Orkuveita Reykjavíkur

Consolidated
Financial Statements 2009

Orkuveita Reykjavíkur
Bæjarhálsi 1
110 Reykjavík

reg no. 551298-3029

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Endorsement by the Board of Directors and the Managing Director

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law No.139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Company is an independent service company that produces and distributes electricity and distributes geothermal water for heating and cold water for consumption. It also operates sewage systems and fibre-optic cable system in its service area.

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

Loss of the operations of Orkuveita Reykjavíkur during the year amounted to ISK 2.516 million. According to the statement of financial position the Company´s assets amount to ISK 281.526 million, book value of equity at year end amounted to ISK 40.657 million and the Company´s equity ratio is 14.4%

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

	Share
Reykjavíkurborg	93.539%
Akraneskaupstaður	5.528%
Borgarbyggð	0.933%

The Company´s Board of Directors proposes that a dividend of ISK 800 million be paid to the Company´s shareholders in the year 2010 due to the operating year 2009.

Statement by the Board of Directors and the Director

According to the best knowledge of the Board of Directors and the Director of Orkuveita Reykjavíkur, the company´s consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU. It is the opinion of the Board of Directors and the Director that the consolidated financial statements give a fair view of the Company's assets, liabilities and financial position at 31 December 2009 and the company´s operating return and changes in cash and cash equivalents for the year then ended.

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

The Board of Directors and the Director of Orkuveita Reykjavíkur hereby confirm the Company´s consolidated financial statements for the year 2009.

Reykjavík, 19 March 2010.

The Board of Directors:
Guðlaugur G. Sverrisson
Kjartan Magnússon
Júlíus Vífill Ingvarsson
Gunnar Sigurðsson
Sigrún Elsa Smáradóttir
Þorleifur Gunnlaugsson

Managing Director:
Hjörleifur B. Kvaran

Independent Auditor´s Report

To the Board of Directors and owners of Orkuveita Reykjavikur.

We have audited the accompanying financial statements of Orkuveita Reykjavíkur, which comprise the report by the Board of Directors and Director, statement of financial position as at 31 December 2009, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management´s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor´s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 judgement, including the assessment of the risks of material misstatement of the 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 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 accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements give a true and fair view of the financial position of Orkuveita Reykjavíkur as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 19 March 2010.

KPMG hf.
Hlynur Sigurðsson
Auðunn Guðjónsson

Income Statement 2009

	Skýr.	2009	2008
Operating revenue		26.012.828	24.168.198
Energy purchase		(4.695.112)	(4.363.581)
Salaries and salary related expenses	7	(3.889.190)	(3.973.674)
Other operating expenses		(4.458.125)	(4.179.325)
Depreciation and amortisation	8	(7.813.770)	(6.952.772)
Results from operating activities		5.156.630	4.698.846
Interest income		337.191	792.526
Interest expenses		(5.711.572)	(5.334.364)
Other (expenses) income on financial assets and liabilities		(3.468.316)	(87.981.638)
Total financial income and expenses	9	(8.842.697)	(92.523.476)
Share in loss of associated companies	13	(227.685)	(276.339)
Loss before income tax		(3.913.752)	(88.100.969)
Income tax	10	1.398.124	15.064.266
Loss for the year		(2.515.629)	(73.036.703)
Attributable to:			
Equity holders of the Company		(2.538.839)	(72.959.710)
Minority interest in subsidiaries		23.211	(76.993)
Loss for the year		(2.515.629)	(73.036.703)

The notes on pages 11 to 50 are an integral part of these Consolidated Financial Statements.

Statement of Comprehensive Income for the year ended 31 December 2009

	Skýr.	2009	2008
Loss for the year		(2.515.629)	(73.036.703)
Other comprehensive income			
Effect of change in tax rate on the revaluation reserve		(4.383.466)	537.295
Revaluation reserve		0	40.345.385
Income tax effect of revaluation		0	(6.895.739)
Total other comprehensive income		(4.383.466)	33.986.941
Total comprehensive loss for the year		(6.899.095)	(39.049.762)
Total comprehensive (loss) income attributable to:			
Equity holders of the Company		(6.922.305)	(38.972.769)
Minority interest in subsidiaries		23.211	(76.993)
Total comprehensive loss for the year		(6.899.095)	(39.049.762)

The notes on pages 11 to 50 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
31 December 2009

	Notes	31.12. 2009	31.12. 2008
Assets			
Property, plant and equipment	11	240.716.068	226.970.432
Intangible assets	12	1.648.403	1.680.693
Investments in associated companies	13	488.568	574.470
Investments in other companies	14	2.187.047	10.026.011
Embedded derivaties in electricity sales contracts	15	19.036.283	9.091.449
Other financial assets	16	7.656.562	105.331
Deferred tax assets	17	1.194.314	4.169.441
Total non-current assets		272.927.246	252.617.827
Inventories	18	752.353	1.544.565
Trade receivables	19	3.339.309	3.292.480
Embedded derivatives in electricity sales contracts	15	1.127.990	0
Other financial assets	16	82.267	111.374
Other receivables	19	353.240	563.279
Cash and cash equivalents	20	2.943.303	1.243.639
Total current assets		8.598.461	6.755.337
Total assets		281.525.707	259.373.164

The notes on pages 11 to 50 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
31 December 2009

	Notes	31.12. 2009	31.12. 2008
Equity			
Revaluation reserve		49.417.335	55.842.384
(Accumulated deficit)		(8.816.337)	(7.517.523)
Equity attributable to equity holders of the Company		40.600.999	48.324.860
Minority interest		56.487	33.770
Total equity		40.657.486	48.358.630
Liabilities			
Loans and borrowings	22	221.254.126	196.098.760
Retirement benefit obligation	23	464.547	456.027
Other financial liabilities	24	50.186	34.468
Deferred tax liabilities	17	10.963	0
Total non-current liabilities		221.779.822	196.589.255
Accounts payable	24	2.368.066	2.443.340
Loans and borrowings	22	15.314.040	9.681.610
Other financial liabilities	24	24.977	17.645
Current tax liabilities	17	0	218
Other current liabilities	24	1.381.317	2.282.466
Total current liabilities		19.088.400	14.425.279
Total liabilities		240.868.221	211.014.534
Total equity and liabilities		281.525.707	259.373.164

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Consolidated Statement of Changes in Equity for the year 2009

	Revaluation reserve	Accumulated deficit	Attributable to equity holders of the Company	Minority interest	Total equity
The year 2009					
Equity at 1 January 2009	55.842.384	(7.517.523)	48.324.861	33.770	48.358.631
Effect of change in tax rate	(4.383.466)		(4.383.466)		(4.383.466)
Depreciation transferred to retained earnings (deficit)	(2.041.583)	2.041.583	0		0
Loss for the year		(2.538.839)	(2.538.839)	23.211	(2.515.629)
Total comprehensive income	(6.425.049)	(497.256)	(6.922.305)	23.211	(6.899.095)
Other changes		(1.557)	(1.557)	(494)	(2.051)
Dividends paid		(800.000)	(800.000)		(800.000)
Equity at 31 December 2009	49.417.335	(8.816.336)	40.600.999	56.487	40.657.485
The year 2008					
Equity at 1 January 2008	23.374.919	65.490.687	88.865.606	122.764	88.988.370
Effect of change in tax rate	537.295		537.295		537.295
Revaluation	40.345.385		40.345.385		40.345.385
Income tax effect of revaluation	(6.895.739)		(6.895.739)		(6.895.739)
Solvence of revaluation due to depreciation	(1.519.476)	1.519.476	0		0
Loss for the year		(72.959.710)	(72.959.710)	(76.993)	(73.036.703)
Total comprehensive income	32.467.465	(71.440.234)	(38.972.769)	(76.993)	(39.049.762)
Other changes				(12.000)	(12.000)
Dividends paid		(1.567.976)	(1.567.976)		(1.567.976)
Equity at 31 December 2008	55.842.384	(7.517.523)	48.324.861	33.771	48.358.630

The notes on pages 11 to 50 are an integral part of these Consolidated Financial Statements.

