



Reykjavik Energy – Consolidated Budget

*Budget for the year 2015 and a five year forecast
for the years 2016 – 2020*

27.10.2014

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Abbreviations

OR: Orkuveita Reykjavíkur -- Reykjavík Energy

NV: Nesjavallavirkjun -- Geothermal Power Plant at Nesjavellir

HH: Hellisheiðarvirkjun -- Geothermal Power Plant at Hellisheiði

AV: Andkílsárvirkjun -- Hydro-Electrical Power Station at Andakíll

HAB: Hot Water System of Akranes and Borgarnes

Owner's policy

The budget considers the owners policy, agreed on by the municipalities and confirmed at an owners meeting in April 2014. The policy emphasizes respect for the environment, responsible utilization of natural resources and contentious use of assets. Also ensuring professionalism, efficiency, prudence, transparency and operational dependability. In addition the policy stipulates that The Board of OR shall develop a general policy and also submit to the owners for approval proposals for policy on the following issues:

- Policy on return on capital
- Risk policy
- Environmental and natural resources policy
- Policy on security, health and occupational safety
- Procurement policy
- Policy on information security
- IT policy
- Human resources policy
- Compensation policy
- Equal opportunity policy
- Ethics policy

The company has finalized policy on all the issues above except for return on capital which is being considered. The Board of OR shall recommend a dividend policy encompassing that dividends are to be paid out to owners after meeting financial restraints including that the company's financial strength is sufficient to meet investing and operational needs. The budget rests on these stated policies, emphasizing issues of risk and protection of the environment and natural resources.

The owners policy also states the financial constraint that OR must finance a project in the same currency as the company will receive its revenue from. The company's risk policy also stipulates that currency risk shall be reduced and Current Ratio shall be above a predefined value.

The Plan

The budget for OR and its subsidiaries for the year 2015 and the long term plan for 2016 – 2020 are the first ones conducted after the company was split up, by law, at the turn of last year. The Plan consolidates a forecast for OR, the parent company, and its subsidiaries OR Distribution, OR Waterworks and Sewage, Natures Energy and Reykjavik's Data System. Each company's plan was approved by their board before the consolidated plan was approved by The Board of OR. The Plan is based on and in accordance with THE PLAN, OR's and its owners action plan, confirmed in the spring of 2011, The Official National Economic Forecast, international forecasts on external factors affecting The Company and the opening balance sheets of entities with-in The OR Group as approved by The Board of OR in May 2014 and confirmed by owners. The Plan is also based on the owner's policy regarding OR's business activities and practices as approved at an owners meeting in April 2014.

The year 2015 is the second to last year of THE PLAN. At the beginning of this year OR has put behind it 15 of the 23 quarters THE PLAN encompasses. At this point everything has been achieved as planned on all

INTRODUCTION

fronts and some even better. Cost cuts in operations have exceeded what was aimed for in THE PLAN and The Budget for the year 2015 bears witness to increases where the cut-backs have hurt the most.

The splitting up of the company has given rise to increased costs that have to be met. Resulting in expected rise in operation expenses in the year 2015.

Investment will also increase. THE PLAN accounts for important projects in the sewage system that were postponed during the direst financial difficulties and are to be commenced in 2015. The construction of a new transformer station in Akranes is also planned. The station is a prerequisite for exchanging oil for renewable energy in fish processing. Improvements in the capital area on The Reykja-Supply-Pipes and on The Deildartungu-Supply-Pipe will be continued. These projects need go faster, finances permitting.

Obtaining supplemental steam for HH by connecting wells in Hverahlið is an important investment project. For the same purpose a new well will be drilled at The Power Plant at Nesjavellir. This will be the first hole to be drilled in that area since 2008. Projects to improve the environment on Hellisheiði are being emphasized. Cleaning gases at The Power Plant in a scrubbing plant and with an air extraction hood are important development and innovation projects as well as the projects to restore the land after construction damages being conducted in an organized and scientific manner.

The increase in OR's revenue due to increased power production and adjustments of rates structure are behind us. By keeping a tight rein on expenses, profit levels of the last two years are expected to be maintained for the next few years. Thus gradually the debt burden will be reduced. The burden that was overwhelming the operations finances when THE PLAN was launched.

The Financial Forecast for the years 2016 – 2020, which is a part of this Plan, entails that the spirit of THE PLAN is carried forward after 2016 in the operations of OR and its subsidiaries for the years 2011 – 2016. Prudence will prevail as a guiding light for the operations, which all aim at guaranteeing people and companies a secure and good access to the utility services at low cost.

OR's budget for the year 2015 and the five year forecast for the years 2016 – 2020 now goes to The City of Reykjavík for consideration as part of the consolidated financial plans for The City.

The operating area reaches both the south and the west lands 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 Andakill in the country of Borgarfjörður. The geothermal plants are both 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 303 MW. The power of the Hydro-Electric Power Station at Andakill is 9 MW.



ELECTRICITY DISTRIBUTION

OR's distribution of electricity reaches more than half the population of the country in six municipalities by Faxaflói. The distribution system in the capital region is connected to the country's transmission system at three points, namely 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 Reykjavik Energy operates the world's largest geothermal district heating system. The most extensive production of hot water is in the high-temperature area Nesjavellir or, 300 MWth. In low-temperature areas Reykjavik Energy produces a total of 600 MWth. The power plant Hellisheiði produces 133 MWth of hot water.



