Orkuveita Reykjavíkur

Condensed consolidated
Interim Financial Statements
1 January to 30 June 2013

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

reg no. 551298-3029

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Endorsement by the Board of Directors and the Managing Director

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no.139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Company is an independent service company operating its own power plants, producing and selling electricity and hot water. It provides local distribution of electricity, hot water and cold water, operates the sewage systems in its service area as well as a telecom network based on IP and fiber optic technology.

The condensed consolidated interim financial statements for the period 1 January to 30 June 2013 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 been reviewed by the independent auditor of the company.

Profit of operations of Orkuveita Reykjavíkur during the period 1 January to 30 June 2013 ISK 3.736 million. According to the statement of financial position the Company´s assets were ISK 279.686 million at the end of the period, book value of equity at the end of period was ISK 62.184 million, resulting in equity ratio of 22.2%

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

	Share
Reykjavíkurborg	93.539%
Akraneskaupstaður	5.528%
Borgarbyggð	0.933%

The Icelandic Parliament passed changes to several Acts affecting the energy sector in the year 2008. These changes involve among others things that the Company must be split so that exclusive licence operations and competitive operations will be operated by separate entities. This act will come into effect 1 January 2014. Preparations for these changes are well underway.

Statement by the Board of Directors

According to the best knowledge of the Board of Directors of Orkuveita Reykjavíkur, the company´s consolidated financial statements are in accordance with IFRS´s as adopted by the EU. It is the opinion of the Board of Directors that the consolidated financial statements give a fair view of the Company's assets, liabilities and financial position 30 June 2013 and the company´s operating return and changes in cash and cash equivalents for the period then ended.

It is the opinion of the Board of Directors that the consolidated financial statements give a fair view of the Company´s operating development and results, its standing and describe the main risk factors and uncertainties faced by the Company.

The Board of Directors and the Managing Director of Orkuveita Reykjavíkur hereby confirm the Company´s consolidated financial statements for the period 1 January to 30 June 2013.

Reykjavík, 29 August 2013.

The Board of Directors:

Haraldur Flosi Tryggvason
Brynhildur Davíðsdóttir
Gylfi Magnússon
Hrönn Ríkharðsdóttir
Sóley Tómasdóttir
Kjartan Magnússon

Managing Director:
Bjarni Bjarnason

Independent Auditor´s Review Report

To the Board of Directors and owners of Orkuveita Reykjavikur.

We have reviewed the accompanying condensed financial statements of Orkuveita Reykjavíkur, which comprise the interim statement of financial position as at 30 June 2013 and the interim statement of income, interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and others review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to belive that the accompanying interim financial information does not give a true and fair view of the financial position of the Company as at 30 June 2013, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 29 August 2013.

KPMG ehf.
Auðunn Guðjónsson
Guðný Helga Guðmundsdóttir

Income Statement
1 January to 30 June 2013

	Notes	2013 1.4.-30.6.	2012 1.4.-30.6.	2013 1.1.-30.6.	2012 1.1.-30.6.
Operating revenue		9.461.241	8.715.711	20.111.025	19.287.174
Energy purchase		(1.227.811)	(1.087.285)	(2.668.496)	(2.376.884)
Salaries and salary related expenses	4	(971.409)	(920.953)	(1.921.316)	(1.968.482)
Other operating expenses		(1.118.635)	(1.165.970)	(2.089.478)	(2.214.868)
Operating expenses, total		(3.317.855)	(3.174.207)	(6.679.290)	(6.560.234)
EBITDA		6.143.386	5.541.504	13.431.735	12.726.940
Depreciation and amortisation	5	(2.261.516)	(2.289.197)	(4.496.015)	(4.584.664)
Results from operating activities		3.881.869	3.252.307	8.935.720	8.142.276
Interest income		71.935	55.937	89.112	56.555
Interest expenses		(1.304.212)	(1.981.289)	(3.291.830)	(3.950.909)
Other income (expenses) on financial assets and liabilities		(3.944.715)	2.002.285	(2.321.748)	(6.189.489)
Total financial income and expenses	6	(5.176.992)	76.933	(5.524.466)	(10.083.843)
Profit (loss) before income tax		(1.295.123)	3.329.240	3.411.254	(1.941.567)
Income tax	7	865.805	(255.067)	325.107	1.017.266
Profit (loss) for the period		(429.318)	3.074.173	3.736.361	(924.301)
Attributable to:					
Equity holders of the Company		(429.318)	3.074.173	3.736.361	(924.301)
Minority interest in subsidiaries		0	0	0	0
Profit (loss) for the period		(429.318)	3.074.173	3.736.361	(924.301)

Interim Statement of Comprehensive Income
1 January to 30 June

	Notes	2013 1.1.-30.6.	2012 1.1.-30.6.
Profit (loss) for the period		3.736.361	(924.301)
Comprehensive income			
Revaluation reserve, decrease	8	(4.000.000)	0
Income tax effect of revaluation		1.440.000	0
Changes in fair value of assets available for sale		364.000	0
Total comprehensive profit (loss) for the period		1.540.361	(924.301)
Total comprehensive income attributable to:			
Equity holders of the Company		1.540.361	(924.301)
Minority interest in subsidiaries		0	0
Total comprehensive profit (loss) for the period		1.540.361	(924.301)

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2013 6 Amounts are in ISK thousands

Consolidated Statement of Financial Position
30 June 2013

	Notes	30.6. 2013	31.12. 2012
Assets			
Property, plant and equipment	8	238.857.874	246.111.462
Intangible assets	10	1.179.012	1.218.980
Investments in associated companies		59.826	59.826
Investments in other companies		3.629.182	3.265.182
Embedded derivaties in electricity sales contracts	11	2.817.380	14.150.678
Hedge contracts		1.744.492	893.934
Other financial assets		7.929.853	9.745.440
Deferred tax assets	12	5.232.375	3.467.268
Total non-current assets		261.449.995	278.912.770
Inventories		405.113	402.872
Trade receivables	13	6.249.665	4.721.350
Embedded derivatives in electricity sales contracts	11	0	587.982
Hedge contracts		271.150	38.956
Other financial assets		386	5.986
Properties held for sale	9	4.397.856	5.347.856
Other receivables		550.628	298.181
Cash and cash equivalents		6.361.425	6.885.693
Total current assets		18.236.223	18.288.875
Total assets		279.686.218	297.201.645

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2013 7 Amounts are in ISK thousand

