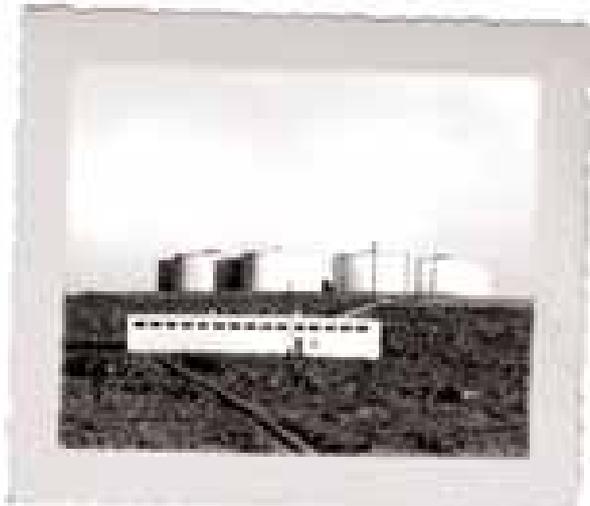
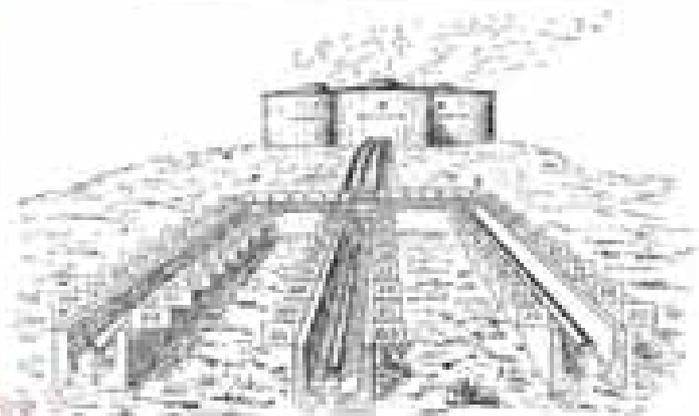




ORIO6

ANNUAL REPORT



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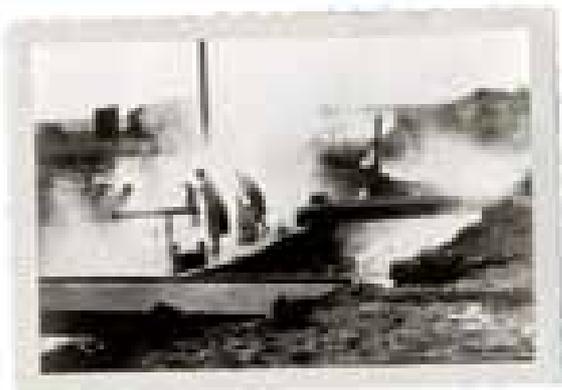
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Photographs in this report were obtained from the histories of electricity, heat and water utilities in Reykjavík.

Front cover picture:

Water carriers were often regarded as being peculiar characters. The work was hard and the pay was low.



Address
by Chairman

Leading in environmental affairs

In 2006, fresh ground was broken in Orkuveita Reykjavíkur strategy with the emergence of a new majority on the Board. Orkuveita Reykjavíkur is an environmentally aware company. Its purpose and its role are to improve living conditions for people and businesses by sharing with them the goodness of the land. It could be said that Orkuveita Reykjavíkur's business is centred on only one concern: to share water! Cold water for consumption and fire prevention, hot water for heating and steam for electric power generation. At the beginning of the year the circle was closed when the company assumed operation of sewage systems in those municipalities that are owners of Orkuveita Reykjavíkur. Thus the company is a driving force in a cycle where its function is to build a bridge between the community and Nature.

Big responsibility comes with this role, both towards the community and nature. Social responsibility rightfully demands quality production and secure delivery. In the same manner, valid demands are made for the business of the company to be in harmony with the environment.

New emphasis

A new Board took control following municipal elections in May, and its decision to sharpen the company's emphasis on environmental issues was in full accordance with Orkuveita Reykjavíkur's environmental leadership role. Approval was given for a re-examination of the company's business for the purpose of elevating the status of environmental affairs. At the same time, action was taken to strengthen the environmental component within the business of Orkuveita Reykjavíkur. Developmental plans at Úlfjótssvatn were changed due to environmental viewpoints, and it was decided that more than half of the company's fleet of vehicles would be powered with more environmentally friendly fuel within a few years. In addition, the Orkuveita Reykjavíkur Board of Directors decided to earmark ISK 100 million annually towards environmental and power research.

The Orkuveita Reykjavíkur Environmental and Energy Research Fund has received well-deserved attention. The fund was established with the participation of seven universities located within the company's distribution area. The objective of the fund is to ensure the competitive advantage of Orkuveita Reykjavíkur by affording the company access to the best available knowledge and technical advances. One element of this approach is to attempt to direct the interests of young scientists towards environmental and power matters.

The international discussion on energy is in accordance with Orkuveita Reykjavíkur's new policy that power, resource and environmental issues cannot be separated. This is why the demand for Icelandic knowledge is as great as it is, as borne out by the facts. With the creation of the Environmental and Energy Research Fund, Orkuveita Reykjavíkur has put up its fair share to enable Icelanders, with their great resources and knowledge of environmentally safe utilisation, to remain in the lead in the international arena.

Orkuveita Reykjavíkur is a knowledge company

A tangible example of Orkuveita Reykjavíkur's contribution in these matters is a new heating utility that replaces coal for heating in Xian Yang in China that came into service last December. The project is a joint effort between Orkuveita Reykjavíkur, Enex and Glitnir, and it gratifyingly encouraged more Icelandic investors to find a niche for themselves by exporting Icelandic knowledge of environmental energy resources – knowledge that has been developed in Iceland during past decades. The projects in China are among many in which Orkuveita Reykjavíkur participates in the international arena through its affiliation with Enex, which is a co-operating forum of expert Icelandic companies.

A number of individuals who are leaders in the international political forum made climate issues their concern last year. Their vision became fixed on the fact that 72% of primary power used in Iceland is derived from environmentally safe energy resources. The "Icelandic way" in energy issues generated much interest, and Orkuveita Reykjavíkur received a great number of foreign guests who wanted to avail themselves of our valuable experience.

We have a tendency to think that the utilisation of geothermal heat in Iceland was a matter of course. That was not the case. Geothermal heat can be found all over the world, and a great many nations could have utilised geothermal heat for power generation but now foresee challenging projects to align their power consumption to the international position on the environment. It was entrepreneurial vision during last century that catapulted Icelanders to their leadership role in the utilisation of environmentally safe power generation. We had a choice and we chose correctly.