Consolidated statement of cash flows for the year 2009

	Notes	2009	2008
Cash flows from operating activities			
Cash generated from operations before interest and taxes	26	13.264.807	10.495.252
Received interest income		270.731	763.308
Paid interest expenses		(4.945.767)	(3.424.224)
Dividend received		5.888	101.615
Paid due to other financial income and expenses		(166.617)	(237.428)
Net cash from operating activities		8.429.042	7.698.523
Cash flows from investing activities			
Acquisition of property, plant and equipment		(20.838.694)	(30.938.902)
Acquisition of intangible assets		(179.896)	(345.652)
Proceeds from sale of property, plant and equipment			0
Acquisition of associated companies		4.052.906	(215.558)
Proceeds from sale of other companies		(92.029)	0
Acquisition of other companies		(3.488.475)	(926.321)
Proceeds and repayment of other financial assets		75.855	53.921
Net cash used in investing activities		(20.470.333)	(32.372.512)
Cash flows from financing activities			
Proceeds from new borrowings		20.039.175	15.275.025
Repayment of borrowings		(5.722.547)	(3.636.999)
Dividends paid		(800.000)	(1.567.976)
Credit facility, change		(1.365.277)	9.958.393
Current liabilities, increase		981.303	1.456.560
Net cash from financing activities		13.132.653	21.485.003
Increase (decrease) in cash and cash equivalents		1.091.363	(3.188.986)
Cash and cash equivalents at year beginning		1.243.639	3.751.013
Changes in the Group		(5.907)	0
Effect of currency fluctuations on cash and cash equivalents		614.208	681.612
Cash and cash equivalents at year end		2.943.302	1.243.639
Investments and financing without payment effects:			
Acquisition of property, plant and equipment		(1.017.469)	(987.713)
Acquisition of other companies, change		(3.264.745)	0
Proceeds from sale of other companies		7.983.515	0
Other financial assets, change		(7.612.525)	0
Proceeds from new borrowings		3.539.000	0
Receivables, change		(645.245)	0
Current liabilities, change		1.017.469	987.713
Other information:			
Working capital from operation		9.035.941	7.982.781

The notes on pages 11 to 50 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. 139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Company's headquarters are at Bæjarháls 1 in Reykjavik. The Company's consolidated financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Company") and a share in associated companies.

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

2. Basis of preparation

a. *Statement of compliance*

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

The financial statements were approved by the Board of Directors on 19 March 2010.

b. *Basis of measurement*

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

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

The methods used to measure fair values are discussed further in note 4.

c. *Functional and presentation currency*

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

d. *Use of estimates and judgements*

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 11 .... Property, plant and equipment
- note 14 .... Investments in other companies
- note 15 .... Embedded derivatives in electricity sale contracts
- note 16 .... Other financial assets
- note 17 .... Deferred tax assets and liabilities
- note 23 .... Retirement benefit obligations

2. Basis of preparation, contd.

e. *Changes in accounting policies*

Accounting policies have been applied the same way both years 2009 and 2008, except for the following areas.

i) Presentation of the financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result the Group presents the Income Statement and in addition a statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change only affects the presentation of the financial statements.

ii) Segment reporting

The Group applies IFRS 8 *Operating segments*, that became effective 1 January 2009. The Group presents a statement of segments based on internal reporting to key management. The implementation of IFRS 8 does not change the presentation of the Group´s segment reporting, that previously, was presented in accordance with IAS 14, *Segment reporting*.

3. 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. Certain comparative amounts have been reclassified in notes 5,7, 11 and 12.

a. *Basis of consolitation*

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. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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.

The Group's financial statements include a share in the profit or loss of associates and jointly controlled entities based on the equity method. When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. In case of a profit on the operation of associates or jointly controlled entities in later periods a share in the profit is not recognised until the recognised share in the loss has been set off.

3. Significant accounting policies, contd.

a. *Basis of consolitation, contd.*

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group ransactions, 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. *Foreign currency*

Transactions in foreign currencies are recognised at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date and the Company uses the mid foreign exchange rate at the end of the day according to Reuters. Other assets and liabilities stated at fair value in foreign currencies are recognised at the exchange rate ruling when their fair value was determined.

c. *Financial instruments*

i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments 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 non-derivative financial instruments are measured as described below.

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. Recognition of ordinary purchase and sale of financial assets is made on the date that the Group enters into an obligation to purchase or sell the asset. Financial liabilities are eliminated from the financial statements if the Group's obligations defined in an agreement are paid, expired or dismissed.

Financial assets and liabilities are netted out and the net amount is entered in the balance sheet when the legal right of off-setting exists and financial assets and liabilities are recognised by off-setting.

Cash and cash equivalents comprise cash balances and call deposits.

Note 3. m discusses on accounting methods for financial income and expenses.

Held-to maturity investments

When the Group has both the intention and the ability to hold debt securities to maturity, then they are classified as held-to-maturity. Such investments are recognised in the financial statements at amortised cost using the effective interest method, less any impairment losses.

3. Significant accounting policies, contd.

c. *Financial instruments, contd.*

Available-for sale financial assets

The Group's investments in equity securities and certain debt 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 (see note 3.h.i.), and foreign exchange gains and losses on available-for-sale monetary items (see note 3.b.), 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.

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. 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.

Other financial instruments

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge against foreign currency, interest rate and aluminium pric risk exposures. 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.

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.

Financial hedges

The Company uses derivatives to limit interest rate risk. Hedge accounting is not applied. Fair value changes in such derivatives are recognised in the income statement.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign currency gains and losses.

Other embedded derivatives

Fair value changes in separate embedded derivatives are recognised in the income statement.

3. Significant accounting policies, contd.

d. *Property, plant and equipment*

i) Recognition and measurement

Items of property, plant and equipment, excepting 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.

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.

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.

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.

The Group's distribution and production systems, with the exeption of the fibre-optic system, 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.

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.

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.

3. Significant accounting policies, contd.

e. *Intangible assets*

i) Heating rights

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

ii) Preparation costs

A preparation cost is capitalised at cost. This cost arises in the preparation of specific defined projects. Cost due to those projects is only capitalised if it can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company has both the intention and the ability to finish the project and plans to profit from it or sell it. This cost is expensed when the project is discontinued or due to changed premises.

iii) Other intangible assets

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

iv) 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.

v) 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 for the current and comparative periods are as follows:

Heating rights	100 years
Software	3-7 years

f. *Leased assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other lease agreements are considered as operating lease agreement and the leased assets are not capitalised.

g. *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.

3. Significant accounting policies, contd.

h. *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.

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.

i. *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.

Notes

3. Significant accounting policies, contd.

j. *Obligations*

An obligation is recognised in the balance sheet when the Company 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.

k. *Revenue*

Revenue from the sale of electricity and water, together with transport and distribution of electricity is recognised in the income statement according to measured delivery to purchasers during the period. Other revenue is recognised when generated or upon delivery of good or services.

Upon connection of new users to distribution systems 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.

l. *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. Interest expenses are distributed over the lease term based on effective interests.

m. *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 usefule 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.

3. Significant accounting policies, contd.

n. *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 is 23,5%, but a part of the operation is exempt from tax (operation of cold water supply and sewer).

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 a changed tax rate as of 1 January 2010, which is 32,7% for partnerships and 18% for 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.

o. *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group’s business and is presented on the one hand by business division and on the other, by business sectors. The business segments are determined based on the Group’s management and internal reporting structure. The Company does not present a segment report by geographical segments as its operation is by far mostly carried out in Iceland.

Inter-segment pricing is determined on an arm’s length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets and related expenses, and income tax assets and liabilities.

