Orkuveita Reykjavíkur

Condenced Consolidated
Interim Financial Statements
1 January to 30 June 2018

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

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

reg no. 551298-3029

Contents

Endorsement by the Board of Directors and the CEO

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

The condensed consolidated interim financial statements for the period 1 January to 30 June 2018 are prepared in accordance with the International Financial Reporting Standard IAS 34 Interim financial reporting. The interim financial statements comprise the condenced consolidated interim financial statements of OR and subsidiaries.

Profit of operations of the Group for the period 1 January to 30 June 2018 was ISK 4.200 million (1.1.-30.6.2017: ISK 7.311 million). Comprehensive income for the period 1 January to 30 June 2018 was 5.220 million (1.1.-30.6.2017: 3.310 million). According to the statement of financial position the Group's assets were ISK 315.449 million at the end of the period (31.12.2017: ISK 311.258 million). Book value of equity at the end of the period was ISK 149.091 million (31.12.2017: ISK 143.871 million), resulting in equity ratio of 47,3% (31.12.2017: 46,2%).

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

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

Statement by the Board of Directors

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the condenced consolidated interim financial statements are in accordance with international financial reporting standard IAS 34 on interim financial reporting. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group’s assets, liabilities and financial position 30 June 2018 and the Group´s operating return and changes in cash and cash equivalents in the period 1 January to 30 June 2018.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condenced consolidated interim financial statements for the period 1 January to 30 June 2018.

Reykjavík, 27 August 2018.

The Board of Directors:

Brynhildur Davíðsdóttir
Gylfi Magnússon
Guðjón Viðar Guðjónsson
Hildur Björnsdóttir
Sigríður Rut Júlíusdóttir
Kjartan Magnússon

CEO:

Bjarni Bjarnason

Independent Auditor´s Review Report

To the Board of Directors and owners of Orkuveita Reykjavikur.

We have reviewed the accompanying condensed consolidated statement of financial position of Orkuveita Reykjavikur as at June 30, 2018, the condensed consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information.

The Board of Directors and the CEO are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Reykjavík, 27 August 2018.

Grant Thornton endurskoðun ehf.

Davíð Arnar Einarsson
J. Sturla Jónsson

Income Statement
1 January to 30 June 2018

	Notes	2018 1.4.-30.6.	2017 1.4.-30.6.	2018 1.1.-30.6.	2017 1.1.-30.6.
Operating revenue	5	10.905.595	9.790.014	23.166.630	21.612.354
Sales profit (loss)		(966)	0	850	0
Total revenue		10.904.629	9.790.014	23.167.480	21.612.354
Energy purchase and distribution		(1.382.710)	(1.197.449)	(3.112.466)	(2.898.174)
Salaries and salary related expenses		(1.688.385)	(1.525.293)	(3.197.418)	(2.830.979)
Other operating expenses		(1.043.751)	(1.203.201)	(2.316.304)	(2.334.335)
Operating expenses, total		(4.114.846)	(3.925.943)	(8.626.188)	(8.063.488)
EBITDA		6.789.783	5.864.070	14.541.292	13.548.866
Depreciation and amortisation		(2.328.433)	(2.322.462)	(4.615.645)	(4.706.488)
Results from operating activities		4.461.350	3.541.608	9.925.647	8.842.378
Interest income		17.345	106.187	172.134	218.355
Interest expenses		(1.495.960)	(1.341.286)	(3.016.905)	(2.695.403)
Other income (expenses) on financial assets and liabilities		1.933.040	(902.442)	(2.809.801)	3.338.699
Total financial income and expenses	7	454.425	(2.137.541)	(5.654.573)	861.652
Share in profit of associated companies		0	4.993	6.058	2.004
Profit before income tax		4.915.775	1.409.059	4.277.132	9.706.034
Income tax		(1.105.069)	(136.463)	(76.854)	(2.394.627)
Profit for the period		3.810.706	1.272.597	4.200.278	7.311.407

The notes on pages 10 to 19 are an integral part of these Consolidated Interim Financial Statements.

