

Orkuveita Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1 January to 31 March 2021

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

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

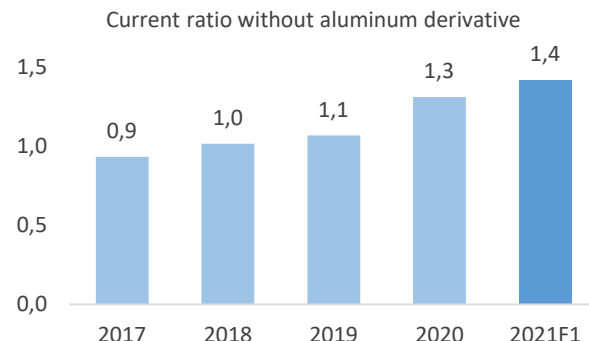
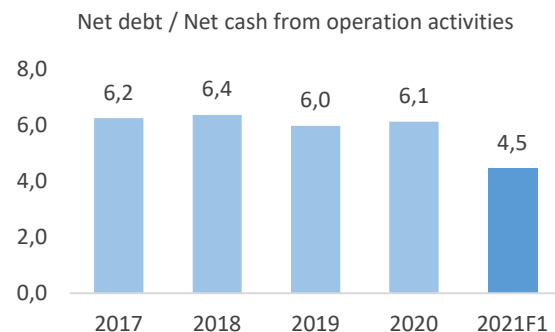
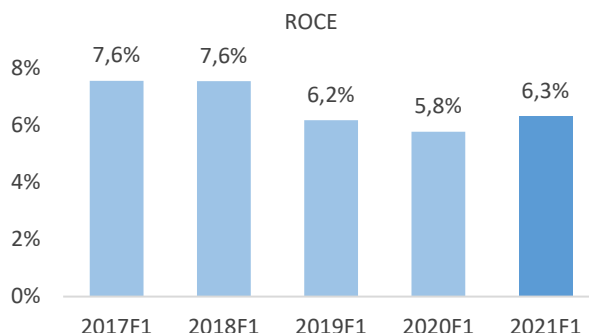
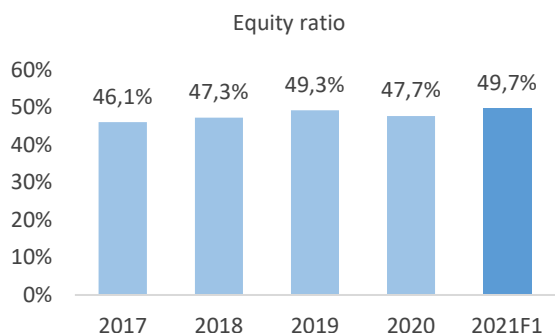
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Operating summary and key financial ratios

	2021 1.1.-31.3.	2020 1.1.-31.3.	2019 1.1.-31.3.	2018 1.1.-31.3.	2017 1.1.-31.3.
<i>Amounts are at each years price level in ISK millions</i>					
Revenues	13.749	13.265	12.643	12.263	11.822
Expenses	(4.495)	(4.718)	(4.717)	(4.511)	(4.138)
thereof energy purchase and distribution	(1.684)	(1.560)	(1.495)	(1.730)	(1.701)
EBITDA	9.253	8.547	7.926	7.752	7.685
Depreciation	(3.336)	(3.080)	(2.829)	(2.287)	(2.384)
EBIT	5.917	5.466	5.097	5.464	5.301
Cash flow statement:					
Received interest income	7	102	165	103	59
Paid interest expense	(976)	(1.061)	(940)	(709)	(764)
Net cash from operating activities	7.653	6.076	6.888	4.128	6.454
Working capital from operation	6.990	5.975	5.542	7.438	5.594
Liquid funds					
Deposits and marketable securities	12.839	12.272	3.802	2.252	5.906
Cash and cash equivalents	14.967	10.796	4.610	15.132	8.861
Undrawn credit lines	13.133	9.300	9.000	8.000	7.000
Liquid funds total	40.939	32.368	17.412	25.384	21.768



Endorsement by the Board of Directors and the CEO

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

The condensed consolidated interim financial statements for the period 1 January to 31 March 2021 are prepared in accordance with the International Financial Reporting Standard *IAS 34 Interim financial reporting*. The interim financial statements comprise the condensed consolidated interim financial statements of OR and subsidiaries. The interim financial statements have not been reviewed by the independent auditor of the company.