WATER WORKS

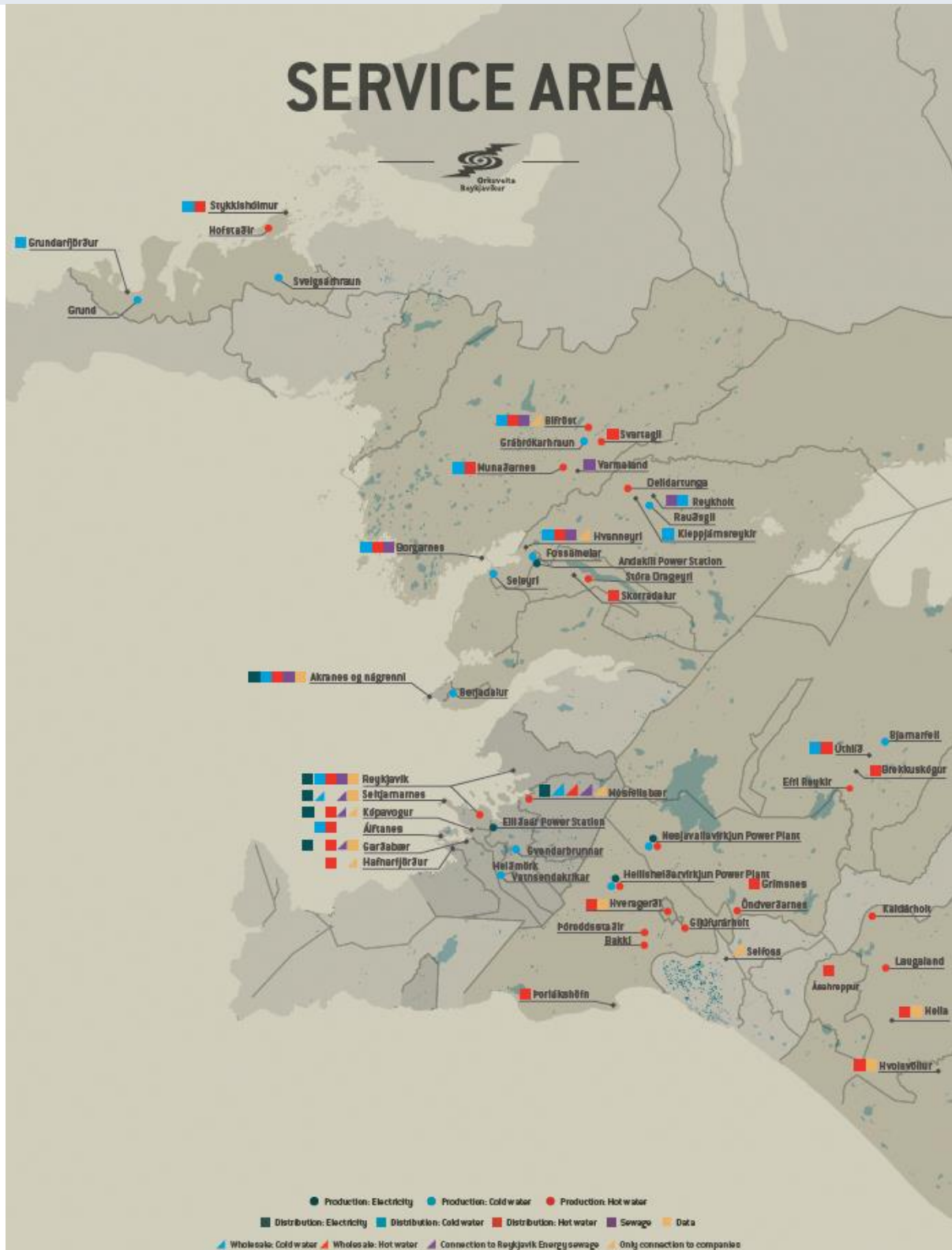
OR operates 13 water distribution systems in its area of operations and supplies two other systems on a whole sale basis. All in all OR supplies more than half the population of Iceland with fresh water.

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.

CABLE SYSTEMS

OR has developed a valuable fibre-optic cable system, benefitting homes and businesses in the south-west.



BUDGET'S PREREQUISITES AND CRITERIA

THE PLAN's results for the period 2011-2014H1 exceed expectations. All components of THE PLAN are at least on schedule.

THE PLAN

Plan	2011	2012	2013	2014	2015	2016	ALLS
Investment reduction in distribution systems	1.205	3.518	2.690	2.518	2.410	2.659	15.000
Sale of assets	1.000	2.000	5.100	1.900	-	-	10.000
Cost cutting in operations	300	900	900	900	1.000	1.000	5.000
Other investment reductions	250	200	200	200	200	200	1.250
Postponement of investments in sewage systems	-	2.000	900	-	-2.000	-900	-
Subtotal	2.755	8.618	9.790	5.518	1.610	2.959	31.250
Subordinate loans	8.000	-	4.000	-	-	-	12.000
Review of tariffs	1.122	1.552	1.215	1.295	1.330	1.499	8.013
Subtotal	9.122	1.552	5.215	1.295	1.330	1.499	20.013
Total	11.877	10.170	15.005	6.813	2.940	4.458	51.263

Actual	2011	2012	2013	2014H1	2014H2	2015	2016	ALLS
Investment reduction in distribution systems	1.825	4.808	3.203	1.161	-	-	-	10.997
Sale of assets	1.115	212	6.109	1.515	-	-	-	8.951
Cost cutting in operations	747	887	1.381	581	-	-	-	3.596
Other investment reductions	378	415	286	228	-	-	-	1.307
Postponement of investments in sewage systems	-	2.150	1.152	-23	-	-	-	3.279
Subtotal	4.065	8.472	12.131	3508	-	-	-	28.130
Subordinate loans	7.925	75	4.000	0	-	-	-	12.000
Review of tariffs	1.128	2.200	2.170	809	-	-	-	6.307
Subtotal	9.053	2.275	6.170	809	-	-	-	18.307
Total	13.118	10.747	18.301	4.317	-	-	-	46.437

BUDGET'S PREREQUISITES AND CRITERIA

Prerequisites

The prerequisites for The Budget for the year 2015 and the forecast for the financial plans for the years 2016-2020 are based on Static's Economic forecast published in July 2014 also on forecasts from The Central Bank of Iceland and on forecasts by OR's staff. Criteria for aluminium prices are 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.

