

Orkuveita Reykjavíkur
Condensed consolidated
Interim Financial Statements
1 January to 30 September 2010

Orkuveita Reykjavíkur
Bæjarhálsi 1
110 Reykjavík

reg no. 551298-3029

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Endorsement by the Board of Directors

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

The condensed consolidated interim financial statements for the period 1 January to 30 September 2010 are prepared in accordance with the International Financial Reporting Standard IAS 34 Interim financial reporting. The financial statements comprise the consolidated interim financial statements of Orkuveita Reykjavíkur and subsidiaries. The financial statements have been reviewed by the independent auditor of the company.

Profit of the operations of Orkuveita Reykjavíkur during the period amounted to ISK 16.794 million. According to the statement of financial position the Company's assets amount to ISK 286.030 million, book value of equity at the end of the period amounted to ISK 57.446 million and the Company's equity ratio is 20.1%

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

	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 Director of Orkuveita Reykjavíkur, the company's condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU. It is the opinion of the Board of Directors and the Director that the consolidated financial statements give a fair view of the Company's assets, liabilities and financial position at 30 September 2010 and the company's operating return and changes in cash and cash equivalents for the period then ended.

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

The Board of Directors and the Director of Orkuveita Reykjavíkur hereby confirm the Company's consolidated financial statements for the period 1 January to 30 September 2010.

Reykjavík, 19 November 2010.

The Board of Directors:

Haraldur Flosi Tryggvason

Helga Jónsdóttir

Guðmundur Þ. Reynaldsson

Kjartan Magnússon

Jóhann Ársælsson

Sóley Tómasdóttir

Managing Director:

Helgi Þór Ingason

Independent Auditor's Review Report

To the Board of Directors and owners of Orkuveita Reykjavíkur.

We have reviewed the accompanying condensed financial statements of Orkuveita Reykjavíkur, which comprise the interim statement of financial position as at 30 September 2010 and the interim statement of income, interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the nine-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 others 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 could 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 Company as at 30 September 2010, and of its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 19 November 2010.

KPMG hf.

Hlynur Sigurðsson

Auðunn Guðjónsson

Income Statement

1 January to 30 September 2010

	Skýr.	2010 1.7.-30.9.	2009 1.7.-30.9.	2010 1.1.-30.9.	2009 1.1.-30.9.
Operating revenue		5.882.790	6.035.481	19.443.731	17.959.986
Energy purchase		(1.098.221)	(1.066.933)	(3.593.295)	(3.380.357)
Salaries and salary related expenses	4	(936.189)	(902.257)	(2.999.373)	(2.864.697)
Other operating expenses		(1.018.441)	(1.232.583)	(2.964.696)	(3.189.229)
Depreciation and amortisation	5	(2.033.962)	(2.277.957)	(5.936.307)	(6.979.462)
Results from operating activities		<u>795.977</u>	<u>555.751</u>	<u>3.950.060</u>	<u>1.546.241</u>
Interest income		44.542	85.219	112.846	204.810
Interest expenses		(297.649)	(815.106)	(1.951.348)	(3.513.578)
Other income (expenses) on financial assets and liabilities		15.735.056	(310.590)	20.233.042	(11.864.139)
Total financial income and expenses	6	<u>15.481.949</u>	<u>(1.040.477)</u>	<u>18.394.540</u>	<u>(15.172.907)</u>
Share in profit of associated companies		(835)	0	24.308	32.871
Profit (loss) before income tax		<u>16.277.090</u>	<u>(484.726)</u>	<u>22.368.907</u>	<u>(13.593.795)</u>
Income tax	7	(4.601.622)	(188.652)	(5.575.255)	2.305.491
Profit (loss) for the period		<u><u>11.675.468</u></u>	<u><u>(673.378)</u></u>	<u><u>16.793.652</u></u>	<u><u>(11.288.304)</u></u>
Attributable to:					
Equity holders of the Company		11.675.469	(675.198)	16.793.652	(11.284.885)
Minority interest in subsidiaries		0	1.820	0	(3.418)
Profit (loss) for the period		<u><u>11.675.469</u></u>	<u><u>(673.378)</u></u>	<u><u>16.793.652</u></u>	<u><u>(11.288.303)</u></u>

Interim Statement of Comprehensive Income for 1 January to 30 September 2010

	2010	2009
	1.1.-30.9.	1.1.-30.9.
Profit (loss) for the period	<u>16.793.652</u>	<u>(11.288.304)</u>
Other comprehensive income		
Revaluation reserve	1.032.692	0
Depreciation transferred to retained earnings (deficit)	0	0
Income tax effect of revaluation	<u>(185.884)</u>	<u>0</u>
Total comprehensive profit (loss) for the period	<u><u>17.640.460</u></u>	<u><u>(11.288.304)</u></u>
Total comprehensive income attributable to:		
Equity holders of the Company	17.640.460	(11.283.066)
Minority interest in subsidiaries	<u>0</u>	<u>(5.238)</u>
Total comprehensive profit (loss) for the period	<u><u>17.640.460</u></u>	<u><u>(11.288.304)</u></u>

Interim Statement of Financial Position

30 September 2010

	Notes	30.9. 2010	31.12. 2009
Assets			
Property, plant and equipment	8	248.370.482	240.716.068
Intangible assets	9	1.518.959	1.648.403
Investments in associated companies		358.364	488.569
Investments in other companies		2.062.445	2.187.047
Embedded derivatives in electricity sales contracts	10	20.109.646	19.036.283
Other financial assets		8.331.248	7.656.562
Deferred tax assets	11	152.419	1.194.314
Total non-current assets		<u>280.903.563</u>	<u>272.927.246</u>
Inventories		622.172	752.353
Trade receivables		2.195.115	3.339.309
Embedded derivatives in electricity sales contracts	10	1.208.922	1.127.990
Other financial assets		21.941	82.267
Other receivables		344.613	353.240
Cash and cash equivalents		733.500	2.943.303
Total current assets		<u>5.126.264</u>	<u>8.598.462</u>
Total assets		<u><u>286.029.827</u></u>	<u><u>281.525.708</u></u>

