

Orkuveita Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1 January - 30 June 2007

Orkuveita Reykjavíkur
Bæjarhálsi 1
110 Reykjavík
kt. 551298-3029

Orkuveita
Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1.1.-30.6. 2007

Table of Contents

Board of Directors and CEO Report	2
Independent Auditor's Report	3
Income Statement	4
Balance Sheet	5
Statement of Changes in Equity	7
Cash Flow Statement	8
Notes	9

Board of Directors and CEO Report

Orkuveita Reykjavíkur is a partnership that operates on the basis of the Icelandic law nr. 139/2001 on the founding of the partnership Orkuveita Reykjavíkur.

Orkuveita Reykjavíkur is an independent service company that produces and distributes electricity, distributes geothermal water for heating, cold water for consumption and operates fibre-optic cable systems in its service area.

These condensed Interim Financial Statements are now for the first time prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Interim Financial Statements of the company have the previous years been prepared according to Icelandic General Accepted Accounting Principles (IS-GAAP). The effects that the transition from IS-GAAP to IFRS has had on the company's equity at 1.1.2007 results in an increase by ISK 2,688 million, or from ISK 66,671 million to ISK 69,359 million, as shown in note no. 22. The Interim Financial Statements include further explanation of the effects that the adoption of the IFRS has had on the financial statement of the company. The Interim Financial Statement include the Consolidation of Orkuveita Reykjavíkur and its subsidiaries.

Net profit of the period ended 30 June 2007 amounted to ISK 8,198 million. According to the Balance Sheet, the Company's assets amount to ISK 148,940 million, equity amounts to ISK 76,795 million and the Company's equity ratio is 51.6%.

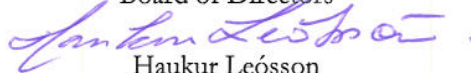
At the end of the period, there were three owners of the company, i.e., the City of Reykjavik with a share of 93.539%, the Town of Akranes with a share of 5.528%, the Town of Borgarbyggð with a share of 0.933%. Those are the same owners as at 1.1.2007.

It is the opinion of the Board of Directors and the CEO of Orkuveita Reykjavíkur that these Interim Financial Statements present all the information necessary to show the financial standing of the Company at period-end, the operating results for the period and the financial developments during the period 1.1.-30.6.2007.

The Board of Directors and CEO of Orkuveita Reykjavíkur hereby confirm the Interim Financial Statements for the period ended 30 June 2007 with their signatures.

Reykjavik, 30 August 2007

Board of Directors



Haukur Leósson

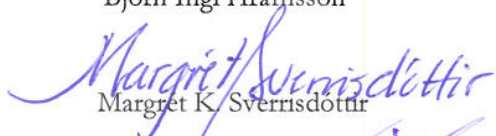
Chairman of the Board



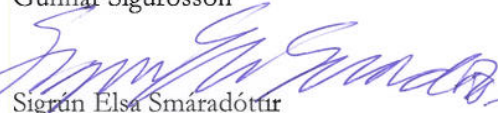
Björn Ingi Hrafnsson



Gunnar Sigurðsson



Margrét K. Sverrisdóttir



Sigrún Elsa Smaradóttir



Vilhjálmur Þ. Vilhjálmsson



CEO

Guðmundur Þóroddsson

Independent Auditor's Report

To the Board of Directors and owners of Orkuveita Reykjavíkur.

Introduction

We have reviewed the accompanying balance sheet of Orkuveita Reykjavíkur as of June 30, 2007 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

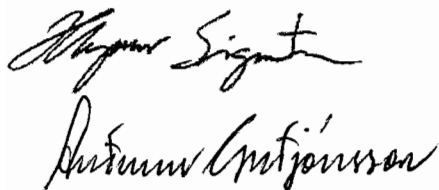
We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2007, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 30 August 2007

KPMG hf.



The image shows two handwritten signatures in black ink. The top signature is written in a cursive style and appears to be 'Ólafur Sigurðsson'. The bottom signature is also in cursive and appears to be 'Andriður Guðjónsson'.

Income Statement for the period 1.1.-30.6.2007

	Notes	1.1.-30.6. 2007	1.1.-30.6. 2006
Revenue	3	10.450.442	8.524.457
Energy purchase		(2.054.181)	(1.628.253)
Salaries and related expenses	5	(1.638.318)	(1.470.155)
Other operating expenses		(1.433.378)	(1.584.055)
Depreciation and amortization	9	(2.789.922)	(2.092.653)
Operating profit		<u>2.534.643</u>	<u>1.749.341</u>
Interest income		85.324	72.891
Finance costs	6	(1.407.400)	(1.204.517)
Investment income (expenses)	7	8.822.527	(8.026.452)
Profit (loss) before taxes		<u>10.035.094</u>	<u>(7.408.737)</u>
Income tax	9, 19	(1.836.808)	2.639.835
Net profit (loss) for the period		<u><u>8.198.286</u></u>	<u><u>(4.768.902)</u></u>
Profit division			
Owners of parent company		8.191.680	(4.763.342)
Minority share		6.606	(5.560)
Net profit for the period		<u><u>8.198.286</u></u>	<u><u>(4.768.902)</u></u>