PREREQUISITES

LIST	2014	2015	2016	2017	2018	2019	2020
The Consumer Price Index, change (%)	2,5	3,4	3,2	2,8	2,6	2,5	2,5
The Building Cost Index Dec-Dec, change (%)	1,7	3,4	3,2	2,8	2,6	2,5	2,5
Currency, Narrow Trade Index (points)	203,2	206,8	208,1	208,1	208,1	208,1	208,1
Aluminium prices, average for the year (\$)	2.085	2.143	2.197	2.251	2.307	2.366	2.425

Criteria

The financial planning was guided by OR's treasury and risk policy as approved by The Board in October 2013 and confirmed at the owners meeting in November 2013.

The policy requires a plan for funding aiming at guaranteeing a forward secure funding of three years. In addition to strive for a current ratio greater than 1.

THE PLAN did not allow for any new borrowing as OR's access to loans was non-existent. Now that the goals of THE PLAN have been realized and then somewhat, OR has access to financial markets to borrow and engage in risk hedging. Therefore it is now planned that OR will borrow to strengthen its cash position and fulfil the policy's goals. The borrowing aims first and foremost at guaranteeing the company's financial position and to maintain its strong cash position. Current ratio is expected to be around 1 for all years of The Plan.

The Budget encompasses current risk hedges as the company plans to protect itself from outside risk in tune with its risk policy. The pertinent outside risk parameters are market price of aluminium, interest rates and currency exchange rates. New financing is expected to be in foreign currency e.g. to reduce the forex risk on cash-flow. Picture 2 shows the ratio of foreign currency and foreign currency assets against outflows. The ratio would be lower were no steps to be taken.

Investment will for the most part be financed by cash flow from operations. The company's investment needs will increase in the coming years in wake of THE PLAN and increasing environmental considerations. Part of the investments will be funded by loans.

BUDGET'S PREREQUISITES AND CRITERIA

The Company purposefully aims at greater financial health. In accordance with the owners policy and their action plan. This entails to resolutely improve key figures in operations e.g. current ratio, equity ratio, debt coverage and others. The following table shows key figures at the end of 2013 and estimates for the following years:

KEY FIGURES	2014	2015	2016	2017	2018	2019	2020
EBITDA/Operating revenue	61.2%	60.0%	60.7%	60.4%	60.3%	60.8%	58.7%
Equity ratio	32.7%	34.6%	38.0%	40.8%	43.9%	48.0%	52.6%
Current ratio	0.6	0.9	0.9	1.0	1.0	0.8	0.8
(Interest bearing liabilities - Cash) / EBITDA	7.2	6.8	5.5	4.9	4.4	3.8	3.4

Investment priorities and assessment

OR's owner's policy defines the company's role and core business. This forms the basis for assessing investment priorities. The projects counted in the investment plan have been thoroughly considered and prioritised 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 as appropriate, all according to predefined procedures.

Objective analysis of the following issues is considered:

- Increased use or demand
- Break-down history
- Age
- Materials
- Status analysis
- Employees and customers safety
- Service security

According to the latest review income for the year 2015 is expected to be ISK 6,179 million, compared to ISK 11,884 million for 2014. Thus resulting in a reduction of ISK 5,705 million. Equity ratio is expected to be 34.6% at year end 2015 compared to 32.7% year end 2014.

INCOME STATEMENT

Revenue

Operating revenue for the year 2015 is expected to be ISK 39,952 million against ISK 37,807 million according to the review for the year 2014. Retail revenue is expected to increase by ISK 482 million and revenue from whole sale by ISK 1,733 million.

Expenses

Budgeted operating costs before depreciation for the year 2015 are ISK 15,982 million compared to ISK 14,672 million according to review for the year 2014 an increase of 8.9%. Energy purchases and transmission costs increase between the years by ISK 289 million or 5.3%.

BALANCE SHEET

Assets

Total assets are expected to be ISK 286.8 billion at year end 2015 compared to ISK 282.2 billion at year end 2014, an increase of 1.6%.

Equity and liabilities

Equity is expected to be ISK 99.3 billion at year end 2015 compared to ISK 92.4 billion at year end 2014. Liabilities are expected to be reduced from ISK 189.9 billion down to ISK 187.5 billion at year end 2015, a reduction of 1.2% year on year.

CASH FLOW

Net cash from operating activities

Cash flow from operations is expected to be ISK 18.8 billion for the year 2015 compared to ISK 19.9 billion for the year 2014, an increase of 5.85%.

Investment activities

Investment in fixed assets is expected to be ISK 10.3 billion for the year 2015 compared to ISK 3.8 billion for the year 2014 an increase of 171%.

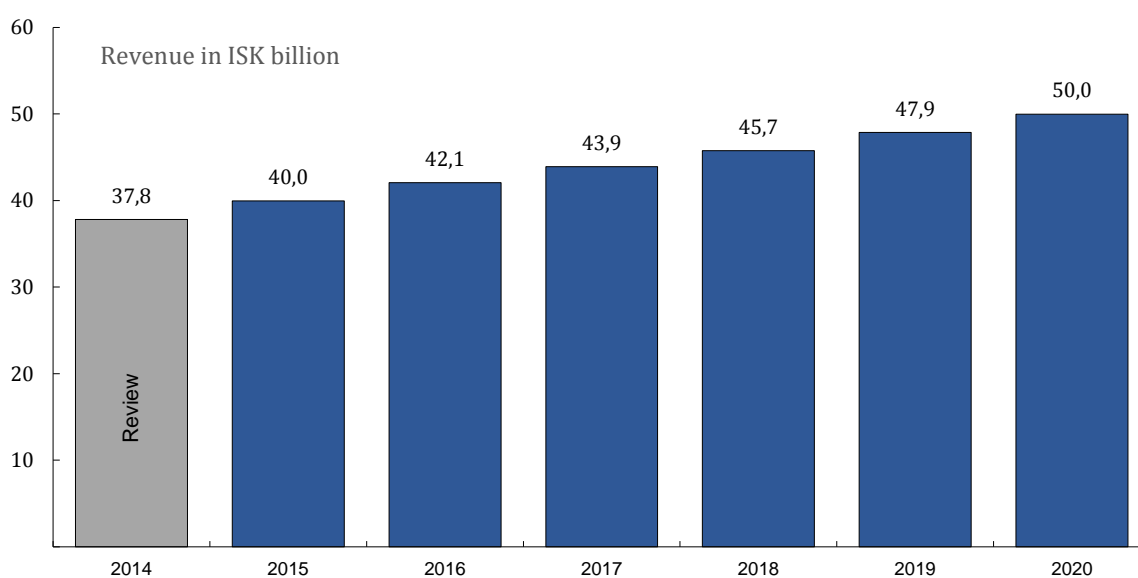
The Board's policy of concentrating on core activities and divestment of non-core assets will be adhered to. In The Review the divestment is expected to be ISK 2.5 billion. The success of this Plan will lead to fulfilment of THE PLAN in this respect.

