Orkuveita Reykjavíkur

Consolidated
Financial Statements 2014

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

reg no. 551298-3029

Contents

Endorsement by the Board of Directors and the CEO

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no.139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems in its service area as well as a fibre optic system in its service area.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS´s) as adopted by the European Union. The financial statements comprise the consolidated financial statements of Orkuveita Reykjavikur and subsidiaries.

Profit of operations of Orkuveita Reykjavíkur for the year was ISK 8.871 million (2013: ISK 3.350 million). According to the statement of financial position the Company´s assets were ISK 299.330 million at the end of the year (31.12.2013: ISK 283.107 million), book value of equity at the end of the year was ISK 99.410 million (31.12.2013: ISK 80.969 million), resulting in equity ratio of 33.2% (31.12.2014 28,6%).

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

	Share
Reykjavíkurborg	93.539%
Akraneskaupstaður	5.528%
Borgarbyggð	0.933%

According to an agreement between the Board of Directors and owners from the year 2011, the Board of Directors do not propose dividend payments to owners of the parent company in the year 2015 due to the operating year 2014.

Changes due to unbundling of Orkuveita Reykjavíkur 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, Orka náttúrunnar ohf., began operating on the competitive electricity market as a subsidiary, wholly-owned by Orkuveita Reykjavíkur, this being done to fulfil the act. The unbundling of Orkuveita Reykjavíkur 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 Orkuveita Reykjavíkur 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, Orkuveita Reykjavíkur's owners decided to segregate various aspects of the operations as clearly as possible. Mandatory services, water and sewage utilities, are 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 Orkuveita Reykjavíkur. The core of Orkuveita Reykjavíkur's operations is and will be utility services. They will continue to be operated under Orkuveita Reykjavíkur'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 is operated, for example finance, quality- and environmental affairs, HSE as well as a joint service desk.

Corporate governance

The Board maintains and seeks to improve good corporate governance. Corporate governance is directed by law nr. 136/2013, collective ownership contract, owners policy and the Board´s operating procedure. The procedures also take into account the company´s moral guidelines, Guidelines on corporate governance, which were issued byt the Icelandic Chamber of Commerce, Nasdaq OMX Iceland ehf. and SA - Business Iceland and a handbook for board members, issued by KPMG. Subsidiaries have their seperate company agreements and their Board´s procedures. These documents can be found on the Company´s website, www.or.is. The Board of Orkuveita Reykjavíkur has appointed a Compensation committee and has nominated a representative in Reykjavík City´s Audit committee.

In an appendix with the Financial Statements further information regarding corporate governance can be found and information on the Company´s risk management is in notes 23-26 to the Financial statements.

Endorsement by the Board of Directors and the CEO

Statement by the Board of Directors

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the consolidated financial statements are in accordance with IFRS´s as they have been approved by EU. It is the opinion of the Board of Directors and the CEO that the Financial Statements give a fair view of the Group's assets, liabilities and financial position 31 December 2014 and the Group´s operating return and changes in cash and cash equivalents in the year 2014. The Financial Statements also describe the main risk factors and uncertainties faced by the Group.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group´s Financial Statements for the year 2014.

Reykjavík, 23 March 2015.

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

CEO:
Bjarni Bjarnason

Independent Auditor´s Report

To the Board of Directors and owners of Orkuveita Reykjavikur.

We have audited the accompanying consolidated financial statements of Orkuveita Reykjavíkur, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated income startement, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

The Board of Directors and CEO´s Responsibility for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor´s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Orkuveita Reykjavíkur as at December 31, 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 104, Paragraph 2, of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

Reykjavík, 23 March 2015.

KPMG ehf.
Guðný Helga Guðmundsdóttir
Kristrún H. Ingólfsdóttir

Income Statement 2014

	Notes	2014	2013
Operating revenue		38.448.260	38.587.479
Profit from sale of assets		77.627	621.959
Operating revenues, total	3	38.525.887	39.209.438
Energy purchase		(5.334.718)	(5.401.633)
Salaries and salary related expenses	5	(4.020.412)	(3.639.815)
Other operating expenses		(4.325.884)	(4.084.336)
Operating expenses, total		(13.681.015)	(13.125.784)
EBITDA		24.844.873	26.083.654
Depreciation	6	(9.152.340)	(8.927.345)
Results from operating activities, EBIT		15.692.533	17.156.310
Interest income		708.769	208.723
Interest expenses		(4.574.146)	(6.307.674)
Other expenses on financial assets and liabilities		(954.116)	(133.335)
Total financial income and expenses	7	(4.819.493)	(6.232.285)
Share in profit (loss) of associated companies	11	1.672	(2.309)
Profit before income tax		10.874.711	10.921.715
Income tax	8	(2.004.170)	(7.571.959)
Profit for the year		8.870.541	3.349.756

The notes on pages 11 to 48 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2014 6 Amounts are in ISK thousands

Statement of Comprehensive Income
for the year ended 31 December 2014

	Notes	2014	2013
Profit for the year		8.870.541	3.349.756
Other comprehensive income			
Items moved to equity that will not be moved later to the income statement			
Revaluation reserve, increase	9	7.600.000	14.682.883
Revaluation reserve, decrease	9	(253.603)	(4.000.000)
Income tax effect of revaluation	8	(1.469.279)	(2.183.524)
Effect of change in tax rate on the revaluation reserve		0	7.934.264
		5.877.118	16.433.623
Items moved to equity that could be moved later to the income statement			
Changes in fair value of assets available for sale	7	(542.248)	542.248
Translation difference	19	4.235.355	0
		3.693.107	542.248
Comprehensive income moved directly to equity, after taxes		9.570.225	16.975.871
Total comprehensive income for the year		18.440.766	20.325.627

The notes on pages 11 to 48 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2014 7 Amounts are in ISK thousands

Consolidated Statement of Financial Position
31 December 2014

	Notes	31.12.2014	31.12. 2013
Assets			
Property, plant and equipment	9	265.929.409	251.400.707
Intangible assets	10	1.333.728	1.242.808
Investments in associated companies	11	59.189	57.517
Investments in other companies	12	2.236.179	3.734.550
Embedded derivaties in electricity sales contracts	13	0	965.916
Hedge contracts	14	656.173	1.127.246
Other financial assets	14	8.480.317	7.502.804
Deferred tax assets	15	2.674.881	1.646.049
Total non-current assets		281.369.876	267.677.597
Inventories	16	434.943	367.347
Trade receivables	17	4.632.281	5.579.218
Hedge contracts	14	237.282	232.031
Other receivables	17	508.560	257.795
Deposits	18	3.000.144	0
Cash and cash equivalents	18	9.147.113	8.993.410
Total current assets		17.960.323	15.429.801
Total assets		299.330.199	283.107.398

	Notes	31.12.2014	31.12. 2013
Equity			
Revaluation reserve		69.446.324	66.354.727
Fair value reserve		1.760.000	2.302.248
Translation reserve		4.235.355	0
Retained earnings		23.968.184	12.312.122
Total equity	19	99.409.863	80.969.097
Liabilities			
Loans and borrowings	20	164.157.105	175.319.931
Retirement benefit obligation	21	520.264	492.925
Embedded derivaties in electricity sales contracts	13	2.377.756	
Hedge contracts	14	1.842.134	80.847
Deferred tax liabilities	15	4.529.006	0
Total non-current liabilities		173.426.264	175.893.703
Accounts payable		1.826.346	1.988.525
Loans and borrowings	20	19.766.122	19.619.524
Embedded derivaties in electricity sales contracts	13	649.933	548.176
Hedge contracts	14	1.194.980	1.390.870
Other current liabilities	22	3.056.691	2.697.502
Total current liabilities		26.494.072	26.244.598
Total liabilities		199.920.336	202.138.301
Total equity and liabilities		299.330.199	283.107.398

The notes on pages 11 to 48 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2014 8 Amounts are in ISK thousand

