



VEITUR



GAGNAVEITA
REYKJAVÍKUR



ORKA NÁTTÚRUNNAR



Orkuveita Reykjavíkur



Orkuveita Reykjavíkur – Consolidated Financial Forecast

Forecast 2019 and Long-Term Plan 2020 – 2025

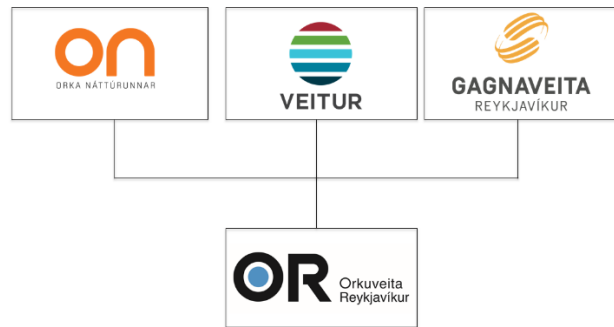
Approved by Board of Directors 30.9.2019

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Role and structure of Orkuveita Reykjavíkur

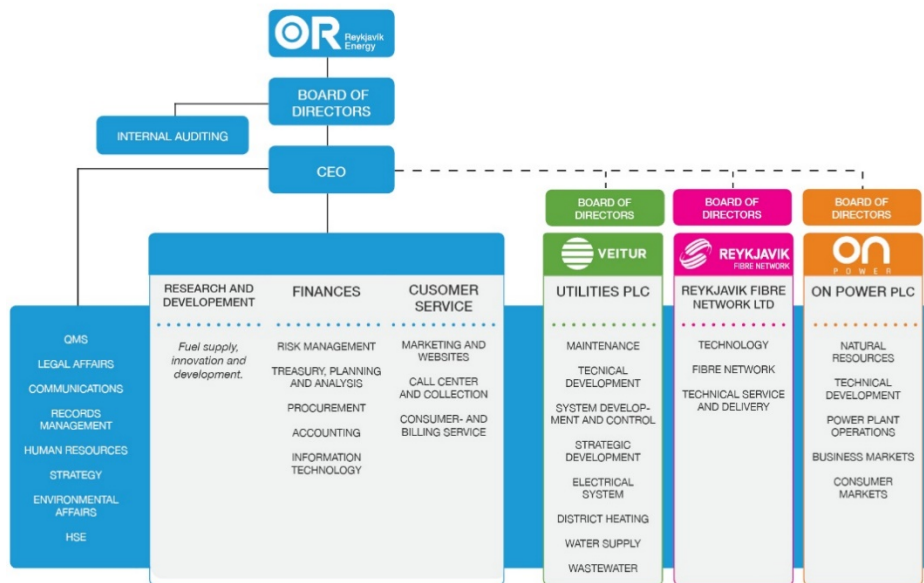
Orkuveita Reykjavíkur (OR), a utility company, provides services underpinning the high quality of life in the municipalities it serves. The company utilises resources in a responsible, sustainable and cost effective way with respect for nature, and without diminishing the rights of future generations.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

Figure 1



Introduction

The forecast for 2020 and the long-term plan 2021-2025 is consolidated for the parent company OR and the subsidiaries Veitur Utilities plc, ON Power plc, and Reykjavik Fibre Network ('Gagnaveita Reykjavíkur'). The forecast for each subsidiary has been approved by its respective Board of Directors (BoD), prior to approval of the OR BoD.

OR uses the method of 'Beyond Budgeting' in its forecast process. This means that the policy of each subsidiary forms 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. As a result

- the company is able to support the Living Compensation Agreements reached in the labour market in the spring of 2019,
- prices in regulated services are within the limits provided by the Agreements, and
- there can be a real reduction in cost in Veitur Utilities for the regulated services in the year 2020.

Veitur Utilities, which serves about three out of every four people in Iceland, are now preparing a universal upgrade to the company's smart meters. The project covers the entire period of this financial forecast and is the largest single investment project of the period. New smart meters will create the opportunity for more sophisticated and improved service to customers. During the period, work will also continue on the renewal of infrastructure in utility systems, and a new electricity substation will be built near Vogabyggð in Reykjavik. This will enhance security of electricity supply in the capital area and allow for land connections of large vessels in Sundahöfn. New sewage pumping stations will be constructed in the same areas. It will be the first of a new generation of such plants, where sewage does not need to be discharged into the sea even though the plant is being maintained.

