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The function of Reykjavik Energy (RE) is to provide customers with access to water supply, sewerage system, electricity utility, district heating and fibre network. Its importance becomes clear as soon as one tries to imagine what life would be like without the services of Veitur Utilities, ON Power and the Reykjavik fundamental services are provided, and secondly in focusing on the manner in which those services are delivered. How will we be passing on the resources that we utilise to future generations? In what condition will the utility systems and power plants be when the next generation takes them over? Have we managed to reduce environmental impacts wherever possible? Will the know-how be in place to be able to carry out these important operations? Will Reykjavik Energy's finances enable it to continue providing its services at fair prices in the future and will they earn its owners decent returns? The answers to these questions determine whether Reykjavik Energy's activities support sustainable development and are socially responsible.

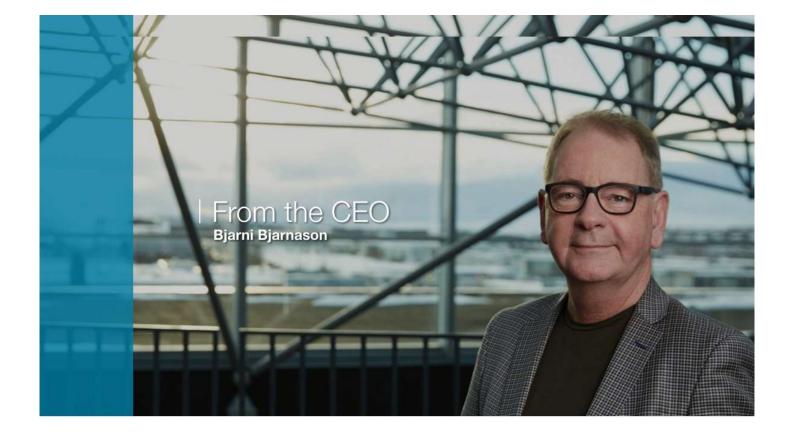
This report, which is being published in this new format, paints a picture of Reykjavik Energy's activities in 2017 and endeavours to determine whether the Group is equipped to take on the future. The format of the report follows the example set by stock exchanges in Nordic countries and is designed to give a comprehensive overview of operating factors such as: environmental, social and managerial factors, in addition to the financial elements that are interwoven here. Environmental and resource issues are the most crucial, since the services of Reykjavik Energy and its subsidiaries are founded on a utilisation that must be sensible and sustainable in the long term. Reykjavik Energy's ambition in tackling the issue of climate change also colours this report.

After the obligatory unbundling of Reykjavik Energy into different companies in 2014, efforts were made to implement efficient corporate governance within the companies of the Group and in its relations with the owners. I feel this has succeeded very well and the division of tasks between the Board of Directors, management and owners is clearer now than ever before. A clear division of tasks is a precondition for transparency in management. We on the Board of Directors of Reykjavik Energy strive to provide the public with information on the issues we are tackling, the decisions we make, and the grounds on which we base those decisions. We do this by publishing the minutes of board meetings on Reykjavik Energy's website.

Transparency in management is also essential to enable the company and anyone who deals with it to discuss its operations together. We, who are responsible for operations, can argue that the management is socially responsible, but whether we really are or not must surely be determined by the outcome of a conversation between the company and its stakeholders. In this integrated 2017 Reykjavik Energy Annual Report, we place our cards on the table and welcome a dialogue. For the convenience of our readers we have linked the global objectives of the United Nations to relevant elements in the report.

The Board of Directors of Reykjavik Energy holds 16 meetings a year, in addition to the two statutory meetings with its owners in April and November. The Board of Directors follows a work plan which was fulfilled. We also formally evaluate our own work to ascertain whether we have worked on the tasks we have been entrusted with under the established rules.

I would like to express my deepest gratitude to the entire personnel of the Reykjavik Energy Group, management and board members for their good work in 2017.



2017 was an interesting year for the activities of Reykjavik Energy on numerous of fronts. The operations of the Group performed well, and this was the first year after the recovery period of Reykjavik Energy was completed, a period which was known in the Group as the Plan period. There were no signs of a loosening secure Reykjavik Energy sound management in the future.

Immediately at the beginning of the year the customers of Veitur Utilities benefited from a decrease in cold water and electricity tariffs. Electricity tariffs then dropped even further before the end of the year. The personnel of the companies inside the Reykjavik Energy Group can be proud of this result.

The struggle against global warming is the most important environmental issue of our times. Icelanders have to lend a hand in the battle against the challenges of climate change. Regardless of the fact that the energy we produce is green, everyone has to make their contribution. Reykjavik Energy has set itself the ambitious target of reducing carbon emissions by 60% by the year 2030. The results of the CarbFix development programme for the sequestration of carbon dioxide in bedrock give us every reason to be optimistic that the objective can be achieved. In 2017, a foreign company came to the Hellisheidi Geothermal Power Plant with its equipment to extract carbon dioxide directly from the atmosphere and then use the technology we developed to sequester it in the earth. Not surprisingly, this attracted a great deal of attention from the global media and a stream of reporters flocked to witness this innovation. The development project in the production of high-temperatures is by no means completed and Reykjavik Energy aims to achieve footprint-free production at the Hellisheidi Geothermal Power Plant within a few years.

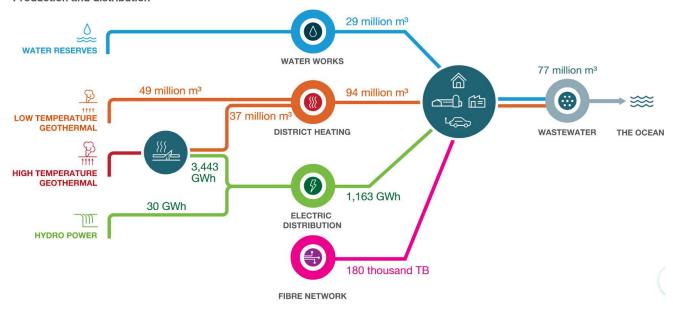
Reykjavik Energy's corporate social responsibility places an obligation on us to help others reduce their emissions. Energy switching in transport is our most pressing task in that regard at the moment. ON Power has now installed charging stations all around the country, so that the public can reach their destinations in electric cars, irrespective of where they live, and the company has developed a business system to collect fees for the service provided. The next step is to focus on urban areas to enable residents in apartment complexes to charge their cars at home. This is a complex task and it will not be possible to solve

everyone's problems in a short period. Collaboration between ON Power, electricity utilities and municipalities in each district will play a key role in achieving good results. One can compare energy switching in transport to the energy switch that occurred in heating with district heating utilities back in its day. On that front, Icelanders pioneered a path that no other nation has been able to follow to the same extent. No other country offers better opportunities for energy switching in transport than Iceland. It is a worthy task that needs to be facilitated and accelerated as much as possible.

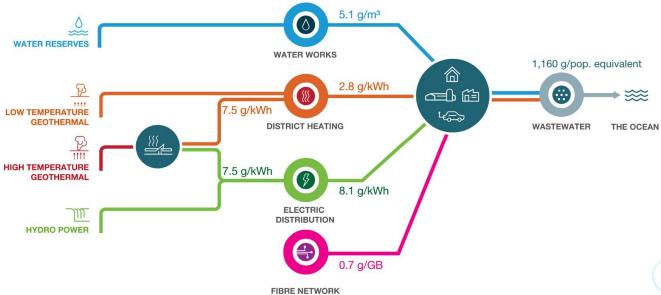
To some extent, the Reykjavik Fibre Network is in the same predicament as ON Power, the other competitive company in the Reykjavik Energy Group. The dynamic development of fibre optics follows the current demand for ever-faster data transmission.

The call for gender equality in the labour market is becoming increasingly pressing. In 2011, Reykjavik Energy set itself the target of achieving equal gender distribution in management positions and doing away with gender wage differences. Both of those targets were met last year. The percentage of women in management posts within the group now amounts to 51% and gender wage differences have been abolished. In fact, at the end of the year, measurements showed a 0.3% wage difference in favour of women and this is the first time that has occurred. Calculations of wage differences between genders are now made using a special calculation model, which Reykjavik Energy has developed in collaboration with the PayAnalytics company. The model gives us instant results and thus helps us to make remuneration decisions that ensure equal rights. Seven out of ten employees of Reykjavik Energy and 95% of the technicians in the Group are men. On the other hand, seven out of ten office jobs are performed by women. This is something we want to change by, among other things, supporting an increase in the number of women in the technical sector.

All things considered, 2017 was a successful year for the operations of Reykjavik Energy. Customer satisfaction with the services of all three subsidiaries – Veitur Utilities, ON Power and the Reykjavik Fibre Network – was high. The finances of Reykjavik Energy have strengthened so that we can now see that the owners of the company, who came to the rescue of operations and tackled the after-effects of the financial crash, are starting to reap reasonable dividends from the funds invested in the Group.



Carbon footprint



VALUE CHAIN

What we do to meet our purpose.

NATURAL RESOURCES





utilisation.

SYSTEM EXPANSION





- Tendering for materials, machinery and contractors.
- · Supervision and testing.

PRODUCTION



Commissioning system expansions. Controlling and monitoring utilisation.

- Supervision, maintenance and renewal.
 Purchasing materials and machinery.

BUSINESS AND SERVICES







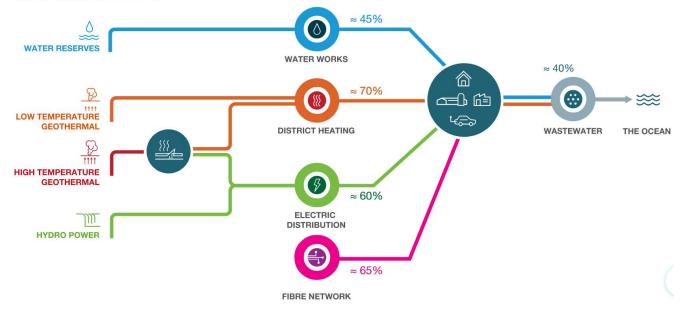
· Monitoring sewage receptor.

Metering and billing.
 Responding to outages

Connecting homes and businesses.



Homes in Iceland connected



VALUE CHAIN

What we do to meet our purpose.

NATURAL RESOURCES

- Locating natural resources and acquiring rights.
 Controlling and monitoring utilisation.

SYSTEM EXPANSION



- · Design and acquiring permits.
- Tendering for materials, machinery and contractors.
- · Supervision and testing.

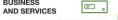
PRODUCTION

Controlling and monitoring utilisation.
 Supervision, maintenance and renewal

· Purchasing materials and machinery.



BUSINESS



- Acquiring and registering customers.
- Connecting homes and businesses.
 Metering and billing.
- · Responding to outages

NATURAL RESOURCE

Monitoring sewage receptor.





1. January 2017

Tariff cuts at the beginning of the year

Veitur Utilities cuts electricity distribution prices by 5.8% and water charges by 11.2% for most customers. The reason for this is more cost-effective management, since during the period of the Plan, the company was obliged to keep its tariffs in line with general price developments.



A new primary sub-station in Akranes

A new primary sub-station owned by Veitur Utilities and Landsnet is officially launched in Akranes. This bolsters the delivery security in the town, since Veitur Utilities had previously upgraded the distribution system in the town to 11 kilowatts.





2. February 2017

ON Power champions in customer satisfaction

ON Power receives the Icelandic Customer Satisfaction Award as the electricity supplier that customers are most satisfied with.

27. February 2017

The City of Reykjavik buys two water reservoirs in Öskjuhlíð

The City of Reykjavik buys two of the six water reservoirs of the district heating utilities of Veitur Utilities for a nature show and promises to build two new and larger reservoirs below





7. March 2017

ON Power presents an app for EV-owners

ON Power presents an app that shows electric car owners where the company's charging stations are located and tells them in real time whether they are available.

7. March 2017

The Plan is a success

Reykjavik Energy declares the Plan a success as the 2016 annual accounts are presented.

The results of the action plan exceeded the target by about ISK 9 billion.





28. March 2017

The staff of Veitur Utilities collected money for a water supply in Syria

The staff of Veitur Utilities deliver money collected from their personnel to UNICEF in aid of war-stricken Aleppo in Syria.

3. April 2017

The future is here - Reykjavik Energy's annual general meeting

Climate change issues come under the spotlight at the opening of the Reykjavik Energy annual general meeting.





20. April 2017

Magnea from ON Power wins the Ölfus 2017 Environmental Award

Magnea Magnúsdóttir, the environmental and land reclamation director of ON Power, wins the Ölfuss 2017 Environmental Award for her pioneering work in land reclamation in Hellisheidi.

21. April 2018

The best intra-web

The internal service website of the Reykjavik Fibre Network is chosen as website of the year by the Icelandic Web Industry Association.





