

Orkuveita Reykjavíkur

Consolidated Financial Forecast

Forecast 2021
Plan 2022
Long-Term Plan 2023-2027

Approved by Board of
Directors 30.9.2021



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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**

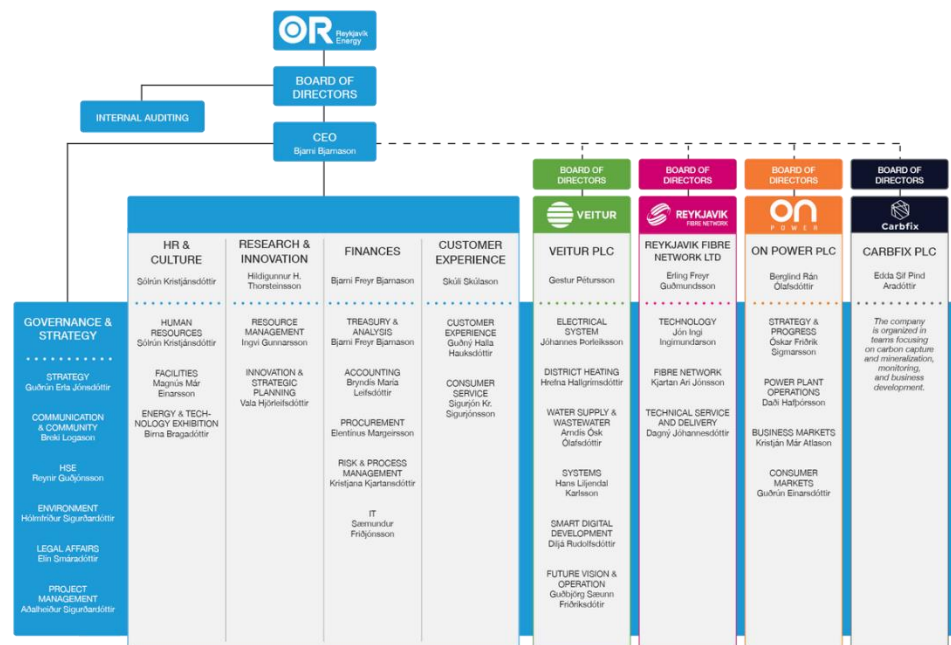
The current structure of OR was formed according to the energy laws which came into effect in the beginning of 2014. The company is a group of service companies, with the parent company OR servicing the group. The subsidiaries are Veitur, which is responsible for the construction and operation of utility 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



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

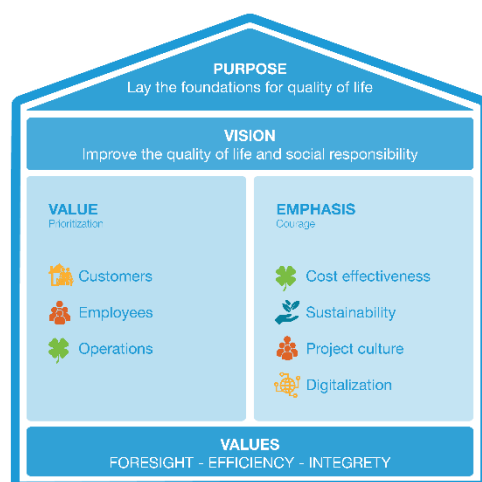
OR uses nature in a responsible, sustainable, and efficient way and with respect without compromising the rights of future generations. OR strives to meet the needs of customers with good service at a reasonable price, reliable operations, and a warm welcome. The group's vision rests on several pillars 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

Each employee of the OR Group can use the Policy House as a guide in prioritizing tasks regarding their respective value and emphasis.

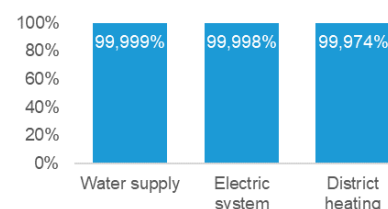


Introduction

The forecast for 2022 and the long-term plan 2023-2027 is consolidated for the parent company OR and the subsidiaries Veitur Utilities plc, ON Power plc, and Reykjavik Fibre Network ('Gagnaveita Reykjavíkur') and Carbfix. Forecasts for each subsidiary have been approved by its respective Board of Directors, prior to OR's BoD's approval.

