

Orkuveita Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1 January to 31 March 2019

*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

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 2019 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 2019 was ISK 3.869 million (1.1.-31.3.2018: ISK 390 million). Comprehensive income for the period 1 January to 31 March 2019 was ISK 7.307 million (1.1.-31.3.2018: negative ISK 2.613 million). According to the statement of financial position the Group's assets were ISK 347.279 million at the end of the period (31.12.2018: ISK 340.089 million). Book value of equity at the end of the period was ISK 168.134 million (31.12.2018: ISK 160.827 million), resulting in equity ratio of 48,4% (31.12.2018: 47,3%).

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 2019 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 31 March 2019.

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 2019.

Reykjavík, 27 May 2019.

The Board of Directors:

Gylfi Magnússon
Sigríður Rut Júlíusdóttir
Hildur Björnsdóttir
Páll Gestsson
Valgarður Lyngdal Jónsson

CEO:

Bjarni Bjarnason

Income Statement

1 January to 31 March 2019

	Notes	2019 1.1.-31.3.	2018 1.1.-31.3.
Operating revenue	4	12.642.287	12.261.035
Profit from sale of assets		332	1.816
Operating revenues, total		12.642.619	12.262.851
Energy purchase and distribution .....	(	1.494.705)	(1.729.756)
Salaries and salary related expenses .....	(	1.677.023)	(1.509.032)
Other operating expenses .....	(	1.544.938)	(1.272.553)
Operating expenses, total	(	4.716.666)	(4.511.342)
EBITDA		7.925.953	7.751.509
Depreciation and amortisation .....	(	2.829.257)	(2.287.212)
Results from operating activities, EBIT		5.096.696	5.464.297
Interest income		101.943	154.789
Interest expenses .....	(	1.708.903)	(1.520.946)
Other income (expenses) on financial assets and liabilities		1.185.591	(4.742.841)
Total financial income and expenses	6	(421.369)	(6.108.998)
Share in profit (loss) of associated companies		2.062	6.058
Profit before income tax		4.677.389	(638.643)
Income tax		(808.111)	1.028.215
Profit for the period		3.869.278	389.573

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 2019

	2019	2018
	1.1.-31.3.	1.1.-31.3.
Profit for the period	<u>3.869.278</u>	<u>389.573</u>
Other comprehensive income		
Items moved to equity that could be moved later to the income statement		
Translation difference	<u>3.437.446</u> (	<u>3.002.350</u>)
	<u>3.437.446</u> (	<u>3.002.350</u>)
Other comprehensive income, after taxes	3.437.446 (	3.002.350)
Total comprehensive income for the period	<u>7.306.724</u> (	<u>2.612.778</u>)

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

Statement of Financial Position

31 March 2019

	Notes	31.3.2019	31.12.2018
Assets			
Property, plant and equipment		310.294.787	303.582.858
Intangible assets		2.118.075	1.999.523
Investments in associated companies		69.358	67.296
Investments in other companies		3.859.015	3.859.015
Hedge contracts		160.108	295.670
Deferred tax assets		3.712.030	3.819.233
Total non-current assets		320.213.374	313.623.595
Inventories		1.038.324	1.019.807
Trade receivables	7	6.519.648	5.482.511
Hedge contracts		808.438	946.717
Other receivables		461.265	496.986
Prepaid expenses		604.760	307.939
Deposits and marketable securities		3.801.832	7.223.231
Cash and cash equivalents		13.831.192	10.988.087
Total current assets		27.065.460	26.465.279
Total assets		347.278.833	340.088.874
Equity			
Revaluation reserve		82.978.193	83.821.060
Equity reserve		46.712.469	42.972.671
Fair value reserve		3.395.941	3.395.941
Translation reserve		3.978.328	540.882
Retained earnings		31.069.025	30.096.679
Total equity		168.133.956	160.827.232
Liabilities			
Loans and borrowings		137.056.429	133.577.622
Pension liability		724.640	682.404
Embedded derivatives in electricity sales contracts		2.917.335	4.270.604
Hedge contracts		706.938	777.053
Deferred tax liabilities		13.086.296	12.813.107
Total non-current liabilities		154.491.637	152.120.791
Accounts payable		2.572.124	3.125.135
Loans and borrowings		13.970.992	17.706.249
Embedded derivatives in electricity sales contracts		880.709	1.046.265
Hedge contracts		395.713	548.022
Deferred revenue	7	551.177	162.980
Current tax liability		701.065	1.497.031
Other current liabilities		5.581.461	3.055.169
Total current liabilities		24.653.240	27.140.851
Total liabilities		179.144.878	179.261.642
Total equity and liabilities		347.278.833	340.088.874