3. May 2017

Women most influential at Reykjavík Energy

The impact of women in companies in the energy sector is by far the strongest in the Reykjavik Energy Group, according to a report published by the Women in Energy Association.

4. May 2017

The Reykjavík-Akureyri road open to EVs

ON Power opens three new EV charging stations for electric cars travelling between Akureyri and Reykjavik and the Minister for the Environment declares this popular national highway open to electric cars.





15. May 2017

Advised to clear up the waterway

Mistakes are made when the intake reservoir of the Andakilsá Hydropower Station is drained and a substantial amount of silt is carried into the river. A clean-up operation is launched in tandem with other measures in consultation with locals and scientists, as well as a revision of work procedures.

5. June 2017

Drilling with electricity saves more than a million litres of oil

ON Power negotiates steam drilling in the Hengill area with the Iceland Drilling company. All the drilling will be powered by electricity, which substantially reduces the carbon footprint of the project.





14. June 2017

New transformers installed at A-1

Veitur Utilities installs new powerful transformers in the primary sub-station in Barónsstígur. This almost doubles the power of the station, since the demographic growth in the city centre calls for a strengthening of the electricity grid.

20. June 2017

ON Power supplies certified green power

ON Power announces that, as of 1 January 2017, all of the company's electrical sales in the private sector will be accompanied by a certificate of origin.





26. June 2017

ON Power's reclaims moss spoiled by trekkers

ON Power's land reclamation group restores damaged moss in Svínahlíd in Grafningur using a method that attracts a lot of attention and is later taught in a course for professionals and the public.

19. July 2017

Veitur Utilities promises reforms

Veitur Utilities holds a press conference to announce changed work procedures in the maintenance of its sewerage system constructions and the disclosure of information. The reason for this was dissatisfaction with Veitur's performance in this area when the maintenance of pumping stations in Faxaskjól dragged on for too long with a consequent pollution of the shore.





25. August 2017

OR headquarters damaged by moisture

At a press conference, the CEO of Reykjavik Energy announces serious moisture damage in parts of the company headquarters in Bæjarháls and presents possible remedies.

11. September 2017

Huge grants for climate research

Reykjavik Energy, the University of Iceland and many partners from around the globe receive European Union grants totalling ISK 1.5 billion for climate change projects at the Hellisheidi Geothermal Power Plant.





15. September 2017

ON Power and N1 open a charging point at Hvolsvöllur

ON Power opens an EV charging point in collaboration with energy firm N1 at Hvolsvöllur, South Iceland.

18. September 2017

OR group and Verkis Consultants awarded

The Reykjavik Energy Group is one of two companies to receive recognition from the City of Reykjavik for its targeted measures in promoting eco-friendly transport.



E October 2017

Charging points at Vík and Kirkjubæjarklaustur

ON Power opens EV charging points for electric cars in Vik in Mýrdalur and in Kirkjubæjarklaustur.

11. October 2017

Carbon sequestration enters a new phase

A new step is taken in carbon sequestration at the Hellisheidi Geothermal Power Plant in collaboration with Climeworks, which captures carbon dioxide from the atmosphere and uses new equipment at the Hellisheidi Geothermal Power Plant to sequester it in the bedrock. The innovation is covered by some of the world's top media.





25. October 2017

The Reykjavik Fibre Network receives two international prizes

The Reykjavik Fibre Network receives two prizes at the world's biggest broadband event, the Broadband World Forum: the Customer Choice Award and the company's CEO, Erling Freyr, is chosen as Broadband Man of the Year with the People's Choice Award.

1. November 2017

Electricity distribution prices cut by 7.5%

Electricity distribution prices cut by 7.5%. This is the second decrease of the year.





9. November 2017

Well-attended symposium

Reykjavik Energy hosts a well-attended symposium in honour of Jóhannes Zoëga, the former district heating director who would have been 100 years old this year.

16. November 2017

Shortened working hours - A big step in the field of equal rights

A big step in the field of equal rights is taken when the daily working hours of the maintenance services of Veitur Utilities and the street lamp services of ON Power are shortened to enable the staff, who are mostly men, to participate in household tasks in the early morning.





20. November 2017

OR re-aquires Bæjarháls 1

The owners of the Foss real estate company accept an offer made by Reykjavik Energy for all shares in the company, thus giving RE full control over the property in Bæjarháls 1.

23. November 2017

A new treatment plant in Kjalarnes

Veitur Utilities launches a new waste-water treatment plant in Kjalarnes in the presence of **A new treatment plant in Kjalarnes**

Veitur Utilities launches a new waste-water treatment plant in Kjalarnes in the presence of the mayor and many guests. This concludes the immense project, which started in 1995, to clean up the shores of the city.

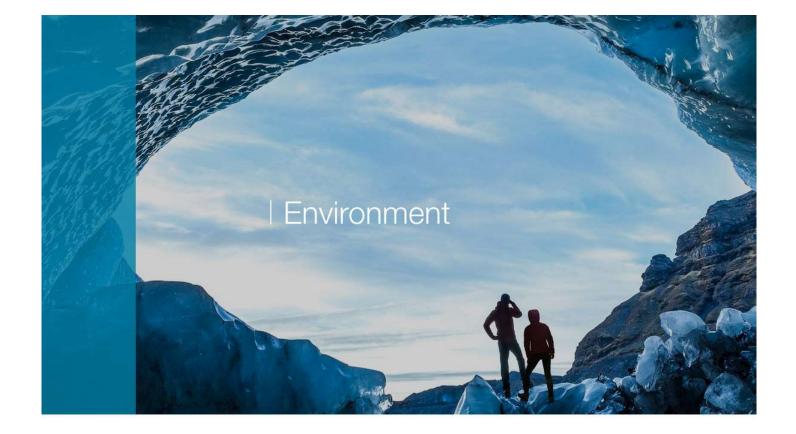




11. December 2017

Four new charging points

ON Power announces that the number of EV charging points will rise to 50 by the end of 2018 and that the sale of services at rapid-charging points starts on 1 February 2018.



Environmental affairs are an important aspect of discussion in the society and Reykjavik Energy's (OR) performance and that of its subsidiaries in this field is therefore important. The goal of the OR Group is to reduce the carbon footprint of its operations by 60% between 2015 and 2030. The OR Group's main environmental programmes can be seen in the following list. The operations of the OR Group are certified in accordance with the ISO 14001 environmental management system. The OR Group regularly submits reports to licencing authorities, i.e. the health authorities, the National Energy Authority and the Environment Agency, see appendix.

The OR Group has focused on managing and publishing information about greenhouse gas emissions from its operations, as set out in sections E1-E6. Carbon indicators are published and hopefully they will help to contextualize the organization's carbon emissions, including in relation to other organizations. Furthermore, emphasis is placed on water and waste management, see section E7-E8. In sections dealing with special environmental impacts, E10, an environmental incident at the Andakílsá Hydropower Station and a failure in the sewage pumping station at Faxaskjól is being discussed as well as hydrogen sulphide emissions, sewage treatment and more.

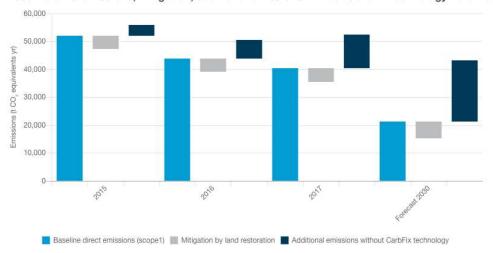
Environmental priorities of the Reykjavik Energy Group:

- To reduce the carbon footprint in operations by 60% from 2015 to 2030
- To emphasise water conservation, the responsible management of water resources and ensure the long-term supply of potable water
- · Show responsible handling and management of low-temperature resources
- Show responsible handling and management of high-temperature resources, to reduce hydrogen sulphide emissions and discharge geothermal water in a responsible way
- · Show responsible handling and management of sewerage systems
- · Handle waste in a responsible way
- · To continue to apply effective procedures to restore disturbed areas
- · To play an active role in promoting climate-friendly transport

Reykjavik Energy's carbon emissions 2015 to 2030

Promotes UN's Sustainable

Baseline GHG emissions, mitigation, additional emissions without CarbFix technology 2015-2030



The Reykjavik Energy Group (OR Group) has set itself the goal of reducing the emissions of carbon dioxide of its operations by 60% between 2015 and 2030. The emissions are calculated according to the Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard. Greenhouse gas mitigation projects like carbon sequestration in land restoration is reported separately, see appendices. The reason for this is that, with mitigation projects like forestation and land reclamation, greenhouse gasses are captured from the atmosphere and sequestered in biological sinks, without directly reducing emissions from the operations. Reinjection of the carbon dioxide from the Hellisheidi Geothermal Power Plant and mineralization of it in the basaltic rock using the CarbFix technology, accounts for the largest share of reducing the Group's carbon footprint, see Gas into Rock. This reduction is within the boundaries of the Hellisheidi Geothermal Power plant. In 2017, the relative carbon dioxide reduction of the plant was almost 35% of its emissions.



Did you know?

Since the re-injection of carbon dioxide started at the Hellisheidi Geothermal Power Plant in mid-2014 some 25,000 tonnes have been mineralised in the basaltic bedrock by the plant. This sequestration is equivalent to the removal of about 14,000 Toyota Yaris petrol-fuelled cars that drive 15,000 km a year, from the streets of the capital area.

OR



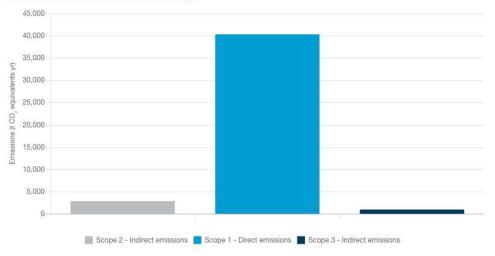






Promotes UN's Sustainable Development Goals

Direct & Indirect GHG Emissions 2017



- Scope 1 Direct emissions: Geothermal power plants, low-temperature fields, supply and distribution systems, vehicles and premises.
- Scope 2 Indirect emissions: Electricity and hot water for own use.
- Scope 3 Indirect emissions: Waste, employees air travel, employees travel to and from work.

In 2017, scope 1 or direct emissions from the Reykjavik Energy Group's operations amounted to 40,300 tonnes of CO₂ equivalents. The emissions are from the geothermal power plants of ON Power, Reykjavik Energy's subsidiary, due to the production of electricity and hot water, the production of hot water in the low-temperature fields of Veitur Utilities for space heating, as well as Veitur Utilities' pipeline system and from the car fleet and premises of the Group. Scope 2, indirect emissions from purchased electricity and heating for own use amounted to 2,800 tonnes of CO₂ equivalents. Scope 3, indirect emissions from waste produced by the operations, as well as emission from employees commuting to and from work and their air travel, amounted to 990 tonnes of CO₂ equivalents. Greenhouse gas mitigation projects like carbon sequestration in land restoration is reported separately. As with these mitigation projects, greenhouse gasses are captured from the atmosphere and sequestered in biological sinks, without directly reducing emissions from the operations. Greenhouse gas emissions from the Group's operations, without mitigation, makes up 2% of total emissions in Iceland on the basis of the total emissions recorded in 2015 (Environment Agency of Iceland, 2018).



Did you know?

About 180 employees of the Reykjavik Energy Group, i.e. over 35% of staff, used climate-friendly transport to and from work in 2017. Thus they have reduced the indirect greenhouse gas emissions of the Group since 2014 when the Group started to offer transport contracts.

Carbon intensity is understood as the level of carbon emissions relative to each operating unit, e.g. income, production units, etc. On the basis of the total revenue and size of the premises of the Reykjavik Energy Group, the Group's carbon intensity has decreased since 2015.

One of Reykjavik Energy's subsidiary, ON Power, produces electricity for consumers and hot water, which is sold wholesale to Veitur Utilities, one of Reykjavik Energy's subsidiaries. The carbon footprint for each produced unit of electricity at ON Power has decreased since 2015. Veitur Utilities distributes electricity and hot water for space heating to consumers along with potable water and manages the sewerage system. At Veitur Utilities, the carbon footprint of per produced unit of potable water, hot water and electricity has decreased since 2015. The Reykjavik Fibre Network is a telecommunications company owned by Reykjavik Energy. In 2017 the carbon footprint of the data transmission through the fibre network was assessed and turned out to be 0.7 g CO2 equivalents/gigabyte, see table and figure.

