

Orkuveita Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1 January to 30 September 2017

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

Orkuveita Reykjavíkur
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reg no. 551298-3029

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Endorsement by the Board of Directors and the CEO

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

The condensed consolidated interim financial statements for the period 1 January to 30 September 2017 are prepared in accordance with the International Financial Reporting Standard *IAS 34 Interim financial reporting*. The interim financial statements comprise the condensed consolidated interim financial statements of OR and subsidiaries. The interim financial statements have not been reviewed by the independent auditor of the company.

Profit of operations of the Group for the period 1 January to 30 September was ISK 10.512 million (1.1.-30.9.2016: ISK 9.368 million). Comprehensive income for the period 1 January to 30 September was 7.410 million (1.1.-30.9.2016: 3.039 million). According to the statement of financial position the Group's assets were ISK 295.198 million at the end of the period (31.12.2016: ISK 300.450 million), book value of equity at the end of the period was ISK 128.886 million (31.12.2016: ISK 121.476 million), resulting in equity ratio of 43,7% (31.12.2016: 40,4%).

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

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

The Annual Meeting of Orkuveita Reykjavíkur has approved dividend payment amounting to ISK 750 million to owners, subject to certain conditions.

Statement by the Board of Directors

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the condensed consolidated interim financial statements are in accordance with international financial reporting standard *IAS 34 on interim financial reporting*. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 30 September 2017 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 30 September 2017.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condensed consolidated interim financial statements for the period 1 January to 30 September 2017.

Reykjavík, 20 November 2017.

The Board of Directors:

Brynhildur Davíðsdóttir

Gylfi Magnússon

Sigríður Rut Júlíusdóttir

Áslaug Friðriksdóttir

Kjartan Magnússon

Rakel Óskarsdóttir

CEO:

Bjarni Bjarnason

Income Statement

1 January to 30 September 2017

	Notes	2017 1.7.-30.9.	2016 1.7.-30.9.	2017 1.1.-30.9.	2016 1.1.-30.9.			
Operating revenue		9.697.190	8.965.685	31.309.544	29.921.005			
Total revenue		<u>9.697.190</u>	<u>8.965.685</u>	<u>31.309.544</u>	<u>29.921.005</u>			
Energy purchase and distribution	(1.339.557)	(1.421.844)	(4.237.731)	(4.554.591)
Salaries and salary related expenses	(1.201.209)	(1.150.172)	(4.032.189)	(3.907.205)
Other operating expenses	(1.139.584)	(998.625)	(3.473.918)	(3.323.518)
Operating expenses, total	(<u>3.680.350)</u>	(<u>3.570.642)</u>	(<u>11.743.838)</u>	(<u>11.785.313)</u>
EBITDA		<u>6.016.839</u>	<u>5.395.043</u>	<u>19.565.706</u>	<u>18.135.692</u>			
Depreciation and amortisation	(2.344.497)	(2.281.557)	(7.050.985)	(7.584.386)
Results from operating activities		<u>3.672.343</u>	<u>3.113.486</u>	<u>12.514.721</u>	<u>10.551.305</u>			
Interest income		91.250	108.158	309.605	196.355			
Interest expenses	(1.189.793)	(1.205.192)	(3.885.196)	(3.763.748)
Other income (expenses) on financial assets and liabilities		<u>1.825.293</u>	<u>4.269.807</u>	<u>5.163.992</u>	<u>5.808.706</u>			
Total financial income and expenses	4	<u>726.750</u>	<u>3.172.774</u>	<u>1.588.402</u>	<u>2.241.312</u>			
Share in profit (loss) of associated companies		0	(44)	2.004	(3.413)	
Profit before income tax		<u>4.399.092</u>	<u>6.286.215</u>	<u>14.105.127</u>	<u>12.789.204</u>			
Income tax	(1.198.124)	(1.946.893)	(3.592.751)	(3.420.912)
Profit for the period		<u><u>3.200.969</u></u>	<u><u>4.339.323</u></u>	<u><u>10.512.376</u></u>	<u><u>9.368.293</u></u>			

