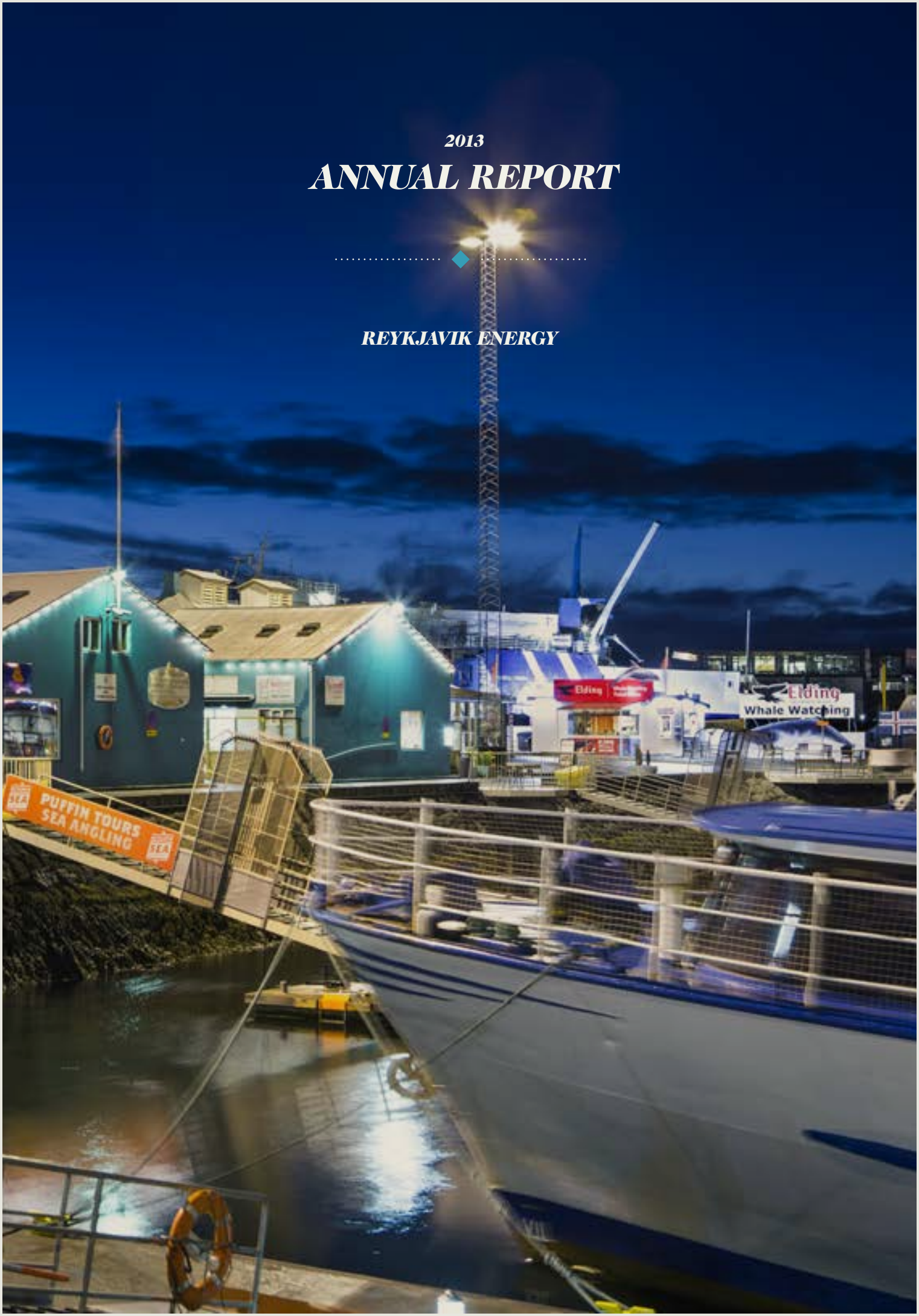
2013

ANNUAL REPORT

REYKJAVIK ENERGY



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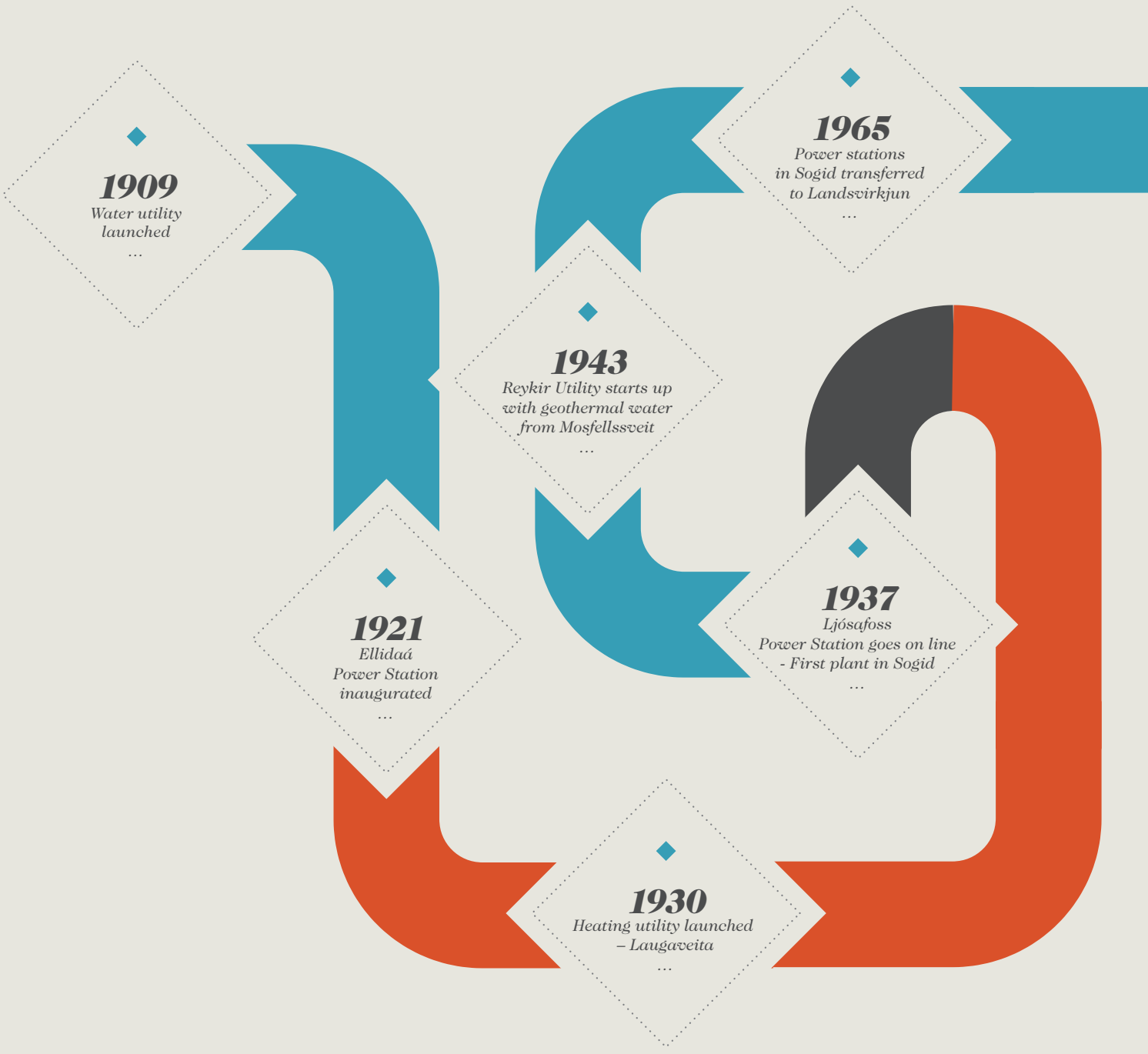
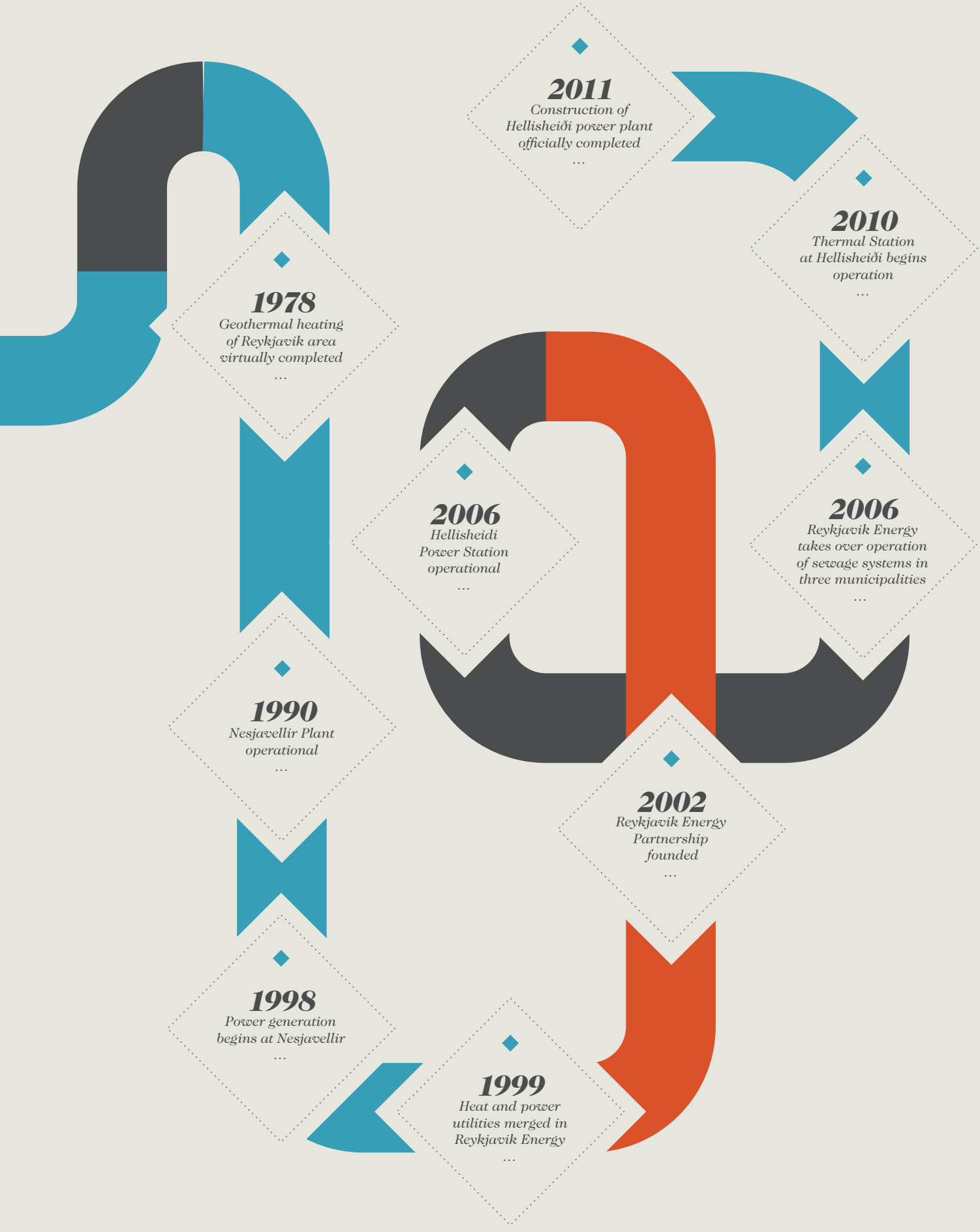



2011
Construction of Hellisheiði power plant officially completed
...
2010
Thermal Station at Hellisheiði begins operation
...
1978
Geothermal heating of Reykjavik area virtually completed
...
2006
Hellisheidi Power Station operational
...
2006
Reykjavik Energy takes over operation of sewage systems in three municipalities
...
1990
Nesjavellir Plant operational
...
2002
Reykjavik Energy Partnership founded
...
1998
Power generation begins at Nesjavellir
...
1999
Heat and power utilities merged in Reykjavik Energy
...

chapter

1

THE BOARD OF DIRECTORS' BUSINESS STRATEGY

THE BOARD OF DIRECTORS' BUSINESS STRATEGY

In mid-October 2012 an assessment committee appointed by Reykjavik Energy's owners issued its findings. The committee sought to answer why the company's operations ran into such serious trouble that the three municipalities owning it—the City of Reykjavik, the Township of Akranes and the Municipality of Borgarbyggd—had to provide the company with deferred loans so it could meet its obligations. The committee's report cast clearer light on various things that went wrong and generated considerable public discussion in the autumn of 2012. The report's main findings were as follows:

Reykjavik Energy's purpose was too unclear. Its governance was not exemplary. Its penchant for investment was too great, and the profitability of the investments made was insufficient. In spite of this, dividends were paid even though operating results were poor, and the exchange-rate loss was great.

When the report was issued, the owners had already approved an owners' strategy for the company. It delineated the company's purpose more clearly than before and The The Plan - an action plan addressing Reykjavik Energy's financial problems - had been implemented. What Reykjavik Energy's owners, board and management faced was the need to improve governance, so that each responsible authority would have a sharper vision of its role in keeping the company from wandering off track again.

For this purpose, internal reform projects were initiated for Reykjavik Energy and the main owner, the City of Reykjavik. The criticisms noted by the authors of the assessment report were systematically reviewed, and a position was taken on each and every comment. Many of them had already been met with the owners' strategy, which was unanimously approved by all the owners' local governments in the spring of 2012. Financially, The Plan met other criticism as well, for example, by precluding dividend payments to owners while the company's operations were put back on an even keel.

Reykjavik Energy's Board of Directors was faced with implementing the owners' strategy, so that it could at any time clearly inform the owners how its operations were going, and where they were headed in terms of the strategy. Considerable work went into this task of the board in 2013. The result was that the board approved a simple business strategy and formulated key performance indicators (KPIs) to show whether and to what extent the company was achieving the owners' demands. The business strategy derives purpose and core activities from the owners' strategy and, furthermore, outlines a vision for Reykjavik Energy. Accordingly, the company aims to be known for:

- Sustainable and responsible utilisation of resources
- Respecting customers' needs and providing good and reliable services
- Having financial strength and viability, ensuring service in step with society's needs
- Being a desirable workplace, where professional knowledge and a spirit of service coincide

In order to be fairly certain of whether Reykjavik Energy is headed in this direction, the company's Board of Directors and management formulated KPIs. They are divided into four scales of results. They refer to the company's operations, services and employees, and whether operations are in accord with the environment and society. The indicators are supposed to reflect what is most urgent each time in the operations. Changes in policy or emphases in the operations will simultaneously be seen in changed objectives or changed indicators.

REYKJAVIK ENERGY'S KEY PERFORMANCE INDICATORS

- Zero accident policy.
- Customers' satisfaction shall accord with goals.
- Coverage of the company in mass media shall reflect the company's work in accord with society.
- Job satisfaction shall grow.
- Official licence for the operations shall be on-hand and valid.
- Operational risk shall be acceptable.

Reykjavik Energy's board of directors. Hrönn Ríkharðsdóttir, Gylfi Magnússon, Sóley Tómasdóttir, Haraldur Flosi Tryggvason Chariman, Kjartan Magnússon, Brynhildur Davíðsdóttir Deputy Chariman and Ragnar Frank Kristjánsson, Observing member.

- Production and distribution systems shall be online.
- Profitability shall be in accordance with owners' objectives.
- Resource utilisation shall not be aggressive.
- The concentration of hydrogen sulphide in the atmosphere shall be within limits.
- The Plan shall be on target.

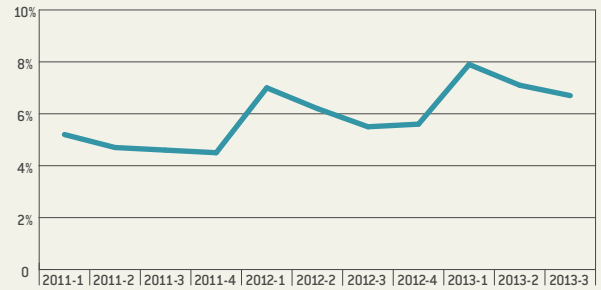
The presentation of these results in Reykjavik Energy's operations is currently under development. The company is publicly owned, and it is therefore wise to disseminate to the public the vision the company's Board of Directors has of the operations and the objectives set for them. The objectives are to be continually discussed, and the company's owners and customers ought to be active participants in the operations.

At the same time as Reykjavik Energy approved the company's business strategy and KPIs, which show whether the company is headed in the right direction, it confirmed the values, on which all Reykjavik Energy's operations are built. The values were developed in collaboration between the employees and management. They are tools that each and every employee can resort to, not least when questions arise about undertakings and methods in the operations.

REYKJAVIK ENERGY'S VALUES

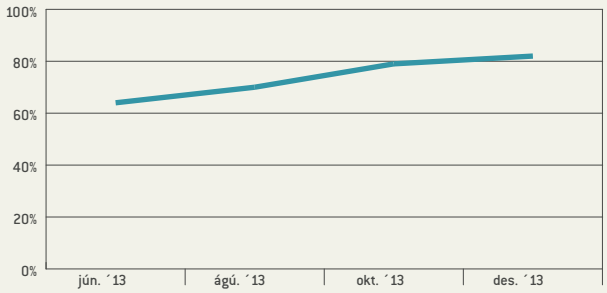
• Foresight • Integrity • Efficiency

RETURN ON CAPITAL



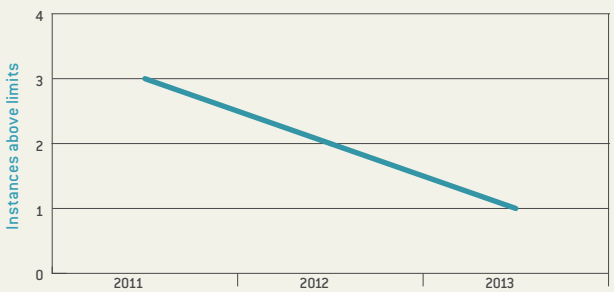
Reykjavik Energy utilises the ROCE metric (Return on Capital Employed) for measuring the Company's profitability. Implementing it for the group and individual field of operations is in progress.

CUSTOMER SATISFACTION



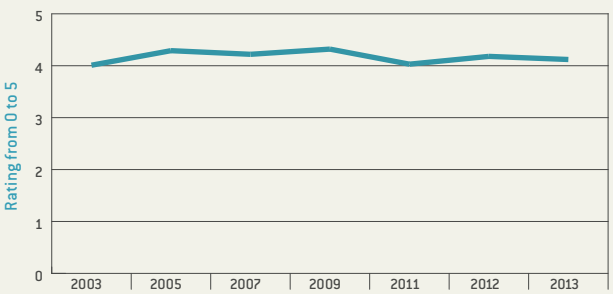
Reykjavik Energy regularly measures customer satifaction and the results are translated into reforms in the areas indicated. In year 2013 the studies were contucted more frequently, on a bi-monthly basis instead of annually. The Company's target is that at least 70% of customers are satisfied with the services.

HYDROGEN SULPHIDE



Atmospheric levels of hydrogen sulphide are measured in stations positioned in urban areas. Regulatory limits are to tightened in year 2014 and it is Reykjavik Energy's goal never to surpass those.

JOB SATISFACTION



Employee satisfaction is measured in co-operation with research companies. Their data-base has the Icelandic average mark of 4.05. Reykjavik Energy's target is 4.2.

chapter

2

FROM THE CEO

FROM THE CEO

The fiscal year 2013 was successful. Reykjavik Energy managed to fulfill all of its obligations. However, when the Strategic Plan was launched three years ago, such success was uncertain. Loan repayment for the year 2013 totalled ISK 26.3 billion, ISK 5.0 billion was paid in interest, of which guarantee fee to the owners amounted to 850 million ISK. Last year, the debt therefore cost the company ISK 31 billion. This is equivalent to 80% of Reykjavik Energy's revenues for the same period. It was the heaviest payment burden in the company's history, but it will be lighter in the future. The outlook is now good that Reykjavik Energy will be able to meet all of its future obligations unless its operating environment worsens substantially.

Reykjavik Energy's operations and finances have greatly strengthened over the last several years. Risk management has been substantially improved, and the company is now better prepared to cope with fluctuations in operations environment. Contribution from operations (EBITDA) is 66% for the year, as it has been for the last two years. The company's finances will therefore strengthen substantially over the next several years if things continue on the current course. Now it would take Reykjavik Energy 7.1 years to pay down all debt if EBITDA would be used exclusively for that purpose. In 2009 it would have taken the company more than 18 years.

Technical operations of the utility systems were stable during the year and service disruptions were minimal. Due to RE's financial restrictions maintenance of the systems has been low in recent years, and this will possibly show up in more frequent disruptions in the years to come. Some utilities are worse off than others, for example, the district heating utilities in Akranes and Borgarnes. Failures in the transmission pipeline from Deildartunga Hot Spring have caused inconveniences for customers in West-Iceland. Improved finances of Reykjavik Energy will make it possible to initiate maintenance projects, one after another, over the next several years.

Discussions were frequent in the mass media during the year about the Hengill area, particularly the Hellisheidi Power Plant and environmental operational issues related thereto. A working group analysing problems and solutions for the operations of Hellisheidi Power Plant submitted a report in early 2013. Reykjavik Energy decided to present the findings openly in the mass media. Scientists, politicians and Reykjavik Energy's customers contributed to the debate. Overall, I think the debate strengthens rather than weakens the company. The decision has now been made to connect the geothermal field in Hverahlid to Hellisheidi Power Plant with a pipeline to provide back-up steam. The purpose is to ensure that Hellisheidi will be able to produce at full capacity over the next years and thus deliver the revenues the power project was based on.

Althingi passed the Electricity Act in 2003. It stipulates that competition shall be established for the production and sale of electricity in Iceland. In recent years competition has been introduced in steps. An amendment to the Electricity Act in 2008 required vertically integrated power companies, with both competition and regulated operations in the field of electricity to unbundle. The unbundling was supposed to commence on 1 July 2009. However, this was repeatedly postponed, at the request of the Reykjavik Energy's owners, because of its financial difficulties.

From January 1 this year Reykjavik Energy operates two new subsidiaries. One of the two subsidiaries produces and sells power in the competition market. It has been named Orka náttúrunnar (Our Nature) and operates under a new trademark. The other of the two new subsidiaries owns and operates the regulated utility services; cold water, geothermal district heating, sewerage and electricity distribution. This company will be operated under the same name and trademark as Reykjavik Energy, and customers will therefore not be aware of changes to that part of the operations.

An important year for Reykjavik Energy is now behind us. It was a year where the company's ability to work its way out of the crisis was put to a test. Reykjavik Energy appears to have passed the test. The company delivered on all items of the Plan and exceeded the objectives in most respects. Emphasis was placed on a spirit of service towards the customers and on humility with respect to the important role entrusted to Reykjavik Energy by the owners.

I want to thank all my co-workers at Reykjavik Energy, the Board of Directors and the owners sincerely for the good collaboration in 2013.

chapter

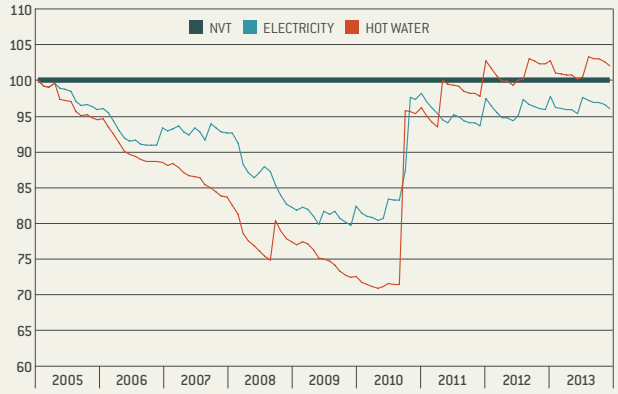
3

KEY FIGURES FROM OPERATIONS

KEY FIGURES FROM OPERATIONS

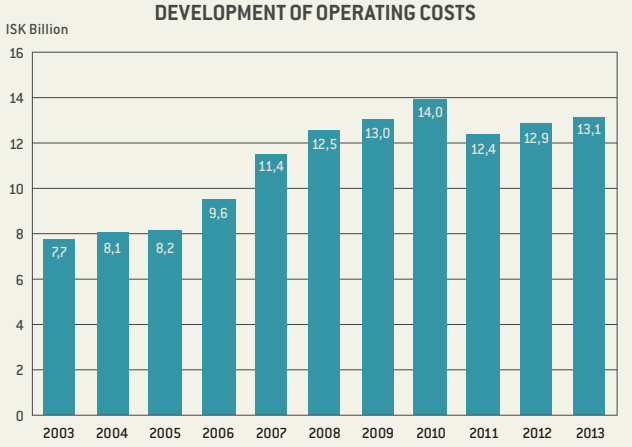
Reykjavik Energy is still improving its financial position and the operations have strengthened substantially. Measures, referred to as "The Plan" and approved by the company's Board of Directors and owners, have been closely monitored. The Plan was approved in March 2011. It covers the period from then through the end of 2016. The overall goals of the Plan have been achieved, and most parts of it have exceeded the set goals. The main exception is the sale of assets, which has taken longer than expected, but the outlook is for its goal to be achieved within the period of the Plan. According to the annual accounts for 2013, the contribution from operations was ISK 26.1 billion, and the operating costs are similar in nominal amount of ISK to the amount in 2009. In real terms these costs have therefore decreased.

CHANGES IN TARIFF FOR ELECTRICITY AND HEATING, COMPARED TO THE CONSUMER PRICE INDEX



Reykjavik Energy's operating revenues have considerably increased the last several quarters. In the spring of 2011, revenues were corrected in connection with the Plan. Real income from most service units had then considerably decreased since tariffs had not kept pace with the price level for several years. Correcting the tariffs was one of the steps necessary to strengthen the company's operational foundation. The figure shows the development of the tariff, relative to the Consumer Price Index.

DEVELOPMENT OF OPERATING COSTS



After a thorough review of operations, including work processes, great results were achieved in lowering operating costs without cutting back services. More emphasis has been placed on providing good service and ensuring delivery security by improving procedures. Strong service awareness is more apparent the company since employees understand their role better in terms of providing service, both with respect to customers and co-workers.

The results achieved in greater efficiency and effectiveness in operations have greatly increased external parties' belief in the company. The company's improved cash position is extremely important, for it enables the company to absorb fluctuations due to external influences. Reykjavik Energy's credit rating has improved, and continued adherence to the Plan will no doubt produce an even better outcome. The company is still sensitive to external influences from the exchange rate, interest rate and price of aluminium. These external factors particularly affect the company's high foreign debt burden, due to exchange-rate changes. However, the exchange-rate development in 2013 was advantageous. Exchange rates and the price of aluminium greatly impact derivatives built into electricity sales agreements. The aluminium price was very low in 2013; in addition, part of sales income is in foreign currency.

