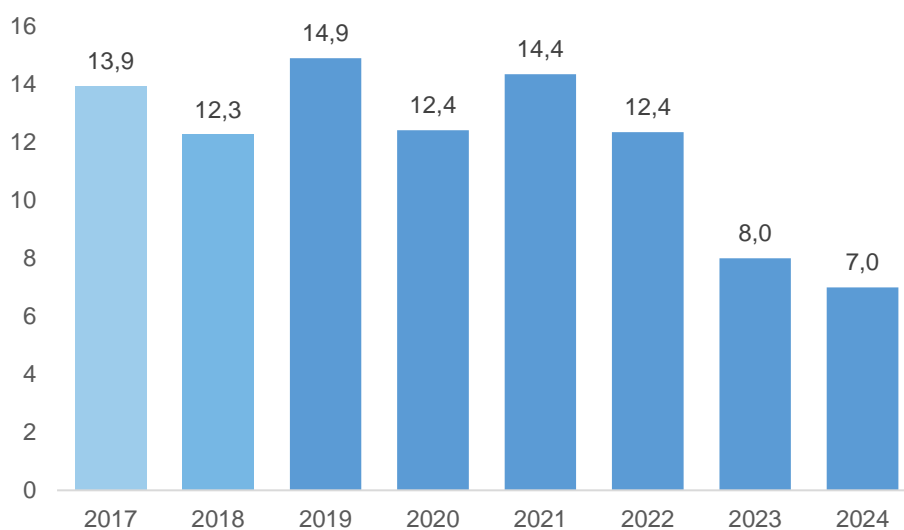
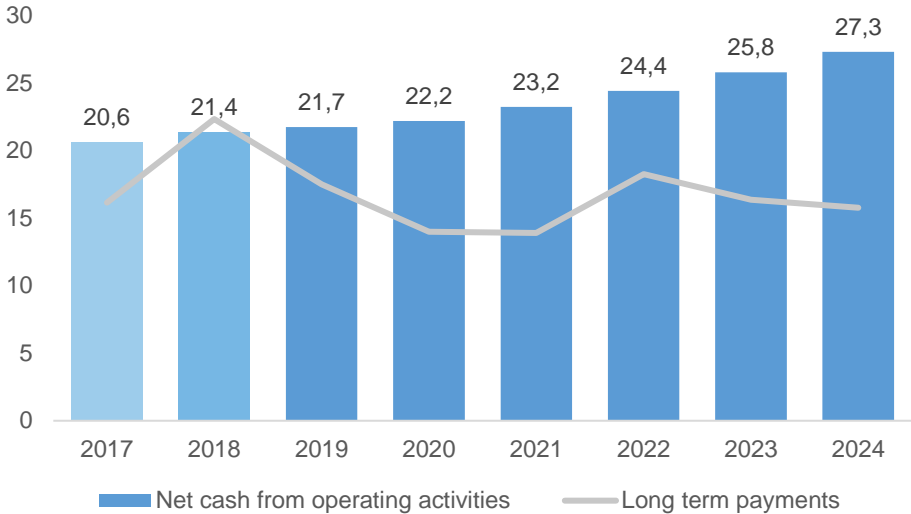


Figure 10: Long-term payments and net cash from operating activities (ISK, billions)