Condenced Consolidated Interim Financial Statements of Orkuveita Reykjavikur 30 June 2018 5 Amounts are in ISK thousands

Statement of Comprehensive Income
1 January to 30 June 2018

	2018 1.4.-30.6.	2017 1.4.-30.6.	2018 1.1.-30.6.	2017 1.1.-30.6.
Profit for the period	3.810.706	1.272.597	4.200.278	7.311.407
Other comprehensive income				
Items moved to equity that could be moved later to the income statement				
Translation difference	4.021.739	(4.125.212)	1.019.389	(4.001.879)
	4.021.739	(4.125.212)	1.019.389	(4.001.879)
Other comprehensive income, after taxes	4.021.739	(4.125.212)	1.019.389	(4.001.879)
Total comprehensive income for the period	7.832.445	(2.852.615)	5.219.667	3.309.528

The notes on pages 10 to 19 are an integral part of these Consolidated Interim Financial Statements.

Condenced Consolidated Interim Financial Statements of Orkuveita Reykjavíkur 30 June 2018 6 Amounts are in ISK thousand

Statement of Financial Position
30 June 2018

	Notes	30.6.2018	31.12.2017
Assets			
Property, plant and equipment		281.230.587	277.996.688
Intangible assets		1.782.100	1.607.504
Investments in associated companies		67.322	61.263
Investments in other companies		3.607.047	3.607.047
Embedded derivatives in electricity sales contracts		0	1.877.811
Hedge contracts		791.277	738.800
Deferred tax assets		1.558.408	1.265.410
Total non-current assets		289.036.740	287.154.523
Inventories		1.220.909	936.045
Trade receivables	8	6.864.743	5.847.289
Embedded derivatives in electricity sales contracts		0	346.301
Hedge contracts		188.559	36.081
Other financial assets		0	4.090.265
Other receivables		411.184	305.860
Prepaid expenses		550.719	162.174
Deposits and marketable securities		6.259.476	6.124.722
Cash and cash equivalents		10.917.002	6.254.983
Total current assets		26.412.590	24.103.719
Total assets		315.449.330	311.258.242
Equity			
Revaluation reserve		79.034.262	80.349.640
Equity reserve		22.783.480	16.805.347
Fair value reserve		3.144.133	3.144.133
Translation reserve		(4.340.406)	(5.359.795)
Retained earnings		48.469.638	48.932.114
Total equity		149.091.106	143.871.439
Liabilities			
Loans and borrowings		128.398.388	129.811.656
Pension liability		663.109	608.261
Embedded derivatives in electricity sales contracts		1.674.928	0
Hedge contracts		550.813	737.006
Deferred tax liabilities		10.607.560	11.080.041
Total non-current liabilities		141.894.798	142.236.964
Accounts payable		2.272.287	2.230.378
Loans and borrowings		14.248.994	14.667.114
Embedded derivatives in electricity sales contracts		134.159	0
Hedge contracts		1.235.591	2.898.249
Deferred revenue	8	1.662.247	0
Current tax liability		916.834	1.453.685
Other current liabilities		3.993.313	3.900.413
Total current liabilities		24.463.425	25.149.838
Total liabilities		166.358.224	167.386.803
Total equity and liabilities		315.449.330	311.258.242

The notes on pages 10 to 19 are an integral part of these Consolidated Interim Financial Statements.