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Comprehensive Income

1 January to 30 September 2017

	2017 1.7.-30.9.	2016 1.7.-30.9.	2017 1.1.-30.9.	2016 1.1.-30.9.
Profit for the period	3.200.969	4.339.323	10.512.376	9.368.293
Other comprehensive income				
Items moved to equity that could be moved later to the income statement				
Translation difference	899.685	(3.420.921)	(3.102.194)	(6.329.046)
	<u>899.685</u>	<u>(3.420.921)</u>	<u>(3.102.194)</u>	<u>(6.329.046)</u>
Other comprehensive income, after taxes	899.685	(3.420.921)	(3.102.194)	(6.329.046)
Total comprehensive income for the period	<u>4.100.654</u>	<u>918.401</u>	<u>7.410.182</u>	<u>3.039.246</u>

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Statement of Financial Position

30 September 2017

	Notes	30.9.2017	31.12.2016
Assets			
Property, plant and equipment		259.556.081	264.822.746
Intangible assets		1.578.155	1.503.771
Investments in associated companies		61.341	59.337
Investments in other companies		3.285.074	3.285.074
Hedge contracts		534.069	365.333
Other financial assets		0	4.091.936
Deferred tax assets		1.222.487	3.714.879
Total non-current assets		<u>266.237.207</u>	<u>277.843.077</u>
Inventories		910.956	582.934
Trade receivables	5	4.721.359	4.596.627
Hedge contracts		68.546	393.183
Other financial assets		4.278.583	0
Other receivables		410.210	332.229
Prepaid expenses		144.963	213.209
Deposits and marketable securities		7.085.187	4.132.427
Cash and cash equivalents		11.340.790	12.356.669
Total current assets		<u>28.960.594</u>	<u>22.607.277</u>
Total assets		<u>295.197.801</u>	<u>300.450.354</u>
Equity			
Revaluation reserve		70.797.453	72.918.471
Equity reserve		12.937.991	7.000.139
Development reserve		59.759	59.759
Fair value reserve		2.822.160	2.822.160
Translation reserve	(4.887.805)	(1.785.611)
Retained earnings		47.156.508	40.460.965
Total equity		<u>128.886.065</u>	<u>121.475.883</u>
Liabilities			
Loans and borrowings	6	127.331.937	129.316.964
Pension liability		608.908	591.905
Embedded derivatives in electricity sales contracts		1.399.333	8.913.368
Hedge contracts		930.551	2.713.071
Deferred tax liabilities		7.876.753	8.345.332
Total non-current liabilities		<u>138.147.482</u>	<u>149.880.640</u>
Accounts payable		1.808.069	2.317.493
Loans and borrowings	6	14.542.569	18.322.481
Embedded derivatives in electricity sales contracts		114.175	1.405.741
Hedge contracts		2.860.159	2.311.883
Deferred revenue	5	1.990.723	0
Current tax liability		3.129.619	1.737.164
Other current liabilities		3.718.939	2.999.068
Total current liabilities		<u>28.164.253</u>	<u>29.093.830</u>
Total liabilities		<u>166.311.736</u>	<u>178.974.471</u>
Total equity and liabilities		<u>295.197.801</u>	<u>300.450.354</u>