Five year financial forecast 2016 – 2020

INCOME STATEMENT

Revenues

Operating revenue is expected to increase by ISK 10,031 million from 2015 to 2020 or by 25.1%. Retail sales of electricity are to increase by ISK 2,405 million or 21.6% and retail sales of hot water by ISK 2,665 million or 25.4%. Revenue from data transmission is expected to increase by ISK 729 million or 43.2%. Whole sale revenue is to increase by ISK 2,066 million or by 26.5%.



Picture 1 - Revenues

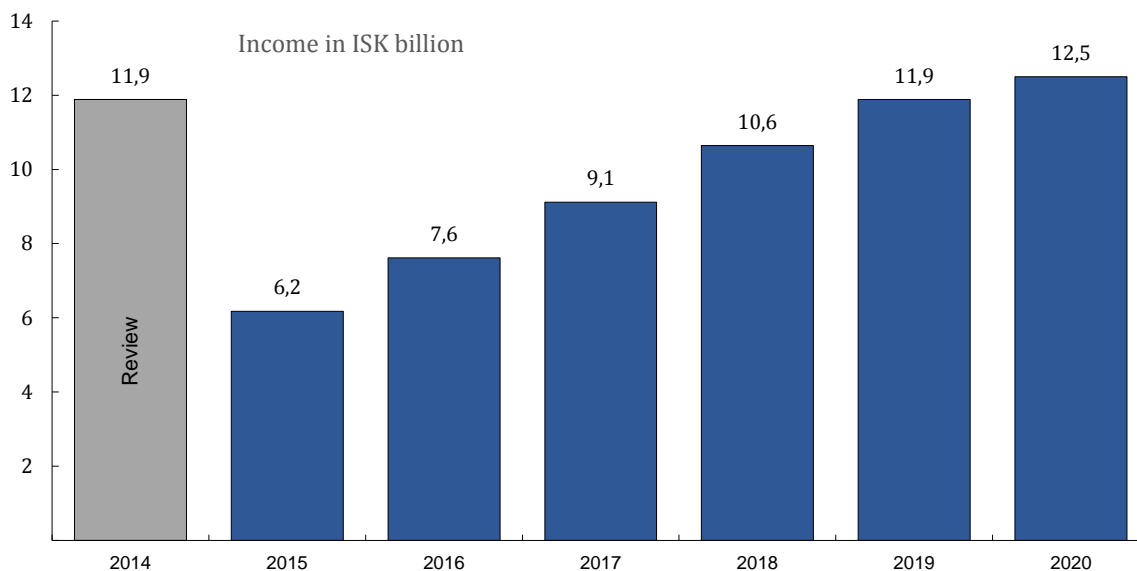
Expenses

Expenses before depreciation are assumed to increase from 2015 to 2020 by ISK 4,672 million or 29.2%. Energy purchases and transmission costs to increase by ISK 1,357 million or by 23.6%. Wages and other operating expenses to increase by ISK 3,314 million or by 32.4%. Increases in operating expenses are mainly the result of general price increases.

EBITDA rises from ISK 23,696 million for the year 2015 to ISK 29,329 million for the year 2020 or by 22.4%.

Income

Picture 2 shows forecasted income over the period 2014 – 2020. Income for the year 2020 is expected to rise to ISK 12.5 billion. Calculated items i.e. changes in value of derivatives embedded in electricity contracts can have a considerable impact on income. Such an impact is expected for the year 2014 as can be seen in picture 2.