The progressive search for know-how is the function of the new Environmental and Energy Fund. Among projects the fund emphasises in particular to receive financial grants are ideas to sequester carbon dioxide from the atmosphere in alkaline strata. Research will take place on the premises of Orkuveita Reykjavíkur at Hellisheidi, and if they are successful, the conclusions could be revolutionary in the fight to reduce greenhouse gases in the atmosphere. Applications for research on underground power transmission lines are also especially required, as great demand exists for solutions of this kind. And finally, we must not forget to mention the use of hydrogen in the transport sector.

GUÐLAUGUR ÞÓR
ÞÓRÐARSON
Chairman of the Board



Address
by CEO

An eventful year

2006 was an active business year at Orkuveita Reykjavíkur. A new power plant became operational, sewerage operations were formally started by the company and margins were good. In addition, the company's operations and financial management received an international certification from an audit by the financial appraiser Moody's, which extended a credit rating of Aa2 to Orkuveita Reykjavíkur. This rating is the third highest possible from this type of appraisal. This was the first time that the company underwent an appraisal of this kind, and it was significant and valuable to have received these international experts to audit the business, and obviously gratifying to receive such an excellent appraisal of the company's strengths, operations and plans.

New power plant

It was a solemn hour when the first two engines at the Hellisheidi Power Plant were formally started on 21 October, as Prime Minister Geir H. Haarde used the occasion to wish the company good fortune. The original reason for undertaking the construction of the power plant was the increase in hot water needs in the capital area. Hot water production at Hellisheidi will begin in 2009. Significant investments are required to begin production at a new location, not only for the power plant itself but also, and not in the least, for a new pipeline to the capital area. The economy of the intertwined production of electricity and hot water will on the other hand result in the possibility that customers of Orkuveita Reykjavíkur will not feel this through their price rates. By the end of the year 2007, the distribution of the electrical production at Hellisheidi will be divided so that about one third goes into the general market while two thirds goes to large consumers.

New hot water pipelines will be underground, unlike the pipelines from Nesjavellir, but lines around the Hellisheidi power plant made an impression during discussions about the project during 2006. The power plant is located near the national highway, and towards the end of the year, Orkuveita Reykjavíkur held a contest to find the best way to finish the lines in the power plant area. This is when the discussion about underground power lines came into focus. Orkuveita Reykjavíkur assumed a leadership role in these matters and put 13 km of the power lines from the Nesjavellir power plant underground.

Sewerage operation began

At the beginning of the year, Orkuveita Reykjavíkur assumed the operation of sewerage in Reykjavík, Akranes and Borgarbyggð. Only a few months after starting the operations, the company achieved certification of the sewerage systems. With that, Orkuveita Reykjavíkur became the first to operate a certified sewerage system in the country and among the first in the world to enjoy international environmental, quality and safety certification, and additionally practicing and receiving certification from the HACCP or GÁMES standards. Such certification is based on the identification of critical factors and key inspection points and it is very rare that sewerage systems enjoy certification of

this kind. Towards the end of 2006, Orkuveita Reykjavíkur purchased a sewerage system for Alftanes having previously taken over operation of the municipal water utility for the area.

The most recent sewerage systems are certified

With the certifications for the operation of the sewerage systems and the data transmission systems during 2006, Orkuveita Reykjavíkur has reached the stage where all its utilities now enjoy independent certification with regard to environmental, safety and quality matters. Additionally, Orkuveita Reykjavíkur's operation of municipal water utilities and sewerage enjoys a unique certification within those disciplines, which renders it a pioneer in those fields. The confirming certification credentials were rendered in November, and the operations satisfy the standards of ISO 9001, ISO 14001 and OHSAS 18001. The Orkuveita Reykjavíkur water utility became the first water utility in the world to become an authorised GÁMES-system in 1997.

During recent years, the number of Orkuveita Reykjavíkur utilities has increased significantly and the company's operations now reach 20 municipalities in the southern and western regions of the country. The company operates electrical, heating and water utilities, sewerage systems and a data transmission system. All these operational components in all the municipalities now enjoy certification, which means that the company's environmental administrative controls and its safety and quality administration are in compliance with strict international requirements as set forth in applicable standards.

Expanded service area

At the beginning of 2006 new legislation for electric power distribution took effect and the public was able to choose between electrical power producers. Earlier, Orkuveita Reykjavíkur had begun selling electricity to businesses around the country, but around New Year, the public began to consider the entire country as an Orkuveita Reykjavíkur market. Competition is still evolving, but Orkuveita Reykjavíkur's position will strengthen considerably when the new low-pressure engine at the Hellisheidi power plant starts up during autumn 2007.

All the 33MW of power generated by this engine will be sold in the general market. The fact that most retailers need to purchase a significant portion of their power from one and the same wholesaler has indeed put its mark on the new electrical power market. With the increasing power generation capacity of its own for the public market, Orkuveita Reykjavíkur will solidify its market position, enabling the company to offer a secure, broad service at a competitive price.

In addition to the aforementioned sewerage systems, Orkuveita Reykjavíkur also added water utilities to its operations in 2006. They were primarily located in Borgarfjörður, also the location of another recently purchased hot water utility, the Skorradalur hot water utility. The demand for Orkuveita Reykjavíkur to take over the operations of

municipal and privately held hot water utilities is considerable. This applies in particular to utilities that will require significant capital investments in the near future. It is therefore safe to assume that the company will take over the operation of additional utilities, the majority of which are located within the current distribution area.

In line with the emphasis on core business by the new Board of Directors of Orkuveita Reykjavíkur, it was decided to move the data transfer operations over to a separate company at the end of the year. This decision also went some way towards meeting the expressed indications of the regulator. Gagnaveita Reykjavíkur was founded with the objective to supply fibre optics to homes and businesses. Gagnaveita Reykjavíkur is wholly owned by Orkuveita Reykjavíkur.

Good credit rating

At the turn of the year Orkuveita Reykjavíkur received a credit rating of Aa2 from the international financial appraisal company Moody's. Behind the rating lay a great analysis effort by Orkuveita Reykjavíkur staff. This effort is not only recognised in the excellent rating the company received but also through improved operations. In this regard, the rating process is similar to the certification process; we look to ourselves to analyse how we execute tasks and to implement improvements. It is interesting to note how environmental affairs and the strong image Orkuveita Reykjavíkur projects in environmental power generation and general conduct towards the environment have now become concerns in the evaluation of all aspects of the business. Moody's pointedly described the company as a versatile power generation concern concentrating on environmentally safe geothermal power production.