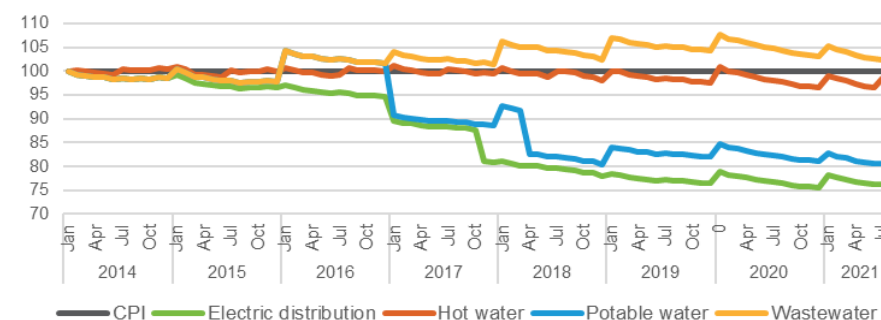
When preparing a financial forecast for the OR Group, strategic budgeting (Beyond budgeting) is used. The method entails that the companies' registered policy, which is based on an ownership policy for Orkuveita Reykjavíkur, is used as a basis and the measurable goals that result from the policy. The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

Reliability of the utilities 2020



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.

Real-term development of tariffs for licenced services 2014-2021



Since OR Group was legally obliged to unbundle its operations, at the beginning of 2014, tariffs for licenced services have either fallen considerably or remained virtually unchanged in real terms. The graph shows how Veitur Utilities' tariffs have developed since the beginning of 2014 compared to the CPI, which is shown as a horizontal line.






Main investment

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 reliability of electricity supply and allows for land connections for large vessels that enabling them to burn fewer fossil fuels.
- Sewer pumping station at Ellidavogur. 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 Hverahlíd 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.
- Roll-out 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 Bæjarháls 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.

				
INCREASE IN EVs	LOWER CARBON FOOTPRINT	SAFELY HOME	HAPPY EMPLOYEES	SOCIAL RESPONSI- BILITY
Total number of connectable electric cars	Carbon footprint size compared to 2015	Absence of staff due to illness or accident	Job satisfaction according to analysis	The public's attitude towards OR's brands
Goal: 40,000 Status: 22,029	Criteria: -30% Goal: -40% Status: -20%	Goal: < 3.6% Status: 2.3%	Criteria: 4.2 Goal: 4.5 Status: 4.3	Criteria: 5.7 Goal: 6.3 Status: 6.2

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.

				
5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION
Achieve gender equality and empower all women and girls	Ensure availability and sustainable management of water and sanitation for all	Ensure access to affordable, reliable, sustainable and modern energy for all	Ensure sustainable consumption and production patterns	Take urgent action to combat climate change and its impacts

OR's 2022 forecast and the five-year forecast for years 2023-2027 will now be taken to the city of Reykjavik for review as part of the consolidated financial plans for the city.

Company focus 2022-2027

	 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 2022-2027	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	The largest individual investment projects during the period are e.g. development of new districts in the capital area, adaptation and development of utility systems for Borgarlína and other investments in transport infrastructure. Renewal of the water supply of the Akranes and Borgarbyggð district heating system, introduction of digital meters and construction of a new substation for electricity.	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, an air purification station in Hellisheiði to make the operation of the power plant untraceable in 2025, as well as the construction of Hverahlíðarpipes II, improvements to the Andakílsárvirkjun dam and research into new areas.	During the forecast period, the aim is to complete the installation of fibre-optic cables for households in the urban areas of Reykjanesbær, Árborg 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. Preparations for the construction of Coda Terminal, a reception and disposal centre for CO ₂ . Feasibility study on CO ₂ disposal from Sorpa with the aim of selling carbon quotas. Continued innovation and development of Carbfix technology, e.g. by experimental seawater injection.