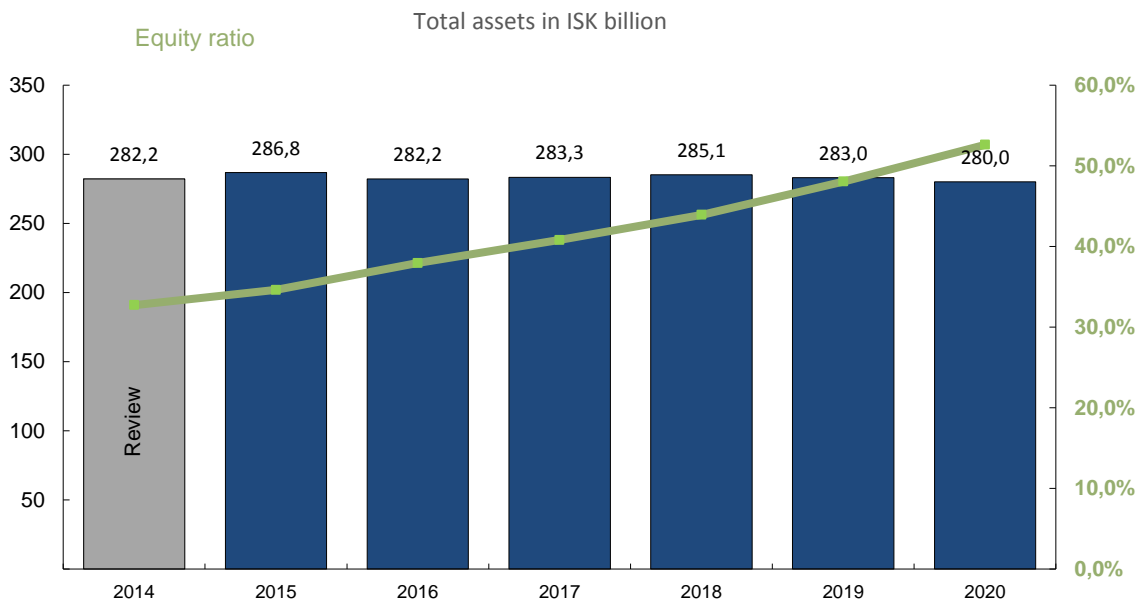


Picture 2 – Income

BALANCE SHEET

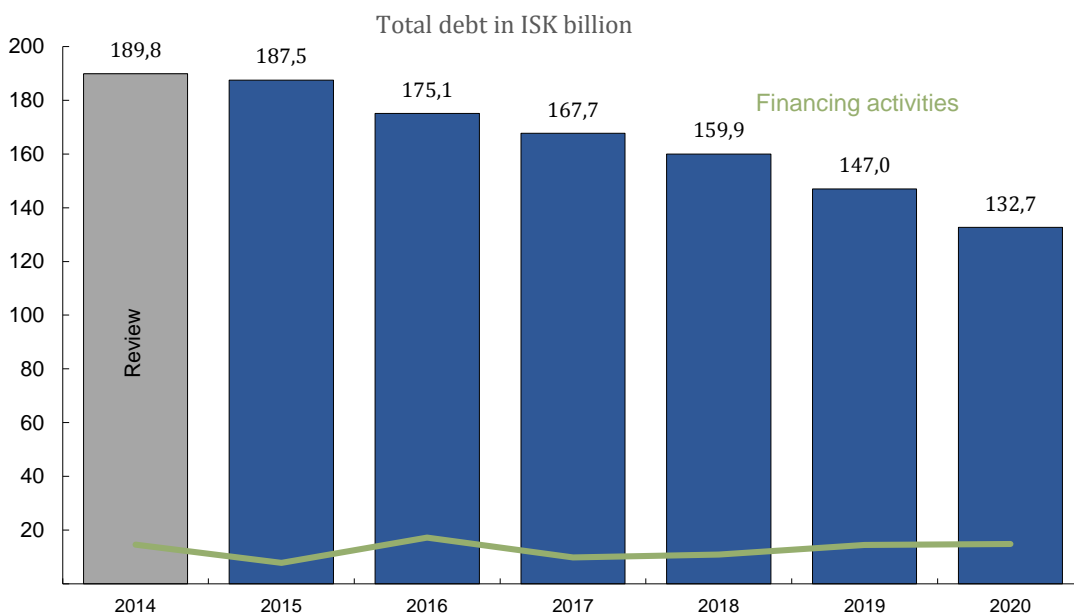
The forecast shows total assets to be reduced by ISK 6.778 billion or by 2.4% from 2015 to 2020, or down to ISK 280.0 billion at 2020 year end. The equity ratio improves constantly during this period from being 34.6% in 2015 to become 52.6% at 2020 year end.

RESULTS AFTER REVIEW



Picture 3- Total assets

Equity at year end 2020 is forecasted to be ISK 147.3 billion after increasing by ISK 48.1 billion from 2015. Assuming that total liabilities for the same period will be reduced from ISK 187.5 billion to ISK 132.7 billion or by 29.2%.



Picture 4-Total debt

RESULTS AFTER REVIEW

STATEMENT OF CASH FLOW

Investment activities

The forecast for investments for the period 2016 – 2020 is ISK 46.6 billion.

Investment in distribution systems is forecasted to be ISK 29.6 billion. 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. Sewage projects on the west coast will be resumed in 2015 and finished in 2016. By then the status of the sewage system in these communities should be up to par with those in the capital area.

Investment in power plants is forecasted to be ISK 13.9 billion. Primary projects are concerned with environmental issues i.e. scrubbing of sulphur dioxide and also construction in connection with the second phase of The Geothermal Plant at Hellisheiði.

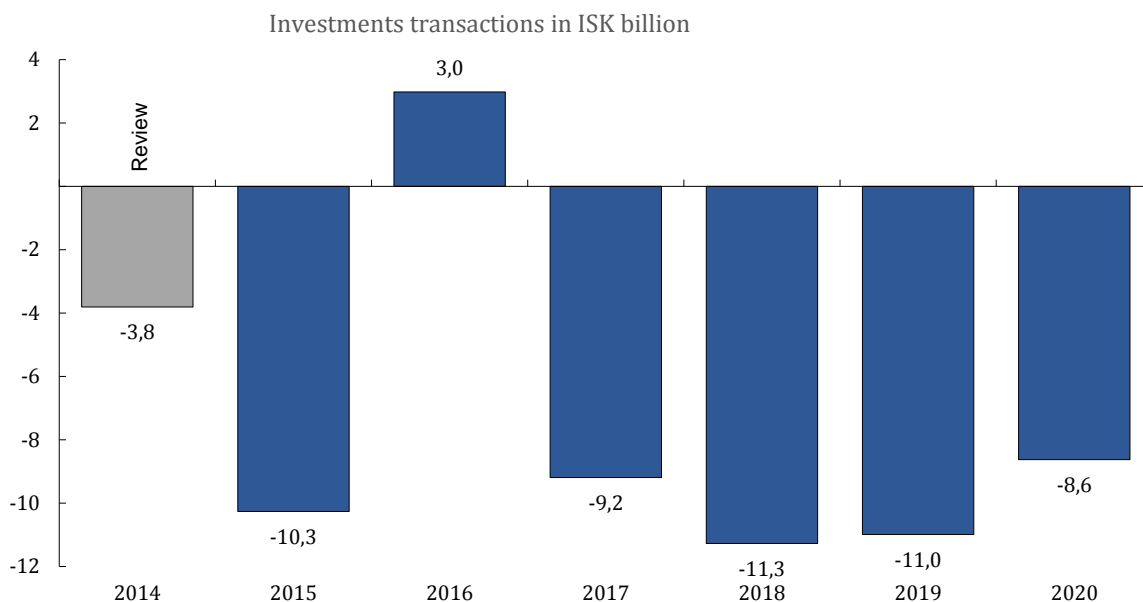
A realization of ISK 9.5 billion from a derivative financial asset linked to aluminium prices is planned for 2016.