Statement of Changes in Equity
for the year 2014

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Minority interest	Total equity
The year 2014						
Equity at 1 January 2014	66.354.727	2.302.248	0	12.312.122	0	80.969.097
Revaluation, increase	7.600.000					7.600.000
Revaluation, decrease	(253.603)					(253.603)
Income tax effect of revaluation	(1.469.279)					(1.469.279)
Changes in fair value of assets available for sale		(542.248)				(542.248)
Translation difference			4.235.355			4.235.355
Profit for the year				8.870.541	0	8.870.541
Total comprehensive income	5.877.118	(542.248)	4.235.355	8.870.541	0	18.440.766
Depreciation transferred to retained earnings	(2.785.521)			2.785.521		0
Equity at 31 December 2014	69.446.324	1.760.000	4.235.355	23.968.184	0	99.409.863

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Minority interest	Total equity
The year 2013						
Equity at 1 January 2013	51.791.161	1.760.000	0	7.092.309	4.353	60.647.823
Revaluation, increase	14.682.883					14.682.883
Revaluation, decrease	(4.000.000)					(4.000.000)
Income tax on revaluation	(2.183.524)					(2.183.524)
Effect of group changes 1.1.2014 on income tax on revaluation	7.934.264					7.934.264
Changes in fair value of assets available for sale		542.248				542.248
Profit for the year				3.349.756		3.349.756
Total comprehensive income	16.433.623	542.248	3.349.756	3.349.756		20.325.627
Depreciation transferred to retained earnings	(1.870.057)			1.870.057		0
Other changes					(4.353)	(4.353)
Equity at 31 December 2013	66.354.726	2.302.248	0	12.312.122	0	80.969.096

The notes on pages 11 to 48 are an integral part of these Consolidated Financial Statements.

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Statement of Cash Flows
for the year 2014

	Notes	2014	2013
Cash flows from operating activities			
Profit for the year		8.870.541	3.349.756
Corrected by:			
Financial income and expenses		4.819.493	6.232.285
Share in P/L of associates		(1.672)	2.309
Income tax		2.004.170	7.571.959
Depreciation and amortisation		9.152.340	8.927.345
Profit from sale of property, plants and equipment		(77.633)	(621.959)
Retirement obligation, change		27.339	9.548
Working capital from operation before interest and taxes		24.794.578	25.471.243
Inventories, (increase) decrease		(54.837)	35.525
Current assets, decrease (increase)		806.444	(1.213.943)
Current liabilities, increase		515.887	827.483
Cash generated from operations before interests and taxes		26.062.072	25.120.308
Received interest income		741.624	210.379
Paid interest expenses		(4.927.063)	(4.966.841)
Dividend received		1.268	52.124
Received (paid) due to other financial income and expenses		206.340	(383.224)
Net cash from operating activities		22.084.241	20.032.746
Cash flows from investing activities			
Acquisition of property, plant and equipment		(5.593.920)	(3.459.378)
Acquisition of intangible assets		(167.012)	(70.795)
Proceeds from sale of property, plant and equipment		104.559	5.972.782
Sale of subsidiaries		0	(10.833)
Proceeds from sale of other companies		1.499.248	6.529
Investment in deposits		(3.000.144)	0
Proceeds and repayment of other financial assets		579	5.986
Net cash used in investing activities		(7.156.692)	2.444.291
Cash flows from financing activities			
Proceeds from new borrowings		5.700.000	3.080.750
Repayment of borrowings		(20.330.237)	(23.571.061)
Proceeds from new borrowings from the owners		0	4.000.000
Credit facility, change		0	(2.500.000)
Current liabilities, change		(71.544)	(152.190)
Net cash to financing activities		(14.701.782)	(19.142.500)
Increase in cash and cash equivalents		225.768	3.334.537
Cash and cash equivalents at year beginning		8.993.410	6.885.693
Effect of currency fluctuations on cash and cash equivalents		(72.065)	(1.226.819)
Cash and cash equivalents at year-end	18	9.147.113	8.993.411
Investments and financing without payment effects:			
Acquisition of property, plant and equipment		(191.027)	(131.085)
Current liabilities, change		191.027	131.085
Other information:			
Working capital from operation		18.881.122	19.675.015

The notes on pages 11 to 48 are an integral part of these Consolidated Financial Statements.

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Notes

1. Reporting entity

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

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

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standars (IFRSs) as adopted by the EU.

New reporting standards and their interpretation

The Group has adopted all International Financial Reporting Standards, their interpretation and changes on existing reporting standards that are valid at year end 2014 and are related to the Group´s operations. The main effect of the implementations can be seen below. The Group has not adopted in advance interpretations or changes according to IFRS that take effect after 31 December 2014. It is not considered that their adoption would have a significant impact on the FInancial statements

At the beginning of the year three new standards took effect. IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. IFRS 10 redefines the consept of dominance and contains new rules for estimating whether control exists or not. IFRS 11 sets out the principles of accounting by entities that engage in joint ventures. IFRS 12 sets out the requirements of information in notes to enable readers of the financial statements evaluate the nature and risk involved in having interests in other companies and its effect on operation, assets and cash flow. With the implementation of these new standards, Changes in IAS 27, Seperate FInancial Statements and IAS 28, Investments in Associates, where also implemented. The implementation of the standards have insignificant impact on the presentation, use of estimates and notes to the consolidated financial statements.

Other changes to the existing standards or interpretations than those set out above, have insignificant impact on the presentation, use of estimates and notes to the Consolidated Financial Statements according to management.

The financial statements were approved by the Board of Directors on 23 March 2015.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement are stated at fair value and assets held for sale are stated at fair value. The methods used to measure fair values are discussed further in note 34.

c. *Functional and presentation currency*

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

Notes

2. Basis of preparation, contd.

d. *Foreign currency*

i Trade in foreign currencies

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

ii Subsidiary with other currencies than the Icelandic krona

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

e. *Use of estimates and judgements*

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

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

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 9 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment.)
- note 12 - Investments in other companies (presumptions made when calculating fair value of assets classified for sale.)
- note 13 - Embedded derivaties in electricity sales contracts (presumptions when calculating fair value.)
- note 14 - Other financial assets and other financial liabilities (presumptions when calculating fair value.)
- note 15 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax losses.)
- note 21 - Retirement benefit obligations (presumptions when calculating the obligation)
- note 24 - Market risk
- note 29 - Property leases (classification of property leases.)

3. Segment reporting

Business divisions and sectors

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

The subsidiary **Our nature** generate electricity and harness hot water from the power plants as well as selling electricity to wholesale and retail customers.

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

Other operations cover the fibre optic system, the new construction and operation of street lighting, rental of housing and equipment, incidental sale of specialist consultancy services and more.

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

Sector	Official obligations
Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	Price rates are subject to authorisation from the The National Energy Authority. Rates are officially published.
Electricity, production	Energy sales are subject to the open market, electricity rate changes are therefore not subject to government approval.
Cold water	The legal limitation on the upper limit of the rate is 0.5% of the real estate value. Rates are officially published in the Law and Ministerial Gazette.
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fibre-optic data system	This is a competitive practice that is supervised by The Post and Telecom Administration.

Customers that have significant effect on the Group´s revenues

One customer has significant effect on the Group´s revenues in the year 2014, i.e. Norðurál Grundartangi inc.

The Group´s revenues from Norðurál Grundartangi inc., represents approximately ISK 6.506 million or 16.9% of total revenues. This income is mainly reported in the subsidiary Our nature (2013: ISK 6.589 million, or 16.8% of total revenue).

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3. Segment reporting

Segment information is presented by the Group's internal reporting. Due to the unbundling of the Company 1 January 2014 there is a change in the internal reporting between the comparative years. Therefore information between years is not fully comparable. Business segments now presented are *Utilities,* that represent licenced operations in hot and cold water, distribution of electricity and sewage, *Our nature* , representing the competitive operations in producing electricity and hot water and *Other Operation,* that represents the activities of the parent company and the fibre optic operations. Segement reporting is contucted by using the same accounting principle as the group uses and is described in Note 33.