Consolidated Statement of Financial Position
30 June 2013

	Notes	30.6. 2013	31.12. 2012
Equity			
Revaluation reserve		48.181.707	51.791.161
Fair value reserve		2.124.000	1.760.000
Retained earnings		11.878.123	7.092.309
Equity attributable to equity holders of the Company		62.183.831	60.643.470
Minority interest		0	4.353
Total equity	14	62.183.831	60.647.822
Liabilities			
Loans and borrowings	15	189.906.617	201.546.363
Retirement benefit obligation		493.950	483.377
Hedge contracts		39.231	98.974
Total non-current liabilities		190.439.797	202.128.714
Accounts payable		1.197.180	1.366.254
Loans and borrowings	15	20.329.708	29.956.923
Embedded derivaties in electricity sales contracts	11	549.682	0
Hedge contracts		518.251	150.300
Deferred revenue	13	1.438.036	3.477
Other current liabilities		3.029.733	2.948.155
Total current liabilities		27.062.590	34.425.109
Total liabilities		217.502.387	236.553.823
Total equity and liabilities		279.686.218	297.201.645

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2013 8 Amounts are in ISK thousand

Interim Statement of Changes in Equity
1 January to 30 June 2013

	Revaluation reserve	Fair value reserve	Retained earnings	Attributable to equity holders of the Company	Minority interest	Total equity
1.1.-30.6. 2013						
Equity at 1 January 2013	51.791.161	1.760.000	7.092.309	60.643.470	4.353	60.647.822
Revaluation, decrease	(4.000.000)			(4.000.000)		(4.000.000)
Income tax effect of revaluation	1.440.000			1.440.000		1.440.000
Changes in fair value of assets available for sale		364.000		364.000		364.000
Profit for the period			3.736.361	3.736.361	0	3.736.361
Total comprehensive income	(2.560.000)	364.000	3.736.361	1.540.361	0	1.540.361
Depreciation transferred to retained earnings	(1.049.454)		1.049.454	0		0
Other changes				0	(4.353)	(4.353)
Equity at 30 June 2013	48.181.707	2.124.000	11.878.124	62.183.831	(0)	62.183.830
1.1.-30.6. 2012						
Equity at 1 January 2012	53.923.090	460.000	7.255.201	61.638.291	4.725	61.643.016
Loss for the period			(924.301)	(924.301)	0	(924.301)
Total comprehensive income	0	0	(924.301)	(924.301)	0	(924.301)
Depreciation transferred to retained earnings	(1.066.930)		1.066.930	0		0
Equity at 30 June 2012	52.856.160	460.000	7.397.830	60.713.990	4.725	60.718.715

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2013 9 Amounts are in ISK thousand

Interim Statement of Cash Flows
1 January to 30 June 2013

	2013 1.1.-30.6.	2012 1.1.-30.6.
Cash flows from operating activities		
Profit (loss) for the period	3.736.361	(924.301)
Financial income and expenses	5.524.466	10.083.843
Other items not affecting the cash flow	4.176.651	3.575.928
Changes in operating assets and liabilities	(248.099)	86.977
Working capital from operation before interest and taxes	13.189.379	12.822.447
Received interest income	81.042	40.065
Paid interest expenses	(2.472.547)	(2.805.381)
Dividend received	53.671	54.475
Paid due to other financial income and expenses	(792.623)	(123.656)
Net cash from operating activities	10.058.923	9.987.950
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1.266.030)	(1.534.463)
Acquisition of intangible assets	(26.121)	(22.013)
Proceeds from sale of property, plant and equipment	956.358	195.000
Sale of subsidiaries	(7.568)	0
Proceeds from sale of other companies	0	212.968
Acquisition of other financial assets	0	(28.000)
Proceeds and repayment of other financial assets	5.793	18.465
Net cash used in investing activities	(337.569)	(1.158.042)
Cash flows from financing activities		
Proceeds from new borrowings	3.080.750	1.007.996
Repayment of borrowings	(15.229.458)	(7.501.685)
Proceeds from new borrowings from the owners	4.000.000	74.640
Credit facility, change	0	(2.482.638)
Current liabilities, change	(1.098.141)	12.137
Net cash from financing activities	(9.246.849)	(8.889.550)
Increase (decrease) in cash and cash equivalents	474.505	(59.642)
Cash and cash equivalents at year beginning	6.885.693	1.652.484
Effect of currency fluctuations on cash and cash equivalents	(998.772)	151.552
Cash and cash equivalents at end of the period	6.361.425	1.744.394
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	(98.288)	(74.719)
Proceeds from sale of companies	3.264	0
Receivables, change	(3.264)	0
Current liabilities, change	98.288	74.719
Other information:		
Working capital from operation	11.174.389	10.067.405

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2013 10 Amounts are in ISK thousand

Notes to the Interim Financial Statements

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Notes

1. Reporting entity

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no. 139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Company's headquarters are at Bæjarháls 1 in Reykjavik. The Company's consolidated financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Company") and a share in associated companies. The consolidated interim financial statements of Orkuveita Reykjavikur is a part of the consolidated interim financial statements of Reykjavik city.

The Company is an independent service company that produces and distributes electricity, distributes geothermal water for heating, cold water for consumptions, sewer systems, and operates fibre-optic cable systems.

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 Company the year ended 31 December 2012.

In the beginning of the year the accounting standards IFRS 13 *Fair Value Measurement* was implemented. IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. The implementation of the new standard has insignificant effect on valuation methods or notes in the Company´s interim financial statements.

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 on 29 August 2013.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- A part of property, plant and equipment have been revalued at fair value.
- Derivative agreements are stated at fair value.
- Assets held for sale are stated at fair value.
- Financial instruments at fair value through profit and loss are stated at fair value.

c. *Functional and presentation currency*

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

d. *Use of estimates and judgements*

The preparation of the 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 8 - Property, plant and equipment
- note 12 - Deferred tax assets and liabilities
- note 17 - Market risk

3. Segment reporting

Segment information is presented by the Group's business segments according to the Group's organisation and internal reporting. Business segments consist of *Utilities, Production and Sale* , and *Other Operation* . In addition, information is provided on the Group's sectors, which are *Electricity, Hot water, Cold water* , *Sewer* and *Fibre-optic cable systems* .