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Changes in Equity

1 January to 30 September 2017

	Revaluation reserve	Equity reserve	Develop- ment reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.-30.9. 2017							
Equity at 1 January 2017	72.918.471	7.000.139	59.759	2.822.160	(1.785.611)	40.460.965	121.475.883
Translation difference					(3.102.194)		(3.102.194)
Profit for the period						10.512.376	10.512.376
Total comprehensive income	0	0	0	0	(3.102.194)	10.512.376	7.410.182
Depreciation transferred to retained earnings	(2.121.018)					2.121.018	0
Share in profit of subsidiaries and associates transferred to equity reserve ..		5.937.852				(5.937.852)	0
Equity at 30 September 2017	70.797.453	12.937.991	59.759	2.822.160	(4.887.805)	47.156.508	128.886.065
1.1.-30.9. 2016							
Equity at 1 January 2016	75.808.678	0	0	2.445.000	5.238.661	31.278.845	114.771.184
Translation difference					(6.329.046)		(6.329.046)
Profit for the period						9.368.293	9.368.293
Total comprehensive income	0	0	0	0	(6.329.046)	9.368.293	3.039.247
Depreciation transferred to retained earnings	(2.163.507)					2.163.507	0
Equity at 30 September 2016	73.645.171	0	0	2.445.000	(1.090.386)	42.810.645	117.810.430

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Statement of Cash Flows

1 January to 30 September 2017

	2017	2016
	1.1.-30.9.	1.1.-30.9.
Cash flows from operating activities		
Profit for the period	10.512.376	9.368.293
Adjusted for:		
Financial income and expenses	(1.588.402)	(2.241.312)
Share in P/L of associates	(2.004)	3.413
Income tax	3.592.751	3.420.912
Depreciation, amortisation and impairment	7.050.985	7.584.386
Profit from sale of property, plants and equipment	(1.039)	(4.459)
Pension liability, change	17.003	45.962
Working capital from operation before interest and taxes	19.581.671	18.177.195
Inventories, (increase) decrease	(331.191)	30.734
Current assets, (increase) decrease	(54.723)	619.384
Current liabilities, increase	2.702.106	862.317
Cash generated from operations before interests and taxes	21.897.862	19.689.630
Received interest income	278.034	146.446
Paid interest expenses	(2.990.160)	(2.600.082)
Dividend received	1.195	28.493
Payments due to other financial income and expenses	(562.344)	40.360
Net cash from operating activities	18.624.589	17.304.846
Cash flows from investing activities		
Acquisition of property, plant and equipment	(9.417.792)	(8.309.978)
Acquisition of intangible assets	(149.038)	(111.828)
Proceeds from sale of property, plant and equipment	8.153	13.924
Change in deposits	(2.000.000)	554.381
Change in marketable securities	(681.184)	163.103
Net cash used in investing activities	(12.239.861)	(7.690.397)
Cash flows from financing activities		
Proceeds from new borrowings	6.451.817	4.342.988
Repayment of borrowings	(10.974.692)	(12.681.436)
Current liabilities, change	(2.859.984)	2.859.984
Net cash used in financing activities	(7.382.860)	(5.478.464)
(Decrease) increase in cash and cash equivalents	(998.133)	4.135.985
Cash and cash equivalents at year beginning	12.356.669	5.264.079
Effect of currency fluctuations on cash and cash equivalents	(17.746)	(128.925)
Cash and cash equivalents at the end of the period	11.340.790	9.271.139
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	844.132	(844.869)
Current liabilities, change	(844.132)	844.869
Proceeds from new borrowings	1.139.811	2.701.725
Repayment of borrowings	(1.139.811)	(2.701.725)
Other information:		
Working capital from operation	15.079.822	14.852.615

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

Notes

1. Reporting entity

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

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

Subsidiaries in the Group	Main operations	Share	
		30.9.2017	31.12.2016
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ohf.	Holding company	100%	100%
Veitur ohf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	100%	100%
Úlfjótuvatn frítímabyggð ehf.	Preperation company	100%	100%

2. Basis of preparation

a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standard *IAS 34 Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2016. Same accounting principles are applied as for the year 2016. The annual financial statements can be found at the company's web site; www.or.is and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

b. New accounting standards not yet adopted

Several new international accounting standards and improvement of the standards applicable to accounting year beginning after 1 January 2017 and are permissible for early adoption. The company has not utilized the permission for early adoption in preparing these interim financial statements. The implementation of IFRS 15 effective for annual periods beginning 1 January 2018 is a work in progress. Possible effect of the implementation of the standard has not yet been evaluated. IFRS 16 effective for fiscal year beginning January 1, 2019 will apply to financial statements of the company when it will be adopted by the EU.