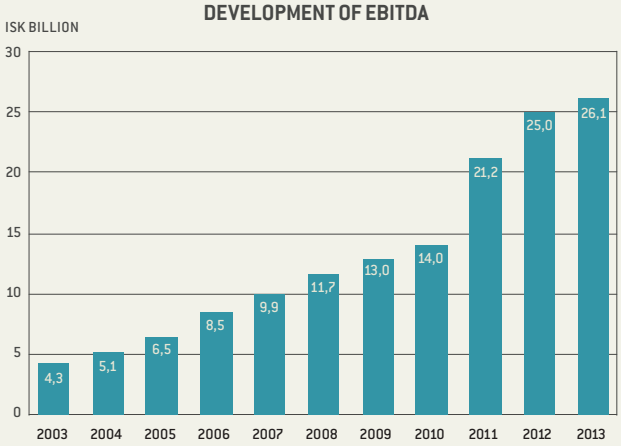
OVERVIEW OF REYKJAVIK ENERGY'S POWER STATIONS AND THEIR INSTALLED POWER

	ELECTRICITY	HOT WATER
GEOTHERMAL PLANTS		
Nesjavellir	120 MW	300 MW
Hellisheiði	303 MW	133 MW
Total geothermal plants	**423 MW**	**433 MW**
HYDROPOWER PLANTS		
Elliðaá	3,2 MW	-
Andakílsá	8,2 MW	-
Total hydropower plants	**11,4 MW**	-
Low temperature areas	-	600 MW
Total	434,4 MW	1.033 MW

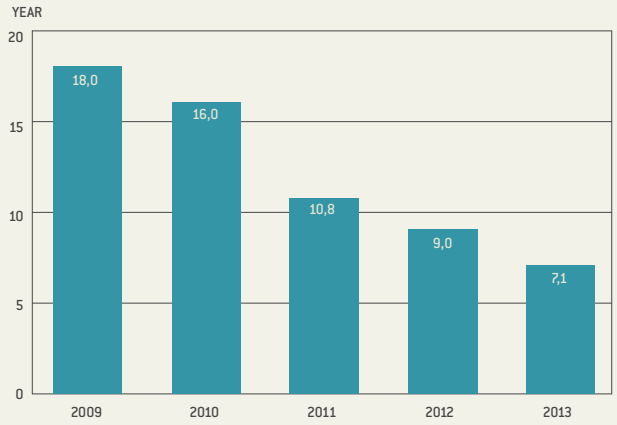
STATISTICAL INFORMATION ON EMPLOYEES AT YEAR-END 2013

	WOMEN	MEN	ALL
NUMBER OF PERMANENT EMPLOYEES	124	296	420
AVARAGE AGE	46,1	48,8	48
AVARAGE LENGTH OF SERVICE	10,9	14,7	13,6
MAN-YEARS	128,7	316	444,7
REAL STAFF TURNOVER			4,30%

DEVELOPMENT OF EBITDA

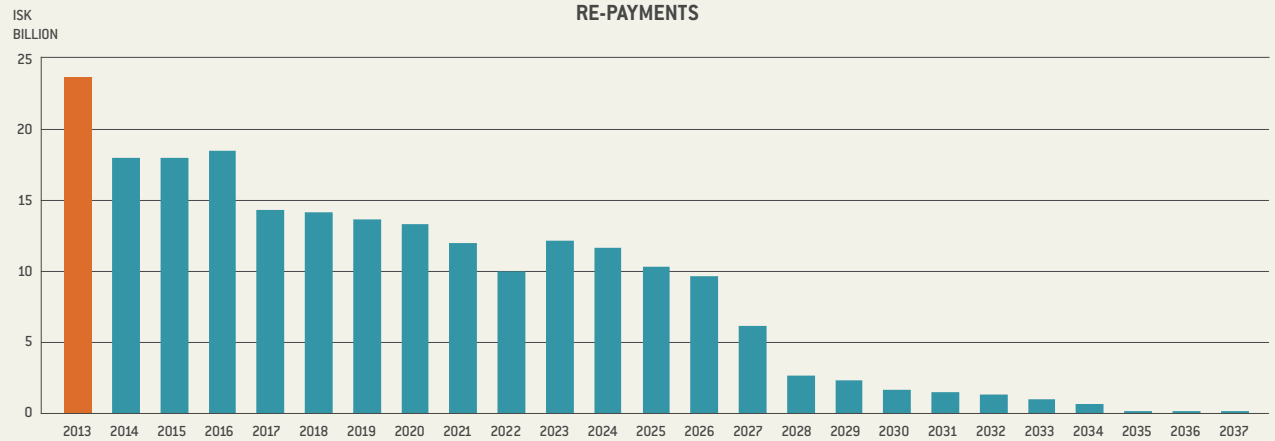


NET DEBT/EBITDA



In the figure showing the development of operating costs (EBITDA), it can be clearly seen how the company's operations have grown stronger in the last several years. This enabled Reykjavik Energy to meet high payments on foreign loans in 2013. Two years ago it was not possible to see how these payments would be met. The positive effect of this development can also be seen when net debts are divided by EBITDA. The result shows the number of years it would take to pay off all of Reykjavik Energy's debts if EBITDA were applied solely to this end.

RE-PAYMENTS



As seen in the figure showing how the re-payments are distributed over the coming years, the debt burden decreases quickly, as Reykjavik Energy has just gone through one of the biggest debt re-payment years it will face. If external factors like currency exchange rates, interest level and the price of aluminium do not change greatly for the worse, the company will handle well the re-payments on its high debt burden. In addition, cash will also become available to pay for necessary investments and maintenance of the company's distribution and production systems.

The following table shows the main financial items in Reykjavik Energy's operations and their development. Profit from operations (EBITDA) have increased by ISK 13.1 billion since 2009, which shows the turnaround in operations and the company's increased ability to handle the debt problem it is dealing with.

KEY FIGURES

OPERATION (ISK million)	**2009**	**2010**	**2011**	**2012**	**2013**	**CHANGE 13/12**
Income						
Electricity sales	12.540	13.622	16.732	18.414	18.227	-1,0%
Geothermal sales	6.003	6.491	8.434	9.650	9.969	3,3%
Water sales	2.510	2.577	2.748	3.040	3.158	3,9%
Sewage systems revenues	2.276	2.526	3.251	4.008	4.255	6,2%
Fibre-optic income	797	1.000	1.170	1.386	1.587	14,5%
Other income	1.887	1.700	1.291	1.407	2.014	43,1%
Total income	**26.013**	**27.916**	**33.626**	**37.905**	**39.209**	**3,4%**
Operational costs	(13.042)	(13.964)	(12.391)	(12.861)	(13.126)	2,1%
EBITDA	12.970	13.951	21.235	25.044	26.083	4,1%
Depreciation	(7.814)	(7.962)	(8.881)	(10.371)	(8.927)	-13,9%
Operational profit (EBIT)	**5.157**	**5.989**	**12.354**	**14.673**	**17.156**	**16,9%**
Realised financial gains / financial loss	(4.873)	(3.558)	(3.621)	(5.993)	(4.664)	-22,2%
Profit before unrealised financial gains / financial loss	**284**	**2.431**	**8.734**	**8.680**	**12.491**	**43,9%**
Unrealised financial gains / financial loss	(4.198)	14.335	(16.041)	(12.511)	(1.570)	-87,4%
Income tax	1.398	(3.037)	6.751	1.535	(7.572)	
Profit / (loss) of the year according to the Financial Statements	**(2.516)**	**13.729**	**(556)**	**(2.295)**	**3.349**	
Balance Sheet year-end (ISK million)						
Power plants and utility systems	230.825	238.274	249.478	244.472	249.603	-
Other fixed assets	42.102	39.996	39.669	34.441	18.075	-
Current assets	8.598	8.270	7.238	18.289	15.430	-
Total assets	**281.525**	**286.540**	**296.385**	**297.202**	**283.108**	**-**
Total Equity	**40.657**	**52.847**	**61.643**	**60.648**	**80.969**	**-**
Long-term liabilities	221.780	212.162	214.302	202.129	175.894	-
Current liabilities	19.088	21.531	20.440	34.425	26.245	-
Total liabilities and equity						
Net liabilities*	233.625	222.847	228.571	224.617	185.947	-
Cash Flow Statement (ISK million)						
Funds from operations (FFO)	9.036	10.595	17.231	19.880	19.675	-1,0%
Cash generated from operations	8.429	11.588	16.930	18.935	20.033	5,8%
Investing activities	(20.470)	(14.542)	(9.539)	(2.747)	2.444	-
Financing activities	13.133	2.220	(8.068)	(11.360)	(19.143)	-
Liquidity						
Cash and cash equivalents at year-end	2.943	2.344	1.652	6.886	8.993	-
Undrawn revolving credit facilities	13.800	8.298	5.900	6.800	9.400	-
Total liquidity at year-end	**16.743**	**10.641**	**7.552**	**13.686**	**18.393**	**-**
*Net liabilities are interest bearing liabilities minus cash and cash equivalents						
Key ratios						
Profit margin ratio	19,8%	21,5%	36,7%	38,6%	42,2%	-
Return on investments	9,2%	9,7%	11,3%	12,8%	13,8%	-
Outstanding sales ratio	12,8%	13,1%	12,6%	12,5%	14,2%	-
Equity ratio	14,4%	18,4%	20,8%	20,4%	28,6%	-
Current asset ratio	0,45	0,38	0,35	0,53	0,59	-
Change in current assets as a proportion of operating income	34,7%	38,0%	51,2%	52,4%	50,2%	-
Investments as a proportion of income	80,8%	51,6%	30,6%	8,4%	9,0%	-
Debt service cover (EBITDA /paid liab. + net paid interest)	1,23	1,76	1,50	1,24	0,91	-
Interest coverage	2,4	3,6	3,8	3,6	4,3	-

CAPITAL AND RISK MANAGEMENT

In 2013 the payments on the company's loans were heavy. Despite this, OR managed to improve its cash position, and at year-end the company had ensured cash in the amount of ISK 18.4 billion.

Last year, Reykjavik Energy started co-operation with an international investment bank and secured a foreign loan of ISK 3.1 billion. Additionally, the owners forwarded loans to the company in the amount of ISK 4 billion, as per loan agreement signed in 2011. The company also extended credit facilities at three Icelandic banks for domestic lines of credit through the end of 2016, but these lines of credit were not drawn on at year-end. The current ratio was 0.59 at year-end, having increased from 0.53 the previous year. However, if access to the lines of credit is taken into account, the current ratio is 0.95 at year-end.

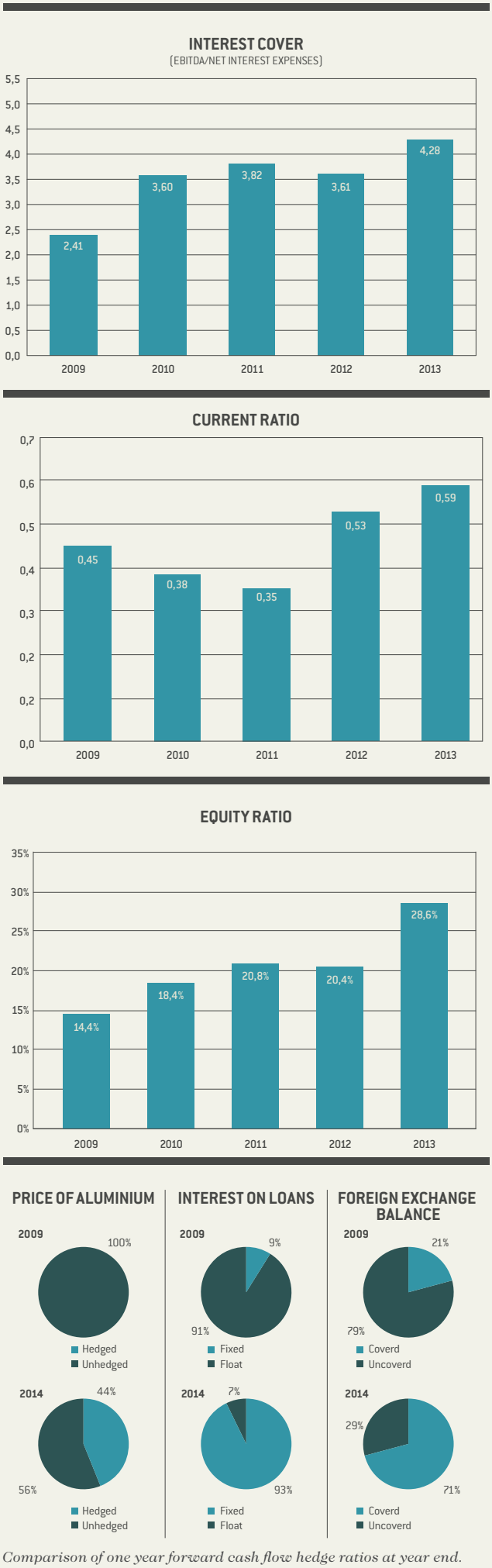
RISK REDUCED

In 2013, Reykjavik Energy negotiated terms for hedging facilities with an international investment bank. Due to this, OR's exposure to changes in the price of aluminium, interest rates and foreign exchange rates, was substantially reduced. Continuing collaboration on risk prevention with investment banks, enabled Reykjavik Energy to partially fix the interest on loans and the price of aluminium several years in advance.

Additionally, the company improved its foreign currency portfolio by, for example, means of currency swap agreements with domestic banks. By the end of 2013, the company had assured access to most of the foreign currency required for its loan payments and interest in 2014.

Moody's credit rating for Reykjavik Energy was reviewed in December 2013 and was unchanged from last year (B1);the prospects however were changed from negative to stable. The credit rating without an owners' guarantee was also unchanged (B3).

The credit rating company Reitun issued a credit rating for Reykjavik Energy in October of last year. The company's credit rating is unchanged (B+), but the prospects were changed from stable to positive.

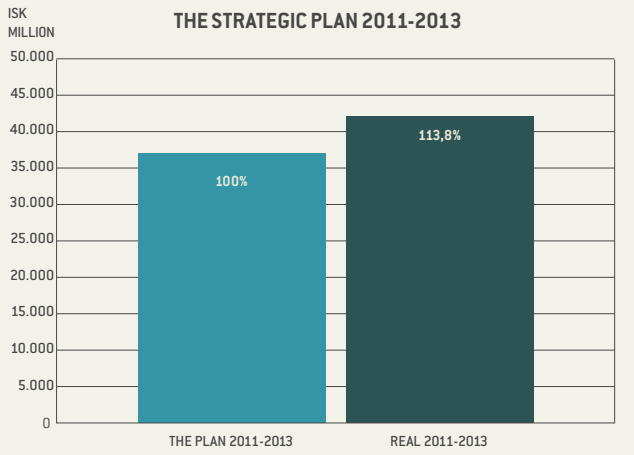


Comparison of one year forward cash flow hedge ratios at year end.

THE PLAN

Reykjavik Energy's and the owners' action plan, "The Plan", was approved in the spring of 2011. It includes diverse measures, aimed at improving the company's cash position by ISK 50 billion through year-end 2016. It includes sale of assets, constraint and postponement of investments, tariff corrections and lowered operating costs.

Follow-up on the Plan has produced good results, and all of these factors are in accordance with the Plan or exceed it. The Plan has produced about ISK 5.1 billion better results than were anticipated. The total effect of external factors—interest, price of aluminium, exchange rates and indices—has proved to be ISK 421 billion less favourable than the Plan's premises assumed. Despite how disadvantageous the price of aluminium was during the period, it did not have a corresponding impact on cash flow since the construction and consumer price indices during the period, along with interest rates, were positive. The exchange-rate index increased more than planned, but the internal development of currencies had an economically favourable effect on loan re-payments. The decrease in operating costs and postponement of projects were more than was deemed possible. The most complex part of the Plan has been the sale of assets. Regarding that project, careful preparations for the sale of individual assets



have been made in good collaboration with the owners. Results of the asset sales have been good during the year. Among the assets sold are Reykjavik Energy's headquarters at Baejarháls and The Pearl.

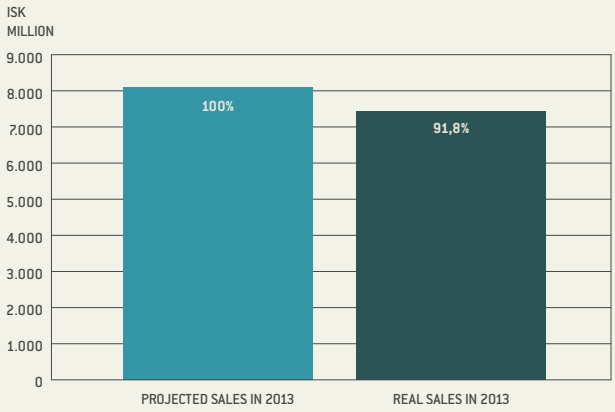
The overall results of the Plan 2011-2013 are about ISK 5.1 billion more than the goal. The greatest results are in reduction of investment in utility systems. In addition, most parts of the project are going well. The measures brought in 13.8 % better results than anticipated.

THE ORIGINAL PLAN	2011	2012	2013	2014	2015	2016	TOTAL
Action Plan in ISK millions	**11.877**	**10.170**	**15.005**	**6.813**	**2.940**	**4.458**	**51.263**
Principal actions:							
Reduction of investment in utility systems	1.205	3.518	2.690	2.518	2.410	2.659	15.000
Subordinated loan from owners	8.000	-	4.000	-	-	-	12.000
Sale of assets	1.000	2.000	5.100	1.900	-	-	10.000
Increased income from adjusted tariffs	1.122	1.552	1.215	1.295	1.330	1.499	8.013
Reduction in operating expenses	300	900	900	900	1.000	1.000	5.000
Reduction in other investments	250	200	200	200	200	200	1.250
Postponement of investments in sewage system	-	2.000	900	-	-2.000	-900	0

PROGRESS OF THE PLAN	REAL 2011	REAL 2012	REAL 2013	REAL 2014	REAL 2015	REAL 2016	TOTAL
Reduction of investment in utility systems	1.825	4.808	3.203	-	-	-	9.836
Subordinated loan from owners	7.925	75	4.000	-	-	-	12.000
Sale of assets	1.115	212	6.109	-	-	-	7.436
Increased income from adjusted tariffs	1.128	2.200	2.170	-	-	-	5.498
Reduction in operating expenses	747	887	1381	-	-	-	3.015
Reduction in other investments	378	415	286	-	-	-	1.079
Postponement of investments in sewage system	-	2.150	1152	-	-	-	3.302

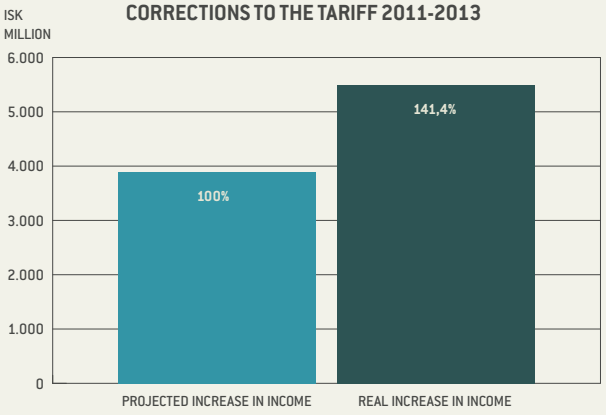
DIFFERENCE	2011	2012	2013	2014	2015	2016	TOTAL
Reduction of investment in utility systems	620	1.290	513	-	-	-	2.423
Subordinated loan from owners	-75	75	0	-	-	-	0
Sale of assets	115	-1.788	1.009	-	-	-	-664
Increased income from adjusted tariffs	6	648	955	-	-	-	1.609
Reduction in operating expenses	447	-13	481	-	-	-	915
Reduction in other investments	128	215	86	-	-	-	429
Postponement of investments in sewage system	0	150	252	-	-	-	402

SALE OF ASSETS 2011-2013



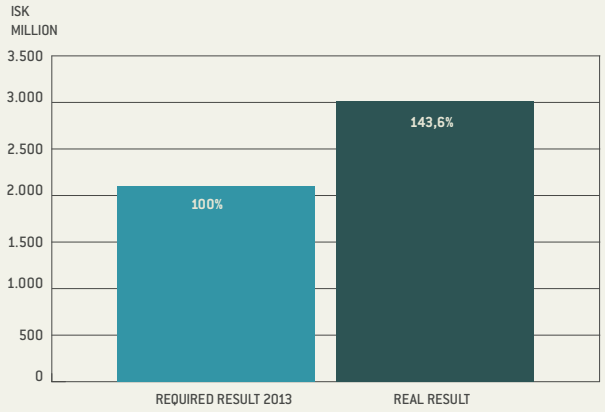
During the year assets have been sold for ISK 6,109 million. The company's headquarters were sold for ISK 5.1 billion, but they were then leased back. This sale improved the company's cash position substantially without causing disturbance in the operations. Other assets were also sold, such as The Pearl and other smaller assets not belonging to Reykjavik Energy's core operations. Various other assets are in the process of being sold, and Reykjavik Energy has made a great progress towards achieving the Plan's objectives for the sale of assets.

INCREASED INCOME BECAUSE OF CORRECTIONS TO THE TARIFF 2011-2013



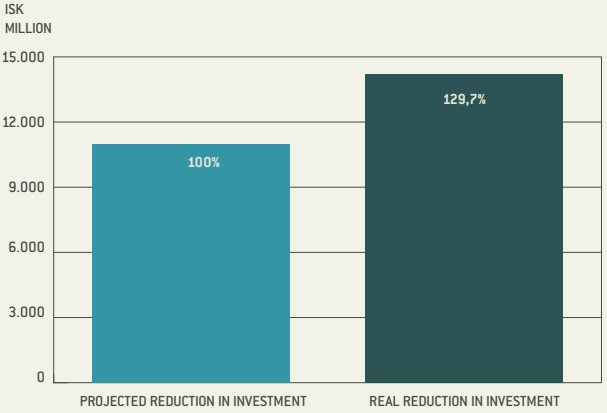
Correction to the tariff was supposed to result in an increase in income in 2013 of ISK 1,215 million. This was achieved, plus an additional ISK 955 million. In the period 2011-2013, the tariff correction produced ISK 1.6 billion more than was planned in the beginning. All of the tariff corrections have been approved and implemented.

DECREASED OPERATING COSTS 2011-2013



The demand for increase in operational efficiency in the period 2011-2016 is ISK 5000 million, but the efficiency measures for operations and increased cost-consciousness of employees have produced more results than plans projected. In the years 2011-2013, plans called for decreasing operating costs by ISK 2,100 million. Operating costs were ISK 3,016 million less than this and the results were therefore ISK 916 million better than the Plan called for in the years 2011-2013.

INVESTMENT 2011-2013



An important part of the Plan is lowering investments in utility systems, information systems and vehicle operation costs. Regarding utility operations, on one hand, investment is being reduced through changed workload, while, on the other, selected sewage projects are being postponed for two years. The postponement is important, so that the company's cash position will be as good as circumstances permit. This involves projects worth ISK 2.9 billion. The purpose of changed workload particularly takes into account projects' risk assessment and importance when making decisions regarding investment. Great results have been achieved in lowering investments—about ISK 14.2 billion, which is ISK 3.3 billion more than the Plan provided for.

chapter

4

THE YEAR IN BRIEF

THE YEAR IN BRIEF

23.02'13

Reykjavik Energy holds a well-attended symposium on water reserve conservation, a topic in the spotlight because of increased load on protected water areas in the capital region.

12.04'13

Reykjavik Energy's public Annual Meeting is held, where author Andri Snaer Magnason and employers' association's CEO Thorsteinn Viglundsson speak on their view of the future of Reykjavik Energy.

10.06'13

Public discussions of a connection between the Hellisheidi Power Station and boreholes in Hverahlid are launched. Debate regarding resource utilisation in the Hengill area follows, and a proposal on laying the pipe is approved before year-end.

28.05'13

Nordural loses in a case heard before an international arbitration court regarding payments for electricity purchased from Reykjavik Energy and other producers.

25.06'13

Invoices to Reykjavik Energy's power customers are improved , but it has been difficult to coordinate official requirements on the presentation of information on invoices with clarity.

24.04'13

A new water utility in Reykholtsdalur in Borgarfjordur is commissioned.

08.05'13

A pollution accident occurs in the protected water area in Blafjoll Mountains as hundreds of litres of oil leak down on the area while being transported by helicopter to the tourist location at Thrihnukagigur.

20.05'13

Reykjavik Energy enters into an agreement with Biokraft on the purchase of electricity from windmills and access to data on the production of wind-energy.

31.12'13

Reykjavik Energy introduces Our Nature, a subsidiary that will take over the production and sale of electricity.

19.12'13

Althingi passes a new comprehensive Act on Reykjavik Energy. It creates premises for the unbundling of the company at the beginning of 2014, as demanded by the Electricity Act.

16.12'13

A number of records are reached for the flow of water through the district heating utility during a cold spell in the capital region.

22.10'13

The Supreme Court of Iceland renders final judgement on public land issues in Hellisheidi, where the state demanded land that it previously sold to Reykjavik Energy. The outcome is acceptable to Reykjavik Energy despite its not winning a outright victory.

09.10'13

Reykjavik Energy completes the sale of its headquarters at Baejarhals 1 to a company owned by institutional investors. The building is leased for 20 years, with a right of purchase for a pre-determined price after 10 years and again upon expiration of the agreement.

16.10'13

Reitun-rating changes prospects for Reykjavik Energy's credit rating from stable to positive.

04.07'13

Reykjavik Energy's new service-oriented website is opened. Customers immediately respond positively.

02.07'13

Ban Ki-Moon, Secretary General of the United Nations, visits Hellisheidi Power Station and seems impressed by CEO Bjarni Bjarnason's presentation on utilisation of geothermal energy.

27.08'13

Reykjavik Energy's service regarding outages is improved by entering into an agreement with Emergency 1-1-2 on sending SMS messages to customers.

30.08'13

Reykjavik Energy undertakes to erect at least 10 fast recharging stations for electric cars under an agreement with the car dealerships B&L and Nissan Europe.

chapter

5

THE UNBUNDLING OF REYKJAVIK ENERGY

THE UNBUNDLING OF REYKJAVIK ENERGY

Reykjavik Energy operates under Act no. 136/2013. The operation is applicable to various special laws for the company's operation field. Owners of Reykjavik Energy are the city of Reykjavik (93.539%), the Township of Akranes (5.528%) and the Municipal of Borgarbyggd (0.933%).

On 1 January 2014 the provision of the Electricity Act that obligates companies in that market to segregate licensed from competitive parts of their operations came to effect. Distribution of electricity from substations to households and companies is operated under an exclusive permit, monitored by the National Energy Authority. However, production of electricity in power stations and its sale are competitive operations. In the beginning of 2014, Our Nature plc, began operating on the competitive electricity market as a subsidiary, wholly-owned by Reykjavik Energy.

The unbundling of Reykjavik Energy involved numerous tasks. Care had to be taken to maintain lenders' trust. The company had to guard that the changed Group got the benefit of tax credits, and that the finances of individual units were sufficiently solid after the split-up. The future will bring to light whether this was successful. It is very important to the company's owners and customers that this change in Reykjavik Energy's operations will cause them no damage.

In connection with the unbundling, Althingi passed a new comprehensive act for the company, Act no. 136/2013. It reflects decisions of the company's owners on its core operations. At the same time, decisions on the internal governance of Reykjavik Energy are more in the hands of the owners.

OPERATIONS TRANSFERRED TO SUBSIDIARIES

In order to ensure that the unbundling would surely be in accordance with governmental requirements without harming consumers, Reykjavik Energy's owners decided to segregate various aspects of the operations as clearly as possible. Mandatory services, water and sewage utilities, will be settled in a separate company, and exclusively licensed operations in another one. The competitive units in the field of electricity and fiber network are in independent companies, owned by Reykjavik Energy. The Group's management then bears responsibility for seeing that this changed organisation does not burden customers through poorer service or increased costs.