Business segments - divisions

The year 2014	Utilities	Our nature	Other Operation	Adjust-ments	Total
External revenue	25.357.642	11.643.144	1.525.102	0	38.525.887
Inter-segment revenue	2.358.481	3.107.370	4.427.677	(9.893.528)	(0)
Total segment revenue	27.716.123	14.750.514	5.952.778	(9.893.528)	38.525.887
Segment result	(11.423.820)	(6.664.017)	(5.486.706)	9.893.529	(13.681.014)
Segment profit EBITDA	16.292.303	8.086.497	466.072	0	24.844.872
Depreciation and impairment	(5.021.266)	(3.178.196)	(952.878)	0	(9.152.340)
Segment results, EBIT	11.271.037	4.908.301	(486.806)	0	15.692.533
Financial income and expenses	(4.716.681)	(1.372.662)	4.447.986	(3.178.136)	(4.819.493)
Share of loss of associated companies	0	0	1.672	0	1.672
Income tax	(750.306)	(840.807)	(1.653.411)	1.240.354	(2.004.170)
Profit for the year	5.804.050	2.694.832	2.309.441	(1.937.782)	8.870.540

The year 2013	Utilities	Our nature	Other Operation	Adjust-ments	Total
External revenue	25.893.741	12.498.245	817.452	0	39.209.438
Inter-segment revenue	239.225	11.361.307	507.128	(12.107.660)	0
Total segment revenue	26.132.966	23.859.552	1.324.580	(12.107.660)	39.209.438
Segment result	11.440.742	4.930.163	996.482	0	17.367.387
Unallocated expenses					(211.077)
Results from operating activities					17.156.310
Financial income and expenses					(6.232.285)
Share of loss of associated companies					(2.309)
Income tax					(7.571.959)
Profit for the year					3.349.757

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3. Segment reporting, contd.

Business segments - divisions, contd.

The year 2014	Utilities	Our nature	Other Operation	Adjust-ments	Total
Balance sheet (31.12.2014)					
Property, plant and equipment and intangible assets	130.832.247	119.638.235	16.792.655	0	267.263.137
Other assets	6.933.241	8.856.968	358.495.745	(342.218.892)	32.067.062
					299.330.199
Loans and borrowings	74.907.939	72.332.482	183.923.227	(147.240.418)	183.923.230
Other liabilities	5.174.555	4.379.156	17.647.348	(11.203.950)	15.997.109
					199.920.339
Investsments					
Property, plant and equipment and intangible assets	2.551.353	1.870.898	1.531.142	0	5.953.393

The year 2013	Utilities	Our nature	Other Operation	Adjust-ments	Total
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	2.692.093	557.264	0	240.347	3.489.704
Intangible assets	0	0	0	70.795	70.795
Depreciation					
Property, plant and equipment	4.957.625	3.787.859	0	151.032	8.896.516
Intangible assets	0	0	0	30.829	30.829

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Notes

4. Analysis of geothermal power plant operation

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

	Electricity 2014	Hot water 2014	Electricity 2013	Hot water 2013
Geothermal power plant				
Revenue	9.247.259	2.591.105	8.139.505	2.700.000
Operating expenses	(1.587.189)	(628.104)	(1.322.543)	(662.894)
Depreciation	(2.434.546)	(722.203)	(2.525.250)	(808.745)
Profit before financial expenses	5.225.524	1.240.798	4.291.712	1.228.360
Return on investment	6,8%	4,6%	4,7%	2,1%

The power plants at Hellisheiði and Nesjavellir are mixed production plants, where both hot water and energy are produced.
The cost allocation is based on Our nature´s methods, that the National Energy Authority (NEA) has not approved. NEA is obligated to set new cost allocation rules after having disapproved Our natures proposal, NEA has not yet carried this out. Until NEA sets new rules for cost allocation, the return of the segments are reported using Our natures methods.

5. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2014	2013
Salaries	3.439.515	3.179.776
Defined contribution pension expenses	447.995	419.024
Defined benefit pension expenses	48.441	28.748
Other salary related expenses	353.401	331.935
Expensed salaries and salary related expenses due to early retirement plan and laid-off employees 1)	80.915	54.887
Total salaries and salary related expenses	4.370.267	4.014.369

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

	2014	2013
Expensed in the income statement	4.020.412	3.639.815
Capitalised on projects	349.855	374.554
Total salaries and salary related expenses	4.370.267	4.014.369

Number of employees:

	2014	2013
Number of annual working units	441	445

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

	2014	2013
Salaries to the Board of Directors of the Parent Company	16.017	20.137
Salaries of the CEO of the Parent Company	22.151	20.566
Salaries of three Managing Directors of the Parent Company (five 2013)	49.515	82.072
Salaries to the Board of Directors of three subsidiaries (one 2013)	14.985	3.600
Salaries of three Managing Directors of subsidiaries (one 2013)	56.476	16.261
Termination expenses, pension expenses included 2)	13.888	0
	173.032	142.636

Included in salaries are benefits and vehicle subsidy.

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 Group during the termination. When employees leave the Group either due to early retirement or due to lay-offs the termination cost is recognised immediately.

2) The manager of Gagnaveita Reykjavikur left his position at year-end 2014. Salaries and salary related expenses were all expensed in P/L upon his departure.

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6. Depreciation and amortisation

	2014	2013
Depreciation and amortisation is specified as follows:		
Depreciation of property, plant and equipment	9.076.247	8.496.515
Amortisation of assets under construction	0	400.000
Depreciation and amortisation, total, cf. note 9	9.076.247	8.896.515
Amortisation of intangible assets, cf. note 10	76.092	30.829
Depreciation and amortisation recognised in the income statement	9.152.340	8.927.345

7. Financial income and expenses

	2014	2013
Financial income and expenses are specified as follows:		
Interest income	708.769	208.723
Interest expense	(3.847.073)	(5.489.263)
Guarantee fee to owners 1)	(727.073)	(818.411)
Total interest expenses	(4.574.146)	(6.307.674)
Fair value changes of embedded derivatives in electricity sales contracts	(3.445.428)	(14.320.921)
Fair value changes of assets available for sale	542.248	(74.900)
Fair value changes of financial assets and financial liabilities through P/L	759.774	(2.102.704)
Hedge contracts	(4.004.516)	(1.355.128)
Foreign exchange difference	5.192.538	17.666.647
Dividends	1.268	53.671
Total of other income (expenses) on financial assets and liabilities	(954.116)	(133.335)
Total financial income and expenses	(4.819.493)	(6.232.285)

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavikur in 2005. The fee on yearly basis for its licenced operations is 0.375% and 0.49% regarding loans due for operations in the open market. The guarantee fee amounted to ISK 727 million in the year 2014 (2013: ISK 818 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 34. Change in fair value that is expensed in the income statement amounts ISK 2.143 million. (2013: expense ISK 16.499 million).

Capitalised financing cost

Financing cost due to construction of a power plant amountin to ISK 152 million was capitalised and was deducted from financial expense. No finance expense was capitalised in the year 2013. Interest ratio that was used in the calculation of capitalised financing cost for the year 2014 was 4.5%.

	2014	2013
Interest expense is specified as follows:		
Interest expenses, charged in the income statement	(4.574.146)	(6.307.674)
Capitalised finance cost	(152.244)	0
Interest expenses	(4.726.390)	(6.307.674)

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8. Income tax

The Group´s companies are tax liable according with Article 2 of law no. 90/2003 on income tax. The part of the Group´s operation concerning operation of cold water supply and sewer is though exempt from income tax.
The parent Company´s tax rate is 36%, other taxable subsidiares have a 20% tax rate.

