

# Orkuveita Reykjavíkur

## Consolidated Financial Statements 2018

\*These Financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Orkuveita Reykjavíkur  
Bæjarháls 1  
110 Reykjavík

reg no. 551298-3029

# Contents

---

	Page
Endorsement by the Board of Directors and the CEO .....	3
Independent Auditor's Review Report .....	5
Income Statement .....	9
Statement of Comprehensive Income .....	10
Statement of Financial Position .....	11
Statement of Changes in Equity .....	12
Statement of Cash Flows .....	13
Notes to the Consolidated Interim Financial Statements .....	14
Non-financial information (unaudited) .....	60

# Endorsement by the Board of Directors and the CEO

---

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no.136/2013 on the founding of the partnership Orkuveita Reykjavíkur. The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems in its service area as well as a fiber optic system in its service area.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union and the additional requirements set out in the local rules and regulations regarding financial statements of companies with listed bonds. The financial consolidated statements comprise the financial statements of Orkuveita Reykjavíkur and its subsidiaries.

Profit of operations of the Group for the year was ISK 5.978 million (2017: ISK 16.072 million). Comprehensive income was 18.844 million (2017: 22.876 million). According to the statement of financial position the Group's assets were ISK 340.089 million at the end of the year (31.12.2017: ISK 310.553 million). Book value of equity at the end of the year was ISK 160.827 million (31.12.2017: ISK 143.234 million), resulting in equity ratio of 47,3% (31.12.2017: 46,1%).

At the beginning of the year and at the end of the year the Company's shareholders were the following three municipalities:

	Share
Reykjavíkurborg .....	93,539%
Akraneskaupstaður .....	5,528%
Borgarbyggð .....	0,933%

Dividend in the amount of ISK 1.250 million was paid to the owners of the parent Company in the year 2018 (2017: ISK 750 million)

## Corporate governance

The Board maintains and seeks to improve good corporate governance. Corporate governance is directed by law no. 136/2013, collective ownership contract, owners' policy and the Board's operating procedure. The procedures also take into account the company's moral guidelines, Guidelines on corporate governance, which were issued by the Icelandic Chamber of Commerce, Nasdaq OMX Iceland ehf. and SA - Business Iceland and a handbook for board members, issued by KPMG. Subsidiaries have their separate company agreements and their Board's procedures. These documents can be found on the Company's website, [www.or.is](http://www.or.is). The Board of Orkuveita Reykjavíkur has appointed a Compensation committee and has nominated a representative in Reykjavík City's Audit committee.

The principal operations of Orkuveita Reykjavíkur (OR) are governed by Act no.136/2013. The corporate governance of OR should ensure professionalism, efficiency, cost effectiveness, transparency and responsible management. The partnership agreement and ownership policy can be viewed on OR's website [www.or.is](http://www.or.is). Moreover, the Board of Directors of OR and the boards of directors of the subsidiaries in the Group have established precise working rules and a code of conduct, which can also be found on the company's website.

## The Board of directors

In accordance with the law on undertakings, the Board of Directors of OR comprises six members, five elected by the City Council of Reykjavík and one elected by the town council of Akranes. Borgarbyggð has an observer on the board. The City Council of Reykjavík elects a chairperson and vice-chairperson to the board from a group of members of the City Council of Reykjavík. The Board of Directors is responsible for the finances and operations of OR. The board of Directors appoints two committees; The Audit Committee and The Compensation Committee.

In conjunction with the annual accounts, OR publishes the Annual Report 2018, which includes a more detailed description of OR's governance practices. The report can be found on the URL [arsskyrsla2018.or.is](http://arsskyrsla2018.or.is)

Information on the Company's risk management can be found in notes 28-32 to the financial statements.

## Endorsement by the Board of Directors and the CEO, contd.:

---

### **Non-financial information**

In parallel with this annual accounts, Orkuveita Reykjavíkur issues its annual report 2018. The report is integrated and prepared in accordance with the guidelines from Nasdaq OMX Nordic. It outlines governance, environmental issues, human rights and social affairs, as required by Act no. 3/2006 on annual accounts. The report also outlines the business model of the OR Group, the main business processes and stakeholders in the operation. It describes OR's human rights policy and how OR tracks fraud and bribery. There are also reports from the Chairman and CEO. In the Appendix with the Financial Statements p. 60 discloses more non-financial information.

The report is endorsed by independent financial, environmental, social and administrative experts, as well as the directors of Orkuveita Reykjavíkur and the CEO.

### **Statement by the Board of Directors**

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the consolidated financial statements are in accordance with IFRS's as they have been approved by EU and the additional requirements set out in the local rules and regulations regarding Financial statements of companies with listed bonds. It is the opinion of the Board of Directors and the CEO that the Financial Statements give a fair view of the Group's assets, liabilities and financial position 31 December 2018 and the Group's operating return and changes in cash and cash equivalents in the year 2018. The Financial Statements also describe the main risk factors and uncertainties faced by the Group.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's Financial statements for the year 2018.

Reykjavík, 14 March 2019.

The Board of Directors:

*Brynhildur Davíðsdóttir*  
*Gylfi Magnússon*  
*Sigríður Rut Júlíusdóttir*  
*Kjartan Magnússon*  
*Katrín Atladóttir*  
*Guðjón Viðar Guðjónsson*

CEO:

*Bjarni Bjarnason*

# Independent auditor's report

---

To the Board of Directors and Owners of Orkuveitu Reykjavíkur.

## Opinion

We have audited the accompanying Consolidated Financial Statements of Orkuveitan Reykjavíkur. (hereafter the Group) for the year 2018. The Consolidated Financial Statements comprise the Statement by the Board of Directors and CEO, the Statement of Income, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Changes in Equity, a summary of significant accounting policies and other notes to the Consolidated Financial Statements.

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated results of operations of the Group for the year 2018, its consolidated financial position as at December 31, 2018, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act.

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the Statement by the Board of Directors and CEO accompanying the Consolidated Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our Report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in Iceland, and we have fulfilled all ethical requirements therein. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements for the year 2018. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our opinion the following matters were key audit matters:

### **a) Valuation of production and distribution system**

See note 41 (d) on significant accounting policies and note 14 on property, plant and equipment.

We have defined the valuation of production and distribution systems as a key audit matter in our audit. The Group's production and distribution systems are carried at revalued amount. An assessment is made of the changes in construction costs of similar types of assets and both cost and accumulated depreciation are revalued accordingly. The Group performs impairment tests on the reporting date and recognises impairment loss if value in use is lower than book value of an asset. Revalued amount will also not be higher than value in use.

The assumptions used for revaluation and impairment tests are based on management assessments and are partly subjective. With production and distribution systems being a significant part of the Consolidated Financial Statements, any change in assumptions can have significant effect on the Financial Position of the Group. Our work both included estimates of the revaluation assessments and the impairment tests of the production and distribution systems.

As part of our audit, we reviewed the Group's methodology for valuing the production and distribution systems and its consistency with International Financial Reporting Standards. We reviewed the Group's processes for the revaluation and impairment tests. We also reviewed the functionality of models used in the assessments.

We evaluated management assumptions by comparing to public information where applicable. Where assumptions are not based on public information, we made our own evaluation on management assumptions. We used the work of a valuation specialist to assist in this evaluation.

## Independent auditor's report, contd.

---

### **b) Valuation of embedded derivatives**

See note 41 (c) on significant accounting policies, note 18 on embedded derivatives in electricity sales contracts and note 33 on fair value hierarchy.

Because prices of specific electricity sales contracts with large counterparties are tied to aluminium prices, the Group recognises embedded derivatives on the Statement of Financial Position. As electricity and aluminium prices are generally not closely related, financial reporting standards require the risk relating to this relationship to be evaluated specifically.

The embedded derivatives are considered to be third level financial items, where estimates are based on management assumptions and unobservable inputs. Because of the vulnerability of the estimate, any change in assumptions can have significant effect on the Statements of Income and Financial Position of the Group. For these reasons, we assume there is significant risk related to embedded derivatives and have therefore defined them as a key audit matter.

In our audit, we reviewed the Group's pricing methodology and consistency with International Financial Reporting Standards. We reviewed the Group's process for analysing and assessing assumptions used in the valuation, as well as reviewing valuation models used. We recalculated derivative valuations based on information we collected. We used the work of a valuation specialist to assist with this review.

### **c) Revenue recognition**

See note 41 (k) on significant accounting policies and note 5 on operation and revenue recognition of Group's components.

Revenue from sale and distribution of electricity and hot water is recognised based on measurements into the systems, taking into account energy losses occurring in the distribution systems. Differences between the actual amounts that go into the systems, minus losses and invoiced usage, lead to a period correction.

Due to the fact that income recognition at the end of the year is based on management estimates, there is uncertainty regarding revenue recognition relating to revenue cut-off and existence. For that reason, we focus specifically on revenue cutoff in our audit, as well as performing other audit procedures relating to revenue recognition.

In our audit of revenues, we have assessed controls relating to revenues in the Group. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Group, including review of how access to finance and accounting related IT systems is controlled.

We have used substantive testing methods where we have for example reviewed reconciliations between accounting systems and subsystems and received third party confirmation of energy usage, turnover and outstanding balances at year-end from specific customers. We have also reviewed deposits after year-end where balance confirmations from customers were not available.

We have also performed substantive tests where we have compared our expectations to actual revenue recognition in the Group.

### **Other information**

The Board of Directors and the CEO are responsible for all information presented by the Group, both the Consolidated Financial Statements as well as other information. The other information comprises the information included in the Annual Report, but does not include the Consolidated Financial Statements and our Auditor's Report thereon. Our opinion on the Consolidated Financial Statements does not cover the information in the Annual Report or other documents issued by the Group, and we do not express any form of assurance on the information in those documents thereon. In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we conclude that there are material misstatements or inconsistencies therein, we are required to communicate the matter to the Board of Directors and take appropriate action depending on the severity of the misstatement.

## Independent auditor's report, contd.

---

### **The Board of Directors and CEO's Responsibilities for the Consolidated Financial Statements**

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and CEO either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

## Independent auditor's report, contd.

---

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements, contd.

We communicated with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit

We also provided the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determined those matters that were of most significance in the audit of the Consolidated Financial Statements of the current year and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*Davíð Arnar Einarsson*

**State Authorized Public Accountant**

*J. Sturla Jónsson*

**State Authorized Public Accountant**

for and on behalf of Grant Thornton endurskoðunar ehf.  
Reykjavík,

14 Mars 2019



# Income Statement 2018

	Notes	2018	2017 *
Operating revenue .....	6	45.594.861	43.663.297
Profit from sale of assets .....		321.354	2.219
Operating revenues, total		<u>45.916.215</u>	<u>43.665.516</u>
Energy purchase and distribution .....	(	6.106.174)	( 5.948.661)
Salaries and salary related expenses .....	9	( 6.146.613)	( 5.495.651)
Salary related expenses - defined contribution pension expenses .....	(	31.875)	( 1.104.250)
Other operating expenses .....	(	5.014.837)	( 4.736.515)
Operating expenses, total	(	<u>17.299.499)</u>	<u>( 17.285.077)</u>
<b>EBITDA</b> .....		<u>28.616.715</u>	<u>26.380.439</u>
Depreciation and amortisation .....	11	( 10.270.945)	( 9.062.842)
<b>Results from operating activities, EBIT</b> .....		<u>18.345.771</u>	<u>17.317.597</u>
Interest income .....		380.992	651.108
Interest expenses .....	(	6.911.403)	( 5.170.497)
Other income (expenses) on financial assets and liabilities .....	(	7.222.848)	8.599.823
Total financial income and expenses	12	<u>( 13.753.258)</u>	<u>4.080.434</u>
Share in profit (loss) of associated companies .....		<u>6.033</u>	<u>1.926</u>
Profit before income tax		4.598.545	21.399.958
Income tax .....	13	<u>1.379.848</u>	<u>( 5.328.209)</u>
<b>Profit for the period</b>		<u><u>5.978.394</u></u>	<u><u>16.071.749</u></u>

The notes on pages 13 to 59 are an integral part of these Consolidated Financial Statements.

\* Comparative figures have been changed. See note 4.

# Statement of Comprehensive Income 2018

	Notes	2018	2017 *
Profit for the year .....		5.978.394	16.071.749
<b>Other comprehensive income</b>			
<b>Items moved to equity that will not be moved later to the income statement</b>			
Revaluation reserve, increase .....	14	8.389.138	11.586.336
Income tax effect of revaluation .....	20	( 1.677.828)	( 1.527.875)
		6.711.310	10.058.461
<b>Items moved to equity that could be moved later to the income statement</b>			
Changes in fair value for financial assets at fair value through OCI .....	17	251.808	321.973
Translation difference .....	24	5.902.197	( 3.575.704)
		6.154.005	( 3.253.731)
Other comprehensive income, after taxes .....		12.865.315	6.804.731
<b>Total comprehensive income for the year</b>		18.843.708	22.876.480

The notes on pages 13 to 59 are an integral part of these Consolidated Financial Statements.

\* Comparative figures have been changed. See note 4.

