Orkuveita Reykjavíkur

Condensed consolidated
Interim Financial Statements
1 January to 30 June 2014

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

reg no. 551298-3029

Contents

Endorsement by the Board of Directors

The condensed consolidated interim financial statements for the period 1 January to 30 June 2014 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 2014 was ISK 3.831 million. According to the statement of financial position the Company´s assets were ISK 283.286 million at the end of the period, book value of equity at the end of the period was ISK 83.526 million, resulting in equity ratio of 29.5%

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%

Changes due to unbundling of Reykjavik Energy January 1, 2014

On 1 January 2014 the provision of the Electricity Act that obligates companies in that market to segregate licensed from competitive operations, came to effect. At the beginning of the year 2014, Our Nature plc., began operating on the competitive electricity market as a subsidiary, wholly-owned by Reykjavik Energy, this being done to fulfil the act. The unbundling of Reykjavik Energy involved numerous tasks. Care had to be taken to maintaining lenders' trust. The company had to safeguard that the changed Group kept the benefit of its taxable loss, and that the finances of individual units were sufficiently solid after the segregation.

In connection with the unbundling, parliament passed a new comprehensive act for the company, Act no. 136/2013. It reflects decisions of the company's owners on its core operations. At the same time, decisions on the internal governance of Reykjavik Energy are more in the hands of the owners.

In order to ensure that the unbundling would surely be in accordance with governmental requirements without harming consumers, Reykjavik Energy's owners decided to segregate various aspects of the operations as clearly as possible. Mandatory services, water and sewage utilities, will be operated in a separate company, and exclusively licensed operations in another one. The competitive units in the field of electricity and fibre optics are in independent companies, owned by Reykjavik Energy. The core of Reykjavik Energy's operations is and will be utility services. They will continue to be operated under Reykjavik Energy's banner, both the mandatory municipal services, like water and sewage utilities, and the exclusively licensed services of electricity distribution and heating. In the parent company of the unbundled group, joint service divisions for the subsidiaries will be operated.

Statement by the Board of Directors

According to the best knowledge of the Board of Directors and the Managing Director of Orkuveita Reykjavíkur, the company´s condensed consolidated financial statements are in accordance with IFRS´s. It is the opinion of the Board of Directors and the Managing Director that the interim financial statements give a fair view of the Company's assets, liabilities and financial position 30 June 2014 and the company´s operating return and changes in cash and cash equivalents in the period. The interim financial statements also describe the main risk factors and uncertainties faced by the Company.

The Board of Directors of Orkuveita Reykjavíkur hereby confirm the Company´s consolidated financial statements for the period 1 January to 30 June 2014.

Reykjavík, 29 August 2014.

The Board of Directors:
Brynhildur Davíðsdóttir
Valdís Eyjólfsdóttir
Kjartan Magnússon
Áslaug Friðriksdóttir

Independent Auditor´s Review Report

To the Board of Directors and owners of Orkuveita Reykjavikur.

We have reviewed the accompanying condensed consolidated statement of financial position of Orkuveita Reykjavikur as at June 30, 2014, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting* . Our responsibility is to express a conclusion on this condensed consolidated 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 other 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 would 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 believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* .

Reykjavík, 29 August 2014.

KPMG ehf.
Guðný Helga Guðmundsdóttir
Kristrún H. Ingólfsdóttir

Income Statement
1. January to 30 June 2014

	Notes	2014 1.1.-30.6.	2013 1.1.-30.6.
Operating revenue	3	18.825.719	20.111.025
Energy purchase		(2.612.169)	(2.668.496)
Salaries and salary related expenses	4	(2.036.451)	(1.921.316)
Other operating expenses		(2.322.238)	(2.089.478)
Operating expenses, total		(6.970.858)	(6.679.290)
EBITDA		11.854.861	13.431.735
Depreciation	5	(4.331.284)	(4.496.015)
Results from operating activities, EBIT		7.523.576	8.935.720
Interest income		254.135	89.112
Interest expenses		(2.622.734)	(3.291.830)
Other (expenses) income on financial assets and liabilities		61.413	(2.321.748)
Total financial income and expenses	6	(2.307.186)	(5.524.466)
Profit before income tax		5.216.391	3.411.254
Income tax	7	(1.385.375)	325.107
Profit for the period		3.831.016	3.736.361

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Statement of Comprehensive Income
1 January to 30 June 2014

	Notes	2014 1.1.-30.6.	2013 1.1.-30.6.
Profit for the period		3.831.016	3.736.361
Comprehensive income			
Items moved to equity that will not be moved later to the income statement			
Revaluation reserve, decrease		0	(4.000.000)
Income tax effect of revaluation		0	1.440.000
Translation difference	13	0	0
		0	(2.560.000)
Items moved to equity that could be moved later to the income statement			
Changes in fair value of assets available for sale		(542.248)	364.000
Translation difference	13	(731.597)	0
		(1.273.845)	364.000
Comprehensive income moved directly to equity, after taxes		(1.273.845)	(2.196.000)
Total comprehensive profit of the period		2.557.171	1.540.361