Investments

Investment overview in ISK millions

INVESTMENTS							
LIST	2014	2015	2016	2017	2018	2019	2020
Power Plant	1,895	3,809	492	2,718	4,671	4,405	1,652
Distribution system	3,854	5,626	5,430	5,888	6,009	5,972	6,348
Other investment	632	831	617	581	593	608	623
Total Investments	6,382	10,265	6,539	9,188	11,273	10,984	8,623

RESULTS AFTER REVIEW



Picture 5-Investment activities

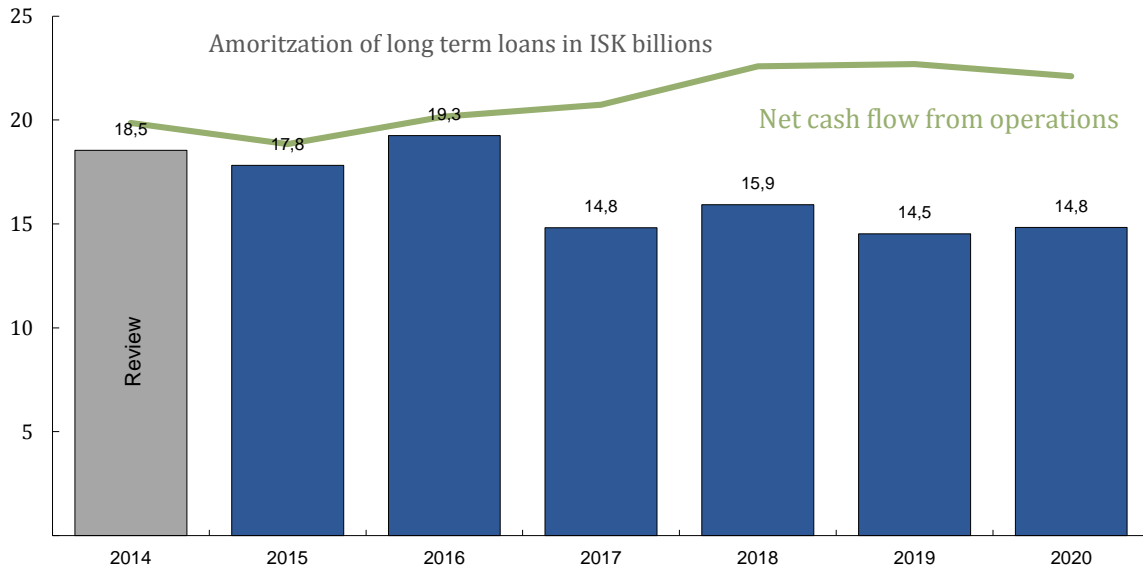
Financing activities

Amortisation of debt for the year 2016 is forecasted to be ISK 19.3 billion and between 14 and 16 billion ISK for each following year up to and including 2020, a total of ISK 80 billion.

Borrowings of new loans are expected to be ISK 12 billion for the period or 25% of investment and 15% of amortization of debt.

Cash and cash equivalents at year end increase from ISK 11.3 billion in 2015 to ISK 15.3 billion in 2020.

RESULTS AFTER REVIEW



Picture6- Amortization of long term loans

KEY RATIOS

OR'S – FIVE YEAR FORECAST

LIST	2015	2016	2017	2018	2019	2020
EBITDA/Operating income	60.0%	60.7%	60.4%	60.3%	60.8%	58.7%
Equity ratio	34.6%	38.0%	40.8%	43.9%	48.0%	52.6%
Current ratio	0.9	0.9	1.0	1.0	0.8	0.8
(Interest bearing liabilities - Cash) / EBITDA	6.8	5.5	4.9	4.4	3.8	3.4

Budget 2015 and five year forecast 2016-2020

Income statement	Review 2014	Budget 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million
Operating revenue	37.807	39.952	42.074	43.908	45.746	47.879	49.983
Retail	30.496	30.979	32.375	33.968	35.532	37.103	38.700
Electricity	11.109	11.130	11.551	12.033	12.514	13.012	13.534
Hot water	10.124	10.473	10.925	11.470	12.013	12.565	13.138
Fresh water	3.201	3.260	3.398	3.563	3.729	3.898	4.076
Sewage	4.352	4.426	4.614	4.838	5.063	5.293	5.534
Data transmission	1.709	1.689	1.887	2.064	2.214	2.333	2.418
Wholesale	6.048	7.781	8.462	8.654	8.879	9.391	9.846
Electricity	5.796	7.537	8.208	8.388	8.600	9.100	9.363
Hot water	195	183	191	201	210	220	408
Fresh water	57	60	63	66	69	72	75
Asset sales	50	0	0	0	0	0	0
Other revenue	1.213	1.193	1.237	1.287	1.335	1.385	1.436
Expenses	14.672	15.982	16.514	17.373	18.180	18.792	20.654
Energy purchases	2.408	2.568	2.729	2.887	3.044	3.210	3.297
Transmission	3.054	3.184	3.317	3.438	3.560	3.684	3.812
Salaries and related expenses	4.089	4.652	4.958	5.263	5.525	5.724	5.867
Other operating expenses	5.121	5.578	5.510	5.784	6.051	6.174	7.678
EBITDA	23.135	23.969	25.560	26.536	27.567	29.087	29.329
Depreciation	9.030	9.329	9.545	9.715	9.930	10.158	10.343
EBIT	14.105	14.640	16.015	16.821	17.637	18.929	18.986
Financial income and expenses	2.283	-6.920	-6.648	-5.904	-5.101	-4.877	-4.674
Associates	1.076	1.143	1.113	934	968	1.004	1.076
Interest income	-5.297	-5.491	-6.266	-5.927	-6.056	-6.050	-5.872
Interest and index related expenses	6.504	-2.573	-1.495	-911	-13	169	122
Other financial income (expenses)	0	0	0	0	0	0	0
Income (Loss) before taxes	16.387	7.720	9.367	10.917	12.536	14.053	14.313
Income tax	-4.503	-1.540	-1.754	-1.797	-1.891	-2.169	-1.815
Profit (Loss) for the year	11.884	6.179	7.614	9.120	10.645	11.883	12.498