Income tax recognised in the income statement is specified as follows:	**2014**	**2013**
Change in deferred income tax	2.004.170	7.571.959
Income tax recognised through P/L	2.004.170	7.571.959

Reconciliation of effective tax rate:		**2014**		**2013**
Profit before income tax		10.874.711		10.921.715
Income tax according to tax ratio of parent	36,0%	3.914.896	36,0%	3.931.818
Effect of tax rates of subsidiaries	(11,7%)	(1.272.421)	(1,6%)	(172.496)
Effect of valuation of exploitation of deferred tax losses	0,9%	94.000	(2,7%)	(290.000)
Non-taxable operation of water supply and sewer	(8,5%)	(928.386)	(23,4%)	(2.555.631)
Effect of unbundling on deferred income tax	2,2%	234.512	60,3%	6.586.925
Effect of different functional currencies in the Group	1,2%	133.679		
Fair value changes of AFS	(1,8%)	(195.209)		
Other items	0,2%	23.099	0,7%	71.344
Effective income tax	18,4%	2.004.170	69,3%	7.571.959

Income tax moved directly to equity

Deferred tax

Due to income and expenses moved directo to equity	**2014**	**2013**
Tax effect of revaluation	1.469.279	2.183.524
Effect of unbundling on tax on revaluation	0	(7.934.264)
Deffered tax, total	1.469.279	(5.750.740)

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9. Property, plant and equipment

The year 2014	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	204.016.109	239.007.474	2.084.402	1.496.289	446.604.274
Reclassification of assets	(778.623)	(6.751)	(501.154)	(148.954)	(1.435.482)
Additions during the year	1.806.275	3.054.066	96.643	360.351	5.317.335
Additions of assets in constr.	469.046	0	0	0	469.046
Translation difference	14.343.503	0	1.233	2.290	14.347.025
Sold or disposed of	0	(22.193)	(17.102)	(26.943)	(66.238)
Revaluation, increase	10.092.794	0	0	0	10.092.794
Revaluation, decrease	0	(353.584)	0	0	(353.584)
Balance at year end	229.949.102	241.679.011	1.664.022	1.683.033	474.975.168
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 year	4.608.349	4.187.518	116.435	163.945	9.076.247
Translation difference	3.846.005	0	408	1.515	3.847.929
Sold or disposed of	0	0	(16.418)	(22.895)	(39.313)
Revaluation, increase	2.492.794	0	0	0	2.492.794
Revaluation, decrease	0	(99.982)	0	0	(99.982)
Balance at year end	80.301.902	127.310.832	514.635	918.390	209.045.759
Carrying amounts					
At 1.1. 2014................................	133.882.501	115.777.684	1.168.983	571.538	251.400.707
At 31.12. 2014............................	149.647.200	114.368.179	1.149.387	764.643	265.929.409
Thereof assets under construction at year end...........	7.656.783	1.699.028	0	0	9.355.811

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	808.729	2.394.477	870	235.945	3.440.022
Additions of assets in constr.	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	204.016.109	239.007.474	2.084.402	1.496.289	446.604.274
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. 2014............................	133.882.501	115.777.684	1.168.983	571.538	251.400.707
Thereof assets under construction at year end...........	6.949.212	1.599.762	0	0	8.548.975

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9. Property, plant and equipment, contd.

Revaluation

When revaluating, the relevant asset groups are measured at fair value. The aforementioned revaluation is recognised in a revaluation reserve among equity taken into account effects of deferred income tax as further explained in note 33. c. The revaluation is carried out by experts within the Group.

Revaluation was carried out for fibre optic systems and electricity production assets at year-end 2014 as part of regular revaluation of the assets of the Group The revaluation led to an increase in book value of assets in electricity production amounting to ISK 7.600 million and a decrease in the fibre optic system amounting to ISK 254 million.
Revaluation was last conducted according to the following table:

	Date of Revaluation
Production systems	
Hot water	31.12.2013
Cold water	31.12.2013
Electricity	31.12.2014
Distribution systems	
Hot water	31.12.2013
Cold water	31.12.2013
Sewage	31.12.2013
Electricity	31.12.2013
Fibre-optic cable system	31.12.2014

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Group's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within the Group. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems. Revaluation is classified as level 3 of the hierarchy of fair value, further explained in note 27.

Information on revalued assets at year end

31.12.2014	Production system	Distribution system	Total
Revalued carrying amount	149.647.200	114.368.179	264.015.379
Thereof effect of revaluation	(36.429.693)	(47.345.825)	(83.775.518)
Carrying amount before effect of revaluation	113.217.507	67.022.354	180.239.861
31.12. 2013			
Revalued carrying amount	133.882.500	115.777.684	249.660.184
Thereof effect of revaluation	(30.401.658)	(45.941.014)	(76.342.672)
Carrying amount before effect of revaluation	103.480.842	69.836.670	173.317.512

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9. Property, plant and equipment, contd.

Impairment tests

Impairment tests were performed at year end in order to confirm both carrying amounts of assets and main assets under construction would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the utilities and production systems.
The impairment is based on several assumptions, the main assumptions are:

	WACC		Future growth	
	2014	**2013**	**2014**	**2013**
Hot water	5.16%	4.40%	1.0%	0.5%
Electricity, distribution	4.86%	4.10%	0.7%	0.5%
Cold water	5.60%	5.39%	0.7%	0.5%
Sewage	5.60%	5.39%	0.7%	0.5%
Production at power plants	5.16 to 6.74%	4.97 to 7.93%	0 to 4.6%	0 to 5.0%

Further explanation on impairment test is in note 33 g.

Uncertainty is concerning when construction projects will be commenced due to unsettled energy sale contracts and financing of the projects.

There were no indications of impairment at year-end 2014.

Rateable value and insurance value

The rateable value of the Group's assets measured in the rateable value assessment amounted to ISK 23.528 million at year end 2014 (2013: ISK 24.309 million). The fire insurance value of the company's assets amounted to ISK 24.923 million at the same time (2013: ISK 28.182 million). Among those assets are real estates capitalised among production and distribution systems.

Obligations

The Group has a contract to purchase two 45MW turbines for production in geothermal plants. According to the contract the Group has to confirm the purchase before 1 June 2016, otherwise the Group faces the risk of the contract being terminated. The contract amounts to ISK 7.1 billion as per exchange rate at end of the year (31.12. 2013: ISK 7.0 billion). The cost, if the contract is terminated, is unsignificant.

Furthermore, the Group has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at year end is estimated at ISK 1.2 billion (31.12. 2013: ISK 1.2 billion).

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10. Intangible assets

Intangible assets are specified as follows:

The year 2014	Heating rights	Software	Total
Cost			
Balance at year beginning	1.427.031	1.408.638	2.835.669
Additions during the year	0	167.012	167.012
Balance at end of the year	1.427.031	1.575.650	3.002.681
Amortisation			
Balance at year beginning	448.281	1.144.579	1.592.860
Amortisation during the year	9.488	66.605	76.092
Balance at end of the year	457.768	1.211.184	1.668.953
Carrying amounts			
At 1.1. 2014	978.750	264.058	1.242.808
At 31.12. 2014	969.263	364.466	1.333.728

The year 2013	Heating rights	Software	Total
Cost			
Balance at year beginning	1.427.031	1.371.816	2.798.847
Reclassification of assets	0	70.795	70.795
Additions during the year	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

11. Investments in associated companies

	2014		2013	
	Share	Carrying amount	Share	Carrying amount
Iceland American Energy Inc.	83.7%	0	83.7%	0
Íslensk Nýorka ehf.	27.6%	28.738	27.6%	29.341
Netorka hf.	23.5%	24.179	23.5%	21.856
Reykjavik Energy Grad. School hf.	45.0%	6.272	45.0%	6.320
Total		59.189		57.517

The Group's share in the profit of its associated companies amounted to ISK 1,7 million in the year 2014 (2013: loss of ISK 2.3 million).

