

## Reykjavik Energy – Consolidated Budget

*Budget for the year 2016 and a five year forecast  
for the years 2017 – 2021*

*Approved by the Board of Directors 12.10.2015*

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## INTRODUCTION

The budget for Reykjavik Energy (RE) 2016 and five-year forecast for years 2017 through 2021 is a consolidated budget for the parent company and the subsidiaries Utilities plc, OR Water&Sewer, ON Power plc, and Reykjavik Fibre Network. Each subsidiary's budget has been approved by its respective Board of Directors previous to the RE BoD's approval. The budget for year 2016 reflects that RE still operated according to The Plan, an action plan the Company and its owners initiated in 2011. Other assumptions include the Official National Economic Forecast, international forecasts on external factors affecting RE and the Company's own forecasts.

In preparing this budget further steps were taken on the path towards strategic budgeting. The Company has an owners' policy, approved by the municipal council of each owner and ratified at an owners' meeting. Additionally, RE's BoD has adopted various business policies and the budget is central in implementing these policies.

The BoD foresees advancing the budget process further, having acquainted itself systematically with the "Beyond Budgeting" methodology. The method involves simplifying traditional budget work and more frequent forecast with adjustments to existing budget. The method involves an increased number of managers and other employees in the finance and daily operations. Thanks to managing staff and employees that have kept operating cost within The Plan limits is acknowledged as a large part in RE's recent success. RE aims to build upon that experience.

The year 2016 is the final year of the agreement between RE and its owners on The Plan. It has been a success and, at mid-year 2015, it had already returned the improved cash-position intended for year-end 2016. The budget for years 2017 through 2021 is influenced by The Plan. Investments, which have gradually increased since 2013, will level at about eleven billion ISK a year. Year 2016, however, will be more intensive with regard to investment due to the completion of a new sewerage in West-Iceland and acquisition of usage meters. After that, traditional maintenance and renewal investments in utility systems are predominant. In late 2014, RE decided to discontinue outsourcing of metering. The decision implied re-acquiring 150,000 meters for electricity and hot and cold water. That is the single largest investment undertaken by Utilities plc, in year 2016.

Rapid technological development of this equipment is an underlying reason for this measure and Utilities plc want to have a more direct hand in that development, i.e. implementing smart-metering in its operations. By this and furthering self-service on the web, Utilities seek to improve customer satisfaction in coming years. ON Power plc will continue investing in various environmentally improving projects at its power plants, i.e. improved sustainability of resource-use, reduced emissions of hydrogen sulphide and general environmental house-keeping following a decade of construction in the Hengill area. Reykjavik Fibre Network is currently concluding its contractual roll-out of fibre to homes. Thus, further investment in fibre-optic connection will solely be on a commercial basis. The roll-out commenced a decade ago and demand for a fibre connections to each household are in a steadily growing demand. A number of municipalities have requested the cooperation of Reykjavik Fibre Network and the company's investment plans reflect increasing demand for this highest quality connection available.

## INTRODUCTION

Reykjavik Energy foresees stability in return from operations in years 2017 through 2021 with key indicators steadily improving, especially with the reduction of debt and increased liquidity. Tariffs are scheduled to keep up with inflation and cost are expected to do so as well. The improved performance is mainly due to lower capital costs and increased sales of the group's products and services. It should be noted that agreements with labor unions represented at RE are not concluded carrying some uncertainty about labor cost in the budget.

Reykjavik Energy's budget for year 2016 and the five-year forecast for years 2017-2021 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 part of the country in addition to the capital region. ON owns and operates three power plants, the geothermal plants at Nesjavellir and Hellisheiði and the hydro-electrical power station at Andakíll 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 Andakíll is 9 MW.

### ELECTRICITY DISTRIBUTION

RE'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, RE 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 RE produces a total of 600 MWth. The power plant Hellisheiði produces 133 MWth of hot water.



