



CITY OF REYKJAVIK

BUDGET 2015–2019

Approved 2 December 2014

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Address of the Mayor of Reykjavík

Reykjavík City's 2015–2019 Budget Plan is based on prudent fiscal policies. It reflects the emphases of the new political majority; consisting of the Alliance Party (Samfylkingin), Bright Future (Björt framtíð), the Left-Green Alliance (Vinstri Græn) and the Pirate Party (Píratar); presented in their collaboration agreement in spring 2014. The agreement means that charges levied on families with children will be reduced, the amount of the Leisure Card subsidy for children will be raised and increased focus will be on transparency and consultation with the establishment of a new Administration and Democracy Council. In addition, the City is committed to prioritise literacy, art and vocational subjects in its schools.

The largest changes involve the collective wage agreements reached in 2014, which bring considerable improvements to the wage terms of employees and should result in increased purchasing power due to a low inflation rate. The foundations for these agreements were laid by the City in co-operation with the unions and employers' associations by freezing tariffs during the past year in order to lower inflation expectations.

Tax ratios remain unchanged for 2015, although tariffs will change in tune with general price or cost increases. Kindergarten tariffs, however, will be lowered, and the City will adopt sibling discounts across school levels. This is intended to improve the economic situation of families with children and combat the price effects of other increases.

The Budget reflects proper operations and acceptable operating results. Of great importance is the fact that the rescue plan for Reykjavík Energy (Orkuveita Reykjavíkur) has been a success, and a significant surplus has formed that will be used to reduce debts. In investments, the focus is on projects intended to increase quality of life in the City. Preparations will begin for additions to the Sundhöllin Swimming Pool and the Reykjavík City Library (Borgarbókasafn Reykjavíkur), as well as schools, swimming pools and a cultural centre in Úlfarsárdalur. The bicycle action plan is extensive, and efforts will be spent on the timely maintenance of school buildings.

Looking to the future, there are clear indications that Reykjavík contributes significantly to domestic economic growth through investments and development within the City limits. The construction of residential housing in general is increasing, hotels are under construction and commercial property construction is on the rise. There is high demand in the residential housing market, particularly in the rental market, and a need for social housing solutions, a matter that the City of Reykjavík is working toward resolving in co-operation with the government and Reykjavík Social Housing (Félagsbústaðir).

The collaboration agreement among the new majority states:

"We want a peaceful, fair and liberal society where everyone is treated equally and subject to the same rules. We support women's freedom and the efforts of diverse groups for equality on their own terms. We nurture the grassroots movements where justice and humanitarianism thrive best. Respect for all people, future generations and the environment are our guiding principles."

The 2015–2019 Budget Plan is submitted in light of this future vision.



Dagur B. Eggertsson, Mayor

1. Introduction

The City of Reykjavík Budget Plan is presented in accordance with Articles 62 and 63 of the Local Government Act No. 138/2011 and the City of Reykjavík Budget Code of Practice approved by the City Council on 7 February, 2013. The Consolidated Budget for The City of Reykjavík includes Group A and Group B, as is required by Article 60 of the Act. The financial statements of Reykjavík Social Housing and Reykjavík Energy (RE) are based on the IFRS standards, while the statements of funds in Group A and statements of other companies in Group B are based on the historical cost approach. The presentation of the consolidated budget is based on the above accounting principles.

About Groups A and B

Group A consists of the Municipal Fund (Aðalsjóður), Real Estate Fund (Eignasjóður) and the Reykjavík Parking Services Fund (Bílastæðasjóður Reykjavíkurborgar).

The Municipal Fund covers operations that are funded by tax revenues and service fees. The principal tasks of the Municipal Fund are in the following fields: Elementary schools, kindergartens, welfare and social services, sports and leisure, culture, planning and environment. The Real Estate Fund is responsible for the operation, maintenance and initial construction of real property and roads, as well as specific planning projects. The Parking Services Fund manages the operation of on-street parking spaces and multi-storey car parks for the public. In the budget of Group A, inter-unit transactions, such as internal rent and property taxes, are set off among Group A entities.

Group B consists of financially independent companies and operating units in which the City has at least a 50% shareholding. The companies and operating units contained in Group B are: Associated Icelandic Ports (Faxaflóahafnir), Reykjavík Social Housing Ltd. (Félagsbústaðir hf.), Sports and Exhibition Centre Ltd. (Íþróttá- og sýningarhöllin hf.), Jörundur hf., Asphalt Station Höfði Ltd. (Malbikunartöðin Höfði hf.), Reykjavík Energy (Orkuveita Reykjavíkur), Capital District Fire and Rescue Service (Slökkvilið höfuðborgarsvæðisins bs.), Sorpa bs. – waste disposal and recycling company, and Strætó bs. – public transport service. Many of these companies have statutory obligations to carry out on behalf of the municipality, such as operating electricity, heating, waste water utilities and providing fire brigade services. The operation of the fire brigade and public transport services is, for the most part, financed through contributions from their owners. Reykjavík's share of the services is charged to the Municipal Fund. A proportion of the service income of the Sport and Exhibition Centre and Sorpa are a part of the expenditures of the sectors in the Municipal Fund. Other revenues of the companies are based on tariffs. Inter-unit transactions are set off between Group A and Group B in the consolidated budget plans.

2. Goals

The financial management of the City of Reykjavík must, at all times, be in accordance with the rules and regulations applicable to the finances of local authorities. The goals of the City of Reykjavík for the 2015–2019 Budget are based on the financial rules of the Local Government Act No. 138/2011 and on the City's Budget Code of Practice.

The principal role of the Municipal Treasury, Group A of the City of Reykjavík, is to provide effective and cost-efficient services to its residents and provide a foundation for increased quality of life.

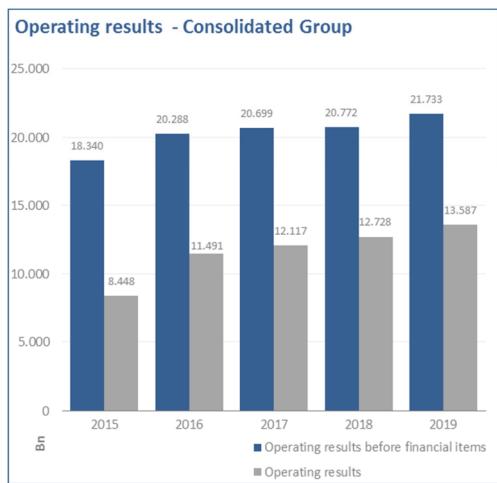
The City of Reykjavík's main financial goals are:

- That Group A and the Consolidated Group are operated with a surplus each year. Moreover, that the total operating revenues of Group A and the Consolidated Group are at least as high as the total operating expenses over each three year period, in accordance with Article 64 of Act No. 138/2011.
- That operations, investments and allocation of the assets and funds of Group A maintain or strengthen the City's ability to fulfil its statutory duties for the foreseeable future. This means that the total liabilities and obligations of the Consolidated Group must not exceed 150% of regular income, as required by Article 64 of Act No. 138/2011, effective from year 2019 in accordance with plans of the City Council from 29 October 2012.
- To ensure the solvency of Group A by ensuring that decisions on investments, borrowings, new obligations, guarantees and financial management are made so that Group A can at all times fulfil expected payment obligations, including those due to guarantees for the obligations of Group B entities.
- To increase transparency and make Group A financial information accessible to the public.
- To integrate the financial and human rights policies of the City of Reykjavík through the adoption of Gender budgeting and thereby encourage fair distribution of resources and funds according to gender and social needs.

3. Principal Results

2015–2019 BUDGET PLANS¹

CONSOLIDATED GROUP

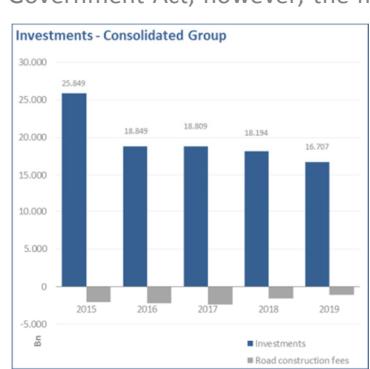


Operating results for the 2015 Consolidated Group of the City of Reykjavík are estimated to be **ISK 8.4bn**. Results are estimated to be between ISK 11.5bn and ISK 13.6bn during the 2016–2019 period. According to the 2014 preliminary results, operating results will be approximately ISK 14.2bn. **Operating results before financial items** are expected to be ISK 18.3bn in 2015, while preliminary results assume ISK 16.8bn. The estimated operating results before financial items during the 2016–2019 period are estimated to be ISK 20.3–21.7bn. **Financial items** will be negative to the tune of around ISK 8.4bn in 2015 but will be positive by approximately ISK 1.9bn according to the preliminary results of 2014. The favourable developments in financial items of the consolidated accounts in 2014 can for the most part be traced to the strengthening of the krona and increases in the price of aluminium since the beginning of the year. These developments have had a positive impact on the financial items of RE, which are estimated to be positive by approximately ISK 2.3bn, as compared to the estimated ISK 6.9bn negative impact in 2015. In addition, the fair-value changes to the real estate of Reykjavík Social Housing are higher than the price-level changes of the company's debts, which means a credit entry in financial items amounting to just under ISK 1.4bn in the 2014 preliminary results, as compared to an ISK 0.8bn credit entry expected in 2015. Financial items are expected to be negative by approximately ISK 6–7bn during 2016–2019. The decrease is attributable to the payment of debts, and as the estimate is prepared at a real price-level, there are no price change entries on debts during the period.