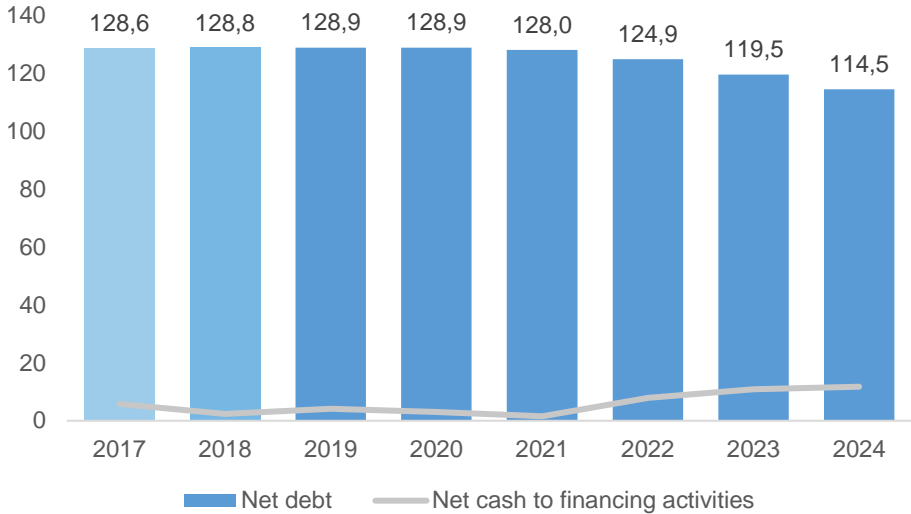


Debt repayments are estimated between ISK 13.8 – 22.3 billion per year between 2018 – 2024, a total of ISK 117.8 billion.

Borrowing is estimated at ISK 90.3 billion during the period, or around 76.7% of total investments and 77.4% of debt repayments.

Dividend payments to owners are estimated at ISK 13.8 billion during the forecast period.

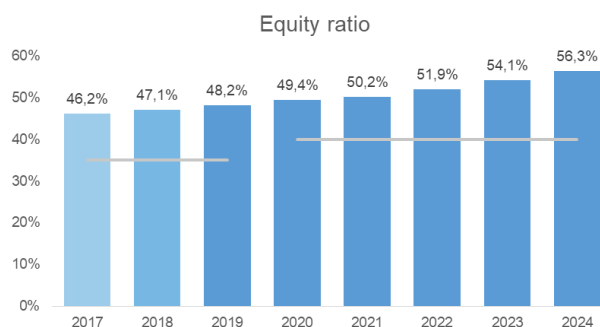
Figure 11: Net debt and net cash to financing activities (ISK, billions)



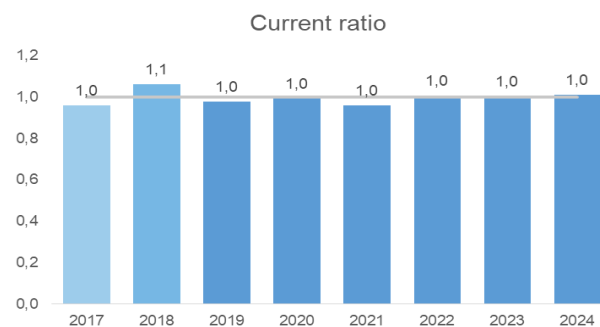
Debt is projected to fall by ISK 14.4 billion ISK over 2018–2024.

## Key performance indicators

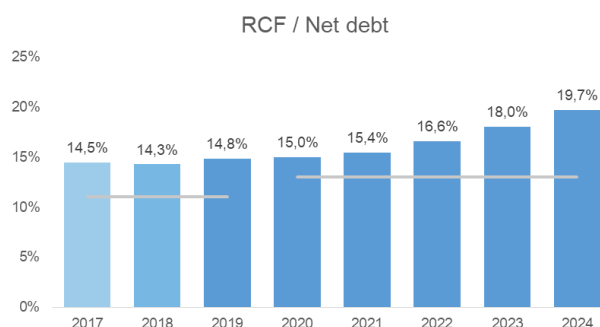
In line with OR's owners' policy and other financial plans, the company focuses on implementing policies that nurture healthy finances. This involves continuously improving key financial indicators such as current ratio, equity ratio, interest coverage etc. The forecast is based on certain key financial 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 dividend payment is approved.



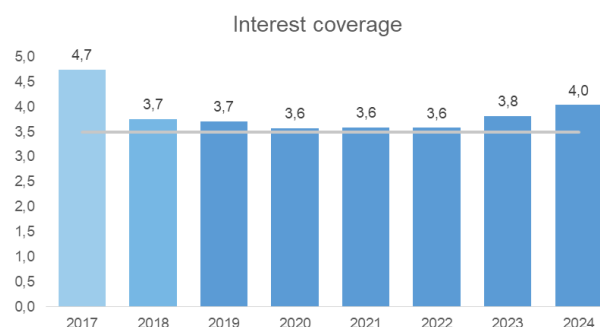
Goal 2016-2018 > 35%  
Goal 2019 - > 40%