### WATER WORKS

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

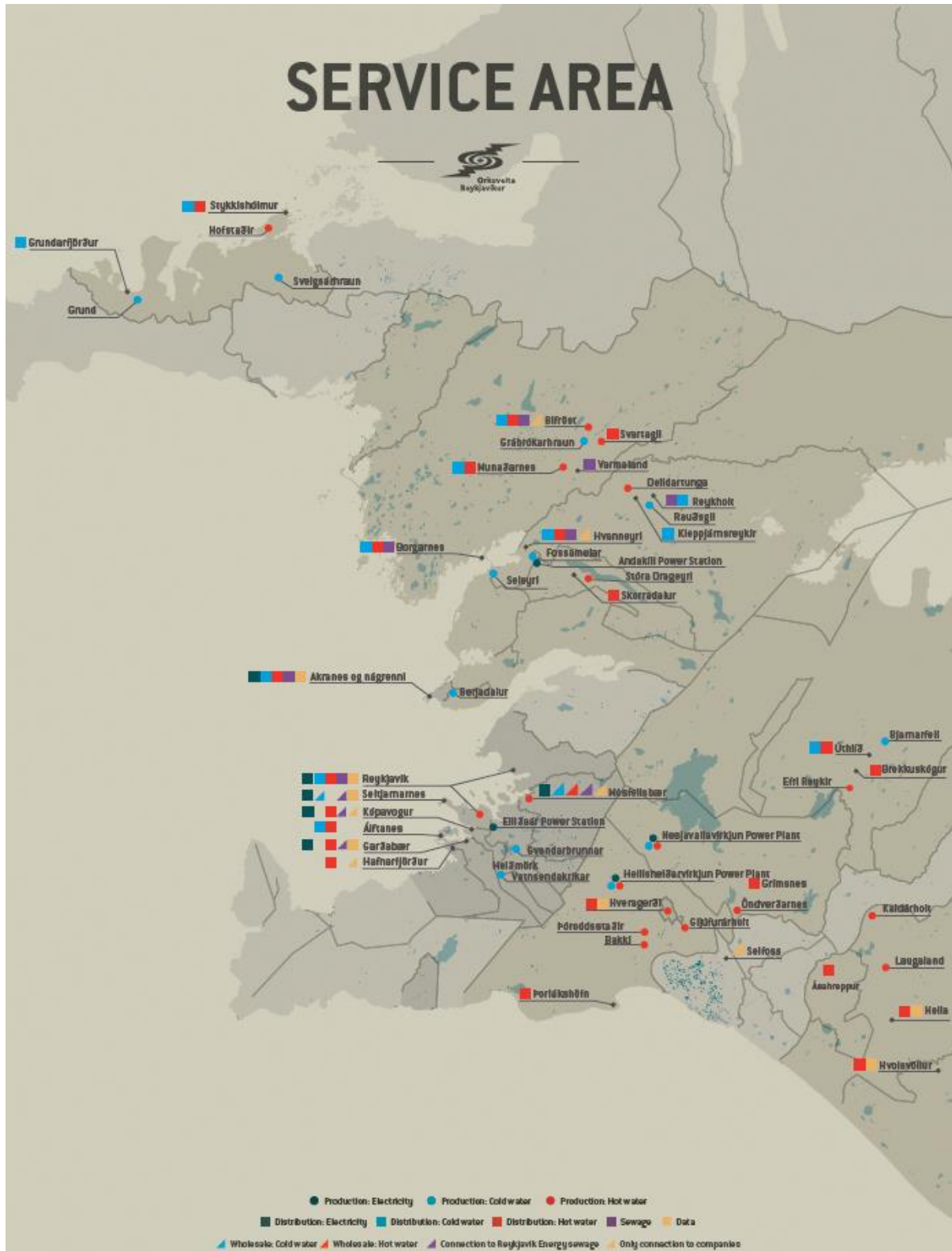


### SEWAGE SYSTEM

RE owns sewage systems in six municipalities and also operates pumping stations for two other municipalities. RE thus serves the sewage needs of more than half the population of Iceland.

### FIBRE OPTIC

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



## THE PLAN

The Plan's results for the period 2011-2015H1 exceed expectations. All components of The Plan are on schedule, except sale of assets.

### THE PLAN

Plan	2011	2012	2013	2014	2015H1	2015H2	2016	Total
Investment reduction in distribution systems	1,205	3,518	2,690	2,518	952	1,458	2,659	15,000
Sale of assets	1,000	2,000	5,100	1,900	0	0	0	10,000
Cost cutting in operations	300	900	900	900	452	548	1,000	5,000
Other investment reductions	250	200	200	200	79	121	200	1,250
Postponement of investments in sewage systems	-	2,000	900	-	-790	-1,210	-900	-
<b>Subtotal</b>	<b>2,755</b>	<b>8,618</b>	<b>9,790</b>	<b>5,518</b>	<b>693</b>	<b>917</b>	<b>2,959</b>	<b>31,250</b>
Subordinate loans	8,000	-	4,000	-	-	-	-	12,000
Review of tariffs	1,122	1,552	1,215	1,295	573	757	1,499	8,013
<b>Subtotal</b>	<b>9,122</b>	<b>1,552</b>	<b>5,215</b>	<b>1,295</b>	<b>573</b>	<b>757</b>	<b>1,499</b>	<b>20,013</b>
<b>Total</b>	<b>11,877</b>	<b>10,170</b>	<b>15,005</b>	<b>6,813</b>	<b>1,266</b>	<b>1,674</b>	<b>4,458</b>	<b>51,263</b>

Actual	2011	2012	2013	2014	2015H1	2015H2	2016	Total
Investment reduction in distribution systems	1,825	4,808	3,203	2,362	1,382	-	-	13,580
Sale of assets	1,115	212	6,109	1,552	5	-	-	8,993
Cost cutting in operations	747	887	1,381	1,538	818	-	-	5,371
Other investment reductions	378	415	286	223	70	-	-	1,372
Postponement of investments in sewage systems	-	2,150	1,152	-148	-395	-	-	2,759
<b>Subtotal</b>	<b>4,065</b>	<b>8,472</b>	<b>12,131</b>	<b>5,527</b>	<b>1,880</b>	<b>-</b>	<b>-</b>	<b>32,075</b>
Subordinate loans	7,925	75	4,000	0	0	-	-	12,000
Review of tariffs	1,128	2,200	2,170	1,913	784	-	-	8,195
<b>Subtotal</b>	<b>9,053</b>	<b>2,275</b>	<b>6,170</b>	<b>1,913</b>	<b>784</b>	<b>-</b>	<b>-</b>	<b>20,195</b>
<b>Total</b>	<b>13,118</b>	<b>10,747</b>	<b>18,301</b>	<b>7,440</b>	<b>2,664</b>	<b>-</b>	<b>-</b>	<b>52,271</b>



## PREREQUISITES AND CRITERIA

### Prerequisites

The prerequisites for The Budget for the year 2016 and the forecast for the financial plans for the years 2017-2021 are based on Static's Economic forecast published in April 2015 also on forecasts from The Central Bank of Iceland and on forecasts by RE'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. Budget's prerequisites and criteria:

### PREREQUISITES

List	2015	2016	2017	2018	2019	2020	2021
Consumer Price Index, change (%)	2.4	4.9	4.6	3.4	2.8	2.6	2.5
Building Cost Index Dec-Dec, change (%)	6.2	5.1	4.9	4.6	3.4	2.8	2.6
Wage index, change (%)	7.6	7.8	6	5.2	4.6	4.3	3.5
Currency, Narrow Trade Index (points)	206.4	212.8	216.8	216.8	216.8	216.8	216.8
Aluminium prices, average for the year (\$)	1,586	1,601	1,662	1,727	1,783	1,833	1,886

### Criteria and KPI's

The financial planning was guided by RE'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 RE's access to loans was non-existent. Now that the goals of The Plan have been realized and then somewhat, RE has access to financial markets to borrow and engage in risk hedging. Therefore it is now planned that RE 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.

The Budget includes current risk hedges as the company plans to hedge market risk in line with its risk policy. These risk factors are price of aluminium, interest rates and currency exchange rates. New financing is expected to be partly in foreign currency to reduce the foreign risk on cash flow.