Business segments - divisions					
1.1.-30.6. 2013	**Utilities**	**Production and sale**	**Other Operation**	**Adjust-ments**	**Total**
External revenue	13.274.282	6.587.114	249.629	0	20.111.025
Inter-segment revenue	123.917	1.296.417	161.909	(1.582.243)	0
Total segment revenue	13.398.199	7.883.531	411.538	(1.582.243)	20.111.025
Segment result	8.402.530	2.002.557	(2.011)	0	10.403.076
Unallocated expenses					(1.467.356)
Results from operating activities					8.935.720
Financial income and expenses					(5.524.466)
Income tax					325.107
Profit for the period					3.736.361
1.1.-30.6. 2012					
External revenue	12.331.995	6.551.773	403.406	0	19.287.174
Inter-segment revenue	137.899	1.245.222	44.824	(1.427.945)	0
Total segment revenue	12.469.894	7.796.995	448.230	(1.427.945)	19.287.174
Segment result	6.717.222	2.823.158	(3.509)	0	9.536.871
Unallocated expenses					(1.394.595)
Results from operating activities					8.142.276
Financial income and expenses					(10.083.843)
Income tax					1.017.266
Loss for the period					(924.301)

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3. Segment reporting, contd.

Business segments - divisions, contd. 1.1.-30.6. 2013	Utilities	Production and sale	Other Operation	Adjust-ments	Total
Balance sheet (30.6. 2013)					
Property, plant and equipment and properties held for sale	132.453.996	103.265.193	9.382	7.527.159	243.255.730
Intangible assets	0	0	0	1.179.012	1.179.012
Shares in associates					59.826
Other unallocated assets					35.191.651
Total assets					279.686.219
Unallocated liabilities					217.502.387
Investsments:					
Property, plant and equipment	924.073	191.946	96	61.751	1.177.866
Intangible assets	0	0	0	26.120	26.120
Depreciation, amortization:					
Property, plant and equipment	2.498.675	1.852.897	0	78.355	4.429.927
Intangible assets	0	0	0	66.088	66.088
1.1.-30.6. 2012					
Balance sheet (31.12. 2012)					
Property, plant and equipment	134.028.592	110.594.420	9.286	6.827.021	251.459.319
Intangible assets	0	0	0	1.218.980	1.218.980
Shares in associates					59.826
Other unallocated assets					44.463.520
Total assets					297.201.645
Unallocated liabilities					236.553.823
Investsments:					
Property, plant and equipment	870.822	377.808	0	57.637	1.306.267
Intangible assets	0	0	0	22.013	22.013
Depreciation, amortization:					
Property, plant and equipment	2.517.952	1.848.232	0	169.127	4.535.311
Intangible assets	0	0	0	49.354	49.354

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3. Segment reporting, contd.

Business segments - sectors

1.1.-30.6. 2013	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Income							
External revenue	9.909.440	5.481.033	1.632.781	2.238.858	772.070	0	20.034.182
Inter-segment revenue	416.006	59.759	13.724	18.819	0	(431.466)	76.842
Total segment revenue	10.325.446	5.540.792	1.646.505	2.257.677	772.070	(431.466)	20.111.024
Balance sheet (30.6. 2013)							
Properties, current and non-current	107.104.800	68.162.744	18.538.094	38.467.266	10.982.826	0	243.255.730
Intangible assets	555.314	339.556	91.963	192.179	0	0	1.179.012
Unallocated assets	0	0	0	0	0	0	35.251.476
Total assets	107.660.114	68.502.300	18.630.057	38.659.445	10.982.826	0	279.686.218
Investments							
Property, plant and equipments	384.238	164.701	71.674	129.555	427.698	0	1.177.866
Intangible assets	12.250	7.575	2.064	4.232	0	0	26.121
Depreciation, amortization							
Property, plant and equipments	1.941.091	1.328.859	262.515	612.587	284.874	0	4.429.926
Intangible assets	25.249	20.592	6.343	13.904	0	0	66.088

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3. Segment reporting, contd.

Business segments - sectors, contd.

1.1.-30.6. 2012	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Income							
External revenue	9.826.022	5.092.373	1.601.353	2.106.031	661.395	0	19.287.174
Inter-segment revenue	386.965	31.876	3.854	5.068	0	(427.763)	0
Total segment revenue	10.212.987	5.124.249	1.605.207	2.111.099	661.395	(427.763)	19.287.174
Balance sheet (31.12. 2012)							
Properties	112.712.357	70.343.547	18.699.324	38.864.090	10.840.001	0	251.459.319
Intangible assets	570.483	355.942	96.299	196.256	0	0	1.218.980
Unallocated assets	0	0	0	0	0	0	44.523.346
Total assets	113.282.840	70.699.489	18.795.623	39.060.346	10.840.001	0	297.201.645
Investments							
Property, plant and equipments	489.479	168.734	67.480	117.674	462.900	0	1.306.267
Intangible assets	11.337	5.437	1.695	3.544	0	0	22.013
Depreciation, amortization							
Property, plant and equipments	2.170.078	1.198.048	267.077	638.864	261.243	0	4.535.310
Intangible assets	18.855	15.378	4.737	10.384	0	0	49.354

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2013 16 Amounts are in ISK thousand

Notes

4. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2013 1.1.-30.6.	2012 1.1.-30.6.
Salaries	1.653.019	1.530.964
Defined contribution pension expenses	206.850	203.293
Defined benefit pension expenses	18.162	48.483
Other salary related expenses	164.127	159.899
Expensed salaries and salary related expenses due to early retirement plan and laid-off employees 1)	48.792	201.629
Total salaries and salary related expenses	2.090.949	2.144.268

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

Expensed in the income statement	1.921.316	1.968.482
Capitalised on projects	169.633	175.786
Total salaries and salary related expenses	2.090.949	2.144.268

Included in salaries are car benefits

1) A part of curtailing in the operations is to decrease the number of employees. This is achieved partly by offering employees that have reached the age of 63, early retirement. Those who accept this offer are not expected to work for the Company during the termination. When employees leave the Company, either due to early retirement or due to lay-offs the termination cost is recognised immediately.

5. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2013 1.1.-30.6.	2012 1.1.-30.6.
Depreciation and amortisation, total, cf. note 8	4.429.926	4.535.310
Amortisation of intangible assets, cf. note 10	66.088	49.354
Depreciation and amortisation recognised in the income statement	4.496.014	4.584.664

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2013 17 Amounts are in ISK thousand

6. Financial income and expenses

Financial income and expenses are specified as follows:

	2013 1.1.-30.6.	2012 1.1.-30.6.
Interest income	89.112	56.555
Interest expense	(2.841.206)	(3.551.074)
Guarantee fee to owners 1)	(450.619)	(399.835)
Total interest expenses	(3.291.826)	(3.950.909)
Fair value changes of embedded derivatives in electricity sales contracts	(12.470.962)	(5.611.227)
Fair value changes of financial assets and financial liabilities through P/L	(1.815.394)	798.738
Hedge contracts	(1.244)	10.888
Foreign exchange difference	11.912.181	(1.442.363)
Dividends	53.671	54.475
Total of other income (expenses) on financial assets and liabilities	(2.321.748)	(6.189.489)
Total financial income and expenses	(5.524.462)	(10.083.843)

1) Orkuveita Reykjavíkur 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 Reykjavikur in 2005. The fee on yearly basis for its licenced operations is 0.375% and 0.48% regarding loans due for operations in the open market. The calculation of the fee is done at the end of each quarter. The guarantee fee amounted to ISK 451 million in the period 1 January to 30 June 2013 (1.1.-30.6 2012: ISK 400 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 4 in the Company´s financial statements for the year 2012 . Change in fair value that is expensed in the income statement amounts ISK 14.286 million. (1.1.-30.6 2013: expense ISK 4.812 million).

7. Income tax

Orkuveita Reykjavikur is tax liable in accordance with Article 2 of law no. 90/2003 on income tax. The part of the Company´s operation concerning operation of cold water supply and sewer is though exempt from income tax.

Income tax recognised in the income statement is specified as follows:

	2013 1.1.-30.6.	2012 1.1.-30.6.
Change in deferred income tax	(325.107)	(1.017.266)
Income tax recognised in the income statement	(325.107)	(1.017.266)

Reconciliation of effective tax rate:

		2013 1.1.-30.6.		2012 1.1.-30.6.
Profit (loss) before income tax		3.411.254		(1.941.567)
Income tax according to current tax ratio	36.0%	1.228.051	36.0%	(698.964)
Non-taxable operation of water supply and sewer	(37.3%)	(1.545.527)	16.0%	(310.476)
Effect of various tax rates in the Group	(2.5%)	(104.023)	0.4%	(7.655)
Other items	0.8%	96.392	0.0%	(171)
Effective income tax	(9.5%)	(325.107)	52.4%	(1.017.266)

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8. Property, plant and equipment

Property, plant and equipment is specified as follows:

1.1.-30.6. 2013	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	198.231.387	223.774.810	2.083.533	1.244.289	425.334.019
Additions during the period	241.209	875.209	828	60.620	1.177.866
Sold or disposed of	0	0	0	(8.490)	(8.490)
Revaluation, decrease	(4.073.811)	0	0	0	(4.073.811)
Balance at end of period	194.398.785	224.650.019	2.084.361	1.296.419	422.429.584
Depreciation					
Balance at year beginning	64.424.583	113.110.231	881.295	806.447	179.222.557
Depreciated during the period	2.416.994	1.937.012	8.294	67.626	4.429.926
Sold or disposed of	0	0	0	(6.962)	(6.962)
Revaluation, decrease	(73.811)	0	0	0	(73.811)
Balance at end of period	66.767.767	115.047.243	889.589	867.111	183.571.711
Carrying amounts					
At 1.1. 2013................................	133.806.804	110.664.579	1.202.237	437.842	246.111.462
At 30.6. 2013..............................	127.631.019	109.602.776	1.194.771	429.308	238.857.874
Thereof assets in construction at end of period....	7.225.319	1.592.906	0	0	8.818.224

1.1.-31.12. 2012	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	195.996.921	222.894.519	8.140.245	5.596.352	432.628.037
Reclassification of assets	1.301.287	(884.548)	1.383.128	(3.528.887)	(1.729.019)
Additions during the year	993.880	1.856.200	19.769	145.086	3.014.935
Transferred to properties held for sale	(60.701)	0	(7.390.556)	(869.043)	(8.320.300)
Sold or disposed of	0	(91.361)	(69.054)	(99.219)	(259.634)
Balance at year end	198.231.387	223.774.810	2.083.533	1.244.289	425.334.019
Depreciation					
Balance at year beginning	58.379.184	111.034.725	1.825.401	2.586.718	173.826.027
Reclassification of assets	491.232	(1.693.391)	580.320	(1.107.180)	(1.729.019)
Depreciated during the year	5.611.392	3.858.468	644.176	168.709	10.282.745
Transferred to properties held for sale	(57.224)	0	(2.156.978)	(758.241)	(2.972.444)
Sold or disposed of	0	(89.570)	(11.624)	(83.559)	(184.752)
Balance at year end	64.424.583	113.110.231	881.295	806.447	179.222.557
Carrying amounts					
At 1.1. 2012................................	137.617.737	111.859.794	6.314.845	3.009.634	258.802.010
At 31.12. 2012............................	133.806.804	110.664.579	1.202.237	437.842	246.111.462
Thereof assets in construction at year end...........	7.209.960	1.555.018	0	0	8.764.979

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8. Property, plant and equipment, contd.

Obligations

In May 2008 the Company entered into a contract concerning purchase of equipment for power plants. The equipment will be delivered in the year 2016. The contract and other contracts regarding developments at Hellisheiði amount to ISK 11.0 billion as per exchange rate at end of the period (31.12. 2012: ISK 12.4 billion). More information regarding these contracts can be found in note 23. Furthermore, the Company 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 the end of the period is estimated at ISK 1.2 billion (31.12. 2012: ISK 1.2 billion).

Revaluation

The fair value of these assets is valuated regularly and a transaction is made when it has changed significantly from stated cost, both increase and decrease.

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 3. d in the Company´s financial statements for the year 2012.

Impairment tests are performed yearly, but indications of impairment are looked into at each reporting date looking at changes in main assumptions since tests were last performed. At the end of the period the review showed impairment on non-current assets of production systems in electricity, therefore former revaluation of these assets was reversed, the reversal amounting to ISK 4.000 million. The assumptions that have changed since year-end 2012 in the impairment tests and have the most effect are increase of the rate of risk-free interests, decrease in the price of aluminium and the strengthening of the ISK against the USD in the period.

There were no signs of impairment in other segment sectors or divisions. Further discussion regarding impairment tests can be found in notes 3. h and 12. to the Company´s financial statements for the year 2012.