ON's Power investments are based on ensuring continued good utilisation of power plants with reliable steam generation and meeting ON's Power environmental requirements and ambitions. Nesjavellir power plant's control unit will be upgraded, and the ON Power geothermal park at the Hellisheidi Geothermal Power Plant will continue to be developed to promote further multi-use of the geothermal resource. An increased need for hot water in the Greater Reykjavik area will be met.

During the forecast period, Reykjavik Fibre Networks plans to complete the installation of fibre-optic cables for households in the urban areas of Reykjanesbær, Árborg and Voga on the Vatnsleysuströnd. In addition, new buildings in Reykjavik Fibre Networks service area will be connected so that the open fibre-optic network is available to most households and companies in the country. All Reykjavik Fibre Networks projects are based on profitability assessment.

The discovery of serious moisture damages in OR's headquarter offices at Bæjarháls in 2015 and 2016 was 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 35 billion from 2019 to year-end 2025.




Owners of OR are; the city of Reykjavík (93.5%), the municipality of Akranes (5.5%) and the municipality of Borgarbyggð (1%). The first dividends to owners following the financial crisis were paid in 2017. Dividends always take into consideration;

- requirements approved by OR's 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 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 2020-2025

			
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 fibre optic system, in addition to other comparable operations.</p>
Main focus 2020-2025	<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"> • offers outstanding services • is a desirable, knowledge-based company • is a leader in innovation and technological development • is exemplary in business operations, safety and the reduction of carbon footprint. 	<p>Underpinning this financial forecast is the responsible use of resources; safe, competitive and cost-effective operation; the development of a geothermal park, the on-going development of electric vehicle charging as well as the reduction of carbon footprint.</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, roll-out of smart meters and strengthening of electricity and sewerage distribution systems in Reykjavik.</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. The Nesjavellir power plant's control unit will be upgraded and the ON geothermal park at the Hellisheidi Geothermal Power Plant will continue to be developed to promote further multi-use of the geothermal resource. An expected increased need for hot water in the Greater Reykjavik area will be met.</p>	<p>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.</p>

Assumptions and criteria 2019-2025

Assumptions for the 2019-2025 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 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	2019	2020	2021	2022	2023	2024	2025
Consumer Price Index, change (%)	3,4	3,2	2,6	2,6	2,6	2,5	2,5
Wage Index, change (%)	5,6	5,5	5,9	5,3	4,2	4,1	4,1
Currency, Narrow Trade Index, change (%)	7,8	0,2	0,0	0,0	0,0	0,0	0,0
Aluminium prices per tonne, average for the year (\$)	1.826	1.860	1.950	2.039	2.127	2.196	2.247

Note: all figures in this document employ Icelandic convention where “.” is the thousand separator, and “,” is the decimal point.

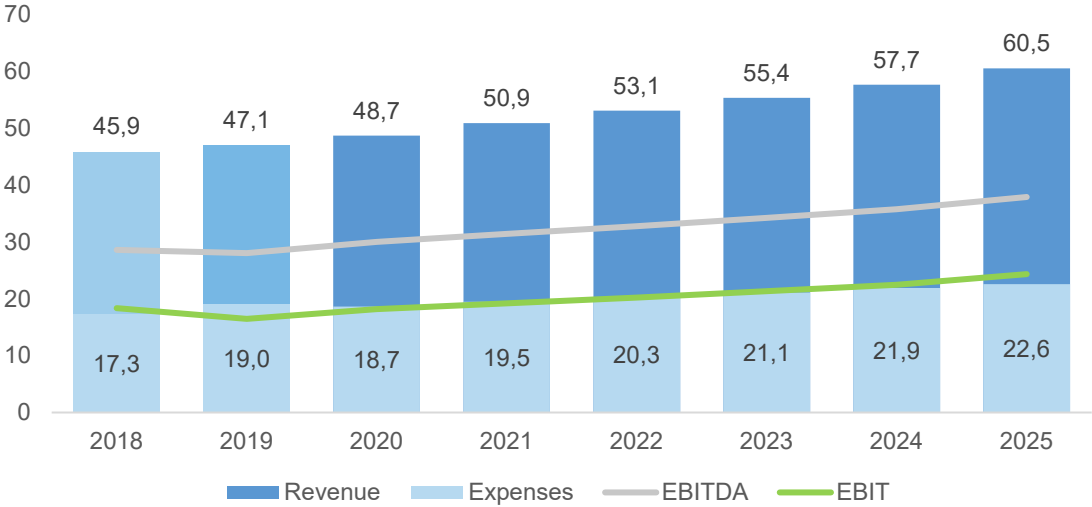
Priorities and assessment of investments