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 2019

	Revaluation reserve	Equity reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.-31.3. 2019						
Equity at 1 January 2019	83.821.060	42.972.671	3.395.941	540.882	30.096.679	160.827.232
Translation difference				3.437.446		3.437.446
Profit for the period					3.869.278	3.869.278
Total comprehensive income	0	0	0	3.437.446	3.869.278	7.306.724
Depreciation transferred to retained earnings	(842.866)				842.866	0
Share in profit of subsidiaries and associates transf. to equity reserve ...		3.739.799			(3.739.799)	0
Equity at 31 March 2019	82.978.193	46.712.469	3.395.941	3.978.328	31.069.025	168.133.956
1.1.-31.3. 2018						
Equity at 1 January 2018	80.349.640	16.805.347	3.144.133	(5.361.315)	48.295.719	143.233.524
Translation difference				(3.002.350)		(3.002.350)
Profit for the period					389.573	389.573
Total comprehensive income	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	3.144.133	(8.363.665)	46.106.646	140.620.745

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 2019

	2019	2018
	1.1.-31.3.	1.1.-31.3.
Cash flows from operating activities		
Profit for the period	3.869.278	389.573
Adjusted for:		
Financial income and expenses	421.369	6.108.998
Share in P/L of associates	(2.062)	(6.058)
Income tax	808.111	(1.028.215)
Depreciation and amortisation	2.829.257	2.287.212
Profit from sale of property, plants and equipment	(332)	(1.816)
Pension liability, change	42.236	54.186
Working capital from operation before interest and taxes	7.967.856	7.803.879
Inventories, increase	(18.517)	(228.946)
Current assets, increase	(1.363.033)	(2.242.811)
Current liabilities, increase	1.211.993	52.497
Cash generated from operations before interests and taxes	7.798.299	5.384.620
Received interest income	165.427	103.033
Paid interest expenses	(939.654)	(708.546)
Dividend received	1.195	1.195
Payments due to other financial income and expenses	47.074	(243.060)
Paid taxes	(184.586)	(409.308)
Net cash from operating activities	6.887.754	4.127.934
Cash flows from investing activities		
Acquisition of property, plant and equipment	(3.575.657)	(2.746.982)
Acquisition of intangible assets	(172.507)	(91.965)
Proceeds from sale of property, plant and equipment	4.042	13.674
Change in deposits	1.500.000	4.000.000
Change in marketable securities	2.166.015	(46.369)
Other financial assets	0	3.903.482
Net cash used in investing activities	(78.107)	5.031.839
Cash flows from financing activities		
Proceeds from new borrowings	3.528.181	3.545.555
Repayment of borrowings	(7.499.052)	(3.424.633)
Payments of currency hedges	(214.536)	(236.080)
Net cash used in financing activities	(4.185.407)	(115.159)
Increase in cash and cash equivalents	2.624.240	9.044.614
Cash and cash equivalents at year beginning	10.988.087	6.254.983
Effect of currency fluctuations on cash and cash equivalents	218.865	(167.583)
Cash and cash equivalents at the end of the period	13.831.192	15.132.015
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	609.030	196.945
Current liabilities, change	(609.030)	(196.945)
Other information:		
Working capital from operation	5.541.802	7.438.413

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 Orkuveita Reykjavíkur. OR's headquarters are at Bæjarháls 1 in Reykjavík. 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	
		31.3.2019	31.12.2018
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%
Úlfjótuvatn frítímabyggð ehf.	Preparation 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 2018. Same accounting principles are applied as for the year 2018. The implementation of IFRS 16 effective for annual periods beginning 1 January 2019 is a work in progress. Possible effect of the implementation of the standard has not yet been evaluated. The implementation of the standard is expected to be completed by 30 June 2019. 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 May 2019.