# Statement of Financial Position

## 31 December 2018

	Notes	31.12.2018	31.12.2017 *
<b>Assets</b>			
Property, plant and equipment .....	14	303.582.858	277.996.688
Intangible assets .....	15	1.999.523	1.607.504
Investments in associated companies .....	16	67.296	61.263
Investments in other companies .....	17	3.859.015	3.607.047
Embedded derivatives in electricity sales contracts .....	18	0	1.877.811
Hedge contracts .....	19	295.670	738.800
Deferred tax assets .....	20	3.819.233	1.265.410
Total non-current assets		313.623.595	287.154.523
Inventories .....	21	1.019.807	936.045
Trade receivables .....	22	5.482.511	5.142.104
Embedded derivatives in electricity sales contracts .....	18	0	346.301
Hedge contracts .....	19	946.717	36.081
Other financial assets .....	19	0	4.090.265
Other receivables .....	22	496.986	305.860
Prepaid expenses .....		307.939	162.174
Deposits and marketable securities .....	23	7.223.231	6.124.722
Cash and cash equivalents .....	23	10.988.087	6.254.983
Total current assets		26.465.279	23.398.535
<b>Total assets</b>		340.088.874	310.553.057
<b>Equity</b>			
Revaluation reserve .....		83.821.060	80.349.640
Equity reserve .....		42.972.671	16.805.347
Fair value reserve .....		3.395.941	3.144.133
Translation reserve .....		540.882	( 5.361.315)
Retained earnings .....		30.096.679	48.295.719
<b>Total equity</b>	24	160.827.232	143.233.524
<b>Liabilities</b>			
Loans and borrowings .....	25	133.577.622	129.811.656
Pension liability .....	26	682.404	608.261
Embedded derivatives in electricity sales contracts .....	18	4.270.604	0
Hedge contracts .....	19	777.053	737.006
Deferred tax liabilities .....	20	12.813.107	11.080.041
Total non-current liabilities		152.120.791	142.236.964
Accounts payable .....		3.125.135	2.230.378
Loans and borrowings .....	25	17.706.249	14.667.114
Embedded derivatives in electricity sales contracts .....	18	1.046.265	0
Hedge contracts .....	19	548.022	2.898.249
Deferred revenue .....		162.980	0
Current tax liability .....	13	1.497.031	1.386.415
Other current liabilities .....	27	3.055.169	3.900.413
Total current liabilities		27.140.851	25.082.569
<b>Total liabilities</b>		179.261.642	167.319.533
<b>Total equity and liabilities</b>		340.088.874	310.553.057

The notes on pages 13 to 59 are an integral part of these Consolidated Financial Statements.

\* Comparative figures have been changed. See note 4.

## Statement of Changes in Equity for the year 2018

	Revaluation reserve	Equity reserve	Develop- ment reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
<b>The year 2018</b>							
Equity at 1 January 2018 .....	80.349.640	16.805.347	0	3.144.133	( 5.361.315)	48.295.719	143.233.524
Revaluation, increase .....	8.389.138						8.389.138
Income tax effect of revaluation .....	( 1.677.828)						( 1.677.828)
Changes in fair value for financial assets at fair value through OCI .....				251.808			251.808
Translation difference .....					5.902.197		5.902.197
Profit for the year .....						5.978.394	5.978.394
Total comprehensive income .....	6.711.310	0	0	251.808	5.902.197	5.978.394	18.843.708
Depreciation transferred to retained earnings .....	( 3.239.891)					3.239.891	0
Share in profit of subsidiaries and associates transf. to equity reserve .....		26.167.324				( 26.167.324)	0
Dividends paid .....						( 1.250.000)	( 1.250.000)
Equity at 31 December 2018 .....	83.821.060	42.972.671	0	3.395.941	540.882	30.096.679	160.827.232
<b>The year 2017 *</b>							
Equity at 1 January 2017 .....	72.918.471	7.000.139	59.759	2.822.160	( 1.785.611)	40.460.965	121.475.883
Operating revenue adjusted 1.1. ....						( 368.839)	( 368.839)
Equity adjusted 1 January 2017 .....	72.918.471	7.000.139	59.759	2.822.160	( 1.785.611)	40.092.126	121.107.044
Revaluation, increase .....	11.586.336						11.586.336
Income tax effect of revaluation .....	( 1.527.875)						( 1.527.875)
Changes in fair value for financial assets at fair value through OCI .....				321.973			321.973
Translation difference .....					( 3.575.704)		( 3.575.704)
Profit for the year .....						16.071.749	16.071.749
Total comprehensive income .....	10.058.461	0	0	321.973	( 3.575.704)	16.071.749	22.876.479
Depreciation transferred to retained earnings .....	( 2.627.292)					2.627.292	0
Share in profit of subsidiaries and associates transf. to equity reserve .....		9.805.207				( 9.805.207)	0
Transfer to development reserve reversed .....			( 59.759)			59.759	0
Dividend paid .....						( 750.000)	( 750.000)
Equity at 31 December 2017 .....	80.349.640	16.805.347	0	3.144.133	( 5.361.315)	48.295.719	143.233.523

The notes on pages 13 to 59 are an integral part of these Consolidated Financial Statements.

\* Comparative figures have been changed. See note 4.

# Statement of Cash Flows for the year 2018

	Notes	2018	2017 *
<b>Cash flows from operating activities</b>			
Profit for the year .....		5.978.394	16.071.749
Adjusted for:			
Financial income and expenses .....	12	13.753.258	( 4.080.434)
Share in P/L of associates .....	16	( 6.033)	( 1.926)
Income tax .....	13	( 1.379.848)	5.328.209
Depreciation and amortisation .....	11	10.270.945	9.062.842
Profit from sale of property, plants and equipment .....		( 321.354)	( 2.219)
Pension liability, change .....		76.843	16.356
Working capital from operation before interest and taxes		28.372.204	26.394.576
Inventories, increase .....		( 82.481)	( 356.646)
Current assets, increase .....		( 557.459)	( 674.603)
Current liabilities, (decrease) increase .....		( 240.761)	1.544.967
Cash generated from operations before interests and taxes		27.491.503	26.908.294
Received interest income .....		397.918	572.152
Paid interest expenses .....		( 4.805.897)	( 4.185.883)
Dividend received .....		33.831	1.763
Payments due to other financial income and expenses .....		( 580.996)	( 881.420)
Paid taxes .....		( 1.482.446)	( 1.819.693)
Net cash from operating activities		21.053.913	20.595.213
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment .....	14	( 15.325.095)	( 19.129.499)
Acquisition of intangible assets .....	15	( 545.692)	( 209.816)
Proceeds from sale of property, plant and equipment .....		431.473	12.332
Change in deposits .....		1.000.000	( 1.000.000)
Change in marketable securities .....		( 1.747.623)	( 547.287)
Other financial assets .....		3.903.336	29.204
Net cash used in investing activities		( 12.283.601)	( 20.845.065)
<b>Cash flows from financing activities</b>			
Proceeds from new borrowings .....	25	20.562.335	13.935.902
Repayment of borrowings .....	25	( 22.072.703)	( 14.195.308)
Payments of currency hedges .....		( 1.657.785)	( 1.952.609)
Dividends paid .....	24	( 1.250.000)	( 750.000)
Current liabilities, change .....	25	0	( 2.859.984)
Net cash used in financing activities		( 4.418.153)	( 5.822.000)
<b>Increase (decrease) in cash and cash equivalents .....</b>		4.352.159	( 6.071.852)
<b>Cash and cash equivalents at year beginning .....</b>		6.254.983	12.356.669
<b>Effect of currency fluctuations on cash and cash equivalents .....</b>		380.945	( 29.834)
<b>Cash and cash equivalents at the end of the year .....</b>	23	10.988.087	6.254.983
<b>Investments and financing without payment effects:</b>			
Acquisition of property, plant and equipment .....		( 448.539)	649.463
Current liabilities, change .....		448.539	( 649.463)
Proceeds from new borrowings .....		27.763	3.462.271
Repayment of borrowings .....		0	( 3.462.271)
<b>Other information:</b>			
Working capital from operation .....	38	24.337.015	21.292.676

The notes on pages 13 to 59 are an integral part of these Consolidated Financial Statements.

\* Comparative figures have been changed. See note 4.

# Notes

---

## 1. Reporting entity

Orkuveita Reykjavíkur "OR" is a partnership that complies with the Icelandic law no. 136/2013 on Orkuveita Reykjavíkur. OR's headquarters are at Bæjarháls 1 in Reykjavík. OR's consolidated financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and a share in associated companies. The consolidated financial statements of Orkuveita Reykjavíkur is a part of the consolidated financial statements of Reykjavík city.

The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems in its service area as well as a fiber optic system in its service area.

## 2. Basis of preparation

### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements set out in the local rules and regulations regarding financial statements of companies with listed bonds.

The consolidated interim financial statements were approved by the Board of Directors on 14 March 2019.

Significant accounting policies for the Group are described in note 41.

### b. Functional and presentation currency

The consolidated financial statements are presented in Icelandic kronas, which is the Company's functional currency. All financial information has been rounded to the nearest thousand unless otherwise stated.

### c. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 41.

### d. Use of estimates and judgements

The preparation of the consolidated interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 14 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment.)
- note 17 - Investments in other companies (presumptions made when calculating fair value of assets classified as assets held for sale.)
- note 18 - Embedded derivatives in electricity sales contracts (presumptions when calculating fair value)
- note 19 - Other financial assets and other financial liabilities (presumptions when calculating fair value)
- note 20 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax)
- note 29 - Market risk

# Notes

---

## 3. Change in significant accounting policies

### a. IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is effective from 1 January 2018. The standard applies to revenue from sale of goods and service and replaces IAS 18 and IAS 11 and related interpretations. IFRS 15 is based on a five step model for revenue recognition. The standard establishes a comprehensive framework about revenue recognition of information on nature, amounts, timing and uncertainty of revenue and cash flow from contracts with customers. The new revenue recognition model is different from prior rules in that way a revenue shall be recognised in a way which reflects the transfer of goods and services to customers, that is a transfer of ownership, but according to prior rules the revenue recognition was based on a transfer of the risk and rewards. The Group applies retrospective approach with the recognition of difference in equity. The Group's analysis of the effect of IFRS 15 revealed that the standard will not change the Group's revenue recognition. Based on that the effect of the standard on balance sheet at 1 January 2018 are none. The standard requires for extensive new disclosures compared to the standards and interpretations it is replacing. Information about revenue and operations generating revenue of the components of the Group are in more detail compared to prior financial statements, see note no. 5 and 6.

### b. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is effective from 1 January 2018 and replaces IAS 39 Financial Instruments: Recognition and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The Group applies retrospective approach in the adoption of IFRS 9 with the recognition of difference in equity, however the Group's analysis of the effects of IFRS 9 are none. As a result the effect of IFRS 9 on balance sheet at 1 January 2018 are none.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. Under IFRS 9, on initial recognition, given certain condition it is allowed to classify financial assets at FVTPL or at FVOCI. After that the classification can not be changed.

The Group classifies shares in companies at FVOCI. At IFRS 9 adoption it is allowed to continue with the classification and OR's management has decided to take advantage of that option and continue with unchanged classification. Classification of shares in companies at FVOCI results in fair value change to be only recorded in OCI and not reclassified to P&L when sold.

The Group classifies embedded derivatives in electricity sales contracts at FVTPL. The adoption of IFRS 9 has no effect on the accounting policies related to embedded derivatives in electricity sales contracts. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Marketable securities are classified at FVTPL. Marketable securities do not have known future cash flow and therefore it is required to continue to classify them at FVTPL.

Account receivables and other receivables which were under IAS 39 classified at loan and receivables are now classified at amortised cost.

# Notes

---

## **3. Change in significant accounting policies, contd.**

### **b. IFRS 9 *Financial Instruments*, contd.**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Group applies authorization in IFRS 9 to use simplified impairment model.

This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Under IFRS 9, loss allowances will be measured on either of the 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date or lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Group's asset classified at amortised cost consist of account receivable and contract assets, other receivable, restricted cash and cash and cash equivalents. Account receivable and other receivable are without material financing component and the risk is immaterial and the loss allowances will be measured on lifetime ECLs.

Financial assets measured at amortised cost according to IFRS 9 are either short term receivable with expected life less than 12 months or receivable with low credit risk. Therefore the expected credit loss is proportionally low and the effect of the adoption of the standard on the Group's financial statements immaterial except that the standard requires for extensive new disclosures in consolidated financial statements .



# Notes

## 3. Change in significant accounting policies, contd.

### b. IFRS 9 *Financial Instruments*, contd.

The table below shows the original classification for financial assets and financial liabilities of the Group according to IAS 39 and the new classification according to IFRS 9 as at 1 January 2018.

	Original classification acc. IAS 39	New classification acc. IFRS 9	Original book value acc. IAS 39	Book value acc. IFRS 9
<b>Financial assets:</b>				
Shares in companies .....	Available for sale	Fair value through OCI	3.607.047	3.607.047
Embedded derivatives in sales contracts .....	Financial assets at fair value	Fair value through profit or loss	2.224.111	2.224.111
Bond .....	Financial assets at fair value	Fair value through profit or loss	4.090.265	4.090.265
Hedge contracts .....	Financial assets at fair value	Fair value through profit or loss	774.880	774.880
Trade receivables .....	Loans and receivables	Amortised cost	5.847.289	5.847.289
Other receivables .....	Loans and receivables	Amortised cost	305.860	305.860
Deposits and marketable securities .....	Loans and receivables	Amortised cost	4.000.000	4.000.000
Deposits and marketable securities .....	Financial assets at fair value	Fair value through profit or loss	2.124.722	2.124.722
Cash and cash equivalents .....	Loans and receivables	Amortised cost	6.254.983	6.254.983
Financial assets total.....			<u>29.229.157</u>	<u>29.229.157</u>
<b>Financial liabilities:</b>				
Loans and borrowings .....	Liabilities at amortised cost	Amortised cost	144.478.770	144.478.770
Hedge contracts .....	Financial liabilities at fair value	Fair value through profit or loss	3.635.255	3.635.255
Accounts payable .....	Liabilities at amortised cost	Amortised cost	2.230.378	2.230.378
Other current liabilities .....	Liabilities at amortised cost	Amortised cost	3.900.413	3.900.413
Financial liabilities total.....			<u>154.244.816</u>	<u>154.244.816</u>

# Notes

## 4. Changes of comparative figures

The group has changed its premise on projecting operating income because of embedded errors in calculation. The error covers the years 2015-2017. In accordance with IAS 8, comparative figures for 2017 have been adjusted. Adjustments for previous periods are shown as adjustments to equity in comparative figures.