The OR 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 – including a comprehensive risk analysis – is conducted. Following this analysis, every project is considered by each subsidiary and consequently sent to the OR Board of Directors as well as owners for approval, if appropriate, according to predefined conditions. Objective analysis of the following factors is considered:

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

Forecast 2020-2025

Figure 2: Income statement – Revenue, expenses, EBITDA and EBIT (billions, ISK)



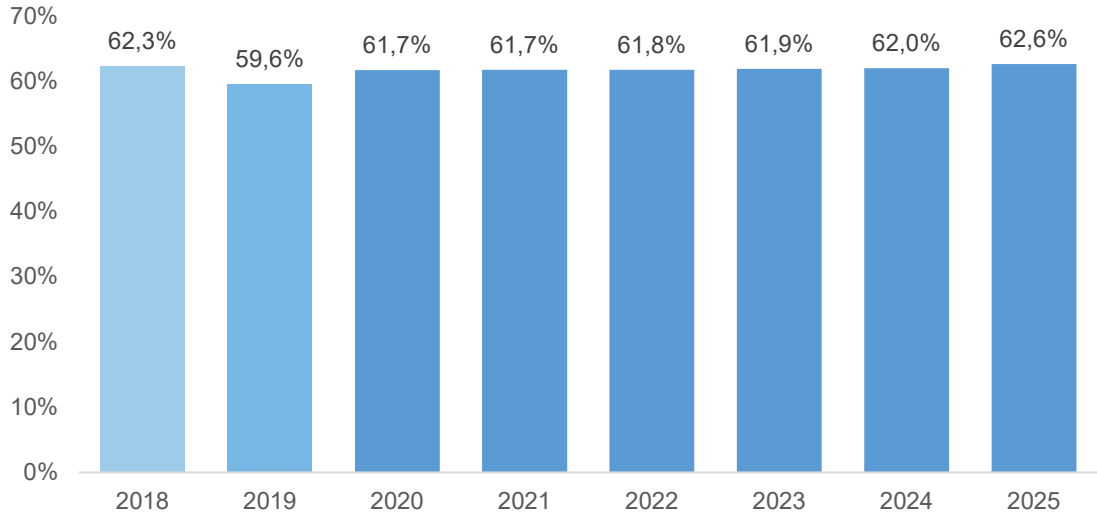
We project revenue from electricity sales to increase by ISK 4,3 billion or 21,1% between 2020 to 2025 and revenue from hot water sales to increase by ISK 2,8 billion or 21,9%.

Expenses before depreciation are expected to increase from 2020 to 2025 by ISK 4.0 billion or 21.2%. 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. Figure 3 shows we expect steady and strong profitability to maintained for coming years.

EBITDA margin

Figure 3: EBITDA margin (EBITDA / revenue)



Income

Figure 4: Income (ISK, billions)