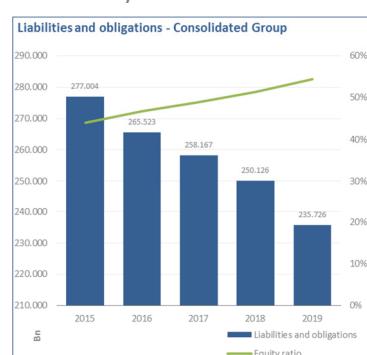
Operating revenues are expected to increase by approximately ISK 9.5bn in 2015, or around 6.7%, compared to preliminary results. Operating expenses are expected to increase by ISK 7.9bn, or 6.4%. During 2016–2019, operating revenues are expected to increase by ISK 9.6bn and operating expenses by ISK 6.2bn.

Equity of the Consolidated Group is expected to increase by ISK 10.1bn in 2015, **assets** to increase by 2.3% and **liabilities and obligations** to increase by 2.6%. Equity in 2015–2019 is expected to increase by ISK 55.3bn and assets by 1.7%, while liabilities and obligations are expected drop by approximately ISK 41.3bn, or 14.9%, and amount to ISK 235.7bn at the end of the period.

The **debt ratio** in 2015 is expected to be approximately 195%. According to the Local Government Act, however, the maximum ratio is 150%. The debt ratio is assumed to fall under 150% in 2019 in accordance with the approved plans of the City Council from 2012 on adaptation to the municipal financial rules.



Investment activities in 2015 are expected to be ISK 21.7bn. Investments in fixed tangible assets are ISK 23.8bn, whereof ISK 9.4bn are in Group A. Road construction fees that accrue to Group A are expected to amount to ISK 2bn. After these have been deducted, the net investment is expected to amount to ISK 21.3bn. The investments of the Associated Icelandic Ports are expected to amount to ISK 1.2bn, Reykjavík Social



¹ Reykjavík City's Five Year Plan is based on the real price-levels of 2015 and show the planned volume changes in operations and finances. In leverages in indexed and exchange-rate-indexed loans, developments in price-levels and exchange rates are highly important to gain a realistic idea of operations, finances and cash flows in long-term planning. Reykjavík City's long-term plans at nominal price-levels are discussed in a separate section on long-term planning to 2022 and scenarios.

Housing ISK 2.5bn, Reykjavík Energy ISK 10.3bn, Sorpa – waste disposal and recycling ISK 2bn and Strætó – public transport service ISK 410m. In comparison, preliminary figures assume that investments will be approximately ISK 17.6bn and that road construction fees will amount to ISK 1.1bn, which means that the net investments will be ISK 16.5bn once the fees have been deducted. Investments during the period 2016–2019 are expected to total ISK 65bn, net of income from road construction fees, whereof the Real Estate Fund is expected to be ISK 20.3bn, Reykjavík Social Housing ISK 10bn and Reykjavík Energy approximately ISK 35bn.

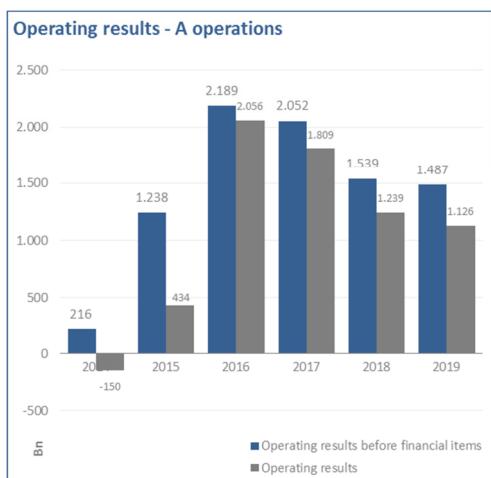
Financing activities are expected to be negative by ISK 4.4bn in 2015. **Borrowings** are expected to amount to a total of ISK 14.5bn, as compared to ISK 9bn in 2014 according to preliminary figures. The largest proportion of borrowings is intended to strengthen the cash position of RE and to finance smaller investments in energy production systems, utilities systems and sewage systems. In addition, borrowings are assumed due to the plans of Reykjavík Social Housing for the development of social rental accommodation and the financing of approximately 30% of the net investments of the Real Estate Fund. Borrowings are expected to amount to a total of ISK 42.5bn during the entire period of 2015 to 2019. **Cash from operating activities** are expected to be ISK 25bn in 2015, decreasing by approximately ISK 1.8bn according to the preliminary figures for 2014. **Instalments on long-term loans** are expected to amount to ISK 21bn in 2015. According to preliminary figures for 2014, these amount to ISK 23.5bn. **The liquidity of the Consolidated Group** strengthens slightly between years, as the instalments on long-term loans decrease more than the decrease of cash from operating activities. Over the course of 2016–2019, the operation is expected to return an average of around ISK 30.4bn in cash from operating activities, while instalments will be ISK 19bn on average. In total, instalments are expected to amount to ISK 97bn during the entire period including 2015, whereof Reykjavík Energy will pay off debts amounting to ISK 81bn. It should be noted that the liquidity of the Consolidated Group is sensitive to price and exchange-rate fluctuations.

Cash and cash equivalents are expected to amount to ISK 19bn at the close of 2015 and ISK 31.7 by the end of 2019.



The Budget for 2015 assumes that the **key indicators** for the consolidated accounts of the City of Reykjavík will not change much between years. The equity ratio will strengthen slightly and rise to 44%, while the current ratio falls slightly and is estimated to be 1.02. The leverage ratio, measured as the proportion of long-term liabilities against equity, remains high.

GROUP A



The operating results for Group A in 2015 are expected to be positive by ISK 434m. In comparison, the preliminary figures for 2014 assume a deficit of ISK 150m. The expected operating results in 2016–2019 are positive by approximately ISK 1.1–2.1bn. **Operating results before financial items** are expected to be ISK 1.2bn in 2015 and ISK 1.5–2.2bn in 2016–2019.

Operating revenues are expected to amount to a total of approximately 88.9bn in 2015, while being ISK 83.2bn in 2014 according to preliminary figures. The increase amounts to ISK 5.7bn. Operating revenues are subsequently expected to rise by ISK 4bn to 2019.

Local income tax revenues are expected to amount to ISK 61.8bn, whereof the City of Reykjavík pays ISK 7.3bn to the Municipal Equalisation Fund (Jöfnunarsjóður sveitarfélaganna) due to elementary schools and the affairs of the disabled. The net local tax income, therefore, amounts to ISK 54.5bn, increasing by ISK 2.7bn according to the 2014 preliminary figures. A 5.2% net increase is expected in local tax revenues between 2014 and 2015.

Revenues from property taxes are expected to be ISK 13.3bn once account has been taken of inter-unit transactions within Group A, increasing by ISK 707m between years. It is assumed that without quantity adjustments, property taxes on commercial premises will increase on average by 9% and on publicly owned housing by 4.1% between 2014 and 2015.

Tax revenues will in total increase by ISK 2.8bn from 2015 to 2019 once account has been taken of payments to the Municipal Equalisation Fund.

Service revenues and various other revenues are expected to increase by ISK 1.6bn in 2015. Thereof, profits from the sale of building rights are expected to be ISK 1.7bn, increasing by just under ISK 1.1bn. In addition, various other service revenues are expected to increase by ISK 790m.

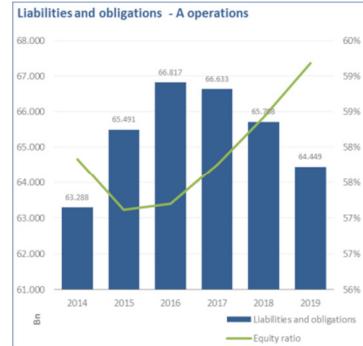
Revenues from the Municipal Equalisation Fund are expected to be ISK 6.0bn in 2015, whereof ISK 1.1bn is for special schools for disabled students, ISK 349m is for the music schools, ISK 4.2bn for the affairs of the disabled and ISK 300m related to special transactions.

Operating expenses are expected to be ISK 87.6bn in 2015, increasing by ISK 4.7bn. **Wage costs and wage-related expenses** are expected to be ISK 2.5bn higher than the preliminary figures. **Other operating expenses** are expected to increase by ISK 1.9bn and depreciation by ISK 202m. During the period 2016–2019, service revenues and operating expenses will change in accordance with their volume.

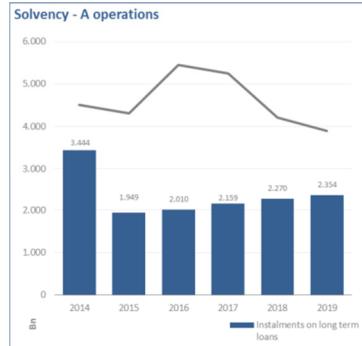
Financial items are expected to be negative by ISK 804m. In comparison, according to preliminary figures for 2014, this figure is ISK 366m. Financial items in 2016–2019 are expected to be negative by ISK 137m–361m. The decrease can be attributed to the fact that the plan takes account of a real-price approach and that there are no price change entries on liabilities during the period.

Equity is expected to increase by ISK 6.2bn during the period and will be ISK 93.4bn, **assets** are expected to increase by 3.4% and become ISK 158bn and **liabilities and obligations** are expected to decrease by 1.6% and become ISK 64.4bn. **The debt ratio** of Group A in 2015 is expected to be around 73.7% and around 69.3% in 2019.