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



## PREREQUISITES AND CRITERIA

The Company 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 2014 and estimates for the following years:

Key figures	Actual	Expected results	Budget
	2014	2015	2016
EBITDA/Operating revenue	64,5%	59,3%	60,2%
Equity ratio	33,2%	35,6%	37,3%
Current ratio	0,7	1,0	1,0
(Interest bearing - cash and cash equivalents)/EBITDA	6,6	6,7	6,2
FFO interest coverage	5,6	4,7	3,8
FCF/Net debt	9,2%	4,7%	3,8%
RCF/Net debt	12,8%	12,2%	12,4%
ROCE	5,4%	4,6%	4,9%

### Investment priorities and assessment

RE'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 prioritized before presentation. In advance of a final decision, further preparatory studies are conducted as well as a comprehensive risk analysis. Following this phase, every project is considered by each subsidiary and then sent to The Board of RE 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

Expected profit for the year 2016 is ISK 4,951 million, compared to ISK 7,297 million for 2015. Thus resulting in a reduction of ISK 2,346 million. Equity ratio is expected to be 37.3% at year-end 2016 compared to 35.7% at year-end 2015.

### INCOME STATEMENT

#### Revenue

Operating revenue for the year 2016 is expected to be ISK 41,543 million against ISK 39,313 million according to the expected results for the year 2015. Operating revenue is expected to increase by ISK 2,230, or 5.67%.

#### Expenses

Budgeted operating costs before depreciation for the year 2016 are ISK 16,546 million compared to ISK 15,991 million according to expected result for the year 2015 an increase of 3.5%. Energy purchases and transmission costs increase between the years by ISK 157 million or 2.5%.

### BALANCE SHEET

#### Assets

Total assets are expected to be ISK 308.5 billion at year end 2016 compared to ISK 304.5 billion at year end 2015, an increase of 1.3%.

#### Equity and liabilities

Equity is expected to be ISK 115 billion at year end 2016 compared to ISK 108.4 billion at year end 2015. Liabilities are expected to be reduced from ISK 196 billion down to ISK 193.5 billion at year end 2016, a reduction of 1.3% year on year.

### CASH FLOW

#### Net cash from operating activities

Cash flow from operations is expected to be ISK 21.4 billion for the year 2016 compared to ISK 20.8 billion for the year 2015.

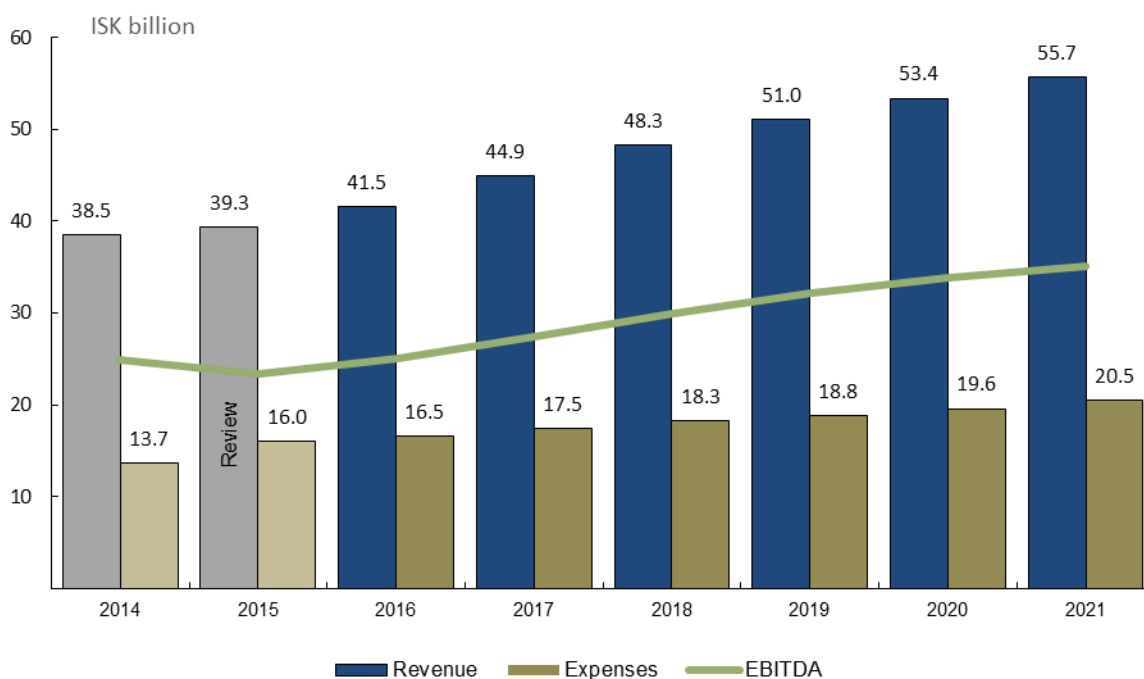
#### Investment activities

Investment in fixed assets is expected to be ISK 13.2 billion for the year 2016 compared to ISK 11.7 billion for the year 2015.

INCOME STATEMENT

Revenues

Operating revenue is expected to increase by ISK 14,108 million from 2016 to 2021 or by 34%. Retail sales of electricity are to increase by ISK 3,859 million or 33.2% and retail sales of hot water by ISK 3,342 million or 30%. Whole sale revenue is to increase by ISK 1,935 million or by 26.5%.