Balance Sheet

Assets	Notes	30.06.2007	31.12.2006
Non-current assets			
Fixed tangible assets	9	137.357.930	130.290.766
Investment in associates	11	221.250	196.913
Other financial assets	12	5.009.967	3.822.879
Deferred tax assets	17	0	1.480.889
		<u>142.589.147</u>	<u>135.791.447</u>
Current assets			
Inventories	13	938.749	722.182
Trade receivables	14	2.389.348	2.758.261
Other financial assets	12	79.742	41.310
Other receivables	14	1.093.851	410.459
Cash		1.849.046	253.171
		<u>6.350.737</u>	<u>4.185.382</u>
Total assets		<u><u>148.939.884</u></u>	<u><u>139.976.830</u></u>

30 June 2007

Equity and liabilities	Notes	30.06.2007	31.12.2006
Capital and reserves			
Revaluation reserves		8.731.162	8.731.162
Retained earnings		67.941.374	60.511.464
Equity attributable to equity holders of the parent		<u>76.672.536</u>	<u>69.242.626</u>
Minority interest		122.501	115.896
Total equity		<u>76.795.038</u>	<u>69.358.521</u>
Non-current liabilities			
Borrowings	15	56.270.474	61.265.044
Retirement benefit obligation	16	363.617	350.859
Deferred tax liabilities	17	307.128	0
		<u>56.941.219</u>	<u>61.615.903</u>
Current liabilities			
Trade payables		2.875.958	2.338.077
Borrowings		6.175.109	660.000
Other financial liabilities	18	0	11.179
Current maturities	19	5.132.183	5.123.759
Current tax liabilities	17	50.468	0
Other payables	19	969.908	869.390
		<u>15.203.628</u>	<u>9.002.405</u>
Liabilities		<u>72.144.846</u>	<u>70.618.308</u>
Total equity and liabilities		<u>148.939.884</u>	<u>139.976.830</u>

Statement of changes in equity

1.1.-30.6.2007	Fair value reserve	Revaluation reserve	Retained earnings	Attributable equity holders of the parent	Minority interest	Total
Balance at 1.1.2007	0	8.731.162	60.511.464	69.242.626	115.896	69.358.521
Payment of dividends	0	0	(761.769)	(761.769)	0	(761.769)
Profit (loss) 1.1-30.6 2007	0	0	8.191.680	8.191.680	6.606	8.198.286
Balance at 30.6.2007	<u>0</u>	<u>8.731.162</u>	<u>67.941.374</u>	<u>76.672.536</u>	<u>122.501</u>	<u>76.795.038</u>
1.1.-30.6.2006						
Balance at 31.12.2005	0	0	48.213.085	48.213.085	84.541	48.297.626
Changes due to adoption of IFRS	<u>985.917</u>	<u>0</u>	<u>1.545.790</u>	<u>2.531.707</u>	<u>(3.512)</u>	<u>2.528.195</u>
Balance at 1.1.2006 according to IFRS	985.917	0	49.758.874	50.744.792	81.029	50.825.821
Increase due to sewage systems	0	0	12.829.000	12.829.000	0	12.829.000
Payment of dividends	0	0	(701.930)	(701.930)	0	(701.930)
Changes in investments	(954.325)	0	0	(954.325)	0	(954.325)
Profit (loss) 1.1-30.6 2006	<u>0</u>	<u>0</u>	<u>(4.763.342)</u>	<u>(4.763.342)</u>	<u>(5.560)</u>	<u>(4.768.902)</u>
Balance at 30.6.2006	<u>31.592</u>	<u>0</u>	<u>57.122.603</u>	<u>57.154.195</u>	<u>75.469</u>	<u>57.229.664</u>

Cash Flow Statement for the period 1.1.-30.6.2007

	1.1.-30.6. 2007	1.1.-30.6. 2006
Cash flows from operating activities		
Operating profit	2.534.643	1.749.341
Depreciation	2.789.922	2.092.653
Increase (decrease) in obligations	12.758	68.405
Operating cash flow before interests and taxes	5.337.323	3.910.399
(Increase) decrease in inventories	(216.568)	(16.045)
(Increase) decrease in trade and other receivables	(80.659)	(70.720)
Increase (decrease) in trade and other payables	(254.566)	319.701
Cash generated from operations before interest and taxes	4.785.530	4.143.335
Received interest	81.943	42.989
Received dividends	0	59.805
Interest paid	(1.247.804)	(684.637)
Other finance cost	199.319	(134.186)
Net cash from operating activities	3.818.987	3.427.306
Cash flows from investing activities		
Purchases / sales of fixed tangible assets	(9.342.642)	(8.494.859)
Assosiated companies	(24.338)	(39.800)
Other financial assets	114.585	129.597
	(9.252.394)	(8.405.062)
Cash flows from financing activities		
Payments of dividends	(761.769)	(701.930)
Repayment of borrowings	(649.194)	(831.940)
New borrowings	3.257.366	6.428.441
Increase (decrease) in short term bank loans	5.182.879	442.000
	7.029.282	5.336.572
Increase (decrease) in cash and cash equivalents	1.595.875	358.816
Cash and cash equiv. at the beginning of the financial year	253.171	627.544
Cash at end of period	1.849.046	986.360
Other information		
Working capital from operations	4.380.075	3.015.089

Notes

1. General information

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic laws nr. 139/2001 about founding the partnership Orkuveita Reykjavíkur.

