

# Orkuveita Reykjavíkur

Condensed Consolidated  
Interim Financial Statements  
1 January to 31 March 2016

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

Orkuveita Reykjavíkur  
Bæjarháls 1  
110 Reykjavík

reg no. 551298-3029

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# Endorsement by the Board of Directors and the CEO

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

The condensed consolidated interim financial statements for the period 1 January to 31 March 2016 are prepared in accordance with the International Financial Reporting Standard *IAS 34 Interim financial reporting*. The financial statements comprise the condensed consolidated interim financial statements of OR and subsidiaries. The interim financial statements have not been reviewed by the independent auditor of the company.

Profit of operations of the Group for the period 1 January to 31 March 2016 was ISK 2.535 million (1.1.-31.3.2015: ISK 3.276 million). According to the statement of financial position the Group's assets were ISK 304.784 million at the end of the period (31.12.2015: ISK 310.990 million), book value of equity at the end of the period was ISK 114.756 million (31.12.2015: ISK 114.771 million), resulting in equity ratio of 37,7% (31.12.2015 36,9%).

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

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 31 March 2016 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 31 March 2016.

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 31 March 2016.

Reykjavík, 23 May 2016.

The Board of Directors:

*Brynhildur Davíðsdóttir*  
*Sigríður Rut Júlíusdóttir*  
*Valdís Eyjólfsson*  
*Gylfi Magnússon*  
*Kjartan Magnússon*  
*Áslaug Friðriksdóttir*

CEO:

*Bjarni Bjarnason*

# Income Statement

## 1 January to 31 March 2016

	Notes	2016 1.1.-31.3.	2015 1.1.-31.3.
Operating revenue .....		11.335.586	11.100.584 *
Profit from sale of assets .....		0	9.325
Operating revenues, total	3	11.335.586	11.109.909
Energy purchase .....	(	1.635.384)	( 1.868.054)
Salaries and salary related expenses .....	(	1.380.213)	( 1.096.453)
Other operating expenses .....	(	1.063.369)	( 915.432) *
Operating expenses, total	(	4.078.966)	( 3.879.939)
<b>EBITDA</b> .....		7.256.620	7.229.970
Depreciation .....	(	2.406.198)	( 2.399.343)
<b>Results from operating activities, EBIT</b> .....		4.850.422	4.830.627
Interest income .....		15.410	122.088
Interest expenses .....	(	1.112.318)	( 1.094.634)
(Other expenses) income on financial assets and liabilities .....	(	782.579)	164.246
Total financial income and expenses	4	( 1.879.486)	( 808.299)
Share in (loss) profit of associated companies .....	(	3.369)	0
Profit before income tax		2.967.566	4.022.328
Income tax .....	(	432.450)	( 746.263)
<b>Profit for the period</b>		2.535.117	3.276.065

\* Presentation has been changed, see note 2c

# Statement of Comprehensive Income

## 1 January to 31 March 2016

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	<b>2016</b>	<b>2015</b>
	<b>1.1.-31.3.</b>	<b>1.1.-31.3.</b>
Profit for the period .....	<u>2.535.117</u>	<u>3.276.065</u>
<b>Items moved to equity that could be moved later to the income statement</b>		
Translation difference .....	( 2.549.885)	4.236.809
	<u>( 2.549.885)</u>	<u>4.236.809</u>
Comprehensive income moved directly to equity, after taxes .....	( 2.549.885)	4.236.809
<b>Total comprehensive income for the period</b>	<u>( 14.768)</u>	<u>7.512.874</u>

# Statement of Financial Position

## 31 March 2016

	31.3.2016	31.12.2015
<b>Assets</b>		
Property, plant and equipment .....	273.050.634	278.311.167
Intangible assets .....	1.372.039	1.366.036
Investments in associated companies .....	59.381	62.750
Investments in other companies .....	2.907.914	2.907.914
Hedge contracts .....	209.956	443.324
Deferred tax assets .....	5.372.444	5.458.992
Total non-current assets	282.972.367	288.550.184
Inventories .....	614.005	610.407
Trade receivables .....	5 6.291.129	4.634.866
Hedge contracts .....	767.663	805.795
Other financial assets .....	8.464.021	8.713.156
Other receivables .....	688.583	502.759
Deposits .....	0	554.381
Marketable securities .....	1.409.987	1.353.894
Cash and cash equivalents .....	3.576.620	5.264.079
Total current assets	21.812.008	22.439.337
<b>Total assets</b>	304.784.375	310.989.521
<b>Equity</b>		
Revaluation reserve .....	75.075.378	75.808.678
Fair value reserve .....	2.445.000	2.445.000
Translation reserve .....	2.688.776	5.238.661
Retained earnings .....	34.547.262	31.278.845
<b>Total equity</b>	114.756.416	114.771.184
<b>Liabilities</b>		
Loans and borrowings .....	140.078.578	146.346.901
Retirement benefit obligation .....	558.994	542.661
Embedded derivatives in electricity sales contracts .....	10.712.928	11.095.112
Hedge contracts .....	2.320.792	2.320.623
Deferred tax liabilities .....	7.821.078	7.619.437
Total non-current liabilities	161.492.369	167.924.734
Accounts payable .....	1.513.427	2.240.135
Loans and borrowings .....	19.350.867	19.288.436
Embedded derivatives in electricity sales contracts .....	1.988.767	2.097.051
Hedge contracts .....	1.748.778	1.755.978
Other current liabilities .....	3.933.752	2.912.003
Total current liabilities	28.535.590	28.293.603
<b>Total liabilities</b>	190.027.960	196.218.337
<b>Total equity and liabilities</b>	304.784.375	310.989.521