Description	Unit	2015	2016	2017
Greenhouse gas emissions (scope 1, 2 og 3) without land use mitigation	t of CO ₂ e per year	71,485	47,599	44,073
Revenues	ISK Billion	40.3	41.4	44.0
Size of premises	Thousand m ³	780	780	780
Carbon intencity per unit of revenue	t of CO ₂ e per year/ISK	1,774	1,150	1,002
	billion			
Carbon intencity per unit of premises	t of GO ₂ e per	92	61	57
	_{year} /thousand m ³			
Potable water:				
Carbon intencity per produced unit of potable water and distribution	g CO ₂ e _{per year} / m ³	5.4	5.2	5.
Hot water for space heating:				
Carbon intencity per produced unit of hot water from low temterature fields*	g CO ₂ e per year/kWh	3	9	
Carbon intencity per produced unit of hot water from geothermal power plants	g CO ₂ e _{per year} /kWh	9.8	8.3	7.5
Carbon intencity per produced unit of hot water distribution	g CO ₂ e per year/kWh	0.05	0.06	0.08
Weighted average of carbon intencitys for hot water (Veitur Utilities)	g CO ₂ e per year/kWh	3.7	3.1	2.8
Electricity				
Carbon intencity per produced unit of electricity at power plants**	g CO ₂ e per year/kWh	9.8	8.3	7.5
Carbon intencity per produced unit of distributed electricity	g CO ₂ e _{per year} /kWh	0.6	0.6	0.6
Total carbon intencity per unit of produced electricity (ON Power) and distributed	g CO ₂ e _{per year} /kWh	10.4	8.9	8.
electricity (Veitur Utilities)				
Wastewater systems:				
Carbon intencity per population equivalent (p.e) of wastewater systems	g CO ₂ e per year/p.e.	1,119	1,137	1,060
Data transmission through the fibre network:				
Carbon intencity on data transmission through fibre network	g CO ₂ e per			0.7
	_{year} /gigabyte			

^{*}Carbon footprint has been assessed approximately 0 g/kWst.

^{**}According to Iceland Inventory Report, the weighted average of greenhouse gas emissions per kWh of electricity produced by hydro power and geothermal energy in Iceland in 2015 was 10.1 g. For hydroelectric power, greenhouse gas emissions per kWh of electricity amount to 1.5 g and for geothermal energy 32.8 g.



Did you know?

The average household carbon footprint is 390 kg CO₂ equivalents per year, based on houses of 200 square metres containing families of four to five members.

E3 Direct & Indirect Energy Consumption











Promotes UN's Sustainable Development Goals

The Reykjavik Energy Group produces renewable energy, electricity and hot water, from geothermal energy and hydro power. The percentage of the Group's own use of electricity in relation to the volume produced in 2017 was 10% and 1% of the produced hot water. Direct use of primary energy of electricity and hot water has increased since 2015. Fossil fuels, particularly diesel oil, are used directly in connection with the production and operations of the Reykjavik Energy Group. Use of diesel oil has increased since 2015 but the use of gasoline has decreased. In order to reduce the direct use of energy due to transport related to the operations, a schedule has been established for the renewal of the car fleet by climate friendly vehicles until 2030, since there is still room for improvements, see appendices. For the information to be comparable, the primary energy consumption is expressed in mega joule (MJ), see table.

Direct primary energy use (own use) of the Reykjavik Energy Group	Unit	2015	2016	2017
System:				
Electricity	MJ	5,257,774,600	5,404,789,400	5,624,491,850
Hot water*	MJ	200,466,900	177,322,800	273,098,805
Transport:				
Methane	MJ	410,700	562,500	867,200
Petrol**	MJ	940,200	800,800	571,600
Diesel oil**	MJ	6,392,700	6,737,900	6,524,000

^{*} Primary energy use is based on utilisation down to 5°C.

^{**} The calculation quotients for fossil fuels are based on their lower heat value.

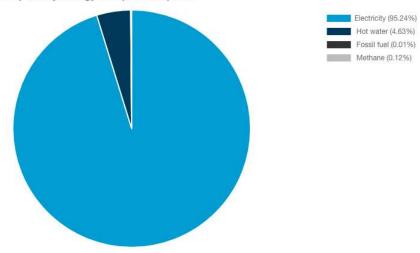
The Reykjavik Energy Group's own use of electricity is solely for the production of hot and cold water, the pumping of sewage and the operation of premises. Own use of electricity and hot water in relation to the size of the premises and number of employees of the Group in 2017 has increased since 2015. Own use of fossil fuel in relation to number of employees has decreased since 2015, see table. For the information to be comparable, the primary energy consumption is expressed in mega joule (MJ).

Carbon indicators	Unit	2015	2016	2017
Electricity (direct primary energy use)	MJ	5,257,774,600	5,404,789,400	5,624,491,850
Hot water (direct primary energy use*	MJ	200,466,900	177,322,800	273,098,805
Size of premises	Thousand m ³	780	780	780
Employees	Number	458	498	509
Methane	MJ	410,700	562,500	867,200
Fossil fuel**	MJ	7,332,900	7,538,700	7,095,600
Premisses:				
Electricity	MJ/m ³	6,741	6,929	7,211
Hot water	MJ/m ³	257	227	350
Employees:				
Electricity	MJ/employee	11,479,857	10,852,991	11,050,082
Hot water	MJ/employee	437,701	356,070	536,540
Methane	MJ/employee	897	1,130	1,704
Fossil fuel	MJ/employee	16,011	15,138	13,940

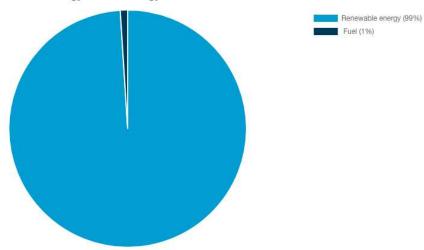
 $^{^{\}star}$ Primary energy use is based on utilisation down to 5°C.

^{**} The calculation quotients for fossil fuels are based on their lower heat value.





Ratio of renewable energy of total energy use 2017



The Reykjavik Energy Group produces renewable energy, electricity and hot water for space heating, by utilising geothermal energy and hydro power. Part of this energy is used by the Group for its own operations. The main energy source that is used in operations is electricity. Percentage of renewable energy is 99% of total energy use. For the information to be comparable, the primary energy use is expressed in mega joule (MJ).

Energy use	Unit	2015	2016	2017
Electricity (direct primary energy use)	MJ	5,257,774,600	5,404,789,400	5,624,491,850
Hot water (direct primary energy use)*	MJ	200,466,900	177,322,800	273.098.805
Methane	MJ	410,700	562,500	867.200
Fossil fuel	MJ	7,332,900	7,538,700	7.095.600
Total energy use	MJ	5,465,985,100	5,590,213,400	5,905,553,455
Percentage of renewable energy of total energy use	%	99	99	99

^{*} Primary energy use is based on utilisation down to 5°C.



Did you know?

In spring 2017, we set a goal to reduce the total food waste in our staff cafeteria from 20 kg to 16 kg per day. In December 2017, the number had been reduced from 20 kg to 9 kg! Which totals about 20 meals per day.

E6 Renewable Energy Intensity











Promotes UN's Sustainable



For every mega joule (MJ) that the Reykjavik Energy Group is using of non-renewable energy, 830 mega joules are renewable energy.

Quality of potable water in Reykjavik



Environmental affairs are an important aspect of discussion in the society and Reykjavik Energy's (OR) performance and that of its subsidiaries in this field is therefore important. The goal of the OR Group is to reduce the carbon footprint of its operations by 60% between 2015 and 2030. The OR Group's main environmental programmes can be seen in the following list. The operations of the OR Group are certified in accordance with the ISO 14001 environmental management system. The OR Group regularly submits reports to licencing authorities, i.e. the health authorities, the National Energy Authority and the Environment Agency, see appendix.

The OR Group has focused on managing and publishing information about greenhouse gas emissions from its operations, as set out in sections E1-E6. Carbon indicators are published and hopefully they will help to contextualize the organization's carbon emissions, including in relation to other organizations. Furthermore, emphasis is placed on water and waste management, see section E7-E8. In sections dealing with special environmental impacts, E10, an environmental incident at the Andakilsá Hydropower Station and a failure or in the sewage pumping station at Faxaskjól is being discussed as well as hydrogen sulphide emissions, sewage treatment and more. Veitur Utilities, see appendices.

Veitur Utilities operate thirteen water utilities, and the water is used in the Reykjavik capital area as well as in West and South Iceland.

ON Power, one of Reykjavik Energy's subsidiary, has two water sources, see appendices. The water utilities' distribution system caters for up to 45% of the nation. Preventive measures are systematically worked on and the quality of the water is monitored.

In 2017 all of the samples that were taken in Reykjavik municipality met quality requirements. Bacteria, which exceeded the quality limit, were found in one sample in West Iceland, but when the sampling was repeated the sample fulfilled quality requirements. Otherwise all samples taken in West and South Iceland met quality requirements, see appendices.

Heidmörk is Veitur Utilities' main water extraction field for the capital area and this water production is based solely on pure and untreated groundwater. Veitur Utilities keeps the water protection area under surveillance, including the transport of oil and petrol, along with other hazardous substances, see appendix. Water conservation is delimited around the water sources. The Reykjavik Energy Group strongly emphasises water conservation to ensure future generations can enjoy the natural quality of wholesome and untreated water.

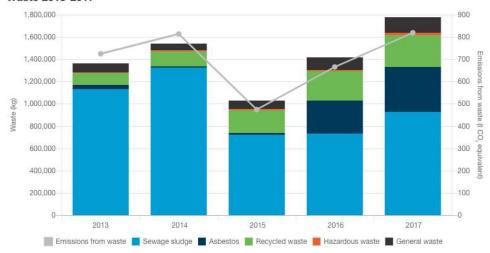
Apart from potable water use, a large volume of water is used for the geothermal power plants' operations and cooling of equipment.



Did you know?

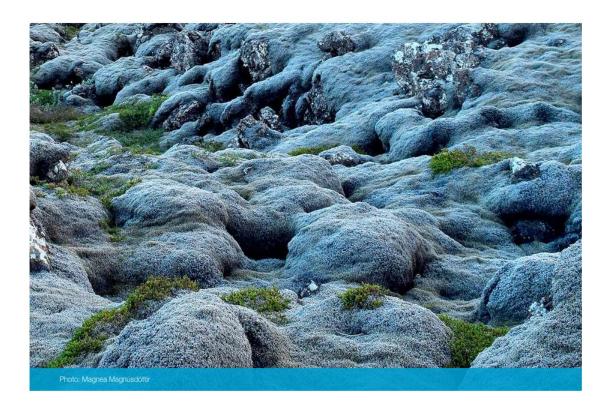
Each Icelander uses an average of 150 litres of water a day in cooking, bathing, toilets and washing.

Waste 2013-2017



Greenhouse gas emissions from waste have risen since 2015. Sludge from sewage treatment plants is the highest percentage of the total volume of waste to landfilling, i.e. about 60% of the total volume. Asbestos accounted for 30% of the total volume. There is a limited possibility of controlling the amount of waste of this type, but care is taken to ensure that it is treated in approved landfill sites. The volume of other waste either increased or decreased. Office-waste increased, among other things, due to one-time operations as a significant part of staff moved this year due to moisture damage in the premises of Reykjavík Energy. Appendices show how waste is divided between waste categories, work sites and municipalities.

A campaign was launched to reduce food wastage and it dropped by 50% towards the end of 2017. This campaign continues.



The Reykjavik Energy Group works according to an Environmental and Resource Policy, which marks the Group's commitment to steadily improve on environmental issues. It is founded on five principles which apply to all operating units: Responsible resource management, value of utility operations, minimising the impact of emissions caused by operations, as well as the impact on society and the activities of the company. The policy forms the basis for good collaboration with stakeholders. The Environmental and Resources Policy is founded on the values of the comprehensive policy of the Reykjavik Energy Group. The Group has defined over twenty significant environmental factors. These factors are defined in order to be able to approach the organisation of environmental issues with clear objectives and defined responsibilities for those concerned.

| E10 Environmental Impacts

In this section the environmental impacts of the significant environmental factors identified by the Reykjavik Energy Group are discussed, taking into account the principles stated in the Environmental and Resource Policy of the company. Furthermore, an environmental incident at the Andakílsá Hydropower Station and a failure in the sewage pumping station at Faxaskjól is being discussed.

An emphasis is placed on the responsible management in low- and high temperature fields, abatement of hydrogen sulpide, less discharge of geothermal water and wastewater from the sewerage system. The hydrogen sulphide abatement unit at the Hellisheidi Geothermal Power Plant has been operating effectively and removes about 70% of the hydrogen sulphide and 35% of the carbon dioxide emissions from the power plant. Achieving the management of the discharge of geothermal water at the Hellisheidi and Nesjavellir Geothermal Power Plants has been prioritise. With the advent of the new sewage treatment plants at Kjalarnes, Akranes and Borgarnes, the residents and business community in all the collection areas of the company will soon have the option of connecting to sewerage systems or treatment works.