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Consolidated Statement of Financial Position
30 June 2014

	Notes	30.6. 2014	31.12. 2013
Assets			
Property, plant and equipment	8	247.268.303	251.400.707
Intangible assets	9	1.251.277	1.242.808
Investments in associated companies		57.517	57.517
Investments in other companies		2.235.303	3.734.550
Embedded derivaties in electricity sales contracts	10	568.817	965.916
Hedge contracts		438.726	1.127.246
Other financial assets		7.626.332	7.502.804
Deferred tax assets	11	4.140.076	1.646.049
Total non-current assets		263.586.351	267.677.597
Inventories		361.757	367.347
Trade receivables	12	5.586.617	5.579.218
Hedge contracts		89.754	232.031
Other financial assets		386	386
Other receivables		540.045	257.409
Cash and cash equivalents		13.121.570	8.993.410
Total current assets		19.700.128	15.429.801
Total assets		283.286.479	283.107.398

	Notes	30.6. 2014	31.12. 2013
Equity			
Revaluation reserve		65.239.823	66.354.727
Fair value reserve		1.760.000	2.302.248
Translation reserve		(731.597)	0
Retained earnings		17.258.042	12.312.122
Total equity	13	83.526.268	80.969.097
Liabilities			
Loans and borrowings	14	171.794.192	175.319.931
Retirement benefit obligation		502.540	492.925
Hedge contracts		899.057	80.847
Deferred tax liabilities	11	3.880.865	0
Total non-current liabilities		177.076.655	175.893.703
Accounts payable		1.610.073	1.988.525
Loans and borrowings	14	15.221.560	19.619.524
Embedded derivaties in electricity sales contracts	10	360.639	548.176
Hedge contracts		1.118.594	1.390.870
Deferred revenue		1.489.167	0
Other current liabilities		2.883.524	2.697.502
Total current liabilities		22.683.556	26.244.598
Total liabilities		199.760.211	202.138.301
Total equity and liabilities		283.286.479	283.107.398

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Statement of Changes in Equity
1 January to 30 June 2014

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Minority interest	Total equity
1.1.- 30.6. 2014						
Equity at 1 January 2013	66.354.727	2.302.248	0	12.312.122	0	80.969.097
assets available for sale		(542.248)				(542.248)
Translation difference			(731.597)			(731.597)
Profit for the period				3.831.016	0	3.831.016
Total comprehensive income	0	(542.248)	(731.597)	3.831.016	0	2.557.171
Depreciation transferred to retained earnings	(1.114.904)			1.114.904		0
Equity at 30 June 2014	65.239.823	1.760.000	(731.597)	17.258.042	0	83.526.268

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Minority interest	Total equity
1.1.- 30.6. 2013						
Equity at 1 January 2012	51.791.161	1.760.000	0	7.092.309	4.353	60.647.823
Revaluation, decrease	(4.000.000)					(4.000.000)
Income tax on revaluation	1.440.000					1.440.000
Changes in fair value of assets available for sale		364.000				364.000
Profit for the period				3.736.361	0	3.736.361
Total comprehensive income	(2.560.000)	364.000	0	3.736.361	0	1.540.361
Depreciation transferred to retained earnings	(1.049.454)			1.049.454	(4.353)	(4.353)
Equity at 30 June 2013	48.181.707	2.124.000	0	11.878.124	0	62.183.831

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Statement of Cash Flows
1 January to 30 June 2014

	2014 1.1.-30.6.	2013 1.1.-30.6.
Cash flows from operating activities		
Profit for the period	3.831.016	3.736.361
Financial income and expenses	2.307.186	5.524.466
Other items not affecting the cash flow	5.726.275	4.176.651
Changes in operating assets and liabilities	1.257.482	(248.099)
Working capital from operation before interest and taxes	13.121.958	13.189.379
Received interest income	358.697	81.042
Paid interest expenses	(2.560.390)	(2.472.547)
Dividend received	0	53.671
Paid due to other financial income and expenses	33.075	(792.623)
Net cash from operating activities	10.953.341	10.058.923
Cash flows from investing activities		
Acquisition of property, plant and equipment	(2.107.858)	(1.266.030)
Acquisition of intangible assets	(42.305)	(26.121)
Proceeds from sale of property, plant and equipment	0	956.358
Sale of subsidiaries	0	(7.568)
Proceeds from sale of other companies	1.499.248	0
Proceeds and repayment of other financial assets	193	5.793
Net cash used in investing activities	(650.723)	(337.569)
Cash flows from financing activities		
Proceeds from new borrowings	5.700.000	3.080.750
Repayment of borrowings	(10.129.349)	(15.229.458)
Proceeds from new borrowings from the owners	0	4.000.000
Current liabilities, change	(1.765.000)	(1.098.141)
Net cash from financing activities	(6.194.349)	(9.246.849)
Increase in cash and cash equivalents	4.108.268	474.505
Cash and cash equivalents at year beginning	8.993.410	6.885.693
Effect of currency fluctuations on cash and cash equivalents	19.891	(998.772)
Cash and cash equivalents at end of the period	13.121.570	6.361.426
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	(199.152)	(98.288)
Proceeds from sale of subsidiaries	0	3.264
Receivables, change	0	(3.264)
Current liabilities, change	199.152	98.288
Other information:		
Working capital from operation	9.533.336	11.174.389

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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 2013.