Profit of operations of the Group for the period 1 January to 31 March 2021 was ISK 5.931 million (1.1.-31.3.2020: Loss ISK 2.647 million). Comprehensive income for the period 1 January to 31 March 2021 was ISK 5.544 million (1.1.-31.3.2020: ISK 6.171 million). According to the statement of financial position the Group's assets were ISK 389.646 million at the end of the period (31.12.2020: ISK 394.164 million). Book value of equity at the end of the period was ISK 193.670 million (31.12.2020: ISK 188.126 million), resulting in equity ratio of 49,7% (31.12.2020: 47,7%).

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

	Share
Reykjavíkurborg	93,539%
Akraneskaupstaður	5,528%
Borgarbyggð	0,933%

Statement of the Board of Directors

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the condensed consolidated interim financial statements are in accordance with international financial reporting standard IAS 34 on interim financial reporting. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 31 March 2021 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 31 March 2021.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condensed consolidated interim financial statements for the period 1 January to 31 March 2021.

Reykjavík, 31 May 2021.

The Board of Directors:

Brynhildur Davíðsdóttir
Gylfi Magnússon
Sigríður Rut Júlíusdóttir
Hildur Björnsdóttir
Eyþór Laxdal Arnalds
Valgarður Lyngdal Jónsson

CEO:

Bjarni Bjarnason

Income Statement

1 January to 31 March 2021

	Notes	2021 1.1.-31.3.	2020 1.1.-31.3.
Operating revenue	4	13.740.130	13.265.322
Profit from sale of assets		8.492	0
Operating revenues, total		<u>13.748.622</u>	<u>13.265.322</u>
Energy purchase and distribution .....	(	1.684.258)	(1.559.743)
Salaries and salary related expenses .....	(	1.886.844)	(1.768.313)
Other operating expenses .....	(	924.386)	(1.390.401)
Operating expenses, total	(	<u>4.495.487)</u>	<u>(4.718.457)</u>
EBITDA		<u>9.253.135</u>	<u>8.546.866</u>
Depreciation and amortisation .....	(	3.336.051)	(3.080.479)
Results from operating activities, EBIT		<u>5.917.084</u>	<u>5.466.387</u>
Interest income		42.988	84.716
Interest expenses .....	(	1.821.049)	(1.596.772)
Other income (expenses) on financial assets and liabilities		4.086.453	(10.065.745)
Total financial income and expenses	6	<u>2.308.392</u>	<u>(11.577.801)</u>
Share in profit of associated companies .....	(	3.976)	1.791
Profit (loss) before income tax		8.221.500	(6.109.624)
Income tax .....	(	2.290.039)	3.462.237
Profit (loss) for the period		<u><u>5.931.460</u></u>	<u><u>(2.647.387)</u></u>

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.

Statement of Comprehensive Income

1 January to 31 March 2021

	2021	2020
	1.1.-31.3.	1.1.-31.3.
Profit (loss) for the period	5.931.460	(2.647.387)
 Other comprehensive income		
Items moved to equity that could be moved later to the income statement		
Translation difference	(387.725)	8.818.449
	(387.725)	8.818.449
Other comprehensive income, after taxes	(387.725)	8.818.449
Total comprehensive income for the period	<u>5.543.735</u>	<u>6.171.062</u>

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.