Interim Statement of Financial Position

30 September 2010

	Notes	30.9. 2010	31.12. 2009
Equity			
Revaluation reserve		48.039.425	49.417.335
Retained earnings (accumulated deficit)		9.402.033	(8.816.337)
Equity attributable to equity holders of the Company		57.441.457	40.600.999
Minority interest		4.946	56.487
Total equity	12	57.446.403	40.657.486
Liabilities			
Loans and borrowings	13	199.994.511	221.254.126
Retirement benefit obligation		434.315	464.547
Other financial liabilities		14.922	50.186
Deferred tax liabilities	11	4.730.208	10.963
Total non-current liabilities		205.173.956	221.779.822
Accounts payable		1.916.324	2.368.066
Loans and borrowings	13	19.619.124	15.314.040
Other financial liabilities		12.609	24.977
Other current liabilities		1.861.410	1.381.317
Total current liabilities		23.409.467	19.088.400
Total liabilities		228.583.423	240.868.222
Total equity and liabilities		286.029.827	281.525.708

Interim Statement of changes in Equity for the period ended 30 September 2010

	Revaluation reserve	Retained earnings (Accumulated deficit)	Attributable to equity holders of the Company	Minority interest	Total equity
1.1.-30.9 2010					
Equity at 1 January 2010	49.417.335	(8.816.337)	40.600.998	56.487	40.657.485
Revaluation	1.032.692		1.032.692		1.032.692
Income tax effect of revaluation	(185.885)		(185.885)		(185.885)
Depreciation transferred to retained earnings (deficit)	(1.377.911)	1.377.911	0		0
Profit for the period		16.793.652	16.793.652	0	16.793.652
Total comprehensive income	(531.104)	18.171.563	17.640.459	0	17.640.459
Other changes			0	(51.541)	(51.541)
Dividends paid		(800.000)	(800.000)		(800.000)
Equity at 30 September 2010	48.886.231	8.555.226	57.441.457	4.946	57.446.403
1.1.-30.9 2009					
Equity at 1 January 2009	55.842.384	(7.517.523)	48.324.861	33.770	48.358.631
Loss for the period		(11.284.885)	(11.284.885)	(3.418)	(11.288.303)
Total comprehensive income	0	(11.284.885)	(11.284.885)	(3.418)	(11.288.303)
Dividends paid		(600.000)	(600.000)		(600.000)
Equity at 30 September 2009	55.842.384	(19.402.408)	36.439.976	30.352	36.470.326

Interim Statement of Cash Flows for the period ended 30 June 2010

	2010	2009
	1.1.-30.9.	1.1.-30.9.
Profit (loss) for the period	16.793.652	(11.288.303)
Financial income and expenses	(18.394.540)	15.172.907
Other items not affecting the cash flow	11.457.023	4.624.846
Changes in operating assets and liabilities	1.417.584	880.014
Working capital from operation before interest and taxes	11.273.720	9.389.464
Received interest income	100.927	203.606
Paid interest expenses	(1.465.551)	(4.073.663)
Dividend received	16.159	0
Paid due to other financial income and expenses	(98.317)	(109.136)
Net cash from operating activities	9.826.939	5.410.271
Cash flows from investing activities		
Acquisition of property, plant and equipment	(12.716.829)	(13.346.510)
Acquisition of intangible assets	(68.594)	(159.613)
Acquisition of associated companies	0	(450)
Acquisition of subsidiaries	(100.000)	0
Acquisition of other financial assets	0	(97.027)
Proceeds from sale of other companies	0	568.051
Proceeds and repayment of other financial assets	4.092	43.888
Net cash used in investing activities	(12.881.331)	(12.991.661)
Cash flows from financing activities		
Proceeds from new borrowings	10.397.949	5.261.995
Repayment of borrowings	(3.573.427)	(4.975.512)
Dividends paid	(600.000)	(600.000)
Credit facility, change	(4.327.901)	(542.789)
Current liabilities, (decrease) increase	(1.105.720)	7.179.585
Net cash from financing activities	790.901	6.323.279
Decrease in cash and cash equivalents	(2.263.492)	(1.258.111)
Cash and cash equivalents at year beginning	2.943.303	1.243.639
Changes in the Group	0	(5.907)
Effect of currency fluctuations on cash and cash equivalents	53.689	675.561
Cash and cash equivalents at period end	733.500	655.182
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	(637.887)	(1.416.139)
Acquisition of other companies, change	(73.898)	0
Proceeds from sale of other companies	0	122.416
Other financial assets, change	23.898	(122.416)
Current liabilities, change	711.785	1.416.139
Other information:		
Working capital from operation	8.328.551	5.511.742

Notes to the Interim Financial Statements

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Notes

1. Reporting entity

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no. 139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Company's headquarters are at Bæjarháls 1 in Reykjavík. The Company's consolidated financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Company") and a share in associated companies.

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

2. Basis of preparation

a. Statement of compliance

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 Company as at and for the year ended 31 December 2009.

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

b. Basis of measurement

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial annual statements as at and for the year ended 31 December 2009. The consolidated financial statements for the Group as at and for the year ended 31 December 2009 are available upon request from the Company's registered office at Bæjarháls 1, Reykjavík, at www.or.is or at The Nordic Stock Exchange's website, www.omxgroup.com.

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

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

c. Functional and presentation currency

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

d. Use of estimates and judgements

The preparation of the 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 period in which the estimates are revised and in any future periods affected.

