

Orkuveita Reykjavíkur

Consolidated Financial Statements

2006

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík
Id.No. 551298-3029

Orkuveita Reykjavíkur

Consolidated Financial Statements

2006

Table of Contents

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

Independent Auditor's Report

To the Board of Directors and owners of Orkuveita Reykjavíkur.

We have audited the accompanying consolidated financial statements of Orkuveita Reykjavíkur, which comprise the balance sheet as at December 31, 2006, the income statement 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 consolidated financial statements in accordance with generally accepted accounting principles in Iceland. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

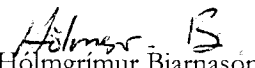
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Orkuveita Reykjavíkur as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles in Iceland applied on a consistent basis.

Reykjavík, March 7, 2007


Deloitte hf.

Páll Grétar Steingrímsson

State Authorized Public Accountant


Hólmgrímur Bjarnason

State Authorized Public Accountant

Board of Directors and CEO Report

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 fibre-optic cable systems in its service area. In addition the company has operated the sewage system from January 1, 2006.

Net loss of the year ended December 31 2006 amounted to ISK 1,756 million. According to the Balance Sheet, the Company's assets amount to ISK 137,289 million, the equity is ISK 66,671 million and the Company's equity ratio is 48.56%.


Orkuveita Reykjavíkur is a partnership. At December 31 2006 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 share of 0.933%.

It is the opinion of the Board of Directors and the CEO of Orkuveita Reykjavíkur that these Financial Statements present all the information necessary to show the position of the Company at the year-end, the operating results for the year and the financial developments during the year 2006.

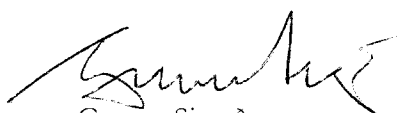
The Board of Directors and CEO of Orkuveita Reykjavíkur hereby confirm the Financial Statements for the year ended December 31 2006 with their signatures.

Reykjavík, March 7, 2007

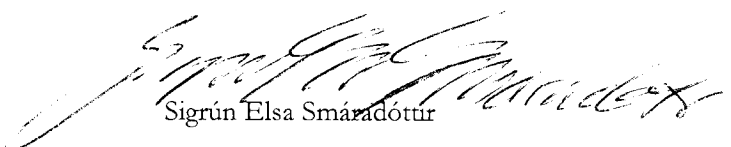
The Board

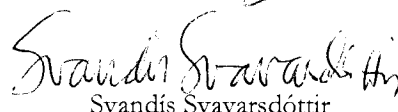

Guðlaugur Þór Þórðarson
Chairman of the Board


Björn Ingi Hrafnsson


Gunnar Sigurðsson


Haukur Leósson


Sigrún Elsa Smáradóttir


Svandís Svavarsdóttir

CEO


Guðmundur Þóróddsson

Income Statement 2006

	Notes	2006	2005
Revenue	3	18,101,008	14,727,969
Energy purchases		(3,424,548)	(3,123,828)
Salaries and related expenses	5	(2,977,031)	(2,444,404)
Other operating expenses		(3,163,008)	(2,619,551)
Depreciation and amortization	10	(4,573,031)	(3,236,538)
Operating profit		3,963,391	3,303,648
Investment income	6	1,077,109	307,363
Finance costs	7	(10,543,462)	759,293
Profit (loss) before taxes		(5,502,963)	4,370,304
Income tax	8, 20	3,778,508	0
Profit (loss) before share of minority in subsidiaries		(1,724,454)	4,370,304
Share of minority in subsidiaries		(31,466)	(11,629)
Net profit (loss) for the year		(1,755,920)	4,358,674

Balance Sheet

Assets	Skýr.	31.12.2006	31.12.2005
Non-current assets			
Fixed tangible assets	10	130,290,766	83,487,814
Intangible assets	11	0	68,712
Shares in other companies	13	350,848	725,633
Investment property	14	95,212	152,389
Deferred tax assets	20	2,413,578	0
		<u>133,150,404</u>	<u>84,434,548</u>
Current assets			
Inventories	15	675,465	540,030
Accounts receivables	16	2,758,261	2,250,872
Current maturities of bonds	14	41,310	27,921
Other receivables	16	410,459	157,811
Cash and cash equivalents		253,171	627,544
		<u>4,138,666</u>	<u>3,604,179</u>
Total Assets		<u><u>137,289,070</u></u>	<u><u>88,038,727</u></u>