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 41 with the consolidated financial statements for the year ended 31 December 2018.

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.

Notes

2. Basis of preparation, contd.

d. Foreign currency, contd.

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. 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 4 and income by segment in note 5.

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. Trade receivables from the sale and distribution of electricity generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
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. Trade receivables from the sale and distribution of harness hot water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.

Notes

3. Operation and revenue recognition of Group's components, contd.

Products and services	Nature, timing of revenue recognition and payments terms
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. Trade receivables from the sale of cold water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
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. Trade receivables from the sewer system generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
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. Trade receivables from other revenues generally have a 30 day grace period.

4. Revenues from sales of goods and services

The Group's income from sales of goods and services is specified as follows	2019	2018
	1.1.-31.3.	1.1.-31.3.
Electricity.....	5.098.532	5.192.450
Hot water.....	4.053.413	3.907.228
Cold water.....	824.203	792.710
Sewer system.....	1.398.205	1.334.233
Other revenues.....	1.267.933	1.034.414
Revenues from sales of goods and services total.....	<u>12.642.287</u>	<u>12.261.035</u>

Notes

5. 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 and sale of 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 providing service to subsidiaries, 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 41 with the consolidated financial statements for the year ended 31 December 2018.

Business segments - divisions

1.1.-31.3. 2019

	Utilities	ON Power	Other Operation	Adjustments	Total
External revenue	8.175.224	3.653.566	813.829	0	12.642.619
Inter-segment revenue	735.078	1.149.183	1.852.423	(3.736.684)	(0)
Total segment revenue	8.910.302	4.802.749	2.666.252	(3.736.684)	12.642.619
Segment operation expenses	(4.230.189)	(2.077.262)	(2.145.899)	3.736.684	(4.716.666)
Segment profit EBITDA	4.680.113	2.725.487	520.353	0	7.925.953
Depreciation and amortisation	(1.332.238)	(1.127.968)	(369.051)	0	(2.829.257)
Segment results, EBIT	3.347.875	1.597.519	151.303	0	5.096.696
Financial income and expenses	(645.968)	48.042	(1.342.268)	1.518.826	(421.369)
Share in profit of associated companies	0	0	2.062	0	2.062
Income tax	(367.353)	(315.319)	445.640	(571.078)	(808.111)
Profit (loss) for the period	2.334.553	1.330.241	(743.264)	947.747	3.869.278

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

Notes

5. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust- ments	Total
Balance sheet (31.3.2019)					
Property, plant and equipment and intangible assets	152.981.418	128.225.940	31.205.504	0	312.412.862
Other assets	20.317.718	8.854.013	159.862.493	(154.168.253)	<u>34.865.971</u>
					<u>347.278.833</u>
Loans and borrowings	62.297.885	59.958.882	155.290.265	(126.519.612)	151.027.421
Other liabilities	12.192.560	8.835.294	32.370.352	(25.280.749)	<u>28.117.457</u>
					<u>179.144.878</u>
Investments					
Property, plant and equipment and intangible assets	1.654.051	559.866	937.687	0	3.151.603
Balance sheet (31.12.2018)					
Property, plant and equipment and intangible assets	152.659.606	122.261.566	30.661.209	0	305.582.381
Other assets	17.305.051	7.786.039	159.058.806	(149.643.402)	<u>34.506.493</u>
					<u>340.088.874</u>
Loans and borrowings	62.300.634	58.219.127	155.477.198	(124.713.088)	151.283.870
Other liabilities	11.189.885	8.310.387	30.092.174	(21.614.674)	<u>27.977.771</u>
					<u>179.261.642</u>
Investments (31.3.2018)					
Property, plant and equipment and intangible assets	953.769	770.086	921.607	0	2.645.462