Segment investments are investments in property, plant and equipment and intangible assets.

p. *New standards and interpretations effective in 2009*

The Group has implemented all international accounting standards, their interpretation and changes on existing standards that were effective at year end 2009 and are related to the Group´s operation. The Group has not beforehand implemented international accounting standards, their interpretation and changes which are affective after 31 December 2009. Adoption of these standards are not considered to have a significant effect on the preparation of the Group´s financial statements

4. 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. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a. *Property, plant and equipment*

The fair value of production 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 remeasured in accordance with those changes.

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 special 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.

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.

4. Determination of fair values, contd.

c. *Derivatives, contd.*

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. *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.

5. Segment reporting

Segment information is presented by the Group's business segments according to the Group's organisation and internal reporting. Business segments consist of distribution, production and sale, and other operation. In addition, information is provided on the Group's sectors, which are electricity, hot water, cold water, sewer and fibre-optic cable systems.

Business segments - divisions

The year 2009	Distribution	Production and sale	Other Operation	Adjust- ments	Total
External revenue	5.598.395	19.586.209	828.224	0	26.012.828
Inter-segment revenue	5.643.361	4.862.347	291.492	(10.797.200)	0
Total segment revenue	11.241.756	24.448.556	1.119.716	(10.797.200)	26.012.828
Segment result	2.953.703	3.055.288	(84.063)	0	5.924.928
Unallocated expenses					(768.298)
Results from operating activities					5.156.630
Financial income and expenses					(8.842.698)
Share of loss of associated companies					(227.685)
Income tax					1.398.124
Loss for the year					(2.515.629)

The year 2008	Distribution	Production and sale	Other Operation	Adjust- ments	Total
External revenue	6.149.917	17.214.685	803.596		24.168.198
Inter-segment revenue	6.109.800	4.275.868	1.265.631	(11.651.299)	0
Total segment revenue	12.259.717	21.490.553	2.069.227	(11.651.299)	24.168.198
Segment result	4.059.985	1.777.704	(282.082)	0	5.555.607
Unallocated expenses					(856.761)
Results from operating activities					4.698.846
Financial income and expenses					(92.523.476)
Share of loss of associated companies					(276.339)
Income tax					15.064.266
Loss for the year					(73.036.703)

5. Segment reporting, contd.

Business segments - divisions, contd.

The year 2009	Distribution	Production and sale	Other Operation	Adjust-ments	Total
Balance sheet (31.12. 2009)					
Property, plant and equipment	100.540.291	131.293.671	419.717	8.462.389	240.716.068
Intangible assets	0	0	247.490	1.400.913	1.648.403
Shares in associates					488.568
Other unallocated assets					38.672.668
Total assets					281.525.707
Unallocated liabilities					240.868.221
Investsments:					
Property, plant and equipment	4.590.027	16.604.846	9.579	142.747	21.347.199
Intangible assets	0	0	53.871	126.025	179.896
Depreciation, amortization:					
Property, plant and equipment	3.527.110	3.747.247	0	405.676	7.680.033
Intangible assets	0	0	0	133.737	133.737

The year 2008	Distribution	Production and sale	Other Operation	Adjust-ments	Total
Balance sheet (31.12. 2008)					
Property, plant and equipment	99.886.587	117.887.037	448.305	8.748.503	226.970.432
Intangible assets	0	0	193.619	1.487.074	1.680.693
Shares in associates					574.470
Other unallocated assets					30.147.569
Total assets					259.373.164
Unallocated liabilities					211.014.534
Investsments:					
Property, plant and equipment	7.478.421	22.466.171	116.601	994.742	31.055.935
Intangible assets	0	0	128.731	216.920	345.651
Depreciation, amortization:					
Property, plant and equipment	3.225.572	3.111.118	62	464.243	6.800.995
Intangible assets	0	0	0	151.777	151.777

5. Segment reporting, contd.

Business segments - sectors

The year 2009	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust- ments	Total
Income							
External revenue	13.622.431	6.490.907	2.576.649	2.526.148	796.693	0	26.012.828
Inter-segment revenue	977.909	327.646	29.826	29.242	0	(1.364.623)	0
Total segment revenue	14.600.340	6.818.553	2.606.475	2.555.390	796.693	(1.364.623)	26.012.828
Balance sheet (31.12. 2009)							
Property, plant and equipment	122.432.015	56.435.597	17.335.655	36.569.527	7.943.274	0	240.716.068
Intangible assets	739.683	582.308	105.068	221.344	0	0	1.648.403
Unallocated assets							39.161.236
Total assets	123.171.698	57.017.905	17.440.723	36.790.871	7.943.274	0	281.525.707
Investments							
Property, plant and equipments	14.309.131	3.599.388	247.332	2.516.754	674.594	0	21.347.199
Intangible assets	66.541	83.991	9.452	19.912	0	0	179.896
Depreciation, amortization							
Property, plant and equipments	3.449.979	2.200.309	465.160	1.248.845	315.740	0	7.680.033
Intangible assets	51.096	41.670	12.834	28.137	0	0	133.737

Notes

5. Segment reporting, contd.

Business segments - sectors, contd.

The year 2008	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Income							
External revenue	12.358.438	6.454.119	2.038.898	2.647.284	669.459	0	24.168.198
Inter-segment revenue	1.461.849	582.818	110.289	143.198		(2.298.154)	0
Total segment revenue	13.820.287	7.036.937	2.149.187	2.790.482	669.459	(2.298.154)	24.168.198
Balance sheet (31.12. 2008)							
Property, plant and equipment	113.379.586	52.682.272	17.755.777	35.568.377	7.584.420	0	226.970.432
Intangible assets	785.175	541.594	117.479	236.445	0	0	1.680.693
Unallocated assets							30.722.039
Total assets	114.164.761	53.223.866	17.873.256	35.804.822	7.584.420	0	259.373.164
Investments							
Property, plant and equipments	22.180.080	4.700.653	805.867	1.836.841	1.532.494	0	31.055.935
Intangible assets	109.327	181.877	18.221	36.226	0	0	345.651
Depreciation, amortization							
Property, plant and equipments	2.644.081	2.209.678	510.039	1.071.620	365.577	0	6.800.995
Intangible assets	65.298	44.274	13.206	28.999		0	151.777

Notes

6. 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 2009	Hot water 2009	Electricity 2008	Hot water 2008
Power plant at Nesjavellir				
Revenue	2.146.608	1.059.293	1.983.898	955.866
Operating expenses	(608.837)	(520.704)	(570.275)	(516.153)
Depreciation	(653.673)	400.709	(659.410)	(342.896)
Profit before financial expenses	884.098	939.298	754.213	96.817
Return on investment	5,9%	2,7%	7,4%	1,9%

Power plant at Hellisheidi

The Company has initiated delivery of electricity from the power plant of Hellisheiði, but delivery of hot water from the plant has not yet begun.

7. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2009	2008
Salaries	3.670.181	3.913.769
Defined contribution pension expenses	487.592	512.601
Defined benefit pension expenses	24.999	86.152
Other salary related expenses	315.850	297.027
Total salaries and salary related expenses	4.498.623	4.809.549

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

	2009	2008
Expensed in the income statement	3.889.190	3.973.674
Capitalised on projects	609.433	835.875
Total salaries and salary related expenses	4.498.623	4.809.549

Number of employees:

	2009	2008
Number of annual working units	651	672

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

	2009	2008
Salaries to the Board of Directors of the Parent Company	14.348	15.174
Salaries to the Director and four Managing Directors of the Parent Company	93.301	101.523
Salaries to the Board of Directors and Managing Directors of subsidiaries 1)	25.290	51.038
Defined contribution pension expenses	16.840	27.814
Termination expenses, pension expenses included 2)	0	39.179
	149.780	234.728

Included in salaries are car benefits and vehicle subsidy.

