

Orkuveita Reykjavíkur

Condensed consolidated
Interim Financial Statements
1 January to 31 March 2011

Orkuveita Reykjavíkur
Bæjarhálsi 1
110 Reykjavík

reg no. 551298-3029

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Endorsement by the Board of Directors and the Managing Director

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 31 March 2011 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 1 January to 31 March 2011 amounted to ISK 2.318 million. According to the statement of financial position the Company's assets amount to ISK 296.122 million, book value of equity at the end of the period amounted to ISK 55.165 million and the Company's equity ratio is 18.6%

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 of Orkuveita Reykjavíkur, the company's consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU. It is the opinion of the Board of Directors that the consolidated financial statements give a fair view of the Company's assets, liabilities and financial position at 31 March 2011 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 that the consolidated 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 31 March 2011.

Reykjavík, 20 May 2011.

The Board of Directors:
Haraldur Flosi Tryggvason
Elín Blöndal
Brynhildur Davíðsdóttir
Sóley Tómasdóttir
Kjartan Magnússon
Jóhann Ársællsson

Managing Director:
Bjarni Bjarnason

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 31 March 2011 and the interim statement of income, interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the three-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 31 March 2011, and of its financial performance and its cash flows for the three-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 20 May 2011.

KPMG ehf.

Hlynur Sigurðsson

Auðunn Guðjónsson

Income Statement 2010

	Notes	2011	2010
		1.1.-31.3.	1.1.-31.3.
Operating revenue		8.692.605	7.421.500
Energy purchase		(1.402.140)	(1.299.216)
Salaries and salary related expenses	4	(1.011.581)	(1.061.227)
Other operating expenses		(812.056)	(828.835)
Depreciation and amortisation	5	(2.024.977)	(1.951.641)
Results from operating activities		<u>3.441.850</u>	<u>2.280.582</u>
Interest income		36.141	40.286
Interest expenses		(1.173.051)	(904.078)
Other (expenses) income on financial assets and liabilities		1.581.741	8.779.665
Total financial income and expenses	6	<u>444.831</u>	<u>7.915.874</u>
Share in loss of associated companies		0	(73.594)
Profit before income tax		<u>3.886.681</u>	<u>10.122.862</u>
Income tax	7	(1.568.903)	(2.936.017)
Profit for the period		<u><u>2.317.778</u></u>	<u><u>7.186.845</u></u>
Attributable to:			
Equity holders of the Company		2.317.778	7.186.844
Minority interest in subsidiaries		0	0
Profit for the period		<u><u>2.317.778</u></u>	<u><u>7.186.844</u></u>

Interim Statement of Comprehensive Income for 1 January to 31 March 2011

	2011	2010
	1.1.-31.3.	1.1.-31.3.
Profit for the period	<u>2.317.778</u>	<u>7.186.844</u>
Other comprehensive income		
Depreciation transferred to retained earnings (deficit)	<u>0</u>	<u>0</u>
Total comprehensive profit for the period	<u><u>2.317.778</u></u>	<u><u>7.186.844</u></u>
Total comprehensive income attributable to:		
Equity holders of the Company	<u>2.317.778</u>	<u>7.186.844</u>
Minority interest in subsidiaries	<u>0</u>	<u>0</u>
Total comprehensive profit for the period	<u><u>2.317.778</u></u>	<u><u>7.186.844</u></u>

Interim Statement of Financial Position

31 March 2011

	Notes	31.3. 2011	31.12. 2010
Assets			
Property, plant and equipment	8	248.656.690	248.030.995
Intangible assets	9	1.504.325	1.514.124
Investments in associated companies		313.364	313.364
Investments in other companies		2.062.445	2.062.442
Embedded derivatives in electricity sales contracts	10	23.985.030	18.809.205
Other financial assets		8.076.521	7.333.247
Deferred tax assets	11	224.622	206.742
Total non-current assets		<u>284.822.996</u>	<u>278.270.119</u>
Inventories		616.357	566.796
Trade receivables		4.789.871	3.661.642
Embedded derivatives in electricity sales contracts	10	2.259.077	1.601.900
Other financial assets		3.873	4.574
Other receivables		137.541	91.730
Cash and cash equivalents		3.492.353	2.343.648
Total current assets		<u>11.299.073</u>	<u>8.270.290</u>
Total assets		<u><u>296.122.069</u></u>	<u><u>286.540.409</u></u>

Interim Statement of Financial Position

31 March 2011

	Notes	31.3. 2011	31.12. 2010
Equity			
Revaluation reserve		46.432.537	46.882.895
Retained earnings		8.727.306	5.959.171
Equity attributable to equity holders of the Company		55.159.844	52.842.066
Minority interest		4.704	4.704
Total equity	12	55.164.548	52.846.770
Liabilities			
Loans and borrowings	13	205.125.728	207.916.910
Retirement benefit obligation		519.456	441.487
Other financial liabilities		24.465	23.395
Deferred tax liabilities	11	5.367.186	3.780.403
Total non-current liabilities		211.036.836	212.162.195
Accounts payable		1.993.075	1.981.573
Loans and borrowings	13	25.122.075	17.273.990
Other financial liabilities		22.078	17.130
Other current liabilities		2.783.458	2.258.751
Total current liabilities		29.920.685	21.531.444
Total liabilities		240.957.521	233.693.639
Total equity and liabilities		296.122.069	286.540.409