Assumptions and criteria 2022-2027

Assumptions for the 2022-2027 budget are based on the Economic forecast published by Iceland Statistics in March 2021. 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	2021	2022	2023	2024	2025	2026	2027
Consumer Price Index. change (%)	4,1	2,4	2,4	2,5	2,5	2,5	2,5
Building cost index, change (%)	5,0	2,6	2,5	2,6	2,5	2,6	2,5
Wage Index, change (%)	7,1	5,3	4,2	4,2	4,1	4,2	4,2
Currency. Narrow Trade Index. change (%)	-2,1	-1,0	-0,3	0,0	0,0	0,0	0,0
Aluminium price per tonne. average for the year (\$)	2.421	2.583	2.535	2.484	2.457	2.436	2.382

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.

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

Investments in utility systems are the most extensive investment category. Objective analysis of the following factors is considered:

Forecast 2022-2027

Income statement

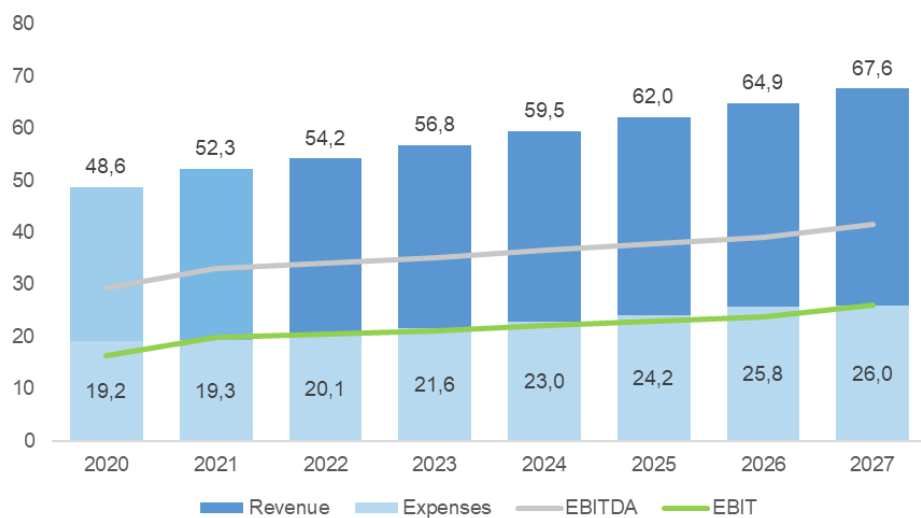


Figure 1 – ISK billions

We project income to increase by ISK 13.4 billion or 24.8% between 2022 to 2027. Expenses before depreciation are expected to increase from 2022 to 2027 by ISK 5.9 billion or 29.5%. 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