Transactions due to revaluation are specified in the following table:

Production systems	
Hot water	31.12.2011
Cold water	31.12.2011
Electricity	30.6.2013
Distribution systems	
Hot water	31.12.2011
Cold water	30.9.2011
Sewage	30.9.2011
Electricity	31.12.2011
Fibre-optic cable system	30.9.2010

9. Properties held for sale

Properties held for sale are specified as follows:	30.6. 2013	31.12. 2012
Orkuveita Reykjavíkur, headquarters at Bæjar- and Réttarháls, 110 Reykjavík	4.397.856	4.397.856
Perlan, Öskjuhlíð, 105 Reykjavík	0	950.000
Properties held for sale, total	4.397.856	5.347.856

At year-end 2012 Reykjavík City purchased Perlan from the Company for ISK 950 million. The sale was finalised in March 2013. In the beginning of 2013 the Company sold its headquarters at Bæjar- and Réttarháls for ISK 5.100 million, disclaimers in the contract have not been cleared. These assets are classified among current assets since completion of sale is expected within a year. These assets are not depreciated from the time they are reclassified from non-current assets.

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Notes

10. Intangible assets

Intangible assets are specified as follows:

1.1.-30.6. 2013	Heating rights	Software	Total
Cost			
Balance at year beginning	1.427.031	1.371.816	2.798.847
Additions during the period	0	26.121	26.121
Balance at end of the period	1.427.031	1.397.937	2.824.968
Amortisation			
Balance at year beginning	503.524	1.076.343	1.579.867
Amortisation during the period	5.987	60.101	66.088
Balance at end of the period	509.511	1.136.444	1.645.955
Carrying amounts			
At 1.1. 2013	923.507	295.474	1.218.980
At 30.6. 2013	917.520	261.493	1.179.013

1.1.-31.12. 2012	Heating rights	Software	Total
Cost			
Balance at year beginning	1.427.031	3.045.194	4.472.225
Reclassification of assets	0	(1.723.761)	(1.723.761)
Additions during the year	0	50.383	50.383
Balance at year end	1.427.031	1.371.816	2.798.847
Amortisation			
Balance at year beginning	491.550	2.723.738	3.215.288
Reclassification of assets	0	(1.723.761)	(1.723.761)
Amortisation during the year	11.974	76.366	88.340
Balance at year end	503.524	1.076.343	1.579.867
Carrying amounts			
At 1.1. 2012	935.481	321.456	1.256.937
At 31.12. 2012	923.507	295.474	1.218.979

11. Embedded derivatives in electricity sales contracts

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

	30.6. 2013	31.12. 2012
Fair value of embedded derivatives at the beginning of the year	14.738.660	17.682.970
Fair value changes during the period	(12.470.962)	(2.944.310)
Fair value of embedded derivatives at year-end	2.267.698	14.738.660

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

	30.6. 2013	31.12. 2012
Non-current embedded derivatives	2.817.380	14.150.678
Current embedded derivatives	(549.682)	587.982
Total embedded derivatives at end of period	2.267.698	14.738.660

Further discussion regarding embedded derivatives can be found in note 17 c.

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12. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

1.1.-30.6. 2013	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	3.467.267	0	3.467.267
Calculated income tax for the period	325.107	0	325.107
Effect of change in income tax rate on revaluation account	1.440.000	0	1.440.000
Deferred tax assets/liabilities at end of the period	5.232.374	0	5.232.374
1.1.-31.12. 2012			
Deferred tax assets/liabilities at the beginning of the year	1.932.006	0	1.932.006
Calculated income tax for the year	1.535.261	0	1.535.261
Deferred tax assets/liabilities at year end	3.467.267	0	3.467.268

Deferred tax assets and liabilities are attributable to the flollowing:

	30.6. 2013		31.12. 2012	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(12.964.870)	0	(15.063.674)	0
Embedded derivatives	(816.371)	0	(5.305.918)	0
Other items	(296.013)	0	2.599.893	0
Effect of carry forward taxable loss	19.309.629	0	21.236.966	0
Deferred tax assets/liabilities at period end	5.232.374	0	3.467.268	0

13. Receivables

The balance of trade receivables changes considerably between periods since income is collected evenly but actual usage fluctuates significantly between periods. Also, billing for cold water and sewage is done in the first nine months of the year but income disbursed evenly over the year. Recognition of income is subject to usage and deliverance of the service in accordance with accounting standards.

14. Equity

Equity ratio of the Company at the end of the period is 22.2% (31.12. 2012: 20.4%). Return on equity was positive by 12.9% in the period 1 January to 30 June 2013 (1.1.-30.6 2012: negative by 3.0%).

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.

Fair value reserve

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

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15. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 17.

Non-current liabilities	30.6. 2013	31.12. 2012
Bank loans	171.098.810	195.721.276
Subordinated loan from owners of the Company	13.133.831	8.849.752
Bond issuance	22.684.636	22.515.068
	206.917.277	227.086.096
Current portion on non-current liabilities	(17.010.659)	(25.539.733)
	189.906.617	201.546.363

Current liabilities		
Current portion on non-current liabilities	17.010.659	25.539.733
Short-term bank loans	3.319.049	4.417.190
	20.329.708	29.956.923
Total interest bearing loans and borrowings	210.236.325	231.503.286

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

		30.6. 2013		31.12. 2012	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	5.10.2027	0.54%	27.589.949	0.56%	33.989.877
Liabilities in EUR	6.12.2032	1.01%	67.729.869	0.98%	84.800.019
Liabilities in USD	8.11.2030	1.87%	45.688.293	1.81%	41.956.344
Liabilities in JPY	5.10.2027	0.40%	12.879.090	0.47%	16.304.551
Liabilities in GBP	26.2.2024	1.56%	4.590.617	1.85%	5.084.266
Liabilities in SEK	5.10.2027	1.29%	8.010.004	2.06%	8.891.712
			166.487.823		191.026.769
Liabilities in Icelandic kronas:					
Indexed	10.1.2037	4.51%	40.429.453	4.67%	36.059.327
Non-indexed	31.7.2013	7.70%	3.319.049	7.53%	4.417.190
			43.748.502		40.476.517
Total interest-bearing loans and borrowings			210.236.325		231.503.286

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15. Loans and borrowings, contd.,

Repayment on non-current liabilities are specified as follows on the next periods:	30.6. 2013	31.12. 2012
1.7. 2013 to 30.6. 2014 / 1.1. to 31.12 2013	17.010.659	25.539.733
1.7. 2014 to 30.6. 2015 / 1.1. to 31.12 2014	16.114.941	16.747.099
1.7. 2015 to 30.6. 2016 / 1.1. to 31.12 2015	19.060.058	19.625.714
1.7. 2016 to 30.6. 2017 / 1.1. to 31.12 2016	19.285.313	19.697.595
1.7. 2017 to 30.6. 2018 / 1.1. to 31.12 2017	14.706.026	15.625.559
Later	120.740.278	129.850.396
Total non-current liabilities, including next year's repayment	206.917.276	227.086.096

Guarantees and pledges

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

Covenants

Loans for the amount of ISK 19.299 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. 2012: ISK 16.856 million). Management regularly evaluate the covenants and in their view there is not danger of them being breached.