Interim Statement of Changes in Equity for the period ended 31 March 2011

	Revaluation reserve	Retained earnings (Accumulated deficit)	Attributable to equity holders of the Company	Minority interest	Total equity
1.1.-31.3. 2011					
Equity at 1 January 2011	46.882.894	5.959.170	52.842.064	4.705	52.846.769
retained earnings (deficit)	(450.357)	450.357	0		0
Profit for the period		2.317.778	2.317.778	0	2.317.778
Total comprehensive income	(450.357)	2.768.135	2.317.778	0	2.317.778
Equity at 31 March 2011	46.432.537	8.727.305	55.159.842	4.705	55.164.547

1.1.-31.3. 2011					
Equity at 1 January 2010	49.417.335	(8.816.337)	40.600.998	56.487	40.657.485
Solvenge of revaluation due to depreciation	(463.063)	463.063	0		0
Profit for the period		7.186.844	7.186.844	0	7.186.844
Total comprehensive income	(463.063)	7.649.907	7.186.844	0	7.186.844
Other changes			0	(51.541)	(51.541)
Equity at 31 March 2010	48.954.272	(1.166.430)	47.787.842	4.946	47.792.788

Interim Statement of Cash Flows for the period ended 31 March 2011

	Notes	2011 1.1.-31.3.	2010 1.1.-31.3.
Cash flows from operating activities			
Profit for the period		2.317.778	7.186.844
Financial income and expenses .....	(	444.831)	(7.915.874)
Other items not affecting the cash flow		3.671.849	4.964.616
Changes in operating assets and liabilities .....	(	1.043.683)	(866.574)
Working capital from operation before interest and taxes		4.501.114	3.369.012
Received interest income		36.040	42.143
Paid interest expenses .....	(	581.456)	(597.149)
Dividend received		2.390	0
Paid due to other financial income and expenses .....	(	18.986)	142.511
Net cash from operating activities		<u>3.939.102</u>	<u>2.956.517</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment .....	(	2.696.177)	(3.227.621)
Acquisition of intangible assets .....	(	21.773)	(17.023)
Acquisition of subsidiaries		0	(50.000)
Proceeds and repayment of other financial assets		705	(2.367)
Net cash used in investing activities	(	<u>2.717.245)</u>	<u>(3.297.011)</u>
Cash flows from financing activities			
Proceeds from new borrowings		0	5.397.949
Repayment of borrowings .....	(	1.404.978)	(1.151.853)
Dividends paid		0	(200.000)
Credit facility, change .....	(	1.455.093)	(1.559.366)
Current liabilities, (decrease) increase		2.808.000	748.005
Net cash from financing activities	(	<u>52.071)</u>	<u>3.234.735</u>
Increase in cash and cash equivalents		<u>1.169.786</u>	<u>2.894.241</u>
Cash and cash equivalents at year beginning		2.343.648	2.943.303
Effect of currency fluctuations on cash and cash equivalents .....	(	21.082)	(29.728)
Cash and cash equivalents at the end of the period		<u><u>3.492.353</u></u>	<u><u>5.807.816</u></u>
Investments and financing without payment effects:			
Acquisition of property, plant and equipment		630.279	(970.581)
Current liabilities, change .....	(	630.279)	970.581
Other information:			
Working capital from operation		4.543.401	3.775.620

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 Reykjavik. 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 2010.

The condensed consolidated interim financial statements were approved by the Board of Directors and the Director on 20 May 2011.

b. Basis of measurement

The consolidated 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.

The methods used to measure fair values are discussed further in note 4.

c. Functional and presentation currency

These consolidated 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 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.

Business segments - divisions

	Utilities	Production and sale	Other Operation	Adjustments	Total
1.1.-31.3. 2011					
External revenue	5.599.556	3.050.269	42.779	0	8.692.604
Inter-segment revenue	106.510	2.375.223	73.483	(2.555.216)	0
Total segment revenue	5.706.066	5.425.492	116.262	(2.555.216)	8.692.604
Segment result	3.264.495	990.012	0	0	4.254.507
Unallocated expenses					(812.656)
Results from operating activities					3.441.851
Financial income and expenses					444.831
Share of profit of associated companies					0
Income tax					(1.568.903)
Profit for the period					2.317.779
1.1.-31.3. 2010					
External revenue	4.538.537	2.777.636	105.327	0	7.421.500
Inter-segment revenue	56.181	594.879	92.380	(743.440)	0
Total segment revenue	4.594.718	3.372.515	197.707	(743.440)	7.421.500
Segment result	2.727.810	483.183	(6.817)	0	3.204.176
Unallocated expenses					(923.594)
Results from operating activities					2.280.582
Financial income and expenses					7.915.874
Share of loss of associated companies					(73.594)
Income tax					(2.936.018)
Profit for the period					7.186.844

Notes

3. Segment reporting, contd.

Business segments - divisions, contd.