# Statement of Changes in Equity

## 1 January to 31 March 2016

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
<b>1.1.-31.3. 2016</b>					
Equity at 1 January 2015 .....	75.808.678	2.445.000	5.238.661	31.278.845	114.771.184
Translation difference .....			(2.549.885)		( 2.549.885)
Profit for the period .....				2.535.117	2.535.117
Total comprehensive income .....	0	0	(2.549.885)	2.535.117	( 14.768)
Depreciation transferred to retained earnings .....	( 733.300)			733.300	0
Equity at 31 March 2016 .....	75.075.378	2.445.000	2.688.776	34.547.262	114.756.416
<b>1.1.-31.3. 2015</b>					
Equity at 1 January 2015 .....	69.446.324	1.760.000	4.235.355	23.968.184	99.409.863
Correction between equity accounts 1.1.2015 ...	1.420.868		(1.420.868)		0
Translation difference .....	1.678.207		2.558.602		4.236.809
Profit for the period .....				3.276.065	3.276.065
Total comprehensive income .....	3.099.075	0	1.137.734	3.276.065	7.512.874
Depreciation transferred to retained earnings .....	( 707.761)			707.761	0
Equity at 31 March 2015 .....	71.837.638	1.760.000	5.373.089	27.952.009	106.922.737

# Statement of Cash Flows

## 1 January to 31 March 2016

	<b>2016</b>	<b>2015</b>
	<b>1.1.-31.3.</b>	<b>1.1.-31.3.</b>
<b>Cash flows from operating activities</b>		
Profit for the period .....	2.535.117	3.276.065
Corrected by:		
Financial income and expenses .....	1.879.486	808.299
Share in P/L of associates .....	3.369	0
Income tax .....	432.450	746.263
Depreciation, amortisation and impairment .....	2.406.198	2.399.343
Retirement obligation, change .....	16.332	21.196
Working capital from operation before interest and taxes	7.272.953	7.251.166
Inventories, decrease (increase) .....	1.729	( 45.917)
Current assets, increase .....	( 1.790.306)	( 1.939.788)
Current liabilities, (decrease) increase .....	( 75.629)	779.688
Cash generated from operations before interests and taxes	5.408.748	6.045.150
Received interest income .....	2.172	171.689
Paid interest expenses .....	( 678.622)	( 988.853)
Dividend received .....	1.218	2.390
Payments due to other financial income and expenses .....	264.609	15.336
Net cash from operating activities	4.998.125	5.245.712
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment .....	( 3.062.662)	( 1.086.469)
Acquisition of intangible assets .....	( 21.136)	( 26.494)
Change in deposits .....	554.381	1.500.144
Change in marketable securities .....	( 56.093)	0
Net cash used in investing activities	( 2.585.511)	387.181
<b>Cash flows from financing activities</b>		
Repayment of borrowings .....	( 4.049.499)	( 3.966.219)
Current liabilities, change .....	0	( 1.693.456)
Net cash to financing activities	( 4.049.499)	( 5.659.674)
<b>(Decrease) in cash and cash equivalents .....</b>	<b>( 1.636.884)</b>	<b>( 26.782)</b>
<b>Cash and cash equivalents at year beginning .....</b>	<b>5.264.079</b>	<b>9.147.113</b>
<b>Effect of currency fluctuations on cash and cash equivalents .....</b>	<b>( 50.575)</b>	<b>54.074</b>
<b>Cash and cash equivalents at end of period .....</b>	<b>3.576.620</b>	<b>9.174.406</b>
<b>Investments and financing without payment effects:</b>		
Acquisition of property, plant and equipment .....	49.965	( 149.246)
Current liabilities, change .....	( 49.965)	149.246
<b>Other information:</b>		
Working capital from operation .....	6.128.621	6.145.214



# Notes

## 1. Reporting entity

Orkuveita Reykjavíkur "OR" 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 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	
		31.3.2016	31.12.2015
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ohf.	Holding company	100%	100%
Veitur ohf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	100%	100%
Úlfjótuvatn frítímabyggð ehf.	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 2015. Same accounting principles are applied as for the year 2015. The annual financial statements can be found at the company's web site; [www.or.is](http://www.or.is) and at the web site of the Icelandic Stock exchange market; [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com).