The consolidated interim financial statements were approved by the Board of Directors on 20 November 2017.

c. Functional and presentation currency

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

d. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in notes with the consolidated financial statements for the year ended 31 December 2016.

Notes

2. Basis of preparation, contd.

e. *Use of estimates and judgements*

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

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

Notes

3. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities*, that represent licenced operations in hot and cold water, distribution of electricity and sewage, *ON Power*, 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. The parent company's main activities is rental of housing and equipment, incidental sale of specialist consultancy services and more. Reykjavik fiber network represents the fiber optic operations. Segment reporting is conducted by using the same accounting principle as the group uses and is described in notes with the financial statements of the Group for the year 2016.

Business segments - divisions

	Utilities	ON Power	Other Operation	Adjust- ments	Total
1.1.-30.9. 2017					
External revenue	19.510.956	9.958.197	1.840.391	0	31.309.544
Inter-segment revenue	2.599.042	3.111.011	4.490.880	(10.200.932)	0
Total segment revenue	22.109.998	13.069.207	6.331.271	(10.200.932)	31.309.544
Segment operation expenses	(11.002.441)	(5.611.851)	(5.330.479)	10.200.932	(11.743.838)
Segment profit EBITDA	11.107.557	7.457.356	1.000.792	0	19.565.706
Depreciation and amortisation	(3.650.480)	(2.474.002)	(926.503)	0	(7.050.985)
Segment results, EBIT	7.457.077	4.983.355	74.289	0	12.514.721
Financial income and expenses	(2.090.996)	(3.559.216)	(1.566.987)	8.805.601	1.588.402
Share of loss of associated companies	0	0	2.004	0	2.004
Income tax	(567.167)	(289.840)	434.273	(3.170.016)	(3.592.751)
Profit (loss) for the period	4.798.914	1.134.299	(1.056.421)	5.635.585	10.512.376
1.1.-30.9. 2016					
External revenue	19.472.014	8.892.124	1.556.867	0	29.921.005
Inter-segment revenue	2.221.751	3.253.577	3.873.997	(9.349.325)	0
Total segment revenue	21.693.765	12.145.701	5.430.864	(9.349.325)	29.921.005
Segment operation expenses	(9.971.232)	(6.010.749)	(5.152.659)	9.349.325	(11.785.313)
Segment profit EBITDA	11.722.533	6.134.953	278.206	0	18.135.692
Depreciation and amortisation	(3.771.112)	(2.624.712)	(1.188.563)	0	(7.584.386)
Segment results, EBIT	7.951.422	3.510.241	(910.357)	0	10.551.305
Financial income and expenses	(2.743.743)	(3.647.878)	3.953.732	4.679.201	2.241.312
Share of loss of associated companies	0	0	(3.413)	0	(3.413)
Income tax	(507.151)	(20.397)	(1.208.851)	(1.684.512)	(3.420.912)
Profit (loss) for the period	4.700.528	(158.035)	1.831.111	2.994.688	9.368.293

Notes

3. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust- ments	Total
Balance sheet (30.9.2017)					
Property, plant and equipment and intangible assets	141.567.069	98.627.447	20.939.721	0	261.134.236
Other assets	17.668.817	9.367.974	155.159.572	(148.132.799)	34.063.565
					<u>295.197.801</u>
Loans and borrowings	64.291.414	56.750.563	141.874.506	(121.041.977)	141.874.506
Other liabilities	11.101.352	5.912.156	33.545.984	(26.122.263)	24.437.229
					<u>166.311.736</u>
Investments					
Property, plant and equipment and intangible assets	4.310.416	1.368.227	3.115.854	0	8.794.497
Balance sheet (31.12.2016)					
Property, plant and equipment and intangible assets	140.907.133	106.661.900	18.757.484	0	266.326.517
Other assets	13.820.838	7.188.531	158.044.763	(144.930.295)	34.123.836
					<u>300.450.354</u>
Loans and borrowings	67.441.448	61.583.102	147.639.446	(129.024.550)	147.639.446
Other liabilities	8.242.316	4.966.732	27.429.313	(9.303.336)	31.335.025
					<u>178.974.471</u>
Investments (30.9.2016)					
Property, plant and equipment and intangible assets	4.756.464	2.121.271	2.379.753	0	9.257.488

