

Orkuveita Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1 January to 31 March 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

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Contents

	Page
Endorsement by the Board of Directors and the CEO	3
Income Statement	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Consolidated Interim Financial Statements	9

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 31 March 2018 are prepared in accordance with the International Financial Reporting Standard IAS 34 Interim financial reporting. The interim financial statements comprise the condensed consolidated interim financial statements of OR and subsidiaries. The interim financial statements have not been reviewed by the independent auditor of the company.

Profit of operations of the Group for the period 1 January to 31 March 2018 was ISK 390 million (1.1.-31.3.2017: ISK 6.039 million). Comprehensive income for the period 1 January to 31 March 2018 was negative 2.613 million (1.1.-31.3.2017: profit 6.162 million). According to the statement of financial position the Group's assets were ISK 307.929 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 141.259 million (31.12.2017: ISK 143.871 million), resulting in equity ratio of 45,9% (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 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 31 March 2018 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 31 March 2018.

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 31 March 2018.

Reykjavík, 28 May 2018.

The Board of Directors:

Brynhildur Davíðsdóttir

Gylfi Magnússon

Sigríður Rut Júlíusdóttir

Áslaug Friðriksdóttir

Kjartan Magnússon

Rakel Óskarsdóttir

CEO:

Bjarni Bjarnason

Income Statement

1 January to 31 March 2018

	Notes	2018 1.1.-31.3.	2017 1.1.-31.3.
Operating revenue	5	12.261.035	11.822.110
Profit from sale of assets		1.816	231
Operating revenues, total		12.262.851	11.822.341
Energy purchase and distribution .....	(	1.729.756)	(1.700.725)
Salaries and salary related expenses .....	(	1.509.032)	(1.305.686)
Other operating expenses .....	(	1.272.553)	(1.131.133)
Operating expenses, total	(	4.511.342)	(4.137.544)
EBITDA		7.751.509	7.684.796
Depreciation and amortisation .....	(	2.287.212)	(2.384.026)
Results from operating activities, EBIT		5.464.297	5.300.770
Interest income		154.789	112.169
Interest expenses .....	(	1.520.946)	(1.354.116)
Other income (expenses) on financial assets and liabilities .....	(	4.742.841)	4.241.140
Total financial income and expenses	7	(6.108.998)	2.999.193
Share in profit (loss) of associated companies		6.058	(2.988)
(Loss) profit before income tax	(	638.643)	8.296.975
Income tax		1.028.215	(2.258.164)
Profit for the period		389.573	6.038.811

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Comprehensive Income

1 January to 31 March 2018

	2018	2017
	1.1.-31.3.	1.1.-31.3.
Profit for the period	389.573	6.038.811
Other comprehensive income		
Items moved to equity that could be moved later to the income statement		
Translation difference	(3.002.350)	123.333
	<u>(3.002.350)</u>	<u>123.333</u>
Other comprehensive income, after taxes	(3.002.350)	123.333
Total comprehensive income for the period	<u>(2.612.778)</u>	<u>6.162.144</u>

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Financial Position

31 March 2018

	Notes	31.3.2018	31.12.2017
Assets			
Property, plant and equipment		272.077.204	277.996.688
Intangible assets		1.668.175	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		646.236	738.800
Deferred tax assets		2.349.513	1.265.410
Total non-current assets		280.415.497	287.154.523
Inventories		1.162.920	936.045
Trade receivables	8	7.890.571	5.847.289
Embedded derivatives in electricity sales contracts		0	346.301
Hedge contracts		152.534	36.081
Other financial assets		0	4.090.265
Other receivables		345.156	305.860
Prepaid expenses		578.033	162.174
Deposits and marketable securities		2.251.826	6.124.722
Cash and cash equivalents		15.132.015	6.254.983
Total current assets		27.513.055	24.103.719
Total assets		307.928.552	311.258.242
Equity			
Revaluation reserve		79.697.201	80.349.640
Equity reserve		20.036.431	16.805.347
Fair value reserve		3.144.133	3.144.133
Translation reserve .....	(	8.362.145)	(5.359.795)
Retained earnings		46.743.041	48.932.114
Total equity		141.258.661	143.871.439
Liabilities			
Loans and borrowings		127.481.792	129.811.656
Pension liability		662.447	608.261
Embedded derivatives in electricity sales contracts		2.561.861	0
Hedge contracts		456.098	737.006
Deferred tax liabilities		10.308.158	11.080.041
Total non-current liabilities		141.470.356	142.236.964
Accounts payable		2.410.347	2.230.378
Loans and borrowings		14.417.099	14.667.114
Embedded derivatives in electricity sales contracts		373.655	0
Hedge contracts		2.191.625	2.898.249
Deferred revenue	8	455.075	0
Current tax liability		656.988	1.453.685
Other current liabilities		4.694.745	3.900.413
Total current liabilities		25.199.534	25.149.838
Total liabilities		166.669.890	167.386.803
Total equity and liabilities		307.928.552	311.258.242