Statement of Financial Position

31 March 2021

	Notes	31.3.2021	31.12.2020
Assets			
Property, plant and equipment		336.793.472	337.493.229
Intangible assets		2.663.002	2.837.133
Right-of-use assets		2.614.079	2.590.642
Investments in associated companies		77.413	81.389
Investments in other companies		5.922.680	5.922.680
Hedge contracts		25.803	509.904
Deferred tax assets		4.966.197	6.675.003
Total non-current assets		<u>353.062.646</u>	<u>356.109.980</u>
Inventories		1.249.878	1.249.674
Trade receivables	7	6.768.881	5.439.828
Hedge contracts		39.600	45.399
Other receivables		362.077	404.863
Prepaid expenses		356.770	227.706
Deposits and marketable securities		12.839.095	14.866.902
Cash and cash equivalents		14.966.668	15.820.051
Total current assets		<u>36.582.968</u>	<u>38.054.423</u>
Total assets		<u>389.645.614</u>	<u>394.164.403</u>
Equity			
Revaluation reserve		88.511.911	89.478.008
Equity reserve		63.182.586	60.207.208
Development reserve		140.981	108.308
Fair value reserve		5.467.000	5.467.000
Translation reserve		4.516.113	4.903.838
Retained earnings		31.851.132	27.961.627
Total equity		<u>193.669.723</u>	<u>188.125.988</u>
Liabilities			
Loans and borrowings		148.576.348	152.350.925
Lease liabilities		2.446.826	2.472.960
Pension liability		641.143	659.027
Embedded derivatives in electricity sales contracts		3.169.127	4.907.730
Hedge contracts		560.562	571.981
Deferred tax liabilities		14.526.250	14.662.897
Total non-current liabilities		<u>169.920.257</u>	<u>175.625.520</u>
Accounts payable		2.267.829	2.822.579
Loans and borrowings		14.871.067	19.349.528
Lease liabilities		168.267	167.953
Embedded derivatives in electricity sales contracts		309.941	1.048.651
Hedge contracts		734.223	846.690
Deferred revenue	7	891.914	541.288
Current tax liability		698.124	1.847.570
Other current liabilities		6.114.269	3.788.635
Total current liabilities		<u>26.055.634</u>	<u>30.412.895</u>
Total liabilities		<u>195.975.891</u>	<u>206.038.415</u>
Total equity and liabilities		<u>389.645.614</u>	<u>394.164.403</u>

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.

Statement of Changes in Equity 1 January to 31 March 2021

	Revaluation reserve	Equity reserve	Develop- ment reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.- 31.3. 2021							
Equity at 1 January 2021	89.478.008	60.207.208	108.308	5.467.000	4.903.838	27.961.627	188.125.988
Translation difference					(387.725)		(387.725)
Profit for the period						5.931.460	5.931.460
Total comprehensive income	0	0	0	0	(387.725)	5.931.460	5.543.735
Depreciation transferred to retained earnings	(966.097)					966.097	0
Share in profit of subsidiaries and associates transferred to equity reserve		2.975.379				(2.975.379)	0
Transfer to development reserve			32.674			(32.674)	0
Equity at 31 March 2021	88.511.911	63.182.586	140.981	5.467.000	4.516.113	31.851.132	193.669.723
1.1.- 31.3. 2020							
Equity at 1 January 2020	93.186.474	48.585.813	0	4.760.587	2.411.820	33.354.772	182.299.466
Translation difference					8.818.453		8.818.453
Profit for the period						(2.647.387)	(2.647.387)
Total comprehensive income	0	0	0	0	8.818.453	(2.647.387)	6.171.066
Depreciation transferred to retained earnings	(920.517)					920.517	0
Share in profit of subsidiaries and associates transferred to equity reserve		4.553.551				(4.553.551)	0
Equity at 31 March 2020	92.265.956	53.139.364	0	4.760.587	11.230.272	27.074.352	188.470.531

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.

Statement of Cash Flows for 1 January to 31 March 2021

	2021	2019
	1.1.-31.3.	1.1.-31.3.
Cash flows from operating activities		
Profit (loss) for the period	5.931.461	(2.647.387)
Adjusted for:		
Financial income and expenses	(2.308.392)	11.577.801
Share in P/L of associates	3.976	(1.791)
Income tax	2.290.039	(3.462.237)
Depreciation and amortisation	3.336.051	3.080.479
Profit from sale of property, plants and equipment	(8.492)	0
Pension liability, change	(25.221)	(98.794)
Working capital from operation before interest and taxes	9.219.422	8.448.071
Inventories, increase	(204)	(100.231)
Current assets, increase	(1.394.156)	(2.847.246)
Current liabilities, increase	1.299.901	1.685.487
Cash generated from operations before interests and taxes	9.124.963	7.186.082
Received interest income	6.510	102.043
Paid interest expenses	(976.063)	(1.060.501)
Dividend received	119.784	87.596
Payments due to other financial income and expenses	(150.077)	13.262
Paid taxes	(471.704)	(252.353)
Net cash from operating activities	7.653.413	6.076.129
Cash flows from investing activities		
Acquisition of property, plant and equipment	(3.762.828)	(3.649.343)
Acquisition of intangible assets	(101.781)	(180.006)
Proceeds from sale of property, plant and equipment	26.691	0
Change in deposits	2.000.000	(3.000.000)
Change in marketable securities	153.314	490.302
Net cash used in investing activities	(1.684.604)	(6.339.048)
Cash flows from financing activities		
Proceeds from new borrowings	605.254	5.897.872
Repayment of borrowings	(7.285.838)	(3.765.533)
Payments of currency hedges	0	(25.477)
Repayment of lease liability	(38.350)	(37.930)
Net cash used in financing activities	(6.718.934)	2.068.931
(Decrease) increase in cash and cash equivalents	(750.124)	1.806.013
Cash and cash equivalents at year beginning	15.820.051	8.657.025
Effect of currency fluctuations on cash and cash equivalents	(103.259)	332.599
Cash and cash equivalents at the end of the period	14.966.667	10.795.636
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	712.531	233.581
Current liabilities, change	(712.531)	(233.581)
Other information:		
Working capital from operation	6.989.987	5.975.464