1) Salaries were paid to the CEO of Reykjavik Energy Invest for the first five months of the year 2008. The CEO of Orkuveita Reykjavikur then took over the position and has not received special payments for the position. The salaries for the CEO of REYST are specified for the period REYST was a subsidiary of Orkuveita Reykjavikur, but it became an associate in February 2009. Also included are the salaries for the CEO of Gagnaveita Reykjavikur for 2008 and 2009.

2) Gudmundur Thoroddsson left his position as CEO of the parent company during the year 2008. Expenses due to the termination of his employment, salary related expenses included, were all expensed upon his departure from the company.

Notes

8. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2009	2008
Depreciation of property, plant and equipment, cf. note 11	7.680.033	6.800.995
Amortisation of intangible assets, cf. note 12	887.574	151.777
Depreciation and amortisation recognised in the income statement	8.567.607	6.952.772

9. Financial income and expenses

Financial income and expenses are specified as follows:

	2009	2008
Interest income	337.191	792.526
Interest expense	(5.240.008)	(5.034.238)
Guarantee fee to owners	(471.564)	(300.126)
Total interest expenses	(5.711.572)	(5.334.364)
Fair value changes of embedded derivatives in electricity sales contracts	11.072.823	937.145
Fair value changes of assets available for sale	(2.675.884)	(32.665)
Fair value changes of financial assets and financial liabilities through P/L	102.505	(299.030)
Forward currency swaps	47.643	179.363
Foreign exchange difference	(12.084.505)	(88.868.066)
Dividends	69.101	101.615
Total of other income (expenses) on financial assets and liabilities	(3.468.316)	(87.981.638)
Total financial income and expenses	(8.842.697)	(92.523.476)

Financing cost due to construction of a power plant to the amount of ISK 1.751,7 million is capitalised and has been recognised as reduction of financial expenses (2008: ISK 2.685,7 million).

Capitalized finance cost is calculated from an estimate of the Icelandic interest rates that would have given a good indication of the interest terms the Group would have received, if the power plant constructions were financed in ISK during the construction period. This is done to reflect that the foreign currency denominated interest rates of the Group's debt portfolio does not give a good indication of interest incurred during construction time. The average of monthly REIBOR fixings during 2009 is used, the average is 11.76%. A margin that reflects the Group's terms from the Icelandic banks during 2009 is added, this margin is 1.25%. In addition the Group's owners guaranty fee of 0.25% is added, in total the interest rate is 13.26%. (2008: 16.72%)

	2009	2008
Interest expenses, charged in the income statement	(5.711.572)	(5.334.364)
Capitalised finance cost	(1.751.701)	(2.685.659)
Interest expenses	(7.463.273)	(8.020.033)

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities. Change in fair value that is recognised in the income statement amounts to revenue of ISK 8.232 million. (2008: revenue ISK 904 million).

Notes

10. Income tax

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

On 21 December 2009 the Icelandic Parliament approved an increase in the income tax rate from 23.5% to 32.7% for partnerships as of 1 January 2010. At the same time the income tax rate for limited companies increased from 15% to 18%. The effect of the increase in the tax rate on the deferred tax at year-end amount to ISK 1.557 million. The effect is divided on the one hand so that ISK 4.383 decrease on the deferred tax asset is stated on the revaluation reserve and on the other hand ISK 5.940 increase on the deferred tax asset is recognised in the income statement. The increase in the income statement is moved down by ISK 4.400 million due to uncertainty that the Company will be able to exploit all of the taxable losses within the usable time.

Income tax recognised in the income statement is specified as follows:	2009	2008
Current income tax		218
Change in deferred income tax	(1.398.124)	(15.064.484)
Income tax recognised in the income statement	(1.398.124)	(15.064.266)

Reconciliation of effective tax rate:		2009		2008
Loss before income tax		(3.913.752)		(88.100.969)
Income tax according to current tax ratio	23.5%	(919.732)	23.5%	(20.703.728)
Effect of change in tax rate	151.8%	(5.940.140)	(0.1%)	98.329
Effect of valuation of exploitation of deferred tax losses	(112.4%)	4.400.000	(0.0%)	0
Non-taxable operation of water supply and sewer	(10.1%)	395.708	(5.6%)	4.890.069
Effect of various tax rates in the Group	(0.9%)	35.451	(0.4%)	378.436
Other items	(16.1%)	630.590	(0.3%)	272.628
Effective income tax	35.7%	(1.398.123)	17.1%	(15.064.266)

Notes

11. Property, plant and equipment

Property, plant and equipment is specified as follows:

2009	Production system	Distribution system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	164.856.768	184.796.025	8.283.140	4.407.876	362.343.809
Reclassification of assets				(809.125)	(809.125)
Additions during the year	16.563.059	3.850.561	43.454	890.125	21.347.199
Sold or disposed of		576.807	12.157	902.828	1.491.792
Balance at year end	181.419.827	189.223.393	8.338.751	5.391.704	384.373.675
Depreciation					
Balance at year beginning	46.181.542	85.742.803	1.391.818	2.057.215	135.373.378
Reclassification of assets				(887.574)	(887.574)
Depreciated during the year	3.783.988	3.533.522	145.387	217.136	7.680.033
Sold or disposed of		576.807	12.135	902.828	1.491.770
Balance at year end	49.965.530	89.853.132	1.549.340	2.289.605	143.657.607
Carrying amounts					
At 1.1. 2009................................	118.675.226	99.053.222	6.891.322	2.350.661	226.970.431
At 31.12. 2009............................	131.454.297	99.370.261	6.789.411	3.102.099	240.716.068
Thereof assets in construction at year end.............	23.772.336	1.699.301			25.471.637

2008	Production system	Distribution system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	112.503.139	138.979.119	7.508.660	4.589.086	263.580.004
Reclassification of assets	272.626	(116.328)	(42.958)	(475.114)	(361.774)
Additions during the year	22.755.532	7.189.060	817.439	293.904	31.055.935
Revaluation	29.325.471	38.744.174	0	0	68.069.645
Balance at year end	164.856.768	184.796.025	8.283.141	4.407.876	362.343.810
Depreciation					
Balance at year beginning	34.657.781	63.034.380	1.207.577	2.263.329	101.163.067
Reclassification of assets	91.051	34.849	(770)	(440.075)	(314.945)
Depreciated during the year	3.207.411	3.174.612	185.011	233.961	6.800.995
Revaluation	8.225.299	19.498.962	0	0	27.724.261
Balance at year end	46.181.542	85.742.803	1.391.818	2.057.215	135.373.378
Carrying amounts					
At 1.1. 2008................................	77.845.358	75.944.739	6.301.083	2.325.757	162.416.937
At 31.12. 2008............................	118.675.226	99.053.222	6.891.323	2.350.661	226.970.432
Thereof assets in construction at year end.............	12.389.190	0	0	0	12.389.190

11. Property, plant and equipment, contd.

Revaluation

Revaluation was not carried out for the distribution systems in the year 2009. Revaluation for the distribution systems was made at year-end 2006, 2007 and 2008 and amounted in total ISK 33.348 million.

Revaluation was not carried out for the production systems in the year 2009. At year end 2007 and 1 October 2008, a revaluation was made on the Group's production systems, which included assets used in the production of electricity, hot and cold water. The revaluation then amounted to ISK 35.959 million.

In the revaluation, the relevant asset groups are measured at fair value. The aforementioned increases are recognised in a revaluation reserve among equity taken into account effects of deferred income tax.

The fair value of production 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 revalued in accordance with those changes. The calculation is based on official information and real numbers from the Group's books on value changes of cost 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 same method is applied in the determination of the fair value of distribution systems, accounted at fair value. Revalued distribution systems are used in operations subject to special licence and income limits are primarily based on changes in the building cost index. This is also taken into account when determining the fair value.