Statement of comprehensive income (condensed)	2017	Adjustments	2017 Adjusted
Operating revenue.....	43.999.642	( 336.346)	43.663.297
Results from operating activities (EBIT).....	17.653.943	( 336.346)	17.317.597
Profit before income tax.....	21.736.303	( 336.346)	21.399.958
Income tax.....	( 5.396.998)	68.790	( 5.328.209)
Profit for the year.....	16.339.305	( 267.556)	16.071.749
Translation difference.....	( 3.574.183)	( 1.520)	( 3.575.704)
Total comprehensive income.....	<u>23.145.556</u>	<u>( 269.076)</u>	<u>22.876.480</u>

Statement of financial position (condensed)	31.12.2017	Adjustments	31.12.2017 Adjusted
Trade receivables.....	5.847.289	( 705.185)	5.142.104
Total current assets.....	24.103.719	( 705.185)	23.398.535
Total assets.....	<u>311.258.242</u>	<u>( 705.185)</u>	<u>310.553.057</u>
Retained earnings.....	48.932.114	( 636.395)	48.295.719
Translation difference.....	( 5.359.795)	( 1.520)	( 5.361.315)
Total equity.....	<u>143.871.439</u>	<u>( 637.916)</u>	<u>143.233.524</u>
Current tax liability.....	1.453.685	( 67.269)	1.386.415
Total current liabilities.....	<u>25.149.838</u>	<u>( 67.269)</u>	<u>25.082.569</u>
Total equity and liabilities.....	<u>311.258.242</u>	<u>( 705.185)</u>	<u>310.553.057</u>

# Notes

---

## 5. Operation and revenue recognition of Group's components

The following provides information about the operation of Group's components. Breakdown of revenue for different operations is given in note 6 and income by segment in note 7.

<b>Products and services</b>	<b>Nature, timing of revenue recognition and payments terms</b>
------------------------------	---

---

- |                        |  |
|------------------------|--|
| <b>a. Electricity</b>  | ON Power generates electricity and sells electricity and Utilities distribute electricity according to law no. 65/2003. Revenue from the sale and distribution of electricity is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. Upon connection of new users to distribution systems of electricity and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of electricity generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.   |
| <b>b. Hot water</b>    | ON Power and Utilities generate harness hot water and Utilities distribute harness hot water. Revenue from the sale and distribution of harness hot water is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. Upon connection of new users to distribution systems of harness hot water or upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of harness hot water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.  |
| <b>c. Cold water</b>   | OR Water and Sewage collects and distributes cold water from reservoirs. Revenue from the sale of cold water is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate value. In addition revenue is stated for cold water according to measurement from specific industries. Upon connection of new users to distribution systems of cold water and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale of cold water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year. |
| <b>d. Sewer system</b> | OR Water and Sewage runs the sewer system. Revenue is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate rateable value. Upon connection of new users to sewage system and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new sewer systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sewer system generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.  |

# Notes

## 5. Operation and revenue recognition of Group's components, contd.

<b>Products and services</b>	<b>Nature, timing of revenue recognition and payments terms</b>
e. Other revenues	Gagnaveita Reykjavíkur operates fiber optics data system. Revenue from fiber optics data system is recognised in the income statement upon delivery of the goods and service. This is a competitive practice that is supervised by The Post and Telecom Administration. Orkuveita Reykjavíkur the parent company operates rental of housing and equipment, incidental sale of specialist consultancy services and more. Rental income is recorded as income in the income statement linearly over the lease term and other revenue is recognised upon delivery of goods or services. Trade receivables from other revenues generally have a 30 day grace period.

## 6. Revenues from sales of goods and services

The Group's income from sales of goods and services is specified as follows	2018	2017
Electricity.....	19.248.507	18.936.276
Hot water.....	12.630.589	11.871.231
Cold water.....	3.172.786	3.264.545
Sewer system.....	5.299.106	5.014.566
Other revenues.....	5.243.872	4.576.679
Revenues from sales of goods and services total.....	45.594.861	43.663.297

## 7. Segment reporting

### **Business divisions and sectors**

The Group's service area is mainly in the Reykjavík city area, but it also extends to the southern and western parts of Iceland. The Group is divided into three separate divisions: production and Sales, Utilities and Other Operation.

The subsidiary **ON Power** generate electricity and harness hot water from the power plants, sells electricity to wholesale and retail customers as well as the new construction and operation of street lighting.

The subsidiaries **Utilities** and **OR Water and Sewage** distribute electricity, harnessing hot water from low-temperature fields and the geothermal plants and distribute it for space heating. It also collects and distributes cold water from reservoirs and runs a sewerage system.

**Other operations** cover the fiber optic system, rental of housing and equipment, incidental sale of specialist consultancy services and more.

The Group is income taxed and collects value added tax, except for operations regarding cold water and sewer but they are regulated by law no. 33/2004 concerning cold water suppliers of municipalities and law no. 9/2009 concerning the operations of sewer. The provision of hot water supply is subject to law no. 58/1967, concerning earnings from hot water. The distribution of electricity is subject to law no. 65/2003, which stipulates revenue caps that are decided by the National Energy Authority.

# Notes

## 7. Segment reporting, contd.

Sector	Official obligations
Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	Price rates are subject to authorisation from The National Energy Authority. Rates are officially published.
Electricity, production	Energy sales are subject to the open market, electricity rate changes are therefore not subject to government approval.
Cold water	The legal limitation on the upper limit of the rate is 0,5% of the real estate value. Rates are officially published in the Law and Ministerial Gazette.
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fiber-optic data system	This is a competitive practice that is supervised by The Post and Telecom Administration.

### **Customers that have significant effect on the Group's revenues**

One customer of ON Power has significant effect on the Group's revenues in the year 2018. The Group's revenues from this customer represents approximately ISK 6.144 million or 11,3% of total revenues. (2017: ISK 5.699 million, or 13,0% of total revenue).

# Notes

## 7. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities*, that represent licensed operations in hot and cold water, distribution of electricity and sewage, *ON Power*, representing the competitive operations in producing and sale of electricity and hot water and *Other Operation*, that represents the activities of the parent company and the fiber optic operations. The parent company's main activities is providing service to subsidiaries, rental of housing and equipment, incidental sale of specialist consultancy services and more. Reykjavik fiber network represents the fiber optic operations. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 41.

### Business segments - divisions

The year 2018	Utilities	ON Power	Other Operation	Adjust- ments	Total
External revenue .....	28.547.607	14.362.387	3.006.220	0	45.916.215
Inter-segment revenue .....	3.271.509	4.571.879	7.471.011	( 15.314.399)	( 0)
Total segment revenue .....	31.819.116	18.934.266	10.477.231	( 15.314.399)	45.916.215
Segment operation expenses .....	( 16.091.802)	( 8.201.064)	( 8.321.032)	15.314.399	( 17.299.499)
Segment profit EBITDA .....	15.727.314	10.733.202	2.156.199	0	28.616.715
Depreciation and amortisation .....	( 5.284.361)	( 3.610.586)	( 1.375.998)	0	( 10.270.945)
Segment results, EBIT .....	10.442.953	7.122.616	780.202	0	18.345.771
Financial income and expenses .....	( 3.376.721)	( 907.649)	( 1.927.908)	( 7.540.981)	( 13.753.258)
Share in profit of associated companies .....	0	0	6.033	0	6.033
Income tax .....	( 850.526)	( 1.060.552)	491.518	2.799.409	1.379.848
Profit for the year .....	6.215.706	5.154.415	( 650.155)	( 4.741.572)	5.978.394
<b>The year 2017</b>					
External revenue .....	27.539.612	13.413.286	2.712.618	0	43.665.516
Inter-segment revenue .....	3.436.704	4.131.164	6.136.320	( 13.704.189)	( 0)
Total segment revenue .....	30.976.316	17.544.451	8.848.938	( 13.704.189)	43.665.516
Segment operation expenses .....	( 14.862.025)	( 7.893.501)	( 8.233.739)	13.704.189	( 17.285.077)
Segment profit EBITDA .....	16.114.291	9.650.949	615.199	0	26.380.439
Depreciation and amortisation .....	( 4.887.463)	( 3.028.130)	( 1.147.249)	0	( 9.062.842)
Segment results, EBIT .....	11.226.828	6.622.820	( 532.050)	0	17.317.597
Financial income and expenses .....	( 2.798.882)	( 3.988.254)	( 1.675.650)	12.543.221	4.080.434
Share in profit of associated companies .....	0	0	1.926	0	1.926
Income tax .....	( 999.372)	( 530.209)	752.518	( 4.551.145)	( 5.328.209)
Profit (loss) for the year .....	7.428.573	2.104.356	( 1.453.256)	7.992.075	16.071.749

# Notes

## 7. Segment reporting, contd.

### Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust- ments	Total
<b>Balance sheet (31.12.2018)</b>					
Property, plant and equipment and intangible assets .....	152.659.606	122.261.566	30.661.209	0	305.582.381
Other assets .....	17.305.051	7.786.039	159.058.806	( 149.643.402)	<u>34.506.493</u>
					<u>340.088.874</u>
Loans and borrowings .....	62.300.634	58.219.127	155.477.198	( 124.713.088)	151.283.871
Other liabilities .....	11.189.885	8.310.387	30.092.174	( 21.614.674)	<u>27.977.771</u>
					<u>179.261.642</u>
<b>Investments</b>					
Property, plant and equipment and intangible assets .....	6.948.654	4.694.831	4.716.621	0	16.360.107
<b>Balance sheet (31.12.2017)</b>					
Property, plant and equipment and intangible assets .....	151.079.915	101.169.408	27.354.869	0	279.604.192
Other assets .....	16.477.990	9.122.671	152.422.891	( 147.074.687)	<u>30.948.866</u>
					<u>310.553.057</u>
Loans and borrowings .....	63.237.820	55.752.375	148.520.208	( 123.031.634)	144.478.770
Other liabilities .....	10.061.653	6.806.484	30.993.447	( 25.020.821)	<u>22.840.763</u>
					<u>167.319.533</u>
<b>Investments</b>					
Property, plant and equipment and intangible assets .....	6.314.920	2.627.265	9.766.211	0	18.708.396

# Notes

## 8. Analysis of geothermal power plant operation

Return analysis of production of electricity and hot water, cf. Article 41, paragraph 5 of law no. 65/2003:

	Electricity 2018	Hot water 2018	Electricity 2017	Hot water 2017
<b>Geothermal power plant</b>				
Revenue .....	10.460.670	3.907.206	8.477.229	3.499.470
Operating expenses .....	( 2.115.614)	( 905.204)	( 1.798.868)	( 832.216)
Depreciation and amortisation .....	( 2.689.919)	( 899.497)	( 2.562.145)	( 745.373)
Profit before financial expenses .....	5.655.136	2.102.505	4.116.217	1.921.881
Return on investment .....	7,0%	8,8%	5,2%	8,8%

The power plants at Hellisheiði and Nesjavellir are mixed production plants, where both hot water and energy are produced.

The cost allocation is based on ON Power's methods, that the National Energy Authority "NEA" has not approved. NEA is obligated to set new cost allocation rules after having disapproved ON Power's proposal, NEA has not yet carried this out. Until NEA sets new rules for cost allocation, the return of the sectors are reported using ON Power's methods.

## 9. Salaries and salary related expenses

	2018	2017
Salaries and salary related expenses are specified as follows:		
Salaries .....	5.825.605	5.178.623
Defined contribution pension expenses .....	780.361	690.885
Defined contribution pension expenses paid to Bru Pension Fund .....	31.875	1.104.250
Defined benefit pension expenses .....	104.576	42.206
Other salary related expenses .....	551.389	493.704
Total salaries and salary related expenses .....	7.293.806	7.509.667

Salaries and salary related expenses are stated in the financial statements as follows:

Expensed in the income statement .....	6.178.487	6.599.901
Capitalised on projects .....	1.115.319	909.767
Total salaries and salary related expenses .....	7.293.806	7.509.667

Number of employees:

Number of annual working units .....	558	520
--------------------------------------	-----	-----

Management's salaries and benefits for the parent company and subsidiaries are specified as follows:

Salaries to the Board of Directors of the Parent Company .....	16.202	15.629
Salaries of the CEO of the Parent Company 1) .....	36.105	28.641
Salaries of three Managing Directors of the Parent Company .....	70.696	64.439
Salaries to the Board of Directors of three subsidiaries .....	28.384	25.745
Salaries of three Managing Directors of subsidiaries .....	80.448	73.030
Termination expenses, pension expenses included 2) .....	18.077	0
	249.911	207.483

1) There were two CEO of the Parent Company for two months in the year 2018 due to internal inspection of workplace culture of Orkuveita Reykjavíkur.

2) The manager of Orka náttúrunnar ohf. left his position at year-end 2018. Salaries and salary related expenses were all expensed in P/L upon his departure.



# Notes

## 10. Auditors fee

	2018	2017
Audit of financial statements and review of interim financial statements .....	24.007	20.789
Other services .....	9.714	11.974
Total auditors fee .....	33.721	32.763

## 11. Depreciation, amortisation and impairment

	2018	2017
Depreciation, amortisation and impairment is specified as follows:		
Depreciation of property, plant and equipment cf. note 14 .....	10.117.272	8.956.759
Amortisation of intangible assets, cf. note 15 .....	153.673	106.083
Depreciation, amortisation and impairment expensed in income statement .....	10.270.945	9.062.842

## 12. Financial income and expenses

	2018	2017
Financial income and expenses are specified as follows:		
Interest income .....	380.992	651.108
Interest expense and paid indexation .....	( 4.313.317)	( 3.560.464)
Indexation .....	( 1.881.751)	( 851.326)
Guarantee fee to owners 1) .....	( 716.334)	( 758.706)
Total interest expenses .....	( 6.911.403)	( 5.170.497)
Fair value changes of embedded derivatives in electricity sales contracts .....	( 7.540.981)	12.543.221
Fair value changes of assets available for sale .....	15	0
Fair value changes of financial assets and financial liabilities through P/L .....	( 186.784)	27.534
Fair value changes of hedge contracts .....	2.777.686	1.406.064
Hedge contracts .....	( 2.318.375)	( 2.732.072)
Foreign exchange difference .....	9.760	( 2.646.686)
Dividends .....	35.831	1.763
Total of other income (expenses) on financial assets and liabilities .....	( 7.222.848)	8.599.823
Total financial income and expenses .....	( 13.753.258)	4.080.434

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavíkur in 2005. The fee on yearly basis for its licensed operations is 0,91% (2017: 0,87%) and 0,58% (2017: 0,58%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 716 million in the year 2018 (2017: ISK 759 million) and is accounted for among interest expenses.

### Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 41. Change in fair value that is expensed in the income statement amounts to ISK 4.950 million in the year 2018 (2017: income ISK 13.977 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 7.728 million expense in the year 2018 (2017: income ISK 12.571 million).

# Notes

## 13. Income tax

The Group's companies are tax liable according with Article 2 of law no. 90/2003 on income tax. The part of the Group's operation concerning operation of cold water supply and sewer is though exempt from income tax. The parent Company's tax rate is 37,6%, other taxable subsidiaries have a 20% tax rate.

Income tax recognised in the income statement is specified as follows:	2018	2017
Current income tax .....	1.497.031	1.386.415
Change in deferred income tax .....	( 2.876.879)	3.941.793
Income tax recognised through P/L .....	( 1.379.848)	5.328.209

Reconciliation of effective tax rate:	2018		2017	
Profit before income tax .....		4.598.545		21.399.958
Income tax according to tax ratio of parent .....	37,6%	1.729.053	36,0%	7.703.985
Effect of tax rates of subsidiaries .....	( 41,1%) (	1.889.989) (	5,7%) (	1.227.549)
Effect of valuation of impairment of deferred tax losses .....	0,3%	12.158	0,5%	98.000
Non-taxable operation of water supply and sewer .....	( 23,0%) (	1.057.168) (	5,8%) (	1.235.196)
Effect of different functional currencies in the Group .....	( 1,39%) (	63.864)	1,2%	3.293
Effect of adjustments of operating revenue 1.1. ....	( 2,58%) (	118.581)	0,0%	0
Effect of change in tax rate .....	0,0%	0	0,1% (	18.261)
Other items .....	0,19%	8.542	0,0%	3.938
Effective income tax .....	( 30,0%) (	1.379.848)	24,9%	5.328.209

### Income tax recognised in other comprehensive income

#### Deferred tax

Due to income and expenses moved direct to equity	2018	2017
Tax effect of revaluation .....	1.677.828	1.527.875
Deferred tax, total .....	1.677.828	1.527.875

# Notes

## 14. Property, plant and equipment

	Production system	Utility system	Other real estates	Other equipment	Total
<b>The year 2018</b>					
<b>Cost or deemed cost</b>					
Balance at year beginning .....	225.610.766	296.836.009	7.915.813	2.675.184	533.037.772
Reclassification of assets .....	2.361	3.566	( 5.927)	0	0
Additions during the year .....	6.110.808	8.709.948	342.907	650.751	15.814.415
Translation difference .....	17.169.416	0	1.237	38.578	17.209.231
Sold or disposed of .....	( 671.371)	( 6.576)	0	( 67.591)	( 745.537)
Revaluation, increase .....	12.218.466	0	0	0	12.218.466
Balance at year end .....	260.440.447	305.542.948	8.254.030	3.296.922	577.534.348
<b>Depreciation</b>					
Balance at year beginning .....	93.588.728	159.664.516	401.597	1.386.244	255.041.084
Reclassification of assets .....	98	24	( 121)	0	0
Depreciated during the year .....	4.802.256	4.860.392	144.609	310.016	10.117.272
Translation difference .....	5.586.849	0	483	3.125	5.590.457
Sold or disposed of .....	( 586.769)	0	0	( 39.883)	( 626.651)
Revaluation, increase .....	3.829.329	0	0	0	3.829.329
Balance at year end .....	107.220.489	164.524.931	546.567	1.659.502	273.951.489
<b>Carrying amounts</b>					
At 1.1. 2018.....	132.022.038	137.171.493	7.514.216	1.288.940	277.996.688
At 31.12. 2018.....	153.219.958	141.018.017	7.707.463	1.637.421	303.582.858
Thereof assets under construction at year end.....	2.234	0	0	0	2.234
<b>The year 2017</b>					
<b>Cost or deemed cost</b>					
Balance at year beginning .....	223.906.578	272.482.897	1.957.032	2.210.408	500.556.916
Reclassification of assets .....	61.223	61.195	( 122.418)	0	0
Additions during the year .....	3.846.101	8.069.198	6.082.072	501.211	18.498.581
Translation difference .....	( 11.354.448)	0	( 872)	( 8.879)	( 11.364.199)
Sold or disposed of .....	0	( 11.465)	0	( 27.556)	( 39.021)
Revaluation, increase .....	9.151.311	16.234.184	0	0	25.385.495
Balance at year end .....	225.610.766	296.836.009	7.915.813	2.675.184	533.037.772
<b>Depreciation</b>					
Balance at year beginning .....	88.296.093	145.943.833	355.851	1.138.391	235.734.169
Reclassification of assets .....	2.093	3.055	( 5.149)	0	0
Depreciated during the year .....	4.203.987	4.434.957	51.216	266.600	8.956.759
Translation difference .....	( 3.429.934)	0	( 322)	( 1.304)	( 3.431.560)
Sold or disposed of .....	0	0	0	( 17.443)	( 17.443)
Revaluation, increase .....	4.516.488	9.282.671	0	0	13.799.159
Balance at year end .....	93.588.728	159.664.516	401.597	1.386.244	255.041.084
<b>Carrying amounts</b>					
At 1.1. 2017.....	135.610.485	126.539.064	1.601.181	1.072.017	264.822.746
At 31.12. 2017.....	132.022.038	137.171.493	7.514.216	1.288.940	277.996.688
Thereof assets under construction at year end.....	2.234	293.054	0	0	295.288

# Notes

## 14. Property, plant and equipment, contd.

### Revaluation

When revaluating, the relevant asset groups are measured at fair value. The aforementioned revaluation is recognised in a revaluation reserve among equity taken into account effects of deferred income tax as further explained in note 41 d. The revaluation is carried out by experts within the Group.

Revaluation was carried out for production system in electricity at year-end 2018 as part of regular revaluation of the assets of the Group. The revaluation led to an increase in book value of assets amounting to ISK 8.389 million.

Revaluation was last conducted according to the following table:

	Date of Revaluation
<b>Production systems</b>	
Hot water .....	31.12.2017
Cold water .....	31.12.2017
Electricity .....	31.12.2018
<b>Distribution systems</b>	
Hot water .....	31.12.2017
Cold water .....	31.12.2017
Sewage .....	31.12.2017
Electricity .....	31.12.2017
Fiber-optic cable system .....	31.12.2015

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Group's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within the Group. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems. Revaluation is classified as level 3 of the hierarchy of fair value, further explained in note 33.

### Information on revalued assets at year end

	Production system	Distribution system	Total
<b>31.12.2018</b>			
Revalued carrying amount .....	153.219.958	141.018.017	294.237.974
Thereof effect of revaluation .....	( 43.898.515)	( 51.501.690)	( 95.400.205)
Carrying amount before effect of revaluation .....	<u>109.321.443</u>	<u>89.516.327</u>	<u>198.837.769</u>
<b>31.12.2017</b>			
Revalued carrying amount .....	132.022.038	137.171.493	269.193.531
Thereof effect of revaluation .....	( 39.192.135)	( 53.740.138)	( 92.932.273)
Carrying amount before effect of revaluation .....	<u>92.829.903</u>	<u>83.431.356</u>	<u>176.261.258</u>

# Notes

## 14. Property, plant and equipment, contd.

### Impairment tests

Impairment tests were performed at the end of September 2018 for distribution systems and at year end for production systems and power plants in order to confirm both carrying amounts of assets and main assets under construction would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the utilities and production systems.

The recoverable amount of each sector was evaluated based on value in use. The value in use was determined by discounting the expected future cash flows at the continued use in each sector. Cash flows were based on the future cash flow of the next five years. In assessing value in use, management make the plan for business development. based on both internal and external information.

The following criteria was used in assessing the value in use:

	Year 2018					Prod. systems Power plants
	Distribution system				Sewage	
	Hot water	Electricity	Cold water	Sewage		
Revenue CAGR 2019-2023 .....	0,4%	0,5%	1,8%	1,7%	1,2%	
CAGR w.r.t. to price changes .....	1,5%	1,0%	0,8%	0,8%	0%-7,7%	
EBITDA CARG 2019-2023 .....	0,4%	-1,3%	1,9%	1,8%	1,2%	
WACC .....	4,7%	4,6%	5,3%	4,9%	4,4%-8,8%	

  

	Year 2017					Prod. systems Power plants
	Distribution system				Sewage	
	Hot water	Electricity	Cold water	Sewage		
Revenue CAGR 2018-2022 .....	1,2%	0,5%	1,6%	1,2%	2,2%	
CAGR w.r.t. to price changes .....	1,2%	1,1%	0,7%	0,8%	0%-7,3%	
EBITDA CARG 2018-2022 .....	1,8%	-1,2%	1,5%	1,2%	1,9%	
WACC .....	5,0%	5,0%	6,0%	5,3%	5,0%-8,8%	

Impairment for distribution system for utilities or hot water production is unlikely because of considerable additional value. However the test for electricity in power plants is sensitive to changes in key assumptions. If the required rate of ROCE increased by 1,25 percentage points, and other criteria are kept unchanged the calculated impairment in electricity for power plants would be ISK 1.500 million. If the projected EBITDA is 15,5% lower during the planning period and other terms are unchanged, calculated impairment would be ISK 1.000 million.

### Assets under construction

There is no indication for impairment for assets under constructions with the book value of ISK 2,2 million at year-end 2018 (2017: 295 million). Further explanation on impairment test is in note 41 h.

# Notes

## 14. Property, plant and equipment, contd.

### Rateable value and insurance value

The rateable value of the Group's assets measured in the rateable value assessment amounted to ISK 30.988 million at year end 2018 (2017: ISK 28.154 million). The fire insurance value of the company's assets amounted to ISK 42.798 million at the same time (2017: ISK 30.401 million). Among those assets are real estates capitalised among production and distribution systems. The insurance value of the Group's assets amounted to ISK 379.097 million at year end 2018 (2017: ISK 352.359 million).

### Obligations

The Group has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at year end is estimated at ISK 3.054 million (2017: ISK 3.945 million).

## 15. Intangible assets

Intangible assets are specified as follows:

	Heating rights	Software	Total
<b>The year 2018</b>			
<b>Cost</b>			
Balance at year beginning .....	1.427.031	1.702.315	3.129.346
Additions during the year .....	0	545.692	545.692
Balance at end of the year .....	1.427.031	2.248.007	3.675.038
<b>Amortisation</b>			
Balance at year beginning .....	457.768	1.064.073	1.521.842
Amortisation during the year .....	0	153.673	153.673
Balance at end of the year .....	457.768	1.217.747	1.675.515
<b>Carrying amounts</b>			
At 1.1. 2018 .....	969.263	638.242	1.607.504
At 31.12. 2018 .....	969.263	1.030.260	1.999.523
<b>The year 2017</b>			
<b>Cost</b>			
Balance at year beginning .....	1.427.031	1.492.499	2.919.530
Additions during the year .....	0	209.816	209.816
Balance at year end .....	1.427.031	1.702.315	3.129.346
<b>Amortisation</b>			
Balance at year beginning .....	457.768	957.990	1.415.759
Amortisation during the year .....	0	106.083	106.083
Balance at year end .....	457.768	1.064.073	1.521.842
<b>Carrying amounts</b>			
At 1.1. 2017 .....	969.263	534.509	1.503.772
At 31.12. 2017 .....	969.263	638.242	1.607.504

## 16. Investments in associated companies

	2018		2017	
	Share	Carrying amount	Share	Carrying amount
Íslensk Nýorka ehf. ....	28,95%	22.968	28,95%	24.681
Netorka hf. ....	38,41%	38.286	38,41%	30.514
Reykjavík Energy Grad. School hf. ....	45,00%	6.043	45,00%	6.068
Total .....		67.296		61.263

The Group's share in the profit of its associated companies amounted to ISK 6 million in 2018 (2017: profit of ISK 1,9 million).

# Notes

## 17. Investments in other companies

Investments in other companies are specified as follows:	Share	2018	2017
Landsnet hf. 1) .....	6,8%	3.795.941	3.544.133
Other shares in companies .....		63.074	62.914
Other shares in companies, total .....		<u>3.859.015</u>	<u>3.607.047</u>

Fair value of financial assets available for sale is based on generally accepted valuation methods performed by independent experts and internal experts. Fair value change of Landsnet hf. amounted to ISK 252 million in 2018 (2017: ISK 322 million) and the increase was transferred to a fair value reserve among equity. See further discussion in note 33.

1) According to provisions in the Energy laws no. 65/2003 only current owners of shares in Landsnet are allowed to assign their shares to other owners of Landsnet and are not allowed to sell their shares to other parties.

## 18. Embedded derivatives in electricity sales contracts

	2018	2017
Fair value of embedded derivatives at the beginning of the year .....	2.224.111 (	10.319.109)
Fair value changes during the year .....	( 7.540.981)	12.543.221
Fair value of embedded derivatives at year-end asset/(liability) .....	( 5.316.869)	<u>2.224.111</u>

The allocation of embedded derivatives in electricity sales contracts is specified as follows:

Non-current embedded derivatives asset/(liability) .....	( 4.270.604)	1.877.811
Current embedded derivatives, asset/(liability) .....	( 1.046.265)	346.301
Total embedded derivatives at year-end .....	( 5.316.869)	<u>2.224.111</u>

Further discussion regarding embedded derivatives can be found in note 29 c.

## 19. Other financial assets and financial liabilities

Financial assets at fair value through profit or loss:	2018	2017
<b>Non-current assets</b>		
Hedge contracts .....	<u>295.670</u>	<u>738.800</u>
<b>Current assets</b>		
Other financial assets .....	0	4.090.265
Hedge contracts .....	<u>946.717</u>	<u>36.081</u>
	946.717	4.126.346
<b>Non current liabilities</b>		
Hedge contracts .....	( 777.053)	( 737.006)
<b>Current liabilities</b>		
Hedge contracts .....	( 548.022)	( 2.898.249)

Bonds owned by Orkuveita Reykjavíkur, issued in 2009 in connection with the sale of 31,23% share in HS Orku was fully paid up during the year. Final maturity of the bond was in April 2018 but on 6 February 2018, Orkuveita Reykjavíkur received a prepayment from the new owners of the parent company of Magma Energy Sweden for the total outstanding amount of principal and accrued interest totaling USD 38,7 million. The fair value of the bond in the financial statement for the year 2017 was ISK 4.090 million or USD 39,1 million. All of OR bonds are defined at level 3 as further described in note 33.