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.

Notes

1. Reporting entity

Orkuveita Reykjavíkur "OR" is a partnership that complies with the Icelandic law no. 136/2013 on Orkuveita Reykjavíkur. OR's headquarters are at Bæjarháls 1 in Reykjavik. OR's condensed consolidated interim financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and a share in associated companies.

The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems in its service area as well as a fiber optic system in its service area.

Subsidiaries in the Group	Main operations	Share	
		31.3.2021	31.12.2020
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ohf.	Holding company	100%	100%
Veitur ohf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ohf.	Sale of electricity	100%	100%
ON Power ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
CarbFix ohf.	Consulting, researches and innovation	100%	100%

2. Basis of preparation

a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standard *IAS 34 Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2020. Same accounting principles are applied as for the year 2020. The annual financial statements can be found at the company's web site; www.or.is and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

The consolidated interim financial statements were approved by the Board of Directors on 31 May 2021.

b. Functional and presentation currency

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

c. Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 38 with the consolidated financial statements for the year ended 31 December 2020.

d. Foreign currency

i Trade in foreign currencies

Trade in foreign currencies is reported into each consolidation company at the rate of the business day. Monetary assets and debts in foreign currencies are reported in the rate of the reporting date. Other assets and debts reported at fair value in foreign currency are reported at the rate of the day the fair value was set. Exchange difference due to foreign trade is reported through P/L.

Notes

2. Basis of preparation, contd.

d. Foreign currency, contd.

ii Subsidiary with other functional currency than the Icelandic krona

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

e. Use of estimates and judgements

The preparation of the consolidated 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.

3. Operation and revenue recognition of Group's components

The following provides information about the operation of Group's components. Breakdown of revenue for different operations is given in note 4 and income by segment in note 5.

Products and services	Nature, timing of revenue recognition and payments terms
a. Electricity	ON Power ohf. and Orka náttúrunnar ohf. generate electricity and sell electricity and Utilities distribute electricity according to law no. 65/2003. Revenue from the sale and distribution of electricity is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. Upon connection of new users to distribution systems of electricity and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of electricity generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
b. Hot water	ON Power, Orka náttúrunnar and Utilities generate harness hot water and Utilities distribute harness hot water. Revenue from the sale and distribution of harness hot water is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. Upon connection of new users to distribution systems of harness hot water or upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of harness hot water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.

Notes

3. Operation and revenue recognition of Group's components, contd.

Products and services	Nature, timing of revenue recognition and payments terms
c. Cold water	OR Water and Sewage collects and distributes cold water from reservoirs. Revenue from the sale of cold water is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate value. In addition revenue is stated for cold water according to measurement from specific industries. Upon connection of new users to distribution systems of cold water and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale of cold water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
d. Sewer system	OR Water and Sewage runs the sewer system. Revenue is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate rateable value. Upon connection of new users to sewage system and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new sewer systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sewer system generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
e. Other revenues	Gagnaveita Reykjavíkur operates fiber optics data system. Revenue from fiber optics data system is recognised in the income statement upon delivery of the goods and service. This is a competitive practice that is supervised by The Post and Telecom Administration. Orkuveita Reykjavíkur the parent company operates rental of housing and equipment, incidental sale of specialist consultancy services and more. Rental income is recorded as income in the income statement linearly over the lease term and other revenue is recognised upon delivery of goods or services. Trade receivables from other revenues generally have a 30 day grace period.