Investments in tangible assets are expected to be approximately ISK 9.4bn in 2015, whereof ISK 4.4bn is due to real estate and equipment, ISK 2.9bn for road construction and environmental affairs, ISK 1.1bn for major maintenance and ISK 200m for planning purposes. To offset investments in roads, the plan assumes income from road construction fees to the amount of ISK 2bn. Investments in Group A during 2016–2019 are expected to amount to ISK 21.3bn.



It is assumed that **borrowings** will be around 30% of net investments and that 70% will be financed using cash from operating activities in 2015. Borrowing will be comparable in 2016–2019 and amount to ISK 7.5bn. Group A plans to repay liabilities amounting to ISK 1.9bn in 2015 and to borrow ISK 2.2bn to finance new investments. Instalments during 2016–2019 are expected to amount to approximately ISK 8.8bn.



Group A's solvency will strengthen in 2015, as cash from operating activities is expected to be ISK 2.4bn in excess of instalments on long-term liabilities which will decrease borrowing requirements for investments.

Cash and cash equivalents at year-end are expected to be approximately ISK 6.1bn, as compared to ISK 7.2bn in the preliminary figures of 2014. Cash and cash equivalents are expected to be ISK 11.4bn at year-end 2019.

The balance sheet of Group A shows considerable financial strength. The current ratio is expected to be 1.33 at year-end 2015, and the leverage ratio, measured as long-term liabilities against equity, is estimated to be 60.8%. Equity is expected to strengthen, and the leverage ratio is expected to decrease during 2016–2019.

4. Budget Assumptions

EXTERNAL ASSUMPTIONS

The main economic assumptions made in the 2015–2019 Budget Plan for the City of Reykjavík are obtained from the Economic forecast by Statistics Iceland (Hagstofa Íslands) from 4 July 2014. This forecast only extends to 2018, but the City's Budget assumes that 2019 will evolve similar to 2018. The main economic assumptions for the years 2020–2022 are set out by the City of Reykjavík. Assumptions on aluminium prices and interest rates are determined by forward contracts in the market.

Budget Assumptions: Economic forecast by Statistics Iceland in July										
Change between year averages (%)	2013*	2014	2015	2016	2017	2018	2019	2020	2021	2022
Private Consumption	1,2	3,9	3,7	2,8	3,0	3,0	3,0	2,2	2,2	2,2
Capital Formation	-3,4	16,9	15,7	12,5	0,3	5,0	5,0	4,0	4,0	4,0
Gross Domestic Product	3,3	3,1	3,4	2,9	2,8	2,9	2,9	2,5	2,5	2,5
Employment Level	3,7	1,2	1,1	0,9	0,5	0,3	0,3	0,7	0,7	0,7
Consumer Price Index	3,9	2,5	3,4	3,2	2,8	2,6	2,6	2,5	2,5	2,5
Exchange Rate Index	-1,4	-3,3	1,8	0,6	0,0	0,0	0,0	0,0	0,0	0,0
Wage Index	5,7	5,2	6,1	4,8	5,0	4,7	4,7	4,3	4,3	4,3
Housing Prices	6,5	7,2	6,1	4,8	5,0	4,7	4,7	4,3	4,3	4,3
Population of Reykjavík	1,2	0,4	0,4	1,0	1,1	1,1	1,0	1,0	1,0	1,0
Aluminium Prices USD (LME 3m)**	-7,9	10,5	2,8	2,5	2,4	2,5	2,6	2,5	2,4	2,3

*Preliminary numbers ** 9/5/2014

Economic growth, private consumption, capital formation and balance on current account

Statistics Iceland assumes that economic growth (change in GDP) over the next two years will be driven by private consumption and investments, as has been the case in the wake of a decreasing trade surplus. Service exports grew by 42% in volume from 2008 to 2013, largely due to an increased number of foreign tourists. This has led to an increased number of jobs in the service industry. Goods exports grew by 15% during the same period.

Considerable growth in private consumption is expected in 2014–2015 as compared to the growth in 2013. Forecasts for private consumption are optimistic and can be attributed in part to lower inflation prospects. In addition, recent actions taken by the government to reduce household mortgage debt can increase private consumption permanently by approximately 0.5–0.8% on an annual basis as estimated by the Central Bank of Iceland.

At the same time, a reasonable increase in exports of goods and services is assumed, driven by the increased number of tourists and improved terms of trade.

The forecast issued by Statistics Iceland assumes a significant increase in capital investments over the next few years after a modest downturn in 2013. The turnaround is due to expectations of fast growth in commercial investments, particularly in the fields of heavy industry and tourism. In addition, residential housing investments are expected to increase over the next two years by an average of approximately 14–21% annually to meet accrued demand.

A record high trade surplus of 3.9% was measured in 2013. In comparison, Statistics Iceland assumed a 1% deficit in its summer forecast in 2013. The turnaround may be traced to improvements in the factor income balance and to much greater service exports than expected, as the tourism industry has become Iceland's largest export sector according to preliminary official figures.

The national economy will likely struggle with a negative trade balance over the next few years due to repayment of foreign debt and plans to remove capital controls. Statistics Iceland assumes that the export sector will continue to play a key role in determining the limit for increases in private consumption and the viability of reducing capital controls. It should be noted, however, that a more favourable trade balance can be attained through direct foreign investments and by refinancing or extending foreign loans. In addition, the negative pressure on the trade balance has been reduced considerably by extending the final due date of Landsbankinn's debts (i.e. the Landsbanki bond) to 2026 instead of 2018.

Employment, wages, exchange rate and inflation

The **employment level** and **wage** developments have a considerable impact on the City's tax income and wage expenses. As of 2010, the labour market in Reykjavík has been recovering rapidly, with the number of employed citizens increasing by about 2.5% annually. It is assumed that the current economic slack will disappear in the near future and that employment growth will subsequently slow down. Reykjavík is estimating an employment level increase of 1.6% in 2015 and a less than 1% annual increase in the following years.

Collective wage agreements in the general labour market will expire at the end of February 2015. Agreements will expire at the end of April for the majority of Reykjavík City employees. Recently, there has been considerable unrest in the Icelandic labour market due to collective wage agreements reached by certain sectors, such as teachers and doctors, which have involved greater wage increases than negotiated in the general labour market at the beginning of 2014. As a result, there is considerable uncertainty regarding wage development during 2015 and consequently the City's tax revenues and wage expenses.

The exchange rate of the krona appreciated relative to its main trading currencies at the end of 2013. In 2014, the exchange rate has been much less volatile than in recent years and the forecast expects it to remain stable.

In conjunction with a stronger and less volatile exchange rate, **inflation** has quickly fallen and has been under the 2.5% inflation target set by the Central Bank of Iceland for most of 2014. Inflation is expected to increase slightly during the early part of the period 2015–2022, with production rising slightly above capacity, but it is expected to return to the inflation target in the latter part of the period.

The main uncertainty factors regarding exchange rate, wages and price-levels include the national trade balance, potential steps that will be taken to remove capital restrictions, the results of upcoming collective wage agreements and possible pressures put on by a positive output gap.

GROUP A: ASSUMPTIONS ON REVENUES AND EXPENSES

Local income tax

The local income tax revenues are forecasted as a function of the employment level in Reykjavík and the national wage index. Historical analysis suggests that an increase of 1% in employment level will increase local tax revenues by around 0.75% and that a 1% increase in the wage index will increase local tax revenues by approximately 0.96%². The forecast is then adapted to accommodate legislative amendments on supplementary pension contributions and income tax which will take effect in 2014 and 2015.

In 2015, the gross local tax ratio will be 14.52%, which is the maximum permitted according to the Act on the Municipal Revenue Base. Once a 1.76% contribution to the Municipal Equalisation Fund has been deducted, the net local tax ratio in Reykjavík will be 12.76%.

Property tax

Estimates of the Municipal Fund's revenues from property taxes and plot leasing assume unchanged charge ratios between years.

In its execution of the property assessment for 2015, the National Registry (Þjóðskrá Íslands) changed its valuation techniques for a large proportion of commercial housing in Iceland, i.e. office and retail property and that of light industry. The income approach is used to estimate its current value. The change in valuation methods applies to approximately 80% of commercial real estate in Reykjavík and means, all other things being equal, that income from property taxes will increase by 15% between years. Interim provisions that were established in December 2014 on the municipal revenue base and which provide for the adoption of the new valuation approach in stages, however, will mitigate the increases in the expenses of the companies concerned and, as a result, mitigate increases in property tax revenues.

² The effect of taxable income from pension funds, the Social Insurance Administration (Tryggingastofnun ríkisins), the Unemployment Insurance Fund (Atvinnuleysiþryggingasjóður), etc. is included in this sensitivity analysis.

Changes to accrued pension obligations

Changes to accrued net pension obligations in Group A, due to the Pension Fund of Employees of the City of Reykjavík, are recorded as revenues or expenses in the income statement of Group A. The most influential factors in estimating the gross obligations of the City are wage developments of City employees, payments to and from fund members during the year and an estimation of the death, marriage, parental and disability probabilities of fund members.

The fund's assets are recorded against its future obligations. The majority of the assets consist of a collection of bonds payable by the State, issued when the City sold its shareholding in the National Power Company (*Landsvirkjun*) in 2007. These bonds carry interest that follows the 6-month average of the daily required rate of return of the HFF34 bond-class in the market. When the net pension obligation is estimated each year, these bonds are valued using the current 6-month average. The higher the HFF34 rate of return is, the more valuable the National Power Company bonds become, and consequently the net obligation of the City Treasury becomes lower.