31. December 2006

Equity and liabilities	Skýr.	31.12.2006	31.12.2005
Equity			
Revaluation account		8,731,162	0
Retained earnings		57,823,705	48,213,085
Equity attributable to equity holders of the parent	17	<u>66,554,866</u>	<u>48,213,085</u>
Minority interests		115,896	84,541
Total equity		<u>66,670,762</u>	<u>48,297,626</u>
Non-current liabilities			
Long-term loans	18	61,265,044	34,754,726
Retirement benefit obligations	19	<u>350,859</u>	<u>269,784</u>
		<u>61,615,903</u>	<u>35,024,510</u>
Current liabilities			
Accounts payables		2,338,077	1,504,861
Bank loans		660,000	429,499
Current maturities	21	5,123,759	2,360,293
Other current liabilities	21	<u>880,569</u>	<u>421,937</u>
		<u>9,002,405</u>	<u>4,716,590</u>
Liabilities		<u>70,618,308</u>	<u>39,741,101</u>
Total equity and liabilities		<u><u>137,289,070</u></u>	<u><u>88,038,727</u></u>

Statement of Cash Flow 2006

	2006	2005
Operating activities		
Operating profit	3,963,391	3,303,648
Depreciation	4,573,031	3,236,538
(Gain)/loss on sale of assets	0	(63,418)
Increase/(decrease)in obligations	81,234	28,267
Operating cash flow before interest and taxes	8,617,656	6,505,035
(Increase)/decrease in inventories	(135,435)	(134,644)
(Increase)/decrease in receivables	(653,167)	(229,817)
Increase/(decrease) in payables	479,199	(191,391)
Cash generated from operations before interest and taxes	8,308,253	5,949,183
Received interest and dividends	178,512	176,801
Paid finance cost	(1,866,826)	(946,096)
Net cash from operating activities	6,619,939	5,179,888
Investing activities		
Purchases/sales of fixed tangible assets	(19,786,163)	(11,725,691)
Installments of investments	22,745	29,047
Bought/sold investments	1,094,425	36,542
	(18,668,993)	(11,660,102)
Financing activities		
Dividends paid	(1,462,460)	(1,417,112)
Repayments of long term liabilities	(2,987,221)	(2,725,965)
New long term liabilities	15,441,168	11,206,387
Increase/(decrease) in short term bank loans	660,000	(128,264)
	11,651,487	6,935,046
Net increase (decrease) in cash and cash equivalents	(397,567)	454,833
Cash and cash equivalents at the beginning of the year	627,544	125,713
Changes in subsidiaries	23,194	46,998
Cash at end of period	253,171	627,544
Other information		
Working capital from operations	6,648,416	5,721,558

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 fibre-optic cable systems in its service area. In addition the company has operated the sewage system from January 1, 2006.

2. Accounting policies

Basis of preparation

The Financial Statements of Orkuveita Reykjavíkur for the year 2006 are prepared according to generally accepted accounting principles in Iceland. Costing method is used in the Financial Statements and it is prepared according to the same accounting principles as for the previous year. The Financial Statements are prepared in ISK.

The principal accounting policies adopted are set out below:

Basis of Consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries).

The 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.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

One of the purposes of Consolidated Financial Statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of 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 control over those policies.

Investments in associates are booked at cost less allowance for estimated irrecoverable amount.

Notes

2. Accounting policies (continued)

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 aluminium. 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 done contracts regarding interest-rate swap, that are done to change current interest references on loans or applying forward contracts.

Revenue recognition

Revenues are recognised when earned as required by generally accepted accounting principles. Sales are recognised when goods are delivered or service provided and are shown in the income statement net of value added tax, discount and internal sales.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

Borrowing costs

All borrowing costs are recognised in the period they incur.

Taxation

The income tax currently payable is based on taxable profit for the year. 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 recognised 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Notes

2. Accounting Policies (continued)

Fixed tangible assets

Fixed tangible assets are recognised 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.