Orkuveita Reykjavíkur is an independent service company that produces and distributes electricity, distributes geothermal water for heating, cold water for consumptions and operates fiber-optic cable systems in its service area. In addition the company has operated the sewage system from January 1, 2006. Orkuveita Reykjavíkur merged with its subsidiary Hitaveita Rangeinga on January 1, 2007. The parent company sold the fiber-optic cable systems operations and assets to its subsidiary, Gagnaveita Reykjavíkur, on January 1, 2007.

2. Accounting policies

Basis of preparation

The Interim Consolidated Financial Statements of Orkuveita Reykjavíkur have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, for the first time.

IFRS 1, *First-time Adoption of International financial Reporting Standards*, has been applied. Information on the effect on financial changes with adopting IFRS is explained in note 22 and the comparative figures from 2006 have been changed accordingly.

The condensed interim consolidated financial statements of Orkuveitu Reykjavíkur cover the six months from 1 January to 30 June 2007. They have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The Interim Consolidated Financial Statements are prepared on the historical cost basis except for the following assets and liabilities that are stated at their fair value: financial assets and liabilities held for trading, derivative financial instruments and financial assets and liabilities designated at fair value through profit and loss.

The Interim Consolidated Financial Statements are prepared and presented in Icelandic Krona (ISK), which is the company's functional currency. Except as indicated, financial information presented has been rounded to the nearest ISK thousand. The Interim Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on 30 August 2007.

The Interim Consolidated Financial Statements include all necessary information for returns and financial position for the Company, but do not include information as extensive as annual financial statements compiled in accordance with IFRS.

The preparation of the Interim Consolidated Financial Statements in accordance with IFRS requires management to exercise judgments, estimates, and assumptions in the process of applying accounting policies which affect the reported amount of income and expenses and assets and liabilities for the period. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

- IAS 32, *Financial instruments, presentation*
- IFRS 7, *Financial instruments, disclosures*
- IFRIC 7, *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- IFRIC 8, *Scope of IFRS 2*
- IFRIC 9, *Reassessment of Embedded Derivatives*
- IFRIC 10, *Interim Financial Reporting and Impairment*

Orkuveita Reykjavíkur will adopt IFRS 7, *Financial Instruments: Disclosures*, from annual periods beginning 1 January 2007. Full disclosures as required by IFRS 7 will be disclosed in the Annual Financial Statements for the year 2007. IFRS 7 does not apply to these interim financial statements.

Notes

2. Accounting policies (cont.)

Basis of consolidation

The Interim Consolidated Financial Statements incorporate the consolidated financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Interim Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders' equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders' equity.

The purpose of consolidated financial statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, inter-company transactions have been eliminated within the consolidated businesses in the presentation of the Interim Consolidated Financial Statements. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with the policies adopted by the consolidation.

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint venture over those policies. The investments in associates are accounted for in the interim financial statements using the equity method of accounting, less any impairment.

Fair value of financial assets and debts

Fair value of financial assets and financial debts listed on an active market is the same as their recorded value. Valuation methods are used for calculating fair value for other financial instruments. Financial asset and financial debts are at fair value if the transaction price has been in an arm's length exchange motivated by normal business considerations and the price is quoted in an active market.

The best estimate of fair value at initial recognition of a financial instrument that is not quoted in an active market is the transaction price unless the fair value of the instrument is evidenced by other observable market transactions or is based on a valuation technique whose variables include only data from observable markets.

Risk management

The main subject of the company's risk management is regarding foreign debts, interests and revenues that are increasingly subject to the world price on aluminum. Orkuveita Reykjavíkur has used the flexibility in selection of currencies to get best combination on foreign debts and that has been satisfactory to reach the objectives on foreign debt combination. Orkuveita Reykjavíkur has entered into forward foreign exchange contracts and rarely done contracts regarding interest-rate swap, that are done to change current interest references on loans.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. In contracts that the company has made regarding electricity sales to large scale industry are embedded derivatives which are handled in the same way as other derivatives. Derivatives are not designated into an effective hedge relationship.

Notes

2. Accounting policies (cont.)

Revenue recognition

Revenues is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer, and are showed in the income statement less any discounts. Revenue is not recorded unless it is probable that the economic benefits associated with the transaction will flow to the entity.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognized as assets at their cost value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period.

Borrowing costs

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

The income tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is 26%.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Fixed tangible assets

Fixed tangible assets are recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner. Fixed tangible assets which qualifies for recognition as an asset is initially measured at cost.

The cost of fixed tangible assets comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

Notes

2. Accounting policies (cont.)

The depreciable amount of the asset is allocated on a fixed annual percentage of the historical cost over its useful life, less residual value.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of fixed tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The assets of distribution systems for hot water, electricity, cold water and sewage systems are recorded at revalued cost less additional depreciations. Revaluation for those assets is performed on a regular basis. All revaluation is booked on revaluation account amongst equity. Depreciations of the revalued cost is booked in the income statement. At elimination or disposal the part of the revaluation belonging to that asset is transferred from the revaluation account directly to retained earnings. No transactions because of the revaluation is made directly to equity unless an asset is eliminated or disposed.

Assets of production are recorded at cost but the company has intention to revalue those assets consistence with the assets of distribution systems.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Inventories

Inventories are stated at the lower of cost and net realizable value, after taking obsolete and defective goods into consideration.

Investment

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity are valued at cost, less an allowance for estimated irrecoverable amounts.

Investments other than those held to maturity are classified as either held for trading or available for sale, and are measured at subsequent reporting dates at fair value. Gains and losses arising from the changes in fair values are included in profit or loss for the period.