Impairment tests were performed at year end in order to confirm that the carrying amounts of assets would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the distribution and production systems. The impairment tests take into account a change in the presumtions for earnings, from the previous year, that are set forth in the Company´s comprehensive policy regarding return on investment through the pricing to wholesale customers. Further explanation on impairment test is in note 3 h. Revaluation was not carried out in the year 2009 since there were not indications that a substantial change had occurred to the fair value of the revaluated assets.

Information on revalued assets at year end

	Production system	Distribution system	Total
The year 2009			
Revalued carrying amount	131.454.297	91.426.987	222.881.284
Thereof effect of revaluation	(33.930.052)	(31.073.178)	(65.003.230)
carrying amount before effect of revaluation	97.524.245	60.353.809	157.878.054
The year 2008			
Revalued carrying amount	118.675.226	91.468.802	210.144.028
Thereof effect of revaluation	(35.174.481)	(32.300.196)	(67.474.677)
carrying amount before effect of revaluation	83.500.745	59.168.606	142.669.351

Rateable value and insurance value

The rateable value of the Group's assets measured in the rateable value assessment amounted to ISK 27.843 million at year end 2009 (31.12.2008: ISK 27,976 million). The fire insurance value of the Group's assets amounted to ISK 31.223 million at the same time (31.12.2008: ISK 29,037 million). Among those assets are real estaes capitalised among production and distribution systems.

Notes

11. Property, plant and equipment, contd.

Obligations

In May 2008 the Company entered into a contract concerning purchase of equipment for power plants. The equipment will be delivered in the years 2010 and later. The contract and other contracts regarding developments at Hellisheiði amount to ISK 41.0 billion as per exchange rate at the end of the year (31.12.2008: ISK 35.5 billion). Furthermore, the Company has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at 31 December 2009 is estimated at ISK 2.4 billion (31.12.2008: ISK 1.9 billion).

12. Intangible assets

Intangible assets are specified as follows:

The year 2009	Heating rights	Preparation cost	Software	Total
Cost				
Balance at year beginning	1.427.031	193.620	1.746.214	3.366.865
Reclassification of assets			809.124	809.124
Additions during the year		53.872	126.025	179.897
Sold or disposed of			214.302	214.302
Balance at year end	1.427.031	247.492	2.895.665	4.570.188
Amortisation				
Balance at year beginning	410.674	0	1.275.497	1.686.171
Reclassification of assets			887.574	887.574
Amortisation during the year	13.957		119.780	133.737
Sold and disposed of			214.302	214.302
Balance at year end	424.631	0	2.497.153	2.921.784
Carrying amounts				
At 1.1. 2009	1.016.357	193.620	470.717	1.680.693
At 31.12. 2009	1.002.400	247.492	398.512	1.648.404

The year 2008	Heating rights	Preparation cost	Software	Total
Cost				
Balance at year beginning	1.427.031	64.888	1.107.268	2.599.187
Reclassification of assets	0	0	422.025	422.025
Additions during the year	0	128.732	216.921	345.652
Balance at year end	1.427.031	193.620	1.746.214	3.366.865
Amortisation				
Balance at year beginning	390.881	0	768.318	1.159.199
Reclassification of assets	0	0	375.195	375.195
Amortisation during the year	19.793	0	131.984	151.777
Balance at year end	410.674	0	1.275.497	1.686.171
Carrying amounts				
At 1.1. 2008	1.036.150	64.888	338.950	1.439.988
At 31.12. 2008	1.016.357	193.620	470.717	1.680.693

13. Investments in associated companies

Investments in associated companies are specified as follows:

	2009		2008	
	Share	Carrying amount	Share	Carrying amount
Enex hf.	0.0%	0	26.4%	372.389
Enex-Kína ehf.	19.53%	174.946	33.3%	156.706
Envent Holdings ehf.	24.5%	129.804	50.0%	325
Iceland American Energy Inc.	83.7%	110.000		
Vistorka ehf.	28.95%	24.055	31.92%	10.532
Metan hf.	35.4%	15.685	35.4%	9.291
Netorka hf.	22.6%	28.966	22.6%	25.227
Reykjavik Energy Grad. School hf.	33.3%	5.112		
Total		488.568		574.470

The Company's share in the loss of its associated companies amounted to ISK 227,7 million in the year 2009 (2008: loss of ISK 276,3 million). The main changes of associated companies were that Reykjavik Energy Grad. School hf. is now an associated company, but was before a subsidiary. Shares in Iceland American Energy Inc. increased and it is now an associated company.

14. Investments in other companies

Investments in other companies are specified as follows at year end:	2009	2008
Investments in other companies are specified as follows at year end:		294.909
Financial assets available for sale		9.731.102
Other shares in companies	0	10.026.011

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 of independent experts, unless where it is possible to base it on recent commercial transactions.

15. Embedded derivatives in electricity sales contracts

Four electricity sales contracts have been made to 20 years, one with Landsvirkjun in regards of Norðurál and three with Norðurál in regards of the aluminium plant at Grundartangi, in addition to contracts 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 for the first stage is estimated to begin in the year 2011. These electricity sales contracts are made in USD and the price of the electricity is connected to the world market price of aluminium.

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 those embedded derivatives has been measured and recognised in the financial statements.

15. Embedded derivatives in electricity sales contracts, contd.

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 an 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 30 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date. Due to uncertainties and an indication that CRU will revise their expectations, their forecast since October 2008 on aluminium prices has been lowered by USD 400 per metric ton. This change in assumptions amounts to ISK 4,325 million. 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.

The fair value of embedded derivatives due to electricity sales contracts, which have not yet been executed and that are uncertain, is calculated in the same way. Their fair value amounts to a total of ISK 9.459 million at year end 2009 (2008: ISK 8,257 million) and is not recognised in the financial statements.

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

	2009	2008
Fair value of embedded derivatives at the beginning of the year	9.091.449	8.154.304
Fair value changes during the year	11.072.823	937.145
Fair value of embedded derivatives at year end	20.164.273	9.091.449

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

	2009	2008
Non-current embedded derivatives	19.036.283	9.412.328
Current embedded derivatives	1.127.990	(320.879)
Total embedded derivatives at year end	20.164.273	9.091.449

16. Other financial assets

Non-current assets	2009	2008
Financial assets at fair value through profit or loss:		
Bonds	7.396.701	0
Bonds and other receivables:		
Bonds	259.861	105.331
	7.656.562	105.331
Current assets		
Bonds and other receivables:		
Bonds	82.267	111.374
	82.267	111.374

The bond among non-current assets is issued in USD and carries 1.5% interest. It has one settlement 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 seperated from the bond.

Notes

17. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

The year 2009	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	4.169.441	0	4.169.441
Effect of change in income tax rate on the revaluation account	(4.385.022)	0	(4.385.022)
Calculated income tax for the year	1.409.087	10.963	1.398.124
Other changes	809	0	809
Deferred tax assets/liabilities at year end	1.194.315	10.963	1.183.352

The year 2008	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	190.443	4.716.084	(4.525.641)
Effect of change in income tax rate	0	(537.295)	537.295
Effects of a revaluation of non-current assets	(6.895.739)	0	(6.895.739)
Calculated income tax for the year	10.874.519	(4.189.747)	15.064.266
Current tax liabilities	218	0	218
Other changes	0	10.959	(10.959)
Deferred tax assets/liabilities at year end	4.169.441	0	4.169.441

Deferred tax assets and liabilities are attributable to the flollowing:

	2009		2008	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(15.612.117)	13.983	(11.085.420)	0
Embedded derivatives	(6.593.717)	0	(2.136.491)	0
Other items	2.274.492	(848)	171.992	0
Effect of carry forward taxable loss	21.125.656	(2.172)	17.219.360	0
Deferred tax assets/liabilities at year end	1.194.314	10.963	4.169.441	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. Carry forwards taxable loss at year end can be used as follows:

	2009	2008
Unadjusted taxable loss for the year 2006, usable until year 2016	4.368.981	4.368.981
Unadjusted taxable loss for the year 2007, usable until year 2017	76.416	76.416
Unadjusted taxable loss for the year 2008, usable until year 2018	70.931.999	70.931.999
Unadjusted taxable loss for the year 2009, usable until year 2019	5.179.713	0
Carry forwards taxable loss at year end 2009	80.557.109	75.377.396

Deferred tax asset is only stated to the extent that is assumed it can be used against taxable profit in the future. Due to uncertainty of being able to use the taxable loss, the deferred tax asset is not fully recognised and the effect of that is ISK 4.400 million decrease of the tax asset.