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 recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost or net realisable 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.

Other securities are classified as investment securities and are valued at cost, less an allowance for estimated irrecoverable amount.

Accounts receivable

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

Bank loans and other non-current liabilities

Bank loans and other non-current 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. Borrowing costs are recognised in profit or loss in the year they are incurred.

Accounts payable

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

Provisions

Provisions are recognised 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.

Notes

3. Revenue

Revenue is specified as following:

	2006	2005
Electricity revenue	7,865,231	6,643,400
Heating revenue	5,104,540	4,796,792
Water revenue	1,639,562	1,517,722
Sewage systems revenue	1,867,702	0
Data utility revenue	397,029	377,795
Other revenue	1,226,944	1,392,260
	<u>18,101,008</u>	<u>14,727,969</u>

4. Analysis of operation of geothermal power plant and production and sale of electricity to power-intensive industry and retail

Nesjavellir power plant, analysis of operation:

	Electricity 2006	Hot water 2006
Revenue	1,672,936	811,082
Operating expenses	(277,610)	(397,453)
Depreciation	(530,714)	(271,526)
Calculated finance cost 5,5%	(598,721)	(285,010)
Income	<u>265,891</u>	<u>(142,907)</u>

Production and sale of electricity to power-intensive industry and retail:

	Power-intensive industry 2006	Retail 2006
Revenue	1,361,784	3,276,404
Total expenses	(1,268,930)	(3,233,854)
Income	92,854	42,550
Income as proportion of revenue	6.8%	1.3%

Total expenses include purchase of energy, production cost of electricity, depreciation and calculated 5.5% finance cost.

5. Salaries

Salaries and salary-related expenses are specified as follows:

	2006	2005
Salaries	3,033,480	2,486,508
Salary-related expenses	699,593	502,428
Payroll expenses capitalized under investment projects	(756,042)	(544,532)
	<u>2,977,031</u>	<u>2,444,404</u>
Average number of positions	626	568

Salaries and fees paid to the Board of Directors, CEO and four Managing Directors of the Parent Company in the period amounted to ISK 79 million.

Notes

6. Investment income

	2006	2005
Profit (loss) from investments	889,738	122,978
Dividends	59,805	12,980
Guarantee fee from subsidiaries	1,230	0
Amortization of investment property	(32,782)	0
Interest income	159,118	171,405
	<u>1,077,109</u>	<u>307,363</u>

7. Finance cost

	2006	2005
Exchange rate differential and futures	(8,220,026)	1,944,895
Capital income tax	(5,571)	(27,018)
Guarantee fee to owners of Orkuveita Reykjavíkur	(120,920)	(70,913)
Interest and indexation on long-term debts	(2,196,945)	(1,087,671)
	<u>(10,543,462)</u>	<u>759,293</u>

8. Income tax

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

The Company's taxable value of assets and liabilities are not the same as the carrying value at January 1, 2006. This resulted in a deferred income tax asset that was recorded in the Balance Sheet at January 1, 2006 and as income tax revenue in the Income Statement. This amount is ISK 2,929 million.

Income tax has been calculated and recorded in the Consolidated Financial Statements, the amount recognised as income in the Income Statement is ISK 850 million in addition to the above mentioned ISK 2,929 million. Tax authorities have not yet approved the method of how the tax is calculated, so the amount could change to some extent. No income tax is paid during the year 2007 because of negative income tax base.

9. Dividends

In the year 2006, a dividend of ISK 1,462 million was paid to owners. In the year 2005, the dividend paid was 1,417 million ISK. In respect of the current year, the Board of Directors recommends that a dividend of ISK 1,530 million will be paid to owners in the year 2007.