Hedge contracts are measured by discounted future cash flow and market observable data is used in the price determination.

# Notes

## 20. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

	Tax assets	Tax liabilities	Net amount
<b>2018</b>			
Deferred tax assets/liabilities at the beginning of the year .....	1.265.410	( 11.080.041)	( 9.814.631)
Calculated income tax for the year .....	2.553.822	( 1.173.974)	1.379.848
Current tax liability .....	0	1.497.031	1.497.031
Tax effect on the revaluation account .....	0	( 1.677.828)	( 1.677.828)
Other changes .....	0	( 378.295)	( 378.295)
Deferred tax assets/(liabilities) at end of the year .....	3.819.233	( 12.813.107)	( 8.993.875)
<b>2017</b>			
Deferred tax assets/liabilities at the beginning of the year .....	3.714.879	( 8.345.332)	( 4.630.453)
Exchange difference on current tax liability .....	0	93.728	93.728
Calculated income tax for the year .....	( 3.714.879)	( 1.682.119)	( 5.396.998)
Current tax liability .....	1.265.410	188.274	1.453.685
Tax effect on the revaluation account .....	0	( 1.527.875)	( 1.527.875)
Other changes .....	0	193.282	193.282
Deferred tax assets/(liabilities) at end of the year .....	1.265.410	( 11.080.041)	( 9.814.631)

Deferred tax assets and liabilities are attributable to the following:

	31.12.2018		31.12.2017	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment .....	671.767	( 12.856.236)	757.334	( 10.969.340)
Embedded derivatives .....	1.999.143	0	0	( 836.266)
Other items .....	1.148.323	( 49.672)	508.077	426.270
Effect of carry forward taxable loss .....	0	556.849	0	715.184
Effect of write-down of taxable loss .....	0	( 464.047)	0	( 415.889)
Deferred tax assets/liabilities at year end .....	3.819.233	( 12.813.107)	1.265.410	( 11.080.041)

### Carry forward taxable loss

Based on current tax law, a carry forwards taxable loss can be used against taxable profit within 10 years from when it was incurred. Carry forwards taxable loss at year end can be used as follows:

	2018	2017
Carry forward taxable loss for the year 2008, usable until year 2018 .....	2.069.720	2.069.720
Carry forward taxable loss for the year 2009, usable until year 2019 .....	250.515	1.062.389
Carry forward taxable loss for the year 2016, usable until year 2026 .....	205.368	205.368
Carry forward taxable loss for the year 2017, usable until year 2027 .....	238.443	238.443
Carry forward taxable loss for the year 2018, usable until year 2028 .....	50.176	0
Carry forwards taxable loss at year end .....	2.814.223	3.575.921
Carry forward taxable loss for the year 2008, write-down .....	2.069.720	2.069.720
Carry forward taxable loss for the year 2009, write-down .....	250.515	9.725
Total write-down of taxable loss .....	2.320.235	2.079.445

Management has evaluated the utilization of income tax losses and made plans for taxable profit for the next years. Deferred tax assets due to the taxable loss carried forward is recognized to the extent that it is believed to be useful. Loss carried forward in the amount of ISK 2.320 million is not capitalised at the end of 2018, but at the beginning of the year it was ISK 2.079 million due to uncertainty of utilization of the tax losses. Effect of changes in the assessment of utilization of the tax losses in the year 2018 is ISK 48 million (2017: ISK 98 million).



# Notes

## 21. Inventories

	2018	2017
Inventory of materials .....	1.019.807	936.045

The Group's material inventories consist of material for maintenance, renewal and construction of the Group's production and distribution systems. A part of the inventories is defined as safety inventories, i.e. inventories that are necessary to have on hand in case of malfunction or maintenance even though their turnover is low. The value of inventories is estimated regularly. Inventories for renewal and new constructions are accounted for among property, plant and equipment as part of building cost of assets under construction.

## 22. Receivables

Trade receivables is specified as follows at year end:	2018	2017
Trade receivables, industrial consumers .....	805.832	749.112
Trade receivables, retail .....	4.801.943	4.516.643
Trade receivables, total .....	5.607.774	5.265.756
Allowance for doubtful accounts .....	( 125.264)	( 123.651)
	5.482.511	5.142.104
Other current receivables are specified as follows at year end:		
Capital income tax .....	149.369	155.999
Accrued interest income .....	92.034	80.366
Receivables from employees .....	4.533	3.669
Other receivables .....	251.049	65.826
	496.986	305.860

## 23. Cash and cash equivalents, deposits and marketable securities

Cash and cash equivalents and deposits at year end are specified as follows:	2018	2017
Bank deposits, available from three to twelve months .....	3.000.000	4.000.000
Marketable securities .....	4.223.231	2.124.722
	7.223.231	6.124.722
Bank balances available within three months .....	10.988.087	6.254.983

## 24. Equity

Equity ratio of the Group at year end 2018 is 47,3% (2017: 46,1%). Return on equity was positive by 4,0% in the year 2018 (2017: positive by 13,1%).

### Revaluation reserve

Revaluation reserve comprises of increase in the value of properties, plant and equipment after taking tax effects into account. Depreciation of the revaluated price are expensed in the income statement and transferred at the same time from the revaluation reserve account to retained earnings.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of financial statements of operations with other functional currency than ISK.

### Fair value reserve

Fair value reserve comprises change of the value of assets categorised as available for sale after taking tax effects into account.

### Equity reserve

According to the Financial Statements Act no. 3/2006, share in profit of subsidiaries and associates, which exceeds the dividends received or the dividend decided of retained earnings, is accounted for on a restricted reserve account among equity.

### Retained earnings

Dividend in the amount of ISK 1.250 million was paid to the owners of the parent Company in the year 2018. (2017: ISK 750 million).

# Notes

## 25. Loans and borrowings

Interest bearing loans are recorded using the method of amortised cost. Further information on the Group's exposure to interest rate, foreign currency and liquidity risk, see note 29. Loans and borrowings are detailed as follows:

	31.12.2018	31.12.2017
<b>Non-current liabilities</b>		
Bank loans .....	98.040.070	99.310.645
Subordinated loan from owners of the Company .....	11.650.874	12.565.579
Bond issuance .....	41.592.927	32.602.546
	<u>151.283.870</u>	<u>144.478.770</u>
Current portion on non-current liabilities .....	( 17.706.248)	( 14.667.114)
	<u>133.577.622</u>	<u>129.811.656</u>
<b>Current liabilities</b>		
Current portion on non-current liabilities .....	17.706.248	14.667.114
Total interest bearing loans and borrowings .....	<u>151.283.870</u>	<u>144.478.770</u>

### Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		31.12.2018		31.12.2017	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF .....	5.10.2027	-0,04%	10.149.953	0,00%	10.465.138
Liabilities in EUR .....	19.12.2027	0,94%	26.861.257	0,70%	35.068.085
Liabilities in USD .....	19.11.2033	3,76%	33.585.771	2,50%	24.971.612
Liabilities in JPY .....	10.5.2027	0,02%	4.542.820	0,03%	4.813.282
Liabilities in GBP .....	26.2.2024	1,91%	2.037.939	1,43%	2.259.781
Liabilities in SEK .....	5.10.2027	0,00%	3.054.356	0,00%	3.406.964
			<u>80.232.097</u>		<u>80.984.862</u>
Liabilities in Icelandic kronas:					
Indexed .....	9.5.2046	3,72%	61.526.774	3,88%	54.662.696
Non-indexed .....	5.4.2035	5,83%	9.525.000	5,55%	8.831.212
			<u>71.051.774</u>		<u>63.493.908</u>
Total interest-bearing loans and borrowings .....			<u>151.283.870</u>		<u>144.478.770</u>

Repayment on non-current liabilities are specified as follows on the next years:

#### 31.12.2018

The year 2019.....	17.706.248
The year 2020.....	14.430.015
The year 2021.....	13.731.679
The year 2022.....	17.106.717
The year 2023.....	14.836.186
Later .....	73.473.025
Total non-current liabilities, including next year's repayment .....	<u>151.283.870</u>

#### 31.12.2017

The year 2018.....	14.667.114
The year 2019.....	13.482.250
The year 2020.....	13.745.315
The year 2021.....	13.016.833
The year 2022.....	15.463.311
Later .....	74.103.947
Total non-current liabilities, including next year's repayment .....	<u>144.478.770</u>

# Notes

## 25. Loans and borrowings, contd.,

Changes in loans and borrowings in the year are specified as follows:	2018	2017
<b>Movements with payment effects</b>		
Total interest bearing loans and borrowings 1. January .....	144.478.770	147.639.446
New borrowings .....	20.562.335	13.935.902
Repayment of borrowings .....	( 22.072.703)	( 14.195.308)
New current liabilities and repayment of current liabilities .....	0	( 2.859.984)
<b>Movements without payment effects</b>		
Currency fluctuation .....	6.407.046	( 881.102)
Indexation .....	1.880.659	839.817
New borrowings .....	27.763	3.462.271
Repayment of borrowings .....	0	( 3.462.271)
Total interest bearing loans and borrowings 31. December .....	151.283.870	144.478.770

### Guarantees and pledges

The owners of the parent company are responsible, pro rata, for majority of all liabilities and obligations. The Group has not pledged its assets as guarantee for its liabilities.

### Covenants

Loans for the amount of ISK 50.365 million have certain covenants that regard repayment time as a proportion of EBITDA and as interests as a proportion of EBITDA as well as reviewing that budgets are within set limits (31.12.2017: ISK 30.025 million). Management regularly evaluate the covenants and in their view there is not risk of them being breached. At the end of the year the Group measured up to all financial covenants of loan agreements.

## 26. Retirement benefit obligation

The Group has retirement benefit obligation due to benefits of current and former employees in pension benefit plans.

The Group's accrued retirement benefit obligation amounted to ISK 710 million at year end 2018, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2017: ISK 633 million). The Group updates the obligation according to an assessment from an actuary each year when that assessment is available. Premises for life expectancy are in accordance with provisions of Regulation no. 391/1998 on obligatory insurance of pension benefits and operation of pension funds. The estimated increase in the obligation in the year is based on general increase in salaries taken into account interests. The increase of the obligation during the year is expensed in the income statement among salaries and salary related expenses. The part of the obligation that is estimated to be payable in the year 2019 is recognised among current liabilities.

	2018	2017
Retirement benefit obligation at the beginning of the year .....	633.261	616.905
Contribution due to pension payments during the year .....	( 27.733)	( 25.850)
Increase in the pension fund obligation during the year .....	104.576	42.206
Retirement benefit obligation at year end .....	710.104	633.261
Non-current component of retirement benefit obligation .....	682.404	608.261
Current component of retirement benefit obligation .....	27.700	25.000
Retirement benefit obligation at year end .....	710.104	633.261

# Notes

## 27. Current liabilities

	2018	2017
Other current liabilities is specified as follows:		
Unpaid taxes .....	276.163	285.394
Unpaid salaries and salary related items .....	1.252.189	1.122.568
Unpaid salary related items to Bru Pension Fund .....	0	1.104.250
Accrued interest expenses .....	715.955	573.448
Current component of retirement benefit obligation .....	27.700	25.000
Derivative contracts in default, see note 39 .....	740.000	740.000
Other liabilities .....	43.162	49.753
Total current liabilities .....	3.055.169	3.900.413

## 28. Risk management and financial instruments

The risk policy was updated and approved by the Board of Directors of OR at the end of year 2018. The Board's policy is that in all of the Group's operations, risks are to be considered and by that implementing efficient decision making and governance. The risk policy explains the overview and main targets of the Board in this matter. The risk policy also defines the main risk factors, measurement indicators, objectives and risk limits in the daily risk management. One of the main foundation in the risk policy is to define the risk factors which are of relevance, measure their impact and define acceptable limits when controlling them.

Decision making and control on the execution of the risk management is in the hands of a risk council. The risk council consists of the CEO, CFO, Head of risk management, Head of treasury, planning and analysis and Deputy to the CFO. It overviews for instance:

- that suitable methods are used to recognise and measure risk
- that risk monitoring systems are in place and efficient
- that the risk policy of the Board is complied with in the operations of the Group

The Risk management department oversees and controls risk. The objective of the department is to monitor, analyse and control the financial risks of the Group.

Financial risk is divided into:

- Market risk, further discussed in note 29
- Liquidity risk, further discussed in note 30
- Credit risk, further discussed in note 31
- Operational risk, further discussed in note 32

## 29. Market risk

Market risk is the risk that changes in the exchange rate of foreign currencies, aluminium price, interests and other price changes will affect the Group's income or the value of its financial instruments. With regards to the current Balance Sheet, market risk is mainly due to changes in interest, exchange rates, CPI and aluminium price but risk regarding portfolio assets such as shares in companies and bonds is minimal. The risk that weighs the most in the Group is divided into:

- a. Currency risk due to assets and liabilities in the balance sheet and cash flow in foreign currencies.
- b. Interest rate risk due to loans and contracts made by the Group
- c. Risk due to changes in the world market price of aluminium.

# Notes

## 29. Market risk, contd.

### a. Currency risk

Currency risk is the risk of changes in exchange rates having a negative effect on the Group's income. Currency risk is measured in the difference between assets and liabilities in each currency where taken into consideration all assets, liabilities and derivatives. The Risk Management department is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations. Limits on the minimum/maximum currency imbalance is cash flows for the next 5 financial years have been approved.

The Group is exposed to currency risk on sales, purchases and borrowings. Main currency exposures are in Euro (EUR), Swiss Francs (CHF), United States dollar (USD) and Icelandic kronas (ISK).

Approx. 53% of the Group's interest bearing loans are in foreign currencies. The Group has entered into long term electricity sales contracts in foreign currency (USD). The expected future revenues from these contracts on the accounting date amount to approx. ISK 77.787 million (2017: ISK 85.197 million). That amount is based on the future price of aluminium on LME (London Metal Exchange) and expectations of price development of aluminium for the next 25 years according to, an independent evaluation party CRU, as available on the accounting date.

