

Orkuveita Reykjavíkur  
Condensed Consolidated  
Interim Financial Statements  
1 January to 30 June 2016

\*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

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# Endorsement by the Board of Directors and the CEO

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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 fibre optic system in its service area.

The condensed consolidated interim financial statements for the period 1 January to 30 June 2016 are prepared in accordance with the International Financial Reporting Standard *IAS 34 Interim financial reporting*. The financial statements comprise the condensed consolidated interim financial statements of OR and subsidiaries.

Profit of operations of the Group for the period 1 January to 30 June 2016 was ISK 5.029 million (1.1.-30.6.2015: ISK 2.260 million). According to the statement of financial position the Group's assets were ISK 305.505 million at the end of the period (31.12.2015: ISK 310.990 million), book value of equity at the end of the period was ISK 116.892 million (31.12.2015: ISK 114.771 million), resulting in equity ratio of 38,3% (31.12.2015 36,9%).

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 condensed consolidated interim financial statements are in accordance with international financial reporting standard *IAS 34 on interim financial reporting*. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 30 June 2016 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 30 June 2016.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condensed consolidated interim financial statements for the period 1 January to 30 June 2016.

Reykjavík, 22 August 2016.

The Board of Directors:

*Brynhildur Davíðsdóttir*  
*Valdís Eyjólfsson*  
*Páll Gestsson*  
*Áslaug Friðriksdóttir*  
*Kjartan Magnússon*  
*Gylfi Magnússon*

CEO:

*Bjarni Bjarnason*

# Independent Auditor's Review Report

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To the Board of Directors and owners of Orkuveita Reykjavíkur.

We have reviewed the accompanying condensed consolidated statement of financial position of Orkuveita Reykjavíkur as at June 30, 2016, 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, 22 August 2016.

**KPMG ehf.**

Kristrún H. Ingólfssdóttir

# Income Statement

## 1 January to 30 June 2016

	Notes	2016 1.4.-30.6*	2015 1.4.-30.6*	2016 1.1.-30.6.	2015 1.1.-30.6.
Operating revenue .....		9.619.734	9.429.584	20.955.321	20.478.868
Total revenue		<u>9.619.734</u>	<u>9.429.584</u>	<u>20.955.321</u>	<u>20.478.868</u>
Energy purchase .....	(	1.497.362)	( 1.387.728)	( 3.132.746)	( 3.255.782)
Salaries and salary related expenses .....	(	1.376.820)	( 1.035.114)	( 2.757.033)	( 2.131.567)
Other operating expenses .....	(	1.261.524)	( 1.201.119)	( 2.324.893)	( 2.055.925)
Operating expenses, total	(	<u>4.135.706)</u>	<u>( 3.623.961)</u>	<u>( 8.214.672)</u>	<u>( 7.443.275)</u>
<b>EBITDA</b> .....		<u>5.484.028</u>	<u>5.805.623</u>	<u>12.740.649</u>	<u>13.035.593</u>
Depreciation and amortisation .....	5 (	2.896.631)	( 2.399.590)	( 5.302.829)	( 4.798.932)
<b>Results from operating activities</b> .....		<u>2.587.398</u>	<u>3.406.033</u>	<u>7.437.820</u>	<u>8.236.661</u>
Interest income .....		72.786	74.970	88.197	197.058
Interest expenses .....	(	1.446.239)	( 1.575.933)	( 2.558.557)	( 2.670.567)
Other income (expenses) on financial assets and liabilities .....		2.321.477	( 3.803.318)	1.538.898	( 3.639.072)
Total financial income and expenses	4	<u>948.025</u>	<u>( 5.304.282)</u>	<u>( 931.462)</u>	<u>( 6.112.581)</u>
Share in profit (loss) of associated companies .....		0	3.643	( 3.369)	3.643
Profit (loss) before income tax		<u>3.535.422</u>	<u>( 1.894.605)</u>	<u>6.502.989</u>	<u>2.127.723</u>
Income tax .....	(	1.041.569)	878.875	( 1.474.019)	132.611
<b>Profit (loss) for the period</b>		<u><u>2.493.853</u></u>	<u><u>( 1.015.730)</u></u>	<u><u>5.028.970</u></u>	<u><u>2.260.334</u></u>

\* Quarterly information have not been reviewed by the auditors.