When Orkuveita Reykjavíkur undertook the credit evaluation, seven other companies in Iceland had gone through an international credit evaluation, including the biggest financial institutions. Orkuveita Reykjavíkur received the best rating of all these companies, excluding those companies that enjoy state guarantees.

The year 2006 saw the implementation of internal auditing in OR. This is in accordance with additional requirements from interested parties that internal monitoring can be confirmed as being in good order at any time.

Sound business – strong position

Orkuveita Reykjavíkur has never returned as much floating capital as it did in 2006 – ISK 8.5 billion. As shown in the annual report, the company's investment capacity is significant and it is utilised to further its production capacity and distribution system. Exuberant growth in the private and business housing sectors in the Reykjavík area has called for significant levels of new projects on behalf of Orkuveita Reykjavíkur. As a result of the rapid build-up of housing estates, the

time for return on investment is relatively short.

The same applies to the development of electrical production at Hellisheidi. One of the advantages of geothermal power generation is the division of development stages. The first stages begin to generate revenue within a relatively short time while the later stages are still being completed.

Effects from currency exchange rates on the outcome of the Orkuveita Reykjavíkur annual report for 2006 are significant as the position of the Icelandic krona was rather weak. However, in line with increased revenue from the sale of electricity to heavy industries in foreign currency, the inherent risk with foreign exchange rates will diminish. It should be pointed out that in the long-term, financing with foreign loans is considerably more economical than capitalisation entirely from Icelandic sources.

Orkuveita Reykjavíkur has a strong standing in Icelandic society. The key to this position is to work in harmony with the community and the environment. Last year the foundation was laid for the company to form a policy around its responsibility towards the communities it serves.

Orkuveita Reykjavíkur has, for the past six years, completed an annual report depicting its performance in environmental matters, and the company has been a pioneer in this field. Good practices regarding the environment are, on the other hand, only one component of the overall responsibility that the company considers itself as having towards its surroundings. This year's environmental report does not only present an overview of the company's performance in its interaction with Nature, but rather also with those communities of people influenced by its business. This reaches equally to the municipalities within its distribution network, the employees of the company, tourists within its operational area and other interested parties. It is the hope of Orkuveita Reykjavíkur that the compilation of the company's influence on communities will serve as an example for others just as the environmental report was when it was completed.

In this manner, Orkuveita Reykjavíkur has adopted a policy to ensure that its business becomes more focused towards the environment and the community and that the results of this policy can be measured.

GUÐMUNDUR ÞÓRODDSSON
CEO



Indicators -Parent Company

	Unit	Time	2005	2006	Change
Inhabitants in electric utility area	number	1 Dec	166,599	169,872	2.0%
Inhabitants in geothermal utility area	number	1 Dec	190,145	193,849	1.9%
Inhabitants in water supply area incl. wholesale	number	1 Dec	163,913	167,217	2.0%
Inhabitants in water supply area excl. wholesale	number	1 Dec	125,827	128,025	1.7%
Electricity sales	GWh	Year	958	1,043	8.9%
Geothermal water sales	million m ³	Year	71.5	74.2	3.8%
Cold water sales by metres	million m ³	Year	9.3	10.8	16.1%
Cold water sales, wholesale	million m ³	Year	5.8	5.8	0.0%
Average price of electricity (less VAT) ¹	ISK/kWh	Year	6.67	6.65	-0.3%
Average price of geothermal water (less VAT) ¹	ISK/m ³	Year	67.78	67.14	-0.9%
Number of employee positions	number	31 Dec	525	560	6.7%
Number of employees	number	Year	566	625	10.5%
Electricity capacity	MW	31 Dec	132.2	221.9	67.9%
Total electricity production	GWh	Year	817.1	1,242	52.0%
Maximum demand for electricity in the Reykjavik area ²	MW	Year	186.2	194.4	4.4%
Total electrical energy requirement in the Reykjavik area ²	GWh	Year	1,000.8	1,050.4	5.0%
Maximum demand for electricity in Akranes	MW	Year	9.6	9.8	2.1%
Total electrical energy requirement in Akranes	GWh	Year	49.0	52.3	6.7%
Geothermal water capacity	m ³ /hr	31 Dec	17,993	17,993	0.0%
Geothermal water, maximum demand ³	m ³ /hr	Year	13,700	14,000	2.2%
Total geothermal water production	million m ³	Year	72.4	72.7	0.4%
Potable water capacity	l/s	31 Dec	1,873	2,026	8.2%
Total potable water production	million m ³	Year	27.5	28.7	4.4%
Substations	number	31 Dec	12	13	8.3%
Substations installed capacity	MVA	31 Dec	479	504	5.2%
Distribution indoor stations	number	31 Dec	709	735	3.7%
Distribution pole-mounted stations	number	31 Dec	110	110	0.0%
Distribution indoor stations, installed capacity	MVA	31 Dec	512.4	534	4.2%
Distribution pole-mounted stations, installed capacity	MVA	31 Dec	6.9	7.0	1.4%

	Unit	Time	2005	2006	Change
Underground and submarine cables, 132 kV	km	31 Dec	45.2	45.2	0.0%
Underground cables, 66 kV	km	31 Dec	17.1	17.1	0.0%
Underground cables, 33 kV	km	31 Dec	16.3	16.3	0.0%
Underground cables, 6-11 kV	km	31 Dec	652.3	690	5.8%
Overhead lines, 132 kV	km	31 Dec	24.5	24.5	0.0%
Overhead lines, 66 kV	km	31 Dec	35.0	35.0	0.0%
Overhead lines, 33 kV	km	31 Dec	4.4	4.4	0.0%
Overhead lines, 22 kV	km	31 Dec	0	0	
Overhead lines, 6-11 kV	km	31 Dec	118.8	118.8	0.0%
Underground cables, 400/230 V	km	31 Dec	3,408.6	3,527.7	3.5%
Overhead lines, 400/230 V	km	31 Dec	63.6	52.3	17.8%
Pipeline system, geothermal water	km	31 Dec	2,496.2	2,698.2	8.1%
Pipeline system, potable water	km	31 Dec	1,091.8	1,166.2	6.8%
Service connections, electricity	number	31 Dec	31,299	31,680	1.2%
Service connections, geothermal water	number	31 Dec	33,188	35,363	6.6%
Service connections, potable water	number	31 Dec	21,520	23,422	8.8%
Metres for electricity	number	31 Dec	90,706	92,634	2.1%
Metres for geothermal water	number	31 Dec	47,170	49,761	5.5%
Metres for potable water	number	31 Dec	2,245	2,203	-1.9%
Faults in:					
- high and medium voltage system	number	Year	82	84	2.4%
- low voltage system	number	Year	523	597	14.1%
Street lighting poles	number	31 Dec	37,591	38,649	2.8%
Street lighting luminaires	number	31 Dec	39,813	40,934	2.8%
Street lighting, installed capacity	kW	31 Dec	6,223	6,393	2.7%