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Changes in Equity

1 January to 31 March 2018

	Revaluation reserve	Equity reserve	Develop- ment reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.-31.3. 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					(3.002.350)		(3.002.350)
Profit for the period						389.573	389.573
Total comprehensive income	0	0	0	0	(3.002.350)	389.573	(2.612.778)
Depreciation transferred to retained earnings	(652.439)					652.439	0
Share in profit of subsidiaries and associates transf. to equity reserve		3.231.085				(3.231.085)	0
Equity at 31 March 2018	79.697.201	20.036.431	0	3.144.133	(8.362.145)	46.743.041	141.258.661
1.1.-31.3. 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					123.333		123.333
Profit for the period						6.038.811	6.038.811
Total comprehensive income	0	0	0	0	123.333	6.038.811	6.162.144
Depreciation transferred to retained earnings	(635.198)					635.198	0
Share in profit of subsidiaries and associates transf. to equity reserve		2.922.708				(2.922.708)	0
Equity at 31 March 2017	72.283.273	9.922.847	59.759	2.822.160	(1.662.278)	44.212.266	127.638.027

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Cash Flows

1 January to 31 March 2018

	2018	2017
	1.1.-31.3.	1.1.-31.3.
Cash flows from operating activities		
Profit for the period	389.573	6.038.811
Adjusted for:		
Financial income and expenses	6.108.998	(2.999.193)
Share in P/L of associates	(6.058)	2.988
Income tax	(1.028.215)	2.258.164
Depreciation and amortisation	2.287.212	2.384.026
Profit from sale of property, plants and equipment	(1.816)	(231)
Pension liability, change	54.186	910
Working capital from operation before interest and taxes	7.803.879	7.685.475
Inventories, increase	(228.946)	(118.956)
Current assets, increase	(2.242.811)	(1.638.167)
Current liabilities, increase	52.497	1.381.234
Cash generated from operations before interests and taxes	5.384.620	7.309.586
Received interest income	103.033	58.773
Paid interest expenses	(708.546)	(764.495)
Dividend received	1.195	1.321
Payments due to other financial income and expenses	(243.060)	(151.158)
Paid taxes	(409.308)	0
Net cash from operating activities	4.127.934	6.454.027
Cash flows from investing activities		
Acquisition of property, plant and equipment	(2.746.982)	(3.239.213)
Acquisition of intangible assets	(91.965)	(43.038)
Proceeds from sale of property, plant and equipment	13.674	1.489
Change in deposits	4.000.000	(1.000.000)
Change in marketable securities	(46.369)	(685.566)
Other financial assets	3.903.482	0
Net cash used in investing activities	5.031.839	(4.966.327)
Cash flows from financing activities		
Proceeds from new borrowings	3.545.555	1.969.848
Repayment of borrowings	(3.424.633)	(3.627.968)
Payments of currency hedges	(236.080)	(478.861)
Current liabilities, change	0	(2.859.984)
Net cash used in financing activities	(115.159)	(4.996.965)
Increase (decrease) in cash and cash equivalents	9.044.614	(3.509.265)
Cash and cash equivalents at year beginning	6.254.983	12.356.669
Effect of currency fluctuations on cash and cash equivalents	(167.583)	14.017
Cash and cash equivalents at the end of the period	15.132.015	8.861.420
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	196.945	(347.533)
Current liabilities, change	(196.945)	347.533
Other information:		
Working capital from operation	7.438.413	5.594.471

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Notes

1. Reporting entity

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

Subsidiaries in the Group	Main operations	Share	
		31.3.2018	31.12.2017
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ehf.	Holding company	100%	100%
Veitur ehf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ehf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	100%	100%
Úlfjótsvatn frítímabyggð ehf.	Preperation company	100%	100%
Foss fasteignafélag slhf.	Operation of real estate	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 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 28 May 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.

Notes

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 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 service 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 to be changed.