Environmental Incident at the Andakílsá River



A considerable amount of silt from the intake reservoir of the Andakílsá Hydropower Station was carried into the Andakílsár river in mid-May 2017, when the reservoir was drained for a condition assessment of a dam construction. The surveillance was insufficient and the staff of ON Power, one of Reykjavik Energy's subsidiary, failed to realise the extent of the solid discharge while the bottom outlet gate of the dam remained open. ON Power undertakes responsibility for the environmental effects on the flora and fauna of the Andakílsár river and has endeavoured to reduce them.

The Marine Research Institute was asked to investigate the environmental impact and provide guidance on responses. A work group was appointed, comprising experts from the Marine Research Institute, the University of Iceland, representatives from angling associations, the health authorities of West Iceland, Skorradalshreppur municipality, Borgarbyggd municipality and ON Power. Mitigation measures were implemented to reduce negative effects on the flora and fauna.

The situation continues to be monitored so that decisions on further measures can be made.

Failure at Faxaskjól Wastewater Treatment Station

In June 2017, there was a malfunction in the emergency outlet in the wastewater treatment station at Faxaskjól in Reykjavík.

Untreated wastewater went into the ocean for 17 days, from mid-June to mid-July. Veitur Utilities, one of Reykjavík Energy's subsidiary, neglected to send official notification on the matter and the company regrets any discomfort this may have caused the public. In the wake of this, Veitur Utilities and the Reykjavík Health Authority revised work procedures and changed them to make notifications to the public more systematic. An overview of the wastewater system can now be seen on Veitur Utilities' website. The primary treatment station at Faxaskjól transports wastewater from Nordlingaholt, part of Árbær, Breidholt, Fossvogur, Gardabær and Kópavogur to the wastewater treatment plant in Ánanaust.

Management of Low-Temperature Fields or | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 15000 | 150

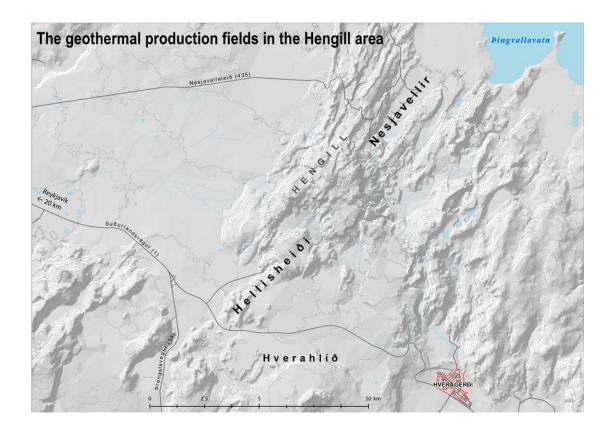
In 2017, production in the low-temperature fields of Veitur Utilities, one of Reykjavik Energy's subsidiary, in the capital area and most distribution areas in South and West Iceland was in accordance with the company's quality standards and statutory and regulatory provisions. Veitur Utilities operates thirteen district heating utilities: one in the capital area, which is the largest, and five in West Iceland and South Iceland, see appendices. The district heating utilities service 70% of the nation. Low-temperature fields are utilised in a stable and balanced manner in the capital area and everything indicates that this usage can be maintained for the foreseeable future, see appendices. The condition of most of the low-temperature fields in South and West Iceland is good, although there are some exceptions, such as in Laugaland in Holt, which services populated areas in Hella and Hvolsvellir and the Hveragerdi area. In the autumn of 2017, drilling for hot water was undertaken in Laugaland, but the results did not live up to expectations. The situation will be re-evaluated in the spring of 2018. Water and steam production improved in Hveragerdi in 2017, compared to 2016.



Did you know?

In the capital area, the hot water from the low-temperature fields is used for space heating. The fields are located in Ellidaárdalur and Laugarnes within Reykjavik, as well as Reykir and Reykjahlíd in Mosfellsbær.

Management of High-Temperature Fields Promotes UN's Sustainable



In 2017, power production at Nesjavellir and Hellisheidi was in accordance with the geothermal utilisation licence for the power plants and the objectives of ON Power, one of Reykjavik Energy's subsidiary. It transpired that the pressure drop in the production field of the Hellisheidi Geothermal Power Plant was not as severe as had been expected. ON Power carefully monitors the pressure drop in Hverahlid and in the older production field of the Hellisheidi Geothermal Power Plant, see appendices. In 2017, preparations started on obtaining a licence to expand the production field further to ensure the sustainable utilisation of the geothermal resources for the Hellisheidi Geothermal Power Plant. Production at the Nesjavellir Geothermal Power Plant was similar to the past years.

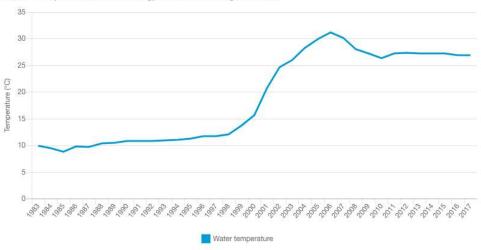
Discharge of Geothermal Water

In 2017, some 60% of the geothermal water from Hellisheidi Geothermal Power Plant was reinjected into the geothermal field at the power plant. Some 30% were released as steam through the plant's cooling towers and the rest, some 7%, was released via overflow, see appendices. In 2017, some 50% of the geothermal water from Nesjavellir Geothermal Power Plant has been reinjected via injection wells, see appendices. Geothermal water is reinjected to protect surface water and groundwater because disposal water is hotter and has a different chemical composition than groundwater.

Another objective is to manage the reinjection to better utilise the geothermal reservoir. Under certain conditions in the operations of Hellisheidi Geothermal Power Plant, only a part of the geothermal water can be reinjected via deep injection wells, which are connected to the same high-temperature system as the production wells. Under these conditions a part of the geothermal water is injected into shallow wells near the power plant.

In recent years, many research and development projects have been carried out to meet Hellisheidi reinjection requirements. Significant results and knowledge have been achieved, see appendices. With the redesign of the cooling tower at the Nesjavellir Geothermal Power Plant in 2017, the discharge of heated groundwater will decrease considerably. It is assumed that water temperature in streams by Lake Thingvallavatn will decrease, see graph. The concentration of chemicals in monitoring wells in the vicinity of both power plants is below the limits set for potable water, see appendices.

Water temperature in Varmagjá at Lake Thingvallavatn



The Nesjavellir Getohermal Power Plant became operational in 1990.

When electricity production started at the plant in 1998, thermal pollution increase significantly.

Thermal pollution decreased somewhat after reinjection wells came into use between 2004-2008 and the cooling tower came into operation in 2005.



Did you know?

The concentration of trace elements in geothermal water in Iceland is considerably lower than in geothermal fields abroad for geological reasons. Arsenic, lead, cadmium and mercury in geothermal water from the Nesjavellir Geothermal Power Plant have generally been considered to have a potentially negative effect on the flora and fauna of Lake Thingvallavatn. Measurements do not show any statistically significant impact from these trace elements on the flora and fauna.

Induces Seismic Activity





Promotes UN's Sustainable



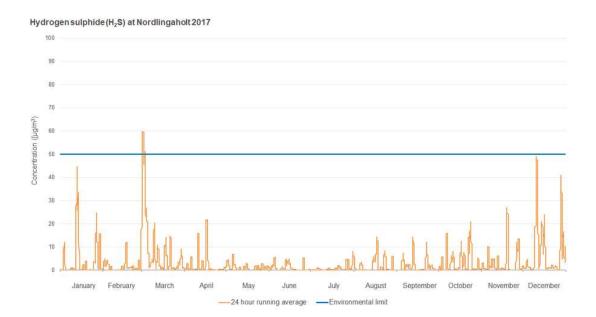
Reinjection can cause seismic activity, so-called induced seismic activity or triggered earthquakes. This is well known in the reinjection fields of the Hellisheidi Geothermal Power Plant, particularly in the Húsmúli area, see appendix. The earthquakes occur when the reinjection releases tension that has built up in the bedrock due to movements in the earth's crust. ON Power, one of Reykjavík Energy's subsidiary, follows work procedures that are designed to minimise the risk of induced earthquakes in the area.

In the latter half of 2017, four notifications were sent to the Icelandic Meteorological Office and the Department of Civil Protection of the Icelandic Police due to changes in reinjection. Minor tremors were measured in connection with these changes, as was to be expected, but none of them were powerful enough to be felt in populated areas. Four new seismic indicators were installed to the south of Hengill in the autumn of 2017.

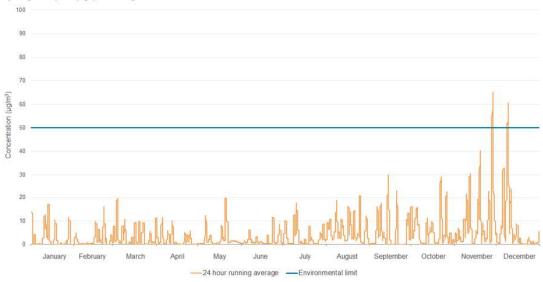
In 2017 the concentration of ambient hydrogen sulphide (H_2S) emissions in urban areas exceeded regulatory limits, twice in Nordlingaholt and twice in Hveragerdi. The hydrogen sulphide abatement unit at the Hellisheidi Geothermal Power Plant has been operating effectively and removes about 70% of the hydrogen sulphide emissions from the power plant, see appendices.

In December 2017, the connection of the hydrogen sulphide abatement unit, for further removal and reinjection, was completed. Testing subsequently started and the results are expected in 2018. Hydrogen sulphide emissions from the geothermal power plants in the Hengill area have been ON Power's, one of Reykjavik Energy's subsidiary, biggest environmental challenge. Hydrogen sulphide causes odour pollution, corrosion, and in high concentrations can be a hazard to human health. Hydrogen sulphide emissions from the Nesjavellir and Hellisheidi geothermal power plants amounted to approximately 9.5 thousand tonnes in 2017, see appendices.

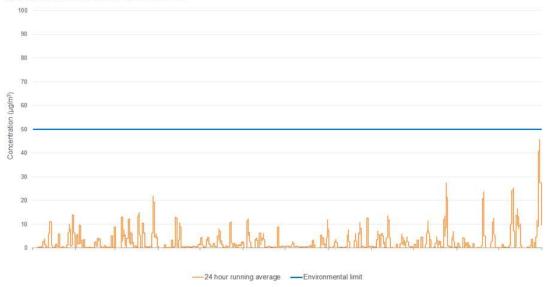
A plan for traceless operations is being undertaken.







Hydrogen sulphite (H_2S) in Laekjarbotnar 2017



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Did you know?

Pyrite is a mineral which is formed from hydrogen sulphide.

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Jardhitagardur (e. Geothermal Park) at Hellisheidi

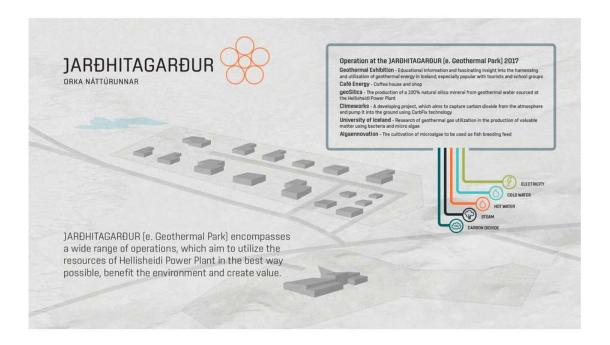








Promotes UN's Sustainable Development Goals



In 2017, jardhitagardur (e. geothermal park) was established by the Hellisheidi Geothermal Power Plant in an endeavour to increase the diversified usage of the thermal energy, electricity and geothermal gas from the plant. A diversified use of geothermal energy can increase efficiency and strengthen environmentally sound operations and innovation in the economy. Separated water from the Hellisheidi Geothermal Power Plant is used for the production of dietary supplements by the geoSilica company and various start-up businesses have shown an interest in using the carbon dioxide from the plant.

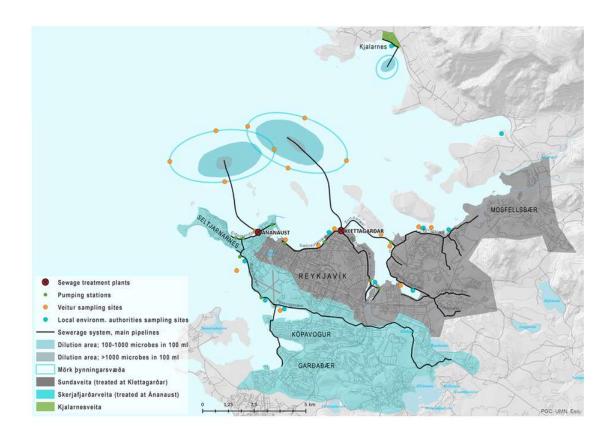






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Promotes UN's Sustainable



In 2017, new wastewater treatment plants became operational in Kjalarnes and Akranes and the plant in Borgarnes will become operational in the spring of 2018. In all the collection areas of the company, the residents and business community have the option to access to wastewater systems or treatment works in accordance with statutory and regulatory requirements and the objectives of Veitur Utilities, one of Reykjavik Energy's subsidiary. Veitur Utilities manages the development and operation of wastewater systems in Reykjavik and West Iceland, see appendices. Wastewater from Kópavogur, Mosfellsbaer and Seltjarnarnes, in addition to parts of Gardabaer, is also handled in sewage treatment plants at Ánanaust and Klettagardar.