Amounts are in ISK thousand

Statement of Changes in Equity
1 January to 30 June 2018

	Revaluation reserve	Equity reserve	Develop-ment reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.-30.6. 2018							
Equity at 1 January 2018	80.349.640	16.805.347	0	3.144.133	(5.359.795)	48.932.114	143.871.439
Translation difference					1.019.389		1.019.389
Profit for the period						4.200.278	4.200.278
Total comprehensive income	0	0	0	0	1.019.389	4.200.278	5.219.667
Depreciation transferred to retained earnings	(1.315.379)					1.315.379	0
Share in profit of subsidiaries and associates transf. to equity reserve		5.978.133				(5.978.133)	0
Equity at 30 June 2018	79.034.262	22.783.480	0	3.144.133	(4.340.406)	48.469.638	149.091.106
1.1.-30.6. 2017							
Equity at 1 January 2017	72.918.471	7.000.139	59.759	2.822.160	(1.785.611)	40.460.965	121.475.883
Translation difference					(4.001.879)		(4.001.879)
Profit for the period						7.311.407	7.311.407
Total comprehensive income	0	0	0	0	(4.001.879)	7.311.407	3.309.528
Depreciation transferred to retained earnings	(1.409.927)					1.409.927	0
Share in profit of subsidiaries and associates transf. to equity reserve		4.283.542				(4.283.542)	0
Equity at 30 June 2017	71.508.545	11.283.681	59.759	2.822.160	(5.787.490)	44.898.757	124.785.411

The notes on pages 10 to 19 are an integral part of these Consolidated Interim Financial Statements.

Amounts are in ISK thousand

Statement of Cash Flows
1 January to 30 June 2018

	2018 1.1.-30.6.	2017 1.1.-30.6.
Cash flows from operating activities		
Profit for the period	4.200.278	7.311.407
Adjusted for:		
Financial income and expenses	5.654.573	(861.652)
Share in P/L of associates	(6.058)	(2.004)
Income tax	76.854	2.394.627
Depreciation and amortisation	4.615.645	4.706.488
Profit from sale of property, plants and equipment	(850)	(301)
Changes in fair value of investment property	(71.353)	0
Pension liability, change	54.848	15.501
Working capital from operation before interest and taxes	14.523.937	13.564.066
Inventories, increase	(285.511)	(201.260)
Current assets, increase	(1.623.056)	(153.981)
Current liabilities, increase	1.604.840	1.695.824
Cash generated from operations before interests and taxes	14.220.211	14.904.649
Received interest income	99.456	124.061
Paid interest expenses	(2.266.929)	(2.013.410)
Dividend received	21.524	1.195
Payments due to other financial income and expenses	(404.471)	(364.039)
Paid taxes	(682.180)	0
Net cash from operating activities	10.987.611	12.652.455
Cash flows from investing activities		
Acquisition of property, plant and equipment	(6.102.425)	(6.023.476)
Acquisition of intangible assets	(241.912)	(94.354)
Proceeds from sale of property, plant and equipment	20.400	1.739
Change in deposits	0	1.000.000
Change in marketable securities	(740.244)	(747.747)
Other financial assets	3.903.482	0
Net cash used in investing activities	(3.160.700)	(5.863.838)
Cash flows from financing activities		
Proceeds from new borrowings	5.338.562	6.451.817
Repayment of borrowings	(7.229.331)	(7.124.621)
Payments of currency hedges	(1.397.743)	(1.403.679)
Current liabilities, change	0	(2.859.984)
Net cash used in financing activities	(3.288.511)	(4.936.468)
Increase in cash and cash equivalents	4.538.400	1.852.149
Cash and cash equivalents at year beginning	6.254.983	12.356.669
Effect of currency fluctuations on cash and cash equivalents	123.619	(58.129)
Cash and cash equivalents at the end of the period	10.917.002	14.150.689
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	(91.233)	828.776
Current liabilities, change	91.233	(828.776)
Proceeds from new borrowings	0	1.139.811
Repayment of borrowings	0	(1.139.811)
Other information:		
Working capital from operation	12.047.712	11.707.097

The notes on pages 10 to 19 are an integral part of these Consolidated Interim Financial Statements.

Condenced Consolidated Interim Financial Statements of Orkuveita Reykjavíkur 30 June 2018 9 Amounts are in ISK thousand

Notes

1. Reporting entity

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

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

		Share	
Subsidiaries in the Group	**Main operations**	**30.6.2018**	**31.12.2017**
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ohf.	Holding company	100%	100%
Veitur ohf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	100%	100%
Úlfljótsvatn frítímabyggð ehf.	Preparation company	100%	100%
Foss fasteignafélag slhf.	Operation of real estate	100%	100%

2. Basis of preparation

a. *Statement of compliance*

These condenced consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standard *IAS 34 Interim Financial Reporting.* They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjuction with the consolidated financial statements of the Group for the year ended 31 December 2017. Same accounting principles are applied as for the year 2017 except for change in accounting principles due to new accounting standards, IFRS 15 (see note 3.a) and IFRS 9 (see note 3.b) which are effective from 1. January 2018. The new standards are further discussed in note 3. The annual financial statements can be found at the company's web site; www.or.is and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

The consolidated interim financial statements were approved by the Board of Directors on 27 August 2018.

b. *Functional and presentation currency*

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

c. *Basis of measurement*

The consolidated interim financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 36 with the consolidated financial statements for the year ended 31. December 2017.