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

18. Inventories

Inventories are specified as follows at year end:	2009	2008
Inventory of materials	752.353	1.544.565

The Group's material inventories consist of material for maintenance, renewal and construction of the Group's production and distribution systems.

Purchase of inventories amounting to ISK 944 million (2008: ISK 906 million) through a two-year leasing agreement was entered into at the end of 2008. At the end of the leasing period legal ownership of the inventories will be with Orkuveita Reykjavíkur. The leasing agreement is accounted for in non-current liabilities.

19. Other financial assets

Trade receivables is specified as follows at year end:	2009	2008
Trade receivables, industrial consumers	682.585	478.427
Trade receivables, retail	2.947.351	3.041.343
Trade receivables, receivables	3.629.936	3.519.770
Allowance for doubtful accounts	(290.627)	(227.290)
	3.339.309	3.292.480

Other current receivables are specified as follows at year end:		
Value added tax	61.077	314.330
Pre-paid expenses	222.509	151.550
Capital income tax	10.242	63.257
Accrued interest income	44.965	15.104
Receivables from employees	11.495	16.984
Other receivables	2.951	2.054
	353.240	563.279

20. Cash and cash equivalents

Cash and cash equivalents at year end are specified as follows:	2009	2008
Bank balances	2.943.303	1.243.639

21. Equity

It is the Company's policy to maintain a strong equity standing in order to support stability and future development of the operation. Dividend payments have been determined as a percentage of equity, independent from the profit or loss of the relevant year. The owners' meeting makes the decision on dividend payments.

Equity ratio of the Group at the end of the year is 14.4% (31.12.2008: 18.6%). Return on equity was negative by 5.5% in the year 2009 (2008: negative by 69.4%).

In the year 2009, dividends were paid to the parent company's owners. The dividend payment amounted to a total of ISK 800 million but in the year 2008, it amounted to ISK 1,568 million.

The Company's Board of Directors proposes that ISK 800 million be paid as dividends to the owners of the parent company in the year 2010 due to the operating year 2009. The Board's proposal of dividend payment is not recognised in the consolidated financial statements of the Company for the year 2009.

22. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 25.

Non-current liabilities	2009	2008
Bank loans	199.828.760	178.925.311
Credit facilities	14.988.936	15.059.998
Bond issuance	16.527.168	7.553.061
	231.344.864	201.538.370
Current portion on non-current liabilities	(10.090.738)	(5.439.610)
	221.254.126	196.098.760

Current liabilities		
Current portion on non-current liabilities	10.090.738	5.439.610
Short-term bank loans	5.223.303	4.242.000
	15.314.041	9.681.610
Total interest bearing loans and borrowings	236.568.167	205.780.370

Terms of interest-bearing loans and borrowings
Liabilities in foreign currencies:

		2009		2008	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	26.6.2036	0.72%	41.607.299	2,31%	39.214.737
Liabilities in EUR	26.6.2036	1.30%	84.089.942	4,77%	76.654.728
Liabilities in USD	17.12.2029	0.92%	44.716.978	2,66%	31.994.843
Liabilities in JPY	26.6.2036	0.69%	21.613.747	1,10%	23.635.999
Liabilities in GBP	26.6.2036	1.62%	8.202.315	3,67%	3.282.738
Liabilities in SEK	5.10.2027	0.81%	14.079.999	4,26%	12.676.195
Liabilities in CAD			0	2,61%	6.317.637
			214.310.280		193.776.877
Liabilities in Icelandic kronas:					
Indexed	10.1.2037	4.88%	16.734.583	5,17%	7.761.493
Non-indexed	17.3.2010	10,50%	5.523.303	21,09%	4.242.000
			22.257.886		12.003.493
Total interest-bearing loans and borrowings			236.568.166		205.780.370

22. Loans and borrowings, contd.

Repayment on non-current liabilities are specified as follows on the next years:	2009	2008
Year 2009	0	5.439.610
Year 2010	10.090.738	5.060.784
Year 2011	17.689.392	24.159.150
Year 2012	13.307.154	9.927.624
Year 2013	30.606.873	28.769.781
Year 2014	14.904.521	13.723.642
Later	144.746.186	114.457.779
Total non-current liabilities, including next year's repayment	231.344.864	201.538.370

Guarantees and pledges

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

23. Retirement benefit obligation

Upon the estabilshment of Orkuveita Reykjavíkur, an accrued retirement benefit obligation due to employees at that time was settle. The Company has retirement benefit obligation due to benefits of current and former employees in pension benefit plans. This obligation is due to companies merged with Orkuveita Reykjavíkur and due pension fund obligation has been taken over in relation to the merger.

According to an actuary assessment, the Company's accrued retirement benefit obligation amounted to ISK 480,4 million at year end 2009, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2008: ISK 471,6 million). 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 2009 is recognised among current liabilities.

Retirement benefit obligation is specified as follows:	2009	2008
Retirement benefit obligation at the beginning of the year	471.627	400.938
Contribution due to pension payments during the year	(16.260)	(15.463)
Increase in the pension fund obligation during the year	25.000	86.152
Retirement benefit obligation at year end	480.367	471.627
Non-current component of retirement benefit obligation	464.547	456.027
Current component of retirement benefit obligation	15.820	15.600
	480.367	471.627

Notes

24. Other financial liabilities

Non-current liabilities:

	2009	2008
Other financial liabilities at fair value through profit or loss:		
Currency swaps	50.186	34.468

Current liabilities:

Accounts payable

	2009	2008
Various accounts payable	2.368.066	2.443.340

Other financial liabilities at fair value through profit or loss:

	2009	2008
Currency swaps	24.977	17.645

Other current liabilities:

	2009	2008
Unpaid taxes	797	0
Unpaid salaries and salary related items	518.804	526.723
Accrued interest expenses	664.509	1.554.319
Umpaid share subscription	0	0
Current component of retirement benefit obligation	15.820	15.600
Other liabilities	181.387	185.824
	1.381.317	2.282.466

25. Risk management and financial instruments

a. *Overview*

Orkuveita Reykjavíkur has approved a policy on objectives and execution of risk management. The main objectives with risk management according to the policy is to contribute to a stable return and limit financing cost by limiting fluctuations in currency exchange and aluminium prices and to contribute to a low interest rate.

The Group's currency risk is related to cash flow risk and risk in the balance sheet. Interest rate risk is related to the variance of variable interests and fixed interests and can relate to both cash flow and the balance sheet. Risk due to variance of aluminium prices is due to the relation between electricity price to industries and aluminium price level and relates to the cash on electricity sale to industry consumers.

The Group's currency risk is monitored both in cash flow and in the balance sheet with generally accepted calculation methods. Annual standards deviation and daily value at risk for liabilities and estimated cash flow in foreign currencies is measured. Risk in cash flow due to changes in aluminium prices and interests is measured based on the same method.

The policy defines risk and sets performance levels. The Company's Board of Directors receives on a regular basis a statement on the standing and performance of the Group's risk management.