The recorded changes in net pension obligations are extremely volatile, due to considerable fluctuations in wages and price-levels, as well as in the required rate of return of the HFF34 bond-class. Net pension obligations therefore pose a considerable risk to the City's objective of an annual operating surplus.

Total financial income and expenses of Group A

In 2015, a 4.6% nominal return on Group A's liquid assets is assumed, or 3.7% having taken capital gains tax into account. Plans to 2022 assume that Group A's cash position will not be lower than ISK 6bn on the basis of a real price-level.

The plans assume new borrowings in the form of domestic bonds in the amount of ISK 2.2bn at market price to finance projects in 2015. Furthermore, it is assumed that a total of ISK 7.2bn in new loans will be taken in 2016–2019 at nominal price-levels and that no loans will be taken thereafter.

On the indexed asset side are owner loans to Reykjavík Energy, with an interest rate of 3.9% issued for 15 years. Interest payments have already begun, and instalments will begin in 2016.

ASSUMPTIONS FOR SCENARIO ANALYSIS

As economic development in Iceland has historically been extremely unpredictable, further analysis of Reykjavík's plans for 2016 to 2022 has been prepared to shed some light on its sensitivity to different circumstances. Two scenarios are presented which should provide a realistic idea of the development of the finances of the City in the event that economic circumstances develop in a more negative manner than according to the base assumptions of the budget plans, or if they develop in a more positive direction.

The following tables show the main economic assumptions of the scenarios.

Scenario 1: Private-consumption-driven economic growth										
Change between year averages (%)	2013*	2014	2015	2016	2017	2018	2019	2020	2021	2022
Private Consumption	1,2	3,9	3,7	7,0	-4,0	-3,0	0,0	1,0	1,5	2,5
Capital Formation	-3,4	16,9	15,7	18,0	-15,0	-10,0	0,0	0,0	2,0	2,0
Gross Domestic Product	3,3	3,1	3,4	5,2	-1,1	0,5	1,1	1,1	1,8	1,8
Employment Level	3,7	1,2	1,1	2,5	-3,5	-1,5	0,0	0,0	0,5	0,5
Consumer Price Index	3,9	2,5	3,4	7,6	4,9	4,4	4,3	3,8	3,7	3,3
Exchange Rate Index	-1,4	-3,3	1,8	10,0	5,0	5,0	0,0	0,0	0,0	0,0
Wage Index	5,7	5,2	6,1	7,0	3,0	3,0	5,0	5,0	5,0	4,5
Housing Prices	6,5	7,2	6,1	10,0	0,0	0,0	3,0	3,0	4,0	3,5
Population of Reykjavík	1,2	0,8	0,8	0,7	0,7	0,7	0,7	0,7	0,7	0,7
Aluminium Prices USD (LME 3m)	-7,9	-0,4	5,0	-0,9	-1,2	-1,4	-1,6	-1,8	8,1	7,9

* Preliminary numbers

Scenario 1: Private-consumption-driven economic growth. The more negative scenario, associated with private-consumption-driven economic growth, assumes that private consumption will increase considerably more than the budget plans assume and that domestic demand will drive an economic growth of approximately 5% in 2016. The increased demand leads to significantly greater increases in wages and housing prices, while the exchange rate of the króna depreciates due to the high level of imports and heavy debt service in foreign currency. Inflation, therefore, increases rapidly in 2016 due to the

exchange rate depreciation and wage increases in excess of productivity growth. Economic stagnation follows, and over the next few years, private consumption, investments and the employment level all decrease. Wages do not increase much during 2017–2018 and purchasing power decreases, which causes tensions to rise on the labour market. During 2019–2021 wages increase rather more, although this is at the expense of investments and employment levels, which recover very slowly.

Scenario 2: Stable economic growth										
Change between year averages (%)	2013*	2014	2015	2016	2017	2018	2019	2020	2021	2022
Private Consumption	1,2	3,9	3,7	3,6	3,9	3,7	3,8	3,3	3,2	3,0
Capital Formation	-3,4	16,9	15,7	11,0	8,0	7,0	7,0	7,0	5,0	5,0
Gross Domestic Product	3,3	3,1	3,4	4,7	4,4	4,1	3,9	3,1	2,9	2,8
Employment Level	3,7	1,2	1,1	2,0	1,5	1,3	1,0	0,8	0,8	0,7
Consumer Price Index	3,9	2,5	3,4	2,9	2,6	2,3	2,2	2,2	2,3	2,4
Exchange Rate Index	-1,4	-3,3	1,8	-4,0	-3,0	-2,0	-2,0	0,0	0,0	0,0
Wage Index	5,7	5,2	6,1	5,5	5,5	5,0	5,0	4,7	4,7	4,7
Housing Prices	6,5	7,2	6,1	6,5	6,5	6,0	6,0	5,2	5,2	5,2
Population of Reykjavík	1,2	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,2	1,2
Aluminium Prices USD (LME 3m)	-7,9	-0,4	5,0	6,6	6,3	6,1	5,9	5,7	5,6	5,4

Scenario 2: Stable economic growth. The more positive scenario, associated with stable growth, assumes that exports will be the driving force in economic growth over the coming years. This scenario, moreover, assumes the successful resolution of the national economy's potential problem regarding its balance of payments and that the exchange rate of the króna will appreciate due to the increased inflow of foreign currency. Investment level is expected to be higher than estimated by base assumptions to support increased exports, and a stable price-level is assumed as the purchasing power of wages increases in tune with increased productivity, resulting in low and stable inflation, near or under the inflation target of the Central Bank of Iceland. Finally, the scenario assumes steady growth in private consumption which is attributable to rising employment levels and increased purchasing power.

EXTERNAL FINANCIAL RISKS

Reykjavík's financial risk is defined as the risk that the City's financial goals will not be achieved. It is imperative to continuously analyse the financial risks and threats in the City's internal and external environment, assess their potential impact on the progress of financial goals and, if appropriate, respond by amending the Budget, such as through streamlining operations or revising investment plans.

Group A

Local income tax revenues are the largest revenue base of the City's Group A accounts (over 60% of the total income). Wage expenses, including expensed pension obligations, are the largest expense item (over 55% of the total expenses). Developments in the labour market, both as regards employment level and wages, are therefore one of the largest risk factors in the operating environment of Group A. A decrease in employment level in Reykjavík leads to lower local tax revenues. Wage increases to City employees lead to poorer operating results when the increase exceeds the general market, while wage increases in the general market have positive effects due to their impact on local tax revenues.

The operation of Group A is also exposed to inflation through financial items, as most of the interest bearing debt of Group A is indexed to the consumer price index as calculated by Statistics Iceland. Group A carries almost no risk from exchange rate fluctuations due to minimal commitments in foreign currencies.

There are considerable financial risks involved in tasks that the City has undertaken on behalf of the State. Actions that the State elects to use to bridge gaps in central government finances often lead to increased expenses on the local government level. The uncertainty of these actions and their scope create significant risks for the City's finances. Based on the estimated value at risk, the financial relations between the central government and municipalities is one of the largest risk factors in Group A's external environment and on par with the quite volatile economic variables mentioned above.

Group B

The external financial risks of the City as regards companies in Group B can, for the most part, be attributed to Reykjavík Energy and Reykjavík Social Housing.

Reykjavík Energy (RE) carries currency and interest risks due to assets and liabilities in foreign currency and agreements into which the company has entered. On the split-up of the RE Group in 2014, the company Our Nature (ON) (*Orka náttúrunnar*) was created. The operational currency of this company is US dollars (USD). This change has the effect that some of ON's assets and liabilities, previously defined in Icelandic króna (ISK), are now defined in US dollars (USD). Due to this, the foreign exchange rate risk of the consolidated company in the balance sheet has lessened considerably. Foreign currency and interest risk has also decreased due to repayment of debts and active risk management by means of hedging contracts.

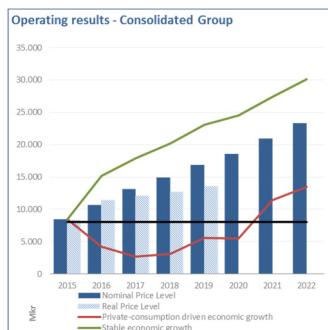
The development of aluminium prices poses a significant threat to RE due to electricity sales contracts with high-volume customers, although these risks are systematically reduced by means of hedging contracts. Finally, RE bears counterparty risk which can for the most part be traced to the above-mentioned electricity and hedging contracts.

Regarding Reykjavík Social Housing, the market price of residential housing is the main risk posed to the operation of the company and the City's consolidated accounts, due to the fair value settlement of the assets of Reykjavík Social Housing.

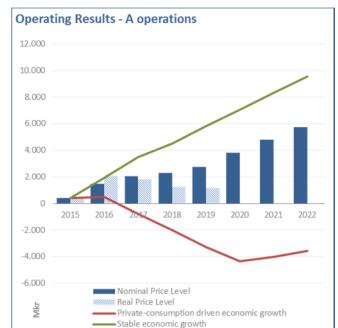
5. Long-term Plans to 2022 and Scenario Analysis

This section discusses the budget plan based on nominal price-level estimates including two scenarios to shed light on the sensitivity to different developments in the economic environment of the City. The period selected extends to 2022. The more negative scenario on private-consumption-driven economic growth assumes unfavourable interactions between wages and price-levels. Reasonable interactions are assumed and are fairly realistic in historical context. The more positive scenario on stable economic growth assumes responsible economic management, extensive investments and stable exchange rates and price-levels.