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

- note 8 Property, plant and equipment
- note 10 Embedded derivatives in electricity sale contracts
- note 11 Deferred tax assets and liabilities

Notes

3. Segment reporting

Segment information is presented by the Group's business segments according to the Group's organisation and internal reporting. Business segments consist of utilities, production and sale, and other operation. In addition, information is provided on the Group's sectors, which are electricity, hot water, cold water, sewer and fibre-optic cable systems. Organisational change was implemented in the beginning of the year 2010, where a part of production, i.e. production of cold water and hot water in low-temperature geothermal areas, was merged into distribution, forming a new segment called utilities. Comparative amounts have been changed in accordance.

Business segments - divisions

	Utilities	Production and sale	Other Operation	Adjustments	Total
1.1.-30.9 2010					
External revenue	11.789.558	7.198.602	455.571	0	19.443.731
Inter-segment revenue	79.873	2.260.067	(2.339.940)	0
Total segment revenue	11.869.431	9.458.669	455.571	(2.339.940)	19.443.731
Segment result	2.993.044	1.984.485	(114.958)	0	4.862.571
Unallocated expenses					(912.511)
Results from operating activities					3.950.060
Financial income and expenses					18.394.540
Share of profit of associated companies					24.308
Income tax					(5.575.255)
Profit for the period					16.793.653
1.1.-30.9 2009					
External revenue	11.535.882	5.982.804	441.300	0	17.959.986
Inter-segment revenue	135.557	1.386.379	285.444	(1.807.380)	0
Total segment revenue	11.671.439	7.369.183	726.744	(1.807.380)	17.959.986
Segment result	1.824.211	432.918	(67.202)	0	2.189.927
Unallocated expenses					(643.685)
Results from operating activities					1.546.242
Financial income and expenses					(15.172.907)
Share of profit of associated companies					32.871
Income tax					2.305.491
Loss for the period					(11.288.303)

Notes

3. Segment reporting, contd.

Business segments - divisions, contd.

1.1.-30.9 2010

Balance sheet (30.9. 2010)

	Utilities	Production and sale	Other Operation	Adjustments	Total
Property, plant and equipment	118.861.673	121.028.721	418.337	8.061.751	248.370.482
Intangible assets			171.862	1.347.097	1.518.959
Shares in associates					358.364
Other unallocated assets					35.782.023
Total assets					286.029.828

Unallocated liabilities 228.583.423

Investments:

Property, plant and equipment	3.903.543	8.868.559	27.506 (439.616)	12.359.992
Intangible assets	0	0	14.372	54.223	68.595

Depreciation, amortization:

Property, plant and equipment	3.204.383	2.246.805	0	300.367	5.751.555
Intangible assets	0	0	90.000	94.752	184.752

1.1.-30.9 2009

Balance sheet (31.12. 2009)

Property, plant and equipment	117.199.312	114.847.151	419.717	8.249.888	240.716.068
Intangible assets	0	0	247.490	1.400.913	1.648.403
Shares in associates					488.569
Other unallocated assets					38.672.668
Total assets					281.525.708

Unallocated liabilities 240.868.222

Investments:

Property, plant and equipment	3.638.248	10.487.769	2.254	53.107	14.181.378
Intangible assets	0	0	45.086	114.527	159.613

Depreciation, amortization:

Property, plant and equipment	3.085.788	3.479.093	0	311.448	6.876.329
Intangible assets	0	0	0	103.133	103.133

Notes

3. Segment reporting, contd.

Business segments - sectors

1.1.-30.9 2010

	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjustments	Total
Income							
External revenue	10.750.602	3.985.006	2.013.112	2.000.618	694.393	0	19.443.731
Inter-segment revenue	767.645	98.101	42.894	42.627	0	(951.267)	0
Total segment revenue	11.518.247	4.083.107	2.056.006	2.043.245	694.393	(951.267)	19.443.731
Balance sheet (30.9. 2010)							
Property, plant and equipment	129.913.935	55.321.374	17.096.961	36.566.833	9.471.379	0	248.370.482
Intangible assets	731.474	484.388	96.991	206.106	0	0	1.518.959
Unallocated assets							36.140.385
Total assets	130.645.409	55.805.762	17.193.952	36.772.939	9.471.379	0	286.029.826
Investments							
Property, plant and equipments	9.474.597	937.397	166.598	1.022.721	758.678	0	12.359.991
Intangible assets	29.064	27.169	3.958	8.404	0	0	68.595
Depreciation, amortization							
Property, plant and equipments	2.583.367	1.644.266	347.534	913.123	263.265	0	5.751.555
Intangible assets	125.225	30.015	9.245	20.267	0	0	184.752

Notes

3. Segment reporting, contd.

Business segments - sectors, contd.

1.1.-30.9 2009

	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjustments	Total
Income							
External revenue	9.403.609	4.391.165	1.919.245	1.660.979	584.988	0	17.959.986
Inter-segment revenue	738.160	260.357	31.582	27.332	0	(1.057.431)	0
Total segment revenue	10.141.769	4.651.522	1.950.827	1.688.311	584.988	(1.057.431)	17.959.986
Balance sheet (31.12. 2009)							
Property, plant and equipment	122.432.015	56.435.597	17.335.655	36.569.527	7.943.274	0	240.716.068
Intangible assets	739.683	582.308	105.068	221.344	0	0	1.648.403
Unallocated assets							39.161.236
Total assets	123.171.698	57.017.905	17.440.723	36.790.871	7.943.274	0	281.525.708
Investments							
Property, plant and equipments	8.405.339	3.023.596	178.827	2.093.512	480.104	0	14.181.378
Intangible assets	59.324	73.031	8.819	18.439	0	0	159.613
Depreciation, amortization							
Property, plant and equipments	3.069.077	1.877.222	496.130	1.101.589	332.311	0	6.876.329
Intangible assets	39.404	32.134	9.897	21.698	0	0	103.133

Notes

4. Salaries and salary related expenses

	2010	2009
	1.1.-30.9.	1.1.-30.9.
Salaries and salary related expenses are specified as follows:		
Salaries	2.801.562	2.724.381
Defined contribution pension expenses	373.442	365.906
Defined benefit pension expenses	(19.502)	(4.683)
Other salary related expenses	329.824	226.494
Total salaries and salary related expenses	<u>3.485.326</u>	<u>3.312.098</u>

