

Orkuveita Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1 January to 30 September 2015

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

reg no. 551298-3029

Contents

	Page
Endorsement by the Board of Directors and the CEO	3
Consolidated Income Statement	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Interim Financial Statements	9

Endorsement by the Board of Directors and the CEO

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

The condensed consolidated interim financial statements for the period 1 January to 30 September 2015 are prepared in accordance with the International Financial Reporting Standard *IAS 34 Interim financial reporting*. The interim financial statements comprise the consolidated interim financial statements of Orkuveita Reykjavíkur and subsidiaries. The interim financial statements have not been reviewed by the independent auditor of the company.

Profit of operations of the Group for the period 1 January to 30 September 2015 was ISK 3.093 million (1.1. to 30.9. 2014: ISK 7.879 million). According to the statement of financial position the Group's assets were ISK 299.761 million at the end of the period (31.12.2014: ISK 299.330 million), book value of equity at the end of the period was ISK 102.637 million (31.12.2014: ISK 99.410 million), resulting in equity ratio of 34,2% (31.12.2014 33.2%).

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

	Share
Reykjavíkurborg	93.539%
Akraneskaupstaður	5.528%
Borgarbyggð	0.933%

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the condensed consolidated interim financial statements are in accordance with international financial reporting standard *IAS 34 on Interim financial reporting*. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 30 September 2015 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 30 September 2015.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condensed consolidated interim financial statements for the period 1 January to 30 September 2015.

Reykjavík, 23 November 2015.

The Board of Directors:

Haraldur Flosi Tryggvason

Valdís Eyjólfsdóttir

Brynhildur Davíðsdóttir

Gylfi Magnússon

Áslaug Friðriksdóttir

Kjartan Magnússon

CEO:

Bjarni Bjarnason

Income Statement

1 January to 30 September 2015

	Notes	2015 1.7.-30.9.	2014 1.7.-30.9.	2015 1.1.-30.9.	2014 1.1.-30.9.
Operating revenue	3	8.289.375	8.650.802	28.768.243	26.884.521 *
Sales profit		0	75.944	0	75.944
Total revenue		8.289.375	8.726.746	28.768.243	26.960.465
Energy purchase .....	(	1.389.695)	(1.114.419)	(4.645.478)	(3.644.092) *
Salaries and salary related expenses .....	(	929.513)	(920.164)	(3.061.080)	(2.956.615)
Other operating expenses .....	(	772.230)	(781.313)	(2.828.156)	(2.594.047) *
Operating expenses, total	3	(3.091.439)	(2.815.897)	(10.534.714)	(9.194.755)
EBITDA		5.197.937	5.910.850	18.233.530	17.765.711
Depreciation and amortisation .....	(	2.373.413)	(2.178.699)	(7.172.346)	(6.509.983)
Results from operating activities (EBIT)		2.824.523	3.732.150	11.061.184	11.255.727
Interest income		105.753	186.683	302.811	440.818
Interest expenses .....	(	1.329.362)	(1.281.638)	(3.999.929)	(3.904.372)
Other income (expenses) on financial assets and liabilities .....	(	635.567)	2.280.666	(4.274.640)	2.342.079
Total financial income and (expenses)	4	(1.859.176)	1.185.711	(7.971.757)	(1.121.475)
Share in profit of associated companies		0	1.720	3.643	1.720
Profit before income tax		965.347	4.919.581	3.093.070	10.135.972
Income tax .....	(	132.482)	(871.155)	130	(2.256.530)
Profit for the period		<u>832.866</u>	<u>4.048.426</u>	<u>3.093.200</u>	<u>7.879.442</u>

*Presentation has been changed, see note 2b page 9.

Statement of Comprehensive Income

1 January to 30 September 2015

	2015 1.7.-30.9.	2014 1.7.-30.9.	2015 1.1.-30.9.	2014 1.1.-30.9.
Profit for the period	832.866	4.048.426	3.093.200	7.879.442
Other comprehensive income				
Items moved to equity that could be moved later to the income statement				
Changes in fair value of assets available for sale	0	0	0	(542.248)
Translation difference	(1.766.238)	2.924.042	134.335	2.192.445
	<u>(1.766.238)</u>	<u>2.924.042</u>	<u>134.335</u>	<u>1.650.197</u>
Comprehensive income moved directly to equity, after taxes .. (1.766.238)	2.924.042	134.335	1.650.197	
Total comprehensive income for the period (933.373)	<u>6.972.467</u>	<u>3.227.535</u>	<u>9.529.639</u>	