The core of Reykjavik Energy's operations is and will be utility services. They will continue to be operated under Reykjavik Energy's banner, both the mandatory municipal services, like water and sewage utilities, and the exclusively licensed services of electricity distribution and heating. The owners, Board of Directors and management of the company will be judged by the reliability and quality of these services.

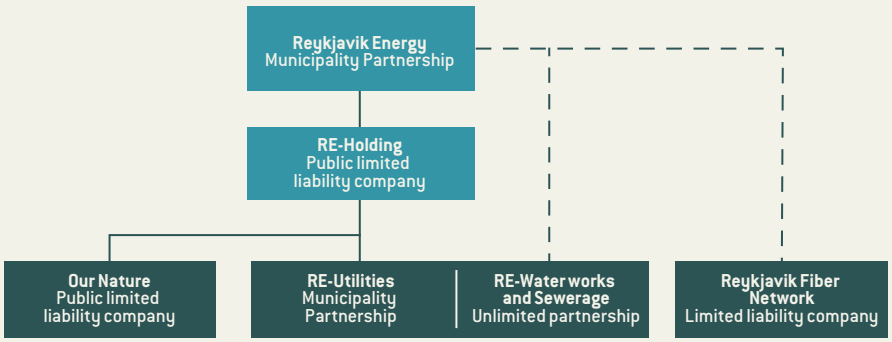
OUR NATURE PLC

A long history and wealth of experience underlie Reykjavik Energy's new subsidiary in the competitive market for electricity. There are still memorials to the time when it was necessary to

REYKJAVIK ENERGY'S NEW SUBSIDIARIES

Reykjavik Energy—Veitur ohf.	*Our Nature plc*
Board of Directors: Bjarni Bjarnason, chairman Gudrun Saevarsdóttir Skuli Skulason	**Board of Directors:** Ingvar Stefansson, chairman Agust Thorbjornsson Elin Smaradottir Hildigunnur H. Thorsteinsson Sveinbjorn Bjornsson
Employees: 150	Employees: 60
Managing Director: Inga Dora Hrolfsdottir	Managing Director: Pall Erland

THE REYKJAVIK ENERGY GROUP



burn oil in order to provide sufficient electricity in Reykjavik during peak periods and enough heat in cold spells. Power production from the resources in the Hengill area has made these structures obsolete. Since hot water began streaming from Nesjavellir, and later Hellisheidi, and electricity from geothermal power stations laid a foundation for providing electricity to the capital region, no power shortage has plagued Reykjavik Energy's customers. Not least, Our Nature plc possesses a wealth of experience in utilising geothermal energy.

Competition in the electricity market is not evident to the general public even though it has existed for many years. This will change. Companies and institutions, particularly those using considerable electricity, have solicited price offers ever since they could do so, for nearly a decade. There has been an oversupply of electricity in Iceland in recent years. This has called for resourcefulness on the part of sales companies—to make sensible offers and supply electricity to fulfil their duty of delivery in the most advantageous way possible. This market of course shows signs that one and the same party—the national power company Landsvirkjun—produces about three quarters of the electricity in Iceland and therefore determines a great deal about how purchases go on in the country.

Our Nature weighs heavily in the retail market and bears responsibilities accordingly. It's chief competitor is actually owned by the State, like Landsvirkjun, and it is therefore clear that the governmental parties must conduct themselves professionally if a reasonably competitive market is to develop in Iceland.

The guidelines that Our Nature has from the owners of Reykjavik Energy, the Board of Directors and management, support prevailing transparency in the operations at the same time as confidentiality with customers is observed.

THE GROUP'S POLICIES

With the unbundling of Reykjavik Energy, a considerable portion of the company's services is transferred to subsidiaries. In the parent company there will be a joint service division—with a service desk, home connection service and invoicing. However, the customers' view of Reykjavik Energy will to a substantial degree be determined by the performance of the subsidiaries' employees. For this reason the parent company must service the subsidiaries as well as possible and be responsible for particular aspects of services being coordinated. In formulating business strategies for the subsidiaries, it is endeavoured to ensure that the mandates of Reykjavik Energy's owners are pursued in all operations, that the activities do not become inflated, and that flexible collaboration prevails between the parent company and the individual subsidiaries.

A great deal of work by Reykjavik Energy's owners, Board of Directors and management underlies the company's owners' and business strategies. At the unbundling of the company, it was decided that the following policy documents of the parent company would apply to the entire Group, and that the subsidiaries' boards of directors and management shall be responsible for them being enforced.

POLICIES FOR THE REYKJAVIK ENERGY GROUP

- Owners' Strategy and BoD's Business Strategy and result indicators
- Quality Control Policy
- Information Security Policy
- HSE Policy
- Policy on the Environment and Natural Resources
- Human Resources Policy
- Code of Ethics
- Purchasing Policy
- Risk Policy
- Gender Equality Policy
- IT Policy

chapter

6

THE CUSTOMER COMES FIRST

THE CUSTOMER COMES FIRST

Reykjavik Energy's values - foresight, integrity and efficiency - constitute the guideline for all of the company's service. Emphasis is placed on respect for customers, dedication to providing good service, an engaging manner and reliable delivery.

Utilities providing water, heating, electricity, sewage disposal and information greatly enhance the quality of life. This is fundamental to Reykjavik Energy's service. At year-end 2013 the company's service division covered 20 municipalities from Grundarfjördur to Rangárvellir. Two thirds of the nation lives in this area. In order to minister to customers' needs, Reykjavik Energy operates utility systems. In addition, it produces electricity in four power stations in the south-west corner of Iceland.

Water utilities and sewage disposal are mandatory municipal services. Electricity distribution and most heating utilities are operated under exclusive governmental permits. Power production, the sale of electricity from power stations and information utilities operate in a competitive market.

UTILITIES' SERVICES IN 2013

Reykjavik Energy utilises a water source in Heidmörk. In addition, it operates water utilities in many parts of South and West Iceland. The purity of potable water is important because contamination of it is irreversible. Systematic efforts are therefore devoted to preventive measures and monitoring to ensure water quality. Risk factors are analysed in water protection areas and the distribution systems. Samples are regularly taken to monitor the ingredients of the water, and notices of needed repairs and improvements are responded to. The tasks vary by region. For example, the stress on the capital region's water protection area has increased because of traffic and various activities. Surface water is utilised in Akranes, and it is irradiated to ensure its quality. In May a new water source was taken into use in Steindórsstadir in Borgarfjördur for Reykholt and Kleppjárnsreykir. There potable water had been lacking in the summertime. Cold water resources in water supply areas are monitored with measurements of the water level in boreholes.

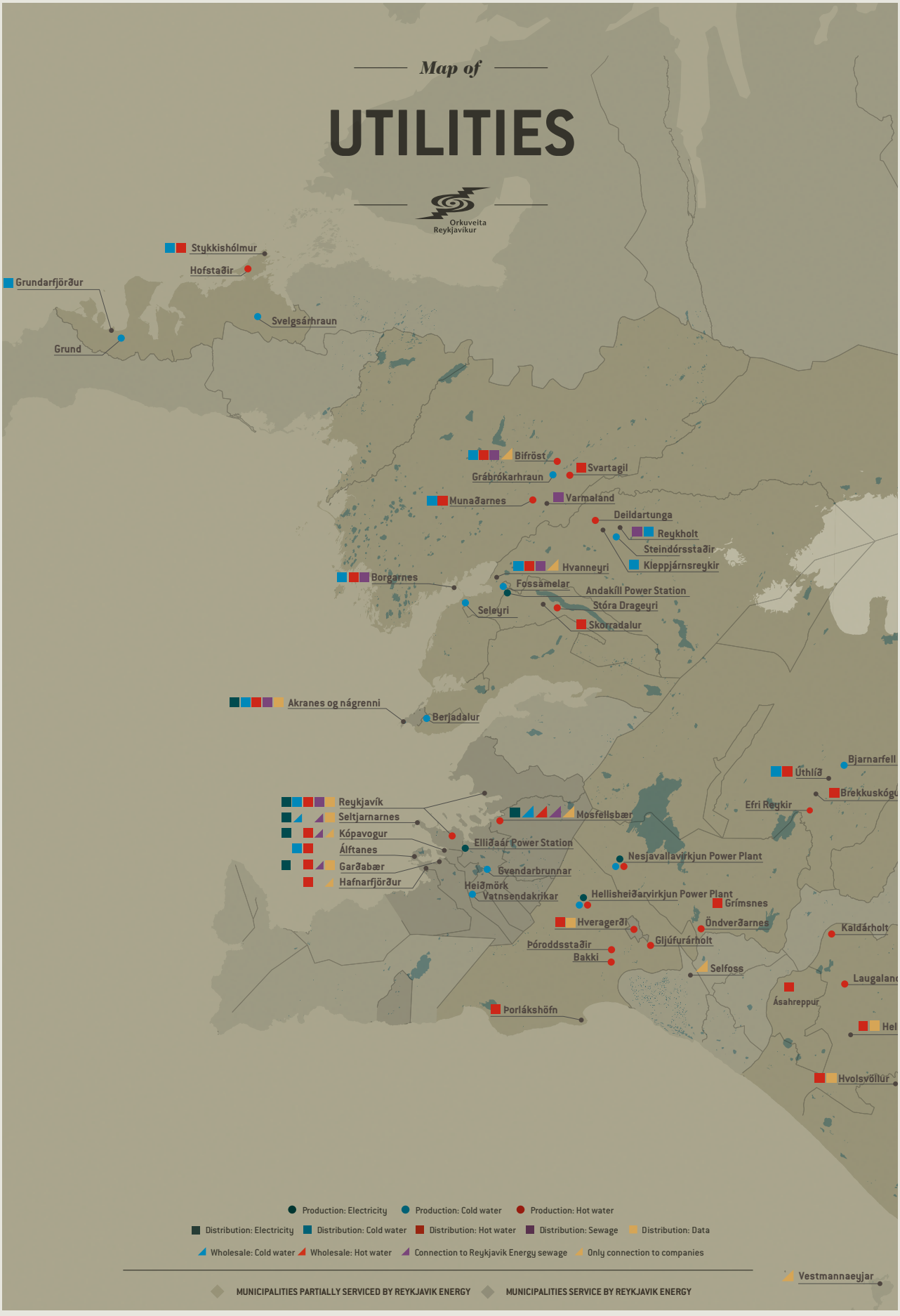
Reykjavik Energy has drawn attention to the importance of water protection in its comments on municipal land use plans, at symposia and in the mass media. In February the company organised a well-attended symposium on water protection in the capital region. Representatives from a number of stakeholders attended the symposium, and Reykjavik Energy's employees believe its results can be seen, for example, in the municipalities' planning proposals presented in 2013. In most of them protection of water sources has priority over other land use.

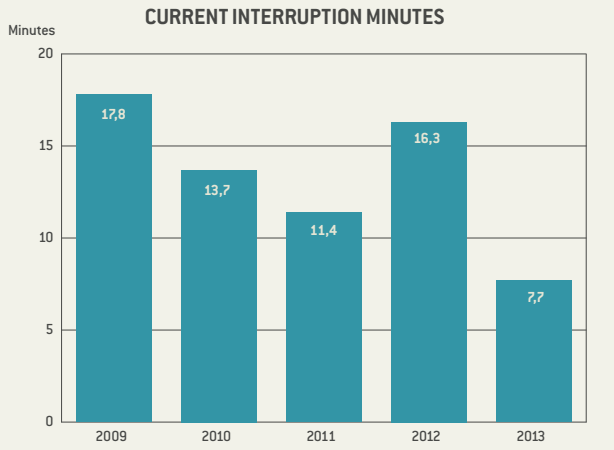
The protection of water sources will continue to be strongly emphasised to ensure safe drinking water for the public.

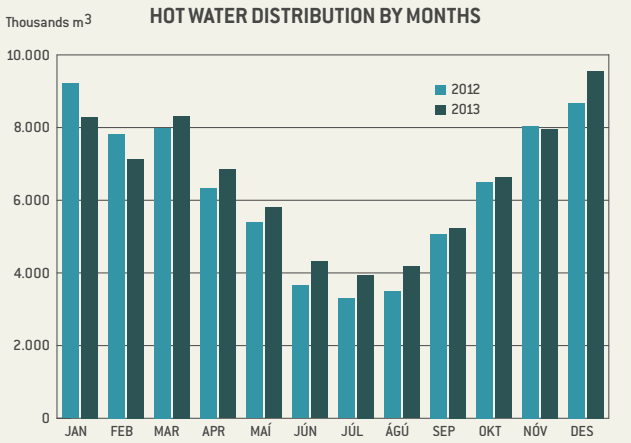
Reykjavik Energy operates 13 heating utilities in South and West Iceland. The largest utility is in Reykjavik, and it is, at the same time, the biggest heating utility in the world utilising geothermal energy. The production is closely monitored—how water levels, temperature and chemical content change in all of the geothermal areas utilised.

Decades of experience have been accumulated regarding the production of geothermal energy from Reykjavik Energy's numerous low-temperature areas. The geothermal areas' response to utilisation is closely monitored. Balance prevails between utilisation and water level in the capital region's low-temperature areas. The water level is generally good. Measurements in several areas show the necessity of considering alternatives for the acquisition of more water, and research is underway regarding this in West and South Iceland. Reykjavik Energy's annals will show 2013 as a year when multiple records were set in its operation of heating utilities. The use of hot water in the capital region has never been greater in a single year, and a record was set for monthly usage in December. On 6 December the hourly flow was comparable to the average flow in Ellidaá River.

The largest sewage utility project is the build-up in West Iceland during the last several years. There, Reykjavik Energy operates four organic sewage purification plants in remote rural areas, but financial


Map of
UTILITIES
Orkuveita Reykjavíkur
Stykkishólmur
Hofstaðir
Grundarfjörður
Svelgsárhraun
Grund
Bifröst
Svartagil
Grábrókarhraun
Munaðarnes
Varmaland
Deildartunga
Reykholt
Steindórsstaðir
Kleppjárnsreykir
Hvanneyri
Borgarnes
Fossamelar
Andakíll Power Station
Stóra Drageyri
Seleyri
Skorradalur
Akranes og nágrenni
Berjadalur
Úthlíð
Bjarnarfell
Brekkuskógur
Efri Reykir
Reykjavík
Seltjarnarnes
Kópavogur
Álftanes
Garðabær
Hafnarfjörður
Mosfellsbær
Elliðaár Power Station
Gvendarbrunnar
Heiðmörk
Vatnsendakrikar
Nesjavallavirkjun Power Plant
Hellisheiðarvirkjun Power Plant
Grímsnes
Hveragerði
Ölfus
Kaldárholt
Þóroddsstaðir
Bakki
Gljúfurárholt
Selfoss
Laugaland
Ásahreppur
Þorlákshöfn
Hvolsvöllur
Production: Electricity
Production: Cold water
Production: Hot water
Distribution: Electricity
Distribution: Cold water
Distribution: Hot water
Distribution: Sewage
Distribution: Data
Wholesale: Cold water
Wholesale: Hot water
Connection to Reykjavik Energy sewage
Only connection to companies
MUNICIPALITIES PARTIALLY SERVICED BY REYKJAVIK ENERGY
MUNICIPALITIES SERVICE BY REYKJAVIK ENERGY
Vestmannaeyjar





difficulties in recent years have delayed completion of the purification and pumping plants in Akranes, Borgarnes and Kjalarnes.

The quality of service in electric utilities is determined, among other things, by whether voltage fluctuations are frequent, and whether there are frequent outages. The quality of voltage is monitored and measurements are used to verify whether the system meets the requirements in current regulations and standards. The infrastructure reliability is also tracked by monitoring the average minutes without power per customer per year. They are measured by dividing the combined length of power outages experienced by customers by the number of the electric utility's customers.

MAIN OPERATIONAL DISRUPTIONS IN 2013

Utility system operations were successful during the year, and serious disruptions to operations were rare. There were several breakdowns in the Deildartunga main pipeline, which supplies the heating utilities of Akranes and Borgarnes with hot water. Users in the region were inconvenienced for this reason. The number of breakdowns in 2013 was similar to the previous years. The most serious breakdown occurred at the beginning of December when users in Akranes and neighbouring areas were without hot water for 12 hours in extremely cold weather.

There were no other big disturbances in operations for Reykjavik Energy's heating utilities, water utilities, sewage utilities or electric utilities during the year. During improvements to the heating utility in Árbaer in Reykjavik, it was necessary to shut off hot water for several days in the fall months. Also, various disturbances were connected with renewal operations on Hverfisgata in Reykjavik.

CHIEF MEASURES TO STRENGTHEN UTILITY SERVICES

- A new water source and associated pumping station in Steindórsstadir in Borgarfjördur was taken into use. This water source services Reykholtsdalur.
- Part of the mains for the heating utility in Borgarfjördur and Kjalarnes were renewed.
- There was a general renewal of pipes under the streets Klapparstígur, Hverfisgata and Frakkastígur in Reykjavik.
- A heating utility main at Bæjarbraut in Árbaer in Reykjavik was renewed.
- Part of the overhead power lines in Gufunes, Mosfellbaer, Úlfarsárdalur and Kjalarnes were placed underground.

RESEARCH ON UTILITY SYSTEMS AND THEIR DEVELOPMENT

The operation of utilities requires looking far into the future—decades and even centuries. For this purpose in 2013, design premises, simulation models and usage forecasts were particularly examined. In preparing forecasts, fluctuations over both a several-year period and each day are considered. The forecasts are used to strengthen the reliability of the grid and increase knowledge of the interaction between grid systems, weather and usage.

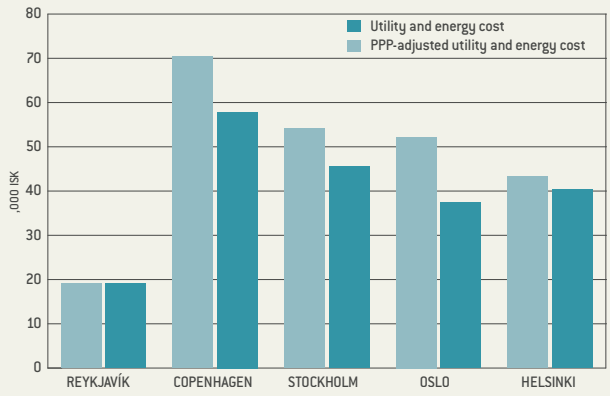
Reykjavik Energy's staff participated actively in developing municipalities' planning proposals in 2013. Detailed comments were sent to municipal councils in Reykjavik, Kópavogur and Hafnarfjördur because of changes in the general plan. There was good collaboration with the Union of Local Governments in the capital region while revising the regional plan.

BETTER SERVICE FOR YOU!

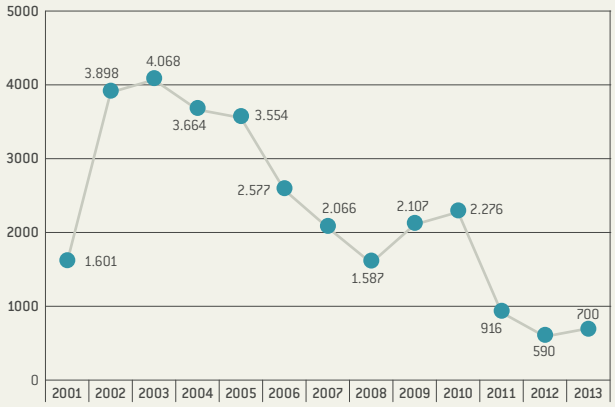
As employees of Reykjavik Energy we deeply care about the security and quality of life of our customers. We listen to their wishes and endeavour to respond to them quickly. To highlight this point, the company has issued the following service promises:

- Engagement. We listen, provide advice and warmly receive customers.
- Response time. We answer customers as quickly as possible and call back the same day, if requested.
- Resolution of issues. We resolve issues professionally and provide information on progress in doing so.
- Reliability. We respond as quickly as possible. In instances of

MONTHLY ENERGY AND UTILITY COST AND PURCHASE POWER



NUMBER OF CLOSURES



breakdown, we emphasise preventing accidents to people and/or damage to structures.

- Safety. We prioritise the safety of customers and employees. We are responsible on site. We cordon off work areas, and we are visible at the site.

In order to monitor how well we abide by these promises, systematic service surveys are done.

It is of considerable importance to Reykjavik Energy's customers to have clear information on what can be expected when outages occur because of a breakdown or maintenance, how long the disruption will last, and to whom they can turn to if necessary. In order to respond to this need, an agreement was made with Emergency 1-1-2 to send text messages to residents inconvenienced because of outages. Also, an effort was made to improve the provision of information on Reykjavik Energy's website and on the company's Facebook page.

Reykjavik Energy's website got a facelift during the year. The emphasis was on creating a service oriented website for customers, in order to facilitate their access to useful information on products and services. Reykjavik Energy's electronic services were improved, and people's possibilities for self-service on the website were increased.

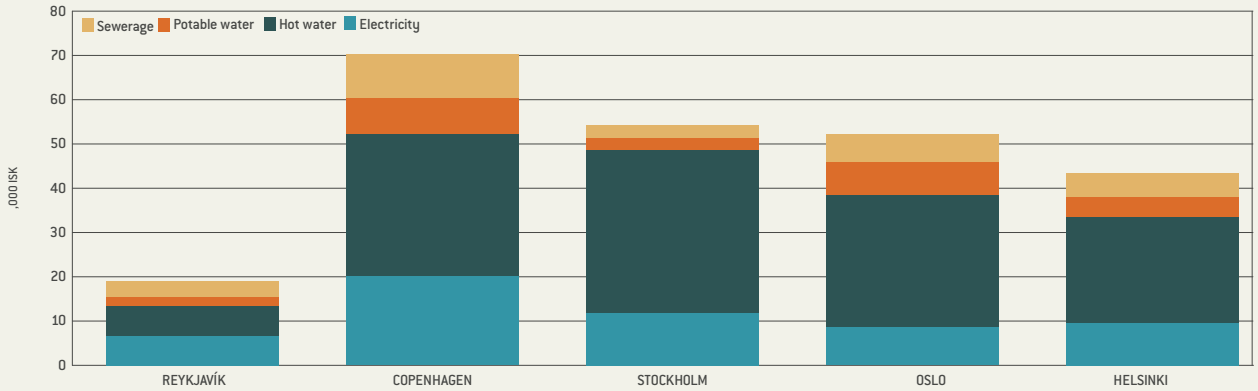
In the service surveys in previous years, customers pointed out that invoices were complicated and difficult to grasp. The invoice was redesigned, and the new version came out during the year. There has been general satisfaction with the outcome. Clearly, the layout will always be fairly complicated because of regulatory provisions.

The number of customers having payment difficulties has increased. Reykjavik Energy's goal is to assist them to get rid of arrears and avoid their water or electricity being shut off. By attempting to reach agreements with customers on spreading out payments and by changing the collections process, the number of closures has substantially decreased in recent years.

ENERGY PRODUCTION

During 2013 preparations were made for segregating competitive and exclusively licensed parts of Reykjavik Energy's operations. At year-end a new company was founded - Our Nature (Orka náttúrunnar) - which operates all of Reykjavik Energy's power stations and sells electricity on the competitive market.

COST OF UTILITIES AND POWER IN THE NORDIC COUNTRIES: OCTOBER 2013



Criteria: Household of three in a 100 m² apartment; 4,800 kWh of electricity, 495 m³ of hot water, 240 m³ of potable water.

Our Nature is wholly owned by Reykjavik Energy and replaced the company's Power production and electricity sales. During the change, the company production and electricity sales to minimise inconvenience for customers and/or price increases. A new trademark was introduced at the end of 2013.

Electricity sales staff heavily emphasise benefiting customers by advising them of suitable rates and power-load distribution. Companies' tenders of electricity purchases continue to increase. Reykjavik Energy's performance in this increased competition was good in 2013. This can be seen both in the fact that the company had no unsold power on the general market, and in the fact that service surveys of major customers showed their increasing satisfaction with the services.

In the first half of the year, there was a ruling in a dispute over Nordural's reduced electricity purchases because of how long the Helguvik project had been drawn out. The ruling was favourable to Reykjavik Energy and other energy providers.

Our Nature took over the operations of four power stations. The oldest one is the Ellidaár Station, which was taken into use in 1921. For environmental reasons its operations have become extremely limited. In the latter part of 2013, breakdowns occurred in the station's intake pipe. Analysis of the breakdown led to launching repairs, but it was not taken for granted that the power station would continue operating. The next oldest is Andakílsá Power Station from 1947.

The largest facilities are the geothermal power stations in the Hengill area, Nesjavellir Power Station and Hellisheidi Power Station. Both produce hot water for the heating utility in the capital area and electricity for major users in the general market. Both power stations are deemed to be fully built. Attitudes on environmental affairs have changed since their construction began, and current construction in the power station area is mostly based on fulfilling those requirements.

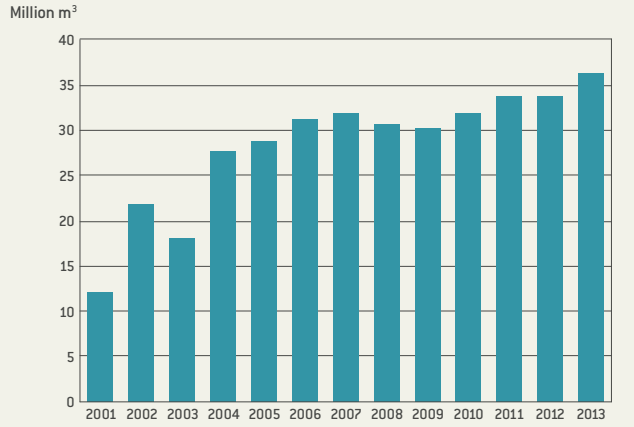
MORE SATISFIED CUSTOMERS

Since around the turn of the century, Reykjavik Energy has taken part in measurements of the Icelandic Customer Satisfaction Index on customers' satisfaction with individual power companies in the competitive market. The company got high ratings at first. After the economic collapse they sank considerably, just like for other power companies. Now, things are swinging back the other way, and between 2012 and 2013 no other company's rating rose as much as Reykjavik Energy's. This indicates its improving image. From here on Orka náttúrunnar will be measured in the Icelandic Customer Satisfaction Index. It is extremely important for the new subsidiary to succeed, and emphasis is placed on effectively presenting the new company, its name, brand and good service.

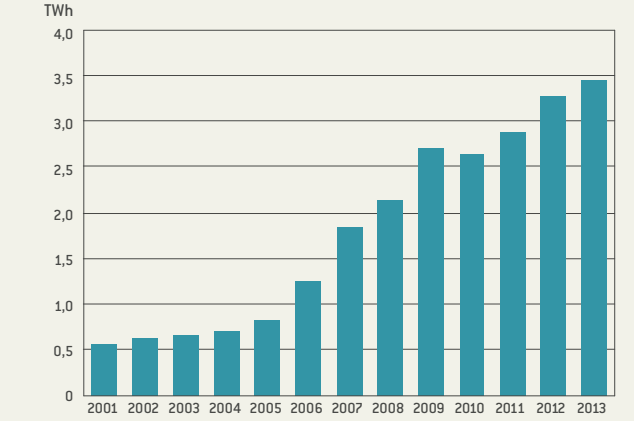
LAND IMPROVEMENTS IN THE HENGILL AREA

Environmental improvements in the construction area near Hellisheidi Power Station may be divided into two parts. On one hand, it involves finishing of the inventory areas prepared for pipes and other building materials for the power station. Also falling into this category is finishing of materials and soil at drilling sites. On the other hand, the vegetation and ecosystems disturbed during construction are being restored. Under the management of the power stations' Director of Land Reclamation both of these features were worked on in 2013. Work on the latter was based on research done in previous years in collaboration between Reykjavik Energy and Agricultural University of Iceland in Hvanneyri. The goal of land reclamation is to restore the same vegetation as there was before instead

REYKJAVIK ENERGY'S PRODUCTION OF ELECTRICITY



PRODUCTION OF HOT WATER IN THE POWER STATIONS



of bringing in types from outside the area. Finishing is done in accordance with a plan initiated in 2012 that goes through 2019. Restoring vegetation is part of the power station's daily operations.