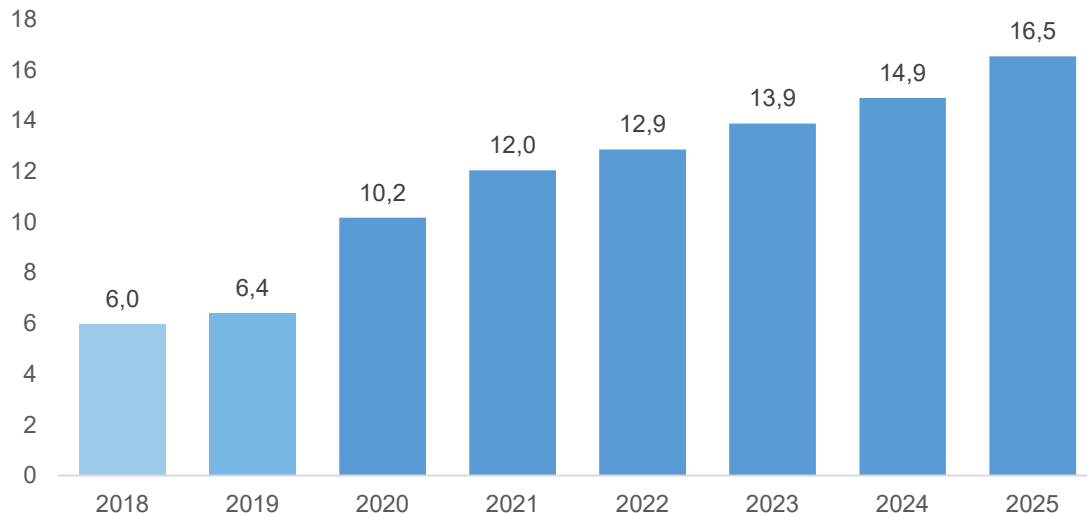
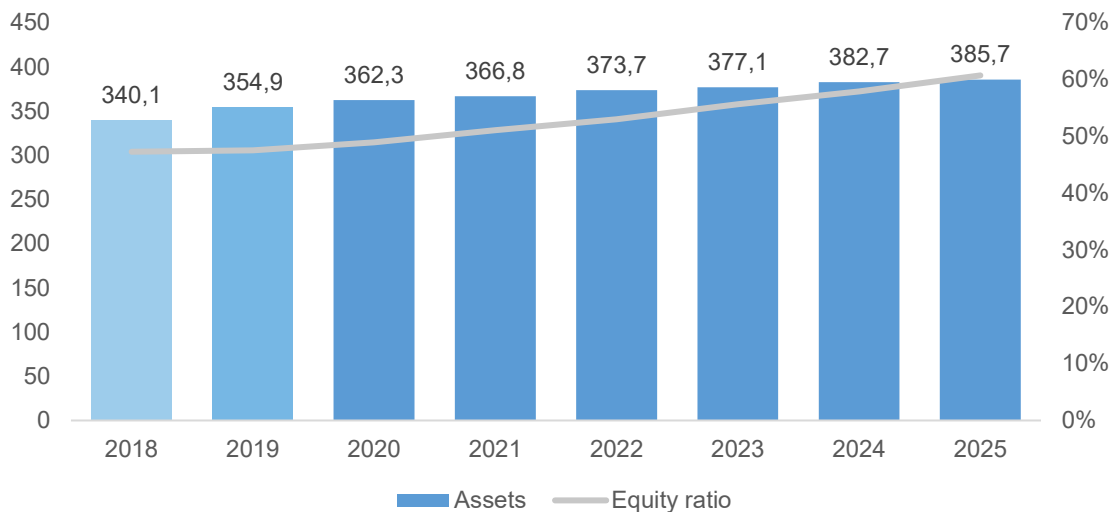


Figure 4 shows forecast income for the period. Income is expected to be ISK 16,5 billion by 2025. Calculated items, e.g. changes in the value of derivatives embedded in electricity contracts, however can have a considerable impact on income, suggesting substantial potential for out-turns to differ from projections.

Assets and equity ratio

Figure 5: 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 2020-2025, from 48,9% at year-end 2020 to 60,7% by the end of 2025.

Cash Flow

Figure 6: Cash flow 2020-2025 (ISK, billions)



Cash flow from operations and new borrowings are projected to cover all investments, debt repayments and dividend payments. Cash, cash equivalents and deposits at the end of 2025 is expected to be ISK 13,3 billion.