Notes

10. Fixed tangible assets

Distribution	Heating distribution systems	Electricity distribution systems	Cold water distribution systems
Cost or valuation			
At 1 January 2006	21,778,565	23,469,263	15,644,231
Revaluation	4,731,365	5,478,160	3,661,896
Additions	1,396,549	645,694	556,060
At 31 December 2006	27,906,478	29,593,117	19,862,188
Accumulated depreciation			
At 1 January 2006	9,773,274	11,587,633	7,582,711
Revaluation	2,182,772	2,772,258	1,812,091
Charge for the year	490,608	498,088	297,943
At 31 December 2006	12,446,654	14,857,979	9,692,745
Carrying Amount			
At 1 January 2006	12,005,291	11,881,630	8,061,520
At 31 December 2006	15,459,824	14,735,137	10,169,443
Depreciation rates	2-15 %	2-20 %	2-20 %
Distribution	Sewage distribution systems	Fiber-optic distribution systems	Total
Cost or valuation			
At 1 January 2006	0	4,271,666	65,163,725
Addition due to new subsidiary	37,394,474	0	37,394,474
Revaluation	5,423,228	0	19,294,649
Additions	1,288,892	1,777,153	5,664,348
At 31 December 2006	44,106,594	6,048,819	127,517,197
Accumulated depreciation			
At 1 January 2006	0	337,592	29,281,210
Addition due to new subsidiary	16,565,474	0	16,565,474
Revaluation	2,430,198	0	9,197,319
Charge for the year	832,261	189,878	2,308,779
At 31 December 2006	19,827,933	527,470	57,352,782
Carrying Amount			
At 1 January 2006	0	3,934,074	35,882,515
At 31 December 2006	24,278,661	5,521,349	70,164,415
Depreciation rates	2-6,67 %	4-15 %	

Notes

10. Fixed tangible assets (continued)

Production	Production hot water	Production electricity	Production cold water	Total
Cost or valuation				
At 1 January 2006	33,906,836	24,692,997	3,289,337	61,889,170
Additions	5,945,858	7,708,266	187,558	13,841,682
Disposals	(69,160)			(69,160)
At 31 December 2006	39,783,534	32,401,263	3,476,895	75,661,692
Accumulated depreciation				
At 1 January 2006	15,820,465	6,655,925	1,420,909	23,897,300
Charge for the year	794,288	671,254	86,623	1,552,165
Eliminated on disposal	(69,160)			(69,160)
At 31 December 2006	16,545,593	7,327,179	1,507,532	25,380,304
Carrying Amount				
At 1 January 2006	18,086,371	18,037,072	1,868,428	37,991,870
At 31 December 2006	23,237,941	25,074,084	1,969,363	50,281,388
Depreciation rates	2-20 %	2-4 %	2-4 %	

Other assets	Properties	Heating rights	Other assets	Total
Cost or valuation				
At 1 January 2006	8,239,367	1,955,327	2,752,044	12,946,738
Addition due to new subsidiary	174,346			174,346
Additions	200,961	125,000	374,603	700,564
At 31 December 2006	8,614,675	2,080,327	3,126,646	13,821,649
Accumulated depreciation				
At 1 January 2006	1,230,729	367,778	1,734,803	3,333,309
Charge for the year	181,822	20,063	441,491	643,376
At 31 December 2006	1,412,550	387,841	2,176,294	3,976,685
Carrying Amount				
At 1 January 2006	7,008,638	1,587,550	1,017,240	9,613,428
At 31 December 2006	7,202,124	1,692,486	950,353	9,844,963
Depreciation rates	2-6 %	0-6,7 %	5-33,33 %	

Carrying Amount summation:	Distribution	Production	Other assets	Total
At 1 January 2006	35,882,515	37,991,870	9,613,428	83,487,814
At 31 December 2006	70,164,415	50,281,388	9,844,963	130,290,766

Depreciation in Income Statement is as follows:

Depreciation on distribution systems	2,308,779
Depreciation on production	1,552,165
Depreciation on other assets	643,376
Amortization of intangible assets	68,712
	<u>4,573,031</u>

Notes

10. Fixet tangible assets (continued)

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

	Assessment value	Insurance value
Buildings and sites	16,029,530	14,929,112

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 is 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 productions.

Finance cost of ISK 409 million was capitalized because of constructions in Hellisheiði.