Budget 2015 and five year forecast 2016-2020

Balance sheet	Review 2014	Budget 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
	ISKmillion	ISKmillion	ISKmillion	ISKmillion	ISKmillion	ISKmillion	ISKmillion
Assets	282.202	286.772	282.202	283.322	285.138	283.007	279.994
FIXED ASSETS	267.340	261.985	259.459	258.681	259.874	260.546	258.616
Property, plant and equipment	249.424	252.017	249.494	248.834	250.051	250.759	248.928
Intangible assets	1.454	1.632	1.772	1.905	2.031	2.149	2.260
Associated companies	58	58	58	58	58	58	58
Shares in other companies	1.235	1.235	1.235	1.235	1.235	1.235	1.235
Derivatives embedded in electricity contracts	3.913	3.999	3.923	3.768	3.617	3.463	3.253
Financial hedges	1.359	1.359	1.359	1.359	1.359	1.359	1.359
Other financial assets	9.696	1.523	1.523	1.523	1.523	1.523	1.523
Deferred tax assets	202	162	95	0	0	0	0
CURRENT ASSETS	14.862	24.788	22.743	24.641	25.264	22.461	21.378
Stock	369	371	372	372	372	372	372
Account receivable	3.729	3.946	4.142	4.290	4.436	4.615	4.796
Financial hedges	143	202	244	281	341	389	430
Other financial assets	165	167	829	811	785	757	717
Other short term assets	10.456	11.259	17.156	18.887	19.329	16.328	15.062
Cash and cash deposits	0	0	0	0	0	0	0
Equity and liabilities	282.202	286.772	282.202	283.322	285.138	283.007	279.994
EQUITY	92.359	99.252	107.112	115.612	125.206	135.980	147.308
Revaluation reserve	66.476	66.726	66.811	66.811	66.811	66.811	66.811
Translation reserve	188	569	702	702	702	702	702
Fair value reserve	2.342	2.425	2.453	2.453	2.453	2.453	2.453
Retained earnings	23.353	29.533	37.146	45.646	55.240	66.014	77.342
LIABILITIES	189.843	187.520	175.089	167.710	159.931	147.027	132.686
Long term liabilities and obligation	164.524	160.510	150.598	142.281	133.905	119.532	105.917
Long term liabilities	160.078	154.532	143.862	134.244	126.069	112.440	99.856
Retirement obligation	537	567	599	632	666	702	739
Other financial liabilities	7	7	7	7	7	7	7
Deferred tax liabilities	3.902	5.403	6.129	7.398	7.162	6.383	5.314
Current liabilities	25.318	27.010	24.492	25.429	26.026	27.495	26.769
Accounts payable	2.295	2.513	2.711	2.893	3.067	3.226	3.491
Loans and borrowing	65	202	277	1.323	223	229	235
Current liabilities of long term loans	17.244	18.710	14.362	14.426	14.060	14.350	13.238
Tax liabilities	0	0	960	433	2.126	2.948	2.884
Other financial liabilities	1.472	1.472	1.472	1.472	1.472	1.472	1.472
Derivatives embedded in electricity contracts	0	0	0	0	0	0	0
Other current liabilities	4.242	4.114	4.710	4.883	5.078	5.269	5.450

Budget 2015 and five year forecast 2016-2020

Statement of Cash Flow	Review 2014	Budget 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million
Cash flow from operations							
Profit (Loss) for the period	11.884	6.179	7.614	9.120	10.645	11.883	12.498
Financial income and expenses	-2.283	6.920	6.648	5.904	5.101	4.877	4.674
Associates	0	0	0	0	0	0	0
Income taxes	4.503	1.540	1.754	1.797	1.891	2.169	1.815
Depreciation and amortization	9.030	9.329	9.545	9.715	9.930	10.158	10.343
Sales of assets	-50	0	0	0	0	0	0
Retirement obligation	19	30	31	33	35	36	37
WORKING CAPITAL FROM OPERATION BEFORE INTEREST AND	23.104	23.999	25.591	26.569	27.601	29.123	29.366
CHANGES IN OPERATION'S ASSETS AND LIABILITIES	2.159	19	9	-27	-112	-170	-76
Income taxes	1.012	653	633	505	570	624	697
Interest income	-4.330	-4.127	-4.717	-4.723	-4.924	-4.972	-4.853
Interest expenses	0	0	0	0	0	0	0
Dividend (Received)	0	0	0	-960	-433	-2.126	-2.948
Other financial income and expenses	-2.078	-1.699	-1.343	-624	-109	31	0
CASH FLOW FROM OPERATING ACTIVITIES	19.866	18.845	20.174	20.741	22.594	22.511	22.186
Cash flows from investment activities							
Power plants	-1.895	-3.809	-492	-2.718	-4.671	-4.405	-1.652
Utility systems	-3.854	-5.626	-5.430	-5.888	-6.009	-5.972	-6.348
Other investment	-632	-831	-617	-581	-593	-608	-623
Other investment activities	2.572	0	9.512	0	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-3.810	-10.265	2.972	-9.188	-11.273	-10.984	-8.623
Cash flows from financing activities							
Proceeds from new borrowing	5.701	10.000	2.000	5.000	5.050	0	0
Repayment of borrowing	-18.544	-17.815	-19.256	-14.822	-15.929	-14.527	-14.829
Proceeds from new borrowing from the owners	0	0	0	0	0	0	0
Change in current liabilities	-1.765	0	0	0	0	0	0
Change in liabilities	0	0	0	0	0	0	0
CASH FLOW FROM FINANCING ACTIVITIES	-14.607	-7.815	-17.256	-9.822	-10.879	-14.527	-14.829
Increase (decrease) in cash and cash equivalents	1.449	765	5.890	1.731	442	-3.001	-1.266
Cash and cash equivalents beginning of the year	8.993	10.456	11.259	17.156	18.887	19.329	16.328
Changes due to currency fluctuations	14	38	6	0	0	0	0
Cash and cash equivalents at year end	10.456	11.259	17.156	18.887	19.329	16.328	15.062

Appendix

Systems

Hot water distribution system

Renewal of street pipes and distribution systems – General criteria:

- Accident risk is evaluated leading to dangerous pipes being prioritized
- In the risk analysis location, age and possible results of an accident are considered
- Break downs are registered; Pipes with long history of break downs or break downs of a serious nature are prioritized
- Older pipes are more likely to break down. They are scrutinized especially when related to projects of other distribution systems or projects of the municipalities or other entities.