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12. Investments in other companies

Investments in other companies are specified as follows:	Share	2014	2013
HS Veitur hf. 1)	16.6%	0	1.499.248
Landsnet hf. 2)	6.8%	2.160.000	2.160.000
Other shares in companies		76.179	75.303
Other shares in companies, total		2.236.179	3.734.550

The value of financial assets at fair value through profit or loss is based on market value. Fair value of financial assets available for sale is based on generally accepted valuation methods performen by independent experts, unless where it is possible to base it on recent commercial transactions. See further discussion in note 27.

1) Shares in HS Veitur were sold at the beginning of the year.
2) According to provisions in the Energy laws no. 65/2003 only current owners of shares in Landsnet are allowed to assign their shares to other owners of Landsnet and are not allowed to sell their shares to other parties.

13. Embedded derivatives in electricity sales contracts

	2014	2013
Fair value of embedded derivatives at the beginning of the year, asset	417.739	14.738.660
Fair value changes during the year, expensed	(3.445.428)	(14.320.921)
Fair value of embedded derivatives at year-end (liability)/asset	(3.027.689)	417.739

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

	2014	2013
Non-current embedded derivatives (liability)/asset	(2.377.756)	965.916
Current embedded derivatives, liability	(649.933)	(548.176)
Total embedded derivatives at year-end, (liability)/asset	(3.027.689)	417.740

Further discussion regarding embedded derivatives can be found in note 25 c.

14. Other financial assets and financial liabilities

Financial assets at fair value through profit or loss:	2014	2013
Non-current assets		
Bonds	8.480.317	7.502.804
Hedge contracts	656.173	1.127.246
	9.136.490	8.630.050
Current assets		
Cash and cash equivalents, marketable securities	728.290	0
Hedge contracts	237.475	232.417
	965.765	232.417
Non current liabilities		
Hedge contracts	(1.842.134)	(80.847)
Current liabilities		
Hedge contracts	(1.194.980)	(1.390.870)

The bond among non-current assets is issued in USD and carries 1.5% interest. It has one due date in the year 2016. The bond is linked to aluminium prices to certain extent and is pledged with shares in HS Orka hf. The bond is stated at fair value through P/L and derivatives are not separated from the bond. The fair value of the bond is measured from future prices of aluminium, discounted by the interest rate of the relevant currency, plus premium due to counter-party risk. All of the Group´s bonds are determined to be third level in the fair value hierarchy as further is explained in note 27.
Hedge contracts are measured by discounted future cash flow and market observable data is used in the price determination.

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15. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

2014	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	1.646.048	0	1.646.048
Amendments of position 1.1. due to unbundling	1.391.168	1.391.168	0
Calculated income tax for the year	(413.057)	1.591.114	(2.004.170)
Other changes	0	26.724	(26.724)
Tax effect on the revaluation account	50.721	1.520.000	(1.469.279)
Deferred tax assets/liabilities at end of the year	2.674.880	4.529.006	(1.854.125)
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)
Tax effect due to unbundling of the Company	7.934.264	0	7.934.264
Tax effect on the revaluation account	(2.183.524)	0	(2.183.524)
Deferred tax assets/liabilities at year end	1.646.048	0	1.646.048

Deferred tax assets and liabilities are attributable to the flollowing:

	31.12.2014		31.12. 2013	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(814.779)	9.236.832	(8.896.046)	0
Embedded derivatives	1.089.968	0	(83.548)	0
Other items	(1.614.224)	62.729	(1.487.660)	0
Effect of carry forward taxable loss	4.013.917	(4.770.556)	12.113.303	0
Deferred tax assets/liabilities at year end	2.674.881	4.529.006	1.646.049	0

Carry forward taxable loss

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

	2014	2013
Unadjusted taxable loss for the year 2008, usable until year 2018	31.506.501	45.857.516
Unadjusted taxable loss for the year 2009, usable until year 2019	4.953.017	4.953.017
Carry forwards taxable loss at year end	36.459.517	50.810.533

Management has concluded based on their projections that there will be sufficient taxable profit in the future to use the stated deferred taxable asset.

16. Inventories

	2014	2013
Inventory of materials	434.943	367.347

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

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17. Receivables

Trade receivables is specified as follows at year end:

	2014	2013
Trade receivables, industrial consumers	988.201	1.786.124
Trade receivables, retail	3.840.680	4.010.494
Trade receivables, total	4.828.881	5.796.618
Allowance for doubtful accounts	(196.600)	(217.400)
	4.632.281	5.579.218

Other current receivables are specified as follows at year end:

Pre-paid expenses	161.301	146.420
Capital income tax	100.453	43.800
Accrued interest income	161.230	31.035
Receivables from employees	3.391	5.756
Other receivables	82.187	30.783
	508.560	257.795

18. Cash and cash equivalents and deposits

Cash and cash equivalents and deposits at year end are specified as follows:

	2014	2013
Marketable securities	728.290	0
Bank deposits, available from three to twelve months	3.000.144	0
Bank balances available within three months	8.418.823	8.993.410
	12.147.258	8.993.410

19. Equity

Equity ratio of the Group at year end 2014 is 33.2% (2013: 28.6%). Return on equity was positive by 10.3% in the year 2014 (2013: positive by 4.8%).

Revaluation reserve

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

Translation reserve

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

Fair value reserve

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

Retained earnings

Dividend was not paid to the owners of the parent Company in the year 2014. (2013: No paymend of dividend).

The Company's Board of Directors do not propose divident to be paid to the owners of the parent company in the year 2015 due to the operating year 2014. The owners of the parent company decide on dividend payments.

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20. Loans and borrowings

Interest bearing loans are recorded using the method of amortised cost. Further information on the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 24. Loans and borrowings are detailed as follows:

Non-current liabilities	**2014**	**2013**
Bank loans	147.495.733	157.253.461
Subordinated loan from owners of the Company	13.443.576	13.306.266
Bond issuance	21.290.463	22.614.727
	182.229.771	193.174.454
Current portion on non-current liabilities	(18.072.667)	(17.854.524)
	164.157.105	175.319.930
Current liabilities		
Current portion on non-current liabilities	18.072.667	17.854.524
Short-term bank loans	1.693.456	1.765.000
	19.766.122	19.619.524
Total interest bearing loans and borrowings	183.923.227	194.939.454

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		**2014**		**2013**	
	Date of maturity	**Average interest rate**	**Carrying amount**	**Average interest rate**	**Carrying amount**
Liabilities in CHF	5.10.2027	0,07%	17.116.028	0.56%	21.201.702
Liabilities in EUR	6.12.2032	0,93%	58.640.843	0.98%	64.419.375
Liabilities in USD	8.11.2030	1,35%	42.746.619	1.81%	44.580.565
Liabilities in JPY	5.10.2027	0,18%	8.444.877	0.47%	10.657.589
Liabilities in GBP	26.2.2024	1,67%	4.677.097	1.85%	4.573.439
Liabilities in SEK	5.10.2027	0,53%	6.055.595	2.06%	7.343.913
			137.681.058		152.776.583
Liabilities in Icelandic kronas:					
Indexed	10.1.2037	4.51%	43.248.713	4.67%	40.397.871
Non-indexed	5.12.2018	6,29%	2.993.456	7.53%	1.765.000
			46.242.169		42.162.871
Total interest-bearing loans and borrowings			183.923.227		194.939.454

Repayment on non-current liabilities are specified as follows on the next years:	**2014**	**2013**
The year 2014	-	17.854.524
The year 2015	18.072.667	17.920.187
The year 2016	18.949.030	18.474.237
The year 2017	14.764.519	14.298.158
The year 2018	15.663.683	14.161.483
The year 2019	13.990.434	13.618.653
Later	100.789.438	96.847.212
Total non-current liabilities, including next year's repayment	182.229.771	193.174.454

Next years repayment

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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20. Loans and borrowings, contd.,

Guarantees and pledges

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

Covenants

Loans for the amount of ISK 19.400 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. (2013: ISK 18.138 million). Management regularly evaluate the covenants and in their view there is not danger of them being breached.