11. Intangible assets

	Development cost
Cost	
At January 1 2006	98,311
At December 31 2006	98,311
Amortization	
At January 1 2006	29,599
Charge for the year	68,712
At December 31 2006	98,311
Carrying Amount	
At January 1 2006	68,712
At December 31 2006	0

12. Subsidiaries

	Proportion of ownership	Par value	Principal activity
Shares in subsidiaries			
Gagnaveita Reykjavíkur ehf.	100.00%	500	Data transfer
Hitaveita Akraness og Borgarfjarðar(HAB) ..	79.30%		Heating production
Hitaveita Rangæinga	100.00%		Heating production
Hrafnabjargavirkjun	60.00%	24,000	Preparation company
NCI fjarskipti og orka ehf.	100.00%	3,000	No operation
Úlfljótuvatn frítímabyggð ehf.	100.00%	225,000	Preparation company

Notes

13. Shares in other companies

	2006	2005
Shares in other companies	350,848	725,633
	<u>350,848</u>	<u>725,633</u>
At January 1 2006	725,633	615,197
Purchased during the year	1,547,352	275,978
Disposed of during the year	(2,711,875)	(288,521)
Moved to investments in subsidiaries	(100,000)	0
Net profit/(loss)	889,738	122,978
At December 31 2006	<u>350,848</u>	<u>725,633</u>

14. Investment property

	2006	2005
Balance at January 1 2006	180,310	201,714
Additions during the year	8,335	0
Installments during the year	(31,080)	(29,047)
Indexation and provision	(21,043)	7,644
At December 31 2006	<u>136,522</u>	<u>180,310</u>
Current maturities	(41,310)	(27,921)
	<u>95,212</u>	<u>152,389</u>

15. Inventories

	31.12.2006	31.12.2005
Supplies	675,465	540,030
	<u>675,465</u>	<u>540,030</u>

16. Other financial assets

	31.12.2006	31.12.2005
Accounts receivables		
Receivables	2,855,511	2,332,122
Allowances for doubtful accounts	(97,250)	(81,250)
	<u>2,758,261</u>	<u>2,250,872</u>
Other receivables		
Value added tax	373,117	120,321
Capital income tax	11,441	0
Accrued interests	10,277	8,318
Loans to employees	15,382	19,398
Other receivables	243	9,774
	<u>410,459</u>	<u>157,811</u>

Notes

17. Equity

	Revaluation account	Retained earnings	Total equity
Equity 1.1.2006		48,213,085	48,213,085
Addition due to Sewage systems January 1		12,829,000	12,829,000
Revaluation of assets at year end 2006	8,731,162		8,731,162
Dividends paid		(1,462,460)	(1,462,460)
Net profit/(loss)		(1,755,920)	(1,755,920)
Equity 31.12.2006	<u>8,731,162</u>	<u>57,823,705</u>	<u>66,554,866</u>

18. Long-term loans

	31.12.2006	31.12.2005
Debts in CHF	13,249,466	7,326,222
Debts in EUR	17,874,524	7,290,445
Debts in GBP	4,854,964	2,367,310
Debts in JPY	6,758,381	3,150,386
Debts in SEK	4,915,761	3,431,749
Debts in USD	11,626,976	7,506,164
Debts in ISK	7,103,132	6,037,303
	<u>66,383,204</u>	<u>37,109,579</u>
Amount due for settlements within 12 months	(5,118,159)	(2,354,853)
Long-term loans 31 December 2006	<u><u>61,265,044</u></u>	<u><u>34,754,726</u></u>

Installments of long-term loans are specified as follows:

	31.12.2006
Current maturities	5,118,159
Installments 2008	2,103,802
Installments 2009	3,295,043
Installments 2010	2,421,203
Installments 2011	5,291,013
Installments later	48,153,983
	<u><u>66,383,204</u></u>

Owners of the Company are responsible, pro rata, for the debts and obligations of the Company.

19. Retirement benefit obligation

Orkuveita Reykjavíkur has an retirement benefit obligation due to former employees at the amount of ISK 356 million. Increase in this obligation during the period is ISK 81 million and 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, ISK 5.6 million, is recorded as current liabilities.