CONNECTION OF HELLISHEIDI POWER STATION WITH HVERAHLÍD

In 2013, it became more apparent that additional steam to maintain full production of Hellisheidi Power Station would not be available at present from the production area around the power station. Approval was given to start connecting the power station with robust boreholes that are already available at Hverahlíd. This connection has several advantages:

- It is deemed more advantageous than drilling new holes in the current production area with uncertain results.
- The steam from Hverahlíd is drier than steam in the poorest holes currently utilised, and this reduces the need for re-injection of production liquid.
- Experience is gained from the production in the high-temperature area in Hverahlíd before decisions are made about future production there.

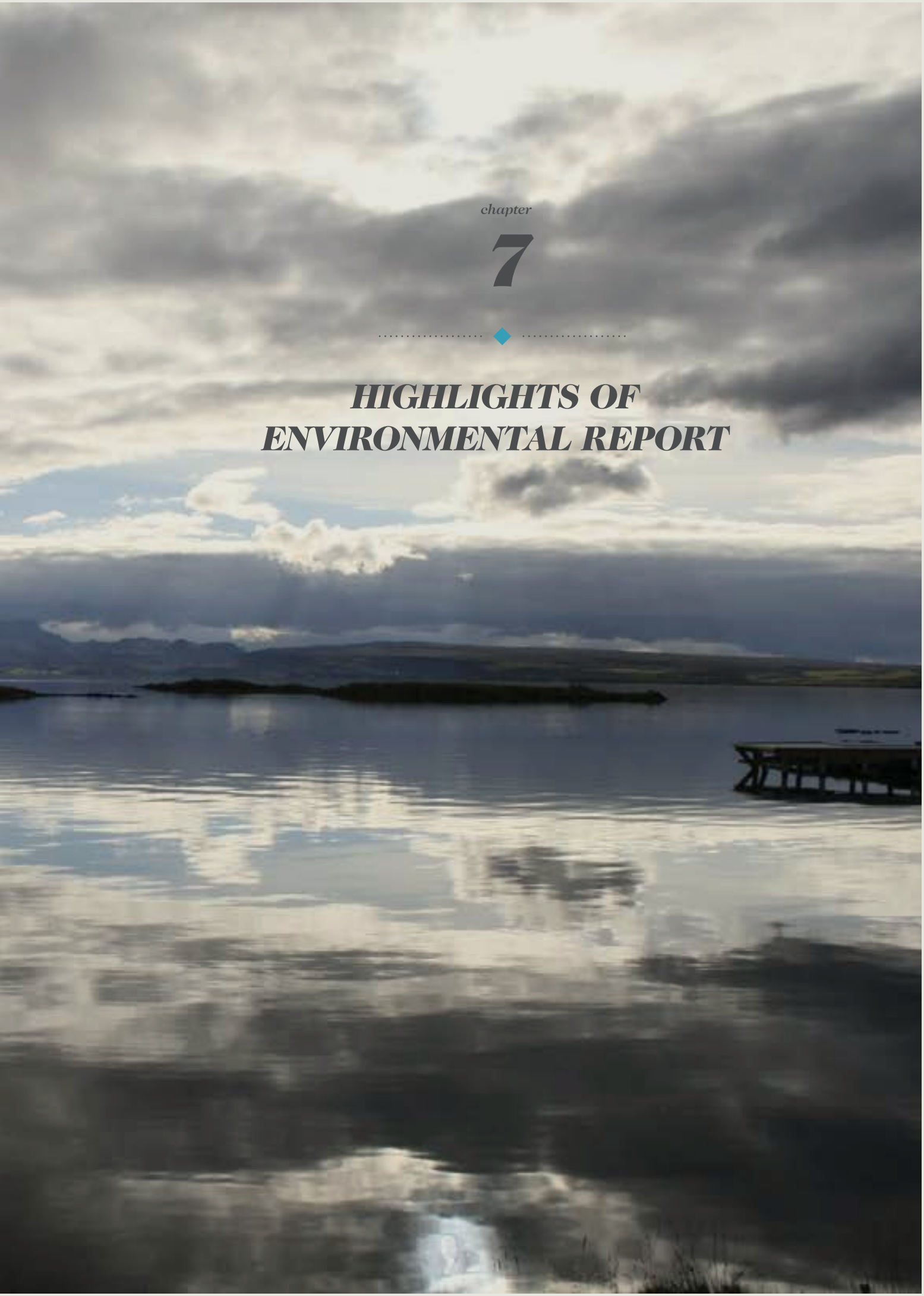
HYDROGEN SULPHIDE

In 2013 construction of a gas extraction station began at the Hellisheidi Power Station. Its function is to remove hydrogen sulphide from the power station's emissions. The construction will be finished in April 2014, and the estimated cost is over ISK 290 million. The construction started after obtaining promising findings from scientists on the possibility of sequestering geothermal gases in layers of bedrock at the power station.

The results in 2013 of the CarbFix innovation project support the hypothesis on re-injecting carbon dioxide into layers of bedrock. The results will be utilised directly in the SulFix project, which aims at extracting hydrogen sulphide from the emissions from Hellisheidi Power Station. The projects are examples of collaboration between an Icelandic company and universities, where

concepts have been developed into an actual project utilised by the business community.

Reykjavik Energy's future vision is to reduce emissions of hydrogen sulphide as much as possible and emphasise research and development in that area in good collaboration with stakeholders.



chapter

7

HIGHLIGHTS OF ENVIRONMENTAL REPORT

HIGHLIGHTS OF ENVIRONMENTAL REPORT

In 2013 Reykjavik Energy's operation was in compliance with the new policy on the environment and resources that the company's Board of Directors approved in the latter part of 2012. It involves systematic assessment of which environmental aspects in the operations are significant and the analysis of these aspects and their management.

SIGNIFICANT ENVIRONMENTAL ASPECTS

Organised management and reforms, in accordance with the environmental and resource policy, cover 21 significant environmental aspects. They include defined objectives, describing Reykjavik Energy's policy for each aspect. All data that have been and will be collected are mapped to show the status of the operations versus the objectives. Focus is on who holds responsibility for or takes initiative on gathering and processing information, and who makes a decision regarding response, if deemed necessary.

RESPONSIBLE RESOURCE MANAGEMENT

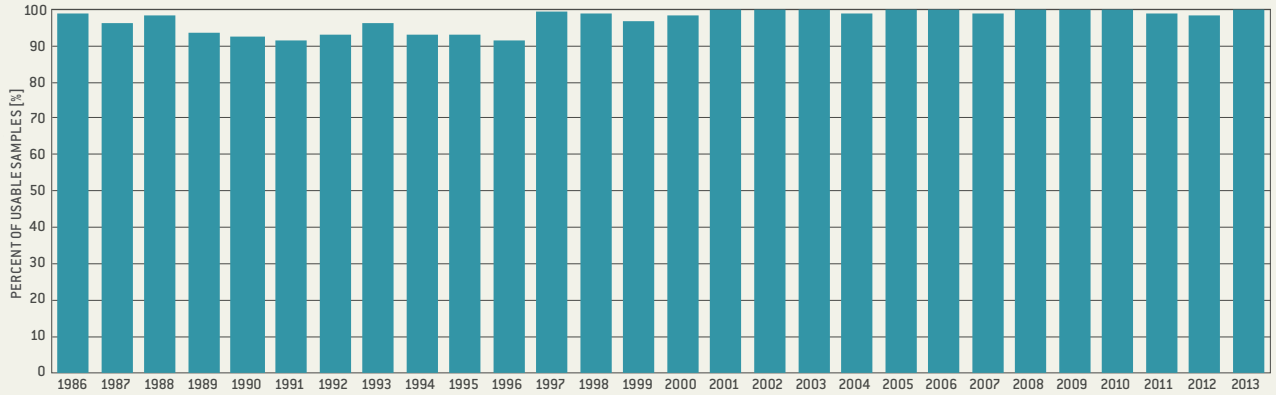
Reykjavik Energy bears responsibility for the resources it utilises. The response to utilisation of hot and cold water production areas is monitored. Groundwater levels have not fallen below benchmarks in water reservoirs, and utilisation and water levels are in balance in low-temperature areas in the capital region. Groundwater levels in low-temperature areas in West and South Iceland are generally good even though measurements in few areas show that alternative sources for obtaining more water must be considered. This work has already begun.

In the high-temperature areas in Hellisheidi and Nesjavellir, power production conforms to power station licence. Research in the current production area of Hellisheidi Power Station shows that the area will not support future production in the station because of drawdown (pressure drop) in the extraction site. The most viable short-term solution is to pipe steam to Hellisheidi Power Station from the geothermal area in Hverahlid, utilising the existing boreholes there and thus ensure the power station's production. Decisions on this were taken in 2013 in consultation with the owners and licensors.

Construction at Hellisheidi Power Station during the previous decade required a great deal of land. The emphasis is now on the restoration and reclamation of disturbed areas in cooperation with licenssors.

Reykjavik Energy has upheld the importance of water protection in it's opinions on organisational plans, at symposium and the

QUALITY OF POTABLE WATER IN THE CAPITAL REGION



mass media. The protection and responsible utilisation of water sources are among the company's key emphases so that it can fulfil its duties and meet the needs of people and companies in the utility area for water far into the future.

Each year samples for microbial testing are taken from Reykjavik Energy's water utilities. The figure on previous page shows the quality of potable water for the last 28 years in Reykjavik. Samples are also taken for overall chemical analysis. Last year all samples in the company's utility area fulfilled quality requirements. A new water utility serving Reykholtsdalur in Borgarfjordur was taken into use in 2013.

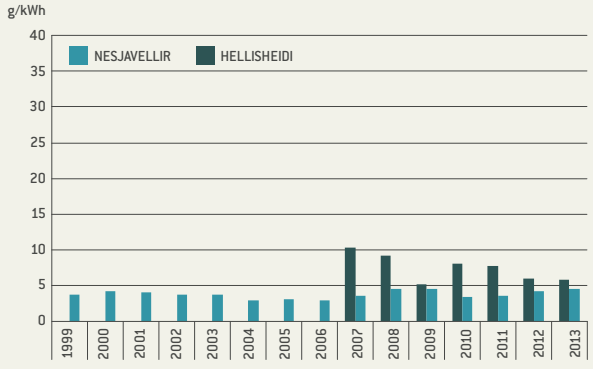
VALUE OF UTILITY OPERATIONS

Reykjavik Energy's production and utility operations are prerequisites for the access of people and companies to clean potable water, hot water for heating, electricity and sewage disposal. The company thus promotes healthful living conditions for the public and creates opportunities for environmentally sound activities. Chapter six relates in detail how the company's operation of utilities fulfilled duties and expectations.

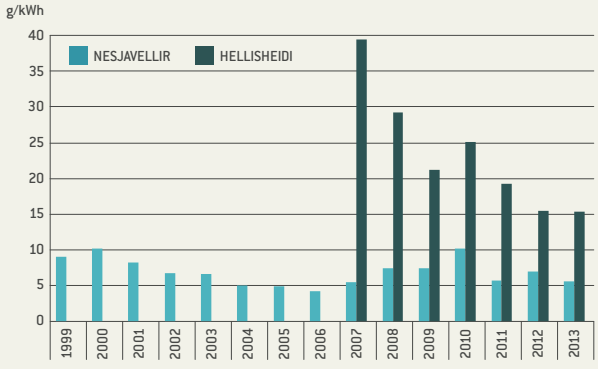
IMPACT OF EMISSIONS

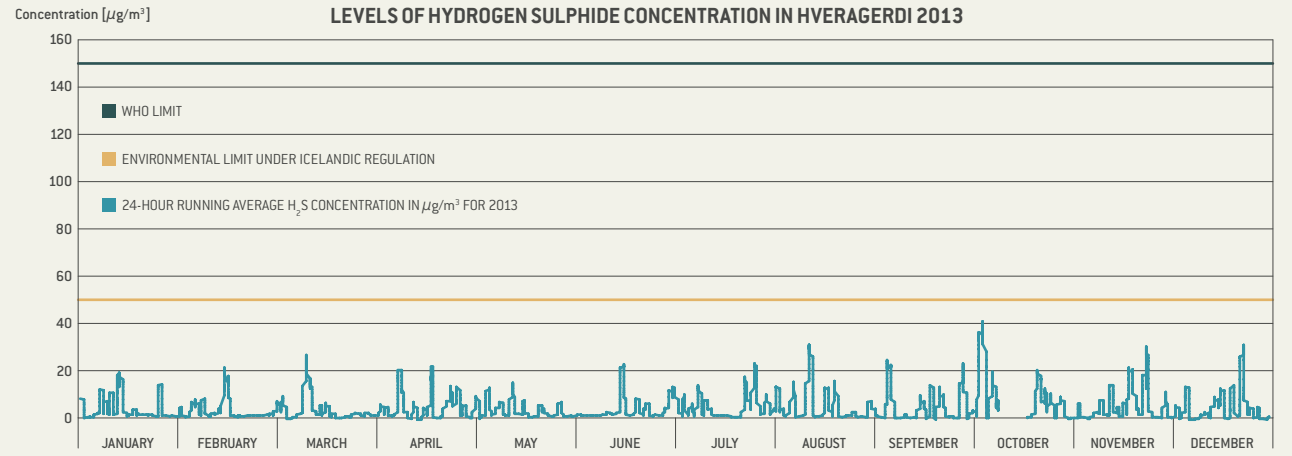
Hydrogen sulphide and carbon dioxide are emitted in some quantity during energy production in Nesjavellir and Hellisheidi (see figures below). Carbon dioxide is a greenhouse gas, and hydrogen sulphide causes odour pollution and is toxic in high concentration. It must be kept in mind that carbon dioxide emissions per unit of energy from Reykjavik Energy's power stations in the Hengill area are about one third of the emissions from coal-powered plants of comparable size.

EMISSIONS OF HYDROGEN SULPHIDE PER ENERGY UNIT
FROM HELLISHEIDI POWER STATION 2007–2013 AND
FROM NESJAVELLIR POWER STATION 1999–2013



EMISSIONS OF CARBON DIOXIDE PER ENERGY UNIT
FROM HELLISHEIDI POWER STATION 2007–2013 AND
FROM NESJAVELLIR POWER STATION 1999–2013





The greatest environmental issue which Reykjavik Energy is now facing in its operations is the emission of hydrogen sulphide from power stations in the Hengill area. These were about 30,000 tons in 2013. The concentration of hydrogen sulphide in the atmosphere in the power station areas and settled areas is measured in collaboration with the public health authorities. The results of measurements are found at www.heilbrigdiseftirlitid.is. In December 2013 guidelines of a procedure of the Environment Agency of Iceland, Reykjavik Energy, Landsvirkjun and HS Orka was completed on the handling and interpretation of results from air quality monitoring stations. The procedure is important for coordinating the method applied by all parties involved. In 2013 the concentration of hydrogen sulphide was below the annual set average in Hveragerdi (4.2 µg/m^3) and Nordlingaholt (4.3 µg/m^3). In Nordlingaholt the concentration of hydrogen sulphide once exceeded the benchmark for the maximum running 24-hour mean. The concentration of hydrogen sulphide never exceeded notification limits in 2013.

Experiments have been done in Hellisheidi to re-inject geothermal gases into bedrock, and they are linked: CarbFix regarding carbon dioxide and SulFix regarding hydrogen sulphide.

The results of the CarbFix innovation project support the hypothesis on permanent mineralisation of carbon dioxide in basalt. These results are utilised in the SulFix project, where sequestration of hydrogen sulphide emissions from Hellisheidi Power Station is being worked on. The CarbFix project is an example of collaboration between an Icelandic company and universities, where a concept has been developed into an actual project utilised by the business community. Clearly, Reykjavik Energy is much better prepared to tackle the many demanding undertakings accompanying SulFix because of the experience and associations from CarbFix.

The SulFix project was developed through collaboration between Reykjavik Energy, Landsvirkjun and HS Orka. Reykjavik Energy began building a gas extraction station at Hellisheidi Power Station in the fall of 2013 to deal with geothermal gas. Re-injection is to begin in April 2014. The first step is to remove hydrogen sulphide produced from one of the power station's turbines, which accounts for up to 15% of the quantity emitted daily.

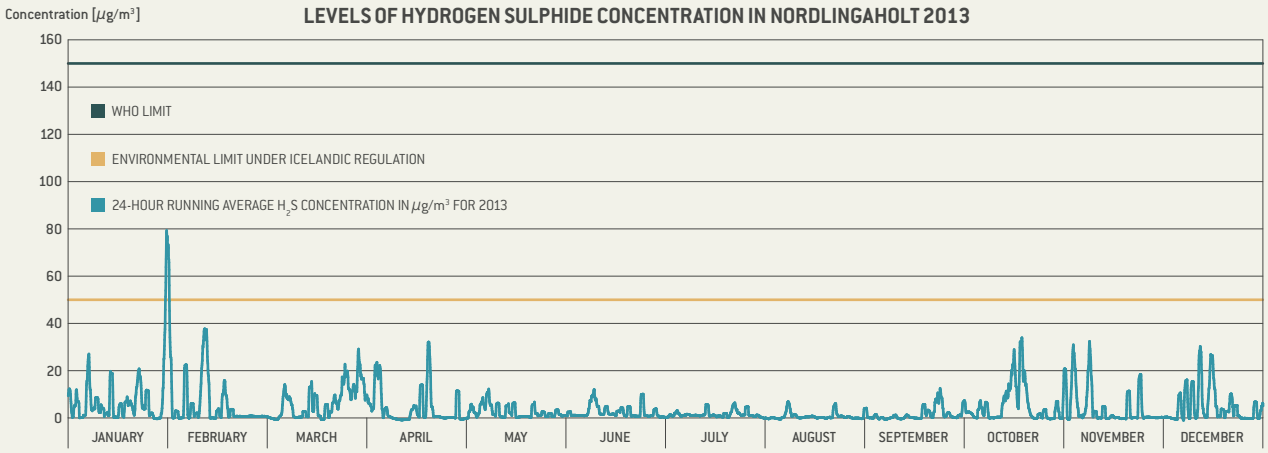
At Hellisheidi Power Station disposal water is re-injected into the geothermal reservoir. Reception from the injection areas has dropped. Increasing it again is being worked on. In 2013 there was little seismic activity connected with the re-injection of disposal water. Stakeholders are informed of changes in re-injection if it is deemed that it could cause seismic activity.

At Nesjavellir a considerable quantity of hot water from the heating utility is disposed of on the surface during the summer when there is little demand for hot water for space heating. Its production is part of the power station's cooling system. Measurements show that the temperature of the water in springs at Lake Thingvallavatn has risen because of this (see the figure next page). The aim is to reduce the discharge of heat at Nesjavellir Power Station by stopping the surface discharge of hot water from the power plant before year-end 2016.

The impact of the power stations on groundwater in boreholes near the stations is monitored. The concentration of chemicals in the holes is far below the limits permitted for potable water.

The discharge of wastewater from Reykjavik Energy's sewage treatment plants in the capital area and West Iceland conforms to licences. The discharge of drainage through overflows in the capital area is within limits, and emergency overflows were not active.

LEVELS OF HYDROGEN SULPHIDE CONCENTRATION IN NORDLINGAHOLT 2013



IMPACT ON SOCIETY

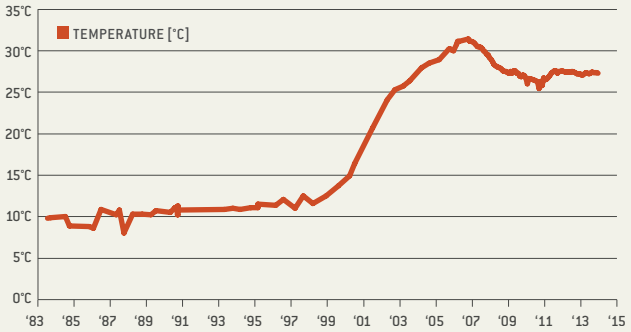
Reykjavik Energy wants to share knowledge about the utilisation of geothermal energy and aspects of the utility operations. Reports and articles written by employees or others for the company in 2013 are now accessible on the company's website.

The need for purchases was purposefully analysed, and efforts focused on utilising supplies well.

OPERATIONS

Reykjavik Energy's employees want to utilise materials well, keep things tidy and handle waste in a responsible manner. Each employee makes his own contribution for this purpose. The trend of adopting electric cars will continue to be monitored and supported.

WATER TEMPERATURE IN VARMAGJÁ AT THINGVALLAVATN 1983-2013



REYKJAVIK ENERGY'S CARBON FOOTPRINT

The net greenhouse gas emissions from Reykjavik Energy's operations in 2013 were about 60,000 t of CO_2-equivalents. The emissions were about 1.4% of the total emissions in Iceland.

chapter

8

HUMAN RESOURCES

HUMAN RESOURCES

Reykjavik Energy depends on having employees with the apropriate education, experience and knowledge, who work enthusiastically toward the company's objectives.

EMPLOYEES

Reykjavik Energy has benefited from having both qualified and experienced employees. There were 420 permanent employees at year-end 2013, comprising 296 men and 124 women. The average age was 48 years and the average length of service 13.6 years. The number of permanent employees decreased in 2013 by 6.

Total staff turnover during the year was 7.6%. This figure includes all who quit working for the company, regardless of reason. Voluntary turnover that includes only those who resigned was 4.5%.

REYKJAVIK ENERGY'S HUMAN RESOURCES POLICY

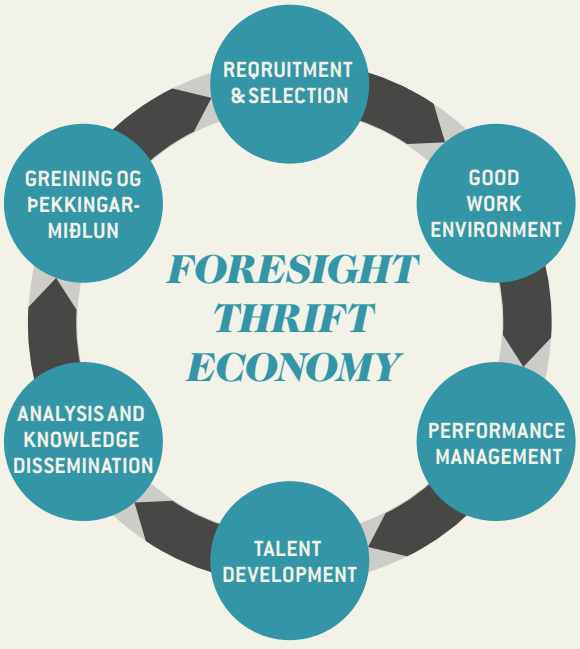
In the first half of 2013, a new human resources policy for the company was approved. The policy states:

- Qualified and satisfied employees work at Reykjavik Energy. They have the ambition and capacity to perform tasks that the company's operations call for.
- The company is a desirable workplace, where professional knowledge and spirit of service go hand-in-hand, and facilities and wage terms are competitive.
- Reykjavik Energy ensures that employees enjoy equal rights.
- Reykjavik Energy emphasises purposeful human resources management so that the company's human resources are optimally utilised.

In parallel the key emphasis of human resources affairs were defined.

SAFETY, HEALTH AND WORK ENVIRONMENT

Reykjavik Energy wants to be exemplary in matters involving safety, health and work environment. The company resolves to protect and improve the lives of those working for it, by designing an accident-free workplace, where no employee, contractor or resident will be injured because of work they do or because of the operations. All of those working for Reykjavik Energy are responsible for their own safety. They are spokespersons for the increased safety of their co-workers and strive to spot, assess and manage risks in the work environment. Reykjavik Energy is certified under safety management standard OHSAS 18001 and follows it.



In 2013 there were eight accidents leading to absence from work for Reykjavik Energy's employees. An accident leading to absence from work entails that the person involved is unable to work for at least the next seven calendar days after the event. None of these instances involved long-term absence, and it is unlikely that any of the employees affected will have permanent damage.

The most important risk factors in the tasks performed for the company were defined. Such factors include the risk of falling and risk of fire. A general risk assessment has been prepared for about half of these risk factors, and instructions or rules on their management have been issued. This benefits employees by enabling them to assess the risks of their own jobs.

The main emphases in instruction and training in the issue category were on the preparation of a risk assessment, recording of accidents and risk events, analysis of the causes and reforms in their wake. The participants were managers, general employees, summer employees and contractors. In addition lectures were given, and articles were published on various health--related matters, like diet, exercise and ergonomics.

TRAINING AND EDUCATION

Reykjavik Energy emphasises employees' qualifications by investing in training and education. In 2013, 160 diverse educational events were held. On average each employee attended 10 of them. Reykjavik Energy assigns great importance to greeting new employees in a good manner. This year efforts focused on re-defining the orientation, preparing a new manual and training work mentors to welcome new employees.

One of the key projects this year was strengthening Reykjavik Energy's employee group with courses entitled "Words in Action". The participants worked on the company's values, strengthening teamwork, goal-setting and communications.

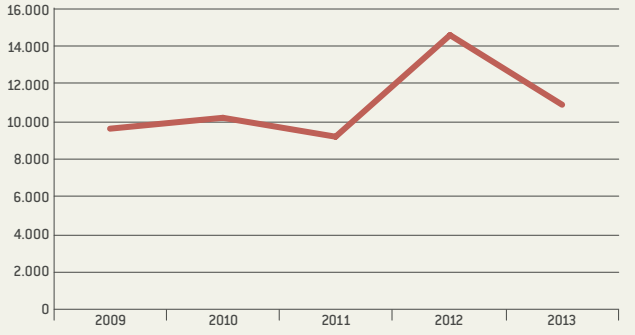
WORKPLACE ANALYSIS

During the year, various projects focused on strengthening morale and increasing job satisfaction. At the end of 2013, a workplace analysis was carried out. Employees were asked about their attitudes toward the workplace and job satisfaction. The findings of the analysis show that morale is improving considerably. Employees are generally satisfied with Reykjavik Energy as a workplace. The conditions are good, the sense of team strong, and the goals and vision are clear. Employees' ratings of the workplace are high even though . overall job satisfaction dropped slightly from the previous year. Opportunities in the survey findings will be analysed and purposefully worked with.

HEALTH DEVELOPMENT

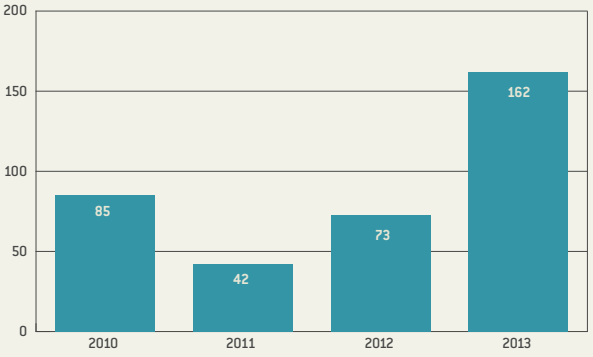
In 2013 an employee health development campaign was launched with the goal of improving well-being, health and job satisfaction. Employees were offered, for example, a comprehensive health examination, which 78% of the employees took advantage of. Subsequently, a health plan was formulated for Reykjavik Energy. It entails a number of projects that were worked on in 2013 and will be followed up on in coming months.