¹ Incl. fixed charges

² Incl. secondary energy

³ Not incl. new areas

Key figures - Group

	Unit	Time	2005	2006	Change
INCOME					
Geothermal sales	ISK million	Year	4,797	5,105	6.4%
Electricity sales	ISK million	Year	6,643	7,865	18.4%
Water sales	ISK million	Year	1,518	1,640	8.1%
Sewage systems revenue	ISK million	Year		1,867	
Fiber-optic income	ISK million	Year	378	397	5.1%
Other income	ISK million	Year	1,392	1,227	-11.9%
	ISK million		14,728	18,101	22.9%
EXPENSES					
Energy	ISK million	Year	3,124	3,425	9.6%
Other operating expenses	ISK million	Year	5,064	6,140	21.2%
Depreciation	ISK million	Year	3,237	4,573	41.3%
	ISK million		11,424	14,138	23.8%
Financial income and expenses	ISK million	Year	1,055	-9,498	-1000.3%
ASSETS					
Power stations and distribution systems	ISK million	31 Dec	72,596	120,446	65.9%
Other assets	ISK million	31 Dec	11,839	10,290	-13.1%
Deferred tax asset	ISK million			2,414	
Current assets	ISK million	31 Dec	3,604	4,139	14.8%
	ISK million		88,039	137,289	55.9%
DEBT AND OWNERS EQUITY					
Equity	ISK million	31 Dec	48,213	66,555	38.0%
Share of minority in subsidiaries	ISK million	31 Dec	85	116	37.2%
Pension liabilities	ISK million	31 Dec	270	351	30.1%
Long-term debt	ISK million	31 Dec	34,755	61,265	76.3%
Current liabilities	ISK million	31 Dec	4,717	9,002	90.9%
	ISK million		88,039	137,289	55.9%

Key percentages - Group

	2005	2006
Profit margin ratio	29.6%	-9.7%
Return on equity	9.7%	-3.1%
Operating profit margin	21.4%	21.2%
Return on investment	16.7%	13.2%
Outstanding sales ratio	15.3%	15.2%
Equity ratio	54.9%	48.6%
Current ratio	0.76	0.46
Change in current assets as a portion of operating income	38.8%	36.7%
Investment over income	79.2%	103.1%
EBITDA (ISK million)	6,540	8,536
ROA	5.0%	-1.3%
Times interest earned ratio	6.01	3.89

Finance

The Annual Financial Statement of Orkuveita Reykjavíkur for the year 2006 includes the Consolidated Financial Statement of Orkuveita Reykjavíkur and its subsidiaries. The year's loss amounted to ISK 1,756 million compared to a profit of ISK 4,359 million in 2005. Operating profit before depreciation and interest (EBITDA) was ISK 8,536 million, increased by 30.5% from previous year.

Income statement

Operating profit for the year was ISK 18,101 million, and the increase from previous year was 22.9%. Operating expenses amounted to ISK 14,138 million compared to expenses of ISK 11,424 million in 2005. Among the operating expenses for 2006, are depreciation of fixed assets for ISK 4,573 million, compared to ISK 3,237 million the previous year.

Net financial cost in 2006 was ISK 9,466 million, compared to net financial income of ISK 1,067 million in 2005. Interest income was ISK 159 million, compared to ISK 171 million, the previous year. Interest expenses amounted to ISK 2,197 million, and increased by 102% from the previous year. In year 2006 a negative exchange rate differential on long-term liabilities amounted to ISK 8,220 million, compared to a positive exchange rate differential of ISK 1,945 million in 2005.

Balance sheet and cash flow

Total assets were ISK 137,289 million by the end of the year, compared to ISK 88,039 million in 2005, an increase of 55.9%. Total liabilities amounted to ISK 70,618 million by the end of 2006, compared to ISK 39,741 by the end of 2005, an increase of 77.7%. The company's long-term liabilities totalled ISK 61,616 million, at the close of 2006, compared to ISK 35,025 million in the previous year. New loans due to investment projects amounted to ISK 15,441 million.

Total equity at the end of 2006 was ISK 66,555 million. Equity ratio was 48.6%, compared to 54.9% at the end of the previous year.

In 2006, net cash from operating activities was ISK 6,620 million and increased from the previous year by 27.8%.

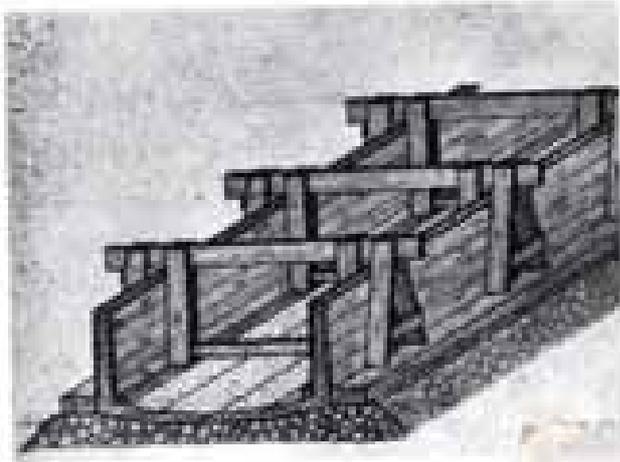
Dividends paid to owners were ISK 1,462 million in year 2006.

Funding

During 2006, Orkuveita Reykjavíkur negotiated new loan facilities for the amount of EUR 115 million; the facilities are payable over the next 30 years. During the year, new and existing loans were drawn for an amount of EUR 172 million, or about ISK 15.5 billion. In addition, a revolving credit facility was negotiated for an amount of EUR 100 million, or about ISK 9.4 billion at year-end value; the facility was undrawn at year-end.

Risk Management

The primary function of Orkuveita Reykjavíkur risk management is to manage foreign currency denominated loans, interest rate risks and, increasingly, revenues linked to aluminium prices and foreign exchange rates. Orkuveita Reykjavíkur has utilised a multi-currency option on existing loan facilities to optimise composition of foreign currency denominated debt. Orkuveita has, to a small degree, entered into an interest rate contract that changes current reference rates on loans. Orkuveita has also entered into foreign exchange forwards to limit exchange rate risks.