The wastewater systems of Veitur Utilities service 40% of the country. Results of measurements on the periphery of the dilution area in Faxaflói in 2017 show that the number of microbes was under environmental limits, but above the limits in several places along the coast, see appendices.

The wastewater discharge report of Veitur Utilities is in the appendix. Samples collected from drainage and/or at reception of biological wastewater treatment plants in West Iceland show microbes were above environmental limits. Over the past years, endeavours have been made to find an explanation for this in collaboration with the health authorities of West Iceland. An acceptable explanation for the presence of the microbes has yet to be found.



Did you know?

With the advent of wastewater treatment in the capital area, pollution was significantly reduced along the coast, which made it possible to bring into service a geothermal beach in Nauthólsvík.

Restoration of Disturbed Areas Promotes UN's Sustainable Development Goals

The Reykjavik Energy Group administers about 19,000 hectares, some 16,000 hectares of which are within protected areas, see appendices. The appendices contain a list of the species of birds and plants on the Red List who have habitats within the areas. The emphasis is placed on restoration and reclamation of the natural environment and reducing the visual impact of the Reykjavik Energy Group's developing and operating areas. This is done in collaboration with the licensing authorities and in accordance with the objectives of the Group. Some seven hectares of land were reclaimed with local vegetation in parallel with new constructions in 2017.

The environmental and land reclamation director of ON Power, one of Reykjavík Energy's subsidiary, won the Ölfuss 2017 Environmental Award for her pioneering work in land reclamation in Hellisheidi.

The Hengill area is a diversified recreation area, but walking paths have significantly deteriorated as a result of the increased traffic of hikers, for example, Ölkelduháls, Sleggjubeinsskard, Skeggjadalur and east of Tjarnahnjúkur, as well as Álftatjörn.



Did you know?

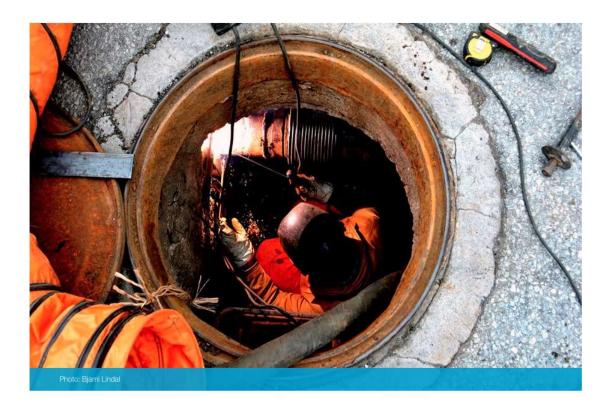
In its calls for tenders, the Reykjavik Energy Group sets the condition that vegetation that would otherwise be destroyed during construction should be preserved and used again in the restoration of the same area.







Promotes UN's Sustainable Development Goals



The Reykjavik Energy Group procures a great deal of goods and services, particularly when it comes to piping materials and electrical equipment. Procurement requirements are evaluated and efforts are made to utilise materials that have been purchased or are in stock or to sell them off. There was a good usage of older inventories in 2017 and the stock position decreased by 12% between years.

Eco-friendly labels are favoured in the procurement of operational goods, such as paper and detergents, for example. In 2017, some 50% of the procurement of photo-copying paper, envelopes, printed material, detergents, and stationery and printing cartridges carried eco-friendly labels. Printing and photocopying is controlled and has contracted by 22% since 2015, see appendix.

The Reykjavik Energy Group has not screened its suppliers according to environmental indicators. The companies do not have any assessments of the potential or real risks posed by the negative environmental impact of their supply chain or responses to those impacts.



Did you know?

Over the past two years we have reduced the number of printed and posted energy bills and account statements. Printed final adjustment notifications are only sent out to customers who are 68 years old or older. The use of paper and envelopes for energy, water and sewerage bills has therefore contracted by 40% in this period.

The principal hazardous substances used by the Reykjavik Energy Group are asbestos, the base material used in insulation foam, chlorine, acids and bases, welding gases, geothermal gases, oil and solvents. In 2017, hazardous substances were used considerably, as in previous years. The improvements that have been undertaken regarding the storage, sorting and disposal of hazardous substances have increased the staff's awareness of the importance of these issues.

In the spring of 2017, workshops on hazardous substances were held for the staff of Veitur Utilities, one of Reykjavik Energy's subsidiaries, who work with these substances. The Reykjavik Energy Group does not emit any ozone-depleting substances in its activities. The transport of various hazardous substances is covered in the appendix.

Remarks and Grievances



An environmental incident occurred at the Andakilsá Hydropower Station when a large amount of silt from the intake reservoir of the station was carried into the river, see more detailed account of the environmental incident in this Annual Report. A minor oil leak accident occurred in a water protected area by Raudsgill in Borgarfjördur, where a clean-up was required. In 2017, some 600 notifications were received from customers concerning environmental issues and 560 of them concerned conduct, 13 concerned hydrogen sulphide emissions, 8 concerned the discharge of wastewater from the wastewater system into the sea, 6 regarded the environmental accident in Andakilsá, one regarded noise and one regarded the quality of the potable water.

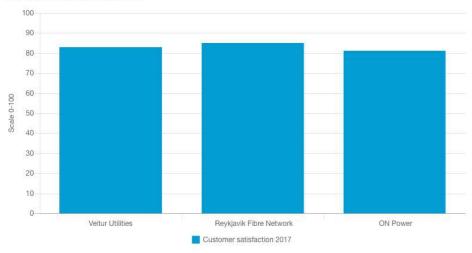
In 2017, some 60 notifications regarding environmental issues were received from the staff of Reykjavik Energy Group and most of them concerned conduct, i.e. over 40. All of the notifications were examined and responses are discussed in the appendix. The appendix also examines notifications to licensing authorities and their reasons.



Reykjavik Energy, Veitur Utilities, ON Power and the Reykjavik Fibre Network fulfil the social function of ensuring the community has access to a water supply, sewerage systems, electricity utility, district heating and a fibre network. Reykjavik Energy's main corporate social responsibility entails ensuring that these basic services are reliable and that customers are satisfied with them. The manner in

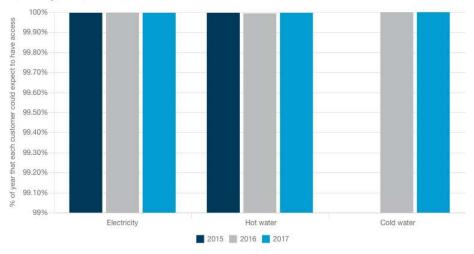
Reykjavik Energy strives to be an attractive workplace and believes that a skilled and satisfied staff is a precondition for achieving that goal. By Icelandic standards, the Reykjavik Energy group is big and its working practices therefore have a widespread impact on the community. Reykjavik Energy strives to be exemplary and constantly seeks to improve the cultivation of its corporate social responsibility.

Customer satisfaction 2017



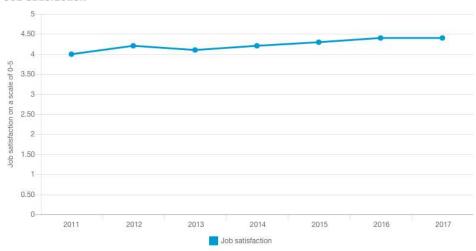
In 2017, ON Power received an award for being the electricity company with the highest level of customer satisfaction in the country.

Reliability of the utilities



The methodology for reliability calculations is based on a method that has been in use for long among the electric utilities. It entails distributing the extent of every disruption among all the respective utility's customers. Veitur Utilities adopted this method for the heating utility in 2015 and the water works in 2016.

Job satisfaction



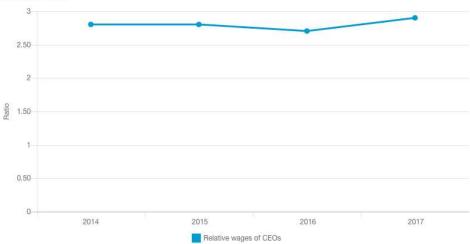
Reykjavík Energy and the subsidiaries have underwent considerable changes in recent years. During this period, job satisfaction has increased significantly, according to regular surveys among staff.

S1 CEO Pay Ratio

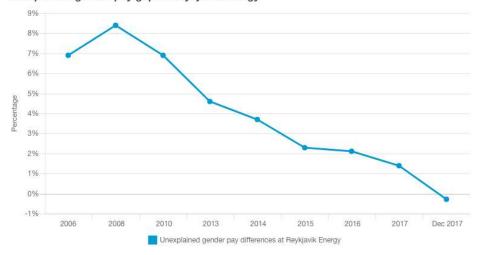
The Board of Directors of Reykjavik Energy appoints the CEO of the company, writes the job description and determines the terms of employment. The Board of Directors takes into the account the provisions of the ownership policy of Reykjavik Energy, which stipulates that the salaries of CEOs shall be on a par with comparable jobs, but take into account the fact that the company is owned by public entities.

The Compensation Committee of Reykjavik Energy shall review the salaries of its CEOs on an annual basis with regard to the objectives and yardsticks of the company.

CEO pay ratio



Unexplained gender pay gap at Reykjavik Energy



Reykjavik Energy places a great deal of emphasis on gender equality and received an Equal Rights Award from the Equal Rights

Council in 2014 and a Motivation Award from the Confederation of Icelandic Employers in 2015. Reykjavik Energy is a member of the

United Nations Convention on Gender Equality. In 2017, Reykjavik Energy adopted a new model which the staff of the Group

developed in collaboration with scientists. This examines the impact of every single pay decision on gender wage differences. This

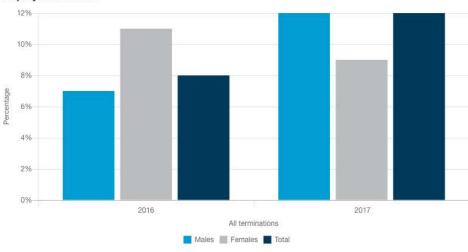
facilitates the company in its objective to eliminate them.

Reykjavik Energy is a workplace with a wide gender distribution and the evaluation of gender pay differences takes into account recognised factors. These are mainly: working hours, percentage of full-time position, responsibility, performance, education and expectations regarding the employee's evolution in the job. This leaves unexplained gender pay differences, which are not part of Reykjavik Energy's remuneration policy and were eliminated in 2017. These Reykjavik Energy figures are taken from PwC every year and were last taken in June 2017. The figures for 2017 have not been confirmed by external parties, but were calculated in the same manner as last year. The Company is working towards gender pay equity certification, in accordance with amendments to Gender Equality Act no. 56/2017.

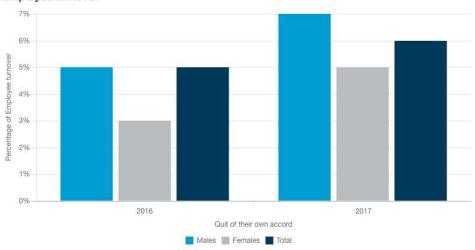
S3 Employee Turnover Ratio

Reykjavik Energy monitors employee turnover in the Group according to, among other things, age and gender. There is a correlation between the economic situation and employee turnover. Employee turnover increased from 2016. This is due to two main factors: Changes in the company and increased demand in the labour market. Some of the staff of large and small contractors work substantially for Reykjavik Energy or a subsidiary. That group has not been analysed and Reykjavik Energy does not possess any numerical data on the group.

Employee turnover

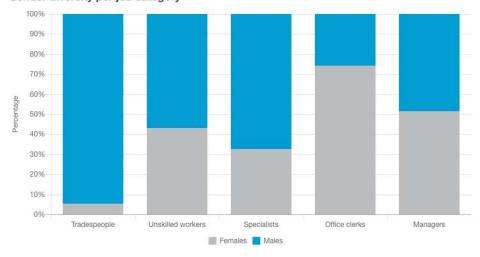


Employee turnover



Employee turnover - by age group	All terminations	Quit of their own accord
20-29	16,9%	13,6%
30-39	6,0%	1,7%
40-49	13,2%	7,9%
50-59	5,6%	3,2%
60-69	4,6%	1,2%

Gender diversity per job category



Reykjavik Energy is a workplace with a broad gender diversity and efforts are being made to increase the number of female technicians and specialists and the number of males in office jobs. According to a study conducted by Ernst&Young in May 2017, the impact of women in the energy sector is greatest in the Reykjavik Energy Group.