Amounts are in ISK thousand

2. Basis of preparation, contd.

d. *Foreign currency*

i Trade in foreign currencies

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

ii Subsidiary with other functional currency than the Icelandic krona

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

e. *Use of estimates and judgements*

The preparation of the consolidated interim 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

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

3. Change in significant accounting policies

a. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 Revenue from Contracts with Customers is effective from 1 January 2018. The standard applies to revenue from sale of goods and service and replaces IAS 18 and IAS 11 and related interpretations. IFRS 15 is based on a five step model for revenue recognition. The standard establishes a comprehensive framework about revenue recognition of information on nature, amounts, timing and uncertainty of revenue and cash flow from contracts with customers. The new revenue recognition model is different from prior rules in that way a revenue shall be recognised in a way which reflects the transfer of goods and services to customers, that is a transfer of ownership, but according to prior rules the revenue recognition was based on a transfer of the risk and rewards. The Group's analysis of the effect of IFRS 15 revealed that the standard will not change the Group's revenue recognition. Based on that the effect of the standard on balance sheet at 1 January 2018 are none. The standard requires for extensive new disclosures compared to the standards and interpretations it is replacing. Information about revenue and operations generating revenue of the components of the Group are in more detail compared to prior financial statements, see note no. 4 and 5.

b. IFRS 9 *Financial Instruments*

IFRS 9 Financial Instruments is effective from 1 January 2018 and replaces IAS 39 Financial Instruments: Recognition and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities and derivative financial instruments. Under IFRS 9, on initial recognition, given certain condition it is allowed to classify financial assets at FVTPL or at FVOCI. After that the classification can not be changed.

b. IFRS 9 *Financial Instruments, contd.*

The Group classifies shares in companies at FVOCI. At IFRS 9 adoption it is allowed to continue with the classification and OR's management has decided to take advantage of that option and continue with unchanged classification. Classification of shares in companies at FVOCI results in fair value change to be only recorded in OCI and not reclassified to P&L when sold.

Marketable securities are classified at FVTPL. Marketable securities do not have known future cash flow and therefore it is required to continue to classify them at FVTPL.

Account receivables and other receivables which were under IAS 39 classified at loan and receivables are now classified at amortised cost.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Under IFRS 9, loss allowances will be measured on either of the 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date or lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Group's asset classified at amortised cost consist of account receivable and contract assets, other receivable, restricted cash and cash and cash equivalents. Account receivable and other receivable are without material financing component and the risk is immaterial and the loss allowances will be measured on lifetime ECLs.

Financial assets measured at amortised cost according to IFRS 9 are either short term receivable with expected life less than 12 months or receivable with low credit risk. Therefore the expected credit loss is proportionally low and the effect of the adoption of the standard on the Group's financial statements immaterial except that the standard requires for extensive new disclosures in consolidated financial statements .

Notes

b. IFRS 9 *Financial Instruments, contd.*

The table below shows the original classification for financial assets and financial liabilites of the Group according to IAS 39 and the new classification according to IFRS 9 as at 1 January 2018.