Notes

2. Accounting policies (cont.)

Listed shares and listed redeemable notes held by the Company that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Trade receivables

Trade receivables are measured at amortised cost less any impairment. Receivables that will not be collected are written down.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Borrowings

Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable.

Trades payables

Trades payables are valued at nominal value and trades payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation.

3. Revenue

Revenue is specified as following:

	1.1.-30.6. 2007	1.1.-30.6. 2006
Electricity, retail distribution	1.775.350	1.668.394
Electricity, retail other	1.672.215	1.517.495
Electricity, wholesale	1.360.796	445.238
Heating revenues	2.694.028	2.527.451
Water revenues	945.092	811.633
Sewage systems revenues	1.091.276	878.208
Data utility revenues	261.800	176.170
Other revenues	649.885	499.868
	<u>10.450.442</u>	<u>8.524.457</u>

4. Revenue analysis of geothermal power station

Nesjavallavirkjun, production analysis of electricity and hot water, according to law nr. 65/2003, art. 41, sub. 5:

	Electricity 1.1.-30.6. 2007	Hot water 1.1.-30.6. 2007
Revenue	904.197	440.763
Operating expenses	(234.933)	(251.014)
Depreciation	(245.750)	(119.436)
Calculated finance cost (5,5%)	(244.161)	(114.437)
Income	<u>179.353</u>	<u>(44.125)</u>

Notes

5. Segments

The consolidation uses business segments as its primary segments. Segment information is presented below, according to the operation segments of the company:

30.6.2007	Electricity distribution 1.1.-30.6. 2007	Electricity other 1.1.-30.6. 2007	Hot water 1.1.-30.6. 2007	Cold water 1.1.-30.6. 2007	Fibre-optic cable 1.1.-30.6. 2007	Sewage system 1.1.-30.6. 2007	Consolidation 1.1.-30.6. 2007
Revenue							
Energy sales.....	1.894.573	1.241.573	2.694.028	945.092	261.800	1.091.276	8.128.342
Other revenue.....	189.602	1.859.046	186.912	52.601	0	33.939	2.322.100
Total revenue.....	<u>2.084.175</u>	<u>3.100.619</u>	<u>2.880.940</u>	<u>997.693</u>	<u>261.800</u>	<u>1.125.215</u>	<u>10.450.442</u>

Result

Segment-result.....	<u>260.402</u>	<u>712.669</u>	<u>879.873</u>	<u>405.741</u>	<u>(9.517)</u>	<u>285.475</u>	<u>2.534.643</u>
Financial income / (expenses).....							<u>8.907.851</u>
Profit (loss) before tax.....							<u>11.442.494</u>
Income tax.....							<u>(1.836.808)</u>
Profit for the period.....							<u>9.605.686</u>

30.6.2006	Electricity 1.1.-30.6. 2006	Hot water 1.1.-30.6. 2006	Cold water 1.1.-30.6. 2006	Fibre-optic cable 1.1.-30.6. 2006	Sewage system 1.1.-30.6. 2006	Consolidation 1.1.-30.6. 2006
Revenue						
Energy sales.....	2.113.632	2.527.451	811.633	176.170	878.208	6.507.095
Other revenue.....	1.805.020	171.940	28.859	3.577	7.967	2.017.363
	<u>3.918.652</u>	<u>2.699.391</u>	<u>840.492</u>	<u>179.747</u>	<u>886.175</u>	<u>8.524.457</u>

Result

Segment-result.....	<u>644.620</u>	<u>706.950</u>	<u>290.148</u>	<u>(8.756)</u>	<u>116.379</u>	<u>1.749.341</u>	
Financial income / (expenses).....							<u>(7.953.561)</u>
Loss before tax.....							<u>(6.204.220)</u>
Income tax.....							<u>2.639.835</u>
Loss for the period.....							<u>(3.564.385)</u>

Notes

5. Salaries

Salaries and salary-related expenses are specified as follows:

	<u>1.1.-30.6. 2007</u>	<u>1.1.-30.6. 2006</u>
Salaries.....	1.660.690	1.455.612
Salary-related expenses.....	353.277	340.770
Portion of payroll expenses capitalised under projects.....	<u>(375.650)</u>	<u>(326.227)</u>
	<u>1.638.318</u>	<u>1.470.155</u>
Average number of positions	622	606

Salaries and fees paid to the Board of Directors, CEO and four Managing Directors of the Company in the period amounted to ISK 71 million.

6. Interest expenses

	<u>1.1.-30.6. 2007</u>	<u>1.1.-30.6. 2006</u>
Guarantee fee to owners of Orkuveita Reykjavíkur	(76.570)	(50.420)
Interest and indexation on borrowing	<u>(1.330.830)</u>	<u>(1.154.098)</u>
	<u>(1.407.400)</u>	<u>(1.204.517)</u>

7. Finance cost

	<u>1.1.-30.6. 2007</u>	<u>1.1.-30.6. 2006</u>
Fair value changes of derivatives	1.140.220	2.408.857
Exchange rate differential and forward contracts	7.682.308	(11.451.890)
Dividends	0	59.805
Profit from investments in companies	0	956.775
	<u>8.822.527</u>	<u>(8.026.452)</u>

8. Income tax expense

Orkuveita Reykjavíkur has been exempt from income tax but according to new laws nr. 50/2005 on taxability for energy companies, the company became taxable according to laws nr. 90/2003 on income tax. The law became effective for the company's income for the year 2006. The water utility and sewage system operation is still exempt from income tax.