Picture 1 – Revenues, Expenses and EBITDA

Expenses

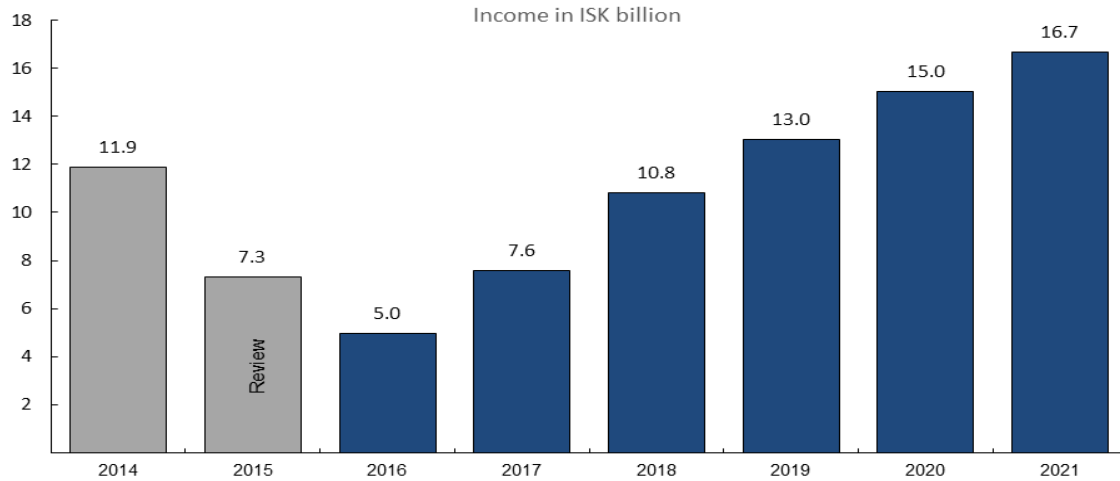
Expenses before depreciation are assumed to increase from 2016 to 2021 by ISK 3,945 million or 23.8%. Energy purchases and transmission costs to increase by ISK 784 million or by 12.5%. Wages and other operating expenses to increase by ISK 3,161 million or by 30.7%. Increases in operating expenses are mainly the result of general price increases.

EBITDA rises from ISK 24,997 million for the year 2016 to ISK 35,161 million for the year 2021 or by 40.6%.

## FIVE YEAR FINANCIAL FORECAST 2017-2021

### Income

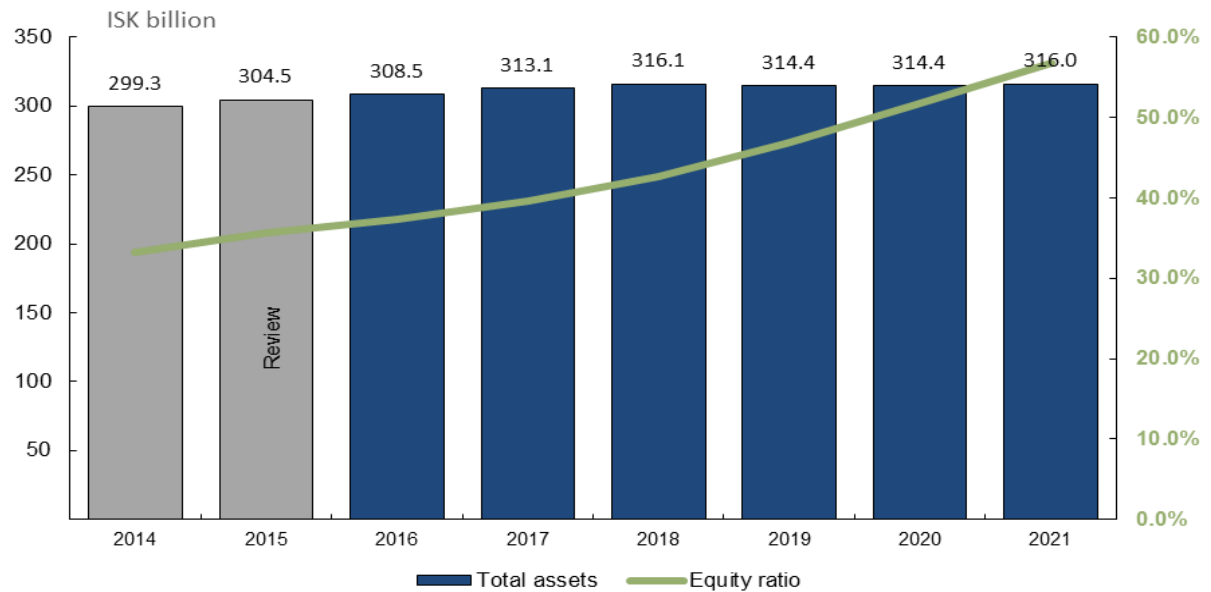
Picture 2 shows forecasted income over the period 2015 – 2021. Income for the year 2021 is expected to rise to ISK 16.7 billion. Calculated items i.e. changes in value of derivatives embedded in electricity contracts can have a considerable impact on income. Such an impact is expected for the year 2016.



Picture 2 – Income

### BALANCE SHEET

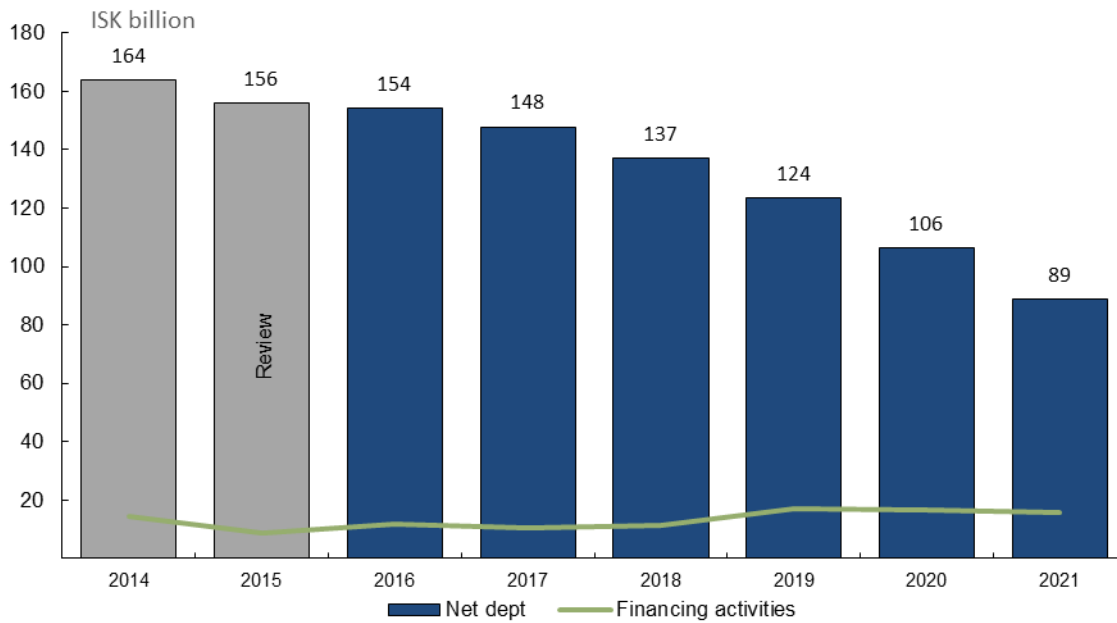
The forecast shows total assets to be increased by ISK 7.5 billion or by 2.4% from 2016 to 2021, or up to ISK 316.0 billion at 2021 year end. The equity ratio improves constantly during this period from being 37.3% in 2016 to become 56.7% at year-end 2021.



