

Orkuveita Reykjavíkur
Condensed Consolidated
Financial Statements
1 January to 31 March 2015

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

reg no. 551298-3029

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Endorsement by the Board of Directors and the CEO

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no.139/2001 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 fibre optic system in its service area.

The condensed consolidated interim financial statements for the period 1 January to 31 March 2015 are prepared in accordance with the International Financial Reporting Standard *IAS 34 Interim financial reporting*. The financial statements comprise the consolidated interim financial statements of Orkuveita Reykjavíkur and subsidiaries. The financial statements have not been reviewed by the independent auditor of the company. The interim financial statements for the same period in the year 2014 were not compiled, therefore comparative amounts are not available for operations.

Profit of operations of Orkuveita Reykjavíkur for the period 1 January to 31 March 2015 was ISK 3.276 million. According to the statement of financial position the Company's assets were ISK 309.170 million at the end of the period (31.12.2014: ISK 299.330 million), book value of equity at the end of the period was ISK 106.923 million (31.12.2014: ISK 99.410 million), resulting in equity ratio of 34.6% (31.12.2014 33,2%).

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%

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the condensed consolidated interim financial statements are in accordance with IFRS's. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 31 March 2015 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 31 March 2015.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condensed consolidated interim financial statements for the period 1 January to 31 March 2015.

Reykjavík, 28 May 2015.

The Board of Directors:

Haraldur Flosi Tryggvason

Brynildur Davíðsdóttir

Valdís Eyjólfsson

Gylfi Magnússon

Kjartan Magnússon

CEO:

Bjarni Bjarnason

Income Statement

1 January to 31 March 2015

	2015 1.1.-31.3.
Operating revenue	11.039.959
Profit from sale of assets	9.325
Operating revenues, total	11.049.284
Energy purchase	(1.868.054)
Salaries and salary related expenses	(1.096.453)
Other operating expenses	(854.807)
Operating expenses, total	(3.819.314)
EBITDA	7.229.970
Depreciation	(2.399.343)
Results from operating activities, EBIT	4.830.627
Interest income	122.088
Interest expenses	(1.094.634)
Other expenses on financial assets and liabilities	164.246
Total financial income and expenses	(808.299)
Profit before income tax	4.022.328
Income tax	(746.263)
Profit for the period	3.276.065

Statement of Comprehensive Income

1 January to 31 March 2015

	2015
	1.1.-31.3.
Profit for the period	3.276.065
Other comprehensive income	
Items moved to equity that could be moved later to the income statement	
Translation difference	4.236.809
	<u>4.236.809</u>
Comprehensive income moved directly to equity, after taxes	4.236.809
	<u>4.236.809</u>
Total comprehensive income for the period	<u>7.512.874</u>

Consolidated Statement of Financial Position

31 March 2015

	31.3.2015	31.12. 2014
Assets		
Property, plant and equipment	274.373.185	265.929.409
Intangible assets	1.335.638	1.333.728
Investments in associated companies	59.189	59.189
Investments in other companies	2.236.179	2.236.179
Hedge contracts	374.244	656.173
Other financial assets	9.186.457	8.480.317
Deferred tax assets	2.687.844	2.674.881
Total non-current assets	290.252.736	281.369.876
Inventories	482.449	434.943
Trade receivables	6.380.993	4.632.281
Hedge contracts	504.766	237.282
Other receivables	874.560	508.560
Deposits	1.500.000	3.000.144
Cash and cash equivalents	9.174.406	9.147.113
Total current assets	18.917.174	17.960.323
Total assets	309.169.911	299.330.199
 Equity		
Revaluation reserve	71.837.639	69.446.324
Fair value reserve	1.760.000	1.760.000
Translation reserve	5.373.089	4.235.355
Retained earnings	27.952.009	23.968.184
Total equity	106.922.738	99.409.863
 Liabilities		
Loans and borrowings	163.343.503	164.157.105
Retirement benefit obligation	541.460	520.264
Embedded derivatives in electricity sales contracts	3.244.919	2.377.756
Hedge contracts	2.636.400	1.842.134
Deferred tax liabilities	5.456.605	4.529.006
Total non-current liabilities	175.222.886	173.426.264
Accounts payable	1.829.088	1.826.346
Loans and borrowings	18.202.702	19.766.122
Embedded derivatives in electricity sales contracts	985.432	649.933
Hedge contracts	1.850.220	1.194.980
Other current liabilities	4.156.845	3.056.691
Total current liabilities	27.024.287	26.494.072
Total liabilities	202.247.173	199.920.336
Total equity and liabilities	309.169.911	299.330.199