	Original classification acc. IAS 39	New classification acc. IFRS 9	Original book value acc. IAS 39	Book value acc. IFRS 9
Financial assets:				
Shares in companies	Available for sale	Fair value through OCI	3.607.047	3.607.047
Embedded derivatives in sales contracts	Financial assets at fair value	Fair value through profit or loss	2.224.111	2.224.111
Bond	Financial assets at fair value	Fair value through profit or loss	4.090.265	4.090.265
Hedge contracts	Financial assets at fair value	Fair value through profit or loss	774.880	774.880
Trade receivables	Loans and receivables	Amortised cost	5.847.289	5.847.289
Other receivables	Loans and receivables	Amortised cost	305.860	305.860
Deposits and marketable securities	Loans and receivables	Amortised cost	4.000.000	4.000.000
Deposits and marketable securities	Financial assets at fair value	Fair value through profit or loss	2.124.722	2.124.722
Cash and cash equivalents	Loans and receivables	Amortised cost	6.254.983	6.254.983
Financial assets total..			29.229.157	29.229.157
Financial liabilities:				
Loans and borrowings	Liabilities at amortised cost	Amortised cost	144.478.770	144.478.770
Hedge contracts	Financial liabilites at fair value	Fair value through profit or loss	3.635.255	3.635.255
Accounts payable	Liabilities at amortised cost	Amortised cost	2.230.378	2.230.378
Other current liabilities	Liabilities at amortised cost	Amortised cost	3.900.413	3.900.413
Financial liabilities total...			154.244.816	154.244.816

Amounts are in ISK thousand

Notes

4. Operation and revenue recognition of Group's components

The following provides information about the operation of Group's components. Breakdown of revenue for different operations is given in note 5 and income by segment in note 6.

	Products and services	Nature, timing of revenue recognition and payments terms
a.	Electricity	ON Power generates electricity and sells electricity and Utilities distribute electricity according to law no. 65/2003. Revenue from the sale and distribution of electricity is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. Upon connection of new users to distribution systems of electricity and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service.
b.	Hot water	ON Power and Utilities generate harness hot water and Utilities distribute harness hot water. Revenue from the sale and distribution of harness hot water is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. Upon connection of new users to distribution systems of harness hot water or upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service.
c.	Cold water	OR Water and Sewage collects and distributes cold water from reservoirs. Revenue from the sale of cold water is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate value. In addition revenue is stated for cold water according to measurement from specific industries. Upon connection of new users to distribution systems of cold water and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service.
d.	Sewer system	OR Water and Sewage runs the sewer system. Revenue is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate rateable value. Upon connection of new users to sewage system and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new sewer systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service.
e.	Other revenues	Gagnaveita Reykjavíkur operates fiber optics data system. Revenue from fiber optics data system is recognised in the income statement upon delivery of the goods and service. This is a competitive practice that is supervised by The Post and Telecom Administration. Orkuveita Reykjavíkur the parent company operates rental of housing and equipment, incidental sale of specialist consultancy services and more. Rental income is recorded as income in the income statement linearly over the lease term and other revenue is recognised upon delivery of goods or services.

5. Revenues from sales of goods and services

The Group's income from sales of goods and services is specified as follows	**2018** **1.1.-30.6.**	**2017** **1.1.-30.6.**
Electricity	10.079.519	9.435.021
Hot water	6.670.735	6.038.714
Cold water	1.569.628	1.612.096
Sewer system	2.637.677	2.486.916
Other revenues	2.209.070	2.039.607
Revenues from sales of goods and services total	23.166.630	21.612.354

Amounts are in ISK thousand

6. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities,* that represent licensed operations in hot and cold water, distribution of electricity and sewage, *ON Power*, representing the competitive operations in producing electricity and hot water and *Other Operation,* that represents the activities of the parent company and the fiber optic operations. The parent company's main activities is rental of housing and equipment, incidental sale of specialist consultancy services and more. Reykjavik fiber network represents the fiber optic operations. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 36 with the financial statements of the Group for the year 2017.