Investments

Figure 7: Investments (ISK, billions)

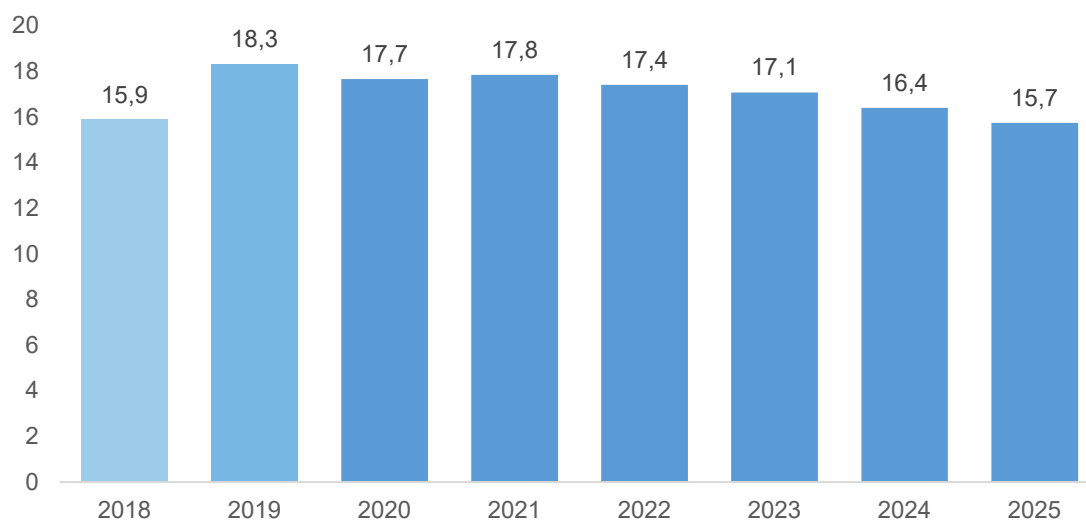


Table 1

MAIN INVESTMENTS 2020-2025		ISK billions
Utilities		62.1
Power stations		29.7
Other investments		10.3
Investment total		102.1

Financing

Figure 8: New loans (ISK, billions)

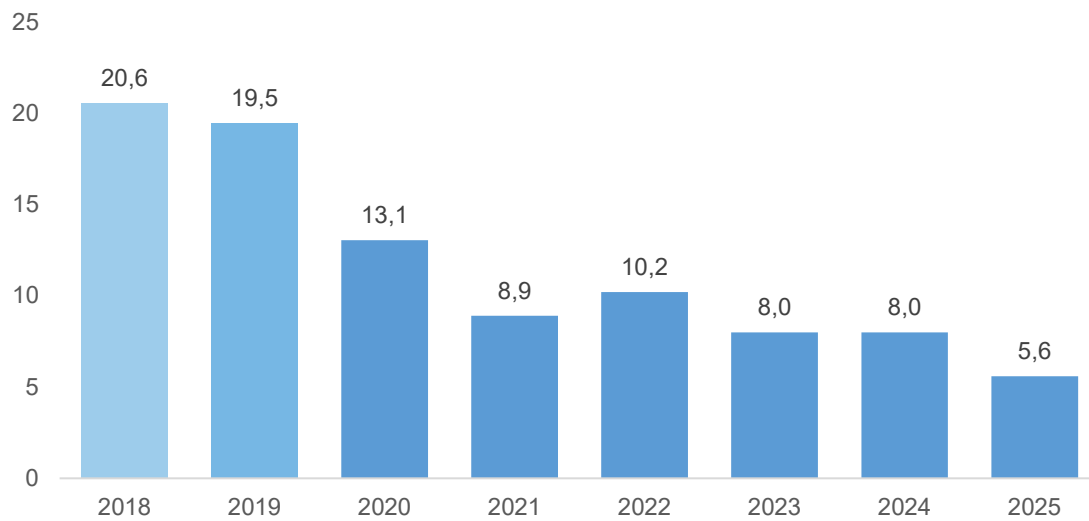


Figure 8 shows borrowing is estimated at ISK 53.8 billion during the period.