Notes

20. Deferred tax

	Deferred tax assets
Estimated at 1 January 2006	2,928,999
Addition due to new subsidiary	1,239
Effect of revaluation of fixed assets	(1,366,168)
Calculated income tax for the year 2006	849,509
At 31 December 2006	<u>2,413,578</u>

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

Fixed tangible assets and intangible assets	999,683
Investments in other companies	(188,588)
Other items	87,864
Tax losses	1,514,619
	<u>2,413,578</u>

At Balance Sheet date the Consolidation has unused tax losses available for offset against future profits as follows:

Available for the years 2007 - 2016	5,658,057
	<u>5,658,057</u>

21. Trade and other payables

Other current liabilities	31.12.2006	31.12.2005
Capital tax payable	12,676	11,545
Accrued salaries and related expenses	388,079	213,193
Accrued interests	464,002	187,570
Forward exchange contract	11,179	0
Other liabilities	4,633	9,629
	<u>880,569</u>	<u>421,937</u>
 Current maturities of non-current liabilities	 31.12.2006	 31.12.2005
Long-term liabilities	5,118,159	2,354,853
Retirement benefit plans	5,600	5,440
	<u>5,123,759</u>	<u>2,360,293</u>

Notes

22. Commitments

At year-end the Company has made various contracts committing the Company without recording the commitments in the Balance Sheet. These commitments include:

Contracts with foreign banks in connection to the Company's projects. At December 31 2006 the Company has EUR 100 million left to draw on these contracts, ISK 9.4 billions. Contract has been made with Jarðboranir for drilling at Hellisheiði and Hengilsvæði, estimated project period is from the year 2006 to the year 2009 at least.

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 about sales of electricity to Alcan. Estimated time of starting delivery is the middle of year 2010 from the plant at Hellisheiði. Orkuveita Reykjavíkur and Hitaveita Suðurnesja hf. have signed memorandum of understanding on sale of electricity to intended aluminium plant in Helguvík. Estimated time of starting delivery is the middle of year 2010. Estimated revenue due to those long-term electricity sale agreements is about ISK 240 billion.

At year-end the Company has open foreign exchange forward contracts to limit currency risk. Those contracts include obligation about foreign exchange trade at fixed rate. Estimated negative value of those contracts are ISK 11 million at year-end. That amount has been recorded in the Consolidated Financial Statement, underlying amounts in those contracts is estimated at ISK 3,749 million.

Orkuveita Reykjavíkur has had a disagreement with the office of Internal Revenue because of obligations to pay capital tax. Orkuveita Reykjavíkur may receive reimbursement due to this matter. Since there is still no conclusion and this issue is still unsolved, no transactions have been made in the Consolidated Financial Statement.

At year-end Orkuveita Reykjavíkur established a subsidiary named Gagnaveita Reykjavíkur ehf. In the beginning of the year 2007 Gagnaveita Reykjavíkur ehf. took over all assets and financial obligation and operation of the fiber-optic distribution systems.

Orkuveita Reykjavíkur has begun a preparation for implementation of international accounting standards. It is the Company's goal to follow the standards in the next financial statement. It is not possible to say at this point what influence the international accounting standards will have on the Company's equity. There are some indications that the value of embedded derivatives in contracts of sale of electricity to power-intensive industry will be material.

23. Ratios

	2006	2005	2004
EBITDA / revenues	47.2%	44.4%	38.9%
Operating profit / revenues	21.9%	22.4%	14.6%
Working capital from operation / revenues	36.7%	38.8%	33.1%
Net profit / revenues	-9.7%	29.6%	27.8%
EBITDA	8,536,422	6,540,186	5,130,436
Equity ratio	48.6%	54.9%	56.5%

Notes

24. Statement of Cash Flows

	2006	2005	2004	2003	2002
Net profit / (loss).....	(1,755,920)	4,358,674	3,670,853	1,279,232	3,005,527
Depreciation.....	4,572,959	3,236,538	3,205,877	3,552,690	3,385,694
Non-cash finance cost.....	7,339,229	(1,727,154)	(2,518,378)	(1,103,300)	(3,069,604)
Other changes.....	(3,507,852)	(146,500)	9,071	1,176	(125,758)
Working capital from operation	6,648,416	5,721,558	4,367,423	3,729,798	3,195,858
Changes in:					
Operating assets.....	(829,173)	(364,793)	(173,031)	118,738	636,090
Operating liabilities.....	800,696	(176,877)	406,805	(271,315)	(52,885)
Net cash from operating activities	6,619,939	5,179,888	4,601,197	3,577,222	3,779,062