Orkuveita Reykjavíkur

Consolidated Financial Statements

2006

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Independent Auditor's Report

To the Board of Directors and owners of Orkuveita Reykjavíkur.

We have audited the accompanying consolidated financial statements of Orkuveita Reykjavíkur, which comprise the balance sheet as at December 31, 2006, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting principles in Iceland. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

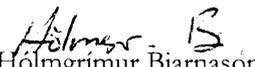
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Orkuveita Reykjavíkur as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles in Iceland applied on a consistent basis.

Reykjavík, March 7, 2007


Deloitte hf.

Páll Grétar Steingrímsson

State Authorized Public Accountant


Hólmgrímur Bjarnason

State Authorized Public Accountant

Board of Directors and CEO Report

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic laws nr. 139/2001 about founding the partnership Orkuveita Reykjavíkur.

Orkuveita Reykjavíkur is an independent service company that produces and distributes electricity, distributes geothermal water for heating, cold water for consumptions and operates fibre-optic cable systems in its service area. In addition the company has operated the sewage system from January 1, 2006.

Net loss of the year ended December 31 2006 amounted to ISK 1,756 million. According to the Balance Sheet, the Company's assets amount to ISK 137,289 million, the equity is ISK 66,671 million and the Company's equity ratio is 48.56%.

Orkuveita Reykjavíkur is a partnership. At December 31 2006 there were three owners of the company, i.e., the City of Reykjavik with a share of 93.539%, the Town of Akranes with a share of 5.528%, the Town of Borgarbyggð with share of 0.933%.

It is the opinion of the Board of Directors and the CEO of Orkuveita Reykjavíkur that these Financial Statements present all the information necessary to show the position of the Company at the year-end, the operating results for the year and the financial developments during the year 2006.

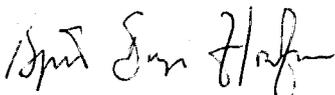
The Board of Directors and CEO of Orkuveita Reykjavíkur hereby confirm the Financial Statements for the year ended December 31 2006 with their signatures.

Reykjavík, March 7, 2007

The Board



Guðlaugur Þór Þórðarson
Chairman of the Board



Björn Ingi Hrafnsson



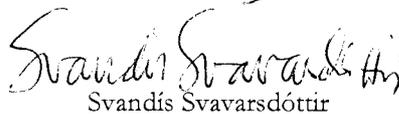
Gunnar Sigurðsson



Haukur Leósson



Sigrún Elsa Smáradóttir



Svandís Svavarsdóttir

CEO



Guðmundur Þóróddsson

Income Statement 2006

	Notes	2006	2005
Revenue	3	18,101,008	14,727,969
Energy purchases		(3,424,548)	(3,123,828)
Salaries and related expenses	5	(2,977,031)	(2,444,404)
Other operating expenses		(3,163,008)	(2,619,551)
Depreciation and amortization	10	(4,573,031)	(3,236,538)
Operating profit		3,963,391	3,303,648
Investment income	6	1,077,109	307,363
Finance costs	7	(10,543,462)	759,293
Profit (loss) before taxes		(5,502,963)	4,370,304
Income tax	8, 20	3,778,508	0
Profit (loss) before share of minority in subsidiaries		(1,724,454)	4,370,304
Share of minority in subsidiaries		(31,466)	(11,629)
Net profit (loss) for the year		(1,755,920)	4,358,674

Balance Sheet

Assets	Skýr.	31.12.2006	31.12.2005
Non-current assets			
Fixed tangible assets	10	130,290,766	83,487,814
Intangible assets	11	0	68,712
Shares in other companies	13	350,848	725,633
Investment property	14	95,212	152,389
Deferred tax assets	20	2,413,578	0
		<u>133,150,404</u>	<u>84,434,548</u>
Current assets			
Inventories	15	675,465	540,030
Accounts receivables	16	2,758,261	2,250,872
Current maturities of bonds	14	41,310	27,921
Other receivables	16	410,459	157,811
Cash and cash equivalents		253,171	627,544
		<u>4,138,666</u>	<u>3,604,179</u>
Total Assets		<u><u>137,289,070</u></u>	<u><u>88,038,727</u></u>

31. December 2006

Equity and liabilities	Skýr.	31.12.2006	31.12.2005
Equity			
Revaluation account		8,731,162	0
Retained earnings		57,823,705	48,213,085
Equity attributable to equity holders of the parent	17	<u>66,554,866</u>	<u>48,213,085</u>
Minority interests		115,896	84,541
Total equity		<u>66,670,762</u>	<u>48,297,626</u>
Non-current liabilities			
Long-term loans	18	61,265,044	34,754,726
Retirement benefit obligations	19	350,859	269,784
		<u>61,615,903</u>	<u>35,024,510</u>
Current liabilities			
Accounts payables		2,338,077	1,504,861
Bank loans		660,000	429,499
Current maturities	21	5,123,759	2,360,293
Other current liabilities	21	880,569	421,937
		<u>9,002,405</u>	<u>4,716,590</u>
Liabilities		<u>70,618,308</u>	<u>39,741,101</u>
Total equity and liabilities		<u><u>137,289,070</u></u>	<u><u>88,038,727</u></u>

Statement of Cash Flow 2006

	2006	2005
Operating activities		
Operating profit	3,963,391	3,303,648
Depreciation	4,573,031	3,236,538
(Gain)/loss on sale of assets	0	(63,418)
Increase/(decrease)in obligations	81,234	28,267
Operating cash flow before interest and taxes	8,617,656	6,505,035
(Increase)/decrease in inventories	(135,435)	(134,644)
(Increase)/decrease in receivables	(653,167)	(229,817)
Increase/(decrease) in payables	479,199	(191,391)
Cash generated from operations before interest and taxes	8,308,253	5,949,183
Received interest and dividends	178,512	176,801
Paid finance cost	(1,866,826)	(946,096)
Net cash from operating activities	6,619,939	5,179,888
Investing activities		
Purchases/sales of fixed tangible assets	(19,786,163)	(11,725,691)
Installments of investments	22,745	29,047
Bought/sold investments	1,094,425	36,542
	(18,668,993)	(11,660,102)
Financing activities		
Dividends paid	(1,462,460)	(1,417,112)
Repayments of long term liabilities	(2,987,221)	(2,725,965)
New long term liabilities	15,441,168	11,206,387
Increase/(decrease) in short term bank loans	660,000	(128,264)
	11,651,487	6,935,046
Net increase (decrease) in cash and cash equivalents	(397,567)	454,833
Cash and cash equivalents at the beginning of the year	627,544	125,713
Changes in subsidiaries	23,194	46,998
Cash at end of period	253,171	627,544
Other information		
Working capital from operations	6,648,416	5,721,558

Notes

1. General information

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic laws nr. 139/2001 about founding the partnership Orkuveita Reykjavíkur.