Picture 3 – Total assets

## FIVE YEAR FINANCIAL FORECAST 2017-2021

Equity at year end 2021 is forecasted to be ISK 179.3 billion after increasing by ISK 64.2 billion from 2016. Assuming that total liabilities for the same period will be reduced from ISK 193.5 billion to ISK 136.8 billion or by 29.3%.



Picture 4 - Total debt

## STATEMENT OF CASH FLOW

### Investment activities

The forecast for investments for the period 2017 – 2021 is ISK 54 billion.

Investment in distribution systems is forecasted to be ISK 35.9 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 RE'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 14.6 billion. Primary projects are concerned with environmental issues i.e. scrubbing of sulphide and a construction in connection with the second phase of The Geothermal Plant at Hellisheiði.

A realization of ISK 9.6 billion from a derivative financial asset linked to aluminum prices is planned for 2016.

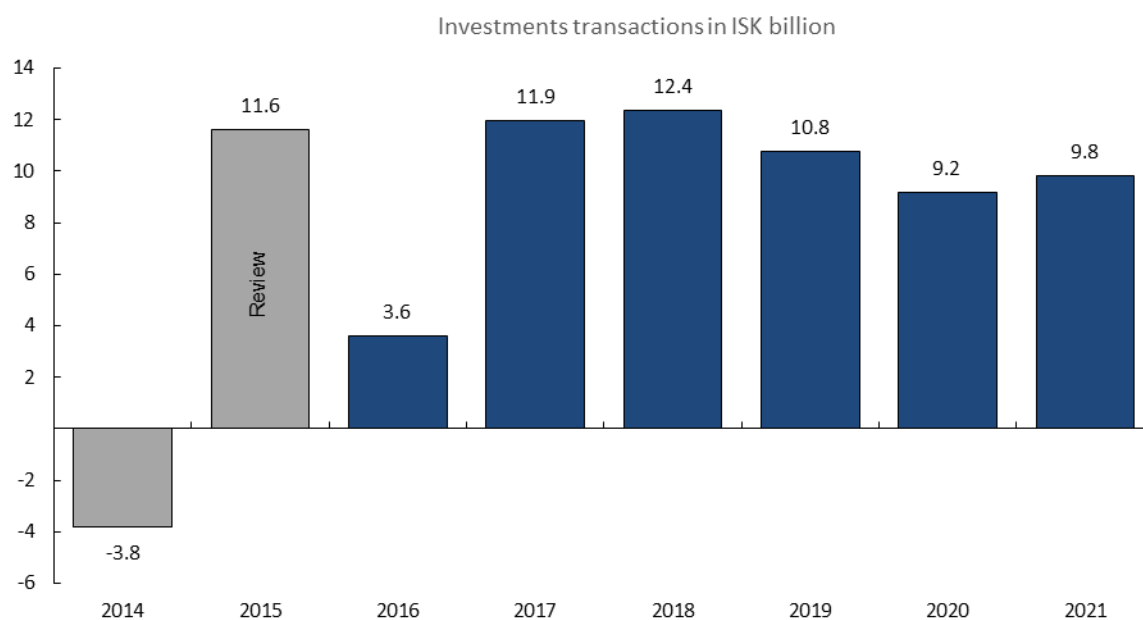
### Investments

Investment overview in ISK millions.

#### INVESTMENTS

LIST	2015	2016	2017	2018	2019	2020	2021
Power Plant	5,153	3,671	3,471	3,898	3,703	1,583	1,933
Distribution system	5,821	8,882	7,814	7,788	6,373	6,864	7,160
Other investment	689	616	652	667	687	703	722
<b>Total Investments</b>	<b>11,663</b>	<b>13,169</b>	<b>11,937</b>	<b>12,353</b>	<b>10,764</b>	<b>9,150</b>	<b>9,815</b>

## FIVE YEAR FINANCIAL FORECAST 2017-2021



Picture 5 – Investment activities

### INVESTMENT PRIORITIES 2016-2021

	ISK million
<b>ON Power plc</b>	
Andakilsarvirkjun	453
Nesjavallavirkjun	3.932
Hellisheidi	10.713
<b>Utilities plc</b>	
Hot water	16.095
Electricity	10.040
System management	106
<b>OR Water and Sewage</b>	
Fresh water	2.566
Sewage system	7.817
<b>RE Parent company</b>	
Research and development	3.162
Information technology	2.074
Other	1.800