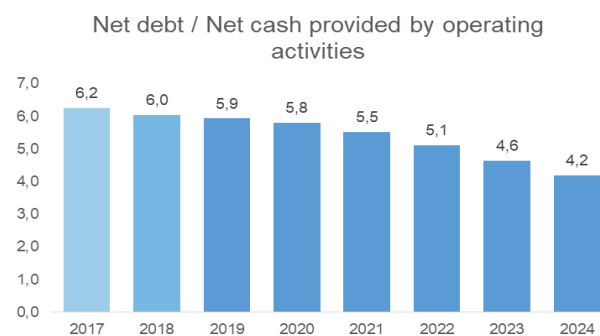
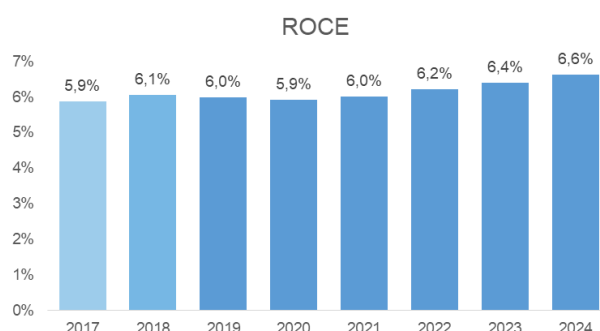
Goal 2016-2018 > 1,0  
Goal 2019 - > 1,0



Goal 2016-2018 > 11%  
Goal 2019 - > 13%



Goal 2016-2018 > 3,5  
Goal 2019 - > 3,5



## Forecast 2018-2024 – Income statement

<b>Income statement</b>	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)
<b>Operating income total</b>	<b>44.002</b>	<b>45.758</b>	<b>47.476</b>	<b>48.839</b>	<b>50.949</b>	<b>52.976</b>	<b>54.819</b>	<b>56.965</b>
<b>Operating expenses total</b>	<b>17.285</b>	<b>17.403</b>	<b>18.382</b>	<b>19.012</b>	<b>19.738</b>	<b>20.318</b>	<b>20.911</b>	<b>21.677</b>
<b>EBITDA</b>	<b>26.717</b>	<b>28.355</b>	<b>29.094</b>	<b>29.827</b>	<b>31.211</b>	<b>32.657</b>	<b>33.908</b>	<b>35.288</b>
Depreciation	9.063	9.555	10.049	10.493	10.891	11.260	11.572	11.847
<b>EBIT</b>	<b>17.654</b>	<b>18.800</b>	<b>19.045</b>	<b>19.334</b>	<b>20.320</b>	<b>21.398</b>	<b>22.336</b>	<b>23.441</b>
<b>Financial items</b>	<b>4.082</b>	<b>-9.508</b>	<b>-8.357</b>	<b>-7.372</b>	<b>-7.678</b>	<b>-8.041</b>	<b>-7.453</b>	<b>-7.207</b>
Interest income	653	976	952	910	815	783	800	849
Interest expenses	-5.171	-7.137	-7.589	-8.083	-8.436	-8.817	-8.561	-8.408
Other (expenses) income on financial items	8.600	-3.346	-1.720	-199	-57	-7	308	352
<b>Profit (Loss) before income tax</b>	<b>21.736</b>	<b>9.292</b>	<b>10.688</b>	<b>11.962</b>	<b>12.642</b>	<b>13.357</b>	<b>14.884</b>	<b>16.234</b>
Income tax	-5.397	-2.178	-1.765	-1.984	-1.966	-1.937	-2.169	-2.317
<b>Profit (Loss) for the year</b>	<b>16.339</b>	<b>7.114</b>	<b>8.923</b>	<b>9.978</b>	<b>10.677</b>	<b>11.420</b>	<b>12.714</b>	<b>13.917</b>