Orkuveita Reykjavíkur is an independent service company that produces and distributes electricity, distributes geothermal water for heating, cold water for consumptions and operates fibre-optic cable systems in its service area. In addition the company has operated the sewage system from January 1, 2006.

2. Accounting policies

Basis of preparation

The Financial Statements of Orkuveita Reykjavíkur for the year 2006 are prepared according to generally accepted accounting principles in Iceland. Costing method is used in the Financial Statements and it is prepared according to the same accounting principles as for the previous year. The Financial Statements are prepared in ISK.

The principal accounting policies adopted are set out below:

Basis of Consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries).

The Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

One of the purposes of Consolidated Financial Statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the consolidation.

Investments in Associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are booked at cost less allowance for estimated irrecoverable amount.

Notes

2. Accounting policies (continued)

Risk management

The main subject of the Company's risk management is regarding foreign debts, interests and revenues that are increasingly subject to the world price on aluminium. Orkuveita Reykjavíkur has used the flexibility in selection of currencies to get best combination on foreign debts and that has been satisfactory to reach the objectives on foreign debt combination. Orkuveita Reykjavíkur has rarely done contracts regarding interest-rate swap, that are done to change current interest references on loans or applying forward contracts.

Revenue recognition

Revenues are recognised when earned as required by generally accepted accounting principles. Sales are recognised when goods are delivered or service provided and are shown in the income statement net of value added tax, discount and internal sales.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

Borrowing costs

All borrowing costs are recognised in the period they incur.

Taxation

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is 26%.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Notes

2. Accounting Policies (continued)

Fixed tangible assets

Fixed tangible assets are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner. Fixed tangible assets which qualifies for recognition as an asset is initially measured at cost.

The cost of fixed tangible assets comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the asset is allocated on a fixed annual percentage of the historical cost over its useful life, less residual value.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of fixed tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost or net realisable value, after taking obsolete and defective goods into consideration.

Investment

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity are valued at cost, less an allowance for estimated irrecoverable amounts.

Other securities are classified as investment securities and are valued at cost, less an allowance for estimated irrecoverable amount.

Accounts receivable

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

Bank loans and other non-current liabilities

Bank loans and other non-current liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing costs are recognised in profit or loss in the year they are incurred.

Accounts payable

Accounts payables are valued at nominal value and accounts payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation.

Notes

3. Revenue

Revenue is specified as following:

	2006	2005
Electricity revenue	7,865,231	6,643,400
Heating revenue	5,104,540	4,796,792
Water revenue	1,639,562	1,517,722
Sewage systems revenue	1,867,702	0
Data utility revenue	397,029	377,795
Other revenue	1,226,944	1,392,260
	<u>18,101,008</u>	<u>14,727,969</u>

4. Analysis of operation of geothermal power plant and production and sale of electricity to power-intensive industry and retail

Nesjavellir power plant, analysis of operation:

	Electricity 2006	Hot water 2006
Revenue	1,672,936	811,082
Operating expenses	(277,610)	(397,453)
Depreciation	(530,714)	(271,526)
Calculated finance cost 5,5%	(598,721)	(285,010)
Income	<u>265,891</u>	<u>(142,907)</u>

Production and sale of electricity to power-intensive industry and retail:

	Power-intensive industry 2006	Retail 2006
Revenue	1,361,784	3,276,404
Total expenses	(1,268,930)	(3,233,854)
Income	92,854	42,550
Income as proportion of revenue	6.8%	1.3%

Total expenses include purchase of energy, production cost of electricity, depreciation and calculated 5.5% finance cost.

5. Salaries

Salaries and salary-related expenses are specified as follows:

	2006	2005
Salaries	3,033,480	2,486,508
Salary-related expenses	699,593	502,428
Payroll expenses capitalized under investment projects	(756,042)	(544,532)
	<u>2,977,031</u>	<u>2,444,404</u>
Average number of positions	626	568

Salaries and fees paid to the Board of Directors, CEO and four Managing Directors of the Parent Company in the period amounted to ISK 79 million.

Notes

6. Investment income

	2006	2005
Profit (loss) from investments	889,738	122,978
Dividends	59,805	12,980
Guarantee fee from subsidiaries	1,230	0
Amortization of investment property	(32,782)	0
Interest income	159,118	171,405
	<u>1,077,109</u>	<u>307,363</u>

7. Finance cost

	2006	2005
Exchange rate differential and futures	(8,220,026)	1,944,895
Capital income tax	(5,571)	(27,018)
Guarantee fee to owners of Orkuveita Reykjavíkur	(120,920)	(70,913)
Interest and indexation on long-term debts	(2,196,945)	(1,087,671)
	<u>(10,543,462)</u>	<u>759,293</u>

8. Income tax

Orkuveita Reykjavíkur has been exempt from income tax but according to new laws nr. 50/2005 on taxability for energy companies, the Company becomes taxable according to laws nr. 90/2003 on income tax. The law will become effective for the year 2006. The water utility and sewage system operation will still be exempt from income tax.

The Company's taxable value of assets and liabilities are not the same as the carrying value at January 1, 2006. This resulted in a deferred income tax asset that was recorded in the Balance Sheet at January 1, 2006 and as income tax revenue in the Income Statement. This amount is ISK 2,929 million.

Income tax has been calculated and recorded in the Consolidated Financial Statements, the amount recognised as income in the Income Statement is ISK 850 million in addition to the above mentioned ISK 2,929 million. Tax authorities have not yet approved the method of how the tax is calculated, so the amount could change to some extent. No income tax is paid during the year 2007 because of negative income tax base.

9. Dividends

In the year 2006, a dividend of ISK 1,462 million was paid to owners. In the year 2005, the dividend paid was 1,417 million ISK. In respect of the current year, the Board of Directors recommends that a dividend of ISK 1,530 million will be paid to owners in the year 2007.