1.1.-31.3. 2011

Balance sheet (31.3. 2011)

	Utilities	Production and sale	Other Operation	Adjustments	Total
Property, plant and equipment	122.051.568	118.324.170	262.999	8.017.952	248.656.689
Intangible assets			171.862	1.332.462	1.504.324
Shares in associates					313.364
Other unallocated assets					45.647.693
Total assets					296.122.070
Unallocated liabilities					240.957.521

Investments:

Property, plant and equipment	396.198	2.179.612	1.783	41.507	2.619.100
Intangible assets	0	0	0	21.773	21.773

Depreciation, amortization:

Property, plant and equipment	1.154.397	743.925	0	95.083	1.993.405
Intangible assets	0	0	0	31.572	31.572

1.1.-31.3. 2010

Balance sheet (31.12. 2010)

Property, plant and equipment	122.791.706	116.906.563	284.930	8.047.796	248.030.995
Intangible assets	0	0	171.862	1.342.262	1.514.124
Shares in associates					313.364
Other unallocated assets					36.681.926
Total assets					286.540.409
Unallocated liabilities					233.693.640

Investments:

Property, plant and equipment	1.819.758	1.345.005	0	44.379	3.209.142
Intangible assets	0	0	6.972	10.050	17.022

Depreciation, amortization:

Property, plant and equipment	874.609	946.908	0	99.255	1.920.772
Intangible assets	0	0	0	30.869	30.869

Notes

3. Segment reporting, contd.

Business segments - sectors

1.1.-31.3. 2011

	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjustments	Total
Income							
External revenue	4.450.419	2.633.039	688.007	639.982	281.158	0	8.692.605
Inter-segment revenue	317.251	30.406	6.010	5.591	0	(359.258)	0
Total segment revenue	4.767.670	2.663.445	694.017	645.573	281.158	(359.258)	8.692.605
Balance sheet (31.3. 2011)							
Property, plant and equipment	127.535.853	58.245.738	17.000.221	36.088.190	9.786.688	0	248.656.690
Intangible assets	711.535	496.983	94.605	201.202	0	0	1.504.325
Unallocated assets							45.961.054
Total assets	128.247.388	58.742.721	17.094.826	36.289.392	9.786.688	0	296.122.069
Investments							
Property, plant and equipments	2.090.963	274.602	42.433	13.033	198.070	0	2.619.101
Intangible assets	11.562	5.334	1.568	3.309	0	0	21.773
Depreciation, amortization							
Property, plant and equipments	861.566	602.331	114.438	301.245	113.826	0	1.993.406
Intangible assets	12.063	9.837	3.030	6.642	0	0	31.572

Notes

3. Segment reporting, contd.

Business segments - sectors, contd.

1.1.-31.3. 2010

	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjustments	Total
Income							
External revenue	4.012.584	1.830.356	668.261	690.243	220.056	0	7.421.500
Inter-segment revenue	254.611	27.868	8.572	8.854	0	(299.905)	0
Total segment revenue	4.267.195	1.858.224	676.833	699.097	220.056	(299.905)	7.421.500
Balance sheet (31.12. 2010)							
Property, plant and equipment	123.860.169	56.243.568	17.243.659	36.649.381	8.020.947	0	242.017.724
Intangible assets	721.674	582.496	101.144	215.956	0	0	1.621.270
Unallocated assets							48.479.699
Total assets	124.581.843	56.826.064	17.344.803	36.865.337	8.020.947	0	292.118.693
Investments							
Property, plant and equipments	2.246.692	375.666	32.064	389.292	165.428	0	3.209.142
Intangible assets	5.315	9.385	744	1.578	0	0	17.022
Depreciation, amortization							
Property, plant and equipments	850.089	560.386	115.186	307.356	87.755	0	1.920.772
Intangible assets	11.795	9.618	2.962	6.494	0	0	30.869

Notes

4. Salaries and salary related expenses

	2011	2010
	1.1.-31.3.	1.1.-31.3.
Salaries and salary related expenses are specified as follows:		
Salaries	869.985	972.774
Defined contribution pension expenses	108.461	118.506
Defined benefit pension expenses	80.837	5.593
Other salary related expenses	94.879	102.373
Total salaries and salary related expenses	<u>1.154.162</u>	<u>1.199.246</u>

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

Expensed in the income statement	1.011.581	1.061.227
Capitalised on projects	142.581	138.018
Total salaries and salary related expenses	<u>1.154.162</u>	<u>1.199.246</u>

Anna Skúladóttir left her position as CFO of the parent company in January 2011. Expenses due to the termination of her employment, salary related expenses included, were all expensed upon her departure from the company.