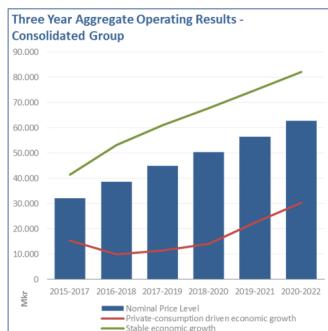
The operating results of the consolidated accounts at nominal price-levels steadily strengthen to 2022. In both scenarios, the consolidated groups return a surplus during the entire period. In the more negative scenario on private-consumption-driven economic growth, the profits of the consolidated groups are much poorer and lowest at ISK 3 bn in 2017, which can in part be attributed to a sharp ISK 6.7bn downturn in RE in 2016 due to assumptions of a weaker exchange rate, lower aluminium prices and reduced sales. Increased inflation and falling real prices of real estate, moreover, lead to an ISK 1.6bn poorer operating result for Reykjavík Social Housing on average.



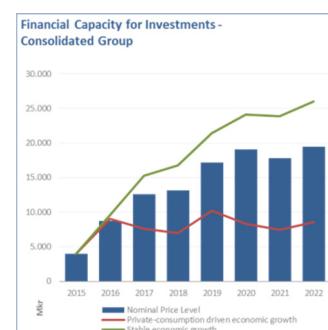
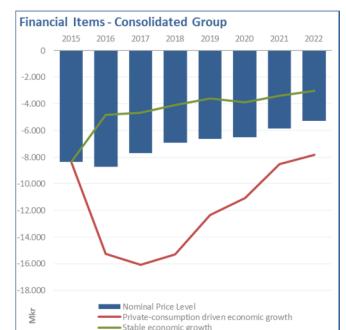
The operating results of Group A are considerably poorer in the more negative scenario, as they are negative as of 2017, with the greatest deficit amounting to around ISK 4.2bn in 2020. It is a matter of some worry that the results of Group A are so poor in this scenario, as the assumed development of the exchange rate, price-levels and wages in this scenario are, in fact, relatively reasonable in historic context. These conclusions show how sensitive Group A is with respect to the interactions of wages and price-levels and underlines the risk posed to Group A by such developments.



The consolidated group fulfils the equilibrium rules for municipalities over the entire course of the period as can be seen in the **three-year aggregate operating results**. However, it should be noted that Group A does not fulfil the equilibrium rule as of 2016 in the more negative scenario.

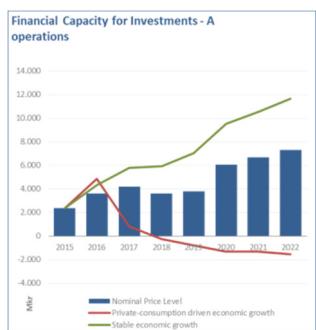


The negative effects from the **financial items** of the consolidated group at nominal price-levels decrease as of 2017 and from 2016 in the scenario on stable economic growth. In the scenario on private-consumption-driven economic growth, the financial item has a negative impact on operating results to the tune of ISK 14–16bn in 2016–2018, as during this period the exchange rate weakens by approximately 20%, price-levels rise by around 17% and average aluminium prices are on average 10% lower than in the budget. An approximately ISK 7.3bn turnaround is on RE's financial items in 2016, or approximately ISK 5.3bn during 2016–2018. The assumptions made in the more negative scenario also assume that property prices will fall in real terms during 2017–2018 which means that the financial items of Reykjavík Social Housing worsen by approximately ISK 3.4bn in 2017–2018, or approximately ISK 1.5bn on average each year to the end of the period.



Financial capacity for investments of the consolidated group (i.e. net working capital minus instalments on long-term liabilities) increases over the period from 2015 to 2020 in the budget plan based on nominal price-levels. In the more negative scenario, the scope is considerably less throughout the period, around ISK 7–10bn, while average investments are just over ISK 19bn in 2015–2019. This demands considerable borrowings in

the event of unchanged investments.



Financial capacity for investments of Group A is relatively stable from 2016–2019 and then grows in the budget plan based on nominal price-levels. In the scenario on private-consumption-driven economic growth, Group A is unable to fully finance instalments on long-term liabilities with cash from operating activities during 2018–2022.

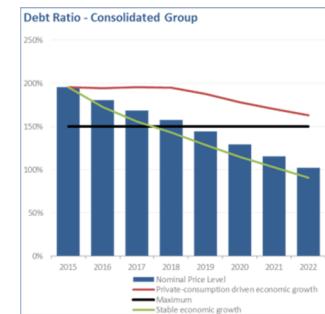
in part such excessive cash position decreases continuously as of 2017 and has become negative as of 2021. No account is taken of the increased financial costs due to the negative cash position in this scenario. In addition, the same amount of investments is assumed in both scenarios and in the budget plan involving nominal price-levels, although the investment plans would inevitable be revised in the more negative scenario.



Group A's cash and cash equivalents likewise increase each year at nominal price-levels and will be ISK 28bn at the end of the period. Group A's minimum cash position based on volume and 2015 price-levels is estimated ISK 6bn. In the more negative scenario, the cash position is lower from 2017, and by the end of the period, the position has become negative by ISK 15bn. It should be noted that the same amount of investments is assumed in both scenarios and in the budget plan based on nominal price-levels, although the investment plans would inevitable be revised in the more negative scenario.

The debt ratio of the consolidated groups is close to the 150% target in 2018 at nominal price-levels and is less than 150% in 2019 in accordance with the City Council's plans from 2012 on adapting to the financial rules of municipalities. The debt ratio subsequently decreases to just below 100% in 2022.

In the scenario involving-private-consumption driven economic growth, the ratio remains 190–200% during 2015–2018 and then slowly decreases to just over 160% in 2022. In the more negative scenario therefore, the consolidated groups are unable to achieve a ratio below 150% before 2022 as stipulated in the Act on Local Government Finances. Again, this is a matter of some concern in light of the fact that the scenario on private-consumption-driven economic growth describes circumstances that could easily become a reality in the near future.



The above shows that in order for the City of Reykjavík's consolidated accounts to achieve its goal of fulfilling the debt rules of municipalities by 2018, responsible financial management must be employed, and even greater discipline in investments and borrowings must be exercised in the event that the assumptions of the more negative scenario are realised.

Five Year Plan 2015-2019 – Real value

Consolidated Group

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Income statement					
Operating revenues:					
Tax revenues.....	67.033.966	68.581.919	69.067.401	69.463.466	69.851.930
Contributions from Equalisation Fund	5.979.720	6.027.515	6.063.107	5.732.687	5.753.737
Other revenues.....	68.563.100	69.979.829	72.035.205	73.903.329	75.572.245
Total operating revenues	141.576.786	144.589.264	147.165.713	149.099.482	151.177.912
Operating expenses:					
Wage cost and wage related expenses.....	58.988.495	59.247.739	59.527.746	59.785.471	60.135.033
Other operating expenses.....	49.426.549	49.594.450	50.922.538	52.085.689	52.749.141
Depreciation.....	14.822.239	15.458.738	16.016.925	16.456.173	16.560.387
Total operating expenses	123.237.283	124.300.927	126.467.210	128.327.334	129.444.561
Operating result before financial items	18.339.503	20.288.337	20.698.504	20.772.148	21.733.351
Net financial items.....	(8.354.786)	(6.941.301)	(6.793.987)	(6.318.703)	(6.106.918)
Income tax.....	(1.536.971)	(1.855.962)	(1.787.699)	(1.725.093)	(2.039.575)
Net income for the year.....	8.447.746	11.491.074	12.116.818	12.728.352	13.586.858
* Real value					

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Balance Sheet					
Assets					
Fixed assets:					
Intangible assets:					
Real estate	143.118.644	144.868.381	145.221.470	144.567.110	143.381.778
Utilities and roads	268.685.627	267.859.591	268.163.225	269.416.109	270.157.773
Other assets	9.463.124	10.125.956	10.257.224	10.192.280	10.079.118
Lease properties	6.677.914	6.180.868	5.683.821	5.186.774	4.689.727
	427.945.309	429.034.796	429.325.740	429.362.273	428.308.396
Shares and long term receivables:					
Shares in companies	4.222.840	4.512.950	4.803.060	5.093.170	5.383.280
Long-term receivables	9.348.075	5.982.393	5.811.505	5.677.953	5.585.237
Other long-term receivables	12.470.595	10.123.954	11.117.882	13.353.115	15.554.621
	26.041.510	20.619.297	21.732.447	24.124.239	26.523.138
Total fixed assets	453.986.819	449.654.093	451.058.187	453.486.512	454.831.533
Current assets:					
Inventory.....	605.676	615.676	625.676	630.676	635.676
Short term receivables:					
Unclaimed revenues and receivables	11.720.893	11.827.870	11.895.099	11.971.147	12.058.735
Other receivables	8.859.584	8.303.615	9.317.049	9.196.777	9.061.287
Next year's payment of long-term receivables	218.140	184.015	170.888	133.552	92.716
Cash and cash equivalents.....	18.929.501	25.418.881	28.975.070	32.553.326	31.682.035
Total current assets	40.333.794	46.350.057	50.983.781	54.485.479	53.530.449
Total Assets	494.320.613	496.004.150	502.041.968	507.971.991	508.361.982
* Real value					