Notes

10. Fixed tangible assets

Distribution	Heating distribution systems	Electricity distribution systems	Cold water distribution systems
Cost or valuation			
At 1 January 2006	21,778,565	23,469,263	15,644,231
Revaluation	4,731,365	5,478,160	3,661,896
Additions	1,396,549	645,694	556,060
At 31 December 2006	27,906,478	29,593,117	19,862,188
Accumulated depreciation			
At 1 January 2006	9,773,274	11,587,633	7,582,711
Revaluation	2,182,772	2,772,258	1,812,091
Charge for the year	490,608	498,088	297,943
At 31 December 2006	12,446,654	14,857,979	9,692,745
Carrying Amount			
At 1 January 2006	12,005,291	11,881,630	8,061,520
At 31 December 2006	15,459,824	14,735,137	10,169,443
Depreciation rates	2-15 %	2-20 %	2-20 %
Distribution	Sewage distribution systems	Fiber-optic distribution systems	Total
Cost or valuation			
At 1 January 2006	0	4,271,666	65,163,725
Addition due to new subsidiary	37,394,474	0	37,394,474
Revaluation	5,423,228	0	19,294,649
Additions	1,288,892	1,777,153	5,664,348
At 31 December 2006	44,106,594	6,048,819	127,517,197
Accumulated depreciation			
At 1 January 2006	0	337,592	29,281,210
Addition due to new subsidiary	16,565,474	0	16,565,474
Revaluation	2,430,198	0	9,197,319
Charge for the year	832,261	189,878	2,308,779
At 31 December 2006	19,827,933	527,470	57,352,782
Carrying Amount			
At 1 January 2006	0	3,934,074	35,882,515
At 31 December 2006	24,278,661	5,521,349	70,164,415
Depreciation rates	2-6,67 %	4-15 %	

Notes

10. Fixed tangible assets (continued)

Production	Production hot water	Production electricity	Production cold water	Total
Cost or valuation				
At 1 January 2006	33,906,836	24,692,997	3,289,337	61,889,170
Additions	5,945,858	7,708,266	187,558	13,841,682
Disposals	(69,160)			(69,160)
At 31 December 2006	39,783,534	32,401,263	3,476,895	75,661,692
Accumulated depreciation				
At 1 January 2006	15,820,465	6,655,925	1,420,909	23,897,300
Charge for the year	794,288	671,254	86,623	1,552,165
Eliminated on disposal	(69,160)			(69,160)
At 31 December 2006	16,545,593	7,327,179	1,507,532	25,380,304
Carrying Amount				
At 1 January 2006	18,086,371	18,037,072	1,868,428	37,991,870
At 31 December 2006	23,237,941	25,074,084	1,969,363	50,281,388
Depreciation rates	2-20 %	2-4 %	2-4 %	

Other assets	Properties	Heating rights	Other assets	Total
Cost or valuation				
At 1 January 2006	8,239,367	1,955,327	2,752,044	12,946,738
Addition due to new subsidiary	174,346			174,346
Additions	200,961	125,000	374,603	700,564
At 31 December 2006	8,614,675	2,080,327	3,126,646	13,821,649
Accumulated depreciation				
At 1 January 2006	1,230,729	367,778	1,734,803	3,333,309
Charge for the year	181,822	20,063	441,491	643,376
At 31 December 2006	1,412,550	387,841	2,176,294	3,976,685
Carrying Amount				
At 1 January 2006	7,008,638	1,587,550	1,017,240	9,613,428
At 31 December 2006	7,202,124	1,692,486	950,353	9,844,963
Depreciation rates	2-6 %	0-6,7 %	5-33,33 %	

Carrying Amount summation:	Distribution	Production	Other assets	Total
At 1 January 2006	35,882,515	37,991,870	9,613,428	83,487,814
At 31 December 2006	70,164,415	50,281,388	9,844,963	130,290,766

Depreciation in Income Statement is as follows:

Depreciation on distribution systems	2,308,779
Depreciation on production	1,552,165
Depreciation on other assets	643,376
Amortization of intangible assets	68,712
	<u>4,573,031</u>

Notes

10. Fixet tangible assets (continued)

The assessment- and insurance value for the Company's buildings is analysed as the following:

	Assessment value	Insurance value
Buildings and sites	16,029,530	14,929,112

At the end of the year 2006 the assets of distribution systems for hot water, electricity, cold water and sewage systems were revalued. The revaluation is ISK 10,097 million and the compensation is booked on revaluation account amongst equity and on deferred tax liability. In the year 2007 the company will revalue assets of productions.

Finance cost of ISK 409 million was capitalized because of constructions in Hellisheiði.

11. Intangible assets

	Development cost
Cost	
At January 1 2006	98,311
At December 31 2006	98,311
Amortization	
At January 1 2006	29,599
Charge for the year	68,712
At December 31 2006	98,311
Carrying Amount	
At January 1 2006	68,712
At December 31 2006	0

12. Subsidiaries

	Proportion of ownership	Par value	Principal activity
Shares in subsidiaries			
Gagnaveita Reykjavíkur ehf.	100.00%	500	Data transfer
Hitaveita Akraness og Borgarfjarðar(HAB) ..	79.30%		Heating production
Hitaveita Rangæinga	100.00%		Heating production
Hrafnabjargavirkjun	60.00%	24,000	Preparation company
NCI fjarskipti og orka ehf.	100.00%	3,000	No operation
Úlfljótuvatn frítímabyggð ehf.	100.00%	225,000	Preparation company

Notes

13. Shares in other companies

	2006	2005
Shares in other companies	350,848	725,633
	<u>350,848</u>	<u>725,633</u>
At January 1 2006	725,633	615,197
Purchased during the year	1,547,352	275,978
Disposed of during the year	(2,711,875)	(288,521)
Moved to investments in subsidiaries	(100,000)	0
Net profit/(loss)	889,738	122,978
At December 31 2006	<u>350,848</u>	<u>725,633</u>

14. Investment property

	2006	2005
Balance at January 1 2006	180,310	201,714
Additions during the year	8,335	0
Installments during the year	(31,080)	(29,047)
Indexation and provision	(21,043)	7,644
At December 31 2006	<u>136,522</u>	<u>180,310</u>
Current maturities	(41,310)	(27,921)
	<u>95,212</u>	<u>152,389</u>

15. Inventories

	31.12.2006	31.12.2005
Supplies	675,465	540,030
	<u>675,465</u>	<u>540,030</u>

16. Other financial assets

	31.12.2006	31.12.2005
Accounts receivables		
Receivables	2,855,511	2,332,122
Allowances for doubtful accounts	(97,250)	(81,250)
	<u>2,758,261</u>	<u>2,250,872</u>
Other receivables		
Value added tax	373,117	120,321
Capital income tax	11,441	0
Accrued interests	10,277	8,318
Loans to employees	15,382	19,398
Other receivables	243	9,774
	<u>410,459</u>	<u>157,811</u>