5. Depreciation and amortisation

	2011	2010
	1.1.-31.3.	1.1.-31.3.
Depreciation and amortisation is specified as follows:		
Depreciation of property, plant and equipment, cf. note 8	1.993.406	1.920.772
Amortisation of intangible assets, cf. note 9	31.572	30.869
Depreciation and amortisation recognised in the income statement	<u>2.024.978</u>	<u>1.951.641</u>

6. Financial income and expenses

	2011	2010
	1.1.-31.3.	1.1.-31.3.
Financial income and expenses are specified as follows:		
Interest income	36.141	40.286
Interest expense	(977.305)	(770.613)
Guarantee fee to owners 1)	(195.746)	(133.465)
Total interest expenses	<u>(1.173.051)</u>	<u>(904.078)</u>
Fair value changes of embedded derivatives in electricity sales contracts	5.833.002	4.852.274
Fair value changes of financial assets and financial liabilities through P/L	743.279	868.046
Forward currency swaps	17.736	(8.954)
Foreign exchange difference	(5.014.666)	3.068.300
Dividends	2.390	0
Total of other income (expenses) on financial assets and liabilities	<u>1.581.741</u>	<u>8.779.666</u>
Total financial income and expenses	<u>444.831</u>	<u>7.915.874</u>

Notes

6. Financial income and expenses, contd.

1) Orkuveita Reykjavíkur paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings. The fee is 0.375% on yearly basis. The calculation of the fee is done at the end of each quarter. The guarantee fee amounted to ISK 196 million in the period 1 January to 31 March 2011 (1.1. to 31.3. 2010: ISK 133 million) and is accounted for among interest expenses.

Capitalised financing cost

Financing cost due to construction of a power plant to the amount of ISK 386 million is capitalised and has been recognised as reduction of financial expenses (1.1. to 31.3. 2010: ISK 456 million).

Interest ratio used to calculate capitalised financing cost for the period 1.1. to 31.3. 2011 is 6.98 (1.1. to 31.3. 2010: 10.62%).

The interest ratio is determined from the ratio of interest expense during the period on average remainder of all Company loans calculated from the currency rate/index of the borrowing day of each loan. The interest ratio is determined this way when there has been a currency exchange gain from them during the period. The interest ratio is calculated this way for the period 1.1. to 31.3. 2011, taking into consideration the owner's guarantee fee, since in spite of currency exchange loss, this interest rate is lower than the average monthly REIBOR fixings.

If there is exchange currency loss during the period, it is taken into consideration when determining the interest ratio. The interest ratio will not, however, be higher than the comparative interest rate in Icelandic krona. The interest ratio 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 when there is exchange currency loss. The average of monthly REIBOR fixings is used (1.1. to 31.3. 2010: 10.24%) plus a margin that reflects the Group's terms from the Icelandic banks (1.1. to 31.3. 2010: 1.25%). In addition the Company owner's guaranty fee is added.

	2011	2010
	1.1.-31.3.	1.1.-31.3.
Interest expenses, charged in the income statement	(1.173.051)	(904.078)
Capitalised finance cost	(385.587)	(455.703)
Interest expenses	<u>(1.558.638)</u>	<u>(1.359.781)</u>

Fair value changes through P/L

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 6.576 million. (1.1. to 31.3. 2010: income ISK 5.720 million).

Notes

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:		2011		2010
		1.1.-31.3.		1.1.-31.3.
Change in deferred income tax		1.568.903		2.936.017
Income tax recognised in the income statement		1.568.903		2.936.017
Reconciliation of effective tax rate:		2011		2010
		1.1.-31.3.		1.1.-31.3.
Profit before income tax		3.886.681		10.122.862
Income tax according to current tax ratio	36.0%	1.399.205	32.7%	3.309.698
Non-taxable operation of				
water supply and sewer	4.0%	155.393	(4.1%)	(412.414)
Effect of various tax rates in the Group	0.4%	14.304	0.0%	(2.066)
Other items	0.0%	0	0.4%	40.799
Effective income tax	40.4%	1.568.902	29.0%	2.936.017

Notes

8. Property, plant and equipment

Property, plant and equipment is specified as follows:

1.1.-31.3. 2011	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	191.999.364	193.739.637	8.367.940	5.520.843	399.627.784
Additions during the period	2.202.090	369.951	12.543	34.517	2.619.101
Balance at end of the period	194.201.454	194.109.588	8.380.483	5.555.360	402.246.885
Depreciation					
Balance at year beginning	53.917.500	93.547.119	1.691.261	2.440.910	151.596.790
Depreciated during the period	1.027.745	880.961	48.124	36.576	1.993.406
Balance at end of the period	54.945.245	94.428.080	1.739.385	2.477.486	153.590.196
Carrying amounts					
At 1.1. 2011.....	138.081.864	100.192.518	6.676.679	3.079.933	248.030.994
At 31.3. 2011.....	139.256.209	99.681.508	6.641.098	3.077.874	248.656.689
Thereof assets in construction at period end.....	30.395.635	1.974.215	0	0	32.369.850
1.1.-31.12. 2010	Production system	Utility system	Other real estates	Other equipment	Total
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 year	10.579.537	3.288.896	29.189	115.854	14.013.476
Sold or disposed of	0	1.227.348	0	0	1.227.348
Balance at year end	191.999.364	193.739.637	8.367.940	5.520.843	399.627.784
Depreciation					
Balance at year beginning	49.965.530	89.853.132	1.549.340	2.289.605	143.657.607
Depreciated during the year	3.951.970	3.499.331	141.921	151.305	7.744.527
Sold or disposed of	0	194.656	0	0	194.656
Balance at year end	53.917.500	93.547.119	1.691.261	2.440.910	151.596.790
Carrying amounts					
At 1.1. 2009.....	131.454.297	99.370.261	6.789.411	3.102.099	240.716.068
At 31.12. 2009.....	138.081.864	100.192.518	6.676.679	3.079.933	248.030.994
Thereof assets in construction at year end.....	28.392.186	2.271.439	0	0	30.663.625