4. Revenues from sales of goods and services

The Group's income from sales of goods and services is specified as follows:

	2021	2020
	1.1.-31.3.	1.1.-31.3.
Electricity.....	5.443.937	5.128.418
Hot water.....	4.542.798	4.462.712
Cold water.....	875.728	864.382
Sewer system.....	1.509.698	1.461.269
Other revenues.....	1.376.462	1.348.542
Revenues from sales of goods and services total.....	13.748.622	13.265.322

Notes

5. Segment reporting, contd.

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities*, that represent licensed operations in hot and cold water, distribution of electricity and sewage, *Energy sale and production*, representing the competitive operations in producing and sale of electricity and hot water and *Other Operation*, that represents the activities of the parent company, the fiber optic operations and Carbfix. The parent company's main activities is providing service to subsidiaries, rental of housing and equipment, incidental sale of specialist consultancy services and more. Reykjavik fiber network represents the fiber optic operations and Carbfix is working on development and distribution the of the CarbFix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change.

Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 38 with the consolidated financial statements for the year ended 31 December 2020.

Business segments - divisions

	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
1.1.- 31.3. 2021						
External revenue	8.921.550	3.941.677	885.395	0		13.748.622
Inter-segment revenue	675.656	2.156.309	1.949.797	(4.781.762)		0
Total segment revenue	9.597.206	6.097.987	2.835.191	(4.781.762)		13.748.622
Segment operation expenses	(4.196.406)	(3.075.474)	(2.104.234)	4.781.762	98.866	(4.495.487)
Segment profit EBITDA	5.400.800	3.022.512	730.957	0	98.866	9.253.135
Depreciation and amortisation	(1.450.949)	(1.374.940)	(479.511)	0	(30.651)	(3.336.051)
Segment results, EBIT	3.949.850	1.647.572	251.446	0	68.215	5.917.084
Financial income and expenses	(1.010.364)	(1.191.366)	2.051.769	2.477.312	(18.958)	2.308.392
Share in profit of associated companies	0	0	(3.976)	0	(3.976)	
Income tax	(419.946)	(93.207)	(826.896)	(931.469)	(18.521)	(2.290.039)
Profit (loss) for the year	2.519.540	362.999	1.472.343	1.545.843	30.736	5.931.461
1.1.- 31.3. 2020						
External revenue	8.855.160	3.654.078	756.084	0		13.265.322
Inter-segment revenue	851.222	2.925.621	1.823.994	(5.600.837)		0
Total segment revenue	9.706.382	6.579.699	2.580.078	(5.600.837)		13.265.322
Segment operation expenses	(4.472.663)	(3.874.355)	(2.067.730)	5.600.837	95.454	(4.718.457)
Segment profit EBITDA	5.233.719	2.705.344	512.349	0	95.454	8.546.866
Depreciation and amortisation	(1.430.719)	(1.203.344)	(418.066)	0	(28.350)	(3.080.479)
Segment results, EBIT	3.803.000	1.502.000	94.283	0	67.104	5.466.387
Financial income and expenses	(558.054)	662.268	(3.859.264)	(7.804.375)	(18.376)	(11.577.801)
Share in profit of associated companies	0	0	1.791	0		1.791
Income tax	(479.923)	(411.022)	1.437.059	2.934.445	(18.322)	3.462.237
Profit (loss) for the year	2.765.023	1.753.246	(2.326.132)	(4.869.930)	30.406	(2.647.387)

* Segment reporting as used by management does not take into account the guidance of IFRS 16.

Notes

5. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
Balance sheet (31.3.2021)						
Property, plant and equipment and intangible assets	171.196.005	132.997.103	35.263.366	0		339.456.473
Right-of-use assets					2.614.079	2.614.079
Other assets	20.667.154	9.865.774	176.399.937 (	159.357.803)		47.575.062
						<u>389.645.614</u>
Loans and borrowings	63.509.618	58.151.611	163.447.415 (	121.661.230)		163.447.415
Lease liabilities					2.615.093	2.615.093
Other liabilities	14.416.244	9.995.874	41.029.369 (	35.528.103)		29.913.384
						<u>195.975.891</u>
Investments 1.1.-31.3.2021						
Property, plant and equipment and intangible assets	9.894.685	3.790.152	3.099.391	0		16.784.228
Efnahagur (31.12.2020)						
Property, plant and equipment and intangible assets	170.907.579	134.658.796	34.763.987	0		340.330.362
Right-of-use assets					2.590.642	2.590.642
Other assets	17.299.445	9.017.863	180.282.563 (	155.356.472)		51.243.399
						<u>394.164.403</u>
Loans and borrowings	63.350.425	59.115.637	171.700.453 (	122.466.062)		171.700.453
Lease liabilities					2.640.913	2.640.913
Other liabilities	13.438.843	9.820.903	37.631.920 (	29.194.617)		31.697.049
						<u>206.038.415</u>
Investments 1.1.-31.3.2020						
Property, plant and equipment and intangible assets	1.972.748.123	974.532.931	648.486.829	0		3.595.768