Figure 9: Long-term payments and net cash from operating activities (ISK, billions)

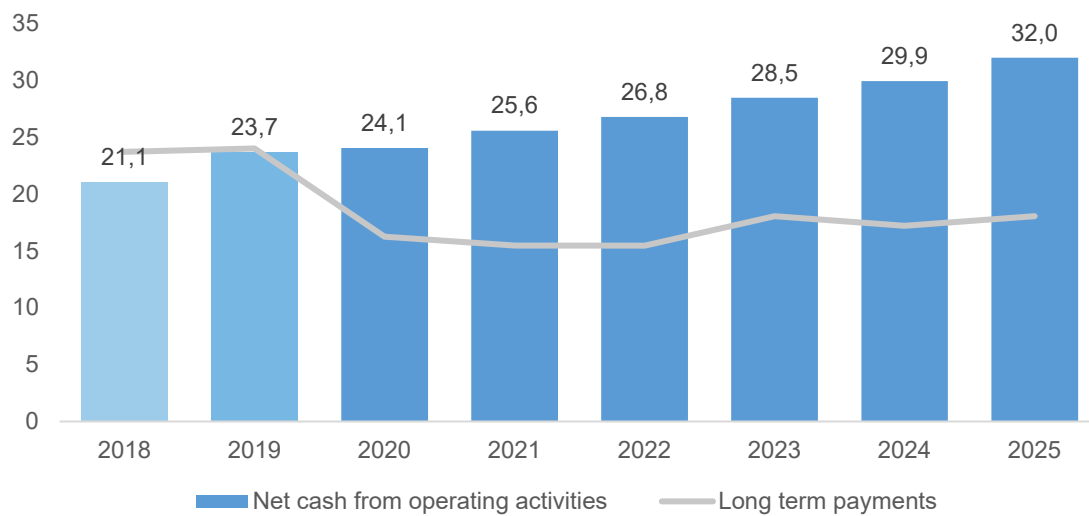
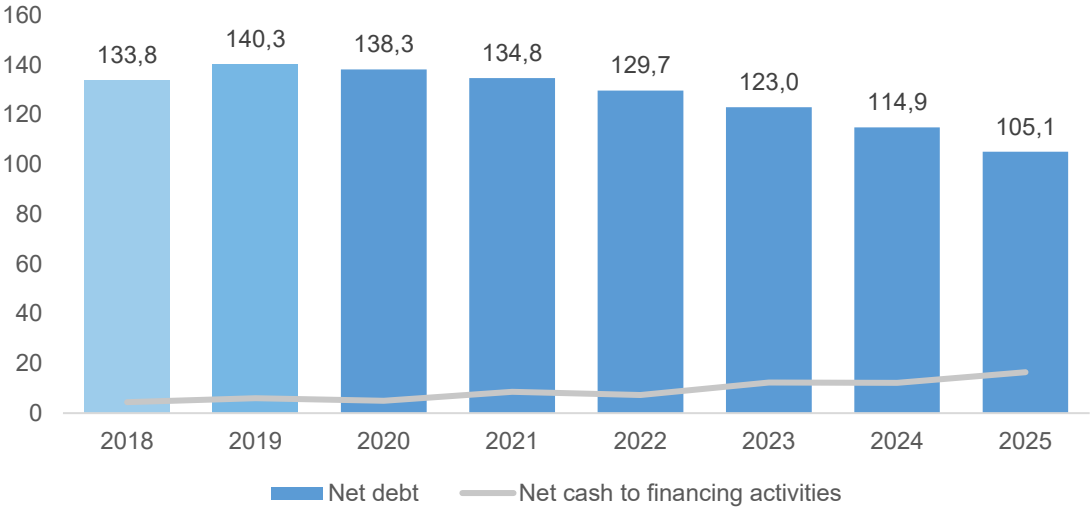


Figure 9 shows debt repayments are estimated between ISK 15,5 – 18,1 billion per year between 2020 – 2025, a total of ISK 100,6 billion.

Dividend payments to owners are estimated at ISK 15,0 billion during the forecast period.