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

Expensed in the income statement	2.999.373	2.864.697
Capitalised on projects	485.953	447.401
Total salaries and salary related expenses	<u>3.485.326</u>	<u>3.312.098</u>

5. Depreciation and amortisation

	2010	2009
	1.1.-30.9.	1.1.-30.9.
Depreciation and amortisation is specified as follows:		
Depreciation of property, plant and equipment, cf. note 8	5.751.555	6.876.329
Amortisation of intangible assets, cf. note 9	184.752	103.133
Depreciation and amortisation recognised in the income statement	<u>5.936.307</u>	<u>6.979.462</u>

6. Financial income and expenses

	2010	2009
	1.1.-30.9.	1.1.-30.9.
Financial income and expenses are specified as follows:		
Interest income	112.846	204.810
Interest expense	(1.416.726)	(3.164.848)
Guarantee fee to owners	(534.622)	(348.730)
Total interest expenses	<u>(1.951.348)</u>	<u>(3.513.578)</u>
Fair value changes of embedded derivatives in electricity sales contracts	1.154.294	1.854.466
Fair value changes of assets available for sale	(148.500)	(1.313.912)
Fair value changes of financial assets and financial liabilities through P/L	515.194	0
Forward currency swaps	(31.811)	(22.464)
Foreign exchange difference	18.727.705	(12.388.859)
Dividends	16.159	6.630
Total of other income (expenses) on financial assets and liabilities	<u>20.233.042</u>	<u>(11.864.139)</u>
Total financial income and expenses	<u>18.394.540</u>	<u>(15.172.907)</u>

Notes

6. Financial income and expenses, contd.

Financing cost due to construction of a power plant to the amount of ISK 1.431,8 million is capitalised and has been recognised as reduction of financial expenses (1.1. to 30.9. 2009: ISK 1.492,6 million).

Capitalized finance cost is calculated from an estimate of the Icelandic interest rates that would have given a good indication of the interest terms the Group would have received, if the power plant constructions were financed in ISK during the construction period. This is done to reflect that the foreign currency denominated interest rates of the Group's debt portfolio does not give a good indication of interest incurred during construction time. The average of monthly REIBOR fixings during the period 1.1. to 30.9. 2010 is used, the average is 7.896%. A margin that reflects the Group's terms from the Icelandic banks during the period 1.1. to 30.9. 2010 is added, this margin is 1.25%. In addition the Group's owners guaranty fee of 0.375% is added, in total the interest rate is 9.52%. (1.1. to 30.9. 2009: 14.19%)

	2010	2009
	1.1.-30.9.	1.1.-30.9.
Interest expenses, charged in the income statement	(1.951.348)	(3.513.578)
Capitalised finance cost	(1.431.827)	(1.492.568)
Interest expenses	<u>(3.383.174)</u>	<u>(5.006.156)</u>

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities. Change in fair value that is recognised in the income statement amounts to income of ISK 1.669,5 million. (1.1. to 30.9. 2009: income ISK 1.854,5 million).

7. Income tax

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

Income tax recognised in the income statement is specified as follows:		2010	2009
		1.1.-30.9.	1.1.-30.9.
Change in deferred income tax		5.575.255	(2.305.491)
Income tax recognised in the income statement		<u>5.575.255</u>	<u>(2.305.491)</u>
Reconciliation of effective tax rate:		2010	2009
		1.1.-30.9.	1.1.-30.9.
Profit (loss) before income tax		<u>22.368.907</u>	<u>(13.593.795)</u>
Income tax according to current tax ratio	32.7%	7.314.633	23.5% (3.194.542)
Non-taxable operation of			
water supply and sewer	(8.0%)	(1.789.020)	(4.0%) 543.686
Effect of various tax rates in the Group	(0.2%)	(52.059)	0.1% 15.555
Other items	0.5%	101.702	(2.4%) 329.810
Effective income tax	<u>24.9%</u>	<u>5.575.256</u>	<u>17.1% (2.305.491)</u>

Notes

8. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Production system	Utility system	Other real estates	Other equipment	Total
1.1.-30.9 2010					
Cost or deemed cost					
Balance at year beginning	181.419.827	189.223.393	8.338.751	5.391.704	384.373.675
Reclassification of assets	0	0	0	13.285	13.285
Additions during the period	9.779.387	2.478.687	15.479	86.439	12.359.992
Revaluation	0	1.032.692	0	0	1.032.692
Balance at end of period	191.199.214	192.734.772	8.354.230	5.491.428	397.779.644
Depreciation					
Balance at year beginning	49.965.530	89.853.132	1.549.340	2.289.605	143.657.607
Depreciated during the period	2.908.643	2.621.559	106.293	115.060	5.751.555
Balance at end of period	52.874.173	92.474.691	1.655.633	2.404.665	149.409.162
Carrying amounts					
At 1.1. 2010.....	131.454.297	99.370.261	6.789.411	3.102.099	240.716.068
At 30.9. 2010.....	138.325.041	100.260.081	6.698.597	3.086.763	248.370.482
Thereof assets in construction at end of period.....	35.113.640	2.211.142	0	0	37.324.782
1.1.-31.12 2009					
Cost or deemed cost					
Balance at year beginning	164.856.768	184.796.025	8.283.140	4.407.876	362.343.809
Reclassification of assets	0	0	0	(809.125)	(809.125)
Additions during the year	16.563.059	3.850.561	43.454	890.125	21.347.199
Sold or disposed of	0	576.807	12.157	902.828	1.491.792
Balance at year end	181.419.827	189.223.393	8.338.751	5.391.704	384.373.675
Depreciation					
Balance at year beginning	46.181.542	85.742.803	1.391.818	2.057.215	135.373.378
Reclassification of assets	0	0	0	(887.574)	(887.574)
Depreciated during the year	3.783.988	3.533.522	145.387	217.136	7.680.033
Sold or disposed of	0	576.807	12.135	902.828	1.491.770
Balance at year end	49.965.530	89.853.132	1.549.340	2.289.605	143.657.607
Carrying amounts					
At 1.1. 2009.....	118.675.226	99.053.222	6.891.322	2.350.661	226.970.431
At 31.12. 2009.....	131.454.297	99.370.261	6.789.411	3.102.099	240.716.068
Thereof assets in construction at year end.....	23.772.336	1.699.301	0	0	25.471.637

Notes

8. Property, plant and equipment, contd.

Revaluation

Revaluation was carried out for the fibre-optic cable system at the end of the period as a part of the regular revaluation of the group's assets. The revaluation for the fibre-optic cable system led to an increase of book values of those assets that amounted to ISK 1.033 million.