Notes

6. Financial income and expenses

	2021	2020
	1.1.-31.3.	1.1.-31.3.
Financial income and expenses are specified as follows:		
Interest income	42.988	84.716
Interest expense and paid indexation	(1.016.727)	(1.236.847)
Indexation	(664.228)	(201.174)
Guarantee fee to owners 1)	(140.094)	(158.751)
Total interest expenses	(1.821.049)	(1.596.772)
Fair value changes of embedded derivatives in electricity sales contracts	2.477.312	(7.804.375)
Fair value changes of financial assets and financial liabilities through P/L	125.507	313.944
Fair value changes of hedge contracts	(366.014)	100.660
Hedge contracts	(149.240)	(10.110)
Foreign exchange difference	1.879.104	(2.753.460)
Dividends	119.784	87.596
Total of other income (expenses) on financial assets and liabilities	4.086.453	(10.065.745)
Total financial income and expenses	2.308.392	(11.577.801)

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavíkur in 2005. The fee on yearly basis for its licensed operations is 0,81% (2020: 0,85%) and 0,60% (2020: 0,61%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 140 million in the period 1 January to 31 March 2021 (1.1.-31.3.2020: ISK 159 million) and is accounted for among interest expenses.

Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 38 with the financial statements of the Group for the year 2020. Change in fair value that is recognized in the income statement amounts to ISK 2.237 million income in the period 1 January to 31 March 2021 (1.1.-31.3.2020: expense 7.390 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 2.477 million income in the period 1 January to 31 March 2021 (1.1.-31.3.2020: expense ISK 7.804 million).

7. Receivables and deferred revenue

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

Notes

8. Fair value

Comparison of fair value 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 interest bearing liabilities, together with the carrying amounts are specified as follows:

	31.3.2021		31.12.2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	163.447.415	173.987.807	171.700.453	183.772.703

The fair value of interest bearing liabilities is calculated based on present value of future principal and interest cash flows, discounted at the interest rate plus appropriate interest rate risk premium at the reporting date. The fair value of interest bearing liabilities is defined at Level 2.

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:

	31.3.2021	31.12.2020
Embedded derivatives in electr. sales contr.	9,56% til 11,59%	9,58% to 10,72%
Hedge contracts	-0,5% til 0,2%	-0,6% to 0,2%
Interest bearing loans	0,25% til 4,41%	0,45% to 3,32%

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium are shown in note 28 in the financial statements of the Group for the year 2020. It is recommended to take into consideration this note while reading the interim financial statements for the current period since change in these presumptions can have considerable effect on certain amounts in the interim financial statements.

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 and 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). Valuation of shares in other companies is prepared by specialists within the company and other specialists and based on the results and official data on future earnings and investments in underlying assets.

	Level 1	Level 2	Level 3	Total
31.3.2021				
Shares in companies	0	0	5.922.680	5.922.680
Embedded derivatives in sales contracts	0	0	(3.479.069)	(3.479.069)
Hedge contracts	0	(1.229.382)	0	(1.229.382)
Marketable securities	8.339.095	0	0	8.339.095
	8.339.095	(1.229.382)	2.443.612	9.553.324
31.12.2020				
Shares in companies	0	0	5.922.680	5.922.680
Embedded derivatives in sales contracts	0	0	(5.956.381)	(5.956.381)
Hedge contracts	0	(863.369)	0	(863.369)
Marketable securities	8.366.902	0	0	8.366.902
	8.366.902	(863.369)	(33.701)	7.469.833

Notes

9. Related parties

Definition of related parties

Reykjavik city, institutions and companies ruled by the city, associated companies, Board members, Directors and key management are considered as the Group's related parties. Spouses of the before mentioned and financially dependent children are also considered as related parties as well as companies owned by or directed by those in question.

Transactions with related parties

The parties mentioned here above have had transactions with the Group within the period. Terms and conditions of these transactions were equivalent with transactions with unrelated parties.