16. Risk management and financial instruments

Overview

The Board´s policy is that in all of the Company´s operations, risks are to be considered and thereby the policy implements a mindset of responsible and efficient decisions as well as good corporate 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 foundations 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 Managing Director, Managing Director of finance, Head of treasury and risk and Head of the financial department. 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 Company

The department of treasury and risk oversees and controls risk. The objective of the department is to monitor, analyse and control the financial risks of the Company.

Financial risk is divided into:
- Market risk, further discussed in note 17
- Liquidity risk, further discussed in note 18
- Credit risk, further discussed in note 19

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17. Market risk

Market risk is the risk that changes in the market price of foreign currencies, aluminium price and interests will affect the Company's income or the value of its financial instruments. In regard of the current Balance Sheet the market risk is mainly due to changes in interest, currency, index and aluminium price but risk regarding portfolio assets such as shares in companies and bonds is minimum. This is the risk that weighs the most in the Company is divided into:

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

a. *Currency risk*

Currency risk is the risk of changes in currency prices having a negative effect on the Company'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 department of treasury and risk is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations.

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than Icelandic kronas (ISK). Currencies mainly creating risk are Euro (EUR), Swiss Francs (CHF), Japanese Yens (JPY), United States dollar (USD) and Swedish kronas (SEK).

Approx. 80.5% of the Company's non-current loans are in foreign currencies. The Company 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 132.456 million. That amount is 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.

Foreign exchange rate of the main currencies during the period is specified as follows:

	1.1.-30.6. 2013	1.1.-31.12. 2012	30.6. 2013	31.12. 2012
	Average exchange rate		Exchange rate at year end	
CHF	132,498	133,352	130,470	140,640
EUR	162,956	160,733	161,100	169,800
USD	123,991	125,052	123,290	128,740
JPY	1,303	1,570	1,246	1,495
GBP	191,507	198,155	187,940	208,150
SEK	19,104	18,4684	18,337	19,758
CAD	122,115	125,110	117,630	129,360
TWI	221,588	221,796	217,018	232,686

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17. Market risk, contd.

a. *Currency risk, contd.*

Exposure to currency risk

The Company's exposure to currency risk based on the nominal amounts is specified as follows:

30.6. 2013	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(27.589.949)	(67.729.869)	(45.688.293)	(12.879.090)	(4.590.617)		(8.010.004)		(166.487.823)
Accounts payables		(1.482)	(76.629)		(390)			(3.936)	(82.437)
Trade receivables			559.242	1.626		3.082			563.950
Bank deposits	38.991	2.488.355	2.569.017	731.547	489	165	2.641	86	5.831.292
Embedded derivatives			2.267.698						2.267.698
Hedge contracts	(43.259)	16.075.867	641.266	18.567	(13.600)		(4.556)		16.674.285
Other financial assets			7.929.467						7.929.467
Balance sheet risk	(27.594.217)	(49.167.129)	(31.798.232)	(12.127.350)	(4.604.118)	3.247	(8.011.919)	(3.851)	(133.303.568)
Estimated sale									
1.7 to 30.6. 2014			6.736.636						6.736.636
Estimated purchase									
1.7 to 30.6. 2014		(147.710)	(22.482)	(241.618)					(411.810)
Balance sheet risk	0	(147.710)	6.714.154	(241.618)	0	0	0	0	6.324.826
Net risk	(27.594.217)	(49.314.839)	(25.084.078)	(12.368.968)	(4.604.118)	3.247	(8.011.919)	(3.851)	(126.978.743)

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17. Market risk, contd.

a. *Currency risk, contd.*

Exposure to currency risk, contd.

31.12. 2012	**CHF**	**EUR**	**USD**	**JPY**	**GBP**	**CAD**	**SEK**	**DKK**	**Total**
Loans and borrowings	(33.989.877)	(84.800.019)	(41.956.344)	(16.304.551)	(5.084.266)	0	(8.891.712)	0	(191.026.769)
Accounts payables		(37.253)	(299.766)						(337.019)
Trade receivables			658.285		47				658.332
Bank deposits	1.709	6.226.479	492.598	135	131	2.530	1.263	90	6.724.936
Embedded derivatives			14.738.660						14.738.660
Hedge contracts	(217.681)	14.874.347	2.754	156.497	(10.985)		(18.706)		14.786.226
Other financial assets			9.744.861						9.744.861
Balance sheet risk	(34.205.849)	(63.736.446)	(16.618.951)	(16.147.919)	(5.095.073)	2.530	(8.909.154)	90	(144.710.772)
Estimated sale in 2012			8.116.661						8.116.661
Estim. Purch. in 2012		(155.915)	(25.849)	(290.034)	(154)				(471.952)
Balance sheet risk	0	(155.915)	8.090.812	(290.034)	(154)	0	0	0	7.644.709
Net risk	(34.205.849)	(63.892.361)	(8.528.139)	(16.437.953)	(5.095.227)	2.530	(8.909.154)	90	(137.066.063)

Sensitivity analysis

Strengthening by 10% of the Icelandic krona against the following currencies at end of the period would have increased (decreased) equity and profit or loss by the amounts shown below, taking into account tax effects.

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
1.1.-30.6. 2013	1.766.030	3.146.696	2.035.087	776.150	294.664	(208)	512.763	246	8.531.428
1.1.-31.12. 2012	2.189.174	4.079.133	1.063.613	1.033.467	326.085	(162)	570.186	(6)	9.261.489

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for the year 2012. Weakening 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.

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17. Market risk, contd.

b. *Interest rate risk*

Interest rate risk is the risk of changes in interest rates having a negative effect on the Company's income. The Company is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Company´s liabilities both have fixed and variable interest rates, majority being subject to variable interest rates. The department of treasury and risk monitors that interest rate risk is within preset limits and has permission to control interest rate risk with derivatives. On the accounting date hedges covered 100% of loans with variable interest rates 1 year ahead.