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 are assembled using the same accounting methods as were used for the assembling of the annual financial statements for the year 2013. New or amended accounting standards or interpretations that entered into force for the condensed consolidated interim financial statement are as follows: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 10 includes a revised definition of control and guidance on the assessment of control. IFRS 11 establishes principles for financial reporting by entities that have interest in joint arrangements. IFRS 12 includes disclosure requirements that enable users of the Financial Statements to evaluate the nature of, and risks associated with the entity's interest in other entities and the effects of those interest on the entity's financial position, financial performance and cash flows. In addition, amendments to the previous versions of IAS 27 *Sepatate Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures* entered into force. It is management estimate that this new and amended standards have limited effect on the consolidated interim financials statements.

The interim financial statements were approved by the Board of Directors on 29 August 2014.

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.

2. Basis of preparation, contd.

d. *Foreign currency*

i) Transactions in foreign currencies

Transactions in foreign currencies are accounted for in the functional currency of each company within the Group, at the exchange rate of the transaction date. Monetary assets and liabilities in foreign currencies are translated into the exchange rate of the reporting date. Other assets and liabilities, booked at fair value, are booked at the exchange rate of the date the fair value was determined. Currency exchange difference due to transactions in foreign currencies is accounted for in the P/L account.

ii) Subsidiaries with other functional currencies than ISK

The assets and liabilities of a subsidiary with USD as it´s functional currency are translated to ISK at foreign exchange rates at the reporting date. The income and expenses of the subsidiary is translated to ISK at average exchange rates for the reporting period. Foreign currency differences arising on retranslation are recognised directly in a separate component of equity. When a operation with another functional currency than ISK is sold, in part or entirely, the related foreign exchange difference is transferred to the income statement.

d. *Use of estimates and judgements*

The preparation of the 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 8 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment.)
- note 10 - Embedded derivaties in electricity sales contracts (presumptions when calculating fair value.)
- note 11 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax losses.)
- note 16 - 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*.

Business segments - divisions

1.1.- 30.6. 2014	**Utilities**	**Production and sale**	**Other Operation**	**Adjust-ments**	**Total**
External revenue	13.506.044	5.147.894	171.782	0	18.825.720
Inter-segment revenue	873.354	1.979.705	1.407.196	(4.260.255)	0
Total segment revenue	14.379.398	7.127.599	1.578.978	(4.260.255)	18.825.720
Segment result	6.169.900	1.887.260	0	0	8.057.160
Unallocated expenses					(533.584)
Results from operating activities					7.523.576
Financial income and expenses					(2.307.186)
Income tax					(1.385.375)
Profit for the period					3.831.015

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

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3. Segment reporting, contd.

Business segments - divisions, contd. 1.1.- 30.6. 2014	Utilities	Production and sale	Other Operation	Adjust-ments	Total
Balance sheet (30.6. 2014)					
Property, plant and equipment and properties held for sale	142.904.737	102.447.505	0	1.916.061	247.268.303
Intangible assets	0	0	0	1.251.277	1.251.277
Shares in associates					57.517
Other unallocated assets					34.709.382
Total assets					283.286.479
Unallocated liabilities					199.760.211
Investsments					
Property, plant and equipment	1.095.489	818.775	0	189.482	2.103.746
Intangible assets	0	0	0	42.305	42.305
Depreciation					
Property, plant and equipment	2.653.550	1.565.282	0	78.616	4.297.448
Intangible assets	0	0	0	33.836	33.836
1.1.- 30.6. 2013					
Balance sheet (31.12. 2013)					
Property, plant and equipment and properties held for sale	144.445.946	104.928.005	9.286	2.017.471	251.400.708
Intangible assets	0	0	0	1.242.808	1.242.808
Shares in associates					57.517
Other unallocated assets					30.406.365
Total assets					283.107.398
Unallocated liabilities					202.138.301
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					
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

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Notes

4. Salaries and salary related expenses

	2014 1.1.-30.6.	2013 1.1.-30.6.
Salaries	1.769.116	1.653.019
Defined contribution pension expenses	221.388	206.850
Defined benefit pension expenses	20.207	18.162
Other salary related expenses	175.911	164.127
Expensed salaries and salary related expenses due to early retirement plan and laid-off employees	0	48.792
Total salaries and salary related expenses	2.186.621	2.090.949