The following gives an overview of the transactions with related parties during the period 1 January to 31 March 2021 as well as a statement of receivables and payables at the end of the period. Transactions and positions with subsidiaries are eliminated in the interim financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

	2021	2020
	1.1.-31.3.	1.1.-31.3.
Sale to related parties:		
Reykjavik City.....	451.331	277.969
Institutions and companies controlled by Reykjavik City.....	125.027	130.131
Associates.....	1.040	0
	<u>577.398</u>	<u>408.100</u>
Purchases from related parties:		
Reykjavik City.....	53.401	30.178
Institutions and companies controlled by Reykjavik City.....	7.306	4.988
Associates.....	17.009	14.960
	<u>77.716</u>	<u>50.125</u>
	31.3.2021	31.12.2020
Receivables for related parties:		
Reykjavik City.....	46.005	167.785
Institutions and companies controlled by Reykjavik City.....	398	38.605
	<u>46.404</u>	<u>206.389</u>
Payables for related parties:		
Reykjavik City.....	154.662	11.105
Institutions and companies controlled by Reykjavik City.....	1.729	0
Associates.....	0	6.994
	<u>156.391</u>	<u>18.099</u>
Interest bearing loans from owners of the parent Company:		
Reykjavik City	0	3.321.522
Akranes town	0	196.296
Borgarbyggð, municipality	0	33.130
	<u>0</u>	<u>3.550.949</u>
	2021	2020
	1.1.-31.3.	1.1.-31.3.
Interest expense on loans from owners of the parent Company:		
Reykjavik City	164.128	241.054
Akranes town	9.700	14.246
Borgarbyggð, municipality	1.637	2.404
	<u>175.465</u>	<u>257.704</u>

Guarantee fee to owners

OR paid a guarantee fee to Reykjavik City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 6.

Notes

10. Other matters

Derivative contracts in default

Among other current liabilities are derivative contracts accounted for that are in default. In previous periods ISK 740 million have been expensed. The contracts have not been settled due to great uncertainties on how to settle them and Orkuveita Reykjavíkur was sued regarding the claims. At the beginning of July 2020, the Reykjavík District Court ruled in favor of Glitnir HoldCo ehf. and judged Orkuveita Reykjavíkur to pay Glitnir HoldCo ISK 747 million plus interests. As at 31.12.2020, the amount with penalty interest is ISK 3.238 million.

It is the opinion of the management that there is not a reason to change the precautionary entry in question. The argument being that the final ruling has not been cast. The court does not seem to have taken into account Orkuveita Reykjavíkur's views in the case and the company has therefore instructed its lawyer to appeal the judgment of the Reykjavík District Court to the National Court. No payments will be made until the final decision of the courts is available, whether it is before the National Court or the Supreme Court.

Repair at headquarters

At the end of August 2015, severe water damage occurred at the company's headquarters on Bæjarháls 1. From the beginning, the actions of OR's management has been aimed at creating adequate working conditions for employees. Experts have been consulted in all main decisions. Attempts have also been made to find the most sensible ways to remedy the damage and also to dig into its causes. In 2017, the building was closed and operations relocated. It was decided to go into a detailed options analysis and look at the possibilities that were in the situation. The result was to remove the defective walls of the house, repair it and rebuild the walls.

OR has entered into a construction contract for the renovation of the building with Ístak and work on the construction has already begun. The renovation period will be approximately 22 months and the construction contract with Ístak is around ISK 1,580 million.

Litigation and claims

Gagnaveita Reykjavíkur submitted a claim on Mars 5th 2019 to Síminn hf. demanding compensation for damage allegedly suffered as a result of violation of the Media Act, which was the subject of Decision published by the Post and Telecom Administration on July 3 th 2018. The claim amounts to ISK 1.3 billion for loss of income, accrued cost and interest. A formal response was requested from Síminn. On March 19th 2019 a response came from Síminn where they rejected the claim entirely. Síminn hf. took legal action against the Post and Telecom Administration, Gagnaveitur Reykjavíkur hf., Sýn hf. and Mílu ehf. in respect of the Decision of the Administration regarding the alleged violation. The ruling of the District Court was announced on 1 July 2020, where the PTA decision was upheld, albeit with some changes in the criteria. The case was appealed to the National Court by Síminn hf., PST and Sýn hf., the date of proceedings have not been decided.

No entries have been made due to this claim in the Group's interim financial statements 31.3.2021.