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
31. desember					
Equity and Liabilities					
Equity					
Equity.....	217.316.565	230.480.969	243.874.547	257.846.261	272.635.609
Obligations:					
Pension obligations.....	13.706.895	14.097.895	14.288.895	14.279.895	14.070.895
Other obligations.....	5.551.411	7.392.266	9.167.217	10.878.307	12.911.753
	19.258.306	21.490.161	23.456.112	25.158.202	26.982.648
Long-term Liabilities:					
Long-term debts.....	206.559.651	198.103.336	190.197.495	183.339.701	170.690.396
Lease liabilities.....	11.620.500	10.926.231	10.231.962	9.537.692	8.843.423
	218.180.151	209.029.567	200.429.457	192.877.394	179.533.819
Current Liabilities:					
Debts to credit institutions.....	635.847	435.847	235.847	235.847	235.847
Accounts payable.....	5.625.926	5.723.114	5.794.095	5.848.493	5.870.014
Next year's payment of long-term debts.....	21.865.040	17.420.829	16.848.006	14.635.845	11.755.194
Other payables.....	11.438.776	11.423.662	11.403.904	11.369.948	11.348.849
	39.565.590	35.003.453	34.281.853	32.090.134	29.209.906
Total liabilities and obligations	277.004.047	265.523.181	258.167.421	250.125.730	235.726.373
Total Equity and Liabilities	494.320.613	496.004.150	502.041.968	507.971.991	508.361.982
	* Real value				

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Cash Flows from Operating Activities					
Net income for the year.....	8.447.746	11.491.074	12.116.818	12.728.352	13.586.858
Items not affecting cash flow:					
Depreciation	14.822.239	15.458.738	16.016.925	16.456.173	16.560.387
Indexation, discounts and exch.rate differences ...	6.286.545	1.226.865	(82.904)	519.320	(2.048.308)
Loss (Gain) on sold assets	(1.940.000)	(1.282.500)	(1.250.000)	(1.660.000)	(1.550.000)
Framlög frá eigin sjóðum	0	0	0	0	0
Other changes	(1.916.494)	835.955	1.827.531	466.678	2.767.428
Changes in obligations	3.805.153	4.181.855	4.115.951	4.052.090	4.374.447
Working capital provided by operating activities	29.505.188	31.911.986	32.744.321	32.562.614	33.690.811
Changes in operating assets and liabilities:					
Inventories decrease (increase)	(30.000)	(10.000)	(10.000)	(5.000)	(5.000)
Unclaimed revenues (increase) decrease	(234.606)	(106.977)	(67.229)	(76.049)	(87.588)
Other current receivables (increase) decrease	(2.946.106)	555.968	(1.013.434)	120.272	135.490
Contributions to obligations.....	(1.750.000)	(1.950.000)	(2.150.000)	(2.350.000)	(2.550.000)
Current liabilities (decrease) increase	130.617	82.074	51.223	20.442	423
Change in operating assets and liabilities	(4.830.095)	(1.428.935)	(3.189.440)	(2.290.335)	(2.506.675)
Net cash provided by operating activities	24.675.094	30.483.051	29.554.881	30.272.279	31.184.137
Investment activities:					
Investments in fixed tangible assets.....	(21.341.583)	(16.649.024)	(16.408.669)	(16.593.507)	(15.607.309)
Proceeds from sale of fixed tangible assets.....	2.390.000	1.383.300	1.350.800	1.760.800	1.650.800
Change in equity holdings.....	(290.110)	(290.110)	(290.110)	(290.110)	(290.110)
Long-term securities, change.....	299.122	3.399.807	184.015	170.888	133.552
Other long-term securities, change.....	(2.475.380)	1.510.685	(2.821.459)	(2.701.912)	(4.968.933)
Net cash provided from investment activities	(21.417.951)	(10.645.342)	(17.985.423)	(17.653.841)	(19.082.000)
Financing activities:					
Contributions from own companies.....	649.010	611.210	564.180	530.332	463.960
Paid in capital / other changes in equity.....	1.010.967	1.062.120	712.580	713.030	738.530
New long-term borrowings.....	14.487.719	7.216.902	8.766.485	8.647.569	3.356.352
Repayment of long-term liabilities and obligations....	(20.950.147)	(22.038.563)	(17.856.514)	(18.931.112)	(17.532.270)
Short term borrowings, change.....	400.000	(200.000)	(200.000)	0	0
Net cash provided from financing activities	(4.402.451)	(13.348.330)	(8.013.269)	(9.040.181)	(12.973.428)
Increase (decrease) in cash and cash equivalents	(1.145.309)	6.489.379	3.556.189	3.578.256	(871.291)
Cash and cash equivalents at beginning of year	20.074.808	18.929.499	25.418.879	28.975.068	32.553.324
Cash and cash equivalents at year-end	18.929.499	25.418.879	28.975.068	32.553.324	31.682.033

* Real value

Five Year Plan 2015-2019 – Real value

Group A

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Income statement					
Operating revenues:					
Tax revenues.....	67.788.954	69.336.907	69.822.389	70.218.454	70.606.918
Contributions from Equalisation Fund	5.979.720	6.027.515	6.063.107	5.732.687	5.753.737
Other revenues.....	15.145.096	15.020.919	15.701.465	16.349.862	16.613.300
Total operating revenues	88.913.770	90.385.342	91.586.961	92.301.003	92.973.956
Operating expenses:					
Wage cost and wage related expenses.....	48.725.837	48.869.007	49.053.326	49.258.991	49.562.685
Other operating expenses.....	34.850.061	35.013.758	35.948.274	36.827.849	37.361.169
Depreciation.....	4.099.822	4.313.593	4.533.162	4.674.802	4.562.957
Total operating expenses	87.675.720	88.196.358	89.534.762	90.761.642	91.486.812
Operating result before financial items	1.238.050	2.188.984	2.052.199	1.539.361	1.487.144
Net financial items.....	(804.113)	(132.640)	(243.108) (300.079) (361.348)
Income tax.....	0	0	0	0	0
Net income for the year.....	433.936	2.056.344	1.809.091	1.239.282	1.125.796

* Real value

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Balance Sheet					
Assets					
Fixed assets:					
Intangible assets:					
Real estate	88.197.294	89.603.564	90.393.558	90.013.330	89.229.241
Utilities and roads	13.685.206	15.772.363	16.784.184	17.184.761	17.993.467
Other assets	3.777.084	4.151.110	4.118.179	3.943.075	3.702.548
Lease properties	6.677.914	6.180.868	5.683.821	5.186.774	4.689.727
	112.337.498	115.707.905	116.979.742	116.327.940	115.614.983
Shares and long term receivables:					
Shares in companies	8.221.672	8.511.782	8.801.892	9.092.002	9.382.112
Long-term receivables	967.702	914.783	861.864	808.945	756.026
Long-term receivables from own companies	14.616.742	13.589.259	12.303.075	10.922.533	9.540.931
Other long-term receivables	37.317	37.317	37.317	37.317	37.317
	23.843.433	23.053.141	22.004.148	20.860.797	19.716.386
Total fixed assets	136.180.931	138.761.046	138.983.891	137.188.737	135.331.369
Current assets:					
Inventory.....	0	0	0	0	0
Short term receivables:					
Unclaimed revenues and receivables	7.290.740	7.290.740	7.290.740	7.290.740	7.290.740
Receivables from own companies	81.102	81.102	81.102	81.102	81.102
Other receivables	2.321.817	2.321.817	2.321.817	2.321.817	2.321.817
Next year's payment of long-term receivables	775.355	1.080.402	1.398.454	1.504.471	1.504.471
Cash and cash equivalents.....	6.061.859	6.559.144	7.643.095	9.646.709	11.370.121
Total current assets	16.530.873	17.333.205	18.735.208	20.844.839	22.568.251
Total Assets	152.711.803	156.094.251	157.719.098	158.033.577	157.899.620

* Real value

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
31. desember					
Equity and Liabilities					
Equity					
Equity.....	87.220.475	89.276.819	91.085.909	92.325.192	93.450.988
Obligations:					
Pension obligations.....	13.164.577	13.525.577	13.686.577	13.647.577	13.408.577
Other obligations.....	0	0	0	0	0
	13.164.577	13.525.577	13.686.577	13.647.577	13.408.577
Long-term Liabilities:					
Long-term debts.....	28.239.262	29.744.010	29.977.640	29.698.854	29.328.284
Lease liabilities.....	11.620.500	10.926.231	10.231.962	9.537.692	8.843.423
	39.859.763	40.670.241	40.209.601	39.236.546	38.171.707
Current Liabilities:					
Debts to credit institutions.....	120.000	120.000	120.000	120.000	120.000
Accounts payable.....	2.828.966	2.828.966	2.828.966	2.828.966	2.828.966
Accounts payable to own companies.....	6.777	6.721	6.665	6.609	6.553
Next year's payment of long-term debts.....	2.022.455	2.177.137	2.292.589	2.379.896	2.424.039
Other payables.....	7.488.791	7.488.791	7.488.791	7.488.791	7.488.791
	12.466.989	12.621.615	12.737.011	12.824.262	12.868.349
Total liabilities and obligations	65.491.329	66.817.432	66.633.189	65.708.385	64.448.633
Total Equity and Liabilities	152.711.803	156.094.251	157.719.098	158.033.577	157.899.620
	* Real value				