Consolidated Statement of Financial Position

30 September 2015

	Notes	30.9.2015	31.12. 2014
Assets			
Property, plant and equipment		266.681.998	265.929.409
Intangible assets		1.343.371	1.333.728
Investments in associated companies		62.832	59.189
Investments in other companies		2.236.179	2.236.179
Hedge contracts		349.621	656.173
Other financial assets		8.579.556	8.480.317
Deferred tax assets		3.670.298	2.674.881
Total non-current assets		<u>282.923.855</u>	<u>281.369.876</u>
 Inventories		 549.866	 434.943
Trade receivables		4.107.788	4.632.281
Hedge contracts		848.714	237.282
Other receivables		467.772	508.560
Deposits		1.500.000	3.000.144
Cash and cash equivalents		9.362.669	9.147.113
Total current assets		<u>16.836.808</u>	<u>17.960.323</u>
Total assets		<u><u>299.760.663</u></u>	<u><u>299.330.199</u></u>
 Equity			
Revaluation reserve		67.422.376	69.446.324
Fair value reserve		1.760.000	1.760.000
Translation reserve		4.369.690	4.235.355
Retained earnings		29.085.332	23.968.184
Total equity		<u>102.637.398</u>	<u>99.409.863</u>
 Liabilities			
Loans and borrowings		155.562.651	164.157.105
Retirement benefit obligation		559.998	520.264
Embedded derivatives in electricity sales contracts		8.044.225	2.377.756
Hedge contracts		2.378.648	1.842.134
Deferred tax liabilities		5.517.711	4.529.006
Total non-current liabilities		<u>172.063.233</u>	<u>173.426.264</u>
 Accounts payable		 2.178.563	 1.826.346
Loans and borrowings		14.263.634	19.766.122
Embedded derivatives in electricity sales contracts		1.756.585	649.933
Hedge contracts		1.810.795	1.194.980
Deferred revenue	5	1.883.280	0
Other current liabilities		3.167.176	3.056.691
Total current liabilities		<u>25.060.032</u>	<u>26.494.072</u>
Total liabilities		<u>197.123.265</u>	<u>199.920.336</u>
Total equity and liabilities		<u><u>299.760.663</u></u>	<u><u>299.330.199</u></u>

Statement of Changes in Equity

1 January to 30 September 2015

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1. - 30.9. 2015					
Equity at 1 January 2015	69.446.324	1.760.000	4.235.355	23.968.184	99.409.863
Translation difference			134.335		134.335
Profit for the period				3.093.200	3.093.200
Total comprehensive income	0	0	134.335	3.093.200	3.227.535
Depreciation transferred to retained earnings	(2.023.948)			2.023.948	0
Equity at 30 September 2015	67.422.376	1.760.000	4.369.690	29.085.332	102.637.398
1.1. - 30.9. 2014					
Equity at 1 January 2014	66.354.727	2.302.248	0	12.312.122	80.969.097
Translation difference			2.192.445		2.192.445
Changes in fair value of assets available for sale		(542.248)			(542.248)
Profit for the period				7.879.442	7.879.442
Total comprehensive income	0	(542.248)	2.192.445	7.879.442	9.529.639
Depreciation transferred to retained earnings	(1.647.198)			1.647.198	0
Equity at 30 September 2014	64.707.529	1.760.000	2.192.445	21.838.762	90.498.735

Statement of Cash Flows

1 January to 30 September 2015

	2015 1.1.-30.9.	2014 1.1.-30.9.
Cash flows from operating activities		
Profit for the period	3.093.200	7.879.442
Financial income and expenses	7.971.757	1.121.475
Other operational items that do not effect the cash flow	7.193.567	8.791.901
Changes in operational assets and liabilities	2.447.704	2.939.029
Cash generated from operations before interests and taxes	20.706.228	20.731.846
Received interest income	376.947	442.379
Paid interest expenses	(3.181.096)	(3.419.946)
Received due to other financial income and expenses	223.951	130.618
Net cash from operating activities	18.126.030	17.884.898
Cash flows from investing activities		
Acquisition of property, plant and equipment	(7.251.532)	(3.471.085)
Acquisition of intangible assets	(71.390)	(94.404)
Proceeds from sale of property, plant and equipment	25.728	0
Proceeds from sale of shares in other companies	0	1.499.248
Change in deposits	1.500.144	(5.000.144)
Proceeds and repayment of other financial assets	0	386
Net cash used in investing activities	(5.797.050)	(7.066.000)
Cash flows from financing activities		
Proceeds from new borrowings	0	5.700.000
Repayment of borrowings	(10.283.505)	(12.754.506)
Current liabilities, change	(1.693.456)	(1.158.737)
Net cash used in financing activities	(11.976.961)	(8.213.242)
Increase in cash and cash equivalents	352.019	2.605.655
Cash and cash equivalents at beginning of the year	9.147.113	8.993.410
Effect of currency fluctuations on cash and cash equivalents	(136.463)	5.960
Cash and cash equivalents at end of period	9.362.669	11.605.026
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	364.916	(191.919)
Current liabilities, change	(364.916)	191.919
Other information:		
Working capital from operation	14.734.447	12.676.954

Notes

1. Reporting entity

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

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

Subsidiaries in the Group	Main operations	Share	
		30.9.2015	31.12. 2014
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ohf.	Holding company	100%	100%
OR Veitur ohf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	100%	100%
Úlfjótsvatn frítímabyggð ehf.	Preparation company	100%	100%

2. Basis of preparation

a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2014.