21. Retirement benefit obligation

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

The Group's accrued retirement benefit obligation amounted to ISK 545 million at year end 2014, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2013: ISK 518 million). The Group updates the obligation according to an assessment from an actuary each year when that assessment is available. Premises for life expectancy are in accordance with provisions of Regulation no. 391/1998 on obligatory insurance of pension benefits and operation of pension funds. The estimated increase in the obliagation in the year is based on general increase in salaries taken into account interests. The increase of the obliagation during the year is expensed in the income statement among salaries and salary related expenses. The part of the obligation that is estimated to be payable in the year 2015 is recognised among current liabilities.

Retirement benefit obligation is specified as follows:	**2014**	**2013**
Retirement benefit obligation at the beginning of the year	517.925	508.377
Contribution due to pension payments during the year	(21.102)	(19.200)
Increase in the pension fund obligation during the year	48.441	28.748
Retirement benefit obligation at year end	545.264	517.925
Non-current component of retirement benefit obligation	520.264	492.925
Current component of retirement benefit obligation	25.000	25.000
Retirement benefit obligation at year end	545.264	517.925

22. Current liabilities

Other current liabilities is specified as follows:	**2014**	**2013**
Unpaid taxes	797.329	757.353
Unpaid salaries and salary related items	632.818	410.765
Accrued interest expenses	646.159	718.379
Current component of retirement benefit obligation	25.000	25.000
Derivative contracts in default, cf. note 32	740.000	740.000
Other liabilities	215.385	46.006
	3.056.691	2.697.502

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23. Risk management and financial instruments

The risk policy was updated and approved by the Board of Directors of Orkuveita Reykjavík at the end of the year 2014. The Board´s policy is that in all of the Group´s operations, risks are to be considered and by that implementing efficient decision making and governance. The risk policy explains the overview and main targets of the Board in this matter. The risk policy also defines the main risk factors, measurement indicators, objectives and risk limits in the daily risk management. One of the main 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 Group

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 Group.

Financial risk is divided into:

• Market risk, further discussed in note 24
• Liquidity risk, further discussed in note 25
• Credit risk, further discussed in note 26

24. Market risk

Market risk is the risk that changes in the market price of foreign currencies, aluminium price and interests will affect the Group’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 Group 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 Group.
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 Group's income. Currency risk is measured in the difference between assets and liabilities in each currency where taken into consideration all assets, liabilities and derivatives. The department of treasury and risk is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations.

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

Approx. 75.6% of the Group's interest bearing loans are in foreign currencies. The Group has entered into long term electricity sales contracts in foreign currency (USD). The expected future revenues from these contracts on the accounting date amount to approx. ISK 121.233 million (2013: ISK 123.563 million). That amount is based on the future price of aluminium on LME (London Metal Exchange) and expectations of price development of aluminium for the next 25 years according to, an independent evaluation party, as available on the accounting date.

	2014	2013	31.12.2014	31.12. 2013
	Average exchange rate		Exchange rate at year end	
CHF	127,501	133,352	128,290	129,190
EUR	154,861	160,733	154,270	158,500
USD	116,748	125,052	126,900	115,030
JPY	1,104	1,570	1,062	1,096
GBP	192,166	198,155	197,660	190,210
SEK	17,033	18,4684	16,443	17,950
CAD	105,710	125,110	109,590	108,070
TWI	206,937	221,796	206,581	210,108

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27. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk

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

31.12.2014	CHF	EUR	USD	JPY	GBP	SEK	Other currencies	Total
Loans and borrowings	(17.116.028)	(58.640.843)	(42.746.619)	(8.444.877)	(4.677.097)	(6.055.595)	0	(137.681.058)
Property and plant			119.638.235					119.638.235
Accounts payables		(51.787)	(278.993)				(15.800)	(346.580)
Trade receivables			683.745		44			683.789
Inventories			131.477					131.477
Bank deposits	687.933	2.544.224	607.720	523.765	494.694	181.178	0	5.039.515
Embedded derivatives			(3.027.689)					(3.027.689)
Hedge contracts	1.978.571	17.351.261	(8.799.309)	1.670.901	2.094.428	1.858.250		16.154.102
Other financial assets			8.480.317					8.480.317
Balance sheet risk	(14.449.523)	(38.797.145)	74.688.885	(6.250.211)	(2.087.931)	(4.016.167)	(15.800)	9.072.107
Estimated sale 1.10 - 30.9. 2015	0	0	7.001.451	0	0	0	0	7.001.451
Estimated purchase 1.10 - 30.9. 2015	0	(369.173)	(16.760)	0	(12.822)	0	(912)	(399.666)
Balance sheet risk	0	(369.173)	6.984.691	0	(12.822)	0	(912)	6.601.785
Net risk	(14.449.523)	(39.166.318)	81.673.576	(6.250.211)	(2.100.752)	(4.016.167)	(16.712)	15.673.892

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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27. 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 year-end 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
The year 2014	924.769	2.483.017	(4.780.089)	400.014	133.628	257.035	1.011	(580.615)
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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24. Market risk, contd.

b. *Interest rate risk*

Interest rate risk is the risk of changes in interest rates having a negative effect on the Group's income. The Group is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Group´s liabilities both have fixed and variable interest rates, majority being subject to variable interest rates. The 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 87% of loans, taking into account hedges, with fixed interest rates 1 year ahead.

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

	31.12.2014	31.12. 2013
Fixed rate instruments		
Financial liabilities	(43.747.048)	(44.026.345)
Variable rate instruments		
Financial liabilities	(140.176.179)	(150.913.110)
Financial instruments at fair value		
Bonds	8.480.317	7.502.611
Marketable securites	728.290	0
Hedge contracts	(2.143.659)	(112.441)
	7.064.948	7.390.170

In the following table, calculated effect of changes in interest on one year cash flow and 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	
31.12.2014	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	20.529	(13.197)
Other financial assets	0	0	(96.841)	99.540
Hedge contracts	334.974	(334.974)	1.847.834	(1.931.881)
Interest bearing loans	(483.025)	483.025	0	0
	(148.051)	148.051	1.771.522	(1.845.537)
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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24. 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 Group.

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 made 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 is effected by price of aluminium is 15.1% of total revenue in the reporting year 2014 (2013: 18.3%)

To reduce risk due to aluminium prices the Group 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 price until 31 December 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 and liabilities.

Among embedded electricity sales contracts is a contract with Norðurál Helguvík ehf. (NH), stated at negative book value of ISK 0.6 billion (31.12.2013: positive by 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.

24. 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

31.12.2014	**Sensitivity of Fair value** 10% decrease	10% increase
Embedded derivatives	(4.974.483)	4.974.483
Aluminium hedges	446.784	(446.784)
Financial assets at fair value through P/L	(278.672)	278.672
Total	(4.806.371)	4.806.371

31.12. 2013	**Sensitivity of Fair value** 10% decrease	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 Group's operation.

25. Liquidity risk

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

The Group's cash and cash equivalents at end of the year amounted to ISK 9.1 billion and deposits available in three to twelve months amounting to ISK 3.0 billion. Therefore the Group owned ISK 12.1 billion in bank deposits. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 7.1 billion. The Group had thus in total ensured capital at year-end to the amount of approx. ISK 19.2 billion. The corresponding amount at year end 2013 amounted to ISK 18.4 billion.

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25. Liquidity risk, contd.