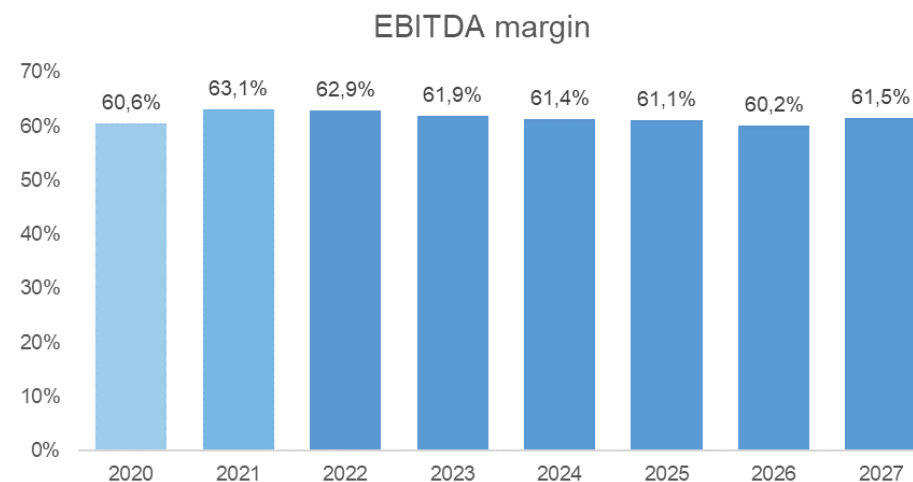


Figure 2 – EBITDA / Revenue

Income

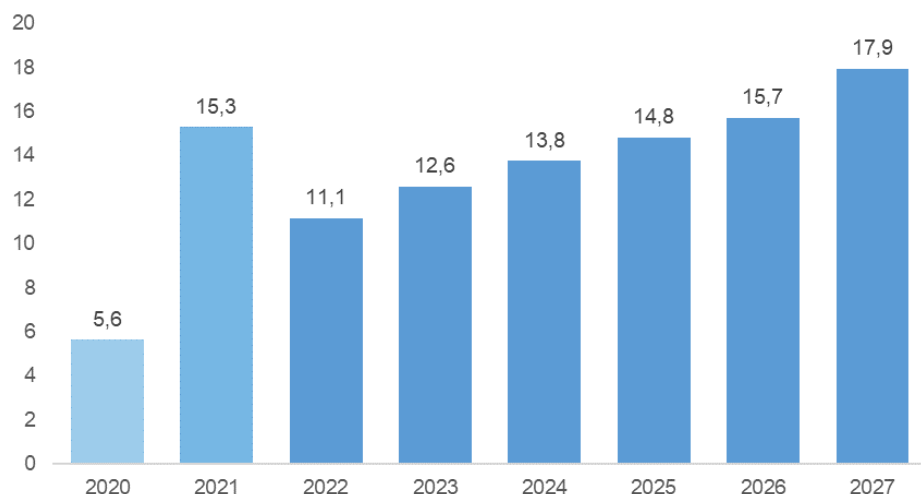


Figure 3 – ISK billions

Figure 3 shows forecasted income for the period. Income is expected to be positive by ISK 17.9 billion in 2027. 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

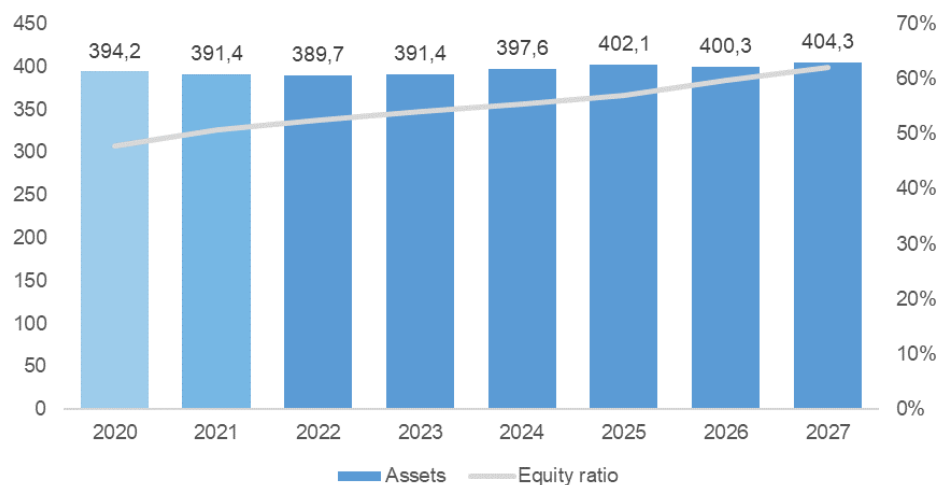


Figure 4 – Equity in ISK billions

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 2022-2027, from 52.5% at year-end 2022 to 62.1% by the end of 2027.