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

The fair value of fibre-optic cable assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revalued in accordance with those changes. The calculation is based on official information and actual statistics from the Group's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within and outside of the Company.

Impairment tests were performed at the end of the period in order to confirm that the carrying amounts of assets would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the utilities and production systems. The impairment tests take into account a change in the presumptions for earnings, from the previous year, that are set forth in the Company's comprehensive policy. Further explanation on impairment test is in note 3 h in the Company's financial statements for the year 2009. Revaluation has not been carried out before for the fibre-optic cable assets like it has for other utilities and production assets of the Company.

Information on revalued assets at year end

	Production system	Distribution system	Total
The year 2010			
Revalued carrying amount	134.446.436	100.260.081	234.706.517
Thereof effect of revaluation	(33.000.146)	(31.222.301)	(64.222.447)
carrying amount before effect of revaluation	<u>101.446.290</u>	<u>69.037.780</u>	<u>170.484.070</u>
The year 2009			
Revalued carrying amount	131.454.297	91.426.987	222.881.284
Thereof effect of revaluation	(33.930.052)	(31.073.178)	(65.003.230)
carrying amount before effect of revaluation	<u>97.524.245</u>	<u>60.353.809</u>	<u>157.878.054</u>

Notes

8. Property, plant and equipment, contd.

Obligations

In May 2008 the Company entered into a contract concerning purchase of equipment for power plants. The equipment will be delivered this year and later. The contract and other contracts regarding developments at Hellisheiði amount to ISK 32.2 billion as per exchange rate at the end of the period (31.12.2009: ISK 41.0 billion). Furthermore, the Company has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at 30 September 2010 is estimated at ISK 0.6 billion (31.12.2009: ISK 2.4 billion).

9. Intangible assets

Intangible assets are specified as follows:

	Heating rights	Preparation cost	Software	Total
1.1.-30.9 2010				
Cost				
Balance at year beginning	1.427.031	247.492	2.895.665	4.570.188
Reclassification of assets	0	0	(13.285)	(13.285)
Additions during the period	0	14.372	54.222	68.594
Balance at end of period	1.427.031	261.864	2.936.602	4.625.497
Amortisation				
Balance at year beginning	424.631	0	2.497.153	2.921.784
Amortisation during the period	10.777	90.000	83.975	184.752
Balance at end of period	435.408	90.000	2.581.128	3.106.536
Carrying amounts				
At 1.1. 2010.....	1.002.400	247.492	398.512	1.648.404
At 30.9. 2010.....	991.623	171.864	355.474	1.518.961
1.1.-31.12 2009				
Cost				
Balance at year beginning	1.427.031	193.620	1.746.214	3.366.865
Reclassification of assets	0	0	809.124	809.124
Additions during the year	0	53.872	126.025	179.897
Sold or disposed of	0	0	214.302	214.302
Balance at year end	1.427.031	247.492	2.895.665	4.570.188
Amortisation				
Balance at year beginning	410.674	0	1.275.497	1.686.171
Reclassification of assets	0	0	887.574	887.574
Amortisation during the year	13.957	0	119.780	133.737
Sold or disposed of	0	0	214.302	214.302
Balance at year end	424.631	0	2.497.153	2.921.784
Carrying amounts				
At 1.1. 2009.....	1.016.357	193.620	470.717	1.680.694
At 31.12. 2009.....	1.002.400	247.492	398.512	1.648.403

Notes

10. Embedded derivatives in electricity sales contracts

Four electricity sales contracts have been made to the next 20 years, one with Landsvirkjun in regards of Norðurál and three with Norðurál in regards of the aluminium plant at Grundartangi, in addition to contracts with Landsnet hf. on distribution of electricity. Orkuveita Reykjavíkur and Norðurál have also made an electricity sales contract due to sale of electricity to a pending aluminium plant in Helguvík, where delivery of electricity for the first stage is estimated to begin in the year 2011 and the contract is to the 25 years. These electricity sales contracts are made in USD and the price of the electricity is connected to the world market price of aluminium.

The aforementioned electricity sales contracts include embedded derivatives as income thereon is subject to changes in the future world market price of aluminium. In accordance with provisions of IAS 39 on financial instruments, the fair value of those embedded derivatives has been measured and recognised in the financial statements.

As the market value of the embedded derivatives is not available their fair value has been measured with generally accepted evaluation methods. The expected net present value of the cash flow of an contract on the accounting date has been measured, based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and expectations of price development of aluminium for the next 30 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date. From the expected net present value of cash flow of the contract on the accounting date the expected net present value based on premises on aluminium price on the initial date of the contract is deducted. The difference is the fair value change of the derivative. The valuation is based on the premises that the derivative has no value at the initial date of the contract.

Embedded derivatives of the electricity sales contracts recognised in the financial statements are capitalised in the balance sheet at fair value at the accounting date and fair value changes during the period are recognised in the income statement among income on financial assets.