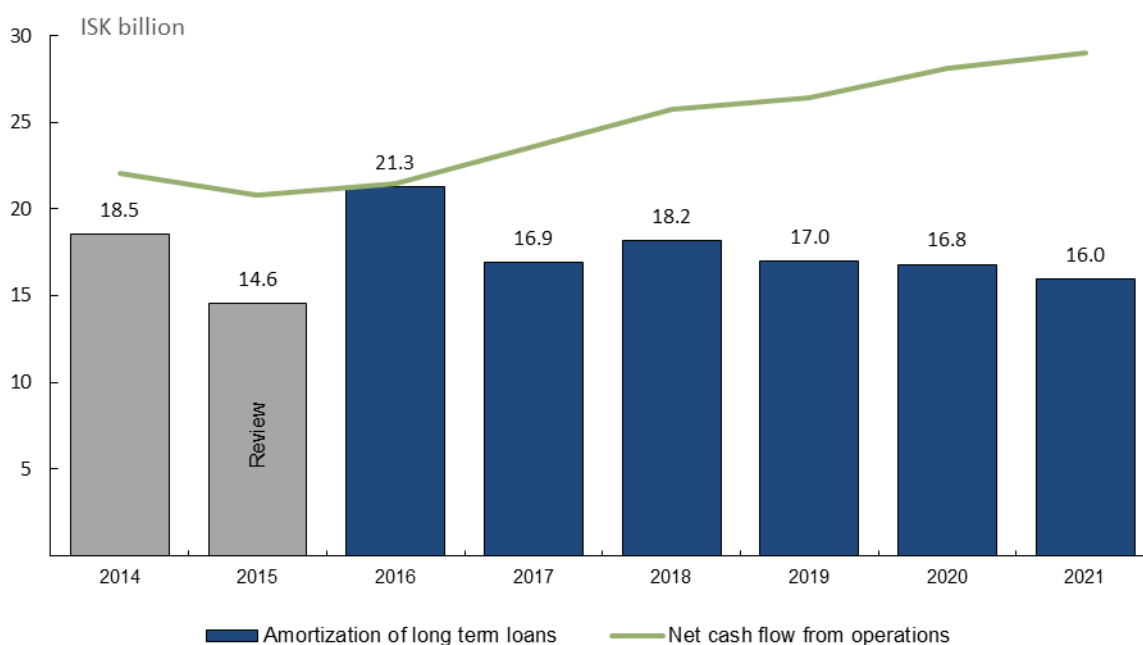
**Financing activities**

Amortization of debt for the year 2017 is forecasted to be ISK 16.9 billion and between 16 and 18 billion ISK for each following year up to and including 2021, a total of ISK 67.9 billion.

Borrowings of new loans are expected to be ISK 13.5 billion for the period or 25% of investment and 20% of amortization of debt.

No dividends to owners is expected during the period since dividend policy has not been finalized. RE will be capable to pay dividends over the period, if owners approve which will change the KPI's results accordingly to payout ratio.

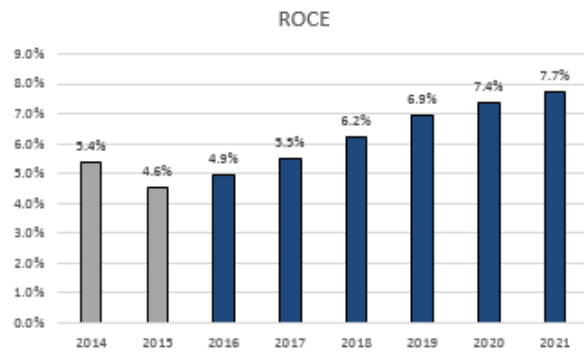
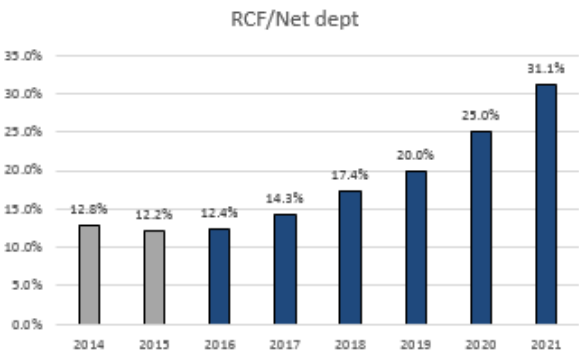
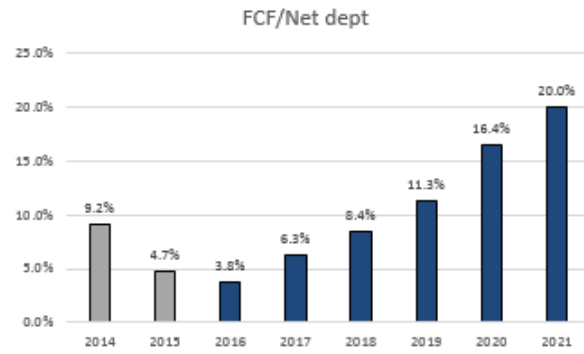
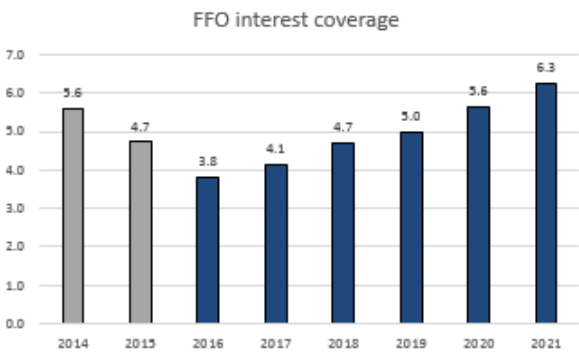
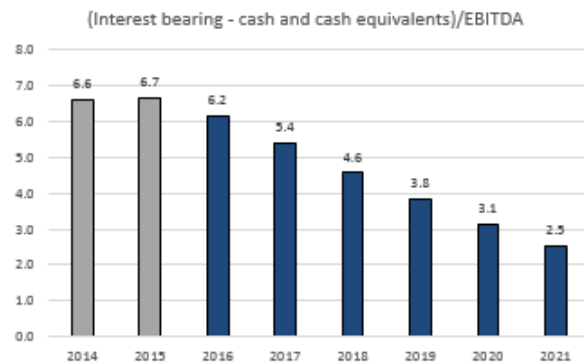
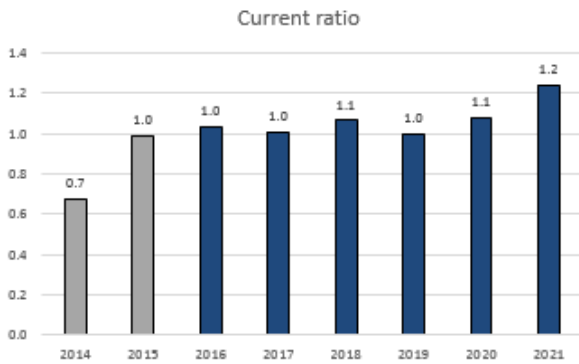
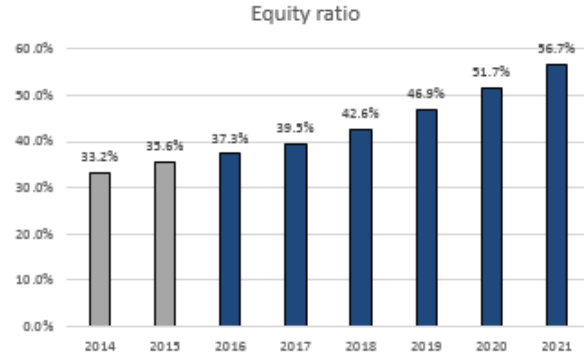
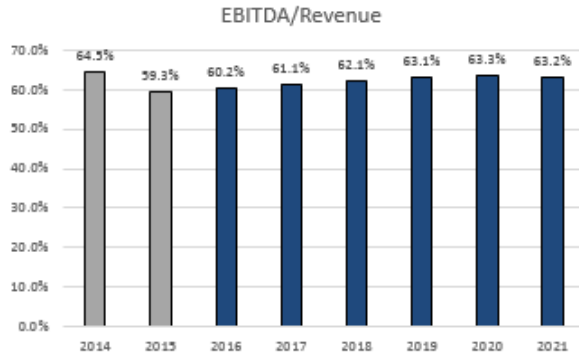
Cash and cash equivalents at year end increase from ISK 17.8 billion in 2016 to ISK 25.4 billion in 2021.