Cash flow with deposits and marketable securities

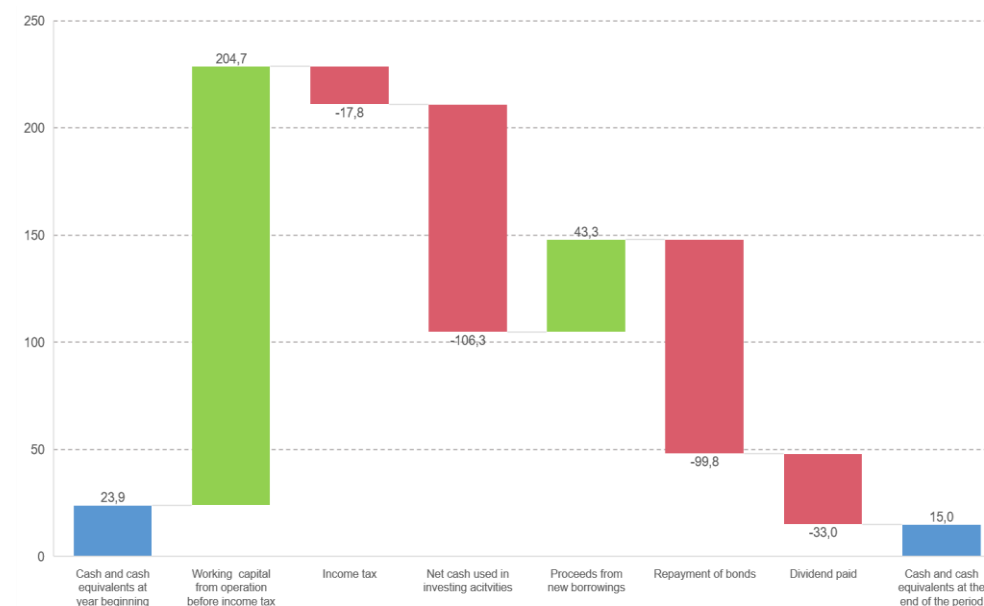


Figure 5 – ISK billions

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 2027 is expected to ISK 15.0 billion including deposits and marketable securities.

Investments

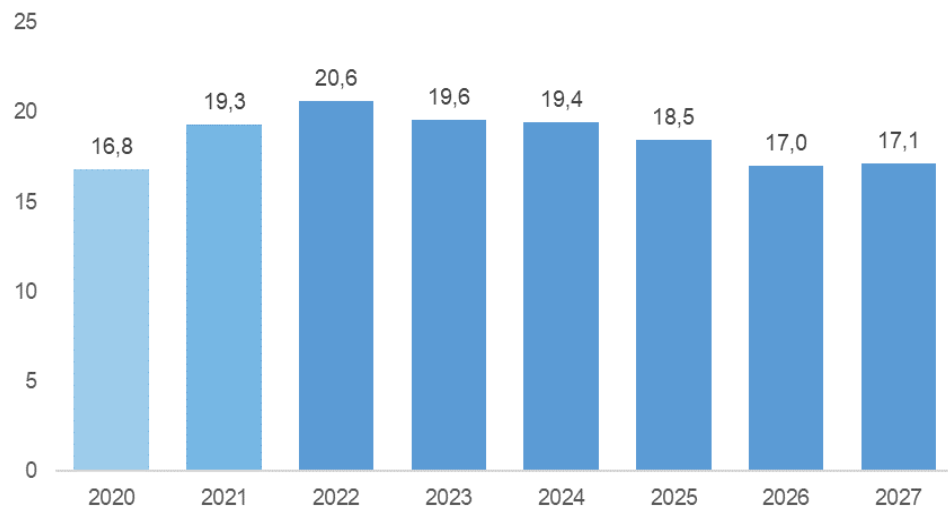


Figure 6 – ISK billions

Financing

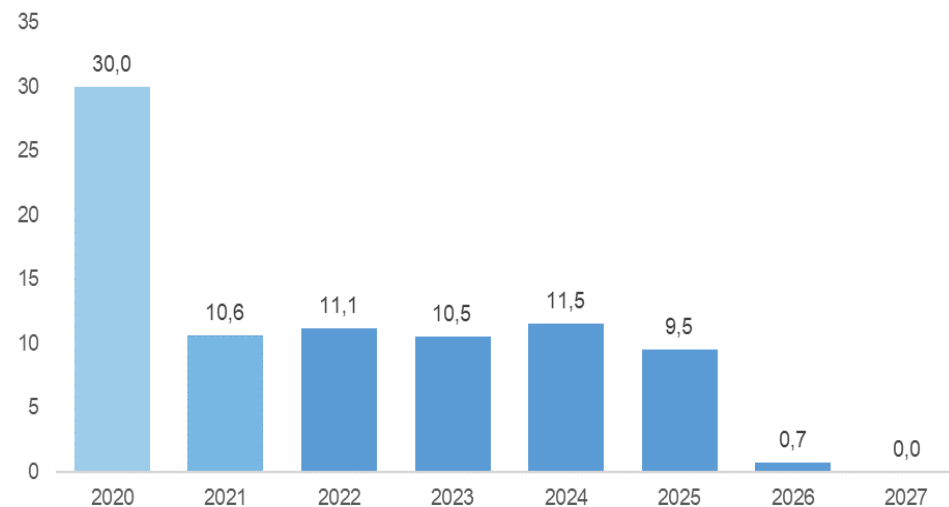


Figure 7 – ISK billions

Table 1

Main investments 2022-2027	ISK billions
Utilities	72,3
Power stations	30,7
Other investments	9,2
Investment total	112,2