The annual financial statements can be found at the company's web site; www.or.is and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

The interim financial statements were approved by the Board of Directors and the CEO on 23 November 2015.

b. Comparative amounts

Same accounting principles are applied as for the year 2014. Comparative amounts have been changed to reflect new classification of income, energy purchase and other expense in the income statement. The change has no effect on the bottom line results of the income statement.

c. Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, embedded derivatives in electricity sales contracts are stated at fair value and investments in other companies and other financial assets and financial liabilities are stated at fair value. The methods used to measure fair values are discussed further in notes with the financial statements for the year 2014.

d. Functional and presentation currency

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

Notes

2. Basis of preparation, contd.

e. *Foreign currency*

i *Trade in foreign currencies*

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

ii *Subsidiary with other functional currency than the Icelandic krona*

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

f. *Use of estimates and judgements*

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

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

Notes

3. Segment reporting

Segment information is presented by the Group's internal reporting. Segment information for the same period in the year 2014 was not compiled in the same way and therefore not published. Business segments now presented for the period 1 January to 30 September 2015 are *Utilities*, that represent licenced operations in hot and cold water, distribution of electricity and sewage, *Our nature*, representing the competitive operations in producing electricity and hot water and *Other Operation*, that represents the activities of the parent company and the fibre optic operations of the subsidiary *Gagnaveita Reykjavíkur*. Segment reporting is conducted by using the same accounting principle as the group uses and is described in notes with the financial statements for the year 2014.

Business segments - divisions

1.1. - 30.9. 2015

	Utilities	Our nature	Other Operation	Adjust- ments	Total
External revenue	18.231.653	9.073.339	1.463.251	0	28.768.243
Inter-segment revenue	2.476.241	2.541.094	3.671.086	(8.688.420)	0
Total segment revenue	20.707.894	11.614.433	5.134.337	(8.688.420)	28.768.243
Operational cost	(8.645.584)	(5.992.707)	(4.584.844)	8.688.420	(10.534.714)
Segment profit EBITDA	12.062.310	5.621.726	549.493	0	18.233.530
Depreciation and amortisation	(3.797.825)	(2.716.539)	(657.981)	0	(7.172.346)
Segment results, EBIT	8.264.485	2.905.187	(108.488)	0	11.061.184
Financial income and expenses	(4.763.782)	(1.373.552)	4.940.899	(6.775.322)	(7.971.757)
Share of profit of associated companies	0	0	3.643	0	3.643
Income tax	(393.784)	(326.635)	(1.717.775)	2.438.324	130
Profit for the period	3.106.920	1.205.000	3.118.279	(4.336.999)	3.093.200

Notes

4. Financial income and expenses

	2015 1.1.-30.9.	2014 1.1.-30.9.
Financial income and expenses are specified as follows:		
Interest income	302.811	440.818
Interest expense	(3.460.389)	(3.356.157)
Guarantee fee to owners 1)	(539.541)	(548.216)
Total interest expenses	(3.999.929)	(3.904.372)
Fair value changes of embedded derivatives in electricity sales contracts	(6.773.121)	166.526
Fair value changes of assets available for sale	0	542.248
Fair value changes of financial assets and financial liabilities through P/L	190.955	851.081
Hedge contracts	(1.817.942)	(3.449.634)
Foreign exchange difference	4.115.580	4.231.849
Dividends	9.890	10
Total of other (expenses) income on financial assets and liabilities	(4.274.639)	2.342.079
Total financial income and expenses	(7.971.757)	(1.121.475)

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavíkur in 2005. The fee on yearly basis for its licenced operations is 0.375% and 0.55% regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly and is accounted for among interest expenses.

Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 34 in the financial statements of the Group for the year 2014. Change in fair value that is expensed in P/L for the period amounts ISK 6.582 million (1.1. to 30.9. 2014: income ISK 1.560 million).

Capitalised financing cost

Financing cost due to construction of a power plant amounting to ISK 162,5 million was capitalised and was deducted from financial expense. No finance expense was capitalised in the same period 2014. Interest ratio that was used in the calculation of capitalised financing cost was 4.93%.

	2015	2014
Interest expense is specified as follows:		
Interest expenses, charged in the income statement	(3.999.929)	(3.904.372)
Capitalised finance cost	(162.507)	0
Interest expenses	(4.162.437)	(3.904.372)

5. Receivables and deferred revenue

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

Notes

6. Fair value

Comparison of fair value versus carrying amounts

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

	30.9.2015		31.12. 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	169.826.285	155.732.154	183.923.227	163.286.404

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

Interest rates used for determining fair value

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

	30.9.2015	31.12. 2014
Embedded derivatives in electr. sales contr.	3.17% to 9.77%	3.15% to 11.51%
Financial assets at fair value through P/L	6.65% to 7.19%	6.96% to 7.24%
Interest bearing loans	2.55% to 6.63%	3.12% to 6.62%

Classification of financial instruments in the fair value hierarchy has not changed in the period. The classification can be seen in the financial statements for the Group for the year 2014 in note 27.

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium are shown in note 24 in the financial statements of the Group for the year 2014. It is recommended to take into consideration this note while reading the interim financial statements for the current period since change in these presumptions can have considerable effect on certain amounts in the interim financial statements.