Picture 6 – Amortization of long-term loans

# KEY FIGURES

## REYKJAVIK ENERGY – KEY FIGURES



## BUDGET 2016 AND FORECAST 2017-2021

Income statement	Review	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	2015	2016	2017	2018	2019	2020	2021
	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million
<b>Operating revenue</b>	<b>39,313</b>	<b>41,543</b>	<b>44,922</b>	<b>48,312</b>	<b>51,041</b>	<b>53,385</b>	<b>55,651</b>
<b>Retail</b>	<b>29,693</b>	<b>31,009</b>	<b>33,303</b>	<b>35,346</b>	<b>37,207</b>	<b>39,028</b>	<b>40,872</b>
Electricity	11,256	11,616	12,570	13,327	14,037	14,749	15,475
Hot water	10,665	11,128	11,888	12,580	13,215	13,839	14,470
Fresh water	3,233	3,421	3,660	3,906	4,120	4,320	4,522
Sewerage	4,538	4,845	5,185	5,532	5,835	6,119	6,405
<b>Wholesales</b>	<b>6,653</b>	<b>7,279</b>	<b>7,628</b>	<b>8,349</b>	<b>8,782</b>	<b>9,014</b>	<b>9,214</b>
Electricity	6,418	7,016	7,348	8,052	8,469	8,687	8,872
Hot water	175	202	215	228	239	251	262
Fresh water	60	61	65	70	73	77	81
<b>Other revenue</b>	<b>2,967</b>	<b>3,255</b>	<b>3,990</b>	<b>4,617</b>	<b>5,052</b>	<b>5,343</b>	<b>5,565</b>
<b>Operating expenses</b>	<b>15,991</b>	<b>16,546</b>	<b>17,468</b>	<b>18,317</b>	<b>18,815</b>	<b>19,593</b>	<b>20,491</b>
Power purchases	2,980	2,696	2,578	2,765	2,597	2,678	2,760
Transmission	3,436	3,563	3,757	3,907	4,048	4,145	4,284
Employee salaries	5,213	5,994	6,357	6,685	7,001	7,306	7,566
Other operational expenses	4,362	4,292	4,775	4,960	5,168	5,465	5,881
<b>EBITDA</b>	<b>23,322</b>	<b>24,997</b>	<b>27,454</b>	<b>29,995</b>	<b>32,226</b>	<b>33,792</b>	<b>35,161</b>
Depreciation	9,788	10,182	10,631	10,928	11,199	11,399	11,580
<b>EBIT</b>	<b>13,534</b>	<b>14,815</b>	<b>16,823</b>	<b>19,066</b>	<b>21,027</b>	<b>22,393</b>	<b>23,581</b>
<b>Financial income and expense</b>	<b>-4,530</b>	<b>-9,073</b>	<b>-7,537</b>	<b>-5,937</b>	<b>-5,494</b>	<b>-4,538</b>	<b>-3,895</b>
Interest income	1,008	982	941	942	944	945	947
Interest expenses	-5,114	-6,808	-6,765	-6,437	-6,203	-5,721	-5,234
Other (expenses) income on financial items	-423	-3,247	-1,712	-442	-235	237	392
<b>Profit (loss) before income tax</b>	<b>9,004</b>	<b>5,743</b>	<b>9,286</b>	<b>13,129</b>	<b>15,533</b>	<b>17,855</b>	<b>19,686</b>
Income tax	-1,707	-792	-1,706	-2,333	-2,512	-2,841	-3,017
<b>Profit (loss) for the year</b>	<b>7,297</b>	<b>4,951</b>	<b>7,580</b>	<b>10,797</b>	<b>13,022</b>	<b>15,014</b>	<b>16,669</b>