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

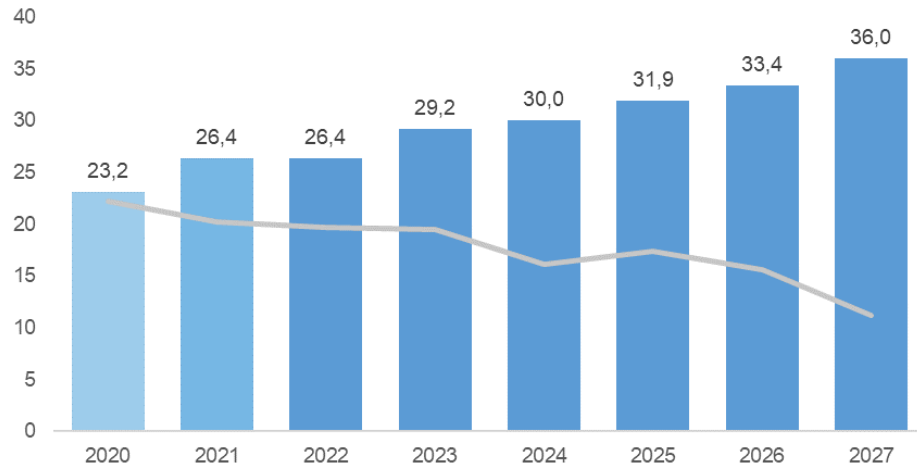


Figure 8 – ISK billions

Debt repayments are estimated between ISK 11.2 – 19.9 billion per year between 2022 - 2027, a total of ISK 99.8 billion.

Borrowing is estimated at ISK 43.3 billion during the period.

Dividend payments to owners are estimated at ISK 33 billion during the forecast period.

Net debt and net cash to financing activities

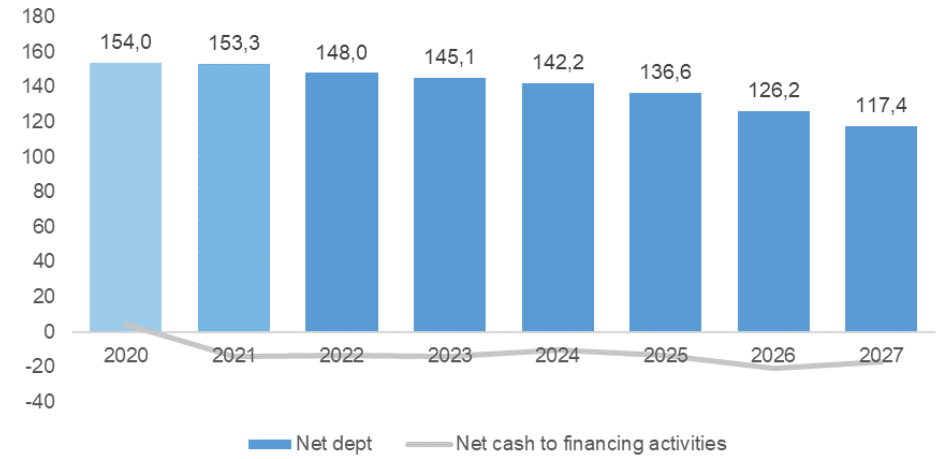
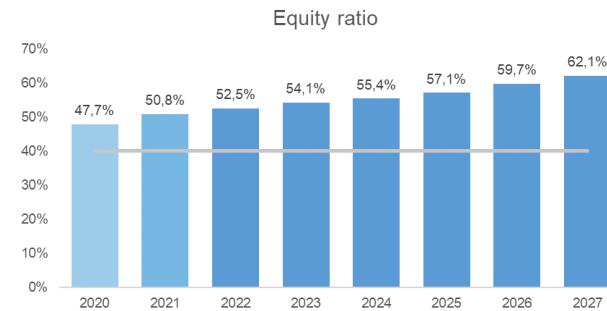