	2018	2017	31.12.2018	31.12.2017
	Average exchange rate		Exchange rate at year end	
CHF .....	110,723	108,429	118,230	107,070
EUR .....	127,730	120,537	133,230	125,050
USD .....	108,382	106,780	116,330	104,420
JPY .....	0,980	0,951	1,057	0,928
GBP .....	144,350	137,452	148,330	140,980
SEK .....	12,455	12,515	13,020	12,712
TWI .....	166,714	160,356	174,073	162,850

# Notes

## 29. Market risk, contd.

### a. Currency risk, contd.

#### Balance sheet currency risk

The Group's exposure to currency risk is specified as follows:

31.12.2018	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
Loans and borrowings .....	( 10.149.953)	( 26.861.257)	( 33.585.771)	( 4.542.820)	( 3.054.356)		( 2.037.939)	( 80.232.096)
Trade receivables (accounts payables) .....	3.981	216.994	496.436	( 57)	( 374)	311.724	3.769	1.032.473
Bank deposits .....	441.755	3.773.145	2.204.267	173.871	183.379	53.479	360.126	7.190.022
Embedded derivatives .....			( 5.316.869)					( 5.316.869)
Hedge contracts .....	398.965	( 176.794)	( 1.694.704)	411.140	305.925		376.506	( 378.962)
Financial assets at fair value through P/L .....			0					0
Receivables/(payables) within the Group* .....		( 103.869)	( 2.840.905)			( 4.357.842)		( 7.302.616)
Loans and borrowings to related parties* .....			44.615.774			13.603.353		58.219.127
Risk of Financial instruments .....	( 9.305.252)	( 23.151.781)	3.878.228	( 3.957.866)	( 2.565.426)	9.610.714	( 1.297.538)	( 26.788.921)
Subsidiaries equity in USD** .....			63.518.091					63.518.091
Investments in other companies .....			3.795.941					3.795.941
Total risk in equity .....	( 9.305.252)	( 23.151.781)	71.192.260	( 3.957.866)	( 2.565.426)	9.610.714	( 1.297.538)	40.525.111

(\*) The functional currency of ON Power is in USD and exchange gains/losses from assets and liabilities in ISK are accounted for through P/L. In addition the exchange gains/losses for foreign assets and liabilities of the parent company towards its subsidiary, ON Power, are accounted through P/L .

(\*\*) The functional currency of ON Power is in USD and translational differences due to changes in the USD/ISK exchange rate is accounted for in equity.

# Notes

## 29. Market risk, contd.

### a. Currency risk, contd.

#### Balance sheet currency risk, contd.

31.12.2017	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	
Loans and borrowings .....	( 10.465.138)	( 35.068.085)	( 24.971.612)	( 4.813.282)	( 3.406.964)		( 2.259.781)	( 80.984.862)
Trade receivables (accounts payables) .....	( 3.881)	( 90.224)	496.016	( 9)	( 36)	426.752	( 4.183)	824.436
Bank deposits .....	405.469	491.349	713.899	153.171	41.662	65.672	70.219	1.941.440
Embedded derivatives .....			2.224.111					2.224.111
Hedge contracts .....	602.578	3.688.596	( 3.388.163)	703.434	603.581		706.749	2.916.775
Financial assets at fair value through P/L .....			4.090.265					4.090.265
Receivables/(payables) within the group* .....		( 89.425)	( 1.488.675)			( 5.310.028)		( 6.888.129)
Loans and borrowings to related parties* .....			42.050.358			13.702.018		55.752.375
Risk of Financial instruments .....	( 9.460.972)	( 31.067.790)	19.726.200	( 3.956.685)	( 2.761.757)	8.884.413	( 1.486.997)	( 20.123.589)
Subsidiaries equity in USD** .....			48.371.135					48.371.135
Investments in other companies .....			3.544.133					3.544.133
Total risk in equity .....	( 9.460.972)	( 31.067.790)	71.641.468	( 3.956.685)	( 2.761.757)	8.884.413	( 1.486.997)	31.791.679

#### Sensitivity analysis

Appreciation by 10% of the Icelandic krona against the following currencies at year-end would have increased (decreased) equity and profit or (loss) by the amounts shown below, taking into account tax effects. This analysis assumes that all other variables, in particular interest rates and aluminium prices, remain constant. Depreciation by 10% of the Icelandic krona against the above currencies would have had the equivalent, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
	<b>Profit or (loss)</b>							
The year 2018	930.525	2.315.178	( 387.823)	395.787	256.543	( 961.071)	129.754	2.678.892
The year 2017	946.097	3.106.779	( 1.972.620)	395.669	276.176	( 888.441)	148.700	2.012.359
	<b>Equity</b>							
The year 2018	930.525	2.315.178	( 7.119.226)	395.787	256.543	( 961.071)	129.754	( 4.052.511)
The year 2017	946.097	3.106.779	( 7.164.147)	395.669	276.176	( 888.441)	148.700	( 3.179.168)

# Notes

## 29. Market risk, contd.

### b. Interest rate risk

Interest rate risk is the risk of changes in interest rates having a negative effect on the Group's income. The Group is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Group's liabilities both have fixed and variable interest rates, majority being subject to variable interest rates. The risk management department monitors that interest rate risk is within preset limits and has permission to control interest rate risk with derivatives for the next 5 financial years within approved limits. On the accounting date hedges covered 84% of loans, taking into account hedges, with fixed interest rates 1 year ahead.

Interest-bearing financial assets and liabilities are specified as follows:

<b>Fixed rate instruments</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Financial liabilities .....	( 72.302.467)	( 55.788.123)
<b>Variable rate instruments</b>		
Financial liabilities .....	( 78.981.404)	( 88.690.648)
<b>Financial instruments at fair value</b>		
Bonds .....	0	4.090.265
Marketable securities .....	4.223.231	2.124.722
Hedge contracts .....	( 82.688)	( 2.860.374)
	<u>4.140.543</u>	<u>3.354.613</u>

The following table shows the calculated effect of changes in interest on one year cash flows and on the value of financial instruments measured at fair value, taken into account the effect of taxes. The analysis was done in the same way for the year 2017.

Sensitivity analysis on interest	Cash flow sensitivity analysis		Fair value sensitivity analysis	
	100 p increase	100 p decrease	100 p increase	100 p decrease
<b>31.12.2018</b>				
Embedded derivatives .....	0	0	108.615 (	110.398)
Other financial assets .....	0	0	0	0
Investments in other companies .....	0	0 (	1.285.264)	2.077.616
Hedge contracts .....	134.727 (	134.727)	649.920 (	275.457)
Interest bearing liabilities .....	( 505.481)	505.481	0	0
	<u>( 370.754)</u>	<u>370.754</u>	<u>( 526.729)</u>	<u>1.691.761</u>
<b>31.12.2017</b>				
Embedded derivatives .....	0	0 (	84.620)	94.158
Other financial assets .....	0	0 (	7.889)	7.988
Investments in other companies .....	0	0 (	1.260.016)	2.069.455
Hedge contracts .....	216.737 (	216.737)	740.447 (	773.291)
Interest bearing liabilities .....	( 567.620)	567.620	0	0
	<u>( 350.883)</u>	<u>350.883</u>	<u>( 612.079)</u>	<u>1.398.310</u>



# Notes

---

## 29. Market risk, contd.

### c. Aluminium risk

Aluminium risk is the risk that changes in the price of aluminium has a negative impact on the income of the Group.

Three electricity sales contracts are in place at the accounting date. One is with Landsvirkjun with regards of Norðurál, one is with Norðurál in regards of the aluminium plant at Grundartangi and Orkuveita Reykjavíkur and Norðurál have also made an electricity sales contract due to sale of electricity to a pending aluminium plant in Helguvík, where delivery of electricity has begun partly with delivery to Grundartangi. These electricity sales contracts are denominated in USD and the price of the electricity is connected to the market price of aluminium. Income of electricity contracts that is effected by price of aluminium is 14,4% of total revenue in the reporting year 2018 (2017: 13,9%).

To reduce risk due to aluminium prices the Group has entered into derivative contracts to reduce the fluctuation of income affected by aluminium prices. The risk management department has permission to hedge this risk within approved limits for the next 5 financial years. At the accounting date hedges amounted to 50% of expected income affected by aluminium price until 31 December 2019 (31.12 2017: 49%).

#### **Embedded derivatives in electricity sales contracts**

The aforementioned electricity sales contracts include embedded derivatives as income thereon is subject to changes in the future world market price of aluminium. In accordance with provisions of International standards on financial instruments, the fair value of embedded derivatives for Grundartangi has been measured and recognised in the financial statements and partly for the contracts with Helguvík.

As the market value of the embedded derivatives is not available their fair value has been measured with generally accepted evaluation methods. The expected net present value of the cash flow of a contract on the accounting date has been measured, based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and expectations of price development of aluminium for the next 25 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date. From the expected net present value of cash flow of the contract on the accounting date the expected net present value based on premises on aluminium price on the initial date of the contract is deducted. The difference is the fair value change of the derivative. The valuation is based on the premises that the derivative has no value at the initial date of the contract.

Embedded derivatives of the electricity sales contracts recognised in the financial statements are capitalised in the balance sheet at fair value at the accounting date and fair value changes during the year are recognised in the income statement among income on financial assets and liabilities.

# Notes

## 29. Market risk, contd.

### c. Aluminium risk, contd.

In the following table shows the calculated effect on financial instruments measured at fair value due to change in aluminium price, taking tax effect into account.

#### Sensitivity analysis on the price of aluminium

	Sensitivity of Fair value	
	10% decrease	10% increase
<b>31.12.2018</b>		
Embedded derivatives .....	( 4.437.550)	4.437.550
Aluminium hedges .....	192.401	( 164.179)
Total .....	( 4.245.149)	4.273.371

	Sensitivity of Fair value	
	10% decrease	10% increase
<b>31.12.2017</b>		
Embedded derivatives .....	( 4.718.630)	4.718.630
Aluminium hedges .....	283.041	( 306.677)
Financial assets at fair value through P/L .....	( 38.164)	38.164
Total .....	( 4.473.753)	4.450.117

### d. Other market risk

Other market risk such as interest spread and risk in shares in other companies is limited as investments in such securities is an insubstantial part of the Group's operation with the exception of liquidity management. The value of the financial assets tied up in funds or in asset management is subject to changes in the market, e.g. due to price changes in the bond- and equity markets. For further information, see note 30.

## 30. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Group's cash and cash equivalents at end of the year amounted to ISK 10.988 million and deposits available in three to twelve months amounting to ISK 3.000 million as well as marketable securities amounting to ISK 4.223 million. Therefore the Group owned ISK 18.211 million in bank deposits. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 11.000 million. The Group had thus in total ensured capital at year-end to the amount of approx. ISK 29.211 million. The corresponding amount at year end 2017 amounted to ISK 31.265 million.

# Notes

## 30. Liquidity risk, contd.

Contractual payments due to financial liabilities, including estimated interest payments, are specified as follows:  
31.12.2018

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
<b>Non-derivative financial instruments</b>						
Trade						
receivables .....	5.482.511	5.482.511	5.482.511	0	0	0
Other						
receivables .....	496.986	496.986	496.986	0	0	0
Deposits .....	3.000.000	3.000.000	3.000.000	0	0	0
Marketable						
securities .....	4.223.231	4.223.231	4.223.231	0	0	0
Cash and cash equivalents .....	10.988.087	10.988.087	10.988.087	0	0	0
Interest-bearing liabilities .....	( 151.283.870)	( 184.148.522)	( 18.170.439)	( 18.162.051)	( 55.108.120)	( 92.707.911)
Accounts payable .....	( 3.125.135)	( 3.125.135)	( 3.125.135)	0	0	0
Other liabilities .....	( 3.055.169)	( 3.055.169)	( 3.055.169)	0	0	0
	( 133.273.359)	( 166.138.011)	( 159.928)	( 18.162.051)	( 55.108.120)	( 92.707.911)
<b>Derivative financial instruments, net financial assets and financial liabilities</b>						
Embedded derivatives .....	( 5.316.869)	77.787.143	6.091.027	6.358.703	20.320.407	45.017.005
Hedge contracts .....	( 82.688)	653.808	374.216	193.424	86.168	0
	( 5.399.558)	78.440.950	6.465.243	6.552.127	20.406.575	45.017.005
<b>31.12.2017</b>						
<b>Non-derivative financial instruments</b>						
Other financial assets .....	4.090.265	4.090.265	4.090.265	0	0	0
Trade						
receivables .....	5.142.104	5.142.104	5.142.104	0	0	0
Other						
receivables .....	305.860	305.860	305.860	0	0	0
Deposits .....	4.000.000	4.000.000	4.000.000	0	0	0
Marketable						
securities .....	2.124.722	2.124.722	2.124.722	0	0	0
Cash and cash equivalents .....	6.254.983	6.254.983	6.254.983	0	0	0
Interest-bearing liabilities .....	( 144.478.770)	( 171.916.024)	( 17.749.092)	( 16.749.923)	( 50.733.669)	( 86.683.341)
Accounts payable .....	( 2.230.378)	( 2.230.378)	( 2.230.378)	0	0	0
Other liabilities .....	( 3.900.413)	( 3.900.413)	( 3.900.413)	0	0	0
	( 128.691.627)	( 156.128.880)	( 1.961.948)	( 16.749.923)	( 50.733.669)	( 86.683.341)
<b>Derivative financial instruments, net financial assets and financial liabilities</b>						
Embedded derivatives .....	2.224.111	85.196.978	7.064.112	6.837.217	20.920.136	50.375.513
Hedge contracts .....	( 2.860.374)	( 3.765.866)	( 3.033.864)	( 751.331)	19.329	0
	( 636.263)	81.431.112	4.030.248	6.085.886	20.939.465	50.375.513

If non-current loans are refinanced in order to prolong the loan terms, it can be assumed that the distribution of the repayments will be different from the above.

# Notes

## 31. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly due to whole sale electricity contracts and derivatives that the Group has entered into for hedging purposes. Possible losses due to unpaid receivables are insubstantial and have limited effect on the Group's return. The Group disregards the financing factors of receivables that are expected to be collected within a year according to authorization in IFRS 15.