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Cash Flows from Operating Activities					
Net income for the year.....	433.936	2.056.344	1.809.091	1.239.282	1.125.796
Items not affecting cash flow:					
Depreciation	4.099.822	4.313.593	4.533.162	4.674.802	4.562.957
Indexation, discounts and exch.rate differences ...	899.903	0	0	0	0
Loss (Gain) on sold assets	(1.940.000)	(1.282.500)	(1.250.000) (1.660.000) (1.550.000)		
Framlög frá eigin sjóðum	0	0	0	0	0
Other changes	0	0	0	0	0
Changes in obligations	2.311.000	2.311.000	2.311.000	2.311.000	2.311.000
Working capital provided by operating activities	5.804.661	7.398.437	7.403.253	6.565.084	6.449.753
Changes in operating assets and liabilities:					
Inventories decrease (increase)	0	0	0	0	0
Unclaimed revenues (increase) decrease	0	0	0	0	0
Other current receivables (increase) decrease	0	0	0	0	0
Contributions to obligations.....	(1.750.000)	(1.950.000)	(2.150.000) (2.350.000) (2.550.000)		
Current liabilities (decrease) increase	0	0	0	0	0
Change in operating assets and liabilities	(1.750.000)	(1.950.000)	(2.150.000) (2.350.000) (2.550.000)		
Net cash provided by operating activities	4.054.661	5.448.437	5.253.253	4.215.084	3.899.753
Investment activities:					
Investments in fixed tangible assets.....	(7.397.000)	(7.684.000)	(5.804.999) (4.023.000) (3.850.000)		
Proceeds from sale of fixed tangible assets.....	1.940.000	1.282.500	1.250.000	1.660.000	1.550.000
Change in equity holdings.....	(290.110)	(290.110)	(290.110) (290.110) (290.110)		
Long-term securities, change.....	273.583	69.410	52.919	52.919	52.919
Other long-term securities, change.....	0	0	0	0	0
Long-term securities to own companies, change.....	(0)	705.945	968.132	1.274.525	1.381.602
Net cash provided from investment activities	(5.723.528)	(5.916.255)	(3.824.059) (1.325.666) (1.155.589)		
Financing activities:					
Contributions from own companies.....	0	0	0	0	0
Paid in capital / other changes in equity.....	0	0	0	0	0
Account payable to own companies, change.....	16.045	(56)	(56) (56) (56)		
New long-term borrowings.....	2.186.910	2.975.410	1.814.310	1.384.710	1.332.810
Repayment of long-term liabilities and obligations....	(1.948.702)	(2.010.250)	(2.159.497) (2.270.458) (2.353.506)		
Short term borrowings, change.....	0	0	0	0	0
Net cash provided from financing activities	254.253	965.104	(345.243) (885.804) (1.020.752)		
Increase (decrease) in cash and cash equivalents	(1.164.613)	497.285	1.083.951	2.003.614	1.723.411
Cash and cash equivalents at beginning of year	7.226.472	6.061.859	6.559.144	7.643.095	9.646.709
Cash and cash equivalents at year-end	6.061.859	6.559.144	7.643.095	9.646.709	11.370.121

* Real value

Five Year Plan 2015-2019 – Nominal value

Consolidated Group

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Income statement					
Operating revenues:					
Tax revenues.....	67.033.966	71.414.703	75.608.814	79.440.501	83.404.914
Contributions from Equalisation Fund	5.979.720	6.296.861	6.637.431	6.559.097	6.879.941
Other revenues.....	68.563.100	71.923.398	75.795.653	79.482.811	83.110.247
Total operating revenues	141.576.786	149.634.963	158.041.898	165.482.409	173.395.102
Operating expenses:					
Wage cost and wage related expenses.....	58.994.231	61.923.304	65.409.378	68.614.512	72.184.004
Other operating expenses.....	49.420.813	51.108.595	53.958.230	56.619.222	58.838.935
Depreciation.....	14.822.239	15.486.534	16.061.966	16.528.890	16.670.444
Total operating expenses	123.237.283	128.518.433	135.429.573	141.762.625	147.693.383
Operating result before financial items	18.339.503	21.116.530	22.612.324	23.719.784	25.701.719
Net financial items.....	(8.354.786)	(8.723.333)	(7.722.567)	(6.925.647)	(6.633.804)
Income tax.....	(1.536.971)	(1.745.093)	(1.787.045)	(1.889.077)	(2.167.360)
Net income for the year.....	8.447.746	10.648.103	13.102.712	14.905.059	16.900.556

* Nominal value

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Balance Sheet					
Assets					
Fixed assets:					
Intangible assets:					
Real estate	143.118.644	145.173.794	145.758.255	145.410.405	144.532.964
Utilities and roads	268.685.627	267.954.723	268.784.621	270.984.576	273.075.546
Other assets	9.463.124	10.199.991	10.478.295	10.512.440	10.499.156
Lease properties	6.677.914	6.180.868	5.683.821	5.186.774	4.689.727
	427.945.309	429.509.375	430.704.992	432.094.195	432.797.394
Shares and long term receivables:					
Shares in companies	4.222.840	4.523.645	4.836.125	5.160.129	5.496.197
Long-term receivables	9.348.075	6.246.538	5.835.071	5.372.023	5.502.732
Other long-term receivables	12.470.595	12.423.680	16.838.505	22.319.704	30.215.498
	26.041.510	23.193.863	27.509.701	32.851.855	41.214.427
	Total fixed assets	453.986.819	452.703.239	458.214.693	464.946.050
Current assets:					
Inventory.....	605.676	616.601	626.601	631.601	636.601
Short term receivables:					
Unclaimed revenues and receivables	11.720.893	11.913.492	12.096.368	12.300.960	12.511.123
Other receivables	8.859.584	8.927.001	9.627.483	9.623.708	7.011.296
Next year's payment of long-term receivables	218.140	188.210	178.071	140.687	97.364
Cash and cash equivalents.....	18.929.501	25.305.641	29.005.308	33.382.324	34.791.592
	Total current assets	40.333.794	46.950.945	51.533.832	56.079.280
	Total Assets	494.320.613	499.654.184	509.748.525	521.025.330
					* Nominal value

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
31. desember					
Equity and Liabilities					
Equity					
Equity.....	217.316.565	229.670.083	244.116.666	260.366.768	278.707.690
Obligations:					
Pension obligations.....	13.706.895	14.055.365	14.399.409	14.495.006	14.481.848
Other obligations.....	5.551.411	6.258.286	7.510.854	7.283.809	6.517.051
	19.258.306	20.313.651	21.910.263	21.778.815	20.998.899
Long-term Liabilities:					
Long-term debts.....	206.511.252	201.517.417	196.873.994	192.467.295	185.046.774
Lease liabilities.....	11.620.500	11.275.870	10.855.047	10.381.581	9.876.156
	218.131.752	212.793.287	207.729.041	202.848.875	194.922.930
Current Liabilities:					
Debts to credit institutions.....	635.847	435.847	235.847	235.847	365.847
Accounts payable.....	5.625.926	7.383.780	7.221.258	9.289.275	10.459.273
Next year's payment of long-term debts.....	21.913.438	17.636.553	17.130.481	14.991.660	12.090.335
Other payables.....	11.438.776	11.420.981	11.404.967	11.376.684	11.344.143
	39.613.989	36.877.162	35.992.555	36.030.872	34.430.278
Total liabilities and obligations	277.004.047	269.984.101	265.631.859	260.658.562	250.352.106
Total Equity and Liabilities	494.320.613	499.654.184	509.748.525	521.025.330	529.059.796
	* Nominal value				

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Cash Flows from Operating Activities					
Net income for the year.....	8.447.746	10.648.103	13.102.712	14.905.059	16.900.556
Items not affecting cash flow:					
Depreciation	14.822.239	15.486.534	16.061.966	16.528.890	16.670.444
Indexation, discounts and exch.rate differences ...	6.286.545	5.144.023	3.400.398	3.236.879	3.371.462
Loss (Gain) on sold assets	(1.940.000)	(1.323.540)	(1.326.120)	(1.806.876)	(1.731.009)
Framlög frá eigin sjóðum	0	0	0	0	0
Other changes	(1.916.494)	(1.348.792)	(881.741)	(1.865.920)	(2.433.809)
Changes in obligations	3.805.153	3.005.345	3.746.612	2.218.552	1.770.084
Working capital provided by operating activities	29.505.188	31.611.674	34.103.826	33.216.586	34.547.728
Changes in operating assets and liabilities:					
Inventories decrease (increase)	(30.000)	(10.925)	(10.000)	(5.000)	(5.000)
Unclaimed revenues (increase) decrease	(234.606)	(192.599)	(182.876)	(204.592)	(210.163)
Other current receivables (increase) decrease	(2.946.106)	(67.417)	(700.482)	3.775	2.612.412
Contributions to obligations.....	(1.750.000)	(1.950.000)	(2.150.000)	(2.350.000)	(2.550.000)
Current liabilities (decrease) increase	130.617	1.740.059	(178.536)	2.039.734	1.137.457
Change in operating assets and liabilities	(4.830.095)	(480.882)	(3.221.894)	(516.083)	984.706
Net cash provided by operating activities	24.675.094	31.130.791	30.881.932	32.700.503	35.532.434
Investment activities:					
Investments in fixed tangible assets.....	(21.341.583)	(17.154.626)	(17.364.520)	(18.027.813)	(17.486.213)
Proceeds from sale of fixed tangible assets.....	2.390.000	1.427.566	1.433.058	1.916.595	1.843.580
Change in equity holdings.....	(290.110)	(300.805)	(312.480)	(324.004)	(336.069)
Long-term securities, change.....	299.122	3.402.186	662.023	726.494	141.828
Other long-term securities, change.....	(2.475.380)	1.395.706	(3.533.083)	(3.615.279)	(5.461.985)
Net cash provided from investment activities	(21.417.951)	(11.229.973)	(19.115.003)	(19.324.007)	(21.298.859)
Financing activities:					
Contributions from own companies.....	649.010	611.210	564.180	530.332	463.960
Paid in capital / other changes in equity.....	1.010.967	1.094.205	779.690	814.711	976.406
New long-term borrowings.....	14.487.719	7.406.698	9.076.586	9.075.403	3.927.941
Repayment of long-term liabilities and obligations....	(20.950.147)	(22.436.792)	(18.287.719)	(19.557.330)	(18.355.888)
Short term borrowings, change.....	400.000	(200.000)	(200.000)	0	130.000
Net cash provided from financing activities	(4.402.451)	(13.524.679)	(8.067.262)	(9.136.884)	(12.857.581)
Increase (decrease) in cash and cash equivalents					
Cash and cash equivalents at beginning of year	(1.145.309)	6.376.140	3.699.667	4.239.612	1.375.994
Cash and cash equivalents at year-end	20.074.808	18.929.499	25.305.639	29.005.306	33.244.918
	18.929.499	25.305.639	29.005.306	33.244.918	34.620.912