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

31.12.2014

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Other financial assets	8.480.317	9.712.349	142.094	9.570.255	0	0
Trade receivables	4.632.281	4.632.281	4.632.281	0	0	0
Other receivables	508.560	508.560	508.560	0	0	0
Deposits	3.000.144	3.000.144	3.000.144	0	0	0
Cash and cash equivalents	9.147.113	9.147.113	9.147.113	0	0	0
Interest-bearing liabilities	(183.923.227)	(201.636.309)	(20.266.206)	(21.149.056)	(49.526.367)	(110.694.680)
Accounts payable	(1.826.346)	(1.826.346)	(1.826.346)	0	0	0
Other liabilities ...	(3.056.691)	(3.056.691)	(3.056.691)	0	0	0
	(163.037.848)	(179.518.898)	(7.719.049)	(11.578.801)	(49.526.367)	(110.694.680)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivaties	(3.027.689)	121.232.802	7.001.451	7.187.964	22.072.826	84.970.562
Hedge contracts	(2.143.659)	(3.360.731)	(1.090.551)	(1.036.144)	(1.234.036)	0
	(5.171.347)	117.872.071	5.910.900	6.151.820	20.838.790	84.970.562

31.12. 2013

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Other financial assets	7.502.804	9.187.492	129.971	127.654	8.929.867	0
Trade receivables	5.579.218	5.579.218	5.579.218	0	0	0
Other receivables	257.795	257.795	257.795	0	0	0
Cash and cash equivalents	8.993.410	8.993.410	8.993.410	0	0	0
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
	(177.292.255)	(200.396.714)	(12.396.245)	(20.574.584)	(45.400.578)	(122.025.307)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivaties	417.740	123.562.912	6.252.705	6.595.734	21.484.995	89.229.479
Hedge contracts	(112.441)	(1.421.273)	(1.086.245)	(987.468)	652.440	0
	305.299	122.141.639	5.166.460	5.608.266	22.137.435	89.229.479

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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26. Credit risk

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

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

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

	31.12.2014	31.12. 2013
Trade receivables	4.632.281	5.579.218
Other current receivables	508.560	257.795
Other financial assets	8.480.317	7.502.804
Hedge contracts	893.455	1.359.277
Deposits	3.000.144	0
Cash and cash equivalents	9.147.113	8.993.410
Total	26.661.871	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 28.

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

Trade receivables, industrial consumers	988.201	1.786.124
Trade receivable, retail	3.644.080	3.793.094
	4.632.281	5.579.218

Impairment of accounts receivables

	31.12.2014		31.12. 2013	
	Gross balance	Allowance	Gross balance	Allowance
Not past due receivables	4.112.426	89.313	3.503.568	84.878
Past due, 1 to 30 days	293.694	15.377	803.634	25.869
Past due, 31 to 90 days	89.761	10.186	163.001	24.951
Past due, 91 days and older	333.000	81.724	1.326.415	81.702
Total	4.828.881	196.600	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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27. *Fair value*

Comparison of fair value versus carrying amounts

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

	31.12.2014		31.12. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	183.923.227	163.286.404	194.939.455	165.716.726

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

Interest rates used for determining fair value

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

	31.12.2014	31.12. 2013
Embedded derivatives in electr. sales contr.	3.15% to 11.51%	2.22% to 12.91%
Financial assets at fair value through P/L	6.96% to 7.24%	6.85% to 7.21%
Interest bearing loans	3.12% to 6.62%	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).

31.12.2014	**Level 2**	**Level 3**	**Total**
Shares in companies	0	2.236.179	2.236.179
Embedded derivatives in sales contracts	0	(3.027.689)	(3.027.689)
Other financial assets	893.455	8.480.317	9.373.772
Other financial liabilities	(3.037.114)	0	(3.037.114)
	(2.143.659)	7.688.807	5.545.148
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 years duration is classified under level 3 due to the fact that the forward market for aluminium only reaches maximum of ten years.

Fair value measurement

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

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28. Overview of financial instruments

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

	31.12.2014			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			2.236.179			3.734.550
Embedd. contr. ...		(3.027.689)			417.740	
Other financial assets		9.373.772			8.862.081	
Trade receivabl. .	4.632.281			5.579.218		
Other receivabl. ..	508.560			257.795		
Deposits	3.000.144			0		
Cash	9.147.113			8.993.410		
Interest-bearing .. liabilities	(183.923.227)			(194.939.455)		
Other financial liabilities		(3.037.114)			(1.471.718)	
Account payabl. .	(1.826.346)			(1.988.525)		
Other current liabilities	(3.056.691)			(2.697.502)		
	(171.518.165)	3.308.970	2.236.179	(184.795.059)	7.808.103	3.734.550

29. Property leases

The Company as a lessee, factors of the lease agreement

The Company entered into a 20 year lease agreement with Foss fasteignafelag inc. leasing the headquarters at Bæjarháls 1 and Réttarháls at year end 2013. In the agreement there is a purchase option that the Company can exercised after 10 and 20 years. The lease minimum payments the first 10 years is ISK 223,9 million pr year, indexed. If the purchase option is not exercised after 10 years the lease payments the next 10 years thereafter are ISK 290,2 million pr. year, indexed. Lease payments do not include any expenses and figures below are not discounted.

Lease payments and income	**2014**	**2013**
Minimum lease payments, expensed	262.565	37.315
Conditional rent	2.795	0
Income from subleases	(47.203)	(4.630)
	218.157	32.685

Committment in unresignable lease agreements	**2014**	**2013**
Within a year	257.040	223.890
After 1 to 5 years	1.028.160	895.560
After 5 years	3.597.158	3.984.035
	4.882.358	5.103.485
Expected future income from subleases	172.522	219.725

The Company as a lessor

The Company has made lease agreements on part of the leased properties of the headquarters with five year terms and possible extension to ten years.

Expected future income from leases due to unresignable lease contracts	**2014**	**2013**
Within a year	48.048	47.203
After 1 to 5 years	124.474	172.522
	172.522	219.725

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30. Related parties

Definition of related parties

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

Transactions with related parties

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

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

Sale to related parties:	**2014**	**2013**
Reykjavik City	1.479.893	1.214.691
Institutions and companies controlled by Reykjavik City	526.708	462.980
	2.006.600	1.677.671
Purchases from related parties:		
Reykjavik City	53.843	11.527
Institutions and companies controlled by Reykjavik City	7.425	14.069
Associates	50.770	47.468
	112.038	73.064
Receivables for related parties:		
Reykjavik City	216.590	215.251
Institutions and companies controlled by Reykjavik City	62.140	44.070
	278.730	259.321
Payables for related parties:		
Reykjavik City	174.795	180.253
Institutions and companies controlled by Reykjavik City	742	3.158
Associates	840	0
	176.377	183.411
Interest bearing loans from owners of the parent Company:		
Reykjavik City	12.574.986	12.446.548
Akranes town	743.161	735.570
Borgarbyggð, municipality	125.429	124.147
	13.443.576	13.306.265
Interest expense on loans from owners of the parent Company:		
Reykjavik City	1.166.029	1.310.449
Akranes town	68.046	75.558
Borgarbyggð, municipality	11.485	12.753
	1.245.560	1.398.759

Guarantee fee to owners

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other present and former owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 7.

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Notes

31. Group entities

Subsidiaries	Main operation	Share 31.12.2014	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%

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 CEO in the financial statements.

32. 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 potentional second and third phase of the aluminium smelter in Helguvík. There is therefore continuing 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. Due to this the Company has renegotiated with Mitsubishi Heavy Industries and Balcke Dürr regarding a purchase agreement for machinery for the electricity sales contract, note 9 explains the obligation. Uncertainty is still regarding construction of Hverahlíðarvirkjun but looking at the contract with the machine producers, the uncertainty of financial effect has mostly been dissolved. Management beleive there is no reason to book an obligation in the financial statements due to this situation.

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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33. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Exception from this is the effect changes evolving from implementing new accounting standards, further discussed in note 3. p.

a. *Basis of consolidation*

i) Subsidiaries

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

ii) Associates

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

Associates are entered in the Group's financial statements by using the equity method.
Associated companies are reported at original cost, including business cost. After the original transaction the share of the Company is reported until significant influence ceases or joint control is concluded.

iii) Transactions eliminated on consolidation

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

b. *Financial instruments*

i) Non-derivative financial assets

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

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

Non-derivative financial instruments comprise of; available for sale, financial instruments at fair value through P/L and loans and receivables.