Decision making and control on the execution of the risk management is in the hands of a risk committee. The risk committee consists of the Director, Managing Director of finance, Head of financial and risk management and Head of the financial department.
Financial risk is divided into:

• Market risk
• Liquidity risk
• Credit risk

25. Risk management and financial instruments, contd.

b. *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. This is the risk that weighs the most in the Group and is divided into:
- Currency risk due to liabilities in the balance sheet and cash flow in foreign currencies.
- Interest rate risk due to loans.
- Risk due to changes in the world market price of aluminium.

i) Currency risk

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

Approx. 90.6% of the Group's non-current loans are in foreign currencies and creates thus currency risk. This currency risk is hedged in accordance with the Company's policy on risk management where the interest cost of the loans is assessed together with the currency risk. Interest rate of loans in foreign currencies was considerably lower than for loans in Icelandic kronas. The Group has entered into long term electricity sales contracts in a foreign currency (USD). The expected future revenues from these contracts on the accounting date amount to approx. ISK 180.637 millions. That amount is based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and expectations of price development of aluminium for the next 30 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date.

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

	2009	2008	2009	2008
	Average exchange rate		Exchange rate at year end	
CHF	114,325	80,698	121,215	113,905
EUR	172,665	127,457	179,8	169,470
USD	123,601	88,088	124,81	121,245
JPY	1,325	0,863	1,35075	1,3402
GBP	193,893	159,361	202,165	176,745
SEK	16,306	13,195	17,52	15,523
CAD	109,041	81,585	119,01	98,750
TWI	223,324	166,444	232,83	216,300

25. Risk management and financial instruments, contd.

b. *Market risk, contd.*

i) Exposure to currency risk

The Group's exposure to currency risk based on the nominal amounts is specified as follows (in ISK thousand):

The year 2009	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(41.607.299)	(84.089.942)	(44.716.978)	(21.613.747)	(8.202.315)	0	(14.079.999)	0	(214.310.280)
Accounts payables	(12.374)	(18.066)	(37.368)						(67.808)
Trade receivables			530.440		12	1.426	20	1.691	533.589
Bank deposits	234	7.084	2.556.769	308	3.251	230	106	0	2.567.982
Aluminium derivatives			20.164.273						20.164.273
Balance sheet risk	(41.619.439)	(84.100.924)	(21.502.864)	(21.613.439)	(8.199.052)	1.656	(14.079.873)	1.691	(191.112.244)
Estimated sale in 2010			5.921.599						5.921.599
Estim. purchase in 2010 .		(2.297.992)	(135.676)	(1.593.073)					(4.026.741)
Balance sheet risk	0	(2.297.992)	5.785.923	(1.593.073)	0	0	0	0	1.894.858
Swaps	(709.012)			633.849					(75.163)
Net risk	(42.328.451)	(86.398.916)	(15.716.941)	(22.572.663)	(8.199.052)	1.656	(14.079.873)	1.691	(189.292.549)

25. Risk management and financial instruments, contd.

b. *Market risk, contd.*

i) Exposure to currency risk, contd.

The year 2008	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(39.214.737)	(76.654.728)	(31.994.843)	(23.635.999)	(3.282.738)	(6.317.637)	(12.676.195)		(193.776.877)
Accounts payables							(2.645)	(2.235)	(4.880)
Trade receivables	11.922	214.851	406.224		1.061			10.595	644.653
Bank deposits	2.516	26.204	428.906	81	7.104	44.489	2.833		512.133
Aluminium derivatives			9.091.449						9.091.449
Balance sheet risk	(39.200.299)	(76.413.673)	(22.068.264)	(23.635.918)	(3.274.573)	(6.273.148)	(12.676.007)	8.360	(183.533.522)
Estimated sale in 2010			4.235.432						4.235.432
Estim. purchase in 2010 .		(2.852.531)	(143.411)	(1.650.829)	(538)	(1.183)	(6.890)	(528)	(4.655.910)
Balance sheet risk	0	(2.852.531)	4.092.021	(1.650.829)	(538)	(1.183)	(6.890)	(528)	(420.478)
Swaps	(835.899)			783.787					(52.112)
Net risk	(40.036.198)	(79.266.204)	(17.976.243)	(24.502.960)	(3.275.111)	(6.274.331)	(12.682.897)	7.832	(184.006.112)

Sensitivity analysis

Strengthening by 10% of the Icelandic krona against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below.

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
The year 2009	3.183.887	6.433.721	1.648.901	1.653.428	627.228	(127)	1.077.110	(129)	14.624.019
The year 2008	2.998.823	5.845.646	1.688.222	1.808.148	250.505	479.896	969.715	(640)	14.040.315

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008. Weakening by 10% of the Icelandic krona against the above currencies at 31 December 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.

25. Risk management and financial instruments, contd.

b. *Market risk, contd.*

ii) Interest rate risk

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

Fixed rate instruments	**2009**	**2008**
Financial assets	7.738.829	216.705
Financial liabilities	26.792.325	15.015.002
	19.053.496	14.798.297

Variable rate instruments		
Financial liabilities	209.851.004	190.817.481
	209.851.004	190.817.481

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or (loss)	
The year 2009	**100 p increase**	**100 p decrease**
Variable rate instruments	(3.529.441)	3.700.354
Cash flow sensitivity, net	(3.529.441)	3.700.354
The year 2008		
Variable rate instruments	(2.435.472)	2.612.795
Cash flow sensitivity, net	(2.435.472)	2.612.795

25. Risk management and financial instruments, contd.

b. *Market risk, contd.*

iii) Aluminium price risk

The Group has entered into electricity sales contracts where the sales price of electricity is based on among other things the world market price of aluminium. The Group has not hedged specifically against aluminium price changes. Revenue from the electricity sales contracts related to aluminium price level amounted to 17.6% (2008: 15.6%) of the Group's total revenue for the year.

Sensitivity analysis

A change in the aluminium price level by 10% at year end, whether by increase or decrease, would have the following effect on the Group's profit or loss after taxes.

	Profit or (loss)	
	2009	**2008**
Increase by 10%	10.264.565	6.897.313
Decrease by 10%	(10.370.869)	(6.844.999)

iv) Other market risk

Other market risk is limited as investments in bonds and shares are an insubstantial part of the Group's operation.

v) Correlation of aluminium price and interest rates

Our research has shown correlation in the price of aluminium and interest rates, an aluminium price change leads changes in interest rates. This correlation results in embedded hedging.

c. *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, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Owners' guarantees for the Company's loans has enabled the Company to obtain access to loans at good terms. Power plant projects at Hellisheiði have primarily been financed with loans from the European Investment Bank (EIB), the Europe Development Bank (CEB) and the Nordic Investment Bank (NIB), but all of those banks have expressed an interest of continued participation in the financing of geothermal power plant projects, such as the power plant of Hellisheiði. The loans are long term and have been determined in accordance with long term agreements on sale of electricity in order to limit the Company's risk inherent with refinancing.

The Group's cash and cash equivalents at year end amounted to ISK 2.9 billion. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 13.8 billion. The Group had thus in total ensured capital at year end to the amount of approx. ISK 16.7 billion. The corresponding amount in 2008 amounted to ISK 14.8 billion.

25. Risk management and financial instruments, contd.

c. *Liquidity risk, contd.*

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

The year 2009

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest-bearing liabilities	236.568.166	(264.168.863)	(18.307.776)	(36.219.530)	(64.152.032)	(145.489.525)
Accounts payable	2.368.066	(2.368.066)	(2.368.066)			
Other liabilities ...	1.381.317	(1.381.317)	(1.381.317)			
Derivative financial instruments						
Currency swaps	75.163	(81.802)	(24.876)	(21.983)	(34.944)	0
	240.392.711	(268.000.048)	(22.082.035)	(36.241.513)	(64.186.976)	(145.489.525)

The year 2008

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest-bearing liabilities	205.780.370	(261.357.284)	(27.696.004)	(8.775.085)	(62.352.858)	(162.533.337)
Accounts payable	2.443.340	(2.443.340)	(2.443.340)			
Other liabilities ...	2.282.684	(2.282.684)	(2.282.684)			
Derivative financial instruments						
Currency swaps	52.113	(60.872)	(17.480)	(14.827)	(28.565)	0
	210.558.506	(266.144.180)	(32.439.508)	(8.789.912)	(62.381.423)	(162.533.337)

Non-current loans will presumably be refinanced in order to prolonge the loan term. Therefore, the distribution of the repayments will presumably be different from the above.