TREND OF THE NUMBER OF ACCIDENTS LEADING TO ABSENCE FROM WORK
BASED ON $1 MILLION WORK HOURS*

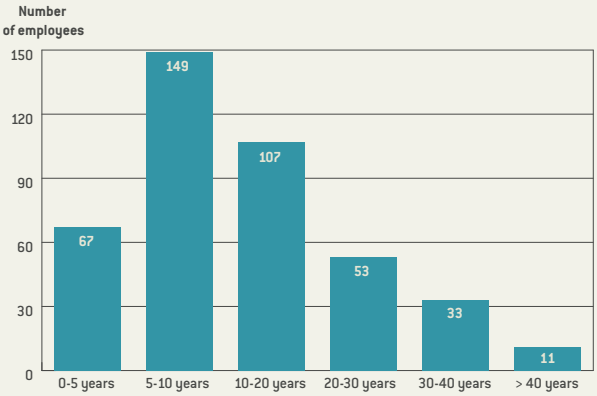


*CALCULATED ON THE BASIS OF ACTIVE WORK HOURS, VACATIONS NOT INCLUDED

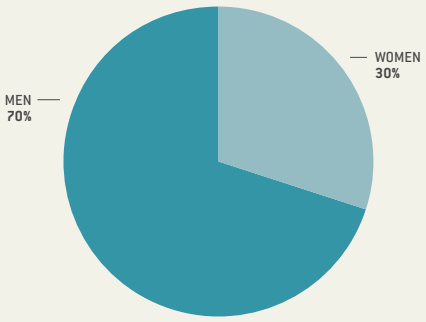
NUMBER OF EDUCATIONAL EVENTS



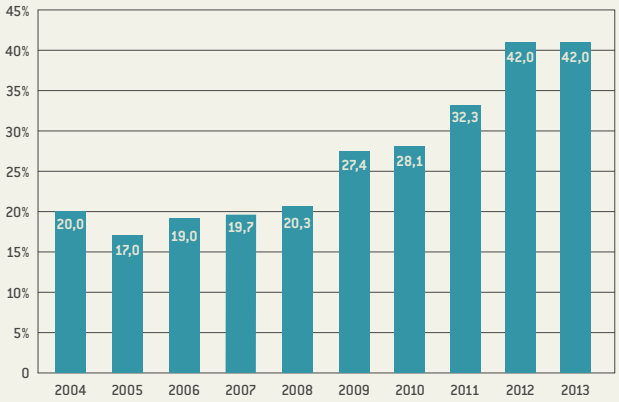
JOB TENURE



DIVISION OF STAFF BY GENDER



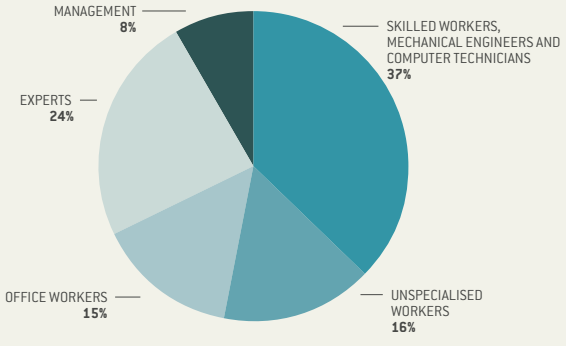
PROPORTION OF WOMEN IN MANAGEMENT IN PARENT COMPANY



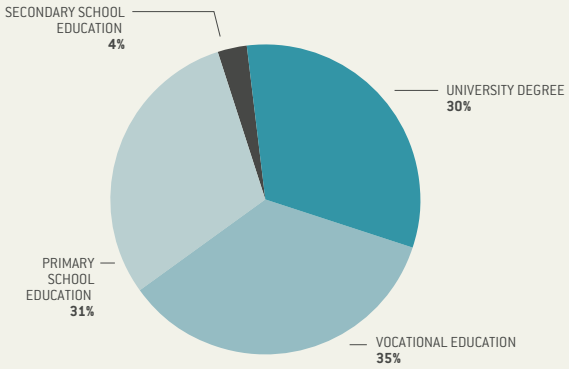
EQUALITY

An equality committee is working at Reykjavik Energy. Its brief is to follow up on the company's equality plan, have an overview of equal rights affairs and whether the company is adhering to Act no. 10 of 2008 on the equal status and equal rights of women and men. The committee worked on a new action plan for equality for the period 2014 to 2016. The executive board approved it, and it was sent to the Centre for Equality. Reykjavik Energy emphasises that women and men shall be evaluated on their own merits, have equal possibilities and the same rights for jobs and job development. Reykjavik Energy has in recent years worked towards increasing the number of women in management positions. In 2013 women constituted 42% of Reykjavik Energy's managers and 30% of its employees. A wage equality survey was conducted, and in following its findings, systematic efforts were made to reduce unexplained gender wage gap.

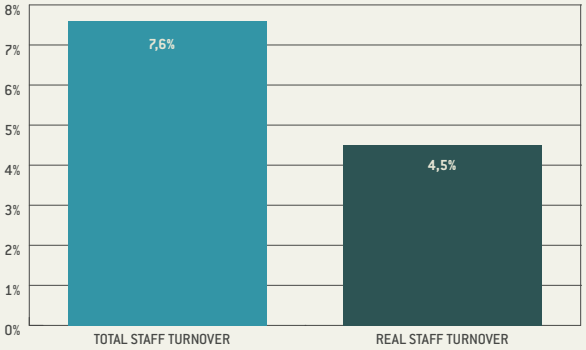
JOB TYPE DISTRIBUTION

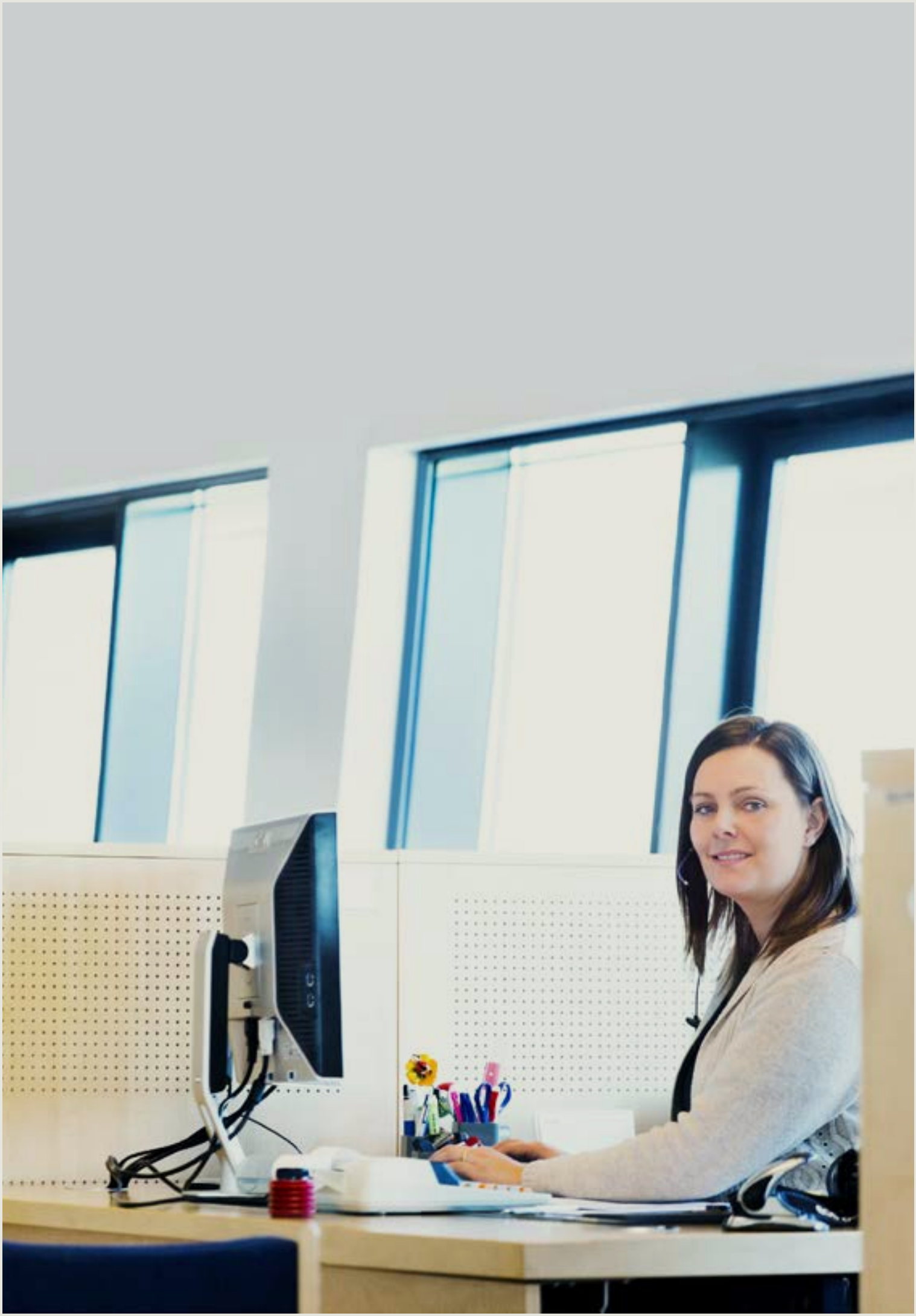


EMPLOYEE EDUCATION



TOTAL STAFF TURNOVER 2013

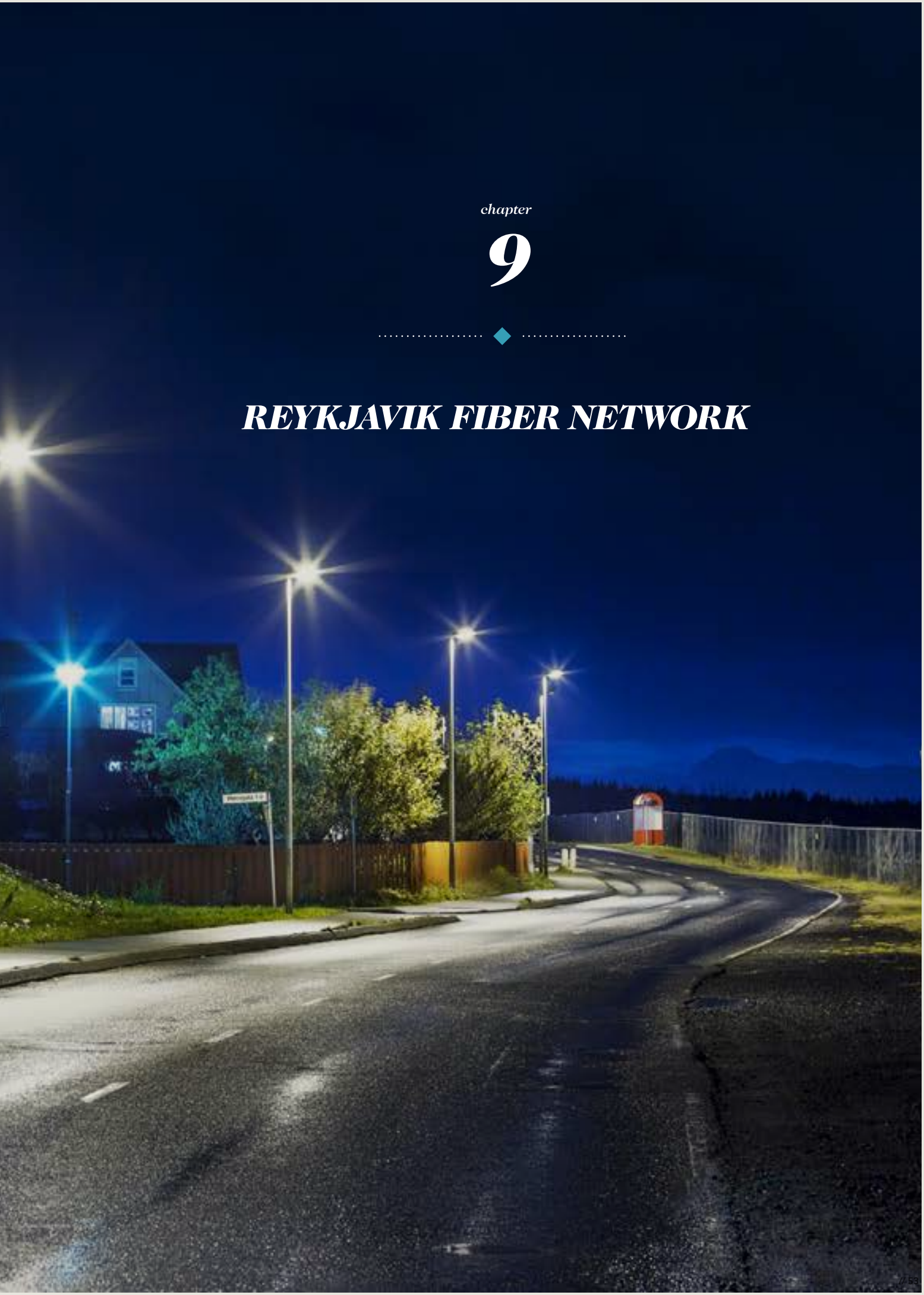




chapter

9

REYKJAVIK FIBER NETWORK



REYKJAVIK FIBER NETWORK

Reykjavik Fiber Network (Gagnaveita Reykjavíkur or GR) is a telecommunications company owned by Reykjavik Energy. GR's mission is to deploy and operate a high-speed data transport system that builds on fiber-optic cables and IP network technology.

In 2013 GR continued building up a fiber-optic cable network which is being deployed in the country's south-west region. The deployment of fiber to homes in Reykjavik will be finished in 2014. Fiber networks are the most powerful telecommunication networks available.

The number of homes connected increased by 5,700 in 2013 and at year-end more than 57,700 homes were connected to the network. GR had by then completed deployment in Akranes, Seltjarnarnes, Hella and Hvolsvöllur and about 95% of Reykjavík. GR also began deployment in selected parts of the towns of Kópavogur and Mosfellsbær.

The Fiber network was mainly installed in the following neighbourhoods in Reykjavik: Skuggahverfi, Þingholt, Stekkir and Bakkar, Laugarás, Sund, Foldir, Selás and Bryggjuhverfi. In neighbouring municipalities deployment began in Brekkur in Kópavogur and Hlíðar in Mosfellsbær.

The number of GR's Fiber-Optic Cable customers increased by 3,300 during 2013, and about 23,300 homes now use the Fiber network to meet their telecommunications needs.

During the year, the mass media company 365 began distributing telecommunications services via the Fiber network. This enabled homes connected through fiber to choose from six telecommunications companies offering services for the Internet, telephone and television. The other telecommunications companies providing services via GR's network are Hringdu, Hringiðan, Símafélagið Tal and Vodafone.

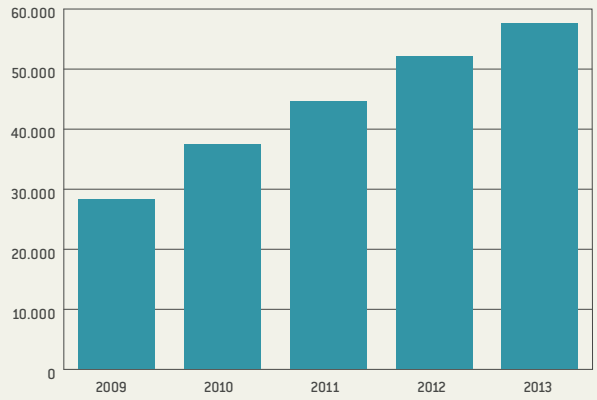
MORE POWERFUL TELECOMMUNICATIONS

During the year GR began providing 200 Mb/s and 400 Mb/s symmetrical services to homes in selected areas of Reykjavik. Before this homes were offered 100 Mb/s symmetrical telecommunications connections. By the end of the year 2013 16,000 homes were able to utilise these higher bandwidth services, and this number will increase over the next several quarters. The Fiber network is the only telecommunications connection offering homes such powerful data transport capability.

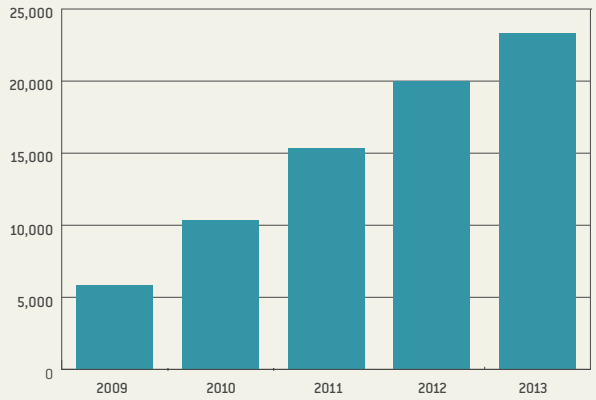
As before companies and institutions were GR's major customers, and their demand for bandwidth capacity increased during the year. GR continued the operation and build-up of support networks of the main telecommunications companies in the country. Noteworthy examples include Vodafone's Metrónet and Nova's 3G and 4G mobile phone networks.

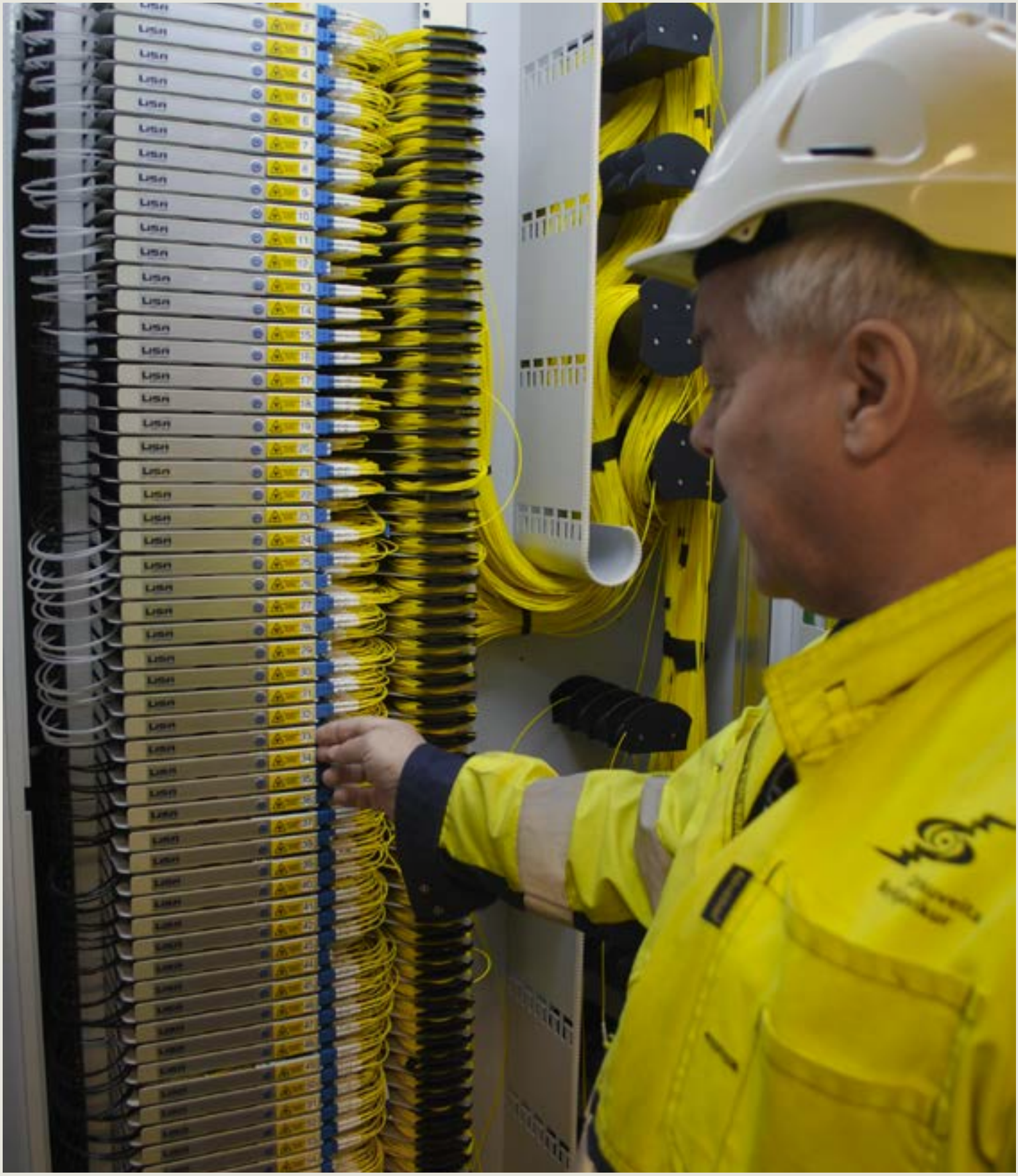
GR has 32 permanent employees. In addition a number of specialists and contractors work on the company's build-up and operations.

NUMBER OF HOUSEHOLDS CONNECTED AT YEAR-END



NUMBER OF CUSTOMERS AT YEAR-END





SALE OF SHARES IN GR

All municipal boards of owners unanimously approved the policy of Reykjavik Energy's owners in the summer of 2012. This approval paved the way for selling shares in GR. Reykjavik Energy has wholly owned the company since its foundation in 2007. In the fall of 2012 a resolution was passed to begin preparing the sale of 49% of GR's share capital. In June 2013 the sales process was scheduled, and the decision was also made to launch refinancing before beginning the sales process. If an acceptable price is offered, plans call for completing the sale of the share capital in 2014.

chapter

10

CONSOLIDATED FINANCIAL STATEMENTS

ORKUVEITA REYKJAVÍKUR
CONSOLIDATED / FINANCIAL STATEMENTS 2013

Orkuveita Reykjavíkur
Bæjarhálsi 1
110 Reykjavík
Reg no. 551298-3029

Contents

Amounts are in ISK thousand

Endorsement by the Board of Directors and the Managing Director

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no.139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Company is an independent service company operating its own power plants, producing and selling electricity and hot water. It provides local distribution of electricity, hot water and cold water, operates the sewage systems in its service area as well as a telecom network based on IP and fiber optic technology.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS´s) as adopted by the European Union. The financial statements comprise the consolidated financial statements of Orkuveita Reykjavikur and subsidiaries.

Profit of operations of Orkuveita Reykjavíkur during the year 2013 was ISK 3.350 million. According to the statement of financial position the Company´s assets were ISK 283.107 million at year-end, book value of equity at year-end was ISK 80.969 million, resulting in equity ratio of 28.6%

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

	Share
Reykjavíkurborg	93.539%
Akraneskaupstaður	5.528%
Borgarbyggð	0.933%

The Company´s Board of Directors do not propose dividend payments to the Company´s shareholders in the year 2014 due to the operating year 2013.

Changes in the Company´s group January 1, 2014

On 1 January 2014 the provision of the Electricity Act that obligates companies in that market to segregate licensed from competitive operations, came to effect. At the beginning of the year 2014, Our Nature plc, began operating on the competitive electricity market as a subsidiary, wholly-owned by Reykjavik Energy, this being done to fulfil the act. The unbundling of Reykjavik Energy involved numerous tasks. Care had to be taken to maintaining lenders' trust. The company had to safeguard that the changed Group kept the benefit of its taxable loss, and that the finances of individual units were sufficiently solid after the segregation.

In connection with the unbundling, parliament passed a new comprehensive act for the company, Act no. 136/2013. It reflects decisions of the company's owners on its core operations. At the same time, decisions on the internal governance of Reykjavik Energy are more in the hands of the owners.

In order to ensure that the unbundling would surely be in accordance with governmental requirements without harming consumers, Reykjavik Energy's owners decided to segregate various aspects of the operations as clearly as possible. Mandatory services, water and sewage utilities, will be operated in a separate company, and exclusively licensed operations in another one. The competitive units in the field of electricity and fibre optics are in independent companies, owned by Reykjavik Energy. The core of Reykjavik Energy's operations is and will be utility services. They will continue to be operated under Reykjavik Energy's banner, both the mandatory municipal services, like water and sewage utilities, and the exclusively licensed services of electricity distribution and heating. In the parent company of the unbundled group, joint service divisions for the subsidiaries will be operated.

Corporate governance

The Board maintains and seeks to improve good corporate governance. In an appendix with the Financial Statements further information regarding corporate governance can be found and further information on owners' policy and the Board´s procedures will be discussed in the Company´s Annual Statements. The Annual Statement will be published in April 2014 and can then be found on the Company´s website, www.or.is

Endorsement by the Board of Directors and the Managing Director

Statement by the Board of Directors

According to the best knowledge of the Board of Directors of Orkuveita Reykjavíkur, the company´s consolidated financial statements are in accordance with IFRS´s as adopted by the EU. It is the opinion of the Board of Directors that the consolidated financial statements give a fair view of the Company's assets, liabilities and financial position 31 December 2013 and the company´s operating return and changes in cash and cash equivalents for the year then ended.

It is the opinion of the Board of Directors that the consolidated financial statements give a fair view of the Company´s operating development and results, its standing and describe the main risk factors and uncertainties faced by the Company. Discussion on risk management and risk due to financial instruments can be found in the notes with the financial statements.

The Board of Directors and the Managing Director of Orkuveita Reykjavíkur hereby confirm the Company´s consolidated financial statements for the year 2013.

Reykjavík, 21 March 2014.

The Board of Directors:
Haraldur Flosi Tryggvason
Brynhildur Davíðsdóttir
Gylfi Magnússon
Hrönn Ríkharðsdóttir
Sóley Tómasdóttir
Kjartan Magnússon

Managing Director:
Bjarni Bjarnason

Amounts are in ISK thousand

Independent Auditor´s Report

To the Board of Directors and owners of Orkuveita Reykjavikur.

We have audited the accompanying financial statements of Orkuveita Reykjavíkur, which comprise the statement of financial position as at December 31, 2013, the income startement, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management´s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor´s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Orkuveita Reykjavíkur as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 104, Paragraph 2, of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Reykjavík, 21 March 2014.