The fair value of embedded derivatives due to electricity sales contracts, which have not yet been executed and that are uncertain, is calculated in the same way. Their fair value amounts to a total of ISK 11.473 million at the end of the period 30 September 2010 (31.12. 2009: ISK 9,459 million) and is not recognised in the financial

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

	30.9. 2010	31.12. 2009
Fair value of embedded derivatives at the beginning of the year	20.164.272	9.091.449
Fair value changes during the period	1.154.295	11.072.823
Fair value of embedded derivatives at the end of the period	21.318.567	20.164.272

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

Non-current embedded derivatives	20.109.646	19.036.283
Current embedded derivatives	1.208.922	1.127.990
Total embedded derivatives at the end of the period	21.318.568	20.164.273

Notes

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

1.1.-30.9 2010	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	1.194.314	10.963	1.183.351
Calculated income tax for the period	(856.011)	4.719.244	(5.575.255)
Other changes	(185.885)	0	(185.885)
Deferred tax assets/liabilities at end of period	<u>152.418</u>	<u>4.730.207</u>	<u>(4.577.789)</u>

1.1.-31.12 2009

Deferred tax assets/liabilities at the beginning of the year	4.169.441	0	4.169.441
Effect of change in income tax rate on evaluation	(4.385.022)	0	(4.385.022)
Calculated income tax for the year	1.409.087	10.963	1.398.124
Other changes	808	0	808
Deferred tax assets/liabilities at year end	<u>1.194.314</u>	<u>10.963</u>	<u>1.183.352</u>

Deferred tax assets and liabilities are attributable to the following:

	30.9. 2010		31.12. 2009	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(377.589)	15.897.266	(15.612.117)	13.983
Embedded derivatives	0	6.971.171	(6.593.717)	0
Other items	(35.741)	1.726.122	2.274.492	(848)
Effect of carry forward taxable loss	565.750	(19.864.352)	21.125.656	(2.172)
Deferred tax assets/liabilities at year end	<u>152.420</u>	<u>4.730.207</u>	<u>1.194.314</u>	<u>10.963</u>

Notes

12. Equity

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

Equity ratio of the Group at the end of the period is 20.1% (31.12.2009: 14.4%). Return on equity was positive by 58.6% in the period from 1.1. to 30.9. 2010 (1.1. to 31.12. 2009: negative by 5.5%).

13. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 14.

Non-current liabilities	30.9. 2010	31.12. 2009
Bank loans	188.598.851	199.828.760
Credit facilities	9.975.036	14.988.936
Bond issuance	16.622.167	16.527.168
	<u>215.196.054</u>	<u>231.344.864</u>
Current portion on non-current liabilities	(15.201.542)	(10.090.738)
	<u>199.994.512</u>	<u>221.254.126</u>
 Current liabilities		
Current portion on non-current liabilities	15.201.542	10.090.738
Short-term bank loans	4.417.582	5.223.303
	<u>19.619.124</u>	<u>15.314.041</u>
Total interest bearing loans and borrowings	<u>219.613.636</u>	<u>236.568.167</u>

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

	Date of maturity	2010		2009	
		Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	26.6.2036	0.60%	39.564.150	0.72%	41.607.299
Liabilities in EUR	26.6.2036	1.20%	77.284.572	1.30%	84.089.942
Liabilities in USD	19.2.2030	1.48%	35.058.870	0.92%	44.716.978
Liabilities in JPY	26.6.2036	0.59%	21.293.428	0.69%	21.613.747
Liabilities in GBP	26.6.2036	1.68%	7.086.349	1.62%	8.202.315
Liabilities in SEK	5.10.2027	1.13%	13.374.616	0.81%	14.079.999
			<u>193.661.985</u>		<u>214.310.280</u>
Liabilities in Icelandic kronas:					
Indexed	10.1.2037	4.98.%	21.534.069	4.88%	16.734.583
Non-indexed	15.12.2010	10.45%	4.417.582	10,50%	5.523.303
			<u>25.951.651</u>		<u>22.257.886</u>
Total interest-bearing loans and borrowings			<u>219.613.636</u>		<u>236.568.166</u>

Notes

13. Loans and borrowings, contd.

Repayment on non-current liabilities are specified as follows on the next years:	30.9. 2010	31.12. 2009
1.10. 2010 to 30.9. 2011 / 1.1. to 31.12. 2010.....	15.201.542	10.090.738
1.10. 2010 to 30.9. 2012 / 1.1. to 31.12. 2011.....	13.796.250	17.689.392
1.10. 2010 to 30.9. 2013 / 1.1. to 31.12. 2012.....	24.402.651	13.307.154
1.10. 2010 to 30.9. 2014 / 1.1. to 31.12. 2013.....	15.458.227	30.606.873
1.10. 2010 to 30.9. 2015 / 1.1. to 31.12. 2014.....	12.019.290	14.904.521
Later	134.318.093	144.746.186
Total non-current liabilities, including next year's repayment	215.196.053	231.344.864

Guarantees and pledges

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

14. Risk management and financial instruments

a. Overview

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

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

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

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

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

Financial risk is divided into:

- Market risk
- Liquidity risk
- Credit risk

Notes

14. Risk management and financial instruments, contd.

b. Market risk

Market risk is the risk that changes in the market price of foreign currencies, aluminium price and interests will affect the Group's income or the value of its financial instruments. This is the risk that weighs the most in the Group and is divided into:

- Currency risk due to liabilities in the balance sheet and cash flow in foreign currencies.
- Interest rate risk due to loans.
- Risk due to changes in the world market price of aluminium.

i) Currency risk

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

Approx. 88.2% of the Group's non-current loans are in foreign currencies. The currency risk is hedged in accordance with the Company's policy on risk management where the interest cost of the loans is assessed together with the currency risk. Interest rate of loans in foreign currencies was considerably lower than for loans in Icelandic kronas. The Group has entered into long term electricity sales contracts in a foreign currency (USD). The expected future revenues from these contracts on the accounting date amount to approx. ISK 161.508 millions. That amount is based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and expectations of price development of aluminium for the next 30 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date.