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

# Statement of Comprehensive Income

## 1 January to 30 June 2016

	2016	2015	2016	2015
	1.4.-30.6*	1.4.-30.6*	1.1.-30.6.	1.1.-30.6.
Profit for the period .....	2.493.853	( 1.015.730)	5.028.970	2.260.334
<b>Other comprehensive income</b>				
<b>Items moved to equity that could be moved later to the income statement</b>				
Translation difference .....	( 358.240)	( 2.336.236)	( 2.908.125)	1.900.573
	( 358.240)	( 2.336.236)	( 2.908.125)	1.900.573
Comprehensive income moved directly to equity, after taxes ....	( 358.240)	( 2.336.236)	( 2.908.125)	1.900.573
<b>Total comprehensive income for the period</b>	<u>2.135.614</u>	<u>( 3.351.966)</u>	<u>2.120.845</u>	<u>4.160.908</u>

\* Quarterly information have not been reviewed by the auditors.

# Statement of Financial Position

## 30 June 2016

	Notes	30.6.2016	31.12.2015
<b>Assets</b>			
Property, plant and equipment .....	5	272.141.645	278.311.167
Intangible assets .....		1.406.347	1.366.036
Investments in associated companies .....		59.381	62.750
Investments in other companies .....		2.907.914	2.907.914
Hedge contracts .....		246.003	443.324
Deferred tax assets .....		4.591.502	5.458.992
Total non-current assets		<u>281.352.792</u>	<u>288.550.184</u>
Inventories .....		704.374	610.407
Trade receivables .....	6	5.298.863	4.634.866
Hedge contracts .....		524.933	805.795
Other financial assets .....		8.560.313	8.713.156
Other receivables .....		573.399	502.759
Deposits .....		0	554.381
Marketable securities .....		1.440.737	1.353.894
Cash and cash equivalents .....		7.049.093	5.264.079
Total current assets		<u>24.151.713</u>	<u>22.439.337</u>
<b>Total assets</b>		<u><u>305.504.504</u></u>	<u><u>310.989.521</u></u>
<b>Equity</b>			
Revaluation reserve .....		74.334.768	75.808.678
Fair value reserve .....		2.445.000	2.445.000
Translation reserve .....		2.330.536	5.238.661
Retained earnings .....		37.781.725	31.278.845
<b>Total equity</b>		<u>116.892.029</u>	<u>114.771.184</u>
<b>Liabilities</b>			
Loans and borrowings .....	7	141.011.269	146.346.901
Pension liability .....		587.642	542.661
Embedded derivatives in electricity sales contracts .....		9.253.547	11.095.112
Hedge contracts .....		2.483.743	2.320.623
Deferred tax liabilities .....		7.961.671	7.619.437
Total non-current liabilities		<u>161.297.873</u>	<u>167.924.734</u>
Accounts payable .....		1.826.357	2.240.135
Loans and borrowings .....	7	17.063.880	19.288.436
Embedded derivatives in electricity sales contracts .....		1.596.949	2.097.051
Hedge contracts .....		1.881.730	1.755.978
Deferred revenue .....	6	1.624.882	0
Unpaid taxes .....		100.514	0
Other current liabilities .....		3.220.290	2.912.003
Total current liabilities		<u>27.314.602</u>	<u>28.293.603</u>
<b>Total liabilities</b>		<u>188.612.475</u>	<u>196.218.337</u>
<b>Total equity and liabilities</b>		<u><u>305.504.504</u></u>	<u><u>310.989.521</u></u>

The notes on pages 10 to 16 are an integral part of these Consolidated Interim Financial Statements.