* Nominal value

Five Year Plan 2015-2019 – Nominal value

Group A

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Income statement					
Operating revenues:					
Tax revenues.....	67.788.954	72.193.851	76.409.777	80.262.290	84.248.069
Contributions from Equalisation Fund	5.979.720	6.296.861	6.637.431	6.559.097	6.879.941
Other revenues.....	15.145.096	15.420.427	16.515.929	17.596.973	18.294.542
Total operating revenues	88.913.770	93.911.139	99.563.137	104.418.360	109.422.553
Operating expenses:					
Wage cost and wage related expenses.....	48.731.573	51.047.934	53.885.059	56.488.728	59.493.931
Other operating expenses.....	34.844.325	36.020.760	37.923.596	39.774.289	41.323.478
Depreciation.....	4.099.822	4.314.735	4.544.032	4.697.797	4.599.049
Total operating expenses	87.675.720	91.383.429	96.352.687	100.960.814	105.416.459
Operating result before financial items	1.238.050	2.527.710	3.210.450	3.457.546	4.006.094
Net financial items.....	(804.113)	(1.055.059)	(1.135.187)	(1.170.264)	(1.247.773)
Income tax.....	0	0	0	0	0
Net income for the year.....	433.936	1.472.651	2.075.263	2.287.282	2.758.321

* Nominal value

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Balance Sheet					
Assets					
Fixed assets:					
Intangible assets:					
Real estate	88.197.294	89.881.088	90.891.846	90.787.297	90.183.831
Utilities and roads	13.685.206	15.682.007	16.699.128	17.101.908	18.099.097
Other assets	3.777.084	4.208.688	4.292.326	4.172.296	3.976.174
Lease properties	6.677.914	6.180.868	5.683.821	5.186.774	4.689.727
	112.337.498	115.952.651	117.567.121	117.248.276	116.948.829
Shares and long term receivables:					
Shares in companies	8.221.672	8.522.477	8.834.957	9.158.961	9.495.029
Long-term receivables	967.702	914.964	862.208	809.445	756.686
Long-term receivables from own companies	14.616.742	14.024.115	13.052.283	11.888.951	10.655.118
Other long-term receivables	37.317	37.317	37.317	37.317	37.317
	23.843.433	23.498.872	22.786.765	21.894.673	20.944.150
	136.180.931	139.451.523	140.353.886	139.142.949	137.892.980
Current assets:					
Inventory.....	0	0	0	0	0
Short term receivables:					
Unclaimed revenues and receivables	7.290.740	7.290.740	7.290.740	7.290.740	7.290.740
Receivables from own companies	81.102	81.102	81.102	81.102	81.102
Other receivables	2.321.817	2.321.817	2.321.817	2.321.817	2.321.817
Next year's payment of long-term receivables	775.355	1.113.282	1.480.392	1.632.903	1.673.983
Cash and cash equivalents.....	6.061.859	6.632.765	8.658.593	12.445.666	16.474.528
	16.530.873	17.439.705	19.832.644	23.772.229	27.842.170
	152.711.803	156.891.229	160.186.529	162.915.178	165.735.149
* Nominal value					

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
31. desember					
Equity and Liabilities					
Equity					
Equity.....	87.220.475	88.693.126	90.768.388	93.055.671	95.813.992
Obligations:					
Pension obligations.....	13.164.577	13.481.577	13.792.577	13.853.577	13.804.577
Other obligations.....	0	0	0	0	0
	13.164.577	13.481.577	13.792.577	13.853.577	13.804.577
Long-term Liabilities:					
Long-term debts.....	28.236.467	30.739.896	31.875.691	32.422.140	32.880.879
Lease liabilities.....	11.620.500	11.275.870	10.855.047	10.381.581	9.876.156
	39.856.968	42.015.766	42.730.738	42.803.721	42.757.035
Current Liabilities:					
Debts to credit institutions.....	120.000	120.000	120.000	120.000	120.000
Accounts payable.....	2.828.966	2.828.966	2.828.966	2.828.966	2.828.966
Accounts payable to own companies.....	6.777	6.721	6.665	6.609	6.553
Next year's payment of long-term debts.....	2.025.250	2.256.282	2.450.404	2.620.439	2.744.557
Other payables.....	7.488.791	7.488.791	7.488.791	7.488.791	7.488.791
	12.469.784	12.700.760	12.894.826	13.202.210	13.359.546
Total liabilities and obligations	65.491.329	68.198.103	69.418.141	69.859.507	69.921.157
Total Equity and Liabilities	152.711.803	156.891.229	160.186.529	162.915.178	165.735.149

* Nominal value

	Budget 2015	Budget 2016	Budget 2017	Budget 2018	Budget 2019
Cash Flows from Operating Activities					
Net income for the year.....	433.936	1.472.651	2.075.263	2.287.282	2.758.321
Items not affecting cash flow:					
Depreciation	4.099.822	4.314.735	4.544.032	4.697.797	4.599.049
Indexation, discounts and exch.rate differences ...	899.903	910.230	858.185	835.488	869.904
Loss (Gain) on sold assets	(1.940.000)	(1.323.540)	(1.326.120)	(1.806.876)	(1.731.009)
Framlög frá eigin sjóðum	0	0	0	0	0
Other changes	0	0	0	0	0
Changes in obligations	2.311.000	2.267.000	2.461.000	2.411.000	2.501.000
Working capital provided by operating activities	5.804.661	7.641.076	8.612.360	8.424.692	8.997.265
Changes in operating assets and liabilities:					
Inventories decrease (increase)	0	0	0	0	0
Unclaimed revenues (increase) decrease	0	0	0	0	0
Other current receivables (increase) decrease	0	0	0	0	0
Contributions to obligations.....	(1.750.000)	(1.950.000)	(2.150.000)	(2.350.000)	(2.550.000)
Current liabilities (decrease) increase	0	0	0	0	0
Change in operating assets and liabilities	(1.750.000)	(1.950.000)	(2.150.000)	(2.350.000)	(2.550.000)
Net cash provided by operating activities	4.054.661	5.691.076	6.462.360	6.074.692	6.447.265
Investment activities:					
Investments in fixed tangible assets.....	(7.397.000)	(7.929.888)	(6.158.502)	(4.378.952)	(4.299.602)
Proceeds from sale of fixed tangible assets.....	1.940.000	1.323.540	1.326.120	1.806.876	1.731.009
Change in equity holdings.....	(290.110)	(300.805)	(312.480)	(324.004)	(336.069)
Long-term securities, change.....	273.583	69.410	52.919	52.919	52.919
Other long-term securities, change.....	0	0	0	0	0
Long-term securities to own companies, change.....	(0)	717.240	1.013.099	1.369.716	1.523.395
Net cash provided from investment activities	(5.723.528)	(6.120.503)	(4.078.843)	(1.473.445)	(1.328.348)
Financing activities:					
Contributions from own companies.....	0	0	0	0	0
Paid in capital / other changes in equity.....	0	0	0	0	0
Account payable to own companies, change.....	16.045	(56)	(56)	(56)	(56)
New long-term borrowings.....	2.186.910	3.075.628	1.936.336	1.525.389	1.513.649
Repayment of long-term liabilities and obligations....	(1.948.702)	(2.075.239)	(2.293.968)	(2.476.911)	(2.636.922)
Short term borrowings, change.....	0	0	0	0	0
Net cash provided from financing activities	254.253	1.000.333	(357.688)	(951.578)	(1.123.329)
Increase (decrease) in cash and cash equivalents	(1.164.613)	570.906	2.025.828	3.649.669	3.995.588
Cash and cash equivalents at beginning of year	7.226.472	6.061.859	6.632.765	8.658.593	12.308.262
Cash and cash equivalents at year-end	6.061.859	6.632.765	8.658.593	12.308.262	16.303.849

* Nominal value