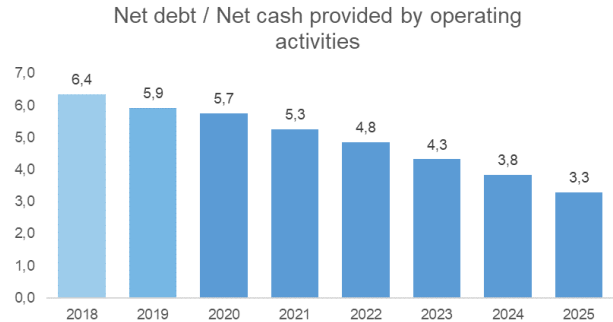
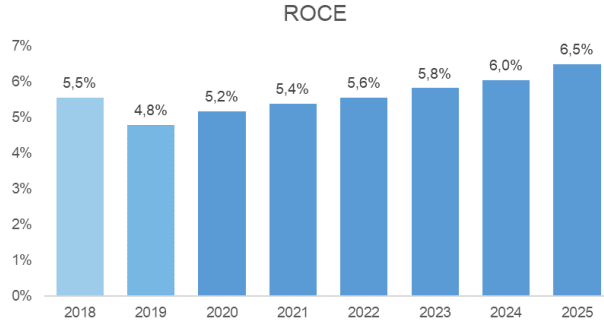
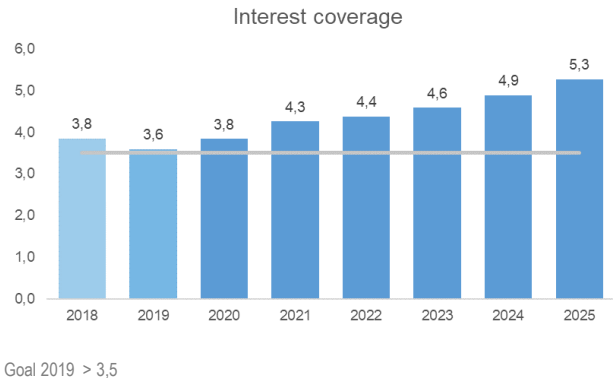
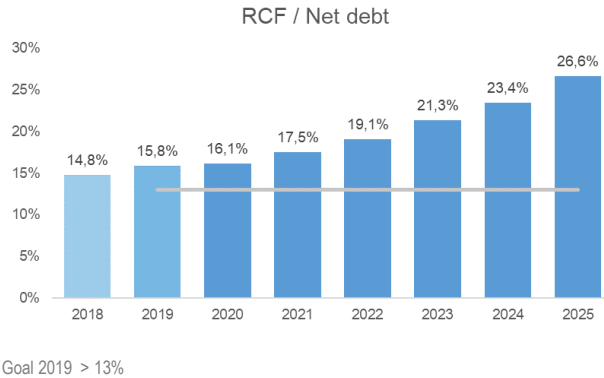
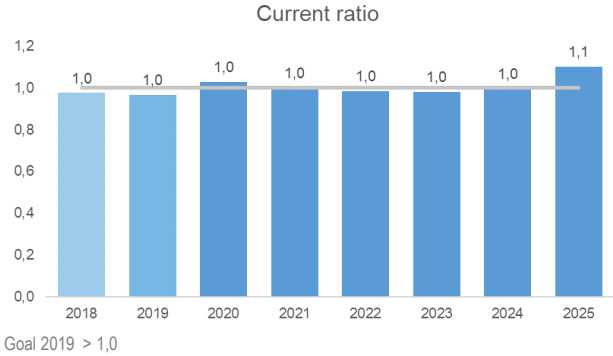
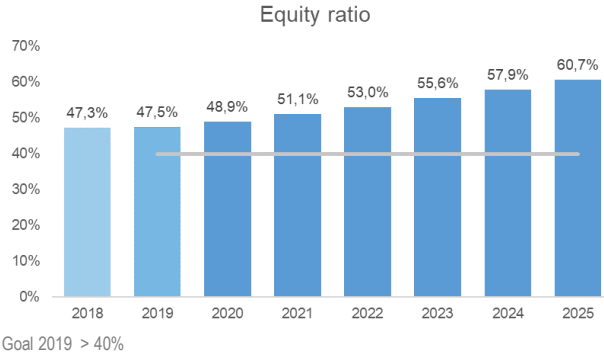
Figure 10: Net debt and net cash to financing activities (ISK, billions)



Debt is projected to fall by ISK 35,2 billion ISK over 2020–2025.

Key performance indicators

In line with the policy and other financial plans of the OR owners, 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 line with OR owner policy, which stipulates that the requirements must be approved by The Board of Directors and consequently confirmed by OR owners. Key financial indicators must be met before a dividend is approved.



Notes: ROCE is return on capital employed; RCF is retained cash flow.