# Statement of Changes in Equity

## 1 January to 30 June 2016

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings*	Total equity
<b>1.1.-30.6. 2016</b>					
Equity at 1 January 2016 .....	75.808.678	2.445.000	5.238.661	31.278.845	114.771.184
Translation difference .....			(2.908.125)		( 2.908.125)
Profit for the period .....				5.028.970	5.028.970
Total comprehensive income .....	0	0	(2.908.125)	5.028.970	2.120.845
Depreciation transferred to retained earnings .....	( 1.473.910)			1.473.910	0
Equity at 30 June 2016 .....	74.334.768	2.445.000	2.330.536	37.781.725	116.892.029
<b>1.1.-30.6. 2015</b>					
Equity at 1 January 2015 .....	69.446.324	1.760.000	4.235.355	23.968.184	99.409.863
Translation difference .....			1.900.573		1.900.573
Profit for the period .....				2.260.334	2.260.334
Total comprehensive income .....	0	0	1.900.573	2.260.334	4.160.908
Depreciation transferred to retained earnings .....	( 1.300.335)			1.300.335	0
Equity at 30 June 2015 .....	68.145.988	1.760.000	6.135.929	27.528.854	103.570.771

\* According to recently accepted amendments on the Icelandic Financial Statements Act valid from 1.1.2016, share in profit or loss of subsidiaries, which exceeds the dividends received or the dividend decided of retained earnings, should be accounted for on a restricted reserve account among equity. The same applies for fair value changes recognized in the income statement for financial instruments measured at fair value. There is uncertainty regarding the implementation, scope and application of the said provisions. Due to this uncertainty, fair value changes for the period are neither accounted for on the fair value reserve among equity nor share in profit or loss for associated companies.



# Statement of Cash Flows

## 1 January to 30 June 2016

	<b>2016</b>	<b>2015</b>
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
<b>Cash flows from operating activities</b>		
Profit for the period .....	5.028.970	2.260.334
Adjusted for:		
Financial income and expenses .....	931.462	6.112.581
Share in P/L of associates .....	3.369	( 3.643)
Income tax .....	1.474.019	( 132.611)
Depreciation, amortisation and impairment .....	5.302.829	4.798.932
Profit from sale of property, plants and equipment .....	0	( 13.097)
Pension liability, change .....	44.981	32.301
Working capital from operation before interest and taxes	12.785.629	13.054.797
Inventories, increase .....	( 89.209)	( 54.585)
Current assets, increase .....	( 792.147)	( 1.058.575)
Current liabilities, increase .....	1.271.273	1.239.402
Cash generated from operations before interests and taxes	13.175.547	13.181.038
Received interest income .....	56.518	251.599
Paid interest expenses .....	( 1.890.464)	( 2.214.787)
Dividend received .....	28.493	9.890
Payments due to other financial income and expenses .....	403.751	( 185.889)
Net cash from operating activities	11.773.846	11.041.851
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment .....	( 5.569.456)	( 3.319.502)
Acquisition of intangible assets .....	( 72.075)	( 53.657)
Proceeds from sale of property, plant and equipment .....	0	23.225
Change in deposits .....	554.381	1.750.144
Change in marketable securities .....	( 86.843)	0
Net cash used in investing activities	( 5.173.993)	( 1.599.789)
<b>Cash flows from financing activities</b>		
Proceeds from new borrowings .....	1.038.000	0
Repayment of borrowings .....	( 7.338.178)	( 6.933.949)
Current liabilities, change .....	1.554.433	( 1.693.456)
Net cash to financing activities	( 4.745.745)	( 8.627.404)
<b>Increase in cash and cash equivalents</b> .....	1.854.108	814.658
<b>Cash and cash equivalents at year beginning</b> .....	5.264.079	9.147.113
<b>Effect of currency fluctuations on cash and cash equivalents</b> .....	( 69.093)	( 15.678)
<b>Cash and cash equivalents at end of period</b> .....	7.049.093	9.946.094
<b>Investments and financing without payment effects:</b>		
Acquisition of property, plant and equipment .....	( 444.852)	( 733.099)
Current liabilities, change .....	444.852	733.099
Proceeds from new borrowings .....	2.701.725	0
Repayment of borrowings .....	( 2.701.725)	0
<b>Other information:</b>		
Working capital from operation .....	10.617.208	10.501.181