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

	2014 1.1.-30.6.	2013 1.1.-30.6.
Expensed in the income statement	2.036.451	1.921.316
Capitalised on projects	150.170	169.633
Total salaries and salary related expenses	2.186.621	2.090.949

5. Depreciation and amortisation

	2014 1.1.-30.6.	2013 1.1.-30.6.
Depreciation and amortisation is specified as follows:		
Depreciation and amortisation, total, cf. note 8	4.297.449	4.429.926
Amortisation of intangible assets, cf. note 9	33.836	66.088
Depreciation and amortisation recognised in the income statement	4.331.285	4.496.015

6. Financial income and expenses

	2014 1.1.-30.6.	2013 1.1.-30.6.
Interest income	254.135	89.112
Interest expense	(2.254.127)	(2.841.211)
Guarantee fee to owners 1)	(368.606)	(450.619)
Total interest expenses	(2.622.734)	(3.291.830)
Fair value changes of embedded derivatives in electricity sales contracts	(209.561)	(12.470.962)
Fair value changes of assets available for sale	542.248	0
Fair value changes of financial assets and financial liabilities through P/L	123.721	(1.815.394)
Hedge contracts	(2.560.560)	(1.244)
Foreign exchange difference	2.165.555	11.912.181
Dividends	10	53.671
Total of other income (expenses) on financial assets and liabilities	61.413	(2.321.748)
Total financial income and expenses	(2.307.186)	(5.524.466)

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 0.52% regarding loans due for operations in the open market.

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 2013. Change in fair value that is expensed in the income statement amounts ISK 456 million. (1.1.-30.6 2013: expense ISK 14.286 million).

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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:	2014 1.1.-30.6.	2013 1.1.-30.6.
Change in deferred income tax	1.385.375	(325.107)
Income tax recognised in the income statement	1.385.375	(325.107)

Reconciliation of effective tax rate:		2014 1.1.-30.6.		2013 1.1.-30.6.
Profit before income tax		5.216.391		3.411.254
Income tax according to current tax ratio	36.0%	1.877.901	36.0%	1.228.051
Amendment of estimated taxes due to the unbundling of the Group 1.1. 2014	17.0%	887.495	0.0%	0
Non-taxable operation of water supply and sewer	(7.6%)	(395.205)	(45.3%)	(1.545.527)
Effect of various tax rates in the Group	(9.4%)	(492.638)	(3.0%)	(104.023)
Fair value changes of assets available for sale	(3.7%)	(195.209)	0.0%	0
Effect of exchange rate difference in tax calculations in different currencies	(7.4%)	(385.811)	0.0%	0
Other items	1.7%	88.842	2.8%	96.392
Effective income tax	26.6%	1.385.375	(9.5%)	(325.107)

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Notes

8. Property, plant and equipment

1.1.- 30.6. 2014	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	204.016.107	239.007.474	2.084.402	1.496.289	446.604.272
Reclassification of assets	(778.623)	(6.751)	(501.154)	(148.954)	(1.435.482)
Additions during the period	592.476	1.010.487	0	222.262	1.825.225
Additions in construction	278.521	0	0	0	278.521
Translation difference	(2.595.934)		(225)	(310)	(2.596.469)
Balance at end of period	201.512.547	240.011.210	1.583.023	1.569.287	444.676.067
Depreciation					
Balance at year beginning	70.133.607	123.229.790	915.419	924.750	195.203.566
Reclassification of assets	(778.854)	(6.494)	(501.209)	(148.925)	(1.435.482)
Depreciated during the period	2.206.010	2.012.624	6.287	72.528	4.297.449
Translation difference	(657.421)	0	(72)	(276)	(657.769)
Balance at end of period	70.903.342	125.235.919	420.425	848.077	197.407.764
Carrying amounts					
At 1.1. 2014................................	133.882.500	115.777.684	1.168.983	571.538	251.400.706
At 30.6. 2014..............................	130.609.205	114.775.291	1.162.597	721.210	247.268.303
Thereof assets in construction at end of period....	7.136.865	1.699.028	0	0	8.835.893

The year 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 year	808.728	2.394.477	870	235.945	3.440.021
Additions in construction	4.940	44.744	0	0	49.684
Sold or disposed of	0	0	0	16.054	16.054
Revaluation, increase	9.044.863	12.793.442	0	0	21.838.305
Revaluation, decrease	(4.073.811)	0	0	0	(4.073.811)
Balance at year end	204.016.107	239.007.474	2.084.402	1.496.289	446.604.272
Depreciation					
Balance at year beginning	64.424.583	113.110.231	881.295	806.447	179.222.557
Reclassification of assets	0	0	17.836	0	17.836
Depreciated during the year	4.904.854	3.842.117	16.288	133.257	8.896.515
Sold or disposed of	0	0	0	(14.954)	(14.954)
Revaluation, increase	877.981	6.277.442	0	0	7.155.423
Revaluation, decrease	(73.811)	0	0	0	(73.811)
Balance at year end	70.133.607	123.229.790	915.419	924.750	195.203.566
Carrying amounts					
At 1.1. 2013................................	133.806.804	110.664.579	1.202.237	437.842	246.111.462
At 31.12. 2013............................	133.882.500	115.777.684	1.168.983	571.538	251.400.706
Thereof assets in construction at year end...........	6.949.212	1.599.762	0	0	8.548.975

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8. Property, plant and equipment, contd.