Obligations

In May 2008 the Company entered into a contract concerning purchase of equipment for power plants. The equipment will be delivered 2011 to 2014. The contract and other contracts regarding developments at Hellisheiði amount to ISK 27.0 billion as per exchange rate at the end of the period (31.12.2010: ISK 32.5 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 the end of the period is estimated at ISK 1.8 billion (31.12.2010: ISK 1.8 billion).

Notes

9. Intangible assets

Intangible assets are specified as follows:

	Heating rights	Preparation cost	Software	Total
1.1.-31.3. 2011				
Cost				
Balance at year beginning	1.427.031	261.864	2.964.934	4.653.829
Additions during the period	0	0	21.773	21.773
Balance at end of the period	1.427.031	261.864	2.986.707	4.675.602
Amortisation				
Balance at year beginning	438.570	90.000	2.611.134	3.139.704
Amortisation during the period	3.163	0	28.409	31.572
Balance at end of the period	441.733	90.000	2.639.543	3.171.276
Carrying amounts				
At 1.1. 2011.....	988.461	171.864	353.800	1.514.125
At 31.3. 2011.....	985.298	171.864	347.164	1.504.326
The year 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 year	0	14.372	82.554	96.926
Balance at year end	1.427.031	261.864	2.964.934	4.653.829
Amortisation				
Balance at year beginning	424.631	0	2.497.153	2.921.784
Amortisation during the year	13.939	90.000	113.981	217.920
Balance at year end	438.570	90.000	2.611.134	3.139.704
Carrying amounts				
At 1.1. 2010.....	1.002.400	247.492	398.512	1.648.404
At 31.12. 2010.....	988.461	171.864	353.800	1.514.124

Notes

10. Embedded derivatives in electricity sales contracts

Four electricity sales contracts have been made, originally 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 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 in electricity sales contracts is specified as follows:

	31.3. 2011	31.12. 2010
Fair value of embedded derivatives at the beginning of the year	20.411.105	20.164.273
Fair value changes during the period	5.833.002	246.832
Fair value of embedded derivatives at the end of the period	<u>26.244.107</u>	<u>20.411.105</u>

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

Non-current embedded derivatives	23.985.030	18.809.205
Current embedded derivatives	2.259.077	1.601.900
Total embedded derivatives at the end of the period	<u>26.244.107</u>	<u>20.411.105</u>

Notes

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

1.1.-31.3. 2011	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	206.741	3.780.403	(3.573.662)
Calculated income tax for the period	17.880	1.586.783	(1.568.903)
Deferred tax assets/liabilities at end of the period	<u>224.621</u>	<u>5.367.186</u>	<u>(5.142.565)</u>

1.1.-31.12. 2010

Deferred tax assets/liabilities at the beginning of the year	1.194.314	10.963	1.183.351
Effect of change in income tax rate on evaluation	(20.435)	1.513.975	(1.534.410)
Calculated income tax for the year	(781.321)	2.255.465	(3.036.786)
Other changes	(185.817)	0	(185.817)
Deferred tax assets/liabilities at end of the period	<u>206.741</u>	<u>3.780.403</u>	<u>(3.573.661)</u>

Deferred tax assets and liabilities are attributable to the following:

	31.3. 2011		31.12. 2010	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(242.357)	16.886.339	(433.321)	17.023.296
Embedded derivatives	0	9.447.879	0	7.347.998
Other items	(1.662)	488.684	(25.549)	1.286.811
Effect of carry forward taxable loss	468.641	(21.455.715)	665.612	(21.877.702)
Deferred tax assets/liabilities at year end	<u>224.622</u>	<u>5.367.187</u>	<u>206.742</u>	<u>3.780.403</u>

Management has concluded based on their projections that there will be sufficient taxable profit in the future to use the stated deferred taxable asset.

12. Equity

Equity ratio of the Group at the end of the period is 18.6% (31.12.2010: 18.4%). Return on equity was positive by 18.7% in the period 1.1. to 31.3. 2011 (1.1. to 31.12. 2010: positive by 34.4%).

No dividends is paid to the parent company's owners in the year 2011. (2010: ISK 800 million.)