KPMG ehf.
Auðunn Guðjónsson
Guðný Helga Guðmundsdóttir

Income Statement 2013

	Notes	2013	2012
Operating revenue		38.587.479	37.863.227
Profit from sale of assets		621.959	41.318
Operating revenues, total	5	39.209.438	37.904.545
Energy purchase		(5.401.633)	(4.865.858)
Salaries and salary related expenses	7	(3.639.815)	(3.701.222)
Other operating expenses	8	(4.084.336)	(4.293.531)
Operating expenses, total		(13.125.784)	(12.860.611)
EBITDA		26.083.654	25.043.934
Depreciation and amortisation	9	(8.927.345)	(10.371.085)
Results from operating activities, EBIT		17.156.310	14.672.849
Interest income		208.723	146.916
Interest expenses		(6.307.674)	(7.092.787)
Other (expenses) income on financial assets and liabilities		(133.335)	(11.547.680)
Total financial income and expenses	10	(6.232.285)	(18.493.550)
Share in loss of associated companies	15	(2.309)	(9.754)
Profit (loss) before income tax		10.921.715	(3.830.455)
Income tax	11	(7.571.959)	1.535.261
Profit (loss) for the year		3.349.756	(2.295.194)
Attributable to:			
Equity holders of the Company		3.349.756	(2.294.823)
Minority interest in subsidiaries		0	(371)
Profit (loss) for the year		3.349.756	(2.295.194)

The notes on pages 69 to 114 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK thousand

Statement of Comprehensive Income
for the year ended 31 December 2013

	Notes	2013	2012
Profit (loss) for the year		3.349.756	(2.295.194)
Comprehensive income			
Items moved to equity that will not be moved later to the income statement			
Revaluation reserve, increase	12	14.682.883	0
Revaluation reserve, decrease	12	(4.000.000)	0
Income tax effect of revaluation	11	(2.183.524)	0
Effect of change in tax rate on the revaluation reserve	11	7.934.264	0
		16.433.623	0
Items moved to equity that could be moved later to the income statem			
Changes in fair value of assets available for sale	16	542.248	1.300.000
		542.248	1.300.000
Comprehensive income moved directly to equity, after taxes		16.975.870	1.300.000
Total comprehensive profit (loss) for the year		20.325.626	(995.194)
Total comprehensive income attributable to:			
Equity holders of the Company		20.325.626	(994.823)
Minority interest in subsidiaries		0	(371)
Total comprehensive profit (loss) for the year		20.325.626	(995.194)

The notes on pages 69 to 114 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK thousand

Consolidated Statement of Financial Position
31 December 2013

	Notes	2013	2012
Assets			
Property, plant and equipment	12	251.400.707	246.111.462
Intangible assets	14	1.242.808	1.218.980
Investments in associated companies	15	57.517	59.826
Investments in other companies	16	3.734.550	3.265.182
Embedded derivaties in electricity sales contracts	17	965.916	14.150.678
Hedge contracts	18	1.127.246	893.934
Other financial assets	18	7.502.804	9.745.440
Deferred tax assets	19	1.646.049	3.467.268
Total non-current assets		267.677.597	278.912.770
Inventories	20	367.347	402.872
Trade receivables	21	5.579.218	4.721.350
Embedded derivatives in electricity sales contracts	17	0	587.982
Hedge contracts	18	232.031	38.956
Other financial assets	18	386	5.986
Properties held for sale	13	0	5.347.856
Other receivables	21	257.409	298.181
Cash and cash equivalents	22	8.993.410	6.885.693
Total current assets		15.429.801	18.288.875
Total assets		283.107.398	297.201.645

The notes on pages 69 to 114 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK thousand

Consolidated Statement of Financial Position
31 December 2013

	Notes	2013	2012
Equity			
Revaluation reserve		66.354.727	51.791.161
Fair value reserve		2.302.248	1.760.000
Retained earnings		12.312.122	7.092.309
Equity attributable to equity holders of the Company		80.969.097	60.643.470
Minority interest		0	4.353
Total equity	23	80.969.097	60.647.822
Liabilities			
Loans and borrowings	24	175.319.931	201.546.363
Retirement benefit obligation	25	492.925	483.377
Hedge contracts	18	80.847	98.974
Total non-current liabilities		175.893.703	202.128.714
Accounts payable		1.988.525	1.366.254
Loans and borrowings	24	19.619.524	29.956.923
Embedded derivaties in electricity sales contracts	17	548.176	0
Hedge contracts	18	1.390.870	150.300
Other current liabilities	26	2.697.502	2.951.632
Total current liabilities		26.244.598	34.425.109
Total liabilities		202.138.301	236.553.823
Total equity and liabilities		283.107.398	297.201.645

The notes on pages 69 to 114 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK thousand

Statement of Changes in Equity for the year 2013

	Revaluation reserve	Fair value reserve	Retained earnings	Attributable to equity holders of the Company	Minority interest	Total equity
The year 2013						
Equity at 1 January 2013	51.791.161	1.760.000	7.092.309	60.643.470	4.353	60.647.822
Revaluation, increase	14.682.883			14.682.883		14.682.883
Revaluation, decrease	(4.000.000)			(4.000.000)		(4.000.000)
Income tax effect of revaluation	(2.183.524)			(2.183.524)		(2.183.524)
Effect of group changes 1.1.2014 on income tax on revaluation	7.934.264			7.934.264	0	7.934.264
Changes in fair value of assets available for sale		542.248		542.248		542.248
Profit for the year			3.349.756	3.349.756	0	3.349.756
Total comprehensive income	16.433.623	542.248	3.349.756	20.325.627	0	20.325.627
Depreciation transferred to retained earnings	(1.870.057)		1.870.057	0		0
Other changes				0	(4.353)	(4.353)
Equity at 31 December 2013	66.354.726	2.302.248	12.312.122	80.969.097	0	80.969.096
The year 2012						
Equity at 1 January 2012	53.923.090	460.000	7.255.201	61.638.291	4.725	61.643.016
Changes in fair value of assets available for sale		1.300.000		1.300.000		1.300.000
Loss for the year			(2.294.823)	(2.294.823)	(371)	(2.295.194)
Total comprehensive income	0	1.300.000	(2.294.823)	(994.823)	(371)	(995.194)
Depreciation transferred to retained earnings	(2.131.929)		2.131.929	0		0
Equity at 31 December 2012	51.791.161	1.760.000	7.092.307	60.643.468	4.354	60.647.822

The notes on pages 69 to 114 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK thousand

Statement of Cash Flows for the year 2013

	Notes	2013	2012
Cash flows from operating activities			
Cash generated from operations before interest and taxes	33	25.120.308	24.335.571
Received interest income		210.379	137.916
Paid interest expenses		(4.966.841)	(5.411.118)
Dividend received		52.124	54.475
Paid due to other financial income and expenses		(383.224)	(182.318)
Net cash from operating activities		20.032.746	18.934.526
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3.459.378)	(3.122.147)
Acquisition of intangible assets		(70.795)	(50.383)
Proceeds from sale of property, plant and equipment		5.972.782	226.200
Sale of subsidiaries		(10.833)	0
Proceeds from sale of other companies		6.529	197.693
Acquisition of other financial assets		0	(28.000)
Proceeds and repayment of other financial assets		5.986	29.858
Net cash used in investing activities		2.444.291	(2.746.779)
Cash flows from financing activities			
Proceeds from new borrowings		3.080.750	1.007.996
Repayment of borrowings		(23.571.061)	(12.317.428)
Proceeds from new borrowings from the owners		4.000.000	74.640
Credit facility, change		(2.500.000)	(2.482.638)
Current liabilities, change		(152.190)	2.357.358
Net cash from financing activities		(19.142.500)	(11.360.072)
Increase in cash and cash equivalents		3.334.536	4.827.676
Cash and cash equivalents at year beginning		6.885.693	1.652.484
Effect of currency fluctuations on cash and cash equivalents		(1.226.819)	405.534
Cash and cash equivalents at year-end		8.993.410	6.885.693
Investments and financing without payment effects:			
Acquisition of property, plant and equipment		(131.085)	(195.704)
Current liabilities, change		131.085	195.704
Other information:			
Working capital from operation		19.675.015	19.880.141

The notes on pages 69 to 114 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK thousand

Notes to the Financial Statements

Amounts are in ISK thousand

Notes

1. Reporting entity

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

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

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standars (IFRSs) as adopted by the EU.

The financial statements were approved by the Board of Directors on 21 March 2014.

b. *Basis of measurement*

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

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

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

c. *Functional and presentation currency*

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

d. *Use of estimates and judgements*

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- note 12 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment.)
- note 16 - Investments in other companies (presumptions made when calculating fair value of assets classified for sale.)
- note 17 - Embedded derivaties in electricity sales contracts (presumptions when calculating fair value.)
- note 18 - Other financial assets and other financial liabilities
- note 19 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax losses.)
- note 25 - Retirement benefit obligations (presumptions when calculating the obligation)
- note 28 - Market risk
- note 34 - Property leases (classification of property leases)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Exception from this is the effect changes evolving from implementing new accounting standards, further discussed in note 3. p.

a. *Basis of consolidation*

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are entered in the Group's financial statements by using the equity method.

The Group's financial statements include a share in the profit or loss of associates and jointly controlled entities based on the equity method. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. In case of a profit on the operation of associates or jointly controlled entities in later periods a share in the profit is not recognised until the recognised share in the loss has been set off.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. *Foreign currency*

Transactions in foreign currencies are recognised at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date and the Company uses the mid foreign exchange rate at the end of the day according to the Central Bank of Iceland. Other assets and liabilities stated at fair value in foreign currencies are recognised at the exchange rate ruling when their fair value was determined. Exchange difference is recognised in the income statement.

3. Significant accounting policies, contd.

c. *Financial instruments*

i) Non-derivative financial assets

Loans, receivables and cash in bank are recognised when received. All other financial instruments are recognised in the financial statements when the Company becomes a party of contractual provisions of the relevant financial instruments.

Financial assets are eliminated from the financial statements if the Company's contractual right to cash flow due to the financial asset expires or if the Group transfers the assets to another party without retaining control or nearly all risk and gain inherent with their ownership. Any interest in transferred financial assets that is created or retained by the group is recognized as a separate asset or liability.

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Available-for sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.h.i.), and foreign exchange gains and losses on available-for-sale monetary items (see note 3.b.), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Fair value changes recognised under equity are derecognised when the available-for-sale asset is derecognised.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if purchase and sale decisions are based on their fair value in accordance with the Company´s risk policy or investment plan. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Direct transaction cost is recognised in the income statement as it is incurred.

Loans and reveivables

Loans and receivables are financial assets with certain or determinable payments and are not listed in active markets. Such assets are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of receivables and other current assets.

Cash and cash equivalents comprise cash balances and call deposits.

3. Significant accounting policies, contd.

c. *Financial instruments, contd.*

ii) Non-derivative financial liabilities

Loans and subordinated loans are recognised when they are incurred. All other financial liabilities, including loans at fair value through profit and loss are initially accounted for on the business day the Company becomes part of the contractual agreement of the financial instrument.

Financial liabilities are eliminated from the financial statements when the contractual agreements of the instrument are no longer valid.

The Company classifies non-derivative financial liabilities as other financial liabilities. Such liabilities are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

Other non-derivative financial liabilities comprise of borrowings, accounts payable and other current liabilities.

iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value in the balance sheet and fair value changes are recognised in the income statement.

iv) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Fair value changes in such derivatives are recognised in the income statement.

Amounts are in ISK thousand

3. Significant accounting policies, contd.

d. *Property, plant and equipment*

i) Recognition and measurement

Items of property, plant and equipment, except distribution and production systems, are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Interest expenses on loans used to finance cost of buildings in construction are capitalised over the construction period. Interest is not calculated on preparation cost. After the assets have been taken into use interest expenses are expensed in the income statement.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated over their useful lives.

The Group's distribution- and production systems, are stated at revalued carrying amount in the balance sheet, which is their fair value at the revaluation date less additional depreciation from that date. Revaluation of those assets is made on a regular basis. Value surplus due to the revaluation is recognised in a revaluation reserve among equity after taking the effect on deferred tax liability into consideration. Depreciation on the revalued carrying amount is recognised in the income statement. Upon sale or discontinuance of the asset the part of the revaluation reserve belonging to the asset is transferred from the revaluation reserve to retained earnings after taking tax effect into consideration. No recognition takes place from the revaluation reserve to retained earning unless the relevant asset is sold or discontinued.

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Company's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within and outside of the Company. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. All other cost is expensed in the income statement when incurred.

3. Significant accounting policies, contd.

d. *Property, plant and equipment, contd.*

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Estimated useful lives are specified as follows:

Production system	5-50 years
Electricity distribution systems	10-60 years
Heating distribution systems	10-60 years
Cold water distribution systems	5-80 years
Sewer distribution system	15-60 years
Fibre-optic distribution system	7-41 years
Other real estate	17-50 years
Other equipment	3-25 years

Depreciation methods, useful lives and scrap value are reviewed on the accounting date.

e. *Intangible assets*

i) Heating rights

Heating rights are recognised in the balance sheet at amortised cost as intangible assets. Heating rights are seperated from land up on purchase.

ii) Other intangible assets

Other intangible assets are measured at cost less accumulated depreciation and impairment losses.

iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Heating rights	100 years
Software	3-7 years

f. *Leased assets*

All of the Company´s lease agreements are considered as operating lease agreements and the leased assets are not capitalised.

i) The Company as a lessee

Payments of leases are expensed on straigh-line basis in the lease term period unless another systematic method describes the usage of the leased item better. Uncertain lease payments from lease agreements are expensed in the period they occur.

ii) The Company as a lessor

Payments received from leases, both own property as well as lease-back properties, are booked on straight-line basis in the lease term period.

Amounts are in ISK thousand

3. Significant accounting policies, contd.

g. *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

h. *Impairment*

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value at each time. The Group defines decrease in fair value below cost as a subjective indication of impairment of available-for-sale financial assets when:

- decrease is 15% below cost or
- fair value decrease lasts for at least six months.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment is recognized if the carrying amount of an asset or a cash generating unit exceeds its estimated recoverable amount. A cash generating unit is the smallest separable group of assets that form a cash flow that is mostly independent of other units or groups of units. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset´s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies, contd.

i. *Employee benefits*

i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the income statement when they are due.

ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method. Changes in the obligation are recognised in the income statement as incurred.

j. *Obligations*

An obligation is recognised in the balance sheet when the Company has the legal right or has entered into an obligation due to previous events and it is likely that it will incur cost upon settling the obligation. The obligation is measured on the basis of the estimated future cash flow, discounted based on interests reflecting market interests, and the risk inherent with the obligation.

k. *Revenue*

i) Revenues from sale and distribution of electricity and hot water

Revenue from the sale and distribution of electricity and hot water is recognised in the income statement according to measured delivery to purchasers during the year plus a fixed fee.

The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. The revenue cap is based on actual figures from prior years from the operation of distribution utilities, the depreciation of assets, real losses in the distribution system and return on equity. When setting the revenue cap financial income and expenses are not taken into account. The rate is decided from the revenue cap and projections of sale of electricity in the Company´s utilities area.

ii) Revenues from sale of cold water and sewage

Revenue from the sale of cold water and sewage are based on the size of properties plus a fixed fee and are set forth linearly in the income statement. In addition revenue is stated for cold water according to measurement from specific industries.

iii) Connection revenues

Upon connection of new users to distribution systems of electricity, water and sewage or upon renewal of connection an inital fee is charged. The initial fee meets cost due to new distribution systems or their renewal. Income on connection fees is recognised in the income statement upon delivery of the service.

iv) Other revenues

Other revenue is recognised when generated or upon delivery of goods or services.

Amounts are in ISK thousand

3. Significant accounting policies, contd.

m. *Financial income and expenses*

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gain and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement. Borrowing cost is recognised in the income statement based on effective interests.

Effective interest is the required rate of return used when discounting estimated cash flow over the estimated useful life of a financial instrument or a shorter period when applicable, so that it equals to the book value of the financial asset or liability in the balance sheet.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

n. *Income tax*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The income tax ratio for the parent company is 36.0% and the tax ratio for the subsidiaries is 20.0%. Cold water supply and sewage is exempt from tax.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax was measured in accordance with the current tax rate, which is 36.0% for the parent company that is a partnership and 20.0% for the subsidiaries that are companies with limited liability. Deferred tax that comes from operations that move to recently established subsidiaries in the beginning of the year 2014 is calculated with the tax rate applicable for the subsidiaries, i.e. 20%.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies, contd.

o. *Segment reporting*

A segment is a distinguishable component of the Company that is engaged in business and is capable to earn revenues and accept cost, both within and outside of the Company. The return of all segments is overviewed by management to value their performance.
Segment results and their assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.
Segment investments are investments in property, plant and equipment and intangible assets.
Inter-segment pricing is determined on an arm's length basis.

p. *New standards and interpretations*

The Company has implemented all international accounting standards, their interpretation and changes on existing standards that were effective at year end 2013 and are related to the Company´s operation. The effect of new standards are described here below. The Group has not beforehand implemented international accounting standards, their interpretation and changes which are affective after 31 December 2013. Adoption of these standards are not considered to have a significant effect on the preparation of the Group´s financial statements.

i) IFRS 13 Fair value measurement

The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

IAS 1 Presentation of Items of Other Comprehensive Income

The Company has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amounts are in ISK thousand

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.
The Company´s CFO is responsible for overseeing all significant fair value measurements, including Level 3 fair values. Treasury- and risk management, led by the CFO, regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then that information is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.
The Company´s audit committee is informed of significant valuation issues.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarch, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values can be found in relevant notes and in note nr. 31 regarding fair value.

a. *Property, plant and equipment*

The fair value of production- and fibre-optic systems that have undergone a revaluation is determined on the basis of the depreciated replacement cost, which consists in the assessment of changes in construction cost of comparable assets and both cost and accumulated depreciation are re-measured in accordance with those changes. The results of the impairment tests are also taken into consideration and revaluation is not recognised beyond the expected future cash flow of those assets.

The same method is applied in the determination of the fair value of distribution systems, accounted at fair value. Revalued distribution systems are used in an operation subject to exclusive licence and income limits are mainly based on changes in the building cost index. This is taken into account when determining the fair value.

The fair value of property, plant and equipment taken over upon a merger is based on the market value. The market value is the amount that can be obtain in transactions between unrelated, willing and informed parties. The fair value of other assets among property, plant and equipment is based on the market value of comparable assets.

4. Determination of fair values, contd.

b. *Investments in equity and debt securities*

The fair value of financial assets at fair value through profit or loss is determined on the basis of their market value at the reporting date. If the market value is not known the valuation is based on generally accepted valuation methods. Valuation methods can be based on known recent financial transactions between unrelated parties. In applying these valuation methods factors are considered which would be used in the respective market concerning calculation of fair value and the methods are in accordance with generally accepted methods concerning valuation of financial assets.

c. *Derivatives*

The fair value of derivatives is based on their market value, if available. If the market value is not available the fair value is determined on the basis of generally accepted valuation methods.

Valuation methods may be based on prices in recent transactions between unrelated parties. The measurement is based on the value of other financial instruments comparable to the instrument in question, methods in order to evaluate the present value of cash flow or other valuation methods, which may be applied in order to reliably assess the real market value. When valuation methods are applied all factors are used, which market parties would use in price evaluations, and the methods are in accordance with generally accepted methods for the price evaluation of financial instruments. The Company verifies on a regular basis its valuation methods and tests them by using a price obtained in a transaction on an active market with the same instrument, without adjustments and changes, or are based on information from an active market.

The fair value of derivative agreements not listed in active markets is determined by use of valuation methods, which are regularly reviewed by qualified employees. All valuation models used must be approved and tested in order to ensure that the results reflect the data used.

The most reliable indication of the fair value of derivative agreements at the beginning is the purchase value, unless the fair value of the instruments is verifiable in comparison with other listed and recent market transactions with the same financial instrument or based on a valuation method where variables are only based on market data. When such data is available the Company recognises profit or loss at the initial registration date of the instruments.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

d. *Trade and other receivables*

The fair value of trade and other receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date if applicable. This fair value is determined for disclosure purposes.

e. *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Amounts are in ISK thousand

5. Segment reporting

Business divisions and sectors

Orkuveita Reykjavíkur´s service area is mainly in the Reykjavík city area, but it also extends to the southern and western parts of Iceland. The Company is divided into three seperate divisions: Production and Sales, Utilities and Other Operation.

Production and Sales generate electricity and harness hot water from the power plants as well as selling electricity to wholesale and retail customers.

Utilities distribute electricity, harnessing hot water from low-temperature fields and the geothermal plants and distribute it for space heating. It also collects and distributes cold water from reservoirs, runs a sewerage system and operates a fiber-optic system.

Other operations cover the new construction and operation of street lighting, rental of housing and equipment, incidental sale of specialist consultancy services and more.

The Company is also divided by its sectors, **Electricity, Hot water**, **Cold water**, **Sewer** and **Fibre-optic system**. The sectors operate in different legal environments, both regarding income tax and value added tax, revenue targets as set forth in the electricity and earnings law. The sectors hot water, cold water, sewerage and the distribution of electricity are exclusively licensed by law, however the generation of electricity, sale of power and sale of data transfer is subject to the open market.

The Company is income taxed and collects value added tax, except for operations regarding cold water and sewer but they are regulated by law no. 33/2004 concerning cold water suppliers of municipalities and law no. 9/2009 concerning the operations of sewer. The provision of hot water supply is subject to law no. 58/1967, concerning earnings from hot water. The distribution of electricity is subject to law no. 65/2003, which stipulates revenue caps that are decided by the National Energy Authority.

Sector	Official obligations
Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	Price rates are subject to authorisation from the The National Energy Authority. Rates are officially published.
Electricity, production	Energy sales are subject to the open market, electricity rate changes are therefore not subject to government approval.
Cold water	The legal limitation on the upper limit of the rate is 0.5% of the real estate value. Rates are officially published in the Law and Ministerial Gazette.
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fibre-optic data system	This is a competitive practice that is supervised by The Post and Telecom Administration.

Customers that have significant effect on the Company´s revenues

One customer has significant effect on the Company´s revenues in the year 2013, i.e. Norðurál Grundartangi inc.

Revenues from Norðurál Grundartangi inc., a customer of the Company´s Production and Sale´s division, represents approximately ISK 6.589 million or 16.8% of total revenues. (2012: ISK 6.943 million, or 18.3% of total revenue.)

Notes

5. Segment reporting

Segment information is presented by the Group's business segments according to the Group's organisation and internal reporting. Business segments consist of *Utilities, Production and Sale*, and *Other Operation*. In addition, information is provided on the Group's sectors, which are *Electricity, Hot water, Cold water*, *Sewer* and *Fibre-optic cable systems*.

Business segments - divisions

The year 2013	Utilities	Production and sale	Other Operation	Adjust-ments	Total
External revenue	25.893.741	12.498.245	817.452	0	39.209.438
Inter-segment revenue	239.225	11.361.307	507.128	(12.107.660)	0
Total segment revenue	26.132.966	23.859.552	1.324.580	(12.107.660)	39.209.438
Segment result	11.440.742	4.930.163	996.482	0	17.367.387
Unallocated expenses					(211.077)
Results from operating activities					17.156.310
Financial income and expenses					(6.232.285)
Share of loss of associated companies					(2.309)
Income tax					(7.571.959)
Profit for the year					3.349.757

The year 2012

External revenue	24.536.839	12.928.173	439.533	0	37.904.545
Inter-segment revenue	239.150	11.249.187	382.497	(11.870.834)	0
Total segment revenue	24.775.989	24.177.360	822.030	(11.870.834)	37.904.545
Segment result	11.352.117	4.586.527	(7.002)	0	15.931.642
Unallocated expenses					(1.258.793)
Results from operating activities					14.672.849
Financial income and expenses					(18.493.550)
Share of loss of associated companies					(9.754)
Income tax					1.535.261
Loss for the year					(2.295.194)

5. Segment reporting, contd.

Business segments - divisions, contd. The year 2013	Utilities	Production and sale	Other Operation	Adjust-ments	Total
Balance sheet (31.12. 2013)					
Property, plant and equipment and properties held for sale	144.445.946	104.928.005	9.286	2.017.471	251.400.708
Intangible assets	0	0	0	1.242.808	1.242.808
Shares in associates					57.517
Other unallocated assets					30.406.365
Total assets					283.107.398
Unallocated liabilities					202.138.301
Investsments:					
Property, plant and equipment	2.692.093	557.264	0	240.347	3.489.704
Intangible assets	0	0	0	70.795	70.795
Depreciation, amortization:					
Property, plant and equipment	4.957.625	3.787.859	0	151.032	8.896.516
Intangible assets	0	0	0	30.829	30.829
The year 2012					
Balance sheet (31.12. 2012)					
Property, plant and equipment and properties held for sale	134.028.592	110.594.420	9.286	6.827.021	251.459.319
Intangible assets	0	0	0	1.218.980	1.218.980
Shares in associates					59.826
Other unallocated assets					44.463.520
Total assets					297.201.645
Unallocated liabilities					236.553.823
Investsments:					
Property, plant and equipment	2.170.195	697.863	0	146.877	3.014.935
Intangible assets	0	0	0	50.383	50.383
Depreciation, amortization:					
Property, plant and equipment	5.024.089	4.443.127	0	815.529	10.282.745
Intangible assets	0	0	0	88.340	88.340

Notes

5. Segment reporting, contd.

Business segments - sectors

The year 2013	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Income							
External revenue	19.290.486	10.396.708	3.323.183	4.612.210	1.586.851	0	39.209.438
Inter-segment revenue	858.014	172.948	44.794	62.170	0	(1.137.926)	0
Total segment revenue	20.148.500	10.569.656	3.367.977	4.674.380	1.586.851	(1.137.926)	39.209.438
Balance sheet (31.12. 2013)							
Properties, current and non-current	104.406.924	75.577.277	20.087.937	40.115.146	11.213.423	0	251.400.707
Intangible assets	569.205	367.872	99.425	206.306	0	0	1.242.808
Unallocated assets	0	0	0	0	0	0	30.463.883
Total assets	104.976.129	75.945.149	20.187.362	40.321.452	11.213.423	0	283.107.398
Investments							
Property, plant and equipments	811.148	803.083	330.742	633.050	911.682	0	3.489.705
Intangible assets	32.778	20.814	5.593	11.610	0	0	70.795
Depreciation, amortization							
Property, plant and equipments	3.887.686	2.689.835	528.424	1.252.309	538.261	0	8.896.515
Intangible assets	11.715	9.557	3.083	6.474	0	0	30.829

5. Segment reporting, contd.

Business segments - sectors, contd.

The year 2012	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Income							
External revenue	19.252.841	9.904.780	3.176.966	4.184.368	1.385.590	0	37.904.545
Inter-segment revenue	824.308	137.839	33.275	43.827	0	(1.039.249)	0
Total segment revenue	20.077.149	10.042.619	3.210.241	4.228.195	1.385.590	(1.039.249)	37.904.545
Balance sheet (31.12. 2012)							
Properties	112.712.357	70.343.547	18.699.324	38.864.090	10.840.001	0	251.459.319
Intangible assets	570.483	355.942	96.299	196.256	0	0	1.218.980
Unallocated assets	0	0	0	0	0	0	44.523.346
Total assets	113.282.840	70.699.489	18.795.623	39.060.346	10.840.001	0	297.201.645
Investments							
Property, plant and equipments	984.378	573.471	216.723	302.763	937.599	0	3.014.934
Intangible assets	23.579	14.813	3.930	8.061	0	0	50.383
Depreciation, amortization							
Property, plant and equipments	4.563.001	3.379.335	536.353	1.281.570	522.485	0	10.282.744
Intangible assets	33.750	27.525	8.479	18.586	0	0	88.340

6. Analysis of geothermal power plant operation

Return analysis of production of electricity and hot water, cf. Article 41, paragraph 5 of law no. 65/2003:

	Electricity 2013	Hot water 2013	Electricity 2012	Hot water 2012
Power plant at Nesjavellir				
Revenue	8.139.505	2.700.000	8.663.959	1.915.000
Operating expenses	(1.322.543)	(662.894)	(1.262.653)	(682.717)
Depreciation	(2.525.250)	(808.745)	(3.109.676)	(843.802)
Profit before financial expenses	4.291.712	1.228.360	4.291.630	388.481
Return on investment	5.1%	5.5%	4.7%	2.1%

The power plants at Hellisheiði and Nesjavellir are mixed production plants, where both hot water and energy are produced.