The company's taxable value of assets and liabilities were not the same as the carrying value at January 1, 2006. This resulted in a deferred income tax asset that was recorded January 1, 2006 in the Income Statement.

Income tax was calculated and recorded in the Consolidated Financial Statements for 2006, the amount recognized as income in the Income statement was ISK 2,846 million. Income tax is calculated and recorded in the Interim Financial Statements and the amount is ISK 1,837 million. Tax authorities have not yet verified the calculation method of the tax, so the amount could change to some extent.

Notes

8. Income tax expense (cont.)

Active tax rate:	1.1.-30.6. 2007	
	ISK	%
Profit from operations before taxes	10.035.094	
Income tax expense calculated at 26%	2.609.124	26%
Revenue of sewage system and water distribution exempt from taxation	(628.751)	-6%
Other items	(143.565)	-1%
Income tax expense recognised in profit or loss	<u>1.836.808</u>	18,3%

9. Fixed tangible assets

	Heating utility distribution systems	Electricity distribution systems	Cold water distribution systems
Distribution			
Cost			
At 1 January 2007	27.504.992	29.593.117	19.841.810
Additions	822.768	350.909	252.622
At 30 June 2007	<u>28.327.760</u>	<u>29.944.026</u>	<u>20.094.431</u>
Accumulated depreciation			
At 1 January 2007	12.292.840	14.857.979	9.692.252
Charge for the period	304.730	309.820	186.481
At 30 June 2007	<u>12.597.570</u>	<u>15.167.800</u>	<u>9.878.733</u>
Carrying amount			
At 1 January 2007	15.212.152	14.735.137	10.149.558
At 30 June 2007	<u>15.730.190</u>	<u>14.776.226</u>	<u>10.215.698</u>
Depreciation rates	2-15 %	2-20 %	2-20 %

Notes

9. Fixed tangible assets (cont.)

Distribution	Sewage distribution systems	Fibre-optic distribution systems	Total
Cost			
At 1 January 2007	44.106.594	6.048.819	127.095.332
Additions	364.021	633.259	2.423.579
Sold and discontinued operations	0	(153.000)	(153.000)
At 30 June 2007	<u>44.470.615</u>	<u>6.529.078</u>	<u>129.365.911</u>
Accumulated depreciation			
At 1 January 2007	19.827.933	527.470	57.198.475
Charge for the period	486.683	127.422	1.415.136
At 30 June 2007	<u>20.314.616</u>	<u>654.892</u>	<u>58.613.611</u>
Carrying amount			
At 1 January 2007	24.278.661	5.521.349	69.896.857
At 30 June 2007	<u>24.156.000</u>	<u>5.874.186</u>	<u>70.752.300</u>
Depreciation rated	2-6,67 %	4-15 %	

	Production	Real estates	Land and heating rights	Other assets
Cost or valuation				
At 1 January 2007	76.042.474	8.611.090	2.115.374	3.200.627
Additions	7.207.095	198.091	0	181.322
At 30 June 2007	<u>83.249.569</u>	<u>8.809.180</u>	<u>2.115.374</u>	<u>3.381.949</u>
Accumulated depreciation				
At 1 January 2007	25.497.033	1.408.779	419.383	2.250.461
Charge for the period	1.091.931	94.421	10.534	177.900
At 30 June 2007	<u>26.588.964</u>	<u>1.503.200</u>	<u>429.917</u>	<u>2.428.361</u>
Carrying amount				
At 1 January 2007	50.545.441	7.202.311	1.695.991	950.166
At 30 June 2007	<u>56.660.605</u>	<u>7.305.980</u>	<u>1.685.457</u>	<u>953.588</u>
Depreciation rates	2-20 %	2-6 %	0-6,7 %	5-33,33 %
Carrying amount summation:	Distribution	Production	Other assets	Total
At 1 January 2007	69.896.857	50.545.441	9.848.468	130.290.766
At 30 June 2007	<u>70.752.300</u>	<u>56.660.605</u>	<u>9.945.025</u>	<u>137.357.930</u>

Depreciation in Income Statement is as follows:

Distribution systems	1.415.136
Production	1.091.931
Other assets	282.855
	<u>2.789.922</u>

Notes

9. Fixed tangible assets (cont.)

The assessment- and insurance value for the Company's buildings is analyzed as the following:

	Assessment value	Insurance value
Buildings and sites	16.029.530	14.929.112

Finance cost of ISK 76 million was capitalized because of constructions in Hellisheiði.

At the end of the year 2006 the assets of distribution systems for hot water, electricity, cold water and sewage systems were revalued. The revaluation was ISK 10,097 million and the compensation is booked on revaluation account amongst equity and on deferred tax liability. In the year 2007 the company will revalue assets of production.