Obligations

Reykjavik Energy has a contract to purchase two 45MW turbines for production in geothermal plants. According to the contract the company has to confirm the purchase before 1 June 2016, otherwise the company faces the risk of the contract being terminated. The contract amounts to ISK 6.9 billion as per exchange rate at end of the period (31.12. 2013: ISK 7.0 billion). The cost, if the contract is terminated, is unsignificant.

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. 2013: ISK 1.2 billion).

Revaluation

The fair value of property, plant and equipment 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 2013.

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 June 2014 there were no signs og impairment. Further discussion regarding impairment tests can be found in notes 3. h and 12. to the Company´s financial statements for the year 2013.

Transactions due to revaluation are specified in the following table:

Production systems	
Hot water	31.12.2013
Cold water	31.12.2013
Electricity	30.6.2013
Distribution systems	
Hot water	31.12.2013
Cold water	31.12.2013
Sewage	31.12.2013
Electricity	31.12.2013
Fibre-optic cable system	30.9.2010

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9. Intangible assets

1.1.- 30.6. 2014	Heating rights	Software	Total
Cost			
Balance at year beginning	1.427.031	1.408.638	2.835.669
Additions during the period	0	42.305	42.305
Balance at end of the period	1.427.031	1.450.942	2.877.973
Amortisation			
Balance at year beginning	448.281	1.144.579	1.592.860
Amortisation during the period	6.325	27.511	33.836
Balance at end of the period	454.606	1.172.090	1.626.696
Carrying amounts			
At 1.1. 2014	978.750	264.058	1.242.808
At 30.6. 2014	972.425	278.852	1.251.277

The year 2013	Heating rights	Software	Total
Cost			
Balance at year beginning	1.427.031	1.371.816	2.798.847
Additions during the year	0	70.795	70.795
Sold or disposed of	0	(33.974)	(33.974)
Balance at year end	1.427.031	1.408.638	2.835.669
Amortisation			
Balance at year beginning	503.524	1.076.343	1.579.867
Reclassification of assets	0	(17.836)	(17.836)
Amortisation during the year	(55.243)	86.073	30.829
Balance at year end	448.281	1.144.579	1.592.860
Carrying amounts			
At 1.1. 2013	923.507	295.474	1.218.980
At 31.12. 2013	978.750	264.058	1.242.807

10. Embedded derivatives in electricity sales contracts

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

	30.6. 2014	31.12. 2013
Fair value of embedded derivatives at the beginning of the year	417.739	14.738.660
Fair value changes during the period	(209.561)	(14.320.921)
	208.178	417.739

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

	30.6. 2014	31.12. 2013
Non-current embedded derivatives	568.817	965.916
Current embedded derivatives	(360.639)	(548.176)
	208.178	417.740

Further discussion regarding embedded derivatives can be found in note 16 c.

Interim Financial Statements of Orkuveita Reykjavikur 30 June 2014 18 Amounts are in ISK thousand

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

1.1.- 30.6. 2014	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	1.646.049	0	1.646.049
Effect on different tax rates due to unbundling 1.1. 2014	3.231.816	3.231.816	(0)
Calculated income tax for the period	(736.326)	649.049	(1.385.375)
Other changes	(1.464)	0	(1.464)
Deferred tax assets/liabilities at end of the period	4.140.075	3.880.865	259.210
The year 2013			
Deferred tax assets/liabilities at the beginning of the year	3.467.267	0	3.467.267
Calculated income tax for the year	(7.571.959)	0	(7.571.959)
Effect on different tax rates due to unbundling 1.1. 2014	7.934.264	0	7.934.264
Tax effect of revaluation	(2.183.524)	0	(2.183.524)
Deferred tax assets/liabilities at year end	1.646.049	0	1.646.050

Deferred tax assets and liabilities are attributable to the flollowing:

	30.6. 2014		31.12. 2013	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(2.258.800)	6.218.805	(8.896.046)	0
Embedded derivatives	0	0	(83.548)	0
Other items	(538.983)	(105.508)	(1.487.660)	0
Effect of carry forward taxable loss	6.937.859	(2.232.432)	12.113.303	0
Deferred tax assets/liabilities at period end	4.140.076	3.880.865	1.646.049	0

12. 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.

13. Equity

Equity ratio of the Company at the end of the period is 29.5% (31.12. 2013: 28.6%). Return on equity was positive by 9.8% in the period 1 January to 30 June 2014 (1.1.-30.6 2014: positive by 12.9%).

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.

Translation reserve

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

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14. 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 16.