Notes

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	31.3. 2011	31.12. 2010
Bank loans	197.057.175	193.902.191
Credit facilities	7.778.400	8.766.600
Bond issuance	21.774.228	21.692.110
	226.609.803	224.360.901
Current portion on non-current liabilities	(21.484.075)	(16.443.990)
	205.125.728	207.916.911
Current liabilities		
Current portion on non-current liabilities	21.484.075	16.443.990
Short-term bank loans	3.638.000	830.000
	25.122.075	17.273.990
Total interest bearing loans and borrowings	230.247.803	225.190.901

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

	Date of maturity	31.3. 2011		31.12. 2010	
		Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	26.6.2036	0.59%	42.338.720	0.58%	41.746.713
Liabilities in EUR	26.6.2036	1.36%	77.751.820	1.29%	75.620.884
Liabilities in USD	8.11.2030	1.33%	37.426.683	1.37%	37.772.740
Liabilities in JPY	26.6.2036	0.52%	20.974.505	0.57%	21.949.837
Liabilities in GBP	26.6.2036	1.74%	7.226.532	1.69%	7.078.811
Liabilities in SEK	5.10.2027	2.20%	14.308.085	1.61%	13.548.619
			200.026.345		197.717.604

Liabilities in Icelandic kronas:

Indexed	10.1.2037	4.91%	26.583.459	4.92%	26.643.296
Non-indexed	15.4.2011	6.98%	3.638.000	7.50%	830.000
			30.221.459		27.473.296
Total interest-bearing loans and borrowings			230.247.803		225.190.900

Notes

13. Loans and borrowings, contd.

Repayment on non-current liabilities are specified as follows on the next years:	31.3. 2011	31.12. 2010
1.4. 2011 to 31.3. 2012 / 1.1. to 31.12. 2011.....	21.484.075	16.443.990
1.4. 2011 to 31.3. 2013 / 1.1. to 31.12. 2012.....	8.785.360	12.605.836
1.4. 2011 to 31.3. 2014 / 1.1. to 31.12. 2013.....	31.342.188	27.976.909
1.4. 2011 to 31.3. 2015 / 1.1. to 31.12. 2014.....	13.461.932	14.881.311
1.4. 2011 to 31.3. 2016 / 1.1. to 31.12. 2015.....	12.465.852	12.369.891
Later	139.070.396	140.082.963
Total non-current liabilities, including next year's repayment	226.609.803	224.360.900

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.

Covenants

Loans for the amount of ISK 14.237 million have certain covenants (31.12.2010: ISK 14.313). Management regularly evaluate the covenants and in their view there is no danger of them being breached.

Uncertainty regarding finance lease contracts

Among current liabilities is a finance lease contract in foreign currency, from an Icelandic leasing firm. This type of lease was ruled illegal in Iceland and therefore there was uncertainty about the value of the loan. Recently the Company received a recalculation of the debt that has been stated in the financial statements. The lease is booked according to the recalculation at the end of the period, ISK 717 million (31.12.2010: 432 million). The debt was paid off in mid-May 2011.

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 standard 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), United States dollar (USD) and Swedish kronas (SEK).

Due to the economic situation in Iceland the Company has limited or no possibility to hedge against foreign currency risk since counterparties in forward contracts and other derivatives are not available in the Icelandic

Approx. 86.9% 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 170.880 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 25 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:

	<u>1.1.-31.3. 2011</u>	<u>1.1.-31.12. 2010</u>	<u>31.3. 2011</u>	<u>31.12. 2010</u>
	<u>Average exchange rate</u>		<u>Exchange rate at year end</u>	
CHF	123,42	116,83	124,78	122,845
EUR	158,93	161,34	162,05	153,8
USD	116,15	122,19	114,26	114,91
JPY	1,41	1,465	1,381	1,413
GBP	186,06	188,54	183,35	178,43
SEK	17,92	17,35	18,10	17,135
CAD	117,84	118,48	117,56	115,16
TWI	214,31	216,30	216,04	207,09

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):

31.3. 2011	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(42.338.720)	(77.751.820)	(37.426.683)	(20.974.505)	(7.226.532)	0	(14.308.085)	0	(200.026.345)
Accounts payables		(44.182)	(75.317)				(55)	(3.354)	(122.908)
Trade receivables			537.836		2.905	3.080			543.821
Bank deposits	13.558	714.580	897.225	77.690	203	200	1.456.929		3.160.386
Aluminium derivatives			26.244.107						26.244.107
Other financial assets			7.927.806						7.927.806
Balance sheet risk	(42.325.162)	(77.081.422)	(1.895.026)	(20.896.815)	(7.223.423)	3.280	(12.851.211)	(3.354)	(162.273.134)
Estimated sale in 2010			7.992.435						7.992.435
Estim. Purch. in 2010		1.328.738	26.855	708.434	413				2.064.439
Balance sheet risk	0	1.328.738	8.019.290	708.434	413	0	0	0	10.056.875
Swaps	(449.414)			402.871					(46.543)
Net risk	(42.774.577)	(75.752.684)	6.124.264	(19.785.510)	(7.223.010)	3.280	(12.851.211)	(3.354)	(152.262.802)

Notes

14. Risk management and financial instruments, contd.

b. Market risk, contd.

i) Exposure to currency risk, contd.