Available-for sale financial assets

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

33. Significant accounting policies, contd.

b. *Financial instruments, contd.*

Financial assets at fair value through profit or loss

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

Loans and reveivables

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

Loans and receivables comprise of receivables and other current assets.

Cash and cash equivalents comprise cash balances and call deposits.

ii) Non-derivative financial liabilities

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

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

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

iii) Derivative financial instruments

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

iv) Embedded derivatives

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

33. Significant accounting policies, contd.

c. *Property, plant and equipment*

i) Recognition and measurement

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

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

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

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

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

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

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

ii) Subsequent costs

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

33. Significant accounting policies, contd.

c. *Property, plant and equipment, contd.*

iii) Depreciation

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

Production system	5-50 years
Electricity distribution systems	10-60 years
Heating distribution systems	10-60 years
Cold water distribution systems	5-80 years
Sewer distribution system	15-60 years
Fibre-optic distribution system	7-41 years
Other real estate	17-50 years
Other equipment	3-25 years

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

d. *Intangible assets*

i) Heating rights

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

ii) Other intangible assets

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

iii) Subsequent expenditure

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

iv) Amortisation

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

Heating rights	100 years
Software	3-7 years

e. *Leased assets*

i) The Company as a lessee

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

ii) The Company as a lessor

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

f. *Inventories*

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

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33. Significant accounting policies, contd.

g. *Impairment*

i) Financial assets

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

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

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

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

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

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

ii) Non-financial assets

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

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

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

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

h. *Employee benefits*

i) Defined contribution plans

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

ii) Defined benefit plans

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

33. Significant accounting policies, contd.

i. *Obligations*

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

j. *Revenue*

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

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

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

ii) Revenues from sale of cold water and sewage

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

iii) Connection revenues

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

iv) Other revenues

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

33. Significant accounting policies, contd.

k. *Financial income and expenses*

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

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

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

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

l. *Income tax*

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The income tax ratio for the parent company is 36.0% and the tax ratio for the subsidiaries is 20.0%. Cold water supply and sewage is exempt from tax.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax was measured in accordance with the current tax rate, which is 36.0% for the parent company that is a partnership and 20.0% for the subsidiaries that are companies with limited liability.

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

m. *Segment reporting*

A segment is a distinguishable component of the Group that is engaged in business and is capable to earn revenues and accept cost, both within and outside of the Group. The return of all segments is overviewed by management to value their performance.
Segment results and their assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.
Segment investments are investments in property, plant and equipment and intangible assets.
Inter-segment pricing is determined on an arm's length basis.

34. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.
The Group´s CFO is responsible for overseeing all significant fair value measurements, including Level 3 fair values. Treasury- and risk management, led by the CFO, regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then that information is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.
When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.
The Group´s audit committee is informed of significant valuation issues.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Further information about the assumptions made in measuring fair values can be found in relevant notes and in note 26 regarding fair value.

a. *Property, plant and equipment*

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

The same method is applied in the determination of the fair value of distribution systems, accounted at fair value. Revalued distribution systems are used in an operation subject to exclusive licence and income limits are mainly based on changes in the building cost index. This is taken into account when determining the fair value.

The fair value of property, plant and equipment taken over upon a merger is based on the market value. The market value is the amount that can be obtain in transactions between unrelated, willing and informed parties. The fair value of other assets among property, plant and equipment is based on the market value of comparable assets.

b. *Investments in equity and debt securities*

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

34. Determination of fair values, contd.

c. *Derivatives*

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

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

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

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

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

d. *Trade and other receivables*

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

e. *Non-derivative financial liabilities*

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

Corporate governance statement (unaudited)

Corporate governance

Orkuveita Reykjavíkur´s (OR) main operations were governed by the provisions of Act No.136/2013. In the year 2014 the owners renewed the ownership contract regarding the operations. At that time, the ownership policy was also revised. These documents set the lines for corporate governance. The Ownership contract and Ownership Policy can be found at the Company´s web site www.or.is. The board of the Company has also set themselves detailed governance procedures, they also can be found on the Company´s web site.

Values

The Group´s values are foresight, integrity and efficiency. These are the principles that guide us in all our business endeavours.

Board of Directors

The Board of Directors at OR is appointed by six individuals; five are appointed by the Reykjavík City Council and one is appointed by the Akranes Council. The Borgarbyggð Council appoints a special representative and Reykjavík appoints the Chairman and the Vice Chairman, from the representatives in the Reykjavík City Council. The Board is responsible for the financial and operational matters of OR. The Board of Directors include, Haraldur Flosi Tryggvson, Chairman of the Board, District Court Attorney and a lawyer at Lögmenn Bárugötu, Brynhildur Davíðsdóttir, Vice Chairman and Professor at the Department of Environment and Natural Sources, at the University of Iceland, Gylfi Magnússon, Docent at the Institute for Economic Studies, at the University of Iceland, Kjartan Magnússon, City Council Representative, Áslaug Friðriksdóttir, City Council Representative and Valdís Eyjólfsdóttir Akranes Town Council Representative.

Audit Committee

The OR Audit Committee is governed by Chapter IX. Act No. 3/2006 on annual financial statements Act no. 80/2008. The Group is part of Reykjavik City´s consolidated financial statements. The City council appoints the audit committee of Reykjavik City´s consolidated companies and one member is appointed by the Board of Orkuveita Reykjavikur. Members of the audit committee are Ólafur B. Kristinsson, CPA, Ingvar Garðarsson CPA, Inga Björg Hjaltadóttir, attorney and Sunna Jóhannsdóttir, B.Sc. Business Administration, appointed by Orkuveita Reykjavikur. Ólafur chairs the committee.

The Internal Auditor for OR is Guðmundur I. Bergþórsson and he works under the auspices of the Board of Directors.

The CEO and Executive Directors

The Board of Directors appoints the CEO. Bjarni Bjarnason is OR´s CEO. The Board and the CEO are responsible for the operations of OR. Three executive directors are situated in the parent company and three executive directors are in the Group´s subsidiaris, Our nature, OR Veitur and Gagnaveita Reykjavíkur.

Orkuveita Reykjavikur, parent company

The Chief Financial Officer and the CEO´s deputy is Ingvar Stefánsson. He is responsible for the Treasury and Risk, Accounting, Management Information, Procurement and Information technology.

The Director of Customer Services is Skúli Skúlason. The Customer Services is divided into the Service Centre, Metering and Installations, Billing and Credit Management.

The Director of Research and Development is Hildigunnur H. Thorsteinsson. Research and and Developement runs Natural resources and strategic development.

OR Veitur

The Director of Utilities is Inga Dóra Hrólfsdóttir. The Utilities is divided into Operations, Maintenance, Technical development, Control room and Project management.

Orka náttúrunnar

The Director of Power Plants and Sales is Páll Erland. He is responsible for the Power plant operations, Sales and Marketing, Technical development, Natural resources and Operations and planning.

Gagnaveita Reykjavíkur

The Director of Fibre optic systems is Erling Freyr Guðmundsson. He is responsible for Customer Service, Technology and Fiber network.

Corporate governance statement, contd.,

Orkuveita Reykjavikur - Risk management

OR operates after a risk management policy that has been approved by the Board of Directors. It is the policy of the Group that all of the Group‘s operations are low risk by promoting responsible and effective decision making and management. The risk management policy provides an overview of the Board‘s strategy in this regard. It also defines the main types of risk, a risk measurement scale, basic strategies, objectives and goals regarding daily risk management within the Groupy. Main types of risk in the Group´s operations are core risk, financial risk and operational risk.

Internal monitoring and risk management

OR prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS´s) and focuses on well-defined areas of responsibility, including job descriptions, alongside regular reporting and transparency in all activities. Monthly operational meetings are an important part of the internal monitoring of profits, operating costs and investments, as well as regular meetings of the ‘Risk Committee’ of the Group. The Board monitors the financial risk of the Group and receives regular reports on the issue. For more information on risk management, please see the explanatory notes on the consolidated financial statements of the Group.