Business segments - divisions

1.1.-30.6. 2018	**Utilities**	**ON Power**	**Other Operation**	**Adjust-ments**	**Total**
External revenue	14.455.828	7.299.508	1.412.145	0	23.167.480
Inter-segment revenue	1.190.636	2.416.865	3.335.301	(6.942.802)	(0)
Total segment revenue	15.646.463	9.716.373	4.747.446	(6.942.802)	23.167.480
Segment operation expenses	(7.748.052)	(4.064.761)	(3.756.177)	6.942.802	(8.626.188)
Segment profit EBITDA	7.898.411	5.651.611	991.269	0	14.541.292
Depreciation and amortisation	(2.483.121)	(1.501.112)	(631.411)	0	(4.615.645)
Segment results, EBIT	5.415.290	4.150.499	359.858	0	9.925.647
Financial income and expenses	(1.612.183)	(889.233)	880.042	(4.033.199)	(5.654.573)
Share in profit of associated companies	0	0	6.058	0	6.058
Income tax	(461.775)	(631.782)	(463.779)	1.480.483	(76.854)
Profit for the period	3.341.332	2.629.484	782.178	(2.552.716)	4.200.278

1.1.-30.6. 2017					
External revenue	13.723.621	6.709.842	1.178.891	0	21.612.354
Inter-segment revenue	1.522.616	2.126.246	2.959.971	(6.608.833)	0
Total segment revenue	15.246.237	8.836.088	4.138.862	(6.608.833)	21.612.354
Segment operation expenses	(7.087.149)	(3.932.468)	(3.652.704)	6.608.833	(8.063.488)
Segment profit EBITDA	8.159.088	4.903.620	486.158	0	13.548.866
Depreciation and amortisation	(2.429.453)	(1.661.337)	(615.698)	0	(4.706.488)
Segment results, EBIT	5.729.635	3.242.283	(129.541)	0	8.842.378
Financial income and expenses	(1.530.259)	(2.493.089)	(57.849)	4.942.848	861.652
Share in profit of associated companies	0	0	2.004	0	2.004
Income tax	(511.439)	(158.229)	54.466	(1.779.425)	(2.394.627)
Profit (loss) for the period	3.687.937	590.966	(130.919)	3.163.423	7.311.407

Amounts are in ISK thousand

Notes

6. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust-ments	Total
Balance sheet (30.6.2018)					
Property, plant and equipment and intangible assets	150.584.590	103.494.183	28.933.914	0	283.012.687
Other assets	20.212.006	10.596.479	149.066.505	(147.438.346)	32.436.643
					315.449.330
Loans and borrowings	60.796.756	55.440.806	146.724.650	(120.314.830)	142.647.381
Other liabilities	12.400.075	6.629.848	30.611.788	(25.930.868)	23.710.843
					166.358.224
Investments					
Property, plant and equipment and intangible assets	2.384.595	1.892.323	2.202.966	0	6.479.884
Balance sheet (31.12.2017)					
Property, plant and equipment and intangible assets	151.079.915	101.169.408	27.354.869	0	279.604.192
Other assets	16.477.990	9.827.856	152.422.891	(147.074.687)	31.654.050
					311.258.242
Loans and borrowings	63.237.820	55.752.375	148.520.208	(123.031.634)	144.478.770
Other liabilities	10.061.653	6.873.754	30.993.447	(25.020.821)	22.908.033
					167.386.803
Investments (30.6.2017)					
Property, plant and equipment and intangible assets	2.549.870	785.032	1.954.152	0	5.289.054

Amounts are in ISK thousand

7. Financial income and expenses

Financial income and expenses are specified as follows:

	2018 1.1.-30.6.	2017 1.1.-30.6.
Interest income	172.134	218.355
Interest expense and paid indexation	(1.917.129)	(1.853.305)
Indexation	(742.779)	(454.097)
Guarantee fee to owners 1)	(356.998)	(388.001)
Total interest expenses	(3.016.905)	(2.695.403)
Fair value changes of embedded derivatives in electricity sales contracts	(4.033.199)	4.942.848
Fair value changes of financial assets and financial liabilities through P/L	(186.784)	(61.713)
Fair value changes of hedge contracts	2.053.805	966.209
Hedge contracts	(1.802.458)	(1.696.844)
Foreign exchange difference	1.137.310	(812.996)
Dividends	21.524	1.195
Total of other income (expenses) on financial assets and liabilities	(2.809.801)	3.338.699
Total financial income and expenses	(5.654.573)	861.652

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavikur in 2005. The fee on yearly basis for its licensed operations is 0,91% (2017: 0,87%) and 0,58% (2017: 0,58%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 357 million in the period 1 January to 30 June 2018 (1.1.-30.6.2017: ISK 388 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 36 in the financial statements of the Group for the year 2017. Change in fair value that is recognized in the income statement amounts to ISK 2.166 million expense in the period 1 January to 30 June 2018 (1.1.-30.6.2017: income ISK 5.847 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 4.220 million expense in the period 1 January to 30 June 2018 (1.1.-30.6.2017: income ISK 4.881 million).