Main pipelines HAB

- Great risk to employees of OR distribution systems in connection with break downs
- Great risk of passers-by hurting themselves in the vicinity of the point of break down
- Long history of break downs and serious incidences
- The one and only supply pipe to large communities

Reykja-Supply-Pipe and other main pipelines

- Certain points in the system are categorized as weak according to a study of the state of the system of the capital area (pr. report 2011)

Additional reserves for HAB

- Peak demand now is close to the capacity of current resource area harnessed
- Long lead time for new plants

Electricity distribution system

Renewal of high voltage cables and systems – General criteria

- Systematic analysis of condition will show weak spots
- Break downs are registered: Cables with frequent or serious break downs are prioritized
- Sensitive users

Transformer station A20 at Akranes

- The electrical equipment in present station is old and out moded
- New general zoning plan for Akranes demands a move
- Operational security is not satisfactory (one unit´s break down should be compensated by another)
- The capacity of present equipment is insufficient given the present load. Peak load was greater than the capacity of one of the high voltage transformers. There is no room for additional customers.

Transformer stations, renewal of equipment

Appendix

- Age of station's electrical equipment and break down history

Central control system for electricity

- Software and hardware are redundant and therefore no spare-parts available

Renewal of substations

- Requirements of Iceland Construction Authority of scheduled renewal

Kjalarnes-line to ground cable

- Break down history due to weather affecting security of power delivery

Water works

Renewal of street pipelines and systems – General criteria

- Break downs are registered. Pipelines with long and serious history of break downs are prioritized
- Older pipes are more likely to break down more often. They are scrutinized especially when related to projects in other distribution systems, by municipalities or by others.
- The importance of water for households and for putting out fires

Renewal of main pipelines in Reykjavík

- Importance of pipelines
- History of break downs
- Position of pipelines under the great thoroughfares of the road system

Vatnsendakriki – Procuring additional water resources

- Securing water resources for Reykjavík – Alternate water springs due to potential contamination
- Increased use

Filtering system Grábrók

- Unusual turbidity

Sewage

- ABK (Equipment and pipes)
- The decision of the owners to renew sewage system in The Westlands as the sewage systems were being acquired
- Construction was supposed to be completed in 2014 but investments have been delayed by owners decision

Lining (refurbishing of older sewage systems)

- Systematic photographic observation

Appendix

- Prioritizing renewal after analysis of condition

Pumping and scrubbing stations –Improvements

- History of break downs
- Prioritization by operational staff's evaluation

Reykjavík's fibre cable system (GR) in residential areas, of municipalities where GR is bound by an agreement, is expected to be almost fully developed this year

Investment plan ISK 975 million for next year encompasses the following activities

- ISK 462 million will go to continued development of the fibre cable system. ISK 80 million to complete the system in Reykjavík and ISK 382 million for laying down fibre-optic cables in the municipalities of Kópavogur, Garðabær, Hafnarfjörður and Mosfellsbær. Only projects meeting the criteria of profitability will be considered.
- ISK 513 million will be invested in equipment, installations and further development of the cable system in already developed areas due to increased number of customers.
- Natures Energy (ON)
- Listed below are the main projects of ON for the year 2015 also further deliberations.

Natures Energy (ON)

Listed below are the main projects of ON for the year 2015 also followed by further deliberations.

Main projects in the plan for 2015	Amount
Pipeline from Hverahlíð	2.455
Drill hole, supplemental steam for NV	600
Pump down projects at HH	213
Water procurement and heat dispensing at NV	208
Geothermal gas issues at HH	199
Refurbishing issues at HH	55
Refurbishing issues at NV	45
Other	33
Other environmental issues at HH	19
Total	3.827

Appendix

Pipeline from Hverahlíð

With reference to The analysis of risk and profitability as presented to The Board and the owners - during the projects approval procedure - it is decided i.e. that IRR for the project is 20% and the profitability will increase the sooner it is completed.

Steam production well, supplemental stream for NV

Steam production at The NV area is diminishing at a rate of 1% per year. Last drilling for supplemental steam was in 2008 and the production has now diminished by 3MW from the peak production capabilities. Annual loss of revenue is now ISK 146 million and will increase annually by ISK 56 million until supplemental steam has been harvested. ON estimates that the sooner supplemental steam comes on line the greater the increase profitability for the project.

The case of down flow at HH

The utilization and operating license stipulates that all geothermal fluids resulting from the operation shall be pumped back down into the geothermal reservoir and that temporary surface emission is only allowed during major a break down.

Water catchment and heat dispersion at Nesjavellir

NV's operating license stipulates that all surface release of geothermal fluids resulting from the operations shall cease in the year 2011. Due to a demanding financial position this provision has now been suspended until year end 2016. Reduction of heat release at the surface as soon as possible is among the projects stated in the investment plan.

Issues of geothermal gases at Hellisheiði

Continuing projects in the approved project plan aim at fulfilling provisions regulation 514/2010 on reducing strength of sulphur dioxide released from geothermal power plants. Planned projects are deemed necessary to reach set goals before the exemption runs out at the end of the year 2016.

According to the latest review income for the year 2015 is expected to be ISK 6,179 million, compared to ISK 11,884 million for 2014. Thus resulting in a reduction of ISK 5,705 million. Equity ratio is expected to be 34.6% at yearend 2015 compared to 32.7% yearend 2014.