Forecast 2019-2025 – Income statement

	Actual 2018 (ISK millions)	Forecast 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)
Operating income total	45.916	47.072	48.707	50.914	53.100	55.374	57.662	60.540
Operating expenses total	17.299	19.023	18.657	19.475	20.309	21.103	21.906	22.615
EBITDA	28.617	28.049	30.050	31.439	32.791	34.271	35.756	37.924
Depreciation	10.271	11.569	11.841	12.232	12.587	12.918	13.255	13.571
EBIT	18.346	16.480	18.209	19.206	20.204	21.353	22.501	24.354
Financial items	-13.753	-10.354	-6.117	-4.777	-4.991	-5.041	-5.202	-5.289
Interest income	381	563	530	491	465	433	411	416
Interest expenses	-6.911	-7.897	-7.697	-7.219	-7.319	-7.289	-7.117	-6.955
Other (expenses) income on financial items	-7.223	-3.020	1.050	1.951	1.863	1.814	1.504	1.249
Profit (loss) before income tax	4.593	6.126	12.092	14.430	15.213	16.312	17.299	19.065
Income tax	-1.380	-275	1.923	2.385	2.350	2.429	2.402	2.530
Profit (loss) for the year	5.972	6.401	10.169	12.045	12.862	13.882	14.897	16.535

Forecast 2019-2025 – Balance sheet

	Actual 2018 (ISK millions)	Forecast 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)
Assets	340.089	354.936	362.324	366.792	373.671	377.080	382.724	385.738
Non-current assets	313.624	329.949	335.854	341.045	345.682	349.865	354.043	357.059
Current assets	26.465	24.987	26.469	25.748	27.989	27.214	28.681	28.679
Equity and liabilities	340.089	354.936	362.324	366.792	373.671	377.080	382.724	385.738
Equity	160.827	168.751	177.244	187.290	198.152	209.784	221.682	234.216
Liabilities	179.262	186.185	185.079	179.503	175.519	167.296	161.043	151.521
Non-current liabilities	152.121	160.308	159.325	153.725	147.056	139.569	132.195	125.440
Current liabilities	27.141	25.877	25.754	25.778	28.463	27.727	28.847	26.081

Forecast 2019-2025 – Statement of Cash Flow

	Actual 2018 (ISK millions)	Forecast 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)
Cash generated from operations before interest and taxes	27.492	29.018	30.071	31.542	32.861	34.331	35.816	37.918
Paid interest expenses	398	560	461	346	293	256	233	211
Received interest income	-4.806	-5.506	-5.379	-5.058	-5.040	-4.784	-4.623	-4.341
Paid income taxes	-1.482	-1.559	-1.649	-1.758	-1.876	-1.928	-2.088	-2.392
Paid due to other financial income and expenses	-547	1.218	565	515	545	600	600	600
Net cash from operating activities	21.054	23.731	24.069	25.588	26.782	28.475	29.939	31.996
Cash flow from investing activities								
Acquisition of property, plant and equipment	-15.871	-18.310	-17.663	-17.840	-17.410	-17.078	-16.394	-15.738
Other financing activities	3.587	0	0	0	0	0	0	0
Dividens paid	-12.284	-18.310	-17.663	-17.840	-17.410	-17.078	-16.394	-15.738
Cash flows from financing activities								
Proceeds from new borrowing	20.562	19.471	13.050	8.900	10.200	8.000	8.000	5.600
Repayment of borrowings	-23.730	-24.021	-16.248	-15.479	-15.479	-18.072	-17.229	-18.065
Dividends paid	-1.250	-1.500	-1.750	-2.000	-2.000	-2.250	-3.000	-4.000
Net cash used in financing activities	-4.418	-6.050	-4.948	-8.579	-7.279	-12.322	-12.229	-16.465
Increase (decrease) in cash and cash equivalents	4.352	-629	1.459	-831	2.093	-925	1.316	-207
Cash and cash equivalents at year beginning	6.255	10.988	10.362	11.823	10.992	13.085	12.160	13.476
Exchange difference on cash and cash equivalents	381	0	0	0	0	0	0	0
Cash and cash equivalents at end of period	10.988	10.362	11.823	10.992	13.085	12.160	13.476	13.269