10. Subsidiaries

	Proportion of ownership	Par value	Principal activity
Shares in subsidiaries			
Gagnaveita Reykjavíkur ehf.	100,00%	3.536.841	Data transfer
HAB	79,30%		Heating plant
Hrafnabjargavirkjun	60,00%	24.000	Preparation company
NCI fjarskipti og orka ehf.	100,00%	3.000	No operation
Reykjavík Energy Invest ehf.	100,00%	1.000.000	Investment company
Úlfljótsvatn frítímabyggð ehf.	100,00%	225.000	Preparation company

11. Shares in associated companies

	Proportion of ownership	Par value	Principal activity
Shares in associated companies:			
Enex hf.	24,12%	122.950	Research & usage of natural resources
Enex-Kína ehf.	33,33%	36.750	Investment in geothermal plant
Feyging ehf.		84.224	Experiment with water retted flax
Metan hf.	21,28%	10.000	Production of industrial gases
Netorka hf.	22,61%	7.541	Settlement company for electricity sales

As the associated companies last presented their financial statements on 31 December 2006, no revenue from associated companies is recognized in the interim financial statements.

Notes

12. Other financial assets

	Current		Non-current	
	30.6.2007	31.12.2006	30.6.2007	31.12.2006
Financial assets carried at fair value through profit or loss				
Embedded derivatives in electr sale contracts	0	0	4.840.210	3.699.990
Foreign currency forward contracts	41.217	0	0	0
	41.217	0	4.840.210	3.699.990
Available-for-sale investments				
Shares	0	0	32.533	27.677
	0	0	32.533	27.677
Held-to-maturity investments				
Bonds	38.525	41.310	137.224	95.212
	38.525	41.310	137.224	95.212
Total other financial assets	79.742	41.310	5.009.967	3.822.879

13. Inventories

	30.6.2007	31.12.2006
Supplies	938.749	722.182
	938.749	722.182

14. Trade and other receivables

Trade and other receivables	30.6.2007	31.12.2006
Trade receivables	2.488.598	2.855.511
Allowance for doubtful accounts	(99.250)	(97.250)
	2.389.348	2.758.261
Other receivables		
Value added tax	868.013	373.117
Prepaid expenses	143.232	0
Capital income tax	13.196	11.441
Accrued interest	11.118	10.277
Loans to employees	56.901	15.382
Other receivables	1.391	243
	1.093.851	410.459

Notes

15. Borrowings

	30.6.2007	31.12.2006
Loans in CHF	11.610.326	13.249.466
Loans in EUR	18.484.432	17.874.524
Loans in GBP	4.356.696	4.854.964
Loans in JPY	5.700.174	6.758.381
Loans in CAD	60.444	0
Loans in SEK	4.243.163	4.915.761
Loans in USD	10.094.883	11.626.976
Loans in ISK	6.846.941	7.103.132
	<u>61.397.057</u>	<u>66.383.204</u>
Current maturities	(5.126.583)	(5.118.159)
	<u>56.270.474</u>	<u>61.265.044</u>

Aggregated annual maturities are as follows:

	30.6.2007
Current maturities	5.126.583
1.7. 2008 - 30.6. 2009	2.830.856
1.7. 2009 - 30.6. 2010	1.818.766
1.7. 2010 - 30.6. 2011	4.640.142
1.7. 2011 - 30.6. 2012	4.533.923
Later	42.446.786
	<u>61.397.057</u>

The owners of the Company are responsible, pro rata, for the loans and obligations of the company.

16. Retirement benefit obligation

Orkuveita Reykjavíkur has retirement benefit obligations due to former employees at the amount of ISK 369 million, according to actuarial valuations. This valuation takes into consideration future increase in salary and price indexation. Increase in the obligation during the period is recorded as cost in the income statement among salaries and related expenses. The amount that is estimated to be paid in the next 12 months, is recorded as current liabilities.

Change in the retirement benefit obligation during the period is as follows:

	1.1.-30.6. 2007	1.1.-30.6. 2006
At 1 January 2007, long-term	350.859	270.224
At 1 January 2007, short-term	5.600	5.000
At 1 January 2007, total	<u>356.459</u>	<u>275.224</u>
Paid during the period	(5.384)	(5.152)
Increase during the period	18.142	73.558
At 30 June 2007, total	<u>369.217</u>	<u>343.630</u>
Current maturities	(5.600)	(5.580)
At 30 June 2007, long-term	<u>363.617</u>	<u>338.050</u>

Notes

17. Deferred tax liabilities

	Deferred tax liabilities
At 1 January 2007	(1.480.889)
Calculated tax for the period	1.836.808
Income tax payable for the period	(50.468)
At 30 June 2007	307.128

The following are the major deferred tax liabilities and assets recognised:

Fixed tangible assets.....	(726.370)
Embedded derivatives in contracts for sale of electricity	1.258.455
Other items	(114.101)
Loss carry-forward.....	(110.856)
	307.128

At balance sheet date the consolidation has unused tax losses available for offset against future profits as follows:

Available for the years 2008-2016	426.369
	426.369

18. Other financial liabilities

	Current	
	30.06.2007	31.12.2006
Financial liabilities carried at fair value through profit or loss		
Forward exchange contracts	0	11.179
	0	11.179

19. Trade and other payables

	30.6.2007	31.12.2006
Other current liabilities		
Tax payables	0	12.676
Accrued salaries and related expenses	501.275	388.079
Accrued interest	457.191	464.002
Other liabilities	11.442	4.633
	969.908	869.390
Current maturities of non-current liabilities		
Borrowings	5.126.583	5.118.159
Retirement benefit obligation	5.600	5.600
	5.132.183	5.123.759

Notes

20. Commitments and other matters

At the end of the period the company has made various contracts committing the company without recording the commitments in the Balance Sheet. These commitments include amongst other:

Contract has been made with Jarðboranir for drilling in Hellisheiði and Hengilsvæði, estimated project period is at least to the year 2009.