Notes

6. Financial income and expenses

	2019	2018
	1.1.-31.3.	1.1.-31.3.
Financial income and expenses are specified as follows:		
Interest income	101.943	154.789
Interest expense and paid indexation	(1.213.829)	(903.764)
Indexation	(319.503)	(435.558)
Guarantee fee to owners 1)	(175.572)	(181.624)
Total interest expenses	(1.708.903)	(1.520.946)
Fair value changes of embedded derivatives in electricity sales contracts	1.518.826	(5.159.627)
Fair value changes of financial assets and financial liabilities through P/L	244.615	(105.539)
Fair value changes of hedge contracts	(51.415)	1.011.422
Hedge contracts	(167.672)	(437.399)
Foreign exchange difference	(359.957)	(52.893)
Dividends	1.195	1.195
Total of other income (expenses) on financial assets and liabilities	1.185.591	(4.742.841)
Total financial income and expenses	(421.369)	(6.108.998)

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 0,89% (2018: 0,91%) and 0,60% (2018: 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 176 million in the period 1 January to 31 March 2019 (1.1.-31.3.2018: ISK 182 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 41 with the financial statements of the Group for the year 2018. Change in fair value that is recognized in the income statement amounts to ISK 1.712 million income in the period 1 January to 31 March 2019 (1.1.-31.3.2018: expense ISK 4.254 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 1.519 million income in the period 1 January to 31 March 2019 (1.1.-31.3.2018: expense ISK 5.346 million).

7. 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

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:

	31.3.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	151.027.420	148.790.405	151.283.870	153.218.591

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:

	31.3.2019	31.12.2018
Embedded derivatives in electr. sales contr.	5,25% to 5,62%	3,72% to 5,83%
Hedge contracts	-0,9% to 2,6%	-0,7% to 2,8%
Interest bearing loans	1,24% to 7,88%	1,19% to 7,94%

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium are shown in note 29 in the financial statements of the Group for the year 2018. 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.

	Level 1	Level 2	Level 3	Total	
31.3.2019					
Shares in companies	0	0	3.859.015	3.859.015	
Embedded derivatives in sales contracts	0	0 (	3.798.044) (	3.798.044)
Hedge contracts	0 (	134.104)	0 (	134.104)
Marketable securities	2.301.832	0	0	2.301.832	
	2.301.832	(134.104)	60.971	2.228.699
31.12.2018					
Shares in companies	0	0	3.859.015	3.859.015	
Embedded derivatives in sales contracts	0	0 (	5.316.869) (	5.316.869)
Other financial assets and hedge contracts	0	1.242.387	0	1.242.387	
Hedge contracts	0 (	1.325.075)	0 (	1.325.075)
Marketable securities	4.223.231	0	0	4.223.231	
	4.223.231	(82.688) (1.457.854)	2.682.689

Notes

9. 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 31 March 2019 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.

	2019	2018
	1.1.-31.3.	1.1.-31.3.
Sale to related parties:		
Reykjavik City.....	397.693	378.737
Institutions and companies controlled by Reykjavik City.....	164.018	152.730
	<u>561.711</u>	<u>531.467</u>
Purchases from related parties:		
Reykjavik City.....	14.302	16.200
Institutions and companies controlled by Reykjavik City.....	2.433	2.681
Associates.....	14.514	13.327
	<u>31.249</u>	<u>32.208</u>
	31.3.2019	31.12.2018
Receivables for related parties:		
Reykjavik City.....	172.195	142.723
Institutions and companies controlled by Reykjavik City.....	53.491	43.122
	<u>225.686</u>	<u>185.845</u>
Payables for related parties:		
Reykjavik City.....	201.812	352.786
Institutions and companies controlled by Reykjavik City.....	2.060	1.373
Associates.....	0	418
	<u>203.872</u>	<u>354.577</u>
Interest bearing loans from owners of the parent Company:		
Reykjavik City	10.617.677	10.898.111
Akranes town	627.487	644.060
Borgarbyggð, municipality	105.905	108.703
	<u>11.351.069</u>	<u>11.650.874</u>
	2019	2018
	1.1.-31.3.	1.1.-31.3.
Interest expense on loans from owners of the parent Company:		
Reykjavik City	267.317	244.940
Akranes town	15.771	13.294
Borgarbyggð, municipality	2.662	2.244
	<u>285.750</u>	<u>260.478</u>

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 6.