31.12. 2010	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(41.746.713)	(75.620.884)	(37.772.740)	(21.949.837)	(7.078.811)	0	(13.548.619)	0	(197.717.604)
Accounts payables	(139.201)	(63.820)		(85)		(1.902)	(665)		(205.673)
Trade receivables			504.502						504.502
Bank deposits	55	474.769	669.812	79	998	347	7.867		1.153.927
Aluminium derivatives			20.411.105						20.411.105
Other financial assets			7.184.527						7.184.527
Balance sheet risk	(41.746.658)	(75.285.316)	(9.066.614)	(21.949.758)	(7.077.898)	347	(13.542.654)	(665)	(168.669.216)
Estimated sale in 2011			6.853.028						6.853.028
Estim. Purch. in 2011	(1.385.737)	(30.098)	(853.697)				(536)	(2.270.068)	
Balance sheet risk	0	(1.385.737)	6.822.930	(853.697)	0	0	0	(536)	4.582.960
Swaps	(538.046)			497.521					(40.525)
Net risk	(42.284.704)	(76.671.053)	(2.243.684)	(22.305.934)	(7.077.898)	347	(13.542.654)	(1.201)	(164.126.781)

Sensitivity analysis

Strengthening by 10% of the Icelandic krona against the following currencies at year end 2010 would have increased (decreased) equity and profit or loss by the amounts shown below, taking into account tax effects.

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
1.1.-31.3. 2011	2.708.810	4.933.211	121.282	1.337.396	462.299	(210)	822.478	215	10.385.481
1.1.-31.12. 2010	2.671.786	4.818.260	580.263	1.404.785	452.985	(22)	866.730	43	10.794.830

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2010. Weakening by 10% of the Icelandic krona against the above currencies 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

A majority of the Company's loans bear variable rates. Due to present market conditions in Iceland the Company does barely hedge against interest rate risk.

Interest-bearing financial assets and liabilities are specified as follows at year end:

	31.3. 2011	31.12. 2010
Fixed rate instruments		
Financial assets	8.080.394	7.337.821
Financial liabilities	28.049.336	28.229.743
	19.968.942	20.891.922
Variable rate instruments		
Financial liabilities	202.245.011	197.001.682
	202.245.011	197.001.682

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.

	Profit or (loss)	
	100 p increase	100 p decrease
1.1.-31.3. 2011		
Variable rate instruments	(1.271.085)	1.271.085
Cash flow sensitivity, net	(1.271.085)	1.271.085
1.1.-31.12. 2010		
Variable rate instruments	(1.255.499)	1.255.499
Cash flow sensitivity, net	(1.255.499)	1.255.499

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 16.7% in the period 1.1. to 31.3. 2011 (1.1. to 31.12. 2010: 20.4%) of the Group's total revenue.

Sensitivity analysis

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

	Profit or (loss)	
	31.3. 2011	31.12. 2010
Increase by 10%	6.784.350	6.797.375
Decrease by 10%	(6.159.658) (	6.827.243)

iv) Other market risk

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

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.

The Group's cash and cash equivalents at end of the period amounted to ISK 3.5 billion. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 3.8 billion. The Group had thus in total ensured capital at end of the period to the amount of approx. ISK 7.3 billion. The corresponding amount at year end 2010 amounted to ISK 9.7 billion.

In accordance with the action plan between the Company and its owners from 29 March 2011, the Company is to receive a loan from its owners, amounting to ISK 12 billion, granted proportionally in conformity with their ownership. In this respect the Company received a loan amounting to ISK 8 billion in April this year and ISK 4 billion will be granted in the year 2013. The loans have a 15 year duration with the best terms the Municipality Credit Iceland Plc. offers. The loans are without repayment of the principal for the first five years.

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:

31.3. 2011

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	230.247.803	(292.937.220)	(25.548.231)	(13.705.085)	(73.772.644)	(179.911.260)
Accounts payable	1.993.075	(1.993.075)	(1.993.075)			
Other liabilities ...	2.783.458	(2.783.458)	(2.783.458)			

Derivative financial instruments

Currency swaps	46.543	(49.828)	(22.260)	(19.142)	(8.426)	0
	<u>235.070.878</u>	<u>(297.763.581)</u>	<u>(30.347.024)</u>	<u>(13.724.227)</u>	<u>(73.781.070)</u>	<u>(179.911.260)</u>

31.12. 2010

Non-derivative financial instruments

Interest-bearing liabilities	225.190.900	(287.602.690)	(20.199.148)	(16.505.776)	(70.305.962)	(180.591.804)
Accounts payable	1.981.573	(1.981.573)	(1.981.573)			
Other liabilities ...	2.258.751	(2.258.751)	(2.258.751)			