When entering into contracts it shall be insured, as possible, that the counterparty is trustworthy and settlement with large counterparties shall be looked into regularly as well as their credit rating.

The carrying amount of financial assets represents the maximum credit exposure, which is specified as follows:

	31.12.2018	31.12.2017
Trade receivables .....	5.482.511	5.142.104
Other current receivables .....	496.986	305.860
Other financial assets .....	0	4.090.265
Hedge contracts .....	1.242.387	774.880
Deposits .....	3.000.000	4.000.000
Marketable securities .....	4.223.231	2.124.722
Cash and cash equivalents .....	10.988.087	6.254.983
Total .....	<u>25.433.202</u>	<u>22.692.815</u>

Financial assets as stated above are categorised at amortised cost or at fair value through P/L. Their categorisation can be seen in note 34.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

Trade receivables, industrial consumers .....	805.832	749.112
Trade receivable, retail .....	4.676.679	4.392.992
	<u>5.482.511</u>	<u>5.142.104</u>

### Impairment of accounts receivables

The year 2018	Gross balance	Impairment	Book value
Not past due receivables .....	5.007.040	64.764	4.942.277
Past due, 1 to 30 days .....	433.045	8.821	424.225
Past due, 31 to 90 days .....	89.879	9.563	80.316
Past due, 91 days and older .....	77.809	42.116	35.693
Total .....	<u>5.607.774</u>	<u>125.264</u>	<u>5.482.511</u>

The year 2017	Gross balance	Impairment	Book value
Not past due receivables .....	5.058.013	102.152	4.955.860
Past due, 1 to 30 days .....	61.242	5.972	55.270
Past due, 31 to 90 days .....	57.528	8.341	49.187
Past due, 91 days and older .....	88.973	7.186	81.787
Total .....	<u>5.265.756</u>	<u>123.651</u>	<u>5.142.104</u>

# Notes

---

## 31. Credit risk, contd.

Changes in impairment of accounts receivables is specified as follows:	2018	2017
Balance at year beginning .....	123.651	149.201
Receivables written off .....	31.085	48.692
Impairment .....	( 29.473)	( 74.241)
Balance at year end .....	<u>125.264</u>	<u>123.651</u>

Allowance due to receivables is valuated at each reporting date by management. Collectability is valuated both in general using historic evidence and economic conditions and also specifically for receivables that are in default. Allowance is only deemed necessary for trade receivables.

Receivables due to sewage and cold water have statutory lien in properties and therefore allowance is not considered for those claims.

The Customer Services department governs the collection of receivables and supplies customers with information regarding claims. Collection is done in a well defined process where among other things, consistency in procedures is maintained as much as possible.

Impairment of accounts receivables is among other operating expenses in P/L.

## 32. Operational risk

Operational risk is the risk of negative impact on income as the result of natural disasters, weather, sabotage, terrorism, riots, war, poisoning, pollution, breakdowns, fires, accidents, inadequate information systems, administrative error, inadequate controls, prosecutions, fraud and human error. The risk management department assesses operational risk and monitors known operational risks of the Group and measures on a regular basis, if possible.

# Notes

## 33. Fair value

### Comparison of fair value versus carrying amounts

The carrying amounts of financial assets and financial liabilities is equal to their fair value with the exception that interest bearing loans are stated at amortised cost. The fair values of interest bearing liabilities, together with the carrying amounts are specified as follows:

	31.12.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities .....	151.283.870	153.218.591	144.478.770	139.681.314

The fair value of interest bearing liabilities is calculated based on present value of future principal and interest cash flows, discounted at the interest rate plus appropriate interest rate risk premium at the reporting date. The fair value of interest bearing liabilities is defined at Level 2.

### Interest rates used for determining fair value

Where applicable, the interest yield curve at the reporting date is used in discounting estimated cash flow. The interests are specified as follows:

	31.12.2018	31.12.2017
Embedded derivatives in electr. sales contr. ....	3,72% to 5,83%	3,12% to 6,31%
Financial assets at fair value through P/L .....	0,00%	5,34%
Hedge contracts .....	-0,7% to 2,8%	-0,9% to 6,9%
Interest bearing liabilities .....	1,19% to 7,94%	2,09% to 13,02%

### Fair value hierarchy

The table below analysis financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). Valuation of shares in other companies is prepared by specialists within the company and other specialists and based on the results and official data on future earnings and investments in underlying assets.

	Level 1	Level 2	Level 3	Total
<b>31.12.2018</b>				
Shares in companies .....	0	0	3.859.015	3.859.015
Embedded derivatives in sales contracts .....	0	0 (	5.316.869) (	5.316.869)
Other financial assets .....	0	1.242.387	0	1.242.387
Other financial liabilities .....	0 (	1.325.075)	0 (	1.325.075)
Marketable securities .....	4.223.231	0	0	4.223.231
	4.223.231 (	82.688) (	1.457.854)	2.682.689
<b>31.12.2017</b>				
Shares in companies .....	0	0	3.607.047	3.607.047
Embedded derivatives in sales contracts .....	0	0	2.224.111	2.224.111
Other financial assets .....	0	774.880	4.090.265	4.865.146
Other financial liabilities .....	0 (	3.635.255)	0 (	3.635.255)
Marketable securities .....	2.124.722	0	0	2.124.722
	2.124.722 (	2.860.374)	9.921.423	9.185.771

# Notes

## 33. Fair value, contd.

Changes in assets and liabilities defined at level 3 is specified as follows:	2018	2017
Balance at year beginning .....	9.921.423 (	2.942.100)
Sold/redemption .....	( 3.903.481)	0
Valuation changes .....	( 7.475.796)	12.863.523
Balance at year end .....	( 1.457.854)	9.921.423

Embedded derivatives in electric sales contracts that have more than ten years duration is classified under level 3 due to the fact that the forward market for aluminium only reaches maximum of ten years.

### Fair value measurement

A part of the Group's financial assets and financial liabilities are measured at fair value. Fair value of these assets and liabilities are determined by market data or price in recent transactions if that is available. Otherwise, accepted valuation methods are used. Further information on fair value calculations can be found in the discussion of the relevant assets and liabilities in notes 17, 18 and 19.

## 34. Overview of financial instruments

Financial assets and financial liabilities are specified in the following financial groups:

	31.12.2018			31.12.2017		
	Amortised cost	Financial asset/ financial liability at fair value through P/L	Financial asset/ financial liability at fair value through OCI	Amortised cost	Financial asset/ financial liability at fair value through P/L	Financial asset/ financial liability at fair value through OCI
Shares in other companies .....			3.859.015			3.607.047
Embedd. contr. ...	(	5.316.869)		2.224.111		
Bonds .....		0		4.090.265		
Hedge contr. ....		1.242.387		774.880		
Trade receivabl. ..	5.482.511			5.142.104		
Other receivabl. ..	496.986			305.860		
Prepaid exp. ....	307.939			162.174		
Bank deposits ..... and marketable securities .....	3.000.000	4.223.231		4.000.000	2.124.722	
Cash .....	10.988.087			6.254.983		
Interest-bearing .. liabilities .....	( 151.283.870)			( 144.478.770)		
Hedge contr. ....	(	1.325.075)		(	3.635.255)	
Account payabl. ..	( 3.125.135)			( 2.230.378)		
Deferred revenue (	162.980)			0		
Other current liabilities .....	( 3.055.169)			( 3.900.413)		
	( 137.351.631)	( 1.176.326)	3.859.015	( 134.744.440)	5.578.724	3.607.047

# Notes

## 35. Property leases

### OR as lessee - factors of the lease agreement

The Group has lease agreements for office premises. Total commitment due to the leases until the year 2023 amounts to ISK 191 million (2017: ISK 240 million). Figures below are not discounted.

#### Lease payments:

	2018	2017
Within a year .....	66.551	128.469
After 1 to 5 year .....	124.249	111.819
	190.800	240.287
Expected future income from subleases .....	0	85.994

### OR as a lessor

OR had sublease agreements on part of the leased properties. These agreements have all been cancelled during the year 2018 and therefore there are no expected future income from subleases in the year 2019 or later.

#### Expected future income from leases due to lease agreements

	2018	2017
Within a year .....	0	45.174
After 1 to 5 year .....	0	40.820
	0	85.994

## 36. Related parties

### Definition of related parties

Reykjavik city, institutions and companies ruled by the city, associated companies, Board members, Directors and key management are considered as the Group's related parties. Spouses of the before mentioned and financially dependent children are also considered as related parties as well as companies owned by or directed by those in question.

### Transactions with related parties

The parties mentioned here above have had transactions with the Group within the last year. Terms and conditions of these transactions were equivalent with transactions with unrelated parties.

The following gives an overview of the transactions with related parties during the last two years as well as a statement of receivables and payables. Transactions and positions with subsidiaries are eliminated in the financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

#### Sale to related parties:

	2018	2017
Reykjavik City .....	1.749.885	1.652.428
Institutions and companies controlled by Reykjavik City .....	572.562	575.157
	2.322.448	2.227.584

#### Purchases from related parties:

Reykjavik City .....	138.016	49.204
Institutions and companies controlled by Reykjavik City .....	11.273	10.472
Associates .....	54.136	52.143
	203.425	111.818

#### Receivables for related parties:

Reykjavik City .....	142.723	143.222
Institutions and companies controlled by Reykjavik City .....	43.122	38.090
	185.845	181.311

#### Payables for related parties:

Reykjavik City .....	352.786	175.622
Institutions and companies controlled by Reykjavik City .....	1.373	3.050
Associates .....	418	0
	354.577	178.673



# Notes

## 36. Related parties, contd.

	2018	2017
Interest bearing loans from owners of the parent Company:		
Reykjavik City .....	10.898.111	11.753.717
Akranes town .....	644.060	694.625
Borgarbyggð, municipality .....	108.703	117.237
	<u>11.650.874</u>	<u>12.565.579</u>
Interest expense on loans from owners of the parent Company:		
Reykjavik City .....	1.102.730	1.176.746
Akranes town .....	64.930	69.133
Borgarbyggð, municipality .....	10.959	11.668
	<u>1.178.619</u>	<u>1.257.547</u>

### Guarantee fee to owners

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavik City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 12. Management's salaries and benefits are listed in note 9.

## 37. Group entities

Subsidiaries	Main operation	Share	
		31.12.2018	31.12.2017
Gagnaveita Reykjavíkur ehf.	Data transfer	100,0%	100,0%
OR Eignir ohf.	Holding company	100,0%	100,0%
Veitur ohf.	Distribution of electricity and hot water	100,0%	100,0%
Orka náttúrunnar ohf.	Sale of electricity	100,0%	100,0%
OR vatns- og fráveita sf.	Cold water and sewage	100,0%	100,0%
Reykjavík Energy Invest ehf.	Investments	100,0%	100,0%
Úlfjótsvatn frítímabyggð ehf.	Preparation company	100,0%	100,0%
Foss fasteignafélag slhf.	Operation of real estate	100,0%	100,0%

In December 2018, the decision was made to wind-up Foss fasteignafélag slhf. and allocate its assets to the parent company, Orkuveita Reykjavíkur. A Winding-up Committee was elected at the shareholders' meeting and certified by the Annual Accounts Register in January 2019. The winding-up is expected to be completed in the second quarter of 2019.

## 38. Statement of cash flows

	2018	2017
Working capital from operation is specified as follows:		
Profit for the year .....	5.978.394	16.071.749
Operating items that do not affect cash flow:		
Depreciation .....	10.270.945	9.062.842
Profit from sale of assets .....	( 321.354)	( 2.219)
Profit from sale of investments in other companies .....	( 15)	0
Share in profit (loss) of associated companies .....	( 6.033)	( 1.926)
Pension liability change .....	76.843	16.356
Write-down of bonds .....	186.784	( 27.534)
Currency fluctuation and indexation .....	2.172.907	5.275.950
Embedded derivatives in electricity contracts .....	4.705.572	( 8.027.661)
Deferred tax liability .....	1.539.651	( 678.051)
Hedge contracts .....	411.130	23.010
Fair value changes .....	( 350.886)	( 445.008)
Effects of currency fluctuation on cash and cash equivalents .....	( 374.249)	23.435
Other items .....	47.327	1.734
Working capital from operation .....	<u>24.337.015</u>	<u>21.292.676</u>

# Notes

---

## 39. Other matters

### **Derivative contracts in default**

Among other current liabilities are derivative contracts accounted for that are in default. The contracts have not been settled and Orkuveita Reykjavíkur has recently been sued regarding the claims. Great uncertainties is on how to settle them. In previous periods ISK 740 million have been expensed. This action is in no way an admittance of the debt on Orkuveita Reykjavíkur's behalf and the amount can either increase or decrease when the contracts are settled. The contracts are accounted for among other current liabilities. See in note 27.

### **Repair at headquarters**

At the end of August 2015, severe water damage occurred at the company's headquarters on Bæjarháls 1. Various options are being considered for renovations of the house and the estimated cost for the different options are estimated ISK 1.500-2.380 million. No decision has been made on the different alternatives.

## 40. Subsequent events

Subsequent events. On March 5th 2019, a lawyer from Gagnaveita Reykjavíkur sent a claim for financial compensation to Síminn hf. regarding a loss that Gagnaveita Reykjavíkur considers to have suffered due to Síminn hf's violation of the Media Act. The Post and Telecom Administration in Iceland published a decision in this regard on July 3rd, 2018. The claim amounts to approximately ISK 1,3 billion due to a loss in income, costs and interest. Síminn hf. was asked to formally react to the claim. Síminn hf's spokesmen have not formally reacted but they have publicly dismissed the claim. The decision of the Post and Telecom Administration resulted in Síminn hf. taking the case to court. No conclusion has been reached and nothing has been filed in the company's financial statements for 2018 in relation to this claim.

# Notes

---

## 41. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### a. Basis of consolidation

#### i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are entered in the Group's financial statements by using the equity method.

Associated companies are reported at original cost, including business cost. After the original transaction the share of the Company is reported until significant influence ceases or joint control is concluded.

#### iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### b. Foreign currency

#### i Trade in foreign currencies

Trade in foreign currencies is reported into each consolidation company at the rate of the business day. Monetary assets and debts in foreign currencies are reported in the rate of the reporting date. Other assets and debts reported at fair value in foreign currency are reported at the rate of the day the fair value was set. Exchange difference due to foreign trade is reported through P/L.

#### ii Subsidiary with other currencies than the Icelandic krona

Assets and debts in the operations of a company of the consolidated financial statements that has USD as its functional currency are calculated into Icelandic kronas at the rate of the reporting date. Income and expenses of this companies operation is calculated into Icelandic kronas at the average exchange rate of the year. The exchange difference due to this is reported in a special account in the statement of comprehensive income. When operations with another functional currency than the Icelandic krona are sold, partly or in full, the accommodating exchange difference is recognised in P/L.

# Notes

---

## 41. Significant accounting policies, contd.

### c. Financial instruments

#### i) Non-derivative financial assets

Loans, receivables and cash in bank are recognised when received. All other financial instruments are recognised in the financial statements when the Company becomes a party of contractual provisions of the relevant financial instruments.

Financial assets are eliminated from the financial statements if the Company's contractual right to cash flow due to the financial asset expires or if the Group transfers the assets to another party without retaining control or nearly all risk and gain inherent with their ownership. Any interest in transferred financial assets that is created or retained by the group is recognized as a separate asset or liability.

Non-derivative financial instruments comprise of; financial assets at fair value through OCI, financial assets at fair value through P/L and financial assets at amortised cost.

#### Financial assets at fair value through OCI

The Group's investments in equity securities are classified as financial assets at fair value through OCI. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses for monetary items are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Fair value changes recognised under equity are derecognised when the financial asset at fair value through OCI is derecognised.

#### Financial assets at fair value through profit or loss

A Financial asset is classified at fair value through profit or loss if it is current asset or if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if purchase and sale decisions are based on their fair value in accordance with the Company's risk policy or investment plan. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Direct transaction cost is recognised in the income statement as it is incurred.

#### Financial assets at amortised cost

Financial assets at amortised cost are financial assets with certain or determinable payments and are not listed in active markets. Such assets are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial assets at amortised cost are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets at amortised cost comprise of receivables and other current assets.

Cash and cash equivalents comprise cash balances and call deposits.

#### ii) Non-derivative financial liabilities

Financial liabilities are eliminated from the financial statements when the contractual agreements of the instrument are no longer valid.

The Group classifies non-derivative financial liabilities as financial liabilities at amortised cost. Such liabilities are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

Other non-derivative financial liabilities comprise of borrowings, accounts payable and other current liabilities.

# Notes

---

## 41. Significant accounting policies, contd.

### c. Financial instruments, contd.

#### iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value in the balance sheet and fair value changes are recognised in the income statement.

#### iv) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

### d. Property, plant and equipment

#### i) Recognition and measurement

Items of property, plant and equipment, except distribution and production systems, are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Interest expenses on loans used to finance cost of buildings in construction are capitalised over the construction period. Interest is not calculated on preparation cost. After the assets have been taken into use interest expenses are expensed in the income statement.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated over their useful lives.

The Group's distribution- and production systems, are stated at revalued carrying amount in the balance sheet, which is their fair value at the revaluation date less additional depreciation from that date. Revaluation of those assets is made on a regular basis. Value surplus due to the revaluation is recognised in a revaluation reserve among equity after taking the effect on deferred tax liability into consideration. Depreciation on the revalued carrying amount is recognised in the income statement. Upon sale or discontinuance of the asset the part of the revaluation reserve belonging to the asset is transferred from the revaluation reserve to retained earnings after taking tax effect into consideration. No recognition takes place from the revaluation reserve to retained earnings unless the relevant asset is sold or discontinued.

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Company's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within and outside of the Company. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the Construction cost index. This is taken into consideration when revaluating these systems.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

# Notes

---

## 41. Significant accounting policies, contd.

### d. Property, plant and equipment, contd.

#### ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. All other cost is expensed in the income statement when incurred.

#### iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Estimated useful lives are specified as follows:

Production system .....	7-60 years
Electricity distribution systems .....	15-80 years
Heating distribution systems .....	15-60 years
Cold water distribution systems .....	15-90 years
Sewer distribution system .....	15-60 years
Fiber-optic distribution system .....	9-41 years
Other real estate .....	25-50 years
Other equipment .....	3-25 years

Depreciation methods, useful lives and scrap value are reviewed on the accounting date.

### e. Intangible assets

#### i) Heating rights

Heating rights are recognised in the balance sheet at amortised cost as intangible assets. Heating rights are separated from land up on purchase.

#### ii) Other intangible assets

Other intangible assets are measured at cost less accumulated depreciation and impairment losses.

#### iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

#### iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives is determined as follows:

Software .....	5-7 years
----------------	-----------

### f. Leased assets

#### i) The Company as a lessee

Payments of leases are expensed on straight-line basis in the lease term period unless another systematic method describes the usage of the leased item better. Uncertain lease payments from lease agreements are expensed in the period they occur.

#### ii) The Company as a lessor

Payments received from leases, both own property as well as lease-back properties, are booked on straight-line basis in the lease term period.

# Notes

---

## 41. Significant accounting policies, contd.

### g. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### h. Impairment

#### i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value at each time. The Group defines decrease in fair value below cost as a subjective indication of impairment of available-for-sale financial assets when:

- decrease is 15% below cost or
- fair value decrease lasts for at least six months.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

#### ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment is recognized if the carrying amount of an asset or a cash generating unit exceeds its estimated recoverable amount. A cash generating unit is the smallest separable group of assets that form a cash flow that is mostly independent of other units or groups of units. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

# Notes

---

## 41. Significant accounting policies, contd.

### i. *Employee benefits*

#### i) *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised in the income statement when they are due.

#### ii) *Defined benefit plans*

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method. Changes in the obligation are recognised in the income statement as incurred.

### j. *Obligations*

An obligation is recognised in the balance sheet when the Group has the legal right or has entered into an obligation due to previous events and it is likely that it will incur cost upon settling the obligation. The obligation is measured on the basis of the estimated future cash flow, discounted based on interests reflecting market interests, and the risk inherent with the obligation.

### k. *Revenue*

#### i) *Revenues from sale and distribution of electricity and hot water*

Revenue from the sale and distribution of electricity and hot water is recognised in the income statement according to measured delivery to purchasers during the year plus a fixed fee.

The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. The revenue cap is based on actual figures from prior years from the operation of distribution utilities, the depreciation of assets, real losses in the distribution system and return on equity. When setting the revenue cap financial income and expenses are not taken into account. The rate is decided from the revenue cap and projections of sale of electricity in the Group's utilities area.

#### ii) *Revenues from sale of cold water and sewage*

Revenue from the sale of cold water and sewage are based on the size of properties plus a fixed fee and are set forth linearly in the income statement. In addition revenue is stated for cold water according to measurement from specific industries.

#### iii) *Connection revenues*

Upon connection of new users to distribution systems of electricity, water and sewage or upon renewal of connection an initial fee is charged. The initial fee meets cost due to new distribution systems or their renewal. Income on connection fees is recognised in the income statement upon delivery of the service.

#### iv) *Rental income*

Rental income is recorded as income in the income statement linearly over the lease term.

#### v) *Other revenues*

Other revenue is recognised when generated or upon delivery of goods or services.



# Notes

---

## 41. Significant accounting policies, contd.

### **i. Financial income and expenses**

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gain and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement. Borrowing cost is recognised in the income statement based on effective interests.

Effective interest is the required rate of return used when discounting estimated cash flow over the estimated useful life of a financial instrument or a shorter period when applicable, so that it equals to the book value of the financial asset or liability in the balance sheet.

Currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

### **m. Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The income tax ratio for the parent company is 37,6% and the tax ratio for the subsidiaries is 20,0%. Cold water supply and sewage is exempt from tax.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax was measured in accordance with the current tax rate, which is 37,6% for the parent company that is a partnership and 20,0% for the subsidiaries that are companies with limited liability.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **n. Segment reporting**

A segment is a distinguishable component of the Group that is engaged in business and is capable to earn revenues and accept cost, both within and outside of the Group. The return of all segments is overviewed by management to value their performance.

Segment results and their assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment investments are investments in property, plant and equipment and intangible assets. Inter-segment pricing is determined on an arm's length basis.

# Notes

---

## 41. Significant accounting policies, contd.

### **o. Determination of fair value**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

The Group's CFO is responsible for overseeing all significant fair value measurements, including Level 3 fair values. Risk management, led by the CFO, regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then that information is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values can be found in relevant notes and in note 33 regarding fair value.

### **p. Property, plant and equipment**

The fair value of production- and fiber-optic systems that have undergone a revaluation is determined on the basis of the depreciated replacement cost, which consists in the assessment of changes in construction cost of comparable assets and both cost and accumulated depreciation are revalued in accordance with those changes. The results of the impairment tests are also taken into consideration and revaluation is not recognised beyond the expected future cash flow of those assets.

### **q. Investments in equity and debt securities**

The fair value of financial assets at fair value through profit or loss is determined on the basis of their market value at the reporting date. If the market value is not known the valuation is based on generally accepted valuation methods. Valuation methods can be based on known recent financial transactions between unrelated parties. In applying these valuation methods factors are considered which would be used in the respective market concerning calculation of fair value and the methods are in accordance with generally accepted methods concerning valuation of financial assets.

# Notes

---

## 41. Significant accounting policies, contd.

### r. *Derivatives*

The fair value of derivatives is based on their market value, if available. If the market value is not available the fair value is determined on the basis of generally accepted valuation methods.

Valuation methods may be based on prices in recent transactions between unrelated parties. The measurement is based on the value of other financial instruments comparable to the instrument in question, methods in order to evaluate the present value of cash flow or other valuation methods, which may be applied in order to reliably assess the real market value. When valuation methods are applied all factors are used, which market parties would use in price evaluations, and the methods are in accordance with generally accepted methods for the price evaluation of financial instruments. The Group verifies on a regular basis its valuation methods and tests them by using a price obtained in a transaction on an active market with the same instrument, without adjustments and changes, or are based on information from an active market.

The fair value of derivative agreements not listed in active markets is determined by use of valuation methods, which are regularly reviewed by qualified employees. All valuation models used must be approved and tested in order to ensure that the results reflect the data used.

The most reliable indication of the fair value of derivative agreements at the beginning is the purchase value, unless the fair value of the instruments is verifiable in comparison with other listed and recent market transactions with the same financial instrument or based on a valuation method where variables are only based on market data. When such data is available the Group recognises profit or loss at the initial registration date of the instruments.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

### s. *Trade and other receivables*

The fair value of trade and other receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date if applicable. This fair value is determined for disclosure purposes.

### t. *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## 42. New accounting standards not yet adopted

The following standard may affect the Group's financial statements when it will be applied for the first time:

### *IFRS 16 Leases*

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods starting 1 January 2019 or later. OR's management are expecting no significant impact is expected for the Group's finance leases.

# Non-Financial Information (unaudited)

---

## OR Values

The values of OR are foresight, efficiency and integrity and serve as the guiding principles of all of the activities of the company.

## Environment

Orkuveita Reykjavíkur is trusted for the resources it utilizes. The responsibility involves working on the ideology of sustainable development and ensuring sustainable utilization, namely that generations have the same opportunities as present-day generations to exploit the resources and that it can be verified that this is done. OR commits itself to seeking successful solutions where public resource utilization is weighed and evaluated in relation to other interests. OR will protect the resources from hazards and imposition, due to the responsibility of the company. OR operates according to the environmental and the resource policy, published on the company's website, [www.or.is](http://www.or.is), and is subject to independent certification under ISO 14001. A detailed article is prepared for environmental aspects of the operation in 2018 in the annual report of OR 2018, at the URL [arsskyrsla2018.or.is](http://arsskyrsla2018.or.is).

## Social issues

Orkuveita Reykjavíkur is a large company nationwide and has extensive knowledge and experience in the utilization of geothermal energy and other aspects of the company's operations. OR disseminates knowledge and encourages responsible environmental and positive impacts on society. Transparency is a key element in OR's business and makes the company fully aware of the social aspects of the business in 2018 in the annual report, OR 2018, at the URL [arsskyrsla2018.or.is](http://arsskyrsla2018.or.is).

## Human resources

At Orkuveita Reykjavíkur, people have the skills needed to perform the tasks that the company's activities require. On the OR web site, [www.or.is](http://www.or.is), you can find employee policy, remuneration policy and the employee KPI. OR ensures that employees enjoy equal rights, in accordance with the Gender Equality Policy and Equal Opportunities. OR's employee Policy is based on the company's values and overall policies and is set in accordance with the Company's corporate governance policy. The company reports on human resources in 2018 in the annual report, OR 2018, at [arsskyrsla2018.or.is](http://arsskyrsla2018.or.is)

## Corruption, bribery and human rights

At OR there are registered work procedures for the processing of issues when a staff member is alleged to have violated company rules or committed fraud at work. The rules of procedure are accessible to all employees on the company's intranet. These specify what are considered to be deviations or violations at work. If an employee becomes aware of possible breaches committed by another employee(s) at work or there are grounds to suspect fraudulent activities or incidents, the immediate superior must be notified. It is also possible to notify the company's internal auditor of any potential breaches or frauds. Those who receive indications of possible violations or fraud have a duty to report it, but to treat the information with complete confidentiality. OR's lawyer can also provide legal advice or assistance as the case may be. The management of OR, managing directors and directors are responsible for the internal supervision of their specific divisions. Quality Control is responsible for ensuring that OR's internal monitoring system is effective. OR's quality control system is independently certified by external entities.

OR attaches great importance to gender equality, and the Equal Opportunities Policy of the Company implements a commitment for continuous improvement on equality at the workplace. The company adopts the human rights provisions of the Constitution on the basis of the equality policy aimed at evaluating individuals for their own merit and for equal rights. The equality policy is based on OR values and overall policies and is set in accordance with the company's corporate governance policy.

## More information on non-financial information

In conjunction with the annual accounts, OR publishes the Annual Report 2018, which includes More detailed information about non-financial information. The report is available at [arsskyrsla2018.or.is](http://arsskyrsla2018.or.is)