Figure 9 – ISK billions

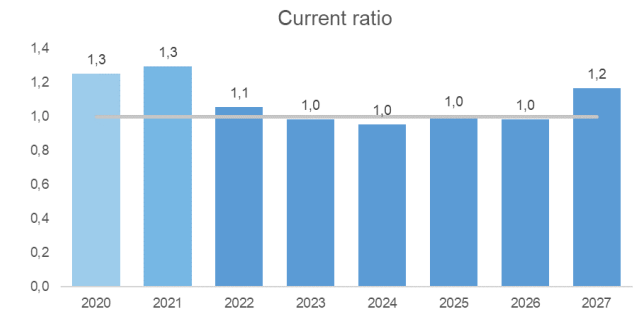
Debt is projected to fall by ISK 35.9 billion from year end 2021 according to the long-term plan.

Key performance indicators

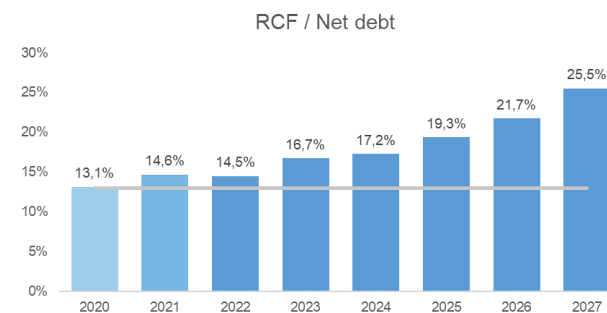
In line with OR's owners' policy and other financial plans, the company focuses on implementing policies that nurture healthy finances. This involves continuously improving key financial indicators such as current ratio, equity ratio, interest coverage etc. The forecast is based on certain key financial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



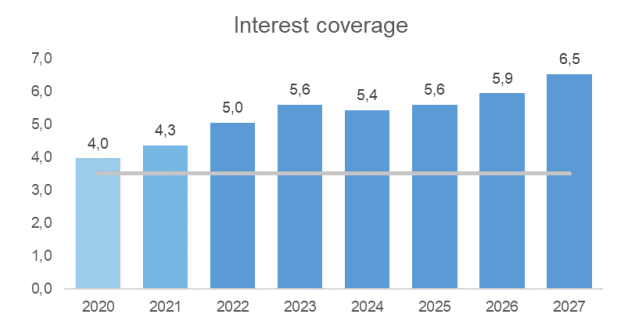
Goal > 40%



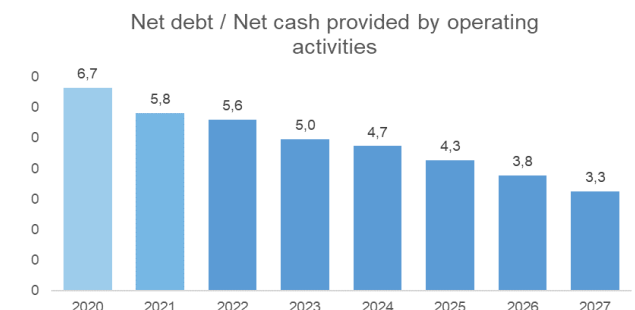
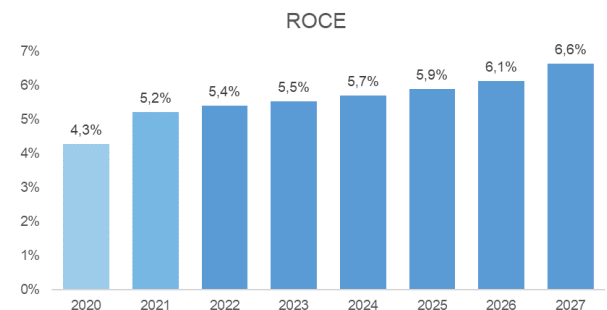
Goal > 1,0