## BUDGET 2016 AND FORECAST 2017-2021

Balance sheet	Review	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	2015	2016	2017	2018	2019	2020	2021
	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million
<b>Assets</b>	<b>304,466</b>	<b>308,540</b>	<b>313,066</b>	<b>316,055</b>	<b>314,371</b>	<b>314,431</b>	<b>316,034</b>
<b>Fixed Assets</b>	<b>277,763</b>	<b>284,431</b>	<b>287,451</b>	<b>288,006</b>	<b>287,499</b>	<b>285,251</b>	<b>283,486</b>
Property, plant and equipment	271,606	278,129	281,775	282,986	282,340	279,884	277,917
Intangible assets	1,513	1,724	1,939	2,153	2,364	2,571	2,774
Associated companies	59	59	59	59	59	59	59
Shares in other companies	2,236	2,236	2,236	2,236	2,236	2,236	2,236
Hedge contracts	511	504	500	500	500	500	500
Deferred tax assets	1,838	1,778	941	72	0	0	0
<b>Current Assets</b>	<b>26,704</b>	<b>24,109</b>	<b>25,615</b>	<b>28,049</b>	<b>26,871</b>	<b>29,180</b>	<b>32,548</b>
Stock	439	443	446	446	446	446	446
Account receivables	3,680	3,873	4,138	4,375	4,568	4,754	4,933
Financial hedges	237	237	237	237	237	237	237
Other financial assets	9,034	0	0	0	0	0	0
Other short term assets	496	491	462	414	360	287	242
Deposits	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Cash and cash deposits	11,566	17,814	19,082	21,326	20,009	22,204	25,439
<b>Equity and liabilities</b>	<b>304,466</b>	<b>308,540</b>	<b>313,066</b>	<b>316,055</b>	<b>314,371</b>	<b>314,431</b>	<b>316,034</b>
<b>Equity</b>	<b>108,449</b>	<b>115,037</b>	<b>123,763</b>	<b>134,559</b>	<b>147,581</b>	<b>162,595</b>	<b>179,264</b>
Revaluation reserve	69,135	69,135	69,135	69,135	69,135	69,135	69,135
Translation reserve	5,978	7,614	8,760	8,760	8,760	8,760	8,760
Fair value reserve	1,760	1,760	1,760	1,760	1,760	1,760	1,760
Retained earnings	31,577	36,528	44,108	54,905	67,927	82,941	99,610
<b>Liabilities</b>	<b>196,017</b>	<b>193,503</b>	<b>189,303</b>	<b>181,496</b>	<b>166,790</b>	<b>151,836</b>	<b>136,770</b>
<b>Non-Current liabilities</b>	<b>169,109</b>	<b>170,142</b>	<b>163,822</b>	<b>155,155</b>	<b>139,845</b>	<b>124,773</b>	<b>110,504</b>
Loans and borrowings	157,561	156,869	150,199	142,518	127,485	113,094	99,759
Retirement benefit obligation	583	649	720	795	873	954	1,038
Other liabilities	1,693	1,683	1,677	1,677	1,677	1,677	1,677
Embedded derivatives	3,873	4,809	4,474	4,079	3,860	3,713	3,421
Deferred tax liabilities	5,399	6,130	6,753	6,087	5,951	5,336	4,610
<b>Current liabilities</b>	<b>26,908</b>	<b>23,362</b>	<b>25,481</b>	<b>26,340</b>	<b>26,945</b>	<b>27,063</b>	<b>26,266</b>
Accounts payable	2,106	2,299	2,539	2,732	2,890	3,076	3,266
Loans and borrowings	198	275	1,425	727	734	740	796
Current liabilities of long term loans	19,305	15,341	15,853	15,633	15,755	14,932	13,723
Tax liability	0	0	247	2,129	2,576	3,456	3,743
Other financial liabilities	1,193	1,190	1,189	1,189	1,189	1,189	1,189
Embedded derivatives	1,506	1,652	1,613	1,395	1,360	1,347	1,325
Other current liabilities	2,599	2,605	2,615	2,535	2,442	2,323	2,225

## BUDGET 2016 AND FORECAST 2017-2021

Statement of Cash Flow	Review	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	2015	2016	2017	2018	2019	2020	2021
	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million	ISK million
<b>Cash flow from operating activities</b>							
Profit (loss) for the period	7,297	4,951	7,580	10,797	13,022	15,014	16,669
Financial income and expense	4,530	9,073	7,537	5,937	5,494	4,538	3,895
Income tax	1,707	792	1,706	2,333	2,512	2,841	3,017
Depreciation and amortization	9,788	10,182	10,631	10,928	11,199	11,399	11,580
Retirement obligation	62	67	71	75	78	81	84
<b>Working Capital from operation before interest and taxes</b>	<b>23,384</b>	<b>25,064</b>	<b>27,525</b>	<b>30,069</b>	<b>32,304</b>	<b>33,873</b>	<b>35,245</b>
<b>Changes in operation's assets and liabilities</b>	<b>1,113</b>	<b>8</b>	<b>-17</b>	<b>-46</b>	<b>-37</b>	<b>-1</b>	<b>9</b>
Interest expenses	768	982	941	942	944	945	947
Interest income	-4,178	-4,425	-4,310	-4,468	-4,463	-4,168	-3,816
Paid income tax	0	0	0	-247	-2,129	-2,576	-3,456
Other financial income and expenses	-258	-193	-503	-483	-205	78	78
<b>Cash flow from operating activities</b>	<b>20,837</b>	<b>21,437</b>	<b>23,636</b>	<b>25,768</b>	<b>26,413</b>	<b>28,152</b>	<b>29,007</b>
<b>Cash flows from investing activities</b>							
Power plants	-5,112	-3,101	-2,634	-3,033	-2,814	-1,583	-1,933
Utility systems	-5,821	-8,882	-7,814	-7,788	-6,373	-6,864	-7,160
Other investments	-41	-571	-837	-865	-889	0	0
Other investments activities	-689	-616	-652	-667	-687	-703	-722
<b>Cash flows from investing activities</b>	<b>-11,663</b>	<b>-13,169</b>	<b>-11,937</b>	<b>-12,353</b>	<b>-10,764</b>	<b>-9,150</b>	<b>-9,815</b>
Proceeds from sale of property, plant and equipment	45	0	0	0	0	0	0
Installments on long term receivables	0	9,588	0	0	0	0	0
Investment in term deposits	1,750	0	0	0	0	0	0
<b>Cash flows from investing activities</b>	<b>-9,868</b>	<b>-3,581</b>	<b>-11,937</b>	<b>-12,353</b>	<b>-10,764</b>	<b>-9,150</b>	<b>-9,815</b>
<b>Cash flow from financing activities</b>							
Proceeds from new borrowing	6,000	9,650	6,500	7,029	0	0	0
Repayment of borrowings	-14,552	-21,259	-16,931	-18,200	-16,966	-16,806	-15,958
<b>Cash flow from financing activities</b>	<b>-8,552</b>	<b>-11,609</b>	<b>-10,431</b>	<b>-11,171</b>	<b>-16,966</b>	<b>-16,806</b>	<b>-15,958</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,417</b>	<b>6,246</b>	<b>1,267</b>	<b>2,244</b>	<b>-1,317</b>	<b>2,195</b>	<b>3,234</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>9,147</b>	<b>11,566</b>	<b>17,814</b>	<b>19,082</b>	<b>21,326</b>	<b>20,009</b>	<b>22,205</b>
<b>Effect of exchange difference on cash and cash equivalents</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at year end</b>	<b>11,566</b>	<b>17,814</b>	<b>19,082</b>	<b>21,326</b>	<b>20,009</b>	<b>22,205</b>	<b>25,439</b>