Notes

17. Equity

	Revaluation account	Retained earnings	Total equity
Equity 1.1.2006		48,213,085	48,213,085
Addition due to Sewage systems January 1		12,829,000	12,829,000
Revaluation of assets at year end 2006	8,731,162		8,731,162
Dividends paid		(1,462,460)	(1,462,460)
Net profit/(loss)		(1,755,920)	(1,755,920)
Equity 31.12.2006	<u>8,731,162</u>	<u>57,823,705</u>	<u>66,554,866</u>

18. Long-term loans

	31.12.2006	31.12.2005
Debts in CHF	13,249,466	7,326,222
Debts in EUR	17,874,524	7,290,445
Debts in GBP	4,854,964	2,367,310
Debts in JPY	6,758,381	3,150,386
Debts in SEK	4,915,761	3,431,749
Debts in USD	11,626,976	7,506,164
Debts in ISK	7,103,132	6,037,303
	<u>66,383,204</u>	<u>37,109,579</u>
Amount due for settlements within 12 months	(5,118,159)	(2,354,853)
Long-term loans 31 December 2006	<u><u>61,265,044</u></u>	<u><u>34,754,726</u></u>

Installments of long-term loans are specified as follows:

	31.12.2006
Current maturities	5,118,159
Installments 2008	2,103,802
Installments 2009	3,295,043
Installments 2010	2,421,203
Installments 2011	5,291,013
Installments later	<u>48,153,983</u>
	<u><u>66,383,204</u></u>

Owners of the Company are responsible, pro rata, for the debts and obligations of the Company.

19. Retirement benefit obligation

Orkuveita Reykjavíkur has an retirement benefit obligation due to former employees at the amount of ISK 356 million. Increase in this obligation during the period is ISK 81 million and is recorded as cost in the Income Statement among salaries and related expenses. The amount that is estimated to be paid in the next 12 months, ISK 5.6 million, is recorded as current liabilities.

Notes

20. Deferred tax

	Deferred tax assets
Estimated at 1 January 2006	2,928,999
Addition due to new subsidiary	1,239
Effect of revaluation of fixed assets	(1,366,168)
Calculated income tax for the year 2006	849,509
At 31 December 2006	<u>2,413,578</u>

The following are the major deferred tax liabilities and assets recognised:

Fixed tangible assets and intangible assets	999,683
Investments in other companies	(188,588)
Other items	87,864
Tax losses	1,514,619
	<u>2,413,578</u>

At Balance Sheet date the Consolidation has unused tax losses available for offset against future profits as follows:

Available for the years 2007 - 2016	5,658,057
	<u>5,658,057</u>

21. Trade and other payables

Other current liabilities	31.12.2006	31.12.2005
Capital tax payable	12,676	11,545
Accrued salaries and related expenses	388,079	213,193
Accrued interests	464,002	187,570
Forward exchange contract	11,179	0
Other liabilities	4,633	9,629
	<u>880,569</u>	<u>421,937</u>
 Current maturities of non-current liabilities	 31.12.2006	 31.12.2005
Long-term liabilities	5,118,159	2,354,853
Retirement benefit plans	5,600	5,440
	<u>5,123,759</u>	<u>2,360,293</u>

Notes

22. Commitments

At year-end the Company has made various contracts committing the Company without recording the commitments in the Balance Sheet. These commitments include:

Contracts with foreign banks in connection to the Company's projects. At December 31 2006 the Company has EUR 100 million left to draw on these contracts, ISK 9.4 billions. Contract has been made with Jarðboranir for drilling at Hellisheiði and Hengilsvæði, estimated project period is from the year 2006 to the year 2009 at least.

In connection to these investment activities, Orkuveita Reykjavíkur has made 3 contracts on sales of electricity to Norðurál for a duration of 20 years and Landsnet hf. for the distribution. Orkuveita Reykjavíkur and Alcan in Iceland have made a contract about sales of electricity to Alcan. Estimated time of starting delivery is the middle of year 2010 from the plant at Hellisheiði. Orkuveita Reykjavíkur and Hitaveita Suðurnesja hf. have signed memorandum of understanding on sale of electricity to intended aluminium plant in Helguvík. Estimated time of starting delivery is the middle of year 2010. Estimated revenue due to those long-term electricity sale agreements is about ISK 240 billion.

At year-end the Company has open foreign exchange forward contracts to limit currency risk. Those contracts include obligation about foreign exchange trade at fixed rate. Estimated negative value of those contracts are ISK 11 million at year-end. That amount has been recorded in the Consolidated Financial Statement, underlying amounts in those contracts is estimated at ISK 3,749 million.

Orkuveita Reykjavíkur has had a disagreement with the office of Internal Revenue because of obligations to pay capital tax. Orkuveita Reykjavíkur may receive reimbursement due to this matter. Since there is still no conclusion and this issue is still unsolved, no transactions have been made in the Consolidated Financial Statement.

At year-end Orkuveita Reykjavíkur established a subsidiary named Gagnaveita Reykjavíkur ehf. In the beginning of the year 2007 Gagnaveita Reykjavíkur ehf. took over all assets and financial obligation and operation of the fiber-optic distribution systems.

Orkuveita Reykjavíkur has begun a preparation for implementation of international accounting standards. It is the Company's goal to follow the standards in the next financial statement. It is not possible to say at this point what influence the international accounting standards will have on the Company's equity. There are some indications that the value of embedded derivatives in contracts of sale of electricity to power-intensive industry will be material.

23. Ratios

	2006	2005	2004
EBITDA / revenues	47.2%	44.4%	38.9%
Operating profit / revenues	21.9%	22.4%	14.6%
Working capital from operation / revenues	36.7%	38.8%	33.1%
Net profit / revenues	-9.7%	29.6%	27.8%
EBITDA	8,536,422	6,540,186	5,130,436
Equity ratio	48.6%	54.9%	56.5%

Notes

24. Statement of Cash Flows

	2006	2005	2004	2003	2002
Net profit / (loss).....	(1,755,920)	4,358,674	3,670,853	1,279,232	3,005,527
Depreciation.....	4,572,959	3,236,538	3,205,877	3,552,690	3,385,694
Non-cash finance cost.....	7,339,229	(1,727,154)	(2,518,378)	(1,103,300)	(3,069,604)
Other changes.....	(3,507,852)	(146,500)	9,071	1,176	(125,758)
Working capital from operation	6,648,416	5,721,558	4,367,423	3,729,798	3,195,858
Changes in:					
Operating assets.....	(829,173)	(364,793)	(173,031)	118,738	636,090
Operating liabilities.....	800,696	(176,877)	406,805	(271,315)	(52,885)
Net cash from operating activities	6,619,939	5,179,888	4,601,197	3,577,222	3,779,062

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Table of the International Exhibition of 1913
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Music	USA
Games	USA
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