In connection to these investment activities, Orkuveita Reykjavíkur has made 3 contracts on sales of electricity to Norðurál for a duration of 20 years and Landsnet hf. for the distribution. Orkuveita Reykjavíkur and Alcan in Iceland have made a contract on sales of electricity to Alcan. Estimated time of starting delivery is the middle of year 2010 from the plant on Hellisheiði. Orkuveita Reykjavíkur and Norðurál have also made a contract on sale of electricity to intended aluminum plant in Helguvík. Estimated time of starting delivery is in the year 2010. Those above mentioned contracts are made in USD.

In those contracts on sales of electricity are embedded derivatives connected to world price of aluminum. In accordance with IAS 39 the company has recorded their fair value of ISK 4,840 million at the end of the period. The increase for the period amounts to ISK 1,140 million recorded to profit or loss. As the market price for those embedded derivatives are unknown, a valuation has been made with accepted valuation methods. Net present value of the cash flow has been calculated on settlement date, according to future price of aluminum at LME (London Metal Exchange) and expectations of price development for the next 30 years (according to estimations from CRU on balance sheet date). Expected net present value according to assumptions for price of aluminum at settlement date was deducted from the value and the difference is changes in fair value of the derivative. Assumptions were made that the derivative had zero value at beginning date.

In the same way fair value of embedded derivatives because of contracts not recorded in the interim financial statements was calculated at ISK 2,788 million.

At the period end the company has open forward foreign exchange contracts to limit currency risk. Those contracts include obligation about foreign exchange trade on fixed rate. Estimated positive value of those contracts is ISK 41 million at the period end. That amount has been recorded in the interim financial statements, underlying amounts in those contracts are estimated at ISK 2,298 million.

After the Balance Sheet date, Orkuveita Reykjavíkur has invested in 17% shares in Hitaveita Suðurnesja, at the price of 8 billion ISK

21. Risk management

The operation of Orkuveita Reykjavíkur involves various risks, such as foreign exchange risk, interest risk and aluminum price risk. Those risks cause fluctuations in revenues, equity and cash flows from period to period. Orkuveita Reykjavíkur uses derivatives to restrict or eliminate those risks.

Orkuveita Reykjavíkur has a benchmark of the objective and process of risk management. The main subject of the company's risk management is regarding foreign debts, interests and revenues that are increasingly subject to the world price on aluminum. Orkuveita Reykjavíkur has used the flexibility in selection of currencies to get best combination on foreign debts and that has been satisfactory to reach the objectives on foreign debt combination. Orkuveita Reykjavíkur has rarely engaged in contracts regarding interest-rate swap, that is done to change current interest references on loans or applying forward contracts.

Notes

22. Note on adoption of IFRS

This is the first year Orkuveita Reykjavíkur prepares its Interim Consolidated Financial Statement in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. In accordance with IFRS 1, this note shows the effects of adopting the Standards.

The Financial Statement for the year 2006 were presented in accordance with legislation of financial statements and Icelandic GAAP (Generally Accepted Accounting Principles). The transition date is referred to as 1 January 2006.

Changes in equity 31.12.2005 due to adoption of IFRS at transition date, 1.1.2006:

	Balance Sheet 31.12.2005	Change in valuation	Change in presentation	IFRS
Fixed tangible assets	83.487.814	0	0	83.487.814
Intangible assets	68.712	(68.712)	0	0
Investment in associates	0	0	89.794	89.794
Shares in other companies	725.633	820.990	(1.546.623)	0
Bonds and other borrowings	152.389	0	(152.389)	0
Other financial assets	0	1.742.735	1.609.218	3.351.953
Total non-current assets	84.434.548	2.495.013	0	86.929.561
Inventories	540.030	33.182	0	573.212
Trade receivables	2.250.872	0	0	2.250.872
Current maturities	27.921	0	(27.921)	0
Other financial assets	0	0	27.921	27.921
Other assets	157.811	0	0	157.811
Cash and cash balances	627.544	0	0	627.544
Total current assets	3.604.179	33.182	0	3.637.360
Total assets	88.038.727	2.528.195	0	90.566.921
Fair value reserve		985.917	0	985.917
Retained earnings	48.213.085	1.545.790	0	49.758.874
Minority interest	84.541	(3.512)	0	81.029
Total equity	48.297.626	2.528.195	0	50.825.821
Borrowings	34.754.726	0	0	34.754.726
Retirement benefit obligation	269.784	0	0	269.784
Bank loans	429.499	0	0	429.499
Trade payables	1.504.861	0	0	1.504.861
Current maturities	2.360.293	0	0	2.360.293
Other liabilities	421.937	0	0	421.937
Total liabilities	39.741.101	0	0	39.741.101
Total equity and liabilities	88.038.727	2.528.195	0	90.566.921

Notes

22. Note on adoption of IFRS (cont.)

Changes in equity 31.12.2006 due to adoption of IFRS:

	Balance Sheet 31.12.2006	Change in valuation	Change in presentation	IFRS
Fixed tangible assets	130.290.766	0	0	130.290.766
Investment in associates	0	0	196.913	196.913
Shares in other companies	350.848	(126.258)	(224.590)	0
Bonds and other borrowings	95.212	0	(95.212)	0
Other financial assets	0	3.699.990	122.889	3.822.879
Deferred tax assets	2.413.578	(932.689)	0	1.480.889
Total non-current assets	133.150.404	2.641.043	0	135.791.447
Inventories	675.465	46.716	0	722.182
Trade receivables	2.758.261	0	0	2.758.261
Current maturities	41.310	0	(41.310)	0
Other financial assets	0	0	41.310	41.310
Other assets	410.459	0	0	410.459
Cash and cash balances	253.171	0	0	253.171
Total current assets	4.138.666	46.716	0	4.185.382
Total assets	137.289.070	2.687.759	0	139.976.830
Revaluation reserves	8.731.162	0	0	8.731.162
Retained earnings	57.823.705	2.687.759	0	60.511.464
Minority interest	115.896	0	0	115.896
Total equity	66.670.762	2.687.759	0	69.358.521
Borrowings	61.265.044	0	0	61.265.044
Retirement benefit obligation	350.859	0	0	350.859
Bank loans	660.000	0	0	660.000
Trade payables	2.338.077	0	0	2.338.077
Current maturities	5.123.759	0	0	5.123.759
Other financial liabilities	0	0	11.179	11.179
Other liabilities	880.569	0	(11.179)	869.390
Total liabilities	70.618.308	0	0	70.618.308
Total equity and liabilities	137.289.070	2.687.759	0	139.976.830

Notes

22. Note on adoption of IFRS (cont.)

Changes in Income Statement during the year 2006 due to adoption of IFRS:

	Income statement 2006	Change in valuation	Change in presentation	IFRS
Revenue	18.101.008	0	0	18.101.008
Energy purchase	(3.424.548)	0	0	(3.424.548)
Salary and related expenses	(2.977.031)	0	0	(2.977.031)
Other operational expenses	(3.163.008)	13.535	0	(3.149.474)
Depreciation and amortization	(4.573.031)	68.712	0	(4.504.319)
Operating profit	<u>3.963.391</u>	<u>82.246</u>	<u>0</u>	<u>4.045.637</u>
Interest in associates	0	(112.331)	0	(112.331)
Financial income	1.077.109	151.000	(1.228.109)	0
Financial expenses	(10.543.462)	0	10.543.462	0
Interest income	0	0	121.995	121.995
Interest expenses	0	0	(2.317.865)	(2.317.865)
Investment income	0	1.957.255	(7.119.483)	(5.162.228)
Loss before taxes	(5.502.963)	2.078.171	0	(3.424.792)
Income tax expense	3.778.508	(932.689)	0	2.845.819
Minority interest in subsidiaries	(31.466)	(3.512)	0	(34.978)
Profit (loss) for the year	<u>(1.755.920)</u>	<u>1.141.970</u>	<u>0</u>	<u>(613.951)</u>

Above, the numerical effects of the adoption of IFRS have been shown. Following notes include further information on the principal changes made. No substantial changes were made due to IFRS to the Cash Flow Statement from the previously used Icelandic General Accepted Accounting Standards.

Shares in associated companies

According to IFRS, the accounting treatment of shares in associated company have been revised. The shares in associated companies are now recorded at price equal to the share of the company in the associated companies equity, after having considered the difference of original price and the equity share at acquisition. The excess price is handled in the same way as the asset it is related to. Excess price which can not be allocated reliably to certain assets/liabilities, is treated as goodwill and therefore subject to yearly impairment testing.

Notes

22. Notes on adoption of IFRS (cont.)

Investment in shares

Shares owned by Orkuveita Reykjavíkur in companies listed in active markets have previously been recorded at cost and not at fair value, as provided by IAS 39. The Company's shares in Jarðboranir and later on Atorka have therefore been handled according to IAS 39, which leads to increase of ISK 986 million in equity in the opening balance sheet, but the effects on the income statement in 2006 and the balance sheet at year-end 2006 are none.

Development project

Due to development project, an amount of ISK 68 million was capitalized among intangible assets. As this treatment does not meet the standards of IAS 38, the amount was written down in the opening balance sheet and equity decreased by the same amount.

Inventories

The company has adjusted the inventories evaluation so that all the items required by IAS 2 in the inventories cost valuation are now taken into the cost valuation. The effect on equity in the opening balance sheet amounts to ISK 33 million.

Embedded derivatives in electricity sale contracts

As explained in note 22 in this Interim Financial Statements the embedded derivatives in electricity contracts have been recorded to the Interim Financial Statements according to IAS 39. The effect on equity in the opening balance sheet amounts to an increase of ISK 1,743 million. The operating results for 2006 increases by ISK 995 million and the equity at year-end 2006 increases by ISK 2,738 million.

Income tax

The effect that the change in economic items has on deferred tax is taken into consideration. We bring attention that the effects on income tax due to changes in the opening balance sheet at 1 January 2006 are not recorded until during the period January-June 2006, and recorded through the income statement, except for the part that belongs to fair value changes to equity. The cause of this is that the company was not liable for tax until the year 2006 and therefore the deferred income tax was recorded through income statement for that year for the first time.

Changes to notes and presentation

The International Financial Reporting Standards require much more detailed notes to the financial statements than the previously used Icelandic General Accepted Accounting Standards. The company will disclose complete notes in the annual financial statements 2007 according to IFRS. The condensed Interim Financial Statements are presented according to IAS 34 and the full effect of the expanded notes will not be reported now.

The presentation of the Financial Statements does not change much, but a statement of changes in equity for two years has been added and is now presented separately instead as a part of the general notes.