Non-current liabilities	30.6. 2014	31.12. 2013
Bank loans	151.906.266	157.253.461
Subordinated loan from owners of the Company	13.453.156	13.306.266
Bond issuance	21.656.330	22.614.727
	187.015.752	193.174.454
Current portion on non-current liabilities	(15.221.560)	(17.854.524)
	171.794.192	175.319.930

Current liabilities		
Current portion on non-current liabilities	15.221.560	17.854.524
Short-term bank loans	0	1.765.000
	15.221.560	19.619.524
Total interest bearing loans and borrowings	187.015.752	194.939.454

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

		30.6. 2014		31.12. 2013	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	5.10.2027	0.08%	17.914.718	0.37%	21.201.702
Liabilities in EUR	6.12.2032	1.06%	60.720.243	1.04%	64.419.375
Liabilities in USD	8.11.2030	1.46%	42.548.539	1.83%	44.580.565
Liabilities in JPY	5.10.2027	0.21%	9.397.501	0.35%	10.657.589
Liabilities in GBP	26.2.2024	1.57%	4.619.363	1.55%	4.573.439
Liabilities in SEK	5.10.2027	1.02%	6.649.508	1.26%	7.343.913
			141.849.873		152.776.583

Liabilities in Icelandic kronas:

Indexed	10.1.2037	3.99%	43.865.879	4.67%	40.397.871
Non-indexed	5.12.2018	6.85%	1.300.000	7.53%	1.765.000
			45.165.879		42.162.871
Total interest-bearing loans and borrowings			187.015.752		194.939.454

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Notes

14. Loans and borrowings, contd.,

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

	30.6. 2014	31.12. 2013
1.7. 2014 to 30.6. 2015 / 1.1. to 31.12 2014	15.221.560	17.854.524
1.7. 2015 to 30.6. 2016 / 1.1. to 31.12 2015	18.241.982	17.920.187
1.7. 2016 to 30.6. 2017 / 1.1. to 31.12 2016	18.950.205	18.474.237
1.7. 2017 to 30.6. 2018 / 1.1. to 31.12 2017	14.304.478	14.298.158
1.7. 2018 to 30.6. 2019 / 1.1. to 31.12 2018	14.875.622	14.161.483
Later	105.421.904	110.465.865
Total non-current liabilities, including next year's repayment	187.015.752	193.174.454

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 20.886 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. 2013: ISK 18.138 million). Management regularly evaluate the covenants and in their view there is not danger of them being breached.

15. 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 16
- Liquidity risk, further discussed in note 17
- Credit risk, further discussed in note 18

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16. 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. 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).

Approximately 75.8% 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 117.400 million. That amount is based on the future price of aluminium on LME (London Metal Exchange) on the accounting date, exchange rate on USD 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. 2014	1.1.- 30.6. 2014	30.6. 2014	31.12. 2013
	Average exchange rate		Exchange rate at period end	
CHF	127,507	131,907	126,750	129,190
EUR	155,760	162,381	154,070	158,500
USD	113,641	122,231	112,860	115,030
JPY	1,109	1,256	1,113	1,096
GBP	189,566	191,225	192,120	190,210
SEK	17,408	18,7756	16,794	17,950
CAD	103,623	118,715	105,660	108,070
TWI	206,911	218,955	205,366	210,108

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16. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk

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

30.6. 2014	CHF	EUR	USD	JPY	GBP	SEK	Other currencies	Total
Loans and borrowings	(17.914.718)	(60.720.243)	(42.548.539)	(9.397.501)	(4.619.363)	(6.649.508)	0	(141.849.873)
Property and plant			100.163.293					100.163.293
Accounts payables		(28.927)	(108.514)		(1.798)		(2.631)	(141.871)
Trade receivables			900.885					900.885
Inventories			147.170					147.170
Bank deposits	645.233	1.914.807	567.298	412.847	115.539	279.172		3.934.897
Embedded derivatives			208.178					208.178
Hedge contracts	(240.699)	14.643.237	(30.599)	(91.504)	(6.179)	(28.358)	0	14.245.899
Other financial assets			7.626.332					7.626.332
Balance sheet risk	(17.510.183)	(44.191.126)	66.925.504	(9.076.158)	(4.511.800)	(6.398.693)	(2.631)	(14.765.089)
Estimated sale 1.7 - 30.6. 2014			6.383.629					6.383.629
Estimated purchase 1.7 - 30.6. 2014		(10.859)		(61.472)				(72.331)
Balance sheet risk	0	(10.859)	6.383.629	(61.472)	0	0	0	6.311.298
Net risk	(17.510.183)	(44.201.985)	73.309.133	(9.137.631)	(4.511.800)	(6.398.693)	(2.631)	(8.453.791)

The company Our nature plc (ON) was founded as part of the unbundling of the OR group 1 January 2014. ON´s functional currency is USD. This change has the effect that some assets and liabilities of ON, that were defined in ISK before, are now defined as USD assets/liabilities. This has the effect that the currency exposure in the balance sheet of the OR Group reduces significantly.