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

	1.1.-30.9 2010	1.1.-31.12 2009	30.9. 2010	31.12. 2009
	Average exchange rate		Exchange rate at year end	
CHF	117,51	114,325	115,75	121,215
EUR	165	172,665	154,4	179,8
USD	125	123,601	113,55	124,81
JPY	1,3993	1,325	1,3595	1,35075
GBP	191,8183	193,893	178,62	202,165
SEK	17,047	16,306	16,7775	17,52
CAD	120,7516	109,041	110,22	119,01
TWI	219,8206	223,324	205,95	232,83

Notes

14. Risk management and financial instruments, contd.

b. Market risk, contd.

i) Exposure to currency risk

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

30.9. 2010	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(39.564.150)	(77.284.572)	(35.058.870)	(21.293.428)	(7.086.349)	0	(13.374.616)	0	(193.661.985)
Accounts payables	(7.726)			(228.398)				(2.263)	(238.387)
Trade receivables		51.574	490.757		94				542.425
Bank deposits	279	24.795	262.445	76.509	1.345	331	5.443		371.147
Aluminium derivatives			21.318.567						21.318.567
Balance sheet risk	(39.571.597)	(77.208.203)	(12.987.101)	(21.445.317)	(7.084.910)	331	(13.369.173)	(2.263)	(171.668.233)
Estimated sale in 2010			5.896.137						5.896.137
Estim. Purch. in 2010		(2.293.920)	(53.757)	(840.826)				(27.769)	(3.216.272)
Balance sheet risk	0	(2.293.920)	5.842.380	(840.826)	0	0	0	(27.769)	2.679.865
Swaps	(506.284)			478.753					(27.531)
Net risk	(40.077.881)	(79.502.123)	(7.144.721)	(21.807.390)	(7.084.910)	331	(13.369.173)	(30.032)	(169.015.899)

Notes

14. Risk management and financial instruments, contd.

b. Market risk, contd.

i) Exposure to currency risk, contd.

31.12. 2009	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(41.607.299)	(84.089.942)	(44.716.978)	(21.613.747)	(8.202.315)	0	(14.079.999)	0	(214.310.280)
Accounts payables	(12.374)	(18.066)	(37.368)						(67.808)
Trade receivables			530.440		12	1.426	20	1.691	533.588
Bank deposits	234	7.084	2.556.769	308	3.251	230	106	0	2.567.982
Aluminium derivatives			20.164.273						20.164.273
Balance sheet risk	(41.619.439)	(84.100.924)	(21.502.864)	(21.613.439)	(8.199.053)	1.656	(14.079.873)	1.691	(191.112.245)
Estimated sale in 2010			5.921.599						5.921.599
Estim. Purch. in 2010		(2.297.992)	(135.676)	(1.593.073)					(4.026.741)
Balance sheet risk	0	(2.297.992)	5.785.923	(1.593.073)	0	0	0	0	1.894.859
Swaps	(709.012)			633.849					(75.163)
Net risk	(42.328.451)	(86.398.916)	(15.716.941)	(22.572.663)	(8.199.053)	1.656	(14.079.873)	1.691	(189.292.550)

Sensitivity analysis

Strengthening by 10% of the Icelandic krona against the following currencies at 31 March 2010 would have increased (decreased) equity and profit or loss by the amounts shown below.

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
1.1.-30.9 2010	2.663.168	5.196.112	874.032	1.443.270	476.814	(22)	899.745	152	11.553.271
1.1.-30.9	3.183.887	6.433.721	1.644.969	1.653.428	627.228	(127)	1.077.110	(129)	14.620.087

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009. Weakening by 10% of the Icelandic krona against the above currencies at 31 March would have had the equivalent, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes

14. Risk management and financial instruments, contd.

b. Market risk, contd.

ii) Interest rate risk

Interest-bearing financial assets and liabilities are specified as follows at the end of the period:

Fixed rate instruments	30.9. 2010	31.12. 2009
Financial assets	8.353.189	7.738.829
Financial liabilities	22.839.851	26.792.325
	14.486.662	19.053.496
Variable rate instruments		
Financial liabilities	196.801.317	209.851.004
	196.801.317	209.851.004

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. Presentation has been changed from the financial statements 2009, by taking out of the calculations the effect of the embedded aluminium electric sale contract derivative. Comparative amounts have been changed in accordance.

	Profit or (loss)	
	100 p increase	100 p decrease
1.1.-30.9 2010		
Variable rate instruments	(1.296.762)	1.296.762
Cash flow sensitivity, net	(1.296.762)	1.296.762
1.1.-30.9		
Variable rate instruments	(2.093.277)	2.093.277
Cash flow sensitivity, net	(2.093.277)	2.093.277

Notes

14. Risk management and financial instruments, contd.

b. *Market risk, contd.*

iii) Aluminium price risk

The Group has entered into electricity sales contracts where the sales price of electricity is based on among other things the world market price of aluminium. The Group has not hedged specifically against aluminium price changes. Revenue from the electricity sales contracts related to aluminium price level amounted to 21.8% in the period from 1.1. to 30.9. 2010 (1.1. to 31.12. 2009: 17.6%) of the Group's total revenue for the year.

Sensitivity analysis

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

	Profit or (loss)	
	30.9. 2010	31.12. 2009
Increase by 10%	7.310.336	7.852.392
Decrease by 10%	(7.303.066)	(7.933.715)

iv) Other market risk

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

v) Correlation of aluminium price and interest rates

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

c. *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

EIB has financed half of the construction cost for the fifth phase of the power plant at Hellisheidi. Discussions are ongoing regarding the financing of the latter half. It is expected that the financing of the phase will be concluded during the next few months.

The Group's cash and cash equivalents at the end of the period amounted to ISK 0.7 billion. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 4.9 billion. The Group had thus in total ensured capital at the end of the period to the amount of approx. ISK 5.6 billion. The corresponding amount at year end 2009 amounted to ISK 16.7 billion.