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

Fixed rate instruments	**30.6. 2013**	**31.12. 2012**
Financial assets	771	6.564
Financial liabilities	(46.004.277)	(42.553.480)
	(46.003.505)	(42.546.915)
Variable rate instruments		
Financial liabilities	(164.232.048)	(188.949.806)
	(164.232.048)	(188.949.806)
Financial instruments at fair value		
Other financial assets	7.929.467	9.744.861
Hedge contracts	1.458.160	683.616
	9.387.628	10.428.477

In the following table, effect of changes on financial instruments at fair value is set forth, taken into account the effect of taxes. The analysis was done in the same way for the year 2012.

	Cash flow sensitivity analysis		**Fair value sensitivity analysis**	
30.6. 2013	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(220.423)	251.703
Other financial assets	0	0	(155.679)	162.236
Hedge contracts	48.822	(48.822)	2.640.593	(2.740.070)
Interest bearing loans	(545.409)	545.409	0	0
	(496.587)	496.587	2.264.491	(2.326.132)
31.12. 2012	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(725.573)	811.329
Other financial assets	0	0	(226.081)	237.008
Hedge contracts	284.502	(284.502)	699.815	(717.916)
Interest bearing loans	(633.244)	633.244	0	0
	(348.742)	348.742	(251.839)	330.420

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17. Market risk, contd.

c. *Aluminium risk*

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

Four electricity sales contracts have been made, originally to the next 20 years. One with Landsvirkjun in regards of Norðurál and three with Norðurál in regards of the aluminium plant at Grundartangi, in addition contracts have been done with Landsnet hf. on distribution of electricity. 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, but the contract is for the next 25 years. These electricity sales contracts are denominated in USD and the price of the electricity is connected to the world market price of aluminium. Income of electricity contracts that are effected by price of aluminium is 17.3% of total revenue for the period 1 January to 30 June 2013 (31.12. 2012: 20.2%)

To reduce risk due to aluminium prices the Company has entered into derivative contracts to reduce the fluctuation of income effected by aluminium prices. The department of treasury and risk has permission to hedge 100% of the aluminium risk of next year and proportionally less in the next two years. At the accounting date hedges amounted to 17.8% of expected income effected by aluminium until the year end 2014 (31.12. 2012: 22.2%).

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 IAS 39 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.

Among embedded electricity sales contracts is a contract with Norðurál Helguvík ehf. (NH), stated at the book value of ISK 0.1 billion (31.12.2012: ISK 1.9 billion). The constructions of the aluminium plant at Helguvík have been delayed and there is uncertainty regarding continuance of the project. It was scheduled to begin delivery of power to the aluminium plant 1 September 2011 and NH was obliged to begin payments from that date. NH has used a option in the contract that allows NH to use the power at the aluminium plant at Grundartangi.
Counter party risk is valued by the management as considerable and the risk is reflected in the stated book value of the derivative. If the contract will be terminated or renegotiated on other terms, the book value of the embedded derivative would be fully expensed through the income statement.

17. Market risk, contd.

c. *Aluminium risk, contd.*

Sensitivity analysis on the price of aluminium

30.6. 2013	**Sensitivity of Fair value**	
	10% decrease	**10% increase**
Embedded derivatives	(5.175.387)	5.178.960
Aluminium hedges	142.186	(103.259)
Financial assets at fair value through P/L	(266.281)	266.281
Total	(5.299.482)	5.341.982

31.12. 2012	**Sensitivity of Fair value**	
	10% decrease	**10% increase**
Embedded derivatives	(6.483.469)	6.471.310
Aluminium hedges	275.762	(197.940)
Financial assets at fair value through P/L	(353.902)	353.902
Total	(6.561.609)	6.627.272

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 Company's operation.

18. Liquidity risk

Liquidity risk is the risk that the Company 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 Company's cash and cash equivalents at the end of the period amounted to ISK 6.4 billion. Furthermore, the Company had unused loan authorisations and a open credit line to the total amount of approx. ISK 8.4 billion. The Company had thus in total ensured capital at the end of the period to the amount of approx. ISK 14.8 billion. The corresponding amount at year end 2012 amounted to ISK 13.7 billion.

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18. Liquidity risk, contd.

c. *Liquidity risk, contd.*

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

30.6. 2013

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest-bearing liabilities	210.236.325	(236.348.404)	(23.018.709)	(19.140.682)	(61.447.655)	(132.741.357)
Accounts payable	1.197.180	(1.197.180)	(1.197.180)	0	0	0
Other liabilities ...	3.029.733	(3.029.733)	(3.029.733)	0	0	0
Derivative financial instruments						
Hedge contracts	557.481	634.601	(414.406)	(314.352)	1.001.479	361.880
	215.020.719	(239.940.716)	(27.660.028)	(19.455.034)	(60.446.176)	(132.379.477)

31.12. 2012

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest-bearing liabilities	231.503.285	(260.057.715)	(33.352.320)	(19.281.902)	(62.068.130)	(145.355.362)
Accounts payable	1.366.254	(1.366.254)	(1.366.254)	0	0	0
Other liabilities ...	2.948.155	(2.948.155)	(2.948.155)	0	0	0
Derivative financial instruments						
Hedge contracts	249.274	(1.233.289)	(631.390)	(553.736)	(103.455)	55.292
	236.066.969	(265.605.413)	(38.298.119)	(19.835.638)	(62.171.585)	(145.300.070)

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

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19. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Credit risk is mainly due to whole sale electricity contracts and derivatives that the Company has entered into for hedging purposes. Losses due to unpaid receivables are insubstantial and have limited effect on the Company's return.

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:

	30.6. 2013	31.12. 2012
Trade receivable	6.249.665	4.721.350
Other current receivables	550.628	298.181
Other financial assets	7.930.239	9.751.425
Hedge contracts	2.015.642	932.890
Cash and cash equivalents	6.361.425	6.885.693
Total	23.107.599	22.589.539

Financial assets as stated above are categorised as *loans and receivables* exept for a part of *other financial assets* and *hedge contracts*. Their categorisation can be seen in note 21.

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

Trade receivable, industrial consumers	1.282.377	917.120
Trade receivable, retail	4.967.288	3.804.230
	6.249.665	4.721.350

Impairment

The aging of trade receivables and allowance for doubtful accounts at the reporting date was:

	30.6. 2013		31.12. 2012	
	Gross balance	Allowance	Gross balance	Allowance
Not past due receivables	5.057.760	95.607	4.081.898	102.884
Past due, 1 to 30 days	890.851	28.865	316.652	12.263
Past due, 31 to 90 days	154.310	28.109	108.612	24.581
Past due, 91 days and older	405.744	106.419	532.688	178.772
Total	6.508.665	259.000	5.039.850	318.500

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

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.