The Company has changed its basis for cost allocation between heat and electricity in its geothermal power plants. The cost allocation is now based on installed capacity for both electricity and heat. Previously the Company used guidelines from the National Energy Authority, which according to Orkuveita Reykjavíkur, do not represent a fair allocation. Cost allocation was based on actual production figures. The Company's methodology for cost allocation has been sent to National Energy Authority for approval, without confirmation so far.

7. Salaries and salary related expenses

	2013	2012
Salaries and salary related expenses are specified as follows:		
Salaries	3.179.776	2.988.203
Defined contribution pension expenses	419.024	395.860
Defined benefit pension expenses	28.748	55.547
Other salary related expenses	331.935	313.216
Expensed salaries and salary related expenses due to early retirement plan and laid-off employees 1)	54.887	314.271
Total salaries and salary related expenses	4.014.369	4.067.097
Salaries and salary related expenses are stated in the financial statements as follows:		
Expensed in the income statement	3.639.815	3.701.222
Capitalised on projects	374.554	365.875
Total salaries and salary related expenses	4.014.369	4.067.097
Number of employees:		
Number of annual working units	445	476
Management's salaries and benefits for the parent company and subsidiaries are specified as follows:		
Salaries to the Board of Directors of the Parent Company	20.137	16.695
Salaries to the Director and five Managing Directors of the Parent Company	102.638	94.037
Salaries to the Board of Directors and Managing Directors of subsidiaries	19.861	21.931
Defined contribution pension expenses	17.905	17.075
Termination expenses, pension expenses included	0	9.071
	160.541	158.808

Included in salaries are vehicle subsidy.

1) A part of curtailing in the operations is to decrease the number of employees. This is achieved partly by offering employees that have reached the age of 63, early retirement. Those who accept this offer are not expected to work for the Company during the termination. When employees leave the Company, either due to early retirement or due to lay-offs the termination cost is recognised immediately.

Amounts are in ISK thousand

8. Other operating expenses

	2013	2012
Other operating expenses is specified as follows:		
Operational cost of utilities and power plants	1.329.494	1.570.857
Collection cost and other office cost	704.139	625.924
Operation cost of properties	585.571	566.098
Public levies and insurance cost	444.087	447.369
Various cost	1.021.046	1.083.283
Other operating expenses, total	4.084.337	4.293.531

Among other operating expenses is one-time cost due to unbundling of the Company at the beginning of the year 2014. Most of the cost results from changes in computer systems, legal advisement and consultation regarding capital structure and tax issues.

9. Depreciation and amortisation

	2013	2012
Depreciation and amortisation is specified as follows:		
Depreciation of property, plant and equipment	8.496.515	9.052.618
Amortisation of assets in construction	400.000	743.431
Amortisation of properties held for sale	0	486.696
Depreciation and amortisation, total, cf. note 12	8.896.515	10.282.745
Amortisation of intangible assets, cf. note 14	30.829	88.340
Depreciation and amortisation recognised in the income statement	8.927.345	10.371.085

10. Financial income and expenses

	2013	2012
Financial income and expenses are specified as follows:		
Interest income	208.723	146.916
Interest expense	(5.489.263)	(6.232.254)
Guarantee fee to owners 1)	(818.411)	(860.534)
Total interest expenses	(6.307.674)	(7.092.787)
Fair value changes of embedded derivatives in electricity sales contracts	(14.320.921)	(2.944.310)
Fair value changes of assets available for sale	(74.900)	0
Fair value changes of financial assets and financial liabilities through P/L	(2.102.704)	1.847.840
Change in valuation of derivatives in default, cf. note 37	0	(558.759)
Hedge contracts	(1.355.128)	417.832
Foreign exchange difference	17.666.647	(10.364.758)
Dividends	53.671	54.475
Total of other income (expenses) on financial assets and liabilities	(133.335)	(11.547.680)
Total financial income and expenses	(6.232.285)	(18.493.550)

1) Orkuveita Reykjavíkur paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavikur in 2005. The fee on yearly basis for its licenced operations is 0.375% and 0.49% regarding loans due for operations in the open market. The calculation of the fee is done at the end of each quarter. The guarantee fee amounted to ISK 818 million in the year 2013 (2012: ISK 861 million) and is accounted for among interest expenses.

Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 4. Change in fair value that is expensed in the income statement amounts ISK 16.499 million. (2012: expense ISK 1.096 million).

11. Income tax

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

Income tax recognised in the income statement is specified as follows:	2013	2012
Change in deferred income tax	7.571.959	(1.535.261)
Income tax recognised in the income statement	7.571.959	(1.535.261)

Reconciliation of effective tax rate:	2013		2012	
Profit (loss) before income tax		10.921.715		(3.830.455)
Income tax according to current tax ratio	36.0%	3.931.817	36.0%	(1.378.964)
Effect of various tax rates in the Group	(1.6%)	(172.496)	(0.9%)	33.817
Effect of valuation of exploitation of deferred tax losses	(2.7%)	(290.000)	2.6%	(100.000)
Non-taxable operation of water supply and sewer	(23.4%)	(2.555.631)	2.4%	(93.706)
Effect of unbundling on deferred income tax	60.3%	6.586.925	0.0%	0
Other items	0.7%	71.344	(0.1%)	3.592
Effective income tax	69.3%	7.571.959	40.0%	(1.535.261)

Income tax moved directly to equity

Deferred tax

Due to income and expenses moved directo to equity	2013	2012
Tax effect of revaluation	2.183.524	0
Effect of unbundling on tax on revaluation	(7.934.264)	0
Deffered tax, total	(5.750.740)	0

See further discussion about the effect of the unbundling on deferred taxes in note 3. n.

Amounts are in ISK thousand

12. Property, plant and equipment

Property, plant and equipment is specified as follows:

The year 2013	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	198.231.387	223.774.810	2.083.533	1.244.289	425.334.019
Additions during the year	808.728	2.394.477	870	235.945	3.440.021
Additions of assets in construction	4.940	44.744	0	0	49.684
Sold or disposed of	0	0	0	16.054	16.054
Revaluation, increase	9.044.863	12.793.442	0	0	21.838.305
Revaluation, decrease	(4.073.811)	0	0	0	(4.073.811)
Balance at year end	204.016.107	239.007.474	2.084.402	1.496.289	446.604.272
Depreciation					
Balance at year beginning	64.424.583	113.110.231	881.295	806.447	179.222.557
Reclassification of assets	0	0	17.836	0	17.836
Depreciated during the year	4.904.854	3.842.117	16.288	133.257	8.896.515
Sold or disposed of	0	0	0	(14.954)	(14.954)
Revaluation, increase	877.981	6.277.442	0	0	7.155.423
Revaluation, decrease	(73.811)	0	0	0	(73.811)
Balance at year end	70.133.607	123.229.790	915.419	924.750	195.203.566
Carrying amounts					
At 1.1. 2013	133.806.804	110.664.579	1.202.237	437.842	246.111.462
At 31.12. 2013	133.882.500	115.777.684	1.168.983	571.538	251.400.706
Thereof assets in construction at year end	6.949.212	1.599.762	0	0	8.548.975

The year 2012	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	195.996.921	222.894.519	8.140.245	5.596.352	432.628.037
Reclassification of assets	1.301.287	(884.548)	1.383.128	(3.528.887)	(1.729.019)
Additions during the year	993.880	1.856.200	19.769	145.086	3.014.935
Transferred to properties held for sale	(60.701)	0	(7.390.556)	(869.043)	(8.320.300)
Sold or disposed of	0	(91.361)	(69.054)	(99.219)	(259.634)
Balance at year end	198.231.387	223.774.810	2.083.533	1.244.289	425.334.019
Depreciation					
Balance at year beginning	58.379.184	111.034.725	1.825.401	2.586.718	173.826.027
Reclassification of assets	491.232	(1.693.391)	580.320	(1.107.180)	(1.729.019)
Depreciated during the year	5.611.392	3.858.468	644.176	168.709	10.282.745
Transferred to properties held for sale	(57.224)	0	(2.156.978)	(758.241)	(2.972.444)
Sold or disposed of	0	(89.570)	(11.624)	(83.559)	(184.752)
Balance at year end	64.424.583	113.110.231	881.295	806.447	179.222.557
Carrying amounts					
At 1.1. 2012	137.617.737	111.859.794	6.314.845	3.009.634	258.802.010
At 31.12. 2012	133.806.804	110.664.579	1.202.237	437.842	246.111.462
Thereof assets in construction at year end	7.209.960	1.555.018	0	0	8.764.979

Amounts are in ISK thousand

12. Property, plant and equipment, contd.

Revaluation

When revaluating, the relevant asset groups are measured at fair value. The aforementioned revaluation is recognised in a revaluation reserve among equity taken into account effects of deferred income tax as further explained in note 3. d. The revaluation is carried out by experts within the Company.

Revaluation was carried out for the distribution system except for the fibre-optic system at year-end as a part of the regular revaluation of the Company´s assets. The revaluation led to an increase of book value of those assets, amounting to ISK 12.683 million. Revaluation was also done for hot water in the production system at year end 2013. The revaluation led to an increase of book value of production assets in hot water amounting to ISK 2.000. The revaluation led to a decrease in the production assets for electricity amounting to ISK 4.000 million, that decrease was recognised in June 2013.

Revaluation was last executed as specified in the following table:	Date of Revaluation
Production systems	
Hot water	31.12.2013
Cold water	31.12.2013
Electricity	30.6.2013
Distribution systems	
Hot water	31.12.2013
Cold water	31.12.2013
Sewage	31.12.2013
Electricity	31.12.2013
Fibre-optic cable system	30.9.2010

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Company's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within the Company. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems. Revaluation is classified as level 3 of the hierarchy of fair value, further explained in note 31.

Information on revalued assets at year end 31.12. 2013	Production system	Distribution system	Total
Revalued carrying amount	133.882.500	115.777.684	249.660.184
Thereof effect of revaluation	(30.401.658)	(45.941.014)	(76.342.672)
Carrying amount before effect of revaluation	103.480.842	69.836.670	173.317.512
31.12. 2012			
Revalued carrying amount	133.806.804	110.664.579	244.471.382
Thereof effect of revaluation	(27.206.629)	(40.048.340)	(67.254.969)
Carrying amount before effect of revaluation	106.600.175	70.616.238	177.216.413

Amounts are in ISK thousand

12. Property, plant and equipment, contd.

Impairment tests

Impairment tests were performed at year end in order to confirm both carrying amounts of assets and main assets under construction would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the utilities and production systems. The impairment is based on several assumptions, the main assumptions are:
i) Weighted average cost of capital (WACC) is 4.67% to 7.93%, (2012: 3.64% to 6.31%) Increase in WACC is mostly explained by changes in tax rates in new subsidiaries.
ii) The future growth is between 0% to 2.5%. (2012: 0% to 2.5%)
Further explanation on impairment test is in note 3. h.
Uncertainty is concerning when construction projects will be commenced due to unsettled energy sale contracts and financing of the projects.

At the end of June 2013 the review showed impairment on non-current assets of production systems in electricity, therefore former revaluation of these assets was reversed, the reversal amounting to ISK 4.000 million. At year end impairment tests did not indicate further impairment. The assumptions that have had the most effect since year-end 2012 in the impairment tests are increase of the rate of risk-free interests, decrease in the price of aluminium and the strengthening of the ISK against the USD in the year.

Rateable value and insurance value

The rateable value of the Company's assets measured in the rateable value assessment amounted to ISK 24.309 million at year end 2013 (2012: ISK 31.390 million). The fire insurance value of the company's assets amounted to ISK 28.182 million at the same time (2012: ISK 38.499 million). Among those assets are real estates capitalised among production and distribution systems.

Obligations

In May 2008 the Company entered into a contract concerning purchase of five, 45 MW turbines for power plants, two of them put to use in the year 2011. In the year 2013 the Company negotiated to delay confirming the deliverance of two of the turbines until 1 June 2016, being delivered in the year 2019. A settlement was also made to cancel the fifth turbine.
The Company received parts for the three turbines in the beginning of the year 2014. These are parts that the producers have received from their subcontractors. The Company has already made payments for these parts according to the contract. Due to the cancellation, but taking into account the value of the delivered parts, a write-off amounting to ISK 400 million in the year 2013 of investment stock.
The remainder of the contract for the two turbines on hold amounts to approximately ISK 7.0 billion as per exchange rate at year end (2012: ISK 12.3 billion). More information regarding these contracts can be found in note 37.

Furthermore, the Company has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at year end is estimated at ISK 1.2 billion (2012: ISK 1.2 billion).

13. Properties held for sale

Properties held for sale are specified as follows:	2013	2012
Orkuveita Reykjavíkur, headquarters at Bæjar- and Réttarháls, 110 Reykjavík	0	4.397.856
Perlan, Öskjuhlíð, 105 Reykjavík	0	950.000
Properties held for sale, total	0	5.347.856

At year end 2012 Reykjavík City purchased Perlan from the Company for ISK 950 million. The sale was finalised in March 2013.

In the beginning of 2013 the Company made a sale contract regarding the sale of it´s headquarters at Bæjar- and Réttarháls for ISK 5.100 million. The contract was finalised at the end of October 2013 with a profit of ISK 613,8 million recognised in the income statement. From the same time the Company leases back the headquarters from the new owner, but then subleases a part of the assets to lessees from outside the Company. Further information regarding the lease is in note 34.

Properties held for sale are classified among current assets since completion of sale is expected within a year. These assets are not depreciated from the time they are reclassified from non-current assets.

14. Intangible assets

Intangible assets are specified as follows:

The year 2013	Heating rights	Software	Total
Cost			
Balance at year beginning	1.427.031	1.371.816	2.798.847
Additions during the year	0	70.795	70.795
Sold or disposed of	0	(33.974)	(33.974)
Balance at end of the year	1.427.031	1.408.638	2.835.669
Amortisation			
Balance at year beginning	503.524	1.076.343	1.579.867
Reclassification of assets	0	(17.836)	(17.836)
Amortisation during the year	(55.243)	86.073	30.829
Balance at end of the year	448.281	1.144.579	1.592.860
Carrying amounts			
At 1.1. 2013	923.507	295.474	1.218.980
At 31.12. 2013	978.750	264.058	1.242.808
The year 2012			
Cost			
Balance at year beginning	1.427.031	3.045.194	4.472.225
Reclassification of assets	0	(1.723.761)	(1.723.761)
Additions during the year	0	50.383	50.383
Balance at year end	1.427.031	1.371.816	2.798.847
Amortisation			
Balance at year beginning	491.550	2.723.738	3.215.288
Reclassification of assets	0	(1.723.761)	(1.723.761)
Amortisation during the year	11.974	76.366	88.340
Balance at year end	503.524	1.076.343	1.579.867
Carrying amounts			
At 1.1. 2012	935.481	321.456	1.256.937
At 31.12. 2012	923.507	295.474	1.218.979

Amounts are in ISK thousand

15. Investments in associated companies

Investments in associated companies are specified as follows:

	2013		2012	
	Share	Carrying amount	Share	Carrying amount
Iceland American Energy Inc.	83.7%	0	83.7%	0
Íslensk Nýorka ehf.	27.6%	29.341	27.6%	29.339
Netorka hf.	23.5%	21.856	23.5%	29.207
Reykjavik Energy Grad. School hf.	45.0%	6.320	45.0%	1.281
Total		57.517		59.827

The Company's share in the loss of its associated companies amounted to ISK 2,3 million in the year 2013 (2012: loss of ISK 10 million).

16. Investments in other companies

Investments in other companies are specified as follows:	Share	2013	2012
HS Veitur hf.	16.6%	1.499.248	957.000
Landsnet hf. 1)	6.8%	2.160.000	2.160.000
Other shares in companies		75.303	148.182
Other shares in companies, total		3.734.551	3.265.182

The value of financial assets at fair value through profit or loss is based on market value. Fair value of financial assets available for sale is based on generally accepted valuation methods performen by independent experts, unless where it is possible to base it on recent commercial transactions. See further discussion in note 31.

1) According to provisions in the Energy laws no. 65/2003 only current owners of shares in Landsnet are allowed to assign their shares to other owners of Landsnet and are not allowed to sell their shares to other parties.

17. Embedded derivatives in electricity sales contracts

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

	2013	2012
Fair value of embedded derivatives at the beginning of the year	14.738.660	17.682.970
Fair value changes during the year	(14.320.921)	(2.944.310)
Fair value of embedded derivatives at year-end	417.739	14.738.660

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

Non-current embedded derivatives	965.916	14.150.678
Current embedded derivatives	(548.176)	587.982
Total embedded derivatives at year-end	417.740	14.738.660

Further discussion regarding embedded derivatives can be found in note 28 c.

18. Other financial assets and financial liabilities

Non-current assets	2013	2012
Financial assets at fair value through profit or loss:		
Bonds	7.502.611	9.744.861
Hedge contracts	1.127.246	893.934
	8.629.857	10.638.795
Bonds and other receivables:		
Bonds	193	579
Total among non-current assets	8.630.050	10.639.373
Current assets		
Financial assets at fair value through profit or loss:		
Hedge contracts	232.031	38.956
Bonds and other receivables:		
Bonds	386	5.986
Total among current assets	232.417	44.942
Non current liabilities		
Financial liabilities at fair value through profit or loss:		
Hedge contracts	(80.847)	(98.974)
Current liabilities		
Financial liabilities at fair value through profit or loss:		
Hedge contracts	(1.390.870)	(150.300)

The bond among non-current assets is issued in USD and carries 1.5% interest. It has one due date in the year 2016. The bond is linked to aluminium prices to certain extent and is pledged with shares in HS Orka hf. The bond is stated at fair value through P/L and derivatives are not separated from the bond. The fair value of the bond is measured from future prices of aluminium, discounted by the interest rate of the relevant currency, plus premium due to counter-party risk. All of the Company´s bonds are determined to be third level in the fair value hierarchy as further is explained in note 31.
Hedge contracts are measured by discounted future cash flow and market observable data is used in the price determination.

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

2013	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	3.467.267	0	3.467.267
Calculated income tax for the year	(7.571.959)	0	(7.571.959)
Tax effect due to unbundling of the Company	7.934.264	0	7.934.264
Tax effect on the revaluation account	(2.183.524)	0	(2.183.524)
Deferred tax assets/liabilities at end of the year	1.646.048	0	1.646.048
2012			
Deferred tax assets/liabilities at the beginning of the year	1.932.006	0	1.932.006
Calculated income tax for the year	1.535.261	0	1.535.261
Deferred tax assets/liabilities at year end	3.467.267	0	3.467.268

Amounts are in ISK thousand

19. Deferred tax assets and liabilities, contd.,

Deferred tax assets and liabilities are attributable to the flollowing:

	31.12. 2013		31.12. 2012	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(8.896.046)	0	(15.063.674)	0
Embedded derivatives	(83.548)	0	(5.305.918)	0
Other items	(1.487.660)	0	2.599.893	0
Effect of carry forward taxable loss	12.113.303	0	21.236.966	0
Deferred tax assets/liabilities at year end	1.646.049	0	3.467.268	0

Carry forward taxable loss

Based on current tax law, a carry forwards taxable loss can be used against taxable profit within 10 years from when it was incurred. Carryforwards taxable loss at year end can be used as follows:

	2013	2012
Unadjusted taxable loss for the year 2008, usable until year 2018	45.857.516	56.383.614
Unadjusted taxable loss for the year 2009, usable until year 2019	4.953.017	4.953.017
Carry forwards taxable loss at year end	50.810.533	61.336.631

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

20. Inventories

Inventories are specified as follows at year end:	2013	2012
Inventory of materials	367.347	402.872

The Company's material inventories consist of material for maintenance, renewal and construction of the Company's production and distribution systems. A part of the inventories is defined as safety inventories, i.e. inventories that are necessary to have on hand in case of malfunction or maintenance even though their turnover is low. The value of inventories is estimated regularly. Inventories for renewal and new constructions are accounted for among property, plant and equipment as part of building cost of assets under construction.

21. Receivables

Trade receivables is specified as follows at year end:	2013	2012
Trade receivables, industrial consumers	1.786.124	1.100.917
Trade receivables, retail	4.010.494	3.938.933
Trade receivables, total	5.796.618	5.039.850
Allowance for doubtful accounts	(217.400)	(318.500)
	5.579.218	4.721.350

Other current receivables are specified as follows at year end:

Pre-paid expenses	146.420	199.480
Capital income tax	43.800	34.832
Accrued interest income	31.035	32.035
Receivables from employees	5.756	6.529
Other receivables	30.397	25.305
	257.409	298.181

22. Cash and cash equivalents

Cash and cash equivalents at year end are specified as follows:	2013	2012
Bank balances	8.993.410	6.885.693

23. Equity

Equity ratio of the Company at year end 2013 is 28.6% (2012: 20.4%). Return on equity was positive by 4.8% in the year (2012: negative by 3.7%).

Revaluation reserve
Revaluation reserve comprises of increase in the value of properties, plant and equipment after taking tax effects into account. Depreciation of the revaluated price are expensed in the income statement and transferred at the same time from the revaluation reserve account to retained earnings.

Fair value reserve
Fair value reserve comprises increase of the value of assets categorised as available for sale after taking tax effects into account.

Retained earnings
Dividend was not paid to the owners of the parent Company in the year 2013. (2012: No paymend of dividend).
The Company's Board of Directors do not propose divident to be paid to the owners of the parent company in the year 2014 due to the operating year 2013. The owners of the parent company decide on dividend payments.

24. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, that are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 28. Loans and borrowings are as follows:

Non-current liabilities	2013	2012
Bank loans	157.253.461	195.721.276
Subordinated loan from owners of the Company	13.306.266	8.849.752
Bond issuance	22.614.727	22.515.068
	193.174.454	227.086.096
Current portion on non-current liabilities	(17.854.524)	(25.539.733)
	175.319.930	201.546.363

Current liabilities		
Current portion on non-current liabilities	17.854.524	25.539.733
Short-term bank loans	1.765.000	4.417.190
	19.619.524	29.956.923
Total interest bearing loans and borrowings	194.939.454	231.503.286

Amounts are in ISK thousand

24. Loans and borrowings, contd.,

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

		2013		2012	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	5.10.2027	0.37%	21.201.702	0.56%	33.989.877
Liabilities in EUR	6.12.2032	1.04%	64.419.375	0.98%	84.800.019
Liabilities in USD	8.11.2030	1.83%	44.580.565	1.81%	41.956.344
Liabilities in JPY	5.10.2027	0.35%	10.657.589	0.47%	16.304.551
Liabilities in GBP	26.2.2024	1.55%	4.573.439	1.85%	5.084.266
Liabilities in SEK	5.10.2027	1.26%	7.343.913	2.06%	8.891.712
			152.776.583		191.026.769
Liabilities in Icelandic kronas:					
Indexed	10.1.2037	4.51%	40.397.871	4.67%	36.059.327
Non-indexed	31.1.2014	8.10%	1.765.000	7.53%	4.417.190
			42.162.871		40.476.517
Total interest-bearing loans and borrowings			194.939.454		231.503.286

Repayment on non-current liabilities are specified as follows on the next years:	2013	2012
The year 2013	0	25.539.733
The year 2014	17.854.524	16.747.099
The year 2015	17.920.187	19.625.714
The year 2016	18.474.237	19.697.595
The year 2017	14.298.158	15.625.559
The year 2018	14.161.483	15.145.311
Later	110.465.865	114.705.085
Total non-current liabilities, including next year's repayment	193.174.454	227.086.096

Next years repayment

If non-current loans are refinanced in order to prolonge the loan terms, it can be assumed that the distribution of the repayments will be different from the above.

Guarantees and pledges

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

Covenants

Loans for the amount of ISK 18.138 million have certain covenants that regard repayment time as a proportion of EBITDA and as interests as a proportion of EBITDA as well as reviewing that budgets are within set limits. (2012: ISK 16.856 million). Management regularly evaluate the covenants and in their view there is not danger of them being breached.

25. Retirement benefit obligation

Upon the estabilshment of Orkuveita Reykjavíkur, an accrued retirement benefit obligation due to employees at that time was settled. The Company has retirement benefit obligation due to benefits of current and former employees in pension benefit plans. This obligation is due to companies merged with Orkuveita Reykjavíkur and due pension fund obligation has been taken over in relation to the merger.

The Company's accrued retirement benefit obligation amounted to ISK 518 million at year end 2013, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2012: ISK 508 million). The Company updates the obligation according to an assessment from an actuary each year when that assessment is available. Premises for life expectancy are in accordance with provisions of Regulation no. 391/1998 on obligatory insurance of pension benefits and operation of pension funds. The estimated increase in the obliagation in the year is based on general increase in salaries taken into account interests. The increase of the obliagation during the year is expensed in the income statement among salaries and salary related expenses. The part of the obligation that is estimated to be payable in the year 2014 is recognised among current liabilities.

Retirement benefit obligation is specified as follows:	2013	2012
Retirement benefit obligation at the beginning of the year	508.377	476.694
Contribution due to pension payments during the year	(19.200)	(23.864)
Increase in the pension fund obligation during the year	28.748	55.547
Retirement benefit obligation at year end	517.925	508.377
Non-current component of retirement benefit obligation	492.925	483.377
Current component of retirement benefit obligation	25.000	25.000
Retirement benefit obligation at year end	517.925	508.377

26. Current liabilities

Other current liabilities is specified as follows:	2013	2012
Unpaid taxes	757.353	860.745
Unpaid salaries and salary related items	410.765	463.324
Accrued interest expenses	718.379	799.631
Current component of retirement benefit obligation	25.000	25.000
Derivative contracts in default, cf. note 36	740.000	740.000
Other liabilities	46.006	62.933
	2.697.502	2.951.632

27. Risk management and financial instruments

Overview

The risk policy was updated and approved by the Board of Directors of Orkuveita Reykjavík at the end of the year 2013. The Board´s policy is that in all of the Company´s operations, risks are to be considered and thereby the policy implements a mindset of responsible and efficient decisions as well as good corporate governance. The risk policy explains the overview and main targets of the Board in this matter. The risk policy also defines the main risk factors, measurement indicators, objectives and risk limits in the daily risk management. One of the main foundations in the risk policy is to define the risk factors which are of relevance, measure their impact and define acceptable limits when controlling them.

Decision making and control on the execution of the risk management is in the hands of a risk council. The risk council consists of the Managing Director, Managing Director of finance, Head of treasury and risk and Head of the financial department. It overviews for instance:

- that suitable methods are used to recognise and measure risk
- that risk monitoring systems are in place and efficient
- that the risk policy of the Board is complied with in the operations of the Company

Amounts are in ISK thousand

27. Risk management and financial instruments, contd.,

The department of treasury and risk oversees and controls risk. The objective of the department is to monitor, analyse and control the financial risks of the Company.

Financial risk is divided into:
- Market risk, further discussed in note 28
- Liquidity risk, further discussed in note 29
- Credit risk, further discussed in note 30

28. Market risk

Market risk is the risk that changes in the market price of foreign currencies, aluminium price and interests will affect the Company's income or the value of its financial instruments. In regard of the current Balance Sheet the market risk is mainly due to changes in interest, currency, index and aluminium price but risk regarding portfolio assets such as shares in companies and bonds is minimum. This is the risk that weighs the most in the Company is divided into:

a. Currency risk due to liabilities in the balance sheet and cash flow in foreign currencies.
b. Interest rate risk due to loans and contracts made by the Company.
c. Risk due to changes in the world market price of aluminium.

a. *Currency risk*

Currency risk is the risk of changes in currency prices having a negative effect on the Company's income. Currency risk is measured in the difference between assets and liabilities in each currency where taken into consideration all assets, liabilities and derivatives. The department of treasury and risk is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations.