# Notes

## 1. Reporting entity

Orkuveita Reykjavíkur "OR" is a partnership that complies with the Icelandic law no. 136/2013 on the founding of the partnership Orkuveita Reykjavíkur. The Company's headquarters are at Bæjarháls 1 in Reykjavík. The Company's condensed 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 fibre optic system in its service area.

Subsidiaries in the Group	Main operations	Share	
		30.6.2016	31.12.2015
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%
Úlfjótswatn frítímabyggð ehf.	Preparation company	100%	100%

## 2. Basis of preparation

### a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standard *IAS 34 Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015. Same accounting principles are applied as for the year 2015. The annual financial statements can be found at the company's web site; [www.or.is](http://www.or.is) and at the web site of the Icelandic Stock exchange market; [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com).

The condensed interim financial statements were approved by the Board of Directors on 22 August 2016.

### 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 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 notes with the consolidated financial statements for the year ended 31 December 2015.

# Notes

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## 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 these estimates.

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

# Notes

## 3. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities*, that represent licenced operations in hot and cold water, distribution of electricity and sewage, *Our nature*, representing the competitive operations in producing electricity and hot water and *Other Operation*, that represents the activities of the parent company and the fibre optic operations. Segement reporting is conducted by using the same accounting principle as the group uses and is described in notes to the financial statements for the year ended 31 December 2015.

### Business segments - divisions

#### 1.1.-30.6. 2016

	Utilities	ON Power	Other Operation	Adjustments	Total
External revenue .....	13.685.943	6.242.750	1.026.627	0	20.955.321
Inter-segment revenue .....	1.307.750	2.133.319	2.387.227	( 5.828.296)	0
Total segment revenue .....	14.993.693	8.376.069	3.413.854	( 5.828.296)	20.955.321
Segment operation expenses .....	( 6.530.079)	( 4.140.242)	( 3.372.646)	5.828.296	( 8.214.672)
Segment profit EBITDA .....	8.463.614	4.235.827	41.208	0	12.740.649
Depreciation, amortisation and impairment .....	( 2.557.864)	( 1.789.164)	( 955.802)	0	( 5.302.829)
Segment results, EBIT .....	5.905.750	2.446.663	( 914.594)	0	7.437.820
Financial income and expenses .....	( 2.298.379)	( 2.297.478)	1.322.728	2.341.666	( 931.462)
Share of loss of associated companies .....	0	0	( 3.369)	0	( 3.369)
Income tax .....	( 417.691)	( 12.956)	( 200.373)	( 843.000)	( 1.474.019)
Profit for the period .....	3.189.680	136.230	204.393	1.498.666	5.028.970

#### 1.1.-30.6. 2015

External revenue .....	13.027.600	6.479.565	971.703	0	20.478.868
Inter-segment revenue .....	1.408.582	1.693.911	2.333.187	( 5.435.680)	0
Total segment revenue .....	14.436.182	8.173.476	3.304.889	( 5.435.680)	20.478.868
Segment operation expenses .....	( 5.680.189)	( 4.107.791)	( 3.090.975)	5.435.680	( 7.443.275)
Segment profit EBITDA .....	8.755.993	4.065.685	213.915	0	13.035.593
Depreciation, amortisation and impairment .....	( 2.538.123)	( 1.817.546)	( 443.264)	0	( 4.798.932)
Segment results, EBIT .....	6.217.871	2.248.139	( 229.349)	0	8.236.661
Financial income and expenses .....	( 3.161.007)	( 703.110)	1.939.887	( 4.188.350)	( 6.112.581)
Share of loss of associated companies .....	0	0	3.643	0	3.643
Income tax .....	( 409.686)	( 364.865)	( 599.851)	1.507.014	132.611
Profit for the period .....	2.647.177	1.180.164	1.114.330	( 2.681.337)	2.260.334