25. Risk management and financial instruments, contd.

d. *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, and arises principally from the Group's receivables from customers. Losses due to unpaid receivables are insubstantial and have limited effect on the Group's return.

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

	2009	2008
Trade receivable	3.339.309	3.292.480
Other current receivables	353.240	563.279
Other financial assets	7.738.829	216.705
Cash and cash equivalents	2.943.303	1.243.639
	14.374.681	5.316.103

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

	2009	2008
Trade receivable, industrial consumers	682.585	478.427
Trade receivable, retail	2.656.724	2.814.053
	3.339.309	3.292.480

Impairment

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

	2009		2008	
	Gross balance	Allowance	Gross balance	Allowance
Non-overdue receivables	2.573.050	36.917	2.707.804	68.112
Overdue receivables	1.056.886	253.710	811.966	159.178
	3.629.936	290.627	3.519.770	227.290

e. *Fair value*

Fair values versus carrying amounts

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

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(236.568.166)	(218.876.273)	(205.780.370)	(185.480.733)

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

25. Risk management and financial instruments, contd.

e. *Fair value, contd.*

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:

	2009	2008
Interest-bearing liabilities	0.05% - 9.0%	0.02% - 18.575%
Embedded derivatives in electr. sales contr.	0.169% - 4.537%	0.135% - 2.743%

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).

2009	Level 1	Level 2	Level 3	Total
Shares in companies			2.187.047	2.187.047
Embedded derivatives in sales contracts			20.164.273	20.164.273
Other financial assets			7.396.701	7.396.701
Other financial liabilities		(75.163)		(75.163)
	0	(75.163)	29.748.021	29.672.858
2008				
Shares in companies	294.909		9.731.102	10.026.011
Embedded derivatives in sales contracts			9.091.449	9.091.449
Other financial assets				0
Other financial liabilities		(52.113)		(52.113)
	294.909	(52.113)	18.822.551	19.065.347

Embedded derivatives in electric sales contracts that have more than 10 year duration er classified under level 3 due to the fact that the forward market for aluminium only reaches maximum of ten years.

Notes

25. Risk management and financial instruments, contd.

f. Overview of financial instruments

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

	2009			2008		
	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			2.187.047		294.909	9.731.102
Embedd. electr. sales contracts ..		20.164.273			9.091.449	
Other financial assets	342.128	7.396.701		216.705		
Trade receivabl. .	3.339.309			3.292.480		
Other receivabl. ..	353.240			563.279		
Cash	2.943.303			1.243.639		
Interest-bearing .. liabilities	(236.568.166)			(205.780.370)		
Other financial liabilities		(75.163)			(52.113)	
Account payabl. .	(2.368.066)			(2.443.340)		
Other current liabilities	(1.381.317)			(2.282.466)		
	(233.339.568)	27.485.811	2.187.047	(205.190.073)	9.334.245	9.731.102

26. Statement of cash flows, details

Cash from operations before interests and taxes according to the statement of cash flows is specified as follows:

	2009	2008
Loss for the year	(2.538.839)	(72.959.710)
Adjusted for:		
Financial income and expenses	8.842.697	92.523.476
Minority interest	23.211	(76.993)
Share of loss of associated companies	227.685	276.339
Income tax	(1.398.124)	(15.064.266)
Depreciation and amortisation	7.813.770	6.952.772
Retirement benefit obligation, increase	8.739	70.689
Working capital from operation before interest and taxes	12.979.140	11.722.307
Inventories, change	305.533	(575.473)
Trade and other receivables, decrease (increase)	85.957	(288.807)
Payables and other current liabilities, (decrease)	(105.824)	(362.776)
Cash generated from operations before interests and taxes	13.264.807	10.495.252

27. Related parties

Definition of related parties

Reykjavik city, institutions and companies ruled by the city, subsidiaries of Orkuveita Reykjavikur, associated companies, Board members, Directors and key management of Orkuveita Reykjavikur 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. This information does not include sale of conventional household supplies to the related parties.

Sale to related parties:	2009	2008
Reykjavik City	2.446.876	2.903.487
Institutions and companies controlled by Reykjavik City	603.781	440.737
Subsidiaries	381.033	702.414
Associates	20.499	386
Board members and key employees	1.310	1.318
	3.453.499	4.048.342
Purchases from related parties:		
Reykjavik City	57.080	304.238
Institutions and companies controlled by Reykjavik City	53.309	86.174
Subsidiaries	245.284	224.937
Associates	66.983	45.477
Board members and key employees	2.999	20.440
	425.655	681.266
Receivables for related parties:		
Reykjavik City	104.062	239.218
Institutions and companies controlled by Reykjavik City	176.027	85.065
Subsidiaries	72.716	111.776
Associates	15.185	16.033
Board members and key employees	2.301	929
	370.291	453.021
Payables for related parties:		
Reykjavik City	13.822	17.016
Institutions and companies controlled by Reykjavik City	6.914	17.761
Subsidiaries	41.275	569.692
Associates	1.489	332
Board members and key employees	15	22
	63.515	604.823

Guarantee fee to owners
Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City, other existing and former owners of the company for guarantees they made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveitu Reykjavíkur in 2005. At that meeting it was agreed upon that the guarantee fee should be 0.0625% of the quarterly balance of loans at the repoting date. The guarantee fee amounted to ISK 472 million in 2008 (2008: ISK 300 million) and is accounted for amongst interest expenses, see note 9.

28. Group entities

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

			Eignarhluti	
	Meginstarfsemi	Nafnverð	2009	2008
Gagnaveita Reykjavíkur ehf.	Data transfer	4.736.841	100.0%	100.0%
Hitaveita Akraness og Borgarfj	Heating supplier		79.3%	79.3%
Reykjavík Energy Invest ehf.	Investments	3.004.723	100.0%	100.0%
Úlfljótsvatn frítímabyggð ehf.	Preperation company	225.000	100.0%	100.0%
Hrafnabjargavirkjun	Preperation company	6.000	60.0%	60.0%

Main changes in the Group during the year
Orkuveita Reykjavikur founded REYST Graduate School in the year 2008 with Reykjavik University and University of Iceland. According to the founding agreement of the owners, Reykjavik University and University of Iceland increased their share in February 2009. Now all parties own one third of REYST hf. Therefore REYST has become an associate company at Orkuveita Reykjavikur but was before a subsidiary.

29. Events after the Balance Sheet date

In January 2010 the Reykjavik Energy purchased 20.7% share in Hitaveita Akraness og Borgarfjarðar (HAB) from the state. With the purchase Reykjavik Energy became the only owner of HAB. HAB was intergrated into Reykjavik Energy as of 1 January 2010.

30. Other issues

Hitaveita Suðurnesja (now HS Orka hf. and HS Veitur hf.)
14 December 2009 took affect an agreement from 31 August regarding purchase of shares in HS Orka hf. of Hafnarfjörður municipality. With that settlement both parties came into agreement regarding a dispute between them and litigation was terminated.

Derivative contracts in default
After the collapse of the Icelandic banks 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.

Derivative contracts in default according to agreements with Glitnir banki hf. (old bank) are accounted for amongst other current liabilities. The agreements have not been calculated to date due to uncertainties both with Orkuveita Reykjavíkur and the Receivership Committees of the old banks concerning how to handle these calculations. It was decided, as a precaution, to refer to the mid rate of the Central Bank of Iceland as at 7 October 2008 which is the latest exchange rate before the Receivership Committee took over Glitnir banki hf.'s operations. The trade weighted index at that time was 175 and accordingly derivative contracts in default as accounted for in the financial statements are negative amounting to ISK 181.2 million. The contracts were accounted for amongst other financial assets or other financial liabilities but are now amongst other current liabilities.