Notes

4. Financial income and expenses

	2017 1.1.-30.9.	2016 1.1.-30.9.
Financial income and expenses are specified as follows:		
Interest income	309.605	196.355
Interest expense and paid indexation	(2.688.590)	(2.554.070)
Indexation	(619.376)	(703.455)
Guarantee fee to owners 1)	(577.230)	(506.224)
Total interest expenses	(3.885.196)	(3.763.748)
Fair value changes of embedded derivatives in electricity sales contracts	8.805.601	4.679.201
Fair value changes of financial assets and financial liabilities through P/L	197.934	(582.962)
Fair value changes of hedge contracts	1.078.343	(1.175.105)
Hedge contracts	(2.151.150)	(973.621)
Foreign exchange difference	(2.767.931)	3.832.892
Dividends	1.195	28.301
Total of other income (expenses) on financial assets and liabilities	5.163.992	5.808.706
Total financial income and expenses	1.588.402	2.241.312

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavíkur in 2005. The fee on yearly basis for its licenced operations is 0,87% (30.9.2016: 0,375%) and 0,58% (30.9.2016: 0,57%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 577 million in the period 1 January to 30 September 2017 (1.1.-30.9.2016: ISK 506 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 36 in the financial statements of the Group for the year 2016. Change in fair value that is recognized in the income statement amounts to ISK 10.082 million in the period 1 January to 30 September 2017 (1.1.-30.9.2016: income ISK 2.921 million). Fair value changes on financial asses and liabilities defined at level 3 amounts to ISK 198 million income in the period 1 January to 30 September 2017 (1.1.-30.9.2016: expense ISK 583 million).

5. Receivables and deferred revenue

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

Notes

6. 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 25 in the financial statements of the Group for the year 2016. Loans and borrowings are detailed as follows:

Non-current liabilities	30.9.2017	31.12.2016
Bank loans	100.690.587	106.326.779
Subordinated loan from owners of the Company	12.747.630	13.293.025
Bond issuance	28.436.289	25.159.658
	<u>141.874.506</u>	<u>144.779.461</u>
Current portion on non-current liabilities	(14.542.569)	(15.462.497)
	<u>127.331.937</u>	<u>129.316.964</u>
Current liabilities		
Current portion on non-current liabilities	14.542.569	15.462.497
Short-term bank loans	0	2.859.984
	<u>14.542.569</u>	<u>18.322.481</u>
Total interest bearing loans and borrowings	<u>141.874.506</u>	<u>147.639.446</u>

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		30.9.2017		31.12.2016	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	5.10.2027	0,00%	11.227.288	0,00%	12.148.428
Liabilities in EUR	19.12.2027	0,68%	36.030.621	0,65%	37.619.335
Liabilities in USD	15.11.2038	2,34%	26.524.051	2,18%	30.554.614
Liabilities in JPY	10.5.2027	0,04%	5.192.005	0,00%	5.868.767
Liabilities in GBP	26.2.2024	1,43%	2.262.346	1,53%	2.544.687
Liabilities in SEK	5.10.2027	0,00%	3.654.034	0,00%	3.747.424
			<u>84.890.345</u>		<u>92.483.255</u>
Liabilities in Icelandic kronas:					
Indexed	9.5.2046	3,98%	51.127.684	4,13%	45.696.207
Non-indexed	7.12.2026	5,71%	5.856.477	6,90%	9.459.984
			<u>56.984.161</u>		<u>55.156.191</u>
Total interest-bearing loans and borrowings			<u>141.874.506</u>		<u>147.639.446</u>