# Notes

## 3. Segment reporting, contd.

### Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust- ments	Total
<b>Balance sheet (30.6.2016)</b>					
Property, plant and equipment and intangible assets .....	139.931.107	115.941.339	17.675.545	0	273.547.992
Other assets .....	14.367.312	7.765.811	387.926.320	( 378.102.931)	31.956.512
					<u>305.504.504</u>
Loans and borrowings .....	69.618.469	67.070.955	158.075.149	( 136.689.424)	158.075.149
Other liabilities .....	9.356.210	5.173.494	25.590.356	( 9.582.735)	30.537.326
					<u>188.612.475</u>
<b>Investments</b>					
Property, plant and equipment and intangible assets .....	3.110.965	1.222.373	1.416.609	0	5.749.947
<b>Balance sheet (31.12.2015)</b>					
Property, plant and equipment and intangible assets .....	139.378.006	123.084.460	17.214.738	0	279.677.203
Other assets .....	11.343.532	7.541.563	392.665.099	( 380.237.877)	31.312.317
					<u>310.989.521</u>
Loans and borrowings .....	71.229.733	71.363.358	165.635.337	( 142.593.091)	165.635.337
Other liabilities .....	7.357.745	5.028.073	21.784.659	( 3.587.478)	30.583.000
					<u>196.218.337</u>
<b>Investments</b>					
Property, plant and equipment and intangible assets .....	3.989.932	4.509.621	1.878.980	0	10.378.533

# Notes

## 4. Financial income and expenses

	2016	2015
	1.1.-30.6.	1.1.-30.6.
Financial income and expenses are specified as follows:		
Interest income .....	88.197	197.058
Interest expense and indexation .....	( 2.262.389)	( 2.305.254)
Guarantee fee to owners 1) .....	( 296.168)	( 365.314)
Total interest expenses .....	( 2.558.557)	( 2.670.568)
Fair value changes of embedded derivatives in electricity sales contracts .....	2.341.666	( 4.186.149)
Fair value changes of financial assets and financial liabilities through P/L .....	( 152.844)	282.285
Hedge contracts .....	( 1.374.503)	( 1.120.011)
Foreign exchange difference .....	696.086	1.374.913
Dividends .....	28.493	9.890
Total of other income (expenses) on financial assets and liabilities .....	1.538.898	( 3.639.072)
Total financial income and expenses .....	( 931.462)	( 6.112.582)

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavíkur in 2005. The fee on yearly basis for its licenced operations is 0.375% (2015: 0.375%) and 0.57 % (2015: 0.55%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 152 million in the period 1 January to 30 June 2016 (1.1.-30.6.2015: ISK 365 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 35 in the financial statements of the Group for the year 2015. Change in fair value that is recognized in the income statement for the period amounts to ISK 2.189 million. (1.1.-30.6.2015: expense ISK 3.904 million).

## 5. Property, plant and equipment

Assets under constructions have been impaired by ISK 500 million in addition to ISK 1.2 billion at year end 2015 due to of uncertainty about a contract for the purchase of two 45 MW turbines. After the impairment the book value of those assets is ISK 500 million but discussions are ongoing about the contract and a part of the deposit is expected to be refunded. The evaluation has changed because plans on selling the turbines to a third-party did not go through.

## 6. Receivables and deferred revenue

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

# Notes

## 7. Loans and borrowings

Interest bearing loans are recorded using the method of amortised cost. Further information on the Group's exposure to interest rate, foreign currency and liquidity risk, see note 24 in the in the financial statements of the Group for the year 2015. Loans and borrowings are detailed as follows:

	30.6.2016	31.12.2015
<b>Non-current liabilities</b>		
Bank loans .....	122.638.624	130.929.982
Subordinated loan from owners of the Company .....	13.672.762	13.711.809
Bond issuance .....	20.209.230	20.993.546
	<u>156.520.616</u>	<u>165.635.337</u>
Current portion on non-current liabilities .....	( 15.509.347)	( 19.288.436)
	<u>141.011.269</u>	<u>146.346.901</u>
<b>Current liabilities</b>		
Current portion on non-current liabilities .....	15.509.347	19.288.436
Short-term bank loans .....	1.554.533	0
	<u>17.063.880</u>	<u>19.288.436</u>
Total interest bearing loans and borrowings .....	<u>158.075.149</u>	<u>165.635.337</u>

### Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		30.6.2016		31.12.2015	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF .....	5.10.2027	0.00%	14.770.818	0.00%	15.858.990
Liabilities in EUR .....	19.12.2027	0.67%	45.616.877	0.79%	49.424.015
Liabilities in USD .....	15.11.2038	1.86%	35.425.900	1.62%	39.472.704
Liabilities in JPY .....	10.5.2027	0.04%	7.830.443	0.13%	7.550.385
Liabilities in GBP .....	26.2.2024	1.72%	3.086.750	1.74%	4.031.464
Liabilities in SEK .....	5.10.2027	0.00%	4.720.201	0.00%	5.155.106
			<u>111.450.991</u>		<u>121.492.664</u>
Liabilities in Icelandic kronas:					
Indexed .....	10.1.2037	4.03%	43.867.126	4.03%	42.907.674
Non-indexed .....	5.12.2018	7.32%	2.757.033	7.40%	1.235.000
			<u>46.624.159</u>		<u>44.142.674</u>
Total interest-bearing loans and borrowings .....			<u>158.075.149</u>		<u>165.635.338</u>

Repayment on non-current liabilities are specified as follows on the next years:

### 30.6.2016

1.7.2016-30.06.2017 .....	17.063.880
1.7.2017-30.06.2018 .....	15.664.939
1.7.2018-30.06.2019 .....	15.818.299
1.7.2019-30.06.2020 .....	13.931.573
1.7.2020-30.06.2021 .....	13.566.683
Later .....	82.029.774
Total non-current liabilities, including next year's repayment .....	<u>158.075.149</u>

# Notes

## 7. Loans and borrowings, contd.,

### 31.12.2015

1.1.2016-31.12.2016.....	19.288.436
1.1.2017-31.12.2017.....	15.001.564
1.1.2018-31.12.2018.....	15.928.982
1.1.2019-31.12.2019.....	14.275.206
1.1.2020-31.12.2020 .....	13.976.808
Later .....	87.164.340
Total non-current liabilities, including next year's repayment .....	<u>165.635.337</u>

### Refinancing

In June 2016 OR negotiated on refinancing a debt amounting to ISK 4.6 billion. The debt was a bond maturing in December 2016. Negotiated was on payment of ISK 1.9 billion in with four equal installments every six months and maturing 14 December 2018. New bonds were issued to refinance ISK 2.7 billion in 30-year maturity.

### Guarantees and pledges

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

### Covenants

Loans for the amount of ISK 16.461 million have certain covenants that regard repayment time as a proportion of EBITDA and as interests as a proportion of EBITDA as well as reviewing that budgets are within set limits (2015: ISK 13.909 million). Management regularly evaluate the covenants and in their view there is not risk of them being breached. At the end of June 2016 the Group measured up to all financial covenants of loan agreements.

## 8. Fair value

### Comparison of fair value versus carrying amounts

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

	30.6.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities .....	158.075.149	140.043.421	165.635.337	145.180.453

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:

	30.6.2016	31.12.2015
Embedded derivatives in electr. sales contr. ....	3.70% to 9.29%	3.25% to 10.13%
Financial assets at fair value through P/L .....	7.23% to 7.23%	7.51% to 7.51%
Interest bearing loans .....	3.10% to 7.39%	2.61% to 7.99%

The classification of financial instruments in the fair value hierarchy has not changed in the period. The classification can be seen in the financial statements for the Group for the year 2015 in note 28.

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium are shown in note 24 in the financial statements of the Group for the year 2015. 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.