In 2017, the working hours of technicians and field workers at Veitur Utilities and ON Power were changed to increase the opportunities for the men in these jobs to shoulder greater responsibility in the management of their households and also ensure that the working hours would not be a hindrance for women applying for these jobs. Reykjavik Energy has no figures on the gender diversity among contractors.

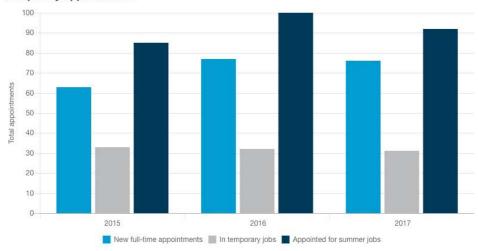


Did you know?

For the past three years, Reykjavik Energy and Árbæjarskóli Elementary School have collaborated on a project called "Crafts and Technology". The project is an optional school-course for 10th graders intended to spark interest and insight into the various occupations and opportunities available to those who pursue an education in crafts and technology.

S5 Temporary Worker Ratio

Temporary appointments



There is a long-established tradition among utility companies to hire youths for summer jobs and they make up the majority of temporary appointments. Other temporary appointments have decreased slightly in recent years. Reykjavik Energy and its subsidiaries buy a lot of labour from big companies such as engineering companies and building contractors. Some of the staff of large and small contractors work substantially for Reykjavik Energy or a subsidiary. That group has not been analysed and Reykjavik Energy does not possess any numerical data on the composition of that group.



Did you know?

Summer job employees of ON Power in 2017 worked on the reclamation of damaged moss in Svínahlíd in Grafningi and this instruction video was made about the process.

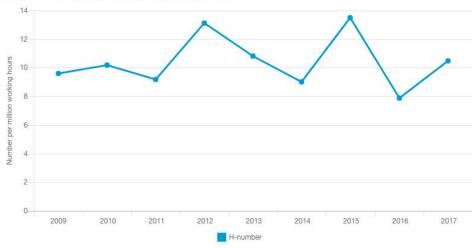
S6 Non-Discrimination Policy Promotes UN's Sustainable Development Goals

The non-discrimination policy constitutes Reykjavik Energy's commitment to steadily improve on non-discrimination issues. Reykjavik Energy uses the human rights provisions of the constitution as the basis for its non-discrimination policy. In 2017, work on, among other things, the Idnir Vocational project continued with a group of students from the Árbær school, in addition to work on implementing equal pay certification in accordance with the provisions of the law, as well as the working hours of working groups where the vast majority of men's working hours are shortened.

An Equal Rights Committee operates in all of the companies in the Reykjavik Energy Group and works according to an implementation plan and it is the responsibility of the head of each company to ensure that it complies with the non-discrimination policy of the Reykjavik Energy Group, which is approved by the Board of Directors.

S7 Injury Rate Promotes UN's Sustainable Development Goals

Absence accidents per million working hours

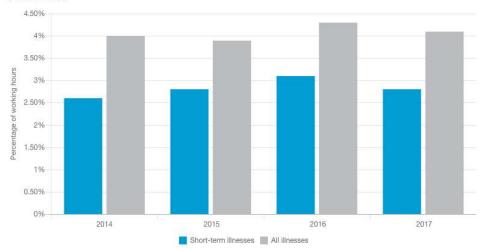


Reykjavik Energy believes that no project is important enough to place the safety of any of its employees at risk in its implementation. Reykjavik Energy's safety, health and working environment policy was reviewed by the Board of Directors in 2017. The objective is to achieve an accident-free workplace. That goal was not reached in 2017. Reykjavik Energy imposes clear safety requirements in all its calls for tender and requires that building contractors comply with safety regulations. Reykjavik Energy has also issued a Safety Handbook.

The employees of contractors are required to take recognised safety courses. Reykjavik Energy runs a notification database in which staff can log hazards. This logging forms the basis for the safety improvements that increase from year to year. In contracting, the monitoring of safety elements forms an integral part of work supervision. The activities of all companies in the Reykjavik Energy Group are certified in accordance with the OHSAS 18001 standard.

S8 Global Health & Safety Policy Promotes UN's Sustainable

Staff illness



Reykjavik Energy has a Safety, Health and Working Environment Policy, which is regularly revised by the Board of Directors of Reykjavik Energy. In 2017, extensive health checks were conducted on the staff. The staff were offered the option of receiving advice if the results warranted. There are gym facilities at the headquarters of Reykjavik Energy and a decision was made during the year to allow staff to spend up to two working hours a week in fitness activities. An emphasis was placed on mental health with courses for executives to enable them to better identify the symptoms of unease among the staff. Some of the offers this year included a mindfulness course and strength-building workouts during working hours.

This year serious moisture damage was discovered in part of the Reykjavik Energy headquarters in Bæjarháls. It was considered to have had an effect on the health of some employees. The infected premises were cleared. Those who continued to complain of ailments caused by it were offered a workplace which was considered the least likely to contain dampness and consequent mould.

Child & Forced Labor Policy









Reykjavik Energy strives to work in compliance with Icelandic labour laws and the Group's Safety, Health and Working Environment Policy goes further than the legislation in these areas. Reykjavik Energy has never received any complaints from its staff or unions on these issues. Reykjavik Energy is aware of the risk of contractors working on Reykjavik Energy's behalf or their sub-contractors not following the rules. For this purpose, Reykjavik Energy has, among other things, laid down joint liability in its calls for tender and work contracts, and imposed the requirement that invoices for purchased labour may not be for periods longer than seven hours per day, unless licensed to do so by Reykjavik Energy (such a licence has not been issued) and it also sets the requirement that in work contracts wage and insurance payments must comply with Icelandic law.

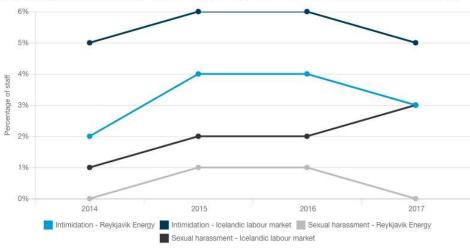
In 2017, data regarding these latter requirements were requested and the payments turned out to be in line with union agreements. Since there is no international certification system for child and forced labour, it is difficult for Reykjavik Energy to confirm that this does not occur within the company's entire liability chain, e.g. In the purchase of goods, but termination clauses exist in many procurement contracts and Reykjavik Energy would invoke them if this was found to be the case.

The non-discrimination policy of Reykjavik Energy is founded on human rights elements, which are defined in the Icelandic constitution. The company's code of conduct also contains a special chapter dedicated to human rights and non-discrimination. These issues are publicised on a regular basis.

In 2017, informative material on sexist/sexual harassment was issued electronically, and a course on the subject, which all employees were required to attend, was run in collaboration with the Human Rights Bureau of Reykjavik. Written work procedures are in place regarding responses to complaints about intimidation or sexual harassment and employees can anonymously approach external parties in confidence if they consider they are subject to violence of this kind in the workplace.

S11 Human Rights Violations or Promotes UN's Sustainable Development Goals

Percentage of staff who say they have been subject to intimidation or sexual harassment



Reykjavik Energy closely follows the development of issues concerning working conditions and culture. There is considerable gender segregation in the workplace and responses to complaints of intimidation or harassment follow written work procedures. In the workplace analyses, which are carried out every year, questions are asked about intimidation and sexual harassment. Participation in these surveys is higher than 95% and answers are not traceable.

A number of harassment issues were reported in 2017 and these were dealt with in accordance with the defined procedures.

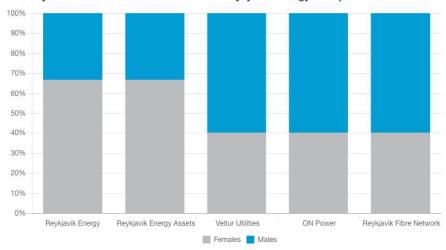
Executives in the Reykjavik Energy Group participated in several events relating to the #metoo movement in the latter half of 2017 with a view to starting an extensive and structured discussion among the staff of the Group in 2018.

With the Reykjavik Energy Group there are five active companies that are subject to special boards. The members of the Board of Directors of the mother company, who also appoint the board of directors of OR Eigna, shall, among other things, possess the knowledge and experience suited to the responsibility which the chair on the board entails. Corresponding requirements are placed in the members of the boards of directors of the subsidiaries. On the boards of directors of the subsidiaries, three of the members shall be Reykjavik Energy employees, one of whom shall be from the executive level and he/she shall be the chairperson.

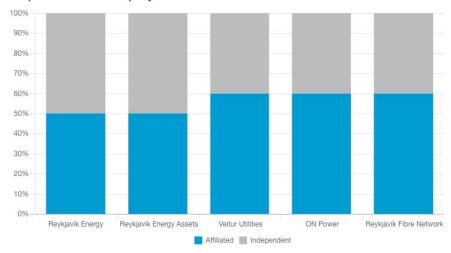
On the boards of directors of ON Power, Veitur Utilities and the Reykjavík Fibre Network, two of the board members shall be external experts in the fields of the relative company.

Since 2014, the Board of Directors of Reykjavik Energy has not fulfilled the legal requirements regarding gender equality on boards of directors. Women make up two thirds of the board members. There are a total of 27 chairs on the board. 14 are women and 13 men.

Diversity on boards of directors within the Reykjavik Energy Group

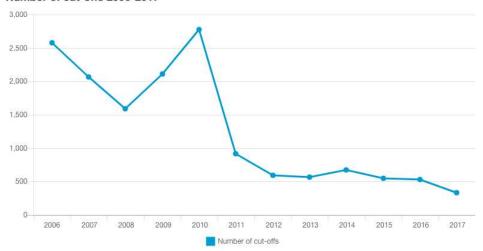


Independent of the company or its owners



Improvements in Collection

Number of cut-offs 2006-2017



In recent years, Reykjavik Energy has systematically worked on improving the collection of business claims. Reykjavik Energy handles the issuance of bills and collection of claims for all of the companies in the Group. There are 5.5 million bills issued a year and 40% of them are now electronic. Reykjavik Energy places an emphasis on helping people who are in arrears with their payments.

The remedies offered by the service desk to solve issues have multiplied and the entire collection process has been tightened. As a result of this, the number of customers being cut off from services has been substantially reduced. The number of cut-offs at Reykjavik Energy has never been as low as it was in 2017.



Did you know?

In 2017, Veitur Utilities teamed up with Ligeglad, an Icelandic Comedy Troupe, for a viral video campaign encouraging customers to submit meter readings. The videos got some great laughs and are available on Veitur Utilities Youtube Channel.

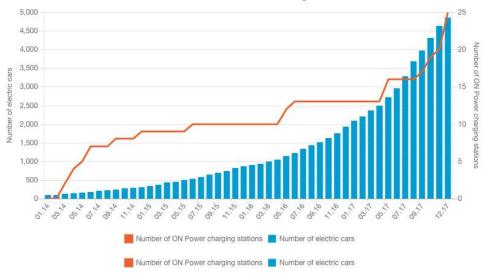
Through its activities, Reykjavik Energy, which places an emphasis on steady improvements, accumulates multifarious knowledge that can be of use to others. This is due to, among other things, the companies in the Group's leading position in the utilisation of geothermal energy, the fact that Veitur Utilities is the largest company of its kind in the country and the Reykjavik Fibre Network possesses the most widespread fibre network in Iceland. Reykjavik Energy believes it is its role to disseminate experience and know-how to others who can benefit from it.

Every year the Reykjavik Energy Group hosts a Science Day in which various development projects are presented. The Land Reclamation manager of ON Power held a course and an instructive video was made on how to heal damaged mossy areas. The most widely used knowledge is undoubtedly the knowledge that scientists of Reykjavik Energy acquired in collaboration with many other scientists on the sequestration of geothermal gas emissions in basalt. A broad variety of media outlets around the globe have covered Reykjavik Energy and ON Power's project in the Hellisheidi Geothermal Power Plant, which is considered unique. Several staff members of the Group regularly teach at the university and the School for Renewable Energy Science (RES) in Iceland and deliver lectures at specialised conferences both nationally and abroad.