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20. *Fair value*

Fair values versus carrying amounts

The carrying amounts of financial assets and financial liabilities is equal to their fair value with the exeption 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:

	30.6. 2013		31.12. 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(210.236.325)	(182.215.976)	(231.503.285)	(223.412.705)

The fair value of interest-bearing liabilities are based on the present value of future principal and interest payments, discounted with the market rate of interest and an appropriate risk premium on the accounting date.

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:

	30.6. 2013	31.12. 2012
Embedded derivatives in electr. sales contr.	2.03% to 12.20%	2.37% to 11.56%
Other financial assets	6.75% to 7.37%	3.99% to 4.39%
Interest bearing loans	1.60% to 5.07%	1.05% to 4.76%

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 og 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).

30.6. 2013	Level 2	Level 3	Total
Shares in companies	0	3.629.182	3.629.182
Embedded derivatives in sales contracts	0	2.267.698	2.267.698
Other financial assets	0	9.945.881	9.945.881
Other financial liabilities	(557.481)	0	(557.481)
	(557.481)	15.842.760	15.285.279
31.12. 2012			
Shares in companies	0	3.265.182	3.265.182
Embedded derivatives in sales contracts	0	14.738.660	14.738.660
Other financial assets	0	10.684.315	10.684.315
Other financial liabilities	(249.274)	0	(249.274)
	(249.274)	28.688.157	28.438.883

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

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21. Overview of financial instruments

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

	30.6. 2013			31.12. 2012		
	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale
Shares in other companies			3.629.182			3.265.182
Embedd. electr. sales contracts ..		2.267.698			14.738.660	
Other financial assets	2.016.413	7.929.467		939.454	9.744.861	
Trade receivabl. .	6.249.665			4.721.350		
Other receivabl. ..	550.628			298.181		
Cash	6.361.425			6.885.693		
Interest-bearing .. liabilities	(210.236.325)			(231.503.285)		
Other financial liabilities		(557.481)			(249.274)	
Account payabl. .	(1.197.180)			(1.366.254)		
Other current liabilities	(3.029.733)			(2.951.632)		
	(199.285.107)	9.639.684	3.629.182	(222.976.493)	24.234.247	3.265.182

22. Group entities

Shares in subisidiaries included in the consolidated financial statements are specified as follows:

Subsidiaries	Main operation	Share 30.6. 2013	Share 31.12. 2012
Gagnaveita Reykjavíkur ehf.	Data transfer	100.0%	100.0%
Reykjavík Energy Invest ehf.	Investments	100.0%	100.0%
Úlfljótsvatn frítímabyggð ehf.	Preperation company	100.0%	100.0%
Hrafnabjargavirkjun hf.	Preperation company	0.0%	60.0%

Main changes in the Group during the year
In June 2013 Orkuveita Reykjavíkur sold all its shares in Hrafnabjargarvirkjun hf.

23. Other issues

Reducted payments from Norðurál
A conclusion was reached in an arbitration, where HS Orka was the claimant against Norðurál on the grounds of the reduction af contractual payments. OR was also a party to the trilateral contract and was therefore also a respondant to the arbitration.The result was that Norðurál did not have the right to reduce contractual payments. OR´s claim amounted to ISK 760 million. OR had not fully realised this claim in revenues due to uncertainty in the matter, that allowance has now been reversed.

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23. Other issues, contd.

Sale of financial assets

Among other financial assets in the balance sheet is a bond issued by Magma Energy Sweden A.B. Orkuveita Reykjavikur received an offer in the bond that the Board of Directors approved in its meeting in June, whith a disclaimer regarding approval from OR´s owners. the owners approved of the offer in July. Disclaimers in the offer are now being acted on. The fair value of the bond is valued by the same method as before but takes into account present value of payments in the offer.
The bond is classified as a financial asset through P/L and its book value 30 June 2013 is ISK 7.9 billion.

Delays of power plant constructions

The continuation of energy production projects has been called into question due to delays in meeting contractual conditions of energy sales contracts between Orkuveita Reykjavíkur and Norðurál Helguvik ehf. (NH). A review of energy sales contracts is ongoing with NH. It is OR´s opinion that some of the contractual conditions have been breached and OR is in dispute with NH on this matter. As a result, there have also been delays in the fulfilling of contracts with other parties such as machine producers and contractors. Negotiations have been conducted concerning compensation due to these delays. The largest contracts are with Mitsubishi Heavy Industries (MHI) and Balcke Dürr (BD) regarding the delivery of machinery, Orkuveita Reykjavíkur´s obligation regarding those contracts is discussed in note 8. Settlement has been reached with MHI and BD regarding delay of delivery of this machinery. Uncertainty still remains regarding investments of Hverahlíðarvirkjun, the amount of compensation to MHI and BD is unknown, but could be considerable if realised. It is the view of the management that there is no reason to make provisions in the financial statements regarding the matter at this point. The management is confident that solutions which should lower these costs considerably will be realised.

Effect of fluctations in foreign exchange rates and aluminium prices on the Company´s standing

29 August 2013, the day Orkuveita Reykjavíkur´s interim financial statements for the period 1 January to 30 June 2013 were authorised for issue, the TWI is 214,247 but was 217,0176 at the reporting date 30 June 2013. If interest bearing loans and borrowings would be accounted for according to the foreign exchange rates on the reporting date they would have amounted to ISK 205.6 billion or ISK 1.3 billion lower than accounted for at the end of the accounting period. Embedded derivatives in sales contracts, when taken into consideration changes in aluminium price and currency exchange rates, would have amounted to ISK 6.1 billion on the reporting date or 3.9 billion higher than on the accounting date. Further information about the effect of changes in the exchange rates and aluminium prices can be found in note 17.

Derivative contracts in default

After the collapse of the Icelandic banks in 2008 trading in the foreign exchange market in Iceland has been little and it can hardly be stated that the foreign exchange market is active. Due to the collapse, the Central Bank of Iceland issued rules on foreign exchange based on authority contained in the Act amending the Foreign Exchange Act No. 87/1992, which imposed restrictions on investment and transactions in foreign exchange.

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, both with Orkuveita Reykjavikur and the Receivership Committees of the fallen banks, 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 Reykjavikur´s behalf and the amount can either increase or decrease when the contracts are settled. The contracts are accounted for among other current liabilities.