Statement of Changes in Equity

1 January to 31 March 2015

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.- 31.3. 2015					
Equity at 1 January 2015	69.446.324	1.760.000	4.235.355	23.968.184	99.409.862
Correction between equity accounts 1.1. 2015	1.420.868		(1.420.868)		0
Translation difference	1.678.207		2.558.602		4.236.809
Profit for the period				3.276.065	3.276.065
Total comprehensive income	3.099.075	0	1.137.734	3.276.065	7.512.874
Depreciation transferred to retained earnings	(707.761)			707.761	0
Equity at 31 March 2015	71.837.638	1.760.000	5.373.089	27.952.009	106.922.736
1.1.- 31.12. 2014					
Equity at 1 January 2014	66.354.727	2.302.248	0	12.312.122	80.969.097
Revaluation, increase	7.600.000				7.600.000
Revaluation, decrease	(253.603)				(253.603)
Income tax on revaluation	(1.469.279)				(1.469.279)
Translation difference			4.235.355		4.235.355
Changes in fair value of assets available for sale		(542.248)			(542.248)
Profit for the year				8.870.541	8.870.541
Total comprehensive income	5.877.118	(542.248)	4.235.355	8.870.541	18.440.766
Depreciation transferred to retained earnings	(2.785.521)			2.785.521	0
Equity at 31 December 2014	69.446.324	1.760.000	4.235.355	23.968.184	99.409.862

Statement of Cash Flows

1 January to 31 March 2015

	2015 1.1.-31.3.
Cash flows from operating activities	
Profit for the period	3.276.128
Corrected by:	
Financial income and expenses	808.236
Income tax	746.263
Depreciation and amortisation	2.399.343
Retirement obligation, change	21.196
Working capital from operation before interest and taxes	7.251.166
Inventories, (increase) decrease	(45.917)
Current assets, decrease (increase)	(1.939.788)
Current liabilities, increase	779.688
Cash generated from operations before interests and taxes	6.045.150
Received interest income	171.689
Paid interest expenses	(988.853)
Dividend received	2.390
Received (paid) due to other financial income and expenses	15.336
Net cash from operating activities	5.245.712
Cash flows from investing activities	
Acquisition of property, plant and equipment	(1.086.469)
Acquisition of intangible assets	(26.494)
Investment in deposits	1.500.144
Net cash used in investing activities	387.181
Cash flows from financing activities	
Repayment of borrowings	(3.966.219)
Current liabilities, change	(1.693.456)
Net cash to financing activities	(5.659.674)
Change in cash and cash equivalents	(26.782)
Cash and cash equivalents at year beginning	9.147.113
Effect of currency fluctuations on cash and cash equivalents	54.074
Cash and cash equivalents at end of period	9.174.406
Investments and financing without payment effects:	
Acquisition of property, plant and equipment	(149.246)
Current liabilities, change	149.246
Other information:	
Working capital from operation	6.145.214

Notes

1. Reporting entity

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no. 136/2013 on the founding of the partnership Orkuveita Reykjavíkur. The Company's headquarters are at Bæjarháls 1 in Reykjavík. The Company'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 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 fibre optic system in its service area.

2. Basis of preparation

a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2014.

The annual financial statements can be found at the company's web site; www.or.is and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

The interim financial statements were approved by the Board of Directors and the CEO on 28 May 2015.

b. 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 are stated at fair value and assets held for sale are stated at fair value. The methods used to measure fair values are discussed further in notes with the financial statements for the year 2014.

c. Functional and presentation currency

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

d. 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 period. 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.

e. Use of estimates and judgements

The preparation of the consolidated 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 year in which the estimates are revised and in any future periods affected.

Notes

3. Segment reporting

Segment information is presented by the Group's internal reporting. Segment information for the same period in the year 2014 was not compiled and is therefore not available. Business segments now presented for the period 1 January to 31 March 2015 are *Utilities*, that represent licenced operations in hot and cold water, distribution of electricity and sewage, *Our nature*, representing the competitive operations in producing electricity and hot water and *Other Operation*, that represents the activities of the parent company and the fibre optic operations. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 33 with the financial statements for the year 2014.

Business segments - divisions

1.1.- 31.3. 2015

	Utilities	Our nature	Other Operation	Adjust- ments	Total
External revenue	7.127.979	3.470.942	545.408	(95.045)	11.049.284
Inter-segment revenue	506.002	845.241	910.121	(2.261.364)	0
Total segment revenue	7.633.981	4.316.183	1.455.529	(2.356.409)	11.049.284
Segment result	(2.672.581)	(2.182.001)	(1.322.028)	2.357.296	(3.819.314)
Segment profit EBITDA	4.961.400	2.134.182	133.501	886	7.229.970
Depreciation and impairment	(1.269.123)	(907.034)	(223.186)	0	(2.399.343)
Segment results, EBIT	3.692.277	1.227.148	(89.685)	886	4.830.627

Notes

4. Financial income and expenses

	2015
	1.1.-31.3.
Financial income and expenses are specified as follows:	
Interest income	122.088
Interest expense	(909.785)
Guarantee fee to owners 1)	(184.849)
Total interest expenses	(1.094.634)
Fair value changes of embedded derivatives in electricity sales contracts	(1.202.662)
Fair value changes of financial assets and financial liabilities through P/L	728.077
Hedge contracts	(1.691.092)
Foreign exchange difference	2.326.275
Dividends	3.648
Total of other income (expenses) on financial assets and liabilities	164.246
Total financial income and expenses	(808.300)

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 licenced operations is 0.375% and 0.55% regarding loans due for operations in the open market. The guarantee fee amounted to ISK 185 million in the period 1 January to 31 March 2015 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 34 in the financial statements of the Group for the year 2014. Change in fair value that is expensed in the income statement amounts ISK 475 million.