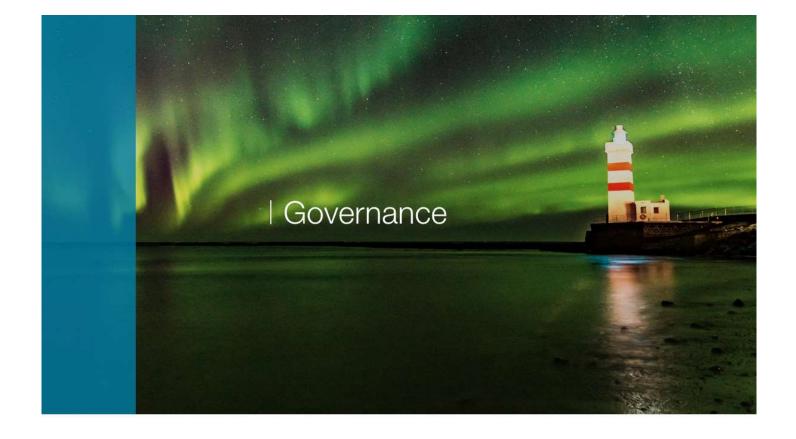
Expert knowledge of geothermal energy is in great demand, but this year people's focus shifted increasingly to the company's achievements in equal rights issues. The CEO of Reykjavik Energy delivered a lecture on this issue at the Barber Shop Conference of the Nordic Council of Ministers in Copenhagen in October.



The number of electric cars in Iceland and ON Power chargers



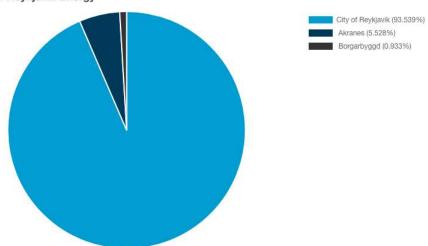
Reykjavik Energy and its subsidiaries have set themselves the ambitious climate change objective of reducing emissions by 60% by 2030. Because of the nature of its activities, they can also have an effect on the carbon footprint of others, directly or indirectly. ON Power's development of charging stations on national highways and in populated areas has turned electric cars into a real option for people and businesses. ON Power is at the forefront of developing infrastructure to enable energy switching in Iceland. A lot of effort went into development this year and, by the end of 2017, the number of charging stations had grown to 25.



The corporate governance of Reykjavik Energy should ensure professionalism, efficiency, cost effectiveness, transparency and responsible management. The principal operations of Reykjavik Energy are governed by Act no.136/2013. In 2014 the owners of the company renewed a joint agreement on operations. The ownership policy was also revised. The policy contains stipulations regarding corporate governance. The drafting of these documents, the Articles of Association of Reykjavik Energy and rules of procedure for all the boards, took into account the guidelines, which the Chamber of Commerce established in collaboration with the Confederation of Icelandic Employers and Nasdaq.

Reykjavik Energy considers the company's corporate governance fulfils the guidelines.

Owners of Reykjavik Energy



G1 Board-Separation of Powers Promotes UN's Sustainable

The Board of Directors of Reykjavik Energy comprises six members. Five of them, including the chairperson and vice-chairperson, are appointed by the Reykjavik City Council and one by the municipal council of Akranes. The local authority of Borgarbyggd nominates one observer to the board. The chairperson of the board may not take on any other job for Reykjavik Energy.

The Board of Directors appoints the CEO of the company, writes the job description and handles the termination of employment. The CEO handles all the day-to-day management of the company and manages holdings in Reykjavik Energy's subsidiaries. The CEO of Reykjavik Energy may not be a member of the Board of Directors of Reykjavik Energy and board members of Reykjavik Energy may not sit on the boards of subsidiaries. The CEO of Reykjavik Energy is the chairperson of two of the Group's subsidiaries: ON Power and the Reykjavik Fibre Network.

It is stipulated that there be a division of tasks between the CEO and Board of Directors in the rules of procedure of the board and the job description of the CEO.

G2 Board-Transparent Practices



The Board of Directors of Reykjavik Energy places an emphasis on transparency in its work and the minutes of its board meetings and meeting documents are not confidential and are accessible to all on the company's website. The minutes of the board meetings contain, among other things, a record of all the decisions of the board and board members have the right to have their positions on specific issues briefly noted in the minutes.



Did you know?

Brynhildur Davíðsdóttir, The Chairman of Reykjavík Energy, is a Professor of Enviroment and Natural Resources Programme at The University of Iceland (HI). Gylfi Magnússon, Vice-Chairman of Reykjavík Energy, is an Associate Professor at the School of Business at the University of Iceland and former Minister of Finance & Trade.



The ownership Policy of Reykjavik stipulates that the pay of executives shall be on a par with comparable jobs, but take into account the fact that the company is owned by public entities and the terms shall not be the highest in the labour market. The Compensation Committee of Reykjavik Energy shall review the salaries of its CEO on an annual basis with regard to the objectives and yardsticks of the company. There is no direct correlation between the salary of the CEO and other executives and specific yardsticks in operations, financial or otherwise. Interviews with employees, including executives in the Group, are guided by the Group's values and performances are assessed with them in mind. These are: foresight, efficiency and integrity.

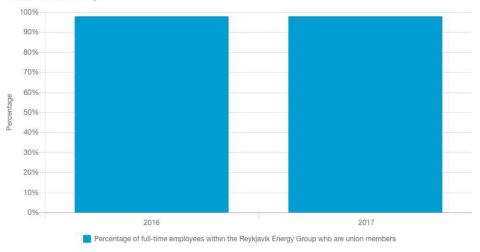
Board of Director fees and the salaries of the CEO and other top executives are specified in the annual accounts of Reykjavik Energy.

Reykjavik Energy is a member of the Confederation of Icelandic Employers through its membership of the Samorka Federation of Energy and Utility Companies. Reykjavik Energy negotiates with trade unions in collaboration with the Confederation of Icelandic Employers. Reykjavik Energy also has other communications with unions. Employees are free to be members of the trade union of their choice in accordance with labour market regulations or they can opt not to join a union.

The company makes individual employment contracts, based on collective wage agreements with the unions, with all its full-time employees. These specify, among other things, salaries. Reykjavik Energy's contracting is extensive and from companies of varying sizes. Reykjavik Energy does not have any figures on the scope of individual contractors nor what percentage of their individual revenue is due to work for the Group.

The rights of contractors' employees are discussed in the chapter on corporate social responsibility.

Union membership





Did you know?

Reykjavik Energy employees' organization, STOR, provides various club activities such as golf, knitting, motorcycling and more.

G5 Supplier Code of Conduct

OR

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Promotes UN's Sustainable Development Goals

Reykjavik Energy has an official registered policy to issue open calls for tender for the purchase of goods, services and construction work, and to accept the most favourable offer. Otherwise private requests for tenders shall be made, mostly through invitations for bids, direct contracts or direct procurement. The favourableness of offers is often evaluated on the basis of more factors than price. These include, among others, safety and environmental issues and there are provisions in the tender documents to avoid the constant changing of social security numbers by certain companies.

Reykjavik Energy has laid down joint liability in its work contracts with a view to protecting the rights of the employees of contractors and their sub-contractors. Evaluations of contractors are based on their performance in security and environmental issues as well as the quality of their work and reporting. If a contractor's performance is deemed unsatisfactory in the evaluation, the transaction is halted, at least temporarily.

In 2017, a bid for one project was halted in accordance with Reykjavík Energy's measures against the abusive changing of social security numbers.

Reykjavik Energy Procurement Overview 2017	Total ISK	Percentage
Tendering	7,547,374,320	37%
Procurement contracts and agreements	6,029,001,751	30%
House rental	340,303,431	2%
Public institutions	312,352,195	2%
Transactions below policy amounts	2,019,741,259	10%
Transactions within the Reykjavik Energy group	4,137,507,297	20%
Procurement total	20,386,280,253	100%

G6 Ethics-Code of Conduct

OR



Promotes UN's Sustainable

The Ethics Code of Conduct of Reykjavik Energy is founded on integrity, which is one of the company's values. The code of conduct is registered and public and should help the staff to allow integrity, respect and non-discrimination characterise all their dealings, whether they be with customers, colleagues, management, contractors or other stakeholders. These are not exhaustive and do not exonerate us from the responsibility of following our own conscience when ethical issues arise.

The code of conduct was set by the management for Reykjavik Energy in the year 2000 and were examined, reviewed and approved by the Board of Directors of Reykjavik Energy in 2017. They form part of the board's rules of procedure. They are presented to new employees and accessible to all staff. If an employee considers the code has been broken or is confronted with an ethical issue, he/she can approach a supervisor or colleague he/she trusts. If an employee considers there has been a violation of the code, such as bullying or harassment, he/she can also directly approach an external counsellor, and the established procedure will then take over, anonymously if requested.

At Reykjavik Energy there are registered work procedures for the processing of issues when a staff member is alleged to have violated company rules or committed fraud at work. The rules of procedure are accessible to all employees. Suspected violations should be made known to the next supervisor or internal auditor of the company, who must be informed of it, but this information is treated as confidential to protect the anonymity of the informer.

The management of Reykjavik Energy, managing directors and directors are responsible for the internal supervision of their specific divisions. Quality Control is responsible for ensuring that Reykjavik Energy's internal monitoring system is effective. Reykjavik Energy's quality control system is independently certified by external entities. Reykjavik Energy complies with the standards of the internal auditors association when conducting internal audits. Within Reykjavik Energy there are compliance officers who supervise the disclosure of information to the Stock Exchange and Financial Supervisory Authority.

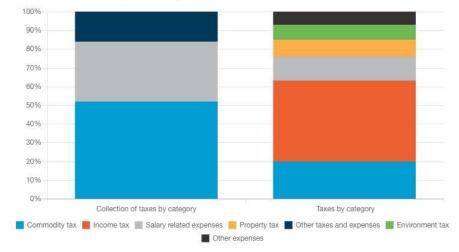


Reykjavik Energy only operates in Iceland and its operations are therefore entirely subject to Icelandic tax law. With the mandatory unbundling of Reykjavik Energy at the beginning of 2014, the current Group form was created. It is characterized by three elements:

- The parent company is a partnership. It pays higher income tax than a public limited company. On the other hand, dividend
 payments to its owners are tax-exempt.
- The largest subsidiaries Veitur Utilities and ON Power are public limited companies which are jointly taxed for risk aversion.
- The operation of water and waste-water systems is managed by a special partnership company. These statutory municipal
 functions are not subject to income tax.

Reykjavík Energy's tax footprint comprises both taxes among operation expenses and collected taxes, returned to the authorities. In year 2017, OR's tax fottprint amounted to ISK 7,462 million. In addition, ISK 7,391 million were collected and paid in VAT.

Tax footprint of the Reykjavik Energy Group



Multiple factors determine whether the operations of Reykjavik Energy and its subsidiaries - Veitur Utilities, ON Power and the Reykjavik Fibre Network - stand the test of time and are sustainable. This condensed report takes into account the factors, which Reykjavik Energy considers to be the most important. Upon publication of the report, stakeholders in its activities will be consulted with a view to hearing their opinion on whether any crucial factors are missing. Reykjavik Energy therefore looks on this report as its annual sustainability report. The websites of the companies contain some information on environmental, financial and personnel issues, which are often updated more than once a year.

G10 Other Framework Disclosures

This sustainability report of Reykjavik Energy for year 2017 is made with reference to Nasdaq's ESG Reporting Guide for Nordic & Baltic Markets, issued in March 2017. These guidelines are based on guidance from the Uited Nations' Stustainable Stock Exchange Initative and The World Federation of Exchange. References to the UN's Sustainable Goals have been added and we follow the provisions of law Icelandic law 3/2006 on financial statements, as amended with reference to EU directive 2013/34 in year 2016.



Did you know?

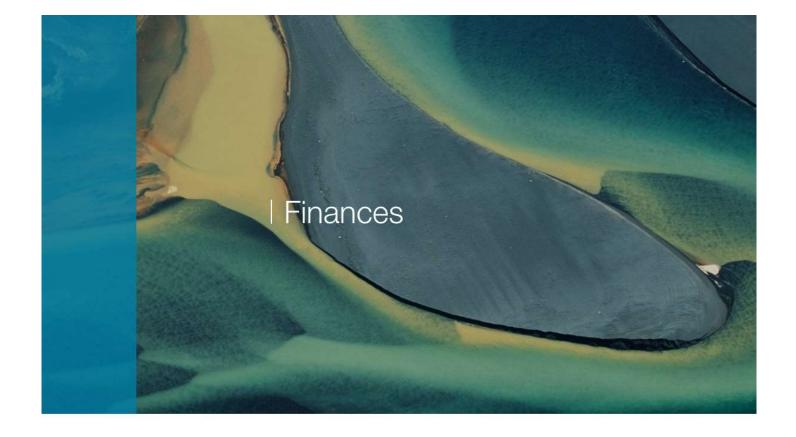
In 2000, Reykjavik Energy was the first Icelandic company to issue a stand-alone Environmental Report.

G11 Reliability

To increase transparency, trust and accurate disclosure of information, Reykjavík Energy sought assistance from the consultation firm Ábyrgar lausnir ehf. (Responsible Solutions Itd.). The assistance included guidance and assistance in implementing and validating the sustainability information that are disclosed in this report, for the year 2017.