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16. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk, contd.

31.12. 2013	**CHF**	**EUR**	**USD**	**JPY**	**GBP**	**SEK**	**Other currencies**	**Total**
Loans and borrowings	(21.201.702)	(64.419.375)	(44.580.565)	(10.657.589)	(4.573.439)	(7.343.913)	0	(152.776.583)
Accounts payables		(39.028)	(254.558)				(64)	(293.650)
Trade receivables			526.950					526.950
Bank deposits	393.442	2.996.807	438.207	280.217	40.738	34.301	36	4.183.748
Embedded derivatives			417.740					417.740
Hedge contracts	(53.233)	18.857.773	439.925	(78.818)	(11.505)	(9.640)		19.144.502
Other financial assets			7.502.611					7.502.611
Balance sheet risk	(20.861.494)	(42.603.823)	(35.509.691)	(10.456.189)	(4.544.206)	(7.319.252)	(28)	(121.294.683)
Estimated sale in 2014	0	0	6.252.705	0	0	0	0	6.252.705
Estim. purch. in 2014	0	(431.843)	(222.910)	(85.543)	0	0	0	(740.296)
Balance sheet risk	0	(431.843)	6.029.795	(85.543)	0	0	0	5.512.409
Net risk	(20.861.494)	(43.035.666)	(29.479.896)	(10.541.733)	(4.544.206)	(7.319.252)	(28)	(115.782.274)

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	SEK	Other currencies	Total
1.1.- 30.6. 2014	1.120.652	2.828.232	(4.283.232)	580.874	288.755	409.516	168	944.966
The year 2013	1.335.136	2.726.645	2.272.620	669.196	290.829	468.432	2	7.762.860

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for the year 2013. 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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16. 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 84% of loans, taking into account hedges for aluminium, with fixed interest rates 1 year ahead minimum and proportionally less the next years after that.

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

Fixed rate instruments	**30.6. 2014**	**31.12. 2013**
Financial assets	386	579
Financial liabilities	(40.636.743)	(44.026.345)
	(40.636.357)	(44.025.766)
Variable rate instruments		
Financial liabilities	(146.379.009)	(150.913.110)
	(146.379.009)	(150.913.110)
Financial instruments at fair value		
Other financial assets	7.626.332	7.502.611
Hedge contracts	(1.489.170)	(112.441)
	6.137.162	7.390.170

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 2013.

	Cash flow sensitivity analysis		**Fair value sensitivity analysis**	
30.6. 2014	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(97.418)	113.633
Other financial assets	0	0	(107.985)	111.509
Hedge contracts	306.557	(306.557)	1.787.198	(1.892.393)
Interest bearing loans	(490.663)	490.663	0	0
	(184.106)	184.106	1.581.796	(1.667.250)
31.12. 2013	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(116.682)	134.238
Other financial assets	0	0	(127.896)	132.677
Hedge contracts	477.658	(477.658)	2.055.498	(2.148.257)
Interest bearing loans	(508.768)	508.768	0	0
	(31.110)	31.110	1.810.920	(1.881.342)

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16. 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 12.7% of total revenue in the reporting period 2014 (2013: 18.3%)

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 this risk for the next five years. At the accounting date hedges amounted to 58% of expected income effected by aluminium until 30 June 2015 (31.12. 2013: 44.0%).

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 (31.12.2013: ISK 0.1 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 an 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.

16. Market risk, contd.

c. *Aluminium risk, contd.*

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

Sensitivity analysis on the price of aluminium

30.6. 2014	Sensitivity of Fair value 10% decrease	Sensitivity of Fair value 10% increase
Embedded derivatives	(4.545.370)	4.545.370
Aluminium hedges	435.342	(435.342)
Financial assets at fair value through P/L	(254.786)	254.786
Total	(4.364.814)	4.364.814

31.12. 2013	Sensitivity of Fair value 10% decrease	Sensitivity of Fair value 10% increase
Embedded derivatives	(4.587.241)	4.587.241
Aluminium hedges	174.885	(174.885)
Financial assets at fair value through P/L	(252.702)	252.702
Total	(4.665.058)	4.665.058

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.

17. 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 end of the period amounted to ISK 13.1 billion. Furthermore, the Company had unused loan authorisations and a open credit line to the total amount of approx. ISK 8.8 billion. The Company had thus in total ensured capital at period end to the amount of approx. ISK 21.9 billion. The corresponding amount at year end 2013 amounted to ISK 18.4 billion.

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17. Liquidity risk, contd.