8. Receivables and deferred revenue

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

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9. Fair value

Comparison of fair value versus carrying amounts

The carrying amounts of financial assets and financial liabilities is equal to their fair value with the 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:

	30.6.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	142.647.381	141.688.137	144.478.770	139.681.314

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

Interest rates used for determining fair value

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

	30.6.2018	31.12.2017
Embedded derivatives in electr. sales contr.	3,62% to 6,73%	3,12% to 6,31%
Financial assets at fair value through P/L		5,34%
Hedge contracts	-0,8% to 3,1%	-0,9% to 6,9%
Interest bearing loans	1,20% to 8,56%	2,09% to 13,02%

Sensitivity analysis on effect of change in interest rates, currency and price of alumnium are shown in note 25 in the financial statements of the Group for the year 2017. It is recommended to take into consideration this note while reading the interim financial statements for the current period since change in these presumptions can have considerable effect on certain amounts in the interim financial statements.

Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

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

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). Valuation of shares in other companies is prepared by specialists within the company and other specialists and based on the results and official data on future earnings and investments in underlying assets.

30.6.2018	Level 1	Level 2	Level 3	Total
Shares in companies	0	0	3.544.133	3.544.133
Embedded derivatives in sales contracts	0	0	(1.809.088)	(1.809.088)
Other financial assets	0	0	0	0
Other financial liabilities	0	(806.569)	0	(806.569)
Marketable securities	2.259.476	0	0	2.259.476
	2.259.476	(806.569)	1.735.045	3.187.952
31.12.2017				
Shares in companies	0	0	3.607.047	3.607.047
Embedded derivatives in sales contracts	0	0	2.224.111	2.224.111
Other financial assets	0	0	4.090.265	4.090.265
Other financial liabilities	0	(2.860.374)	0	(2.860.374)
Marketable securities	2.124.722	0	0	2.124.722
	2.124.722	(2.860.374)	9.921.423	9.185.771

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Notes

10. Related parties

Definition of related parties

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

Transactions with related parties

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

The following gives an overview of the transactions with related parties during the period 1 January to 30 June 2018 as well as a statement of receivables and payables at the end of the period. Transactions and positions with subsidiaries are eliminated in the financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

	2018 1.1.-30.6.	2017 1.1.-30.6.
Sale to related parties:		
Reykjavik City	726.151	504.219
Institutions and companies controlled by Reykjavik City	179.251	186.918
	905.402	691.137
Purchases from related parties:		
Reykjavik City	16.410	21.725
Institutions and companies controlled by Reykjavik City	5.459	3.288
Associates	26.852	26.090
	48.721	51.103

	30.6.2018	31.12.2017
Receivables for related parties:		
Reykjavik City	117.881	143.222
Institutions and companies controlled by Reykjavik City	53.850	38.090
	171.731	181.312
Payables for related parties:		
Reykjavik City	190.072	175.622
Institutions and companies controlled by Reykjavik City	1.285	3.050
	191.358	178.672
Interest bearing loans from owners of the parent Company:		
Reykjavik City	11.350.509	11.753.717
Akranes town	670.797	694.625
Borgarbyggð, municipality	113.215	117.237
	12.134.521	12.565.579

	2018 1.1.-30.6.	2017 1.1.-30.6.
Interest expense on loans from owners of the parent Company:		
Reykjavik City	555.038	599.037
Akranes town	32.661	35.174
Borgarbyggð, municipality	5.512	5.937
	593.211	640.148

Guarantee fee to owners

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 7.

Amounts are in ISK thousand