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

30.9.2017

1.10.2017-30.9.2018.....	14.539.834
1.10.2018-30.9.2019.....	14.193.434
1.10.2019-30.9.2020.....	13.616.093
1.10.2020-30.9.2021.....	13.194.568
1.10.2021-30.9.2022.....	11.788.848
Later	74.541.730
Total non-current liabilities, including next year's repayment	<u>141.874.506</u>

31.12.2016

The year 2017.....	18.322.481
The year 2018.....	14.605.156
The year 2019.....	13.467.078
The year 2020.....	13.224.740
The year 2021.....	12.160.142
Later	75.859.848
Total non-current liabilities, including next year's repayment	<u>147.639.445</u>

Notes

6. Loans and borrowings, contd.,

Guarantees and pledges

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

Covenants

Loans for the amount of ISK 24.854 million have certain covenants that regard repayment time as a proportion of EBITDA and as interests as a proportion of EBITDA as well as reviewing that budgets are within set limits (31.12.2016: ISK 23.443 million). Management regularly evaluate the covenants and in their view there is not risk of them being breached. At the end of the period the Group measured up to all financial covenants of loan

Financing

The Board of Directors of Orkuveita Reykjavíkur approved on 15 May, a loan from the Nordic Investment Bank amounting to 44 million USD. The loan is in accordance with approved budget and subject to consent and guarantee of the shareholders.

7. Fair value

Comparison of fair value versus carrying amounts

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

	30.9.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	141.874.506	139.048.158	147.639.446	140.598.094

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

Interest rates used for determining fair value

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

	30.9.2017	31.12.2016
Embedded derivatives in electr. sales contr.	2,81% to 8,03%	2,34% to 8,11%
Financial assets at fair value through P/L	4,83% to 5,15%	5,16% to 5,22%
Hedge contracts	-0,8% to 4,9%	-0,8% to 7,0%
Interest bearing loans	2,07% to 9,49%	2,20% to 9,77%

The classification of financial instruments in the fair value hierarchy has not changed in the period. The classification can be seen in the financial statements for the Group for the year 2016 in note 29.

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium are shown in note 25 in the financial statements of the Group for the year 2016. It is recommended to take into consideration this note while reading the interim financial statements for the current period since change in these presumptions can have considerable effect on certain amounts in the interim financial statements.

Notes

8. Other matters

Charter revision of Division A in Bru Pension Fund

Act nr. 1/1997 on the Pension Funds of State Employees was amended with Act nr. 127/2016, but the amendment has implications on earned rights in Division A which Bru Pension Fund operates and many employees of Orkuveita Reykjavíkur pay their pension fees to that fund. Revised charter came into force on 1 June 2017. Work is ongoing for an estimate on the financial position for Bru Pension fund at 31 May, 2017. Revision and actuarial assessment is planned to be finalized in the 4th quarter 2017 and at that point it will be possible to estimate the size of the financial obligations Orkuveita Reykjavíkur has to accommodate in relation to the charter revision of Division A in Bru Pension Fund.

Dividends to owners

The Annual Meeting of Orkuveita Reykjavíkur has approved dividend payment amounting to ISK 750 million to owners, subject to certain conditions.

Obligations

In note 10 to the Consolidated Financial Statements 2016 it is stated that 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 the end of the period is estimated at ISK 2,5 billion (31.12.2016: ISK 2,1 billion)

Company headquarters

Orkuveita Reykjavíkur has been seeking solutions due to water damage in the company's premises. One of the options that is being considered is to buy the property at Bæjarháls 1, the headquarters of Orkuveita Reykjavíkur. Orkuveita Reykjavíkur sold it's headquarters in the year 2013 for ISK 5.100 millions.