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

30.6. 2014

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Interest-bearing liabilities	187.015.752	(211.490.632)	(17.564.624)	(20.630.696)	(54.344.985)	(118.950.327)
Accounts payable	1.610.073	(1.610.073)	(1.610.073)	0	0	0
Other liabilities ...	2.883.524	(2.883.524)	(2.883.524)	0	0	0
Derivative financial instruments, net financial assets and financial liabilities						
Hedge contracts	(1.489.170)	(2.737.277)	(1.340.918)	(904.468)	(491.891)	0
	190.020.179	(218.721.506)	(23.399.139)	(21.535.164)	(54.836.877)	(118.950.327)

31.12. 2013

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Interest-bearing liabilities	194.939.455	(219.728.601)	(22.670.612)	(20.702.238)	(54.330.444)	(122.025.307)
Accounts payable	1.988.525	(1.988.525)	(1.988.525)	0	0	0
Other liabilities ...	2.697.502	(2.697.502)	(2.697.502)	0	0	0
Derivative financial instruments						
Hedge contracts	1.471.718	(1.653.811)	(1.318.783)	(987.468)	652.440	0
	201.097.200	(226.068.440)	(28.675.422)	(21.689.706)	(53.678.004)	(122.025.307)

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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18. 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. 2014	31.12. 2013
Trade receivable	5.586.617	5.579.218
Other current receivables	540.045	257.409
Other financial assets	7.626.718	7.503.190
Hedge contracts	528.480	1.359.277
Cash and cash equivalents	13.121.570	8.993.410
Total	27.403.430	23.692.504

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 20.

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

Trade receivable, industrial consumers	695.541	1.786.124
Trade receivable, retail	4.891.076	3.793.094
	5.586.617	5.579.218

Impairment

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

	30.6. 2014		31.12. 2013	
	Gross balance	Allowance	Gross balance	Allowance
Not past due receivables	4.710.553	127.810	3.503.568	84.878
Past due, 1 to 30 days	144.856	6.547	803.634	25.869
Past due, 31 to 90 days	267.536	30.913	163.001	24.951
Past due, 91 days and older	682.173	53.230	1.326.415	81.702
Total	5.805.117	218.500	5.796.618	217.400

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. 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.

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Notes

19. *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. 2014		31.12. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(187.015.752)	(158.801.963)	(194.939.455)	(165.716.726)

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. 2014	31.12. 2013
Embedded derivatives in electr. sales contr.	3.137% to 12.19%	2.22% to 12.91%
Other financial assets	6.67% to 7.13%	6.85% to 7.21%
Interest bearing loans	3.26% to 8.75%	2.59% to 9.44%

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. 2014	Level 2	Level 3	Total
Shares in companies	0	2.235.303	2.235.303
Embedded derivatives in sales contracts	0	208.178	208.178
Other financial assets	528.480	7.626.718	8.155.198
Other financial liabilities	(2.017.650)	0	(2.017.650)
	(1.489.170)	10.070.199	8.581.029
31.12. 2013			
Shares in companies	0	3.734.550	3.734.550
Embedded derivatives in sales contracts	0	417.740	417.740
Other financial assets	1.359.277	7.503.190	8.862.467
Other financial liabilities	(1.471.718)	0	(1.471.718)
	(112.441)	11.655.479	11.543.038

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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19. Fair value, contd.

A part of the Company´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.

20. Overview of financial instruments

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

	30.6. 2014			31.12. 2013		
	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			2.235.303			3.734.550
Embedd. electr. sales contracts ..		208.178			417.740	
Other financial assets	386	8.154.813		386	8.862.081	
Trade receivabl. .	5.586.617			5.579.218		
Other receivabl. ..	540.045			257.409		
Cash	13.121.570			8.993.410		
Interest-bearing .. liabilities	(187.015.752)			(194.939.455)		
Other financial liabilities		(2.017.650)			(1.471.718)	
Account payabl. .	(1.610.073)			(1.988.525)		
Prepaid income ..	(1.489.167)			0		
Other current liabilities	(2.883.524)			(2.697.502)		
	(173.749.899)	6.345.341	2.235.303	(184.795.059)	7.808.103	3.734.550

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Notes

21. Group entities

Subsidiaries	Main operation	Share 30.6. 2014	Share 31.12. 2013
Gagnaveita Reykjavíkur ehf.	Data transfer	100.0%	100.0%
OR Eignir ohf.	Holding company	100.0%	100.0%
OR 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%
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

At year end 2013 new companies were established in the group to prepare for the unbundling of the Company. The unbundling took place 1 January 2014. OR Veitur, Orka náttúrunnar, OR Vatns- og fráveita and OR Eignir were established. OR Eignir ohf. and OR Vatns- og fráveita sf. are owned directly by the parent company and OR Veitur ohf. and Orka náttúrunnar ohf. are owned by OR Eignir. The unbundling is discussed in the endorsement of the board and the managing director in the financial statements.

22. Other issues

Energy sale contracts with Norðurál Helguvík ehf.

Considerable delays have been in waiving the conditions precedence in the power purchase agreement with Norðurál Helguvík ehf. (NH) for second and third phase of potential the aluminium smelter in Helguvík. There is therefore uncertainty whether the construction of the smelter will commence or not. Discussions are ongoing with NH on a revised power purchase agreement. OR questions the validity of a part of the power purchase agreement and is in dispute with NH on this matter.

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.

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