Notes

14. Risk management and financial instruments, contd.

c. Liquidity risk, contd.

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

30.9. 2010

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest-bearing liabilities	219.613.636	(266.580.170)	(18.995.741)	(17.201.180)	(63.574.989)	(166.808.259)
Accounts payable	1.916.324	(1.916.324)	(1.916.324)			
Other liabilities ...	1.861.410	(1.861.410)	(1.861.410)			

Derivative financial instruments

Currency swaps	27.531	(29.900)	(12.714)	(9.932)	(7.255)	
	223.418.900	(270.387.804)	(22.786.188)	(17.211.112)	(63.582.244)	(166.808.259)

31.12. 2009

Non-derivative financial instruments

Interest-bearing liabilities	236.568.166	(264.168.863)	(18.307.776)	(36.219.530)	(64.152.032)	(145.489.525)
Accounts payable	2.368.066	(2.368.066)	(2.368.066)			
Other liabilities ...	1.381.317	(1.381.317)	(1.381.317)			

Derivative financial instruments

Currency swaps	75.163	(81.803)	(24.876)	(21.983)	(34.944)	0
	240.392.712	(268.000.049)	(22.082.035)	(36.241.513)	(64.186.976)	(145.489.525)

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

Notes

14. Risk management and financial instruments, contd.

d. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. Losses due to unpaid receivables are insubstantial and have limited effect on the Group's return.

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

	30.9. 2010	31.12. 2009
Trade receivable	2.195.115	3.339.309
Other current receivables	344.613	353.240
Other financial assets	8.353.189	7.738.829
Cash and cash equivalents	733.500	2.943.303
	11.626.418	14.374.681

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

Trade receivable, industrial consumers	616.455	682.585
Trade receivable, retail	1.578.660	2.656.724
	2.195.115	3.339.309

Impairment

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

	30.9. 2010		31.12. 2009	
	Gross balance	Allowance	Gross balance	Allowance
Non-overdue receivables	1.310.342	41.151	2.573.050	36.917
Overdue receivables	1.266.955	341.031	1.056.886	253.710
	2.577.297	382.182	3.629.936	290.627

e. Fair value

Fair values versus carrying amounts

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

	30.9. 2010		31.12. 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(219.613.636)	(207.320.242)	(236.568.166)	(218.876.273)

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

Notes

14. Risk management and financial instruments, contd.

e. Fair value, contd.

Interest rates used for determining fair value

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

	30.9. 2010	31.12. 2009
Interest-bearing liabilities	1.10833% - 6.50%	0.05% - 9.0%
Embedded derivatives in electr. sales contr.	0.226% - 3.345%	0.169% - 4.537%

Fair value hierarchy

The table below analysis financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets og liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30.9. 2010	Level 2	Level 3	Total
Shares in companies		2.062.445	2.062.445
Embedded derivatives in sales contracts		21.318.567	21.318.567
Other financial assets		8.056.017	8.056.017
Other financial liabilities	(27.531)	(27.531)	
	(27.531)	31.437.029	31.409.498
31.12. 2009			
Shares in companies		2.187.047	2.187.047
Embedded derivatives in sales contracts		20.164.273	20.164.273
Other financial assets		7.396.701	7.396.701
Other financial liabilities	(75.163)	(75.163)	
	(75.163)	29.748.021	29.672.858

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

Notes

14. Risk management and financial instruments, contd.

f. Overview of financial instruments

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

	30.9. 2010			31.12. 2009		
	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale
Shares in other companies			2.062.445			2.187.047
Embedd. electr. sales contracts ..		21.318.567			20.164.273	
Other financial assets	297.172	8.056.017		342.128	7.396.701	
Trade receivabl. .	2.195.115			3.339.309		
Other receivabl. ..	344.613			353.240		
Cash	733.500			2.943.303		
Interest-bearing .. liabilities	(219.613.636)		(236.568.166)			
Other financial liabilities	(27.531)			(75.163)		
Account payabl. . (1.916.324)		(2.368.066)			
Other current liabilities	(1.861.410)		(1.381.317)			
	(219.820.968)	29.347.053	2.062.445	(233.339.569)	27.485.811	2.187.047

15. Group entities

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

	Main operation	Nominal value	Share	
			30.9. 2010	31.12. 2009
Gagnaveita Reykjavíkur ehf.	Data transfer	4.736.841	100.0%	100.0%
Hitaveita Akraness og Borgarfj Reykjavík Energy Invest ehf.	Heating supplier			79.3%
Úlfjótuvatn frítímabyggð ehf.	Investments	3.004.723	100.0%	100.0%
Hrafnabjargavirkjun	Preperation company	225.000	100.0%	100.0%
	Preperation company	6.000	60.0%	60.0%

Main changes in the Group during the year

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

Notes

16. Other issues

Delays of power plant constructions

Due to delays in meeting contractual conditions in energy sales contracts between Orkuveita Reykjavíkur and Nordural Helgúvík, an uncertainty is present about the continuation of energy production projects. Therefore there have also been delays in the performance of contracts with other parties, such as machine producers and contractors. Negotiations have been conducted about compensations due to such delays. The most extensive are contracts with Mitsubishi Heavy Industries and Balce Dürr, regarding delivery of machinery, and negotiations with Jarðboranir regarding compensations for time delays of drilling for power plant projects. There is uncertainty regarding how projects will proceed and therefore it is not conclusive what the compensations will amount to. Managers do not believe that there is a reason to make a precautionary deduction in the interim financial statements regarding the fore mentioned matters.

Derivative contracts in default

After the collapse of the Icelandic banks trading in the foreign exchange market in Iceland has been little and it can hardly be stated that the foreign exchange market is active. Due to the collapse, the Central Bank of Iceland issued rules on foreign exchange based on authority contained in the Act amending the Foreign Exchange Act No. 87/1992, which imposed restrictions on investment and transactions in foreign exchange.

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