Goal > 13%



Goal > 3,5



Forecast 2021-2027 – Income statement

	Actual 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)	Forecast 2027 (ISK millions)
Operating income total	48.627	52.305	54.187	56.758	59.499	62.044	64.880	67.614
Operating expenses total	19.172	19.295	20.087	21.646	22.959	24.157	25.828	26.012
EBITDA	29.454	33.010	34.100	35.112	36.540	37.886	39.052	41.602
Deprecation	13.056	13.089	13.525	13.993	14.439	14.862	15.250	15.615
EBIT	16.398	19.921	20.576	21.120	22.101	23.024	23.802	25.987
Financial items	-10.848	1.032	-7.636	-6.382	-6.016	-5.796	-5.594	-5.123
Interest income	581	359	398	427	513	604	603	593
Interest expenses	-7.809	-7.883	-6.523	-6.370	-6.788	-6.939	-6.773	-6.526
Other (expenses) income on financial items	-3.621	8.557	-1.510	-438	259	540	575	810
Profit (loss) before income tax	5.550	20.954	12.940	14.737	16.085	17.228	18.207	20.865
Income tax	-78	5.669	1.809	2.152	2.332	2.433	2.486	2.928
Profit (loss) for the year	5.628	15.284	11.131	12.586	13.753	14.795	15.721	17.937

Forecast 2021-2027 – Balance sheet

	Actual 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)	Forecast 2027 (ISK millions)
Assets	394.164	391.419	389.661	391.431	397.649	402.073	400.317	404.317
Non-current assets	356.110	358.826	359.589	365.751	371.174	375.116	377.224	379.051
Current assets	38.054	32.593	30.072	25.680	26.476	26.957	23.093	25.266
Equity and liabilities	394.164	391.419	389.661	391.431	397.649	402.073	400.317	404.317
Equity	188.126	198.930	204.432	211.850	220.103	229.398	239.119	251.056
Liabilities	206.038	192.488	185.229	179.581	177.547	172.676	161.198	153.261
Non-current liabilities	175.626	167.363	156.818	153.504	149.785	145.883	137.723	131.639
Current liabilities	30.413	25.126	28.411	26.077	27.761	26.793	23.475	21.622

Forecast 2021-2027 – Statement of Cash Flow

	Actual 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)	Forecast 2027 (ISK millions)
Cash generated from operations before interest and taxes	29.330	32.534	34.168	35.119	36.484	37.842	39.012	41.436
Paid interest expenses	397	359	398	427	513	604	603	593
Received interest income	-4.852	-4.528	-4.481	-4.392	-4.495	-4.344	-4.000	-3.791
Paid income taxes	-1.710	-1.844	-3.380	-2.481	-3.179	-2.881	-2.899	-2.953
Paid due to other financial income and expenses	-12	-120	-300	551	700	700	700	700
Net cash from operating activities	23.152	26.401	26.405	29.223	30.024	31.921	33.417	35.984
Cash flow from investing activities								
Acquisition of property, plant and equipment	-19.310	-19.275	-20.585	-19.567	-19.442	-18.466	-17.000	-17.138
Other financing activities	-4.141	0	5.867	0	0	0	2.500	-1.500
Cash flow from investing activities total	-23.450	-19.275	-14.718	-19.567	-19.442	-18.466	-14.500	-18.638
Cash flows from financing activities								
Proceeds from new borrowing	29.965	10.606	11.133	10.500	11.500	9.500	700	0
Repayment of borrowings	-22.263	-20.523	-19.877	-19.520	-16.127	-17.453	-15.600	-11.253
Dividends paid	-3.000	-4.000	-5.000	-5.000	-5.500	-5.500	-6.000	-6.000
Net cash used in financing activities	4.703	-13.917	-13.744	-14.020	-10.127	-13.453	-20.900	-17.253
Increase (decrease) in cash and cash equivalents	6.935	-6.790	-2.057	-4.364	455	2	-1.984	92
Cash and cash equivalents at year beginning	8.657	15.816	9.026	6.962	2.598	3.053	3.055	1.072
Exchange difference on cash and cash equivalents	228	0	-7	0	0	0	0	0
Cash and cash equivalents at end of period	15.820	9.026	6.962	2.598	3.053	3.055	1.071	1.164