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

Approx. 79.1% of the Company's interest bearing loans are in foreign currencies. The Company has entered into long term electricity sales contracts in foreign currency (USD). The expected future revenues from these contracts on the accounting date amount to approx. ISK 123.563 million (2012: ISK 160.383 million). That amount is based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and expectations of price development of aluminium for the next 25 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date.

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

	2013	2012	31.12. 2013	31.12. 2012
	Average exchange rate		Exchange rate at year end	
CHF	131,907	133,352	129,190	140,640
EUR	162,381	160,733	158,500	169,800
USD	122,231	125,052	115,030	128,740
JPY	1,256	1,570	1,096	1,495
GBP	191,225	198,155	190,210	208,150
SEK	18,776	18,4684	17,950	19,758
CAD	118,715	125,110	108,070	129,360
TWI	218,955	221,796	210,108	232,686

Notes

28. Market risk, contd.

a. *Currency risk, contd.*

Exposure to currency risk

The Company's exposure to currency risk based on the nominal amounts is specified as follows:

31.12. 2013	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(21.201.702)	(64.419.375)	(44.580.565)	(10.657.589)	(4.573.439)		(7.343.913)		(152.776.583)
Accounts payables		(39.028)	(254.558)					(64)	(293.650)
Trade receivables			526.950						526.950
Bank deposits	393.442	2.996.807	438.207	280.217	40.738	36	34.301		4.183.748
Embedded derivatives			417.740						417.740
Hedge contracts	(53.233)	18.857.773	439.925	(78.818)	(11.505)		(9.640)		19.144.502
Other financial assets			7.502.611						7.502.611
Balance sheet risk	(20.861.494)	(42.603.823)	(35.509.691)	(10.456.189)	(4.544.206)	36	(7.319.252)	(64)	(121.294.683)
Estimated sale 2014	0	0	6.252.705	0	0	0	0	0	6.252.705
Estim. purchase 2014	0	(431.843)	(222.910)	(85.543)	0	0	0	0	(740.296)
Balance sheet risk	0	(431.843)	6.029.795	(85.543)	0	0	0	0	5.512.409
Net risk	(20.861.494)	(43.035.666)	(29.479.896)	(10.541.733)	(4.544.206)	36	(7.319.252)	(64)	(115.782.274)

Amounts are in ISK thousand

28. Market risk, contd.

a. *Currency risk, contd.*

Exposure to currency risk, contd.

31.12. 2012	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(33.989.877)	(84.800.019)	(41.956.344)	(16.304.551)	(5.084.266)	0	(8.891.712)	0	(191.026.769)
Accounts payables		(37.253)	(299.766)						(337.019)
Trade receivables			658.285		47				658.332
Bank deposits	1.709	6.226.479	492.598	135	131	2.530	1.263	90	6.724.936
Embedded derivatives			14.738.660						14.738.660
Hedge contracts	(217.681)	14.874.347	2.754	156.497	(10.985)		(18.706)		14.786.226
Other financial assets			9.744.861						9.744.861
Balance sheet risk	(34.205.849)	(63.736.446)	(16.618.951)	(16.147.919)	(5.095.073)	2.530	(8.909.154)	90	(144.710.772)
Estimated sale in 2013	0	0	8.116.661	0	0	0	0	0	8.116.661
Estim. purch. in 2013	0	(155.915)	(25.849)	(290.034)	(154)	0	0	0	(471.952)
Balance sheet risk	0	(155.915)	8.090.812	(290.034)	(154)	0	0	0	7.644.709
Net risk	(34.205.849)	(63.892.361)	(8.528.139)	(16.437.953)	(5.095.227)	2.530	(8.909.154)	90	(137.066.063)

Sensitivity analysis

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

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
The year 2013	1.335.136	2.726.645	2.272.620	669.196	290.829	(2)	468.432	4	7.762.860
The year 2012	2.189.174	4.079.133	1.063.613	1.033.467	326.085	(162)	570.186	(6)	9.261.489

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for the year 2012. Weakening by 10% of the Icelandic krona against the above currencies would have had the equivalent, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

28. Market risk, contd.

b. *Interest rate risk*

Interest rate risk is the risk of changes in interest rates having a negative effect on the Company's income. The Company is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Company´s liabilities both have fixed and variable interest rates, majority being subject to variable interest rates. The department of treasury and risk monitors that interest rate risk is within preset limits and has permission to control interest rate risk with derivatives. On the accounting date hedges covered 94% of loans with variable interest rates 1 year ahead minimum and proportionally less the next years after that.

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

Fixed rate instruments	**2013**	**2012**
Financial assets	579	6.564
Financial liabilities	(44.026.345)	(42.553.480)
	(44.025.766)	(42.546.915)
Variable rate instruments		
Financial liabilities	(150.913.110)	(188.949.806)
	(150.913.110)	(188.949.806)
Financial instruments at fair value		
Other financial assets	7.502.611	9.744.861
Hedge contracts	(112.441)	683.616
	7.390.170	10.428.477

In the following table, effect of changes on financial instruments at fair value is set forth, taken into account the effect of taxes. The analysis was done in the same way for the year 2012.

	Cash flow sensitivity analysis		**Fair value sensitivity analysis**	
31.12. 2013	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(116.682)	134.238
Other financial assets	0	0	(127.896)	132.677
Hedge contracts	477.658	(477.658)	2.055.498	(2.148.257)
Interest bearing loans	(508.768)	508.768	0	0
	(31.110)	31.110	1.810.920	(1.881.342)
31.12. 2012	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(725.573)	811.329
Other financial assets	0	0	(226.081)	237.008
Hedge contracts	284.502	(284.502)	699.815	(717.916)
Interest bearing loans	(633.244)	633.244	0	0
	(348.742)	348.742	(251.839)	330.420

Amounts are in ISK thousand

28. Market risk, contd.

c. *Aluminium risk*

Aluminium risk is the risk that changes in the price of aluminium has a negative effect on the income of the Company.

Four electricity sales contracts have been made, originally to the next 20 years. One with Landsvirkjun in regards of Norðurál and three with Norðurál in regards of the aluminium plant at Grundartangi, in addition contracts have been done with Landsnet hf. on distribution of electricity. Orkuveita Reykjavíkur and Norðurál have also made an electricity sales contract due to sale of electricity to a pending aluminium plant in Helguvík, where delivery of electricity has begun, but the contract is for the next 25 years. These electricity sales contracts are denominated in USD and the price of the electricity is connected to the world market price of aluminium. Income of electricity contracts that are effected by price of aluminium is 18.3% of total revenue for the year 2013 (2012: 20.0%)

To reduce risk due to aluminium prices the Company has entered into derivative contracts to reduce the fluctuation of income effected by aluminium prices. The department of treasury and risk has permission to hedge 100% of the aluminium risk of next year and proportionally less in the next two years. At the accounting date hedges amounted to 44% of expected income effected by aluminium until the year end 2014 (2012: 22.2%).

Embedded derivatives in electricity sales contracts

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

As the market value of the embedded derivatives is not available their fair value has been measured with generally accepted evaluation methods. The expected net present value of the cash flow of a contract on the accounting date has been measured, based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and expectations of price development of aluminium for the next 25 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date. From the expected net present value of cash flow of the contract on the accounting date the expected net present value based on premises on aluminium price on the initial date of the contract is deducted. The difference is the fair value change of the derivative. The valuation is based on the premises that the derivative has no value at the initial date of the contract.

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

Among embedded electricity sales contracts is a contract with Norðurál Helguvík ehf. (NH), stated at the book value of ISK 0.1 billion (31.12.2012: ISK 1.9 billion). The constructions of the aluminium plant at Helguvík have been delayed and there is uncertainty regarding continuance of the project. It was scheduled to begin delivery of power to the aluminium plant 1 September 2011 and NH was obliged to begin payments from that date. NH has used a option in the contract that allows NH to use the power at the aluminium plant at Grundartangi. Counter party risk is valued by the management as considerable and the risk is reflected in the stated book value of the derivative. If the contract will be terminated or renegotiated on other terms, the book value of the embedded derivative would be fully expensed through the income statement.

28. Market risk, contd.

c. *Aluminium risk, contd.*

In the following table shows the calculated effect on financial instuments due to change in aluminium price booked at fair value, taking tax effect into account.

Sensitivity analysis on the price of aluminium	Sensitivity of Fair value	
31.12. 2013	10% decrease	10% increase
Embedded derivatives	(4.587.241)	4.587.241
Aluminium hedges	174.885	(174.885)
Financial assets at fair value through P/L	(252.702)	252.702
Total	(4.665.058)	4.665.058

31.12. 2012	Sensitivity of Fair value	
	10% decrease	10% increase
Embedded derivatives	(6.483.469)	6.471.310
Aluminium hedges	275.762	(197.940)
Financial assets at fair value through P/L	(353.902)	353.902
Total	(6.561.609)	6.627.272

d. *Other market risk*

Other market risk such as interest spread and risk in shares in other companies is limited, as investments in such securities is an insubstantial part of the Company's operation.

29. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Company's cash and cash equivalents at year end amounted to ISK 9.0 billion. Furthermore, the Company had unused loan authorisations and a open credit line to the total amount of approx. ISK 9.4 billion. The Company had thus in total ensured capital at year end to the amount of approx. ISK 18.4 billion. The corresponding amount at year end 2012 amounted to ISK 13.7 billion.

Amounts are in ISK thousand

29. Liquidity risk, contd.

c. *Liquidity risk, contd.*

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

31.12. 2013

Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest-bearing liabilities	194.939.455	(219.728.601)	(22.670.612)	(20.702.238)	(54.330.444)	(122.025.307)
Accounts payable	1.988.525	(1.988.525)	(1.988.525)	0	0	0
Other liabilities	2.697.502	(2.697.502)	(2.697.502)	0	0	0
Derivative financial instruments						
Hedge contracts	1.471.718	(1.653.811)	(1.318.783)	(987.468)	652.440	0
	201.097.200	(226.068.440)	(28.675.422)	(21.689.706)	(53.678.004)	(122.025.307)

31.12. 2012

Non-derivative financial instruments

Interest-bearing liabilities	231.503.285	(260.057.715)	(33.352.320)	(19.281.902)	(62.068.130)	(145.355.362)
Accounts payable	1.366.254	(1.366.254)	(1.366.254)	0	0	0
Other liabilities	2.948.155	(2.951.632)	(2.951.632)	0	0	0
Derivative financial instruments						
Hedge contracts	249.274	(1.233.289)	(631.390)	(553.736)	(103.455)	55.292
	236.066.969	(265.608.890)	(38.301.596)	(19.835.638)	(62.171.585)	(145.300.070)

If non-current loans are refinanced in order to prolonge the loan terms, it can be assumed that the distribution of the repayments will be different from the above.

30. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Credit risk is mainly due to whole sale electricity contracts and derivatives that the Company has entered into for hedging purposes. Losses due to unpaid receivables are insubstantial and have limited effect on the Company's return.

When entering into contracts it shall be insured, as possible, that the counterparty is trustworthy and settlement with large counterparties shall be looked into regularly as well as their credit rating.

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

	2013	2012
Trade receivable	5.579.218	4.721.350
Other current receivables	257.409	298.181
Other financial assets	7.503.190	9.751.425
Hedge contracts	1.359.277	932.890
Cash and cash equivalents	8.993.410	6.885.693
Total	23.692.504	22.589.539

Financial assets as stated above are categorised as *loans and receivables* exept for a part of *other financial assets* and *hedge contracts*. Their categorisation can be seen in note 32.

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

Trade receivable, industrial consumers	1.786.124	1.262.927
Trade receivable, retail	3.793.094	3.458.423
	5.579.218	4.721.350

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

	2013		2012	
	Gross balance	Allowance	Gross balance	Allowance
Not past due receivables	3.503.568	84.878	4.081.898	102.884
Past due, 1 to 30 days	803.634	25.869	316.652	12.263
Past due, 31 to 90 days	163.001	24.951	108.612	24.581
Past due, 91 days and older	1.326.415	81.702	532.688	178.772
Total	5.796.618	217.400	5.039.850	318.500

Allowance due to receivables is valuated at each reporting date by management. Collectability is valuated both in general using historic evidence and also specifically for receivables that are in default. Allowance is only deemed necessary for trade receivables.

Receivables due to sewage and cold water have statutory lien in properties and therefore allowance is not considered for those claims.

The Customer Services department governs the collection of receivables and supplies customers with information regarding claims. Collection is done in a well defined process where among other things, consistency in procedures is maintained as much as possible.

Amounts are in ISK thousand

31. *Fair value*

Fair values versus carrying amounts

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

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(194.939.455)	(165.716.726)	(231.503.285)	(185.860.652)

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

Interest rates used for determining fair value

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

	2013	2012
Embedded derivatives in electr. sales contr.	2.22% to 12.91%	2.37% to 11.56%
Other financial assets	6.85% to 7.21%	3.99% to 4.39%
Interest bearing loans	2.59% to 9.44%	1.90% to 8.13%

Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets og liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2013	Level 2	Level 3	Total
Shares in companies	0	3.734.550	3.734.550
Embedded derivatives in sales contracts	0	417.740	417.740
Other financial assets	1.359.277	7.503.190	8.862.467
Other financial liabilities	(1.471.718)	0	(1.471.718)
	(112.441)	11.655.479	11.543.039
2012			
Shares in companies	0	3.265.182	3.265.182
Embedded derivatives in sales contracts	0	14.738.660	14.738.660
Other financial assets	932.890	9.751.425	10.684.315
Other financial liabilities	(249.274)	0	(249.274)
	683.616	27.755.267	28.438.883

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

32. Overview of financial instruments

A part of the Company´s financial assets and financial liabilities are measured at fair value. Fair value of these assets and liabilities are determined by market data or price in recent transactions if that is available. Otherwise, accepted valuation methods are used. Further information on fair value calculations can be found in the discussion of the relevant assets and liabilities.

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

	2013			2012		
	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale
Shares in other companies			3.734.550			3.265.182
Embedd. electr. sales contracts ..		417.740			14.738.660	
Other financial assets	386	8.862.081		5.986	10.678.330	
Trade receivabl. .	5.579.218			4.721.350		
Other receivabl. ..	257.409			298.181		
Cash	8.993.410			6.885.693		
Interest-bearing .. liabilities	(194.939.455)			(231.503.285)		
Other financial liabilities		(1.471.718)			(249.274)	
Account payabl. .	(1.988.525)			(1.366.254)		
Other current liabilities	(2.697.502)			(2.951.632)		
	(184.795.059)	7.808.103	3.734.550	(223.909.962)	25.167.716	3.265.182

Amounts are in ISK thousand

33. Statement of cah flows, details

Cash from operations before interests and taxes according to the statement of cash flows is specified as follows:

	2013	2012
Profit (loss) for the year	3.349.756	(2.295.194)
Adjusted for:		
Financial income and expenses	6.232.285	18.493.550
Share of loss of associated companies	2.309	9.754
Income tax	7.571.959	(1.535.261)
Depreciation and amortisation	8.927.345	10.371.085
Profit from sale of assets and other changes	(621.959)	(41.318)
Retirement benefit obligation, change	9.548	31.683
Working capital from operation before interest and taxes	25.471.243	25.034.299
Inventories, decrease	35.525	28.688
Trade and other receivables, change	(1.213.943)	(702.520)
Payables and other current liabilities, change	827.483	(24.897)
Cash generated from operations before interests and taxes	25.120.308	24.335.571

34. Property leases

The Company as a lessee

Factors of the lease agreement

Following the sale of the Company´s headquarters that was finalised in the end of October 2013, a lease agreement was signed, to lease back the entire headquarters the next 20 years from Foss fasteignafélag inc. In the agreement there is a purchase option that the Company can exercised after 10 and 20 years. The lease minimum payments the first 10 years is ISK 223,9 million pr year, indexed. If the purchase option is not exercised after 10 years the lease payments the next 10 years thereafter are ISK 290,2 million pr. year, indexed.

Lease payments and income	**2013**	**2012**
Minimum lease payments, expensed	37.315	0
Income from subleases	(4.630)	0
	32.685	0

Committment in unresignable lease agreements	**2013**	**2012**
Within a year	223.890	0
After 1 to 5 years	895.560	0
After 5 years	3.984.035	0
	5.103.485	0

Expected future income from subleases	219.725	0

The Company as a lessor

The Company has made lease agreements on part of the leased properties of the headquarters with five year terms and possible extension to ten years.

Expected future income from leases due to unresignable lease contracts	**2013**	**2012**
Within a year	47.203	0
After 1 to 5 years	172.522	0
	219.725	0

35. Related parties

Definition of related parties

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

Transactions with related parties

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

The following gives an overview of the transactions with related parties during the last two years as well as a statement of receivables and payables. Transactions and positions with subsidiaries are eliminated in the financial statements but that information is provided here. This information does not include sale of conventional household supplies to the related parties.

Sale to related parties:	2013	2012
Reykjavik City	1.214.691	1.235.886
Institutions and companies controlled by Reykjavik City	462.980	431.868
Subsidiaries	301.400	367.253
	1.979.072	2.035.007
Purchases from related parties:		
Reykjavik City	11.527	5.246
Institutions and companies controlled by Reykjavik City	14.069	6.841
Subsidiaries	15.917	15.028
Associates	47.468	42.949
	88.981	70.064
Receivables for related parties:		
Reykjavik City	215.251	284.843
Institutions and companies controlled by Reykjavik City	44.070	39.505
Subsidiaries	242.025	90.636
Subsidiaries, interest bearing loans	6.204.347	6.988.862
	6.705.693	7.403.846
Payables for related parties:		
Reykjavik City	180.253	77.141
Institutions and companies controlled by Reykjavik City	3.158	305
Board members and key employees	413.855	408.313
	597.266	485.758
Interest bearing loans from owners of the parent Company:		
Reykjavik City	12.446.548	8.277.970
Akranes town	735.570	489.214
Borgarbyggð, municipality	124.147	82.568
	13.306.265	8.849.752
Interest expense on loans from owners of the parent Company:		
Reykjavik City	1.310.449	1.262.297
Akranes town	75.558	72.281
Borgarbyggð, municipality	12.753	10.738
	1.398.759	1.345.316

Guarantee fee to owners

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other present and former owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 10.

Amounts are in ISK thousand

36. Group entities

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

		Share	
Subsidiaries	**Main operation**	**31.12. 2013**	**31.12. 2012**
Gagnaveita Reykjavíkur ehf.	Data transfer	100.0%	100.0%
OR Eignir ohf.	Holding company	100.0%	0.0%
OR Veitur ohf.	Distribution of electricity and hot water	100.0%	0.0%
Orka náttúrunnar ohf.	Sale of electricity	100.0%	0.0%
OR Vatns- og fráveita sf.	Cold water and sewage	100.0%	0.0%
Reykjavík Energy Invest ehf.	Investments	100.0%	100.0%
Úlfljótsvatn frítímabyggð ehf.	Preperation company	100.0%	100.0%
Hrafnabjargavirkjun hf.	Preperation company	0.0%	60.0%

Main changes in the Group during the year
In June 2013 Orkuveita Reykjavíkur sold all its shares in Hrafnabjargarvirkjun hf.

At year end 2013 new companies were established in the group to prepare for the unbundling of the Company. The unbundling took place 1 January 2014. OR Veitur., Orka náttúrunnar, OR Vatns- og fráveita and OR Eignir were established. OR Eignir ohf. and OR Vatns- og fráveita sf. are owned directly by the parent company and OR Veitur ohf. and Orka náttúrunnar ohf. are owned by OR Eignir. The unbundling is discussed in the endorsement of the board and the managing director in the financial statements.

37. Other issues

Reducted payments from Norðurál
A conclusion was reached in an arbitration, where HS Orka was the claimant against Norðurál on the grounds of the reduction af contractual payments. OR was also a party to the trilateral contract and was therefore also a respondant to the arbitration.The result was that Norðurál did not have the right to reduce contractual payments. OR had not fully realised the claim in revenues due to uncertainty in the matter, that allowance has now been reversed.

Energy sale contracts with Norðurál Helguvík ehf.
Considerable delays have been in waiving the conditions precedence in the power purchase agreement with Norðurál Helguvík ehf. (NH) for second and third phase of potential the aluminium smelter in Helguvík. There is therefore uncertainty whether the construction of the smelter will commence or not. Discussions are ongoing with NH on a revised power purchase agreement. OR questions the validity of a part of the power purchase agreement and is in dispute with NH on this matter. As a result negotiations have been concluded with Mitsubishi Heavy Industries (MHI) and Balcke Dürr (BD) on the purchase of turbine units, further discussed in note 12. Uncertainty still persists regarding commencement of the construction of the Hverahlíð power plant, but the agreement with MHI and BD has dissolved the uncertainty more or less. Management of the Company is of the opinion that there is no reason to make provisions in the financial statements regarding the matter at this point.

37. Other issues, contd.

Derivative contracts in default

After the collapse of the Icelandic banks in 2008 trading in the foreign exchange market in Iceland has been little and it can hardly be stated that the foreign exchange market is active. Due to the collapse, the Central Bank of Iceland issued rules on foreign exchange based on authority contained in the Act amending the Foreign Exchange Act No. 87/1992, which imposed restrictions on investment and transactions in foreign exchange.

Among other current liabilities are derivative contracts accounted for that are in default. The contracts have not been settled and Orkuveita Reykjavíkur has recently been sued regarding the claims. Great uncertainties, both with Orkuveita Reykjavikur and the Receivership Committees of the fallen banks, is on how to settle them. In previous periods ISK 740 million have been expensed. This action is in no way an admittance of the debt on Orkuveita Reykjavikur´s behalf and the amount can either increase or decrease when the contracts are settled. The contracts are accounted for among other current liabilities.

36. Events after the reporting date

Orkuveita Reykjavikur´s investment in HS Veitur

Orkuveita Reykjavikur sold it´s investment in HS Veitur in the beginning of 2014. The contract was between the buyer, Ursus I slhf. and Orkuveita Reykjavíkur as the seller as well as other sellers of their part in HS Veitur. Those sellers are Reykjanesbær municipality, Grindavíkurbær municipality, Sandgerðisbær municipality , Garður municipality and Vogar municipality. The book value was valued at year end as sales price, less sales cost and amounted to ISK 1.499 million.

Amounts are in ISK thousand

Corporate governance statement (unaudited)

Corporate governance
Orkuveita Reykjavíkur´s (OR) main operations were governed by the provisions of Act No.139/2001 in the year 2013 but 1 January 2014 a new act took effect, Act no. 136/2013. The owners of OR have outlined an 'Ownership Policy', where 'Board Operation Procedures' are further outlisted. The Ownership Policy can be accessed via the OR website: www.or.is.

Orkuveita Reykjavíkur values
Our values are integrity, foresight and efficiency. These are the principles that guide us in all our business endeavours.

Board of Directors
The Board of Directors at OR is appointed by six individuals; five are appointed by the Reykjavík City Council and one is appointed by the Akranes Council. The Borgarbyggð Council appoints a special representative and Reykjavík appoints the Chairman and the Vice Chairman, from the representatives in the Reykjavík City Council. The Board is responsible for the financial and operational matters of OR. The Board of Directors include, Haraldur Flosi Tryggvson, Chairman of the Board, District Court Attorney and a lawyer at Lögmenn Bárugötu, Brynhildur Davíðsdóttir, Vice Chairman and Docent at the Department of Environment and Natural Sources, at the University of Iceland, Gylfi Magnússon, Docent at the Institute for Economic Studies, at the University of Iceland, Kjartan Magnússon, City Council Representative, Sóley Tómasdóttir, City Council Representative and Hrönn Ríkharðsdóttir Akranes Town Council Representative.
Sixteen Board meetings were held in 2013 and the majority of the Members of the Board were present on all of the meetings.

Audit Committee
The OR Audit Committee is governed by Chapter IX. Act No. 3/2006 on annual financial statements Act no. 80/2008. The Committee's rules of procedure are devised by the Board of Directors, in accordance with the law.
The Auditing Committee acts as a consultant to the Board of Directors and acts on its behalf. The Committee does not have executive powers. There are three members of the Audit Committee. Gylfi Magnússon is the only Board Member. Also in the committee is Sigríður Ármannsdóttir, Chairman of the Committee, she is a state authorised accountant and Per Matts Henje, cand. oecon, a trust manager at Stefnir hf. Twelve meetings were held in the year 2013.
The Internal Auditor for OR is Guðmundur I. Bergþórsson and he works under the auspices of the Audit Committee.

The CEO and Executive Directors
The Board of Directors appoints the CEO; Bjarni Bjarnason is OR´s CEO. The Board and the CEO are responsible for the operations of OR. In the year 2013, before the unbundling of the Company, five Executive Directors at OR and the CEO, formed the Executive Board, meeting approximately every two weeks. The following description applied to the unbundled Company, changes in the Group took place year end 2013 as discussed in the endorsement by the Board and the CEO in the financial statements.

The Chief Financial Officer and the CEO´s deputy is Ingvar Stefánsson. He is responsible for the Treasury and Risk, Accounting, Management Information, Procurement and Information technology.

The Director of Utilities is Inga Dóra Hrólfsdóttir. The Utilities is divided into Technology, Operations, Maintenance and Control Room.

The Director of Power Plants and Sales is Páll Erland. He is responsible for the power plants, Sales and Marketing Division and the policy making decisions for the power plants and Sales Division.

The Director of Customer Services is Skúli Skúlason. The Customer Services is divided into the Service Centre, Metering and Installations, Billing and Credit Management.

The Director of Research and Development is Hildigunnur H. Thorsteinsson. Research and and Developement is divided into Natural resources, Systems and Design and Project Management.

Also, the Company wholly owns the subsidiary Gagnaveita Reykjavíkur ehf. The Director of the subsidiary is Birgir Rafn Þráinsson. Gagnaveita Reykjavíkur runs a fibre-optic cable system.

Amounts are in ISK thousand

Corporate governance statement (unaudited)

Corporate governance statement, contd.,

Orkuveita Reykjavikur - Risk management

OR operates after a risk management policy that has been approved by the Board of Directors. It is the policy of the Company board that all of the Company‘s operations are low risk by promoting responsible and effective decision making and management. The risk management policy provides an overview of the Board‘s strategy in this regard. It also defines the main types of risk, a risk measurement scale, basic strategies, objectives and goals regarding daily risk management within the Company. Main types of risk in the Company´s operations are core risk, financial risk and operational risk.

Internal monitoring and risk management

OR prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS´s) and focuses on well-defined areas of responsibility, including job descriptions, alongside regular reporting and transparency in all activities. Monthly operational meetings are an important part of the internal monitoring of profits, operating costs and investments, as well as regular meetings of the ‘Risk Committee’ of the Company. The Board monitors the financial risk of the company and receives regular reports on the issue. For more information on risk management, please see the explanatory notes on the Financial Statements.

Further discussion of corporate governance can be found in the Annual Report, released in April, 2014 and available on the website: www.or.is.

Amounts are in ISK thousand

Amounts are in ISK thousand

chapter

11

ÚTGEFNAR SKÝRSLUR, GREINAR OG GREINARGERÐIR Á ÁRINU

Reykjavik Energy
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