Ábyrgar lausnir offers consultation and comprehensive solutions to organisations in their journey towards sustainability. Third party assistance ensures both the reliability and quality of the report.

Envionmental aspects were audited by VSÓ Consulting and KPMG is the external auditor of Reykjavík Energy.



2017 was Reykjavik Energy Groups's first operating year after the Plan. Under the Plan, which was in effect between 2011-2016, a culture of restraint in operations was implemented with increased time and effort put into decisions about every investment. The results of the Plan substantially exceeded objectives and the operating results for 2017 demonstrate that the change in culture is long-yielded good operating results for the Group.

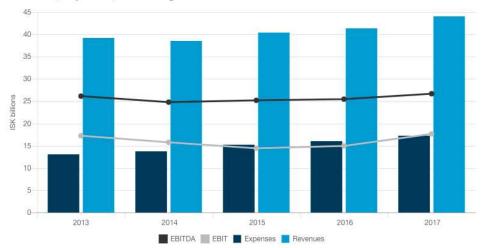
Efficiency is one of OR's values which is particularly applicable to the company's finances, which now are healthy. We use guidelines to aim towards financial goals which promote that OR and it subsidiaries;

- · have sound finances,
- · operate under an acceptable risk profile,
- · offer fair prices for services,
- · pay owners dividend from their assets.

Reykjavík Energy, which is entirely owned by municipalities, considers that sound finances promote the UN's sustainable development goal of sustainable cities and communities.

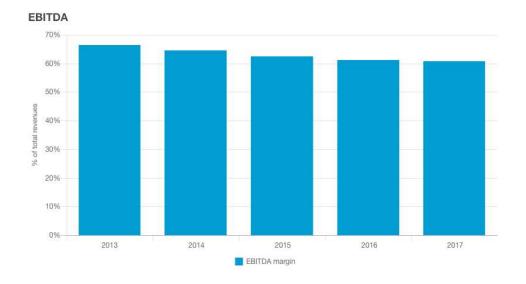
Revenues, Expenses and Results Promotes UN's Sustainable Development Goals

Revenues, Expenses, EBITDA og EBIT



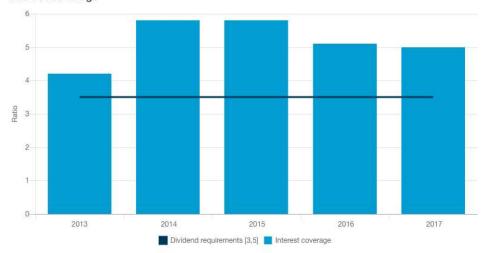
Stability characterises main metrics in Reykjavik Energy's finances over the past few years. Restraint in operations, which characterized the years of the Plan between 2011-2016, is persistent. The rise in revenues is primarily due to an increase in sales, although various tariffs for Veitur Utilities were lowered in 2017. EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBIT stands for earnings before interest and taxes.





Reykjavik Energy Group's operational margin has been stable and sound over the past years. The operational margin must, among other things, support the investments of the companies in the Group. Operations require substantial investments to be able to maintain the utility systems and power plants, tend to new customers and meet increased demands placed on operations. Here is the margin as a percentage of total revenue.

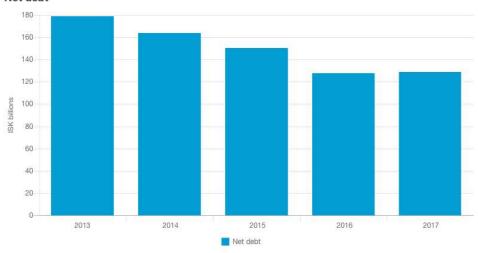
Interest coverage



This performance indicator demonstrates how capable the company is of honouring its interest expense obligations. The company's owners have put forward conditions to pay out dividend which stipulates that cash from operations plus interest expenses shall be at least 3.5 times higher than interest expenses. Reykjavik Energy fell short of that target in the immediate aftermath of the financial crisis, but exceeded it from 2010 onwards.

Net Debt Promotes UN's Sustainable Development Goals

Net debt

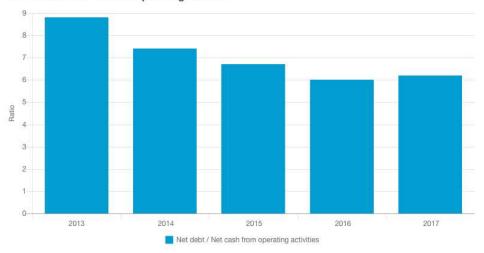


With improved operations and results in the past years, the debt burden of Reykjavik Energy has diminished quite considerably. The heaviest debt load was at the end of 2009. At that time, net debt amounted to ISK 226.4 billion, thus net debt has been reduced by more than ISK 100 billion at the end of 2017. Net debt is interest-bearing debt excluding interest-bearing assets.

Net Debt / Net Cash From Operating Activities

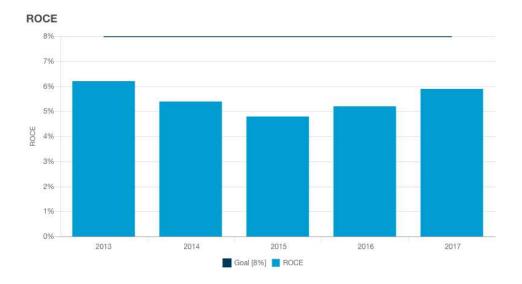
Promotes UN's Sustainable Development Goals

Net debt / Net cash from operating activities



This performance indicator shows the ratio between net debt and cash at the end of the year. The indicator shows how many years it would take for the company to pay net debt with cash if it were only used to pay down debt.





Reykjavik Energy's Owners Policy provides for the implementation of a performance indicator that shows returns on the capital which the owners have invested in operations (Return on Capital Employed). It should, at the very least, exceed the company's financing costs in addition to a reasonable risk premium. OR's Board of Directors has put forward goals for the Group as a whole and work is underway to establish performance indicators for each operating factor.

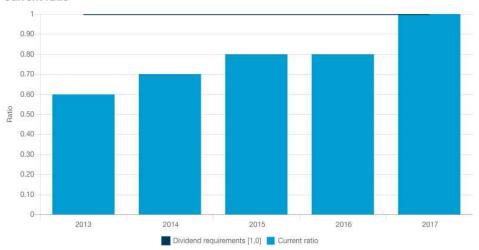


Did you know?

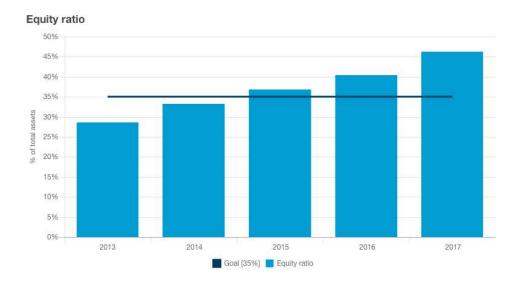
OR's owners have put forward conditions in operations that must be met before paying out dividend. Those are related to liquidity, equity ratio and current ratio.

Current Ratio OR Promotes UN's Sustainable Development Goals

Current ratio

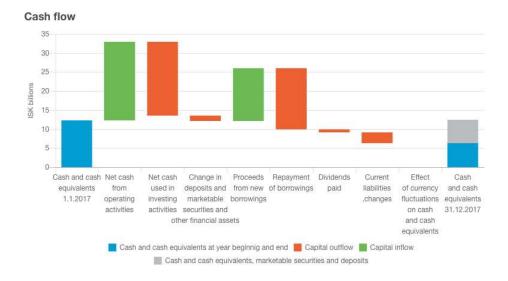


The Plan's success and other measures to strengthen the company's cash position have improved the current ratio and the liquidity position is strong. Reykjavik Energy's objective is to have a current ratio that is no lower than 1, which is one of the conditions for paying out dividends to the owners. This means that the company must have a sufficient cash flow to meet obligations for the next 12 months.



The equity ratio indicates how much debt a company has compared to its assets. The total assets of Reykjavik Energy were estimated at ISK 310.8 billion at the end of 2017. OR's objective is to ensure that the equity ratio does not go below 35% - 40% in the long-term.





In the profit and loss account and balance sheet of each company are many calculated figures that should give a clear picture of operations during a specific period and position at the end of it. However, the cash flow overview provides a clearer view of the real cash flow and which factors have an impact on the company's cash postion in the period. Furthest to the left one can see the cash position at the beginning of 2017 and, to the right, cash and cash equivalents, marketable securities and deposits at the end of the year.

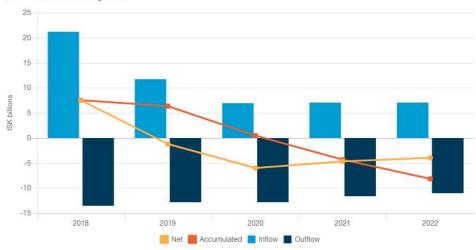


Credit ratings are important for companies that do business with international financial institutions. The purpose of the rating is to give creditors an objective assessment of a company's financial standing and future prospects. The credit ratings of Reykjavik Energy and other Icelandic companies can never surpass the sovereign rating of Iceland. The owners' guarantee on OR's loans have a positive impact on the company's rating. Reykjavik Energy is currently rated by three agencies: Moody's, Fitch Ratings and Reitun Rating Iceland.

	Moody's	Fitch Ratings	Reitun
Long term	Ba2	BB+	i.AA3
Outlook	Positive	Stable	Positive
Date	June 2017	March 2018	May 2017



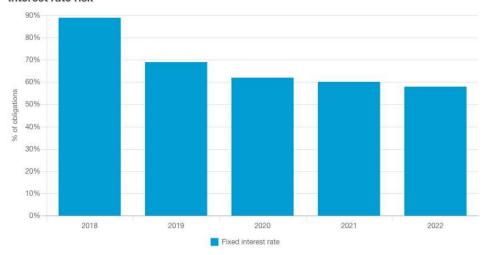
Estimated currency flow



Reykjavik Energy's currency risk is mainly due to borrowing in foreign currencies and foreign revenues from Reykjavik Energy's subsidiary ON Power due to electric sales in USD. Reykjavik Energy's risk policy includes limits on possible currency imbalance in operations and on the balance sheet. Forward contracts are entered into with the aim of reducing the risk of unfavorable exchange rate fluctuations. The graph shows the estimated cash flows of foreign currencies for the next few years.

Interest rate risk OR Promotes UN's Sustainable Development Goals

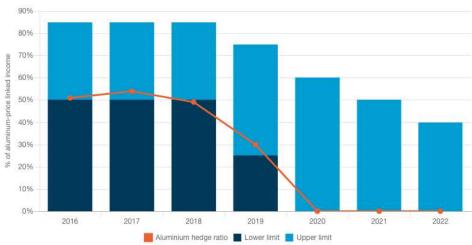
Interest rate risk



Higher interest rates pose a risk for Reykjavik Energy's operations and balance sheet. This risk has been mitigated in the past few years by fixing interest rates with interest rate swaps. The columns show to what degree the overall liabilities for each year have fixed rates. Reykjavik Energy's risk of higher interest is now insubstantial.

Aluminum Price Risk Promotes UN's Sustainable Development Goals

Aluminum price risk



Reykjavik Energy executes aluminum hedge contracts to hedge aluminum linked revenues against sharp declines in aluminium prices. Hedges are executed for a few years ahead and the graph shows to what extent revenues have been hedged. The board of directors decides the upper and lower limit of the aluminium hedge ratio.



Cash position according to published forecast



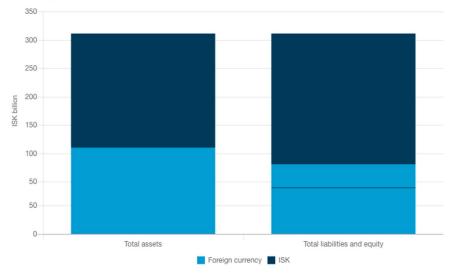
Stress test assumptions	TWI ISK index	CPI	Aluminum price (USD/tn)	Increase of foreign interests (%)
Intitial value	162	447	2087	0%
Final value	275	542	1300	3%
Change over 24 months	70%	30%	-38%	3%

Liquidity stress tests are conducted by Reykjavik Energy. The approved financial budget and forecast are the underlying benchmarks that are stress tested by applying unfavorable developments of external variables. The variables include exchange rates, aluminium prices, domestic inflation and interest rates. The stress test involves very adverse fluctuations in all external variables. The graph shows Reykjavik Energy's ability to withstand such developments.

Currency Risk on Balance Sheet



Currency risk on balance sheet



Reykjavik Energy's foreign assets exceeded the company's foreign debt at year end 2017. The reason is that the operational currency of Reykjavik Energy subsidiary, ON Power, is in USD. ON Power assets are greater than all Reykjavik Energy's liabilities in foreign currency.