The condensed interim financial statements were approved by the Board of Directors on 23 May 2016.

### b. Functional and presentation currency

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

### c. Comparative amounts

Same accounting principles are applied as for the year 2015. Comparative amounts have been changed to reflect new classification of income and other expenses in the income statement. The change has no effect on the bottom line results of the income statement.

### d. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement are stated at fair value and assets held for sale are stated at fair value. The methods used to measure fair values are discussed further in notes with the consolidated financial statements for the year ended 31 December 2015.

# Notes

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## 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 currencies than the Icelandic krona

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

### 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. Business segments presented are *Utilities*, that represent licenced operations in hot and cold water, distribution of electricity and sewage, *Our nature*, representing the competitive operations in producing electricity and hot water and *Other Operation*, that represents the activities of the parent company and the fibre optic operations. Segement reporting is conducted by using the same accounting principle as the group uses and is described in notes with the financial statements for the year ended 31 December 2015.

### Business segments - divisions

#### 1.1.-31.3. 2016

	Utilities	ON Power	Other Operation	Adjust- ments	Total
External revenue .....	7.645.463	3.187.915	502.209	0	11.335.586
Inter-segment revenue .....	417.702	1.336.161	1.132.024	( 2.885.887)	( 0)
Total segment revenue .....	8.063.166	4.524.075	1.634.233	( 2.885.887)	11.335.586
Segment operation expenses .....	( 3.313.754)	( 2.082.372)	( 1.568.727)	2.885.887	( 4.078.966)
Segment profit EBITDA .....	4.749.411	2.441.704	65.505	0	7.256.620
Depreciation, amortisation and impairment .....	( 1.257.658)	( 912.067)	( 236.473)	0	( 2.406.198)
Segment results, EBIT .....	3.491.753	1.529.637	( 170.968)	0	4.850.422
Financial income and expenses .....	( 1.161.311)	( 1.134.490)	( 74.153)	490.467	( 1.879.486)
Share of loss of associated companies .....	0	0	( 3.369)	0	( 3.369)
Income tax .....	( 304.687)	( 40.160)	88.965	( 176.568)	( 432.450)
Profit for the period .....	2.025.755	354.986	( 159.525)	313.899	2.535.117

#### 1.1.-31.3. 2015

External revenue .....	7.127.979	3.470.942	545.408	( 34.421)	11.109.909
Inter-segment revenue .....	506.002	845.241	910.121	( 2.261.364)	0
Total segment revenue .....	7.633.981	4.316.183	1.455.529	( 2.295.784)	11.109.909
Segment operation expenses .....	( 2.672.581)	( 2.182.001)	( 1.322.028)	2.296.671	( 3.879.939)
Segment profit EBITDA .....	4.961.400	2.134.182	133.502	886	7.229.970
Depreciation, amortisation and impairment .....	( 1.269.123)	( 907.034)	( 223.186)	0	( 2.399.343)
Segment results, EBIT .....	3.692.277	1.227.148	( 89.684)	886	4.830.627
Financial income and expenses .....	( 1.152.975)	252.842	1.296.697	( 1.204.863)	( 808.299)
Share of loss of associated companies .....	0	0	0	0	0
Income tax .....	( 360.810)	( 398.416)	( 419.995)	432.958	( 746.263)
Profit for the period .....	2.178.493	1.081.573	787.017	( 771.018)	3.276.065

# Notes

## 4. Financial income and expenses

	<b>2016</b>	<b>2015</b>
	<b>1.1.-31.3.</b>	<b>1.1.-31.3.</b>
Financial income and expenses are specified as follows:		
Interest income .....	15.410	122.088
Interest expense and indexation .....	( 960.121)	( 909.785)
Guarantee fee to owners 1) .....	( 152.197)	( 184.849)
Total interest expenses .....	( 1.112.318)	( 1.094.634)
Fair value changes of embedded derivatives in electricity sales contracts .....	490.467	( 1.202.662)
Fair value changes of financial assets and financial liabilities through P/L .....	( 249.135)	728.077
Hedge contracts .....	( 535.680)	( 1.691.092)
Foreign exchange difference .....	( 489.450)	2.326.275
Dividends .....	1.218	3.648
Total of other income (expenses) on financial assets and liabilities .....	( 782.579)	164.248
Total financial income and expenses .....	( 1.879.486)	( 808.299)

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% (2015: 0.375%) and 0.57% (2015: 0.55%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 152 million in the period 1 January to 31 March 2016 (1.1.-31.3.2015: ISK 185 million) and is accounted for among interest expenses.

### Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 35 in the financial statements of the Group for the year 2015. Change in fair value that is recognized in the income statement for the period amounts to ISK 241 million. (1.1.-31.3.2015: expense ISK 475 million).

## 5. Receivables and deferred revenue

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