Notes

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

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	2017
	1.1.-31.3.	1.1.-31.3.
Electricity.....	5.192.450	5.128.490
Hot water.....	3.907.228	3.462.701
Cold water.....	792.710	815.544
Sewer system.....	1.334.233	1.258.126
Other revenues.....	1.034.414	1.157.249
Revenues from sales of goods and services total.....	<u>12.261.035</u>	<u>11.822.110</u>

Notes

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

	Utilities	ON Power	Other Operation	Adjust- ments	Total
1.1.-31.3. 2018					
External revenue	7.895.150	3.707.003	660.698	0	12.262.851
Inter-segment revenue	519.140	1.327.827	1.590.050	(3.437.017)	0
Total segment revenue	8.414.290	5.034.830	2.250.748	(3.437.017)	12.262.851
Segment operation expenses	(3.938.187)	(2.117.638)	(1.892.534)	3.437.017	(4.511.342)
Segment profit EBITDA	4.476.103	2.917.192	358.214	0	7.751.509
Depreciation and amortisation	(1.240.075)	(738.644)	(308.493)	0	(2.287.212)
Segment results, EBIT	3.236.029	2.178.547	49.721	0	5.464.297
Financial income and expenses	(899.504)	(665.472)	615.605	(5.159.627)	(6.108.998)
Share in profit of associated companies	0	0	6.058	0	6.058
Income tax	(325.325)	(300.507)	(249.972)	1.904.020	1.028.215
Profit for the period	2.011.199	1.212.569	421.412	(3.255.607)	389.573
1.1.-31.3. 2017					
External revenue	7.516.841	3.715.245	590.255	0	11.822.341
Inter-segment revenue	730.576	1.132.545	1.407.813	(3.270.933)	0
Total segment revenue	8.247.417	4.847.790	1.998.067	(3.270.933)	11.822.341
Segment operation expenses	(3.644.874)	(2.092.201)	(1.671.402)	3.270.933	(4.137.544)
Segment profit EBITDA	4.602.542	2.755.589	326.665	0	7.684.796
Depreciation and amortisation	(1.213.173)	(856.364)	(314.490)	0	(2.384.026)
Segment results, EBIT	3.389.370	1.899.225	12.176	0	5.300.770
Financial income and expenses	(605.327)	(1.258.686)	(468.087)	5.331.293	2.999.193
Share of loss of associated companies	0	0	(2.988)	0	(2.988)
Income tax	(377.357)	(124.163)	162.621	(1.919.266)	(2.258.164)
Profit (loss) for the period	2.406.685	516.376	(296.279)	3.412.028	6.038.811

Notes

6. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust- ments	Total
Balance sheet (31.3.2018)					
Property, plant and equipment and intangible assets	150.793.609	94.999.106	27.952.665	0	273.745.380
Other assets	18.600.265	10.055.848	148.074.813	(142.547.754)	34.183.172
					<u>307.928.552</u>
Loans and borrowings	62.110.668	52.679.895	145.940.330	(118.832.001)	141.898.892
Other liabilities	11.013.575	5.793.705	29.783.932	(21.820.214)	24.770.998
					<u>166.669.890</u>
Investments					
Property, plant and equipment and intangible assets	953.769	770.086	921.607	0	2.645.462
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
					<u>311.258.242</u>
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
					<u>167.386.803</u>
Investments (31.3.2017)					
Property, plant and equipment and intangible assets	1.191.677	393.173	788.690	0	2.373.540

Notes

7. Financial income and expenses

	2018	2017
	1.1.-31.3.	1.1.-31.3.
Financial income and expenses are specified as follows:		
Interest income	154.789	112.169
Interest expense and paid indexation	(903.764)	(1.064.016)
Indexation	(435.558)	(90.042)
Guarantee fee to owners 1)	(181.624)	(200.059)
Total interest expenses	(1.520.946)	(1.354.116)
Fair value changes of embedded derivatives in electricity sales contracts	(5.159.627)	5.331.293
Fair value changes of financial assets and financial liabilities through P/L	(186.274)	305.070
Fair value changes of hedge contracts	1.011.422	137.793
Hedge contracts	(437.399)	(629.870)
Foreign exchange difference	27.842	(904.467)
Dividends	1.195	1.321
Total of other income (expenses) on financial assets and liabilities	(4.742.841)	4.241.140
Total financial income and expenses	(6.108.998)	2.999.193

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 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 182 million in the period 1 January to 31 March 2018 (1.1.-31.3.2017: ISK 200 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 4.334 million expense in the period 1 January to 31 March 2018 (1.1.-31.3.2017: income ISK 5.774 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 5.346 million expense in the period 1 January to 31 March 2018 (1.1.-31.3.2017: income ISK 5.636 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.

Notes

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 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:

	31.3.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	141.898.892	141.460.644	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:

	31.3.2018		31.12.2017	
Embedded derivatives in electr. sales contr.	3,40% to 6,65%		3,12% to 6,31%	
Financial assets at fair value through P/L			5,34%	
Hedge contracts	-0,9% to 6,8%		-0,9% to 6,9%	
Interest bearing loans	1,23% to 12,88%		2,09% to 13,02%	

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 2017 in note 29.

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium 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.