## Forecast 2018-2024 – Balance sheet

<b>Balance sheet</b>	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)
<b>Assets</b>	<b>311.258</b>	<b>320.825</b>	<b>328.800</b>	<b>338.172</b>	<b>349.950</b>	<b>356.402</b>	<b>360.952</b>	<b>366.193</b>
Non-current Assets	287.155	295.866	304.199	313.110	321.361	328.118	333.128	339.379
Current Assets	24.104	24.959	24.601	25.061	28.588	28.284	27.823	26.814
<b>Equity and liabilities</b>	<b>311.258</b>	<b>320.825</b>	<b>328.800</b>	<b>338.172</b>	<b>349.950</b>	<b>356.402</b>	<b>360.952</b>	<b>366.193</b>
<b>Equity</b>	<b>143.871</b>	<b>150.965</b>	<b>158.543</b>	<b>167.021</b>	<b>175.697</b>	<b>185.117</b>	<b>195.332</b>	<b>206.249</b>
<b>Liabilities</b>	<b>167.387</b>	<b>169.860</b>	<b>170.257</b>	<b>171.151</b>	<b>174.253</b>	<b>171.284</b>	<b>165.620</b>	<b>159.944</b>
Non-Current liabilities	142.237	146.344	145.044	145.872	144.441	143.136	137.845	133.365
Current liabilities	25.150	23.515	25.213	25.279	29.812	28.148	27.775	26.579

## Forecast 2018-2024 – Statement of Cash Flow

<b>Statement of Cash Flow</b>	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)	(ISK millions)
<b>Cash generated from operations before interests and taxes</b>	<b>26.908</b>	<b>29.786</b>	<b>29.210</b>	<b>29.965</b>	<b>31.284</b>	<b>32.715</b>	<b>33.973</b>	<b>35.333</b>
Paid interest expenses	572	976	903	781	607	390	295	376
Received interest income	-4.186	-5.451	-5.753	-6.062	-6.217	-6.140	-5.741	-5.541
Paid income taxes	-1.820	-2.825	-2.367	-2.515	-2.513	-2.589	-2.737	-2.872
Paid due to other financial income and expenses	-881	-1.129	-268	20	55	40	0	0
<b>Net cash from operating activities</b>	<b>20.595</b>	<b>21.358</b>	<b>21.724</b>	<b>22.189</b>	<b>23.216</b>	<b>24.417</b>	<b>25.790</b>	<b>27.296</b>
<b>Cash flows from investing activities</b>								
Acquisition of property, plant and equipment	-19.339	-16.388	-17.977	-18.711	-18.269	-16.939	-15.516	-16.719
Other financing activities	-988	3.903	0	0	0	0	0	0
<b>Net cash flows from investing activities</b>	<b>-20.327</b>	<b>-12.485</b>	<b>-17.977</b>	<b>-18.711</b>	<b>-18.269</b>	<b>-16.939</b>	<b>-15.516</b>	<b>-16.719</b>
<b>Cash flows from financing activities</b>								
Proceeds from new borrowing	13.936	21.251	14.900	12.420	14.350	12.350	8.000	7.000
Repayment of borrowings	-16.148	-22.326	-17.486	-13.992	-13.897	-18.258	-16.358	-15.751
Dividends paid	-750	-1.250	-1.500	-1.500	-2.000	-2.000	-2.500	-3.000
Current liabilities, change	-2.860	0	0	0	0	0	0	0
<b>Net cash used in financing activities</b>	<b>-5.822</b>	<b>-2.325</b>	<b>-4.086</b>	<b>-3.072</b>	<b>-1.547</b>	<b>-7.908</b>	<b>-10.858</b>	<b>-11.751</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>-6.072</b>	<b>6.548</b>	<b>-339</b>	<b>406</b>	<b>3.400</b>	<b>-430</b>	<b>-584</b>	<b>-1.174</b>
<b>Cash and cash equivalents at year beginning</b>	<b>12.357</b>	<b>6.255</b>	<b>12.805</b>	<b>12.466</b>	<b>12.872</b>	<b>16.272</b>	<b>15.842</b>	<b>15.258</b>
<b>Exchange difference on cash and cash equivalents</b>	<b>-30</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at end of the period</b>	<b>6.255</b>	<b>12.805</b>	<b>12.466</b>	<b>12.872</b>	<b>16.272</b>	<b>15.842</b>	<b>15.258</b>	<b>14.084</b>