Derivative financial instruments

Currency swaps	40.525	(42.350)	(17.086)	(14.079)	(11.185)	0
	<u>229.471.749</u>	<u>(291.885.364)</u>	<u>(24.456.558)</u>	<u>(16.519.855)</u>	<u>(70.317.147)</u>	<u>(180.591.804)</u>

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 year end:

	31.3. 2011	31.12. 2010
Trade receivable	4.789.871	3.661.642
Other current receivables	137.541	91.730
Other financial assets	8.080.394	7.337.821
Cash and cash equivalents	3.492.353	2.343.648
	16.500.159	13.434.841

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

Trade receivable, industrial consumers	467.737	451.120
Trade receivable, retail	4.322.134	3.210.522
	4.789.871	3.661.642

Impairment

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

	31.3. 2011		31.12. 2010	
	Gross balance	Allowance	Gross balance	Allowance
Not past due receivables	3.999.096	64.779	2.902.451	81.489
Past due, 1 to 30 days	291.046	6.399	141.469	7.004
Past due, 31 to 90 days	46.785	18.399	281.275	8.319
Past due, 91 days and older	755.338	212.817	636.928	203.669
	5.092.265	302.394	3.962.123	300.481

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:

	31.3. 2011		31.12. 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(230.247.803)	(223.425.445)	(225.190.900)	(217.643.060)

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:

	31.3. 2011	31.12. 2010
Embedded derivatives in electr. sales contr.	1.47% to 11.79%	1.68% to 7.74%
Other financial assets	4.67% to 6.73%	5.44% to 7.22%
Interest bearing loans	1.39% to 5.61%	1.54% to 5.57%

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).

31.3. 2011	Level 2	Level 3	Total
Shares in companies		2.062.445	2.062.445
Embedded derivatives in sales contracts		26.244.107	26.244.107
Other financial assets		7.927.806	7.927.806
Other financial liabilities	(46.543)	(46.543)	
	(46.543)	36.234.358	36.187.815
31.12. 2010			
Shares in companies		2.062.445	2.062.445
Embedded derivatives in sales contracts		20.411.105	20.411.105
Other financial assets		7.184.527	7.184.527
Other financial liabilities	(40.525)	(40.525)	
	(40.525)	29.658.077	29.617.552

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:

	31.3. 2011			31.12. 2010		
	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			2.062.445
Embedd. electr. sales contracts ..		26.244.107			20.411.105	
Other financial assets	152.588	7.927.806		153.293	7.184.527	
Trade receivabl. .	4.789.871			3.661.642		
Other receivabl. ..	137.541			91.730		
Cash	3.492.353			2.343.648		
Interest-bearing liabilities	(230.247.803)		(225.190.900)			
Other financial liabilities		(46.543)			(40.525)	
Account payabl. . (	1.993.075)		(1.981.573)			
Other current liabilities	(2.783.458)		(2.258.751)			
	(226.451.982)	34.125.370	2.062.445	(223.180.911)	27.555.107	2.062.445

15. Group entities

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

Subsidiaries	Main operation	Nominal value	Share	
			31.3. 2011	31.12. 2010
Gagnaveita Reykjavíkur ehf.	Data transfer	4.736.841	100.0%	100.0%
Reykjavík Energy Invest ehf.	Investments	3.004.723	100.0%	100.0%
Úlfjótuvatn frítímabyggð ehf.	Preperation company	225.000	100.0%	100.0%
Hrafnabjargavirkjun	Preperation company	6.000	60.0%	60.0%

Notes

16. Other issues

Delays of power plant constructions

Due to delays in meeting contractual conditions in energy sales contracts between Orkuveita Reykjavíkur and Norðurál Helgúvík, an uncertainty is present about the continuation of energy production projects. Review of energy sale contracts is ongoing with Norðurál. The review has not been completed. 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 (MHI) and Balce Dürr (BD), regarding delivery of machinery. Since there is still uncertainty regarding investments, the amount of compensation to MHI and BD is not known. It is the view of the management that there is no reason to make provisions in the interim financial statements regarding the matter at this point.

An agreement was made with Jarðboranir regarding compensation in the year 2010, for time delays of drilling for power plant projects, in the amount of ISK 675 million. That amount was expensed in the financial statements for the year 2010. If the contract with Jarðboranir will be terminated, parties have agreed on compensation in the amount of ISK 65 million.

Effect of fluctuations in foreign exchange rates and aluminium prices on the Company's standing

20 May 2011, the day Orkuveita Reykjavíkur's interim financial statements for the period 1 January to 31 March 2011 were authorised for issue, the TWI is 219,2 but was 216.04 at the reporting date 31 March 2011. If interest bearing loans and borrowings would be accounted for according to the foreign exchange rates on 20 May 2011 they would have amounted to ISK 234.5 billion or ISK 4.3 billion higher than accounted for at the end of the accounting period. Embedded derivatives in sales contracts, when taken into consideration changes in aluminium price and currency exchange rates, would have amounted to ISK 25.5 billion on the reporting date or 0.7 billion lower than on the accounting date. Further information about the effect of changes in the exchange rates and aluminium prices can be found in note 14.

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.