

Orkuveita Reykjavíkur
Condensed Consolidated
Interim Financial Statements
1 January to 30 September 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

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 September 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. 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 30 September 2016 was ISK 9.368 million (1.1.-30.9.2015: ISK 3.093 million). According to the statement of financial position the Group's assets were ISK 297.995 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 117.810 million (31.12.2015: ISK 114.771 million), resulting in equity ratio of 39,5% (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 September 2016 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 30 September 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 September 2016.

Reykjavík, 28 November 2016.

The Board of Directors:

Brynhildur Davíðsdóttir
Gylfi Magnússon
Áslaug Friðriksdóttir
Kjartan Magnússon
Valdís Eyjólfsdóttir

CEO:

Bjarni Bjarnason

Income Statement

1 January to 30 September 2016

	Notes	2016 1.7.-30.9.	2015 1.7.-30.9.	2016 1.1.-30.9.	2015 1.1.-30.9.
Operating revenue		8.965.685	8.350.317	29.921.005	28.951.069
Total revenue		<u>8.965.685</u>	<u>8.350.317</u>	<u>29.921.005</u>	<u>28.951.069</u>
Energy purchase .....	(	1.421.844)	(1.389.695)	(4.554.591)	(4.645.478)
Salaries and salary related expenses .....	(	1.150.172)	(929.513)	(3.907.205)	(3.061.080)
Other operating expenses .....	(	998.625)	(833.172)	(3.323.518)	(3.010.981)
Operating expenses, total	(	<u>3.570.642)</u>	<u>(3.152.381)</u>	<u>(11.785.313)</u>	<u>(10.717.539)</u>
EBITDA		<u>5.395.043</u>	<u>5.197.937</u>	<u>18.135.692</u>	<u>18.233.530</u>
Depreciation and amortisation	5 (	2.281.557)	(2.373.413)	(7.584.386)	(7.172.346)
Results from operating activities		<u>3.113.486</u>	<u>2.824.523</u>	<u>10.551.305</u>	<u>11.061.184</u>
Interest income		108.158	105.753	196.355	302.811
Interest expenses .....	(	1.205.192)	(1.329.362)	(3.763.748)	(3.999.929)
Other income (expenses) on financial assets and liabilities		4.269.807	(635.567)	5.808.706	(4.274.640)
Total financial income and expenses	4	<u>3.172.774</u>	<u>(1.859.176)</u>	<u>2.241.312</u>	<u>(7.971.757)</u>
Share in profit (loss) of associated companies .....	(	44)	0	(3.413)	3.643
Profit before income tax		<u>6.286.215</u>	<u>965.347</u>	<u>12.789.204</u>	<u>3.093.070</u>
Income tax .....	(	1.946.893)	(132.482)	(3.420.912)	130
Profit for the period		<u><u>4.339.323</u></u>	<u><u>832.866</u></u>	<u><u>9.368.293</u></u>	<u><u>3.093.200</u></u>

* Presentation has been changed, see note 2c page 9.

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

Statement of Comprehensive Income

1 January to 30 September 2016

	2016	2015	2016	2015
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9.	1.1.-30.9.
Profit for the period	4.339.323	832.866	9.368.293	3.093.200
Other comprehensive income				
Items moved to equity that could be moved later to the income statement				
Translation difference	(3.420.921)	(1.766.238)	(6.329.046)	134.335
	(3.420.921)	(1.766.238)	(6.329.046)	134.335
Comprehensive income moved directly to equity, after taxes	(3.420.921)	(1.766.238)	(6.329.046)	134.335
Total comprehensive income for the period	918.401	(933.373)	3.039.246	3.227.535

Statement of Financial Position

30 September 2016

	Notes	30.9.2016	31.12.2015
Assets			
Property, plant and equipment	5	265.558.848	278.311.167
Intangible assets		1.428.099	1.366.036
Investments in associated companies		59.337	62.750
Investments in other companies		2.907.914	2.907.914
Hedge contracts		312.860	443.324
Deferred tax assets		3.332.129	5.458.992
Total non-current assets		<u>273.599.187</u>	<u>288.550.184</u>
Inventories		578.946	610.407
Trade receivables	6	4.171.645	4.634.866
Hedge contracts		519.023	805.795
Other financial assets		8.130.002	8.713.156
Other receivables		552.000	502.759
Deposits		0	554.381
Marketable securities		1.173.201	1.353.894
Cash and cash equivalents		9.271.139	5.264.079
Total current assets		<u>24.395.955</u>	<u>22.439.337</u>
Total assets		<u>297.995.142</u>	<u>310.989.521</u>
Equity			
Revaluation reserve		73.645.171	75.808.678
Fair value reserve		2.445.000	2.445.000
Translation reserve .....	(	1.090.386)	5.238.661
Retained earnings		42.810.645	31.278.845
Total equity		<u>117.810.430</u>	<u>114.771.184</u>
Liabilities			
Loans and borrowings	7	133.071.988	146.346.901
Pension liability		588.623	542.661
Embedded derivatives in electricity sales contracts		7.099.981	11.095.112
Hedge contracts		2.674.388	2.320.623
Deferred tax liabilities		7.924.260	7.619.437
Total non-current liabilities		<u>151.359.241</u>	<u>167.924.734</u>
Accounts payable		1.561.327	2.240.135
Loans and borrowings	7	17.376.773	19.288.436
Embedded derivatives in electricity sales contracts		1.412.981	2.097.051
Hedge contracts		2.160.082	1.755.978
Deferred revenue	6	2.027.735	0
Unpaid taxes		630.987	0
Other current liabilities		3.655.585	2.912.003
Total current liabilities		<u>28.825.471</u>	<u>28.293.603</u>
Total liabilities		<u>180.184.712</u>	<u>196.218.337</u>
Total equity and liabilities		<u>297.995.142</u>	<u>310.989.521</u>

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 30 September 2016

	Revaluation reserve	Fair value reserve	Translation reserve	Retained earnings*	Total equity
1.1.-30.9. 2016					
Equity at 1 January 2016	75.808.678	2.445.000	5.238.661	31.278.845	114.771.184
Translation difference			(6.329.046)		(6.329.046)
Profit for the period				9.368.293	9.368.293
Total comprehensive income	0	0	(6.329.046)	9.368.293	3.039.246
Depreciation transferred to retained earnings	(2.163.507)			2.163.507	0
Equity at 30 September 2016	73.645.171	2.445.000	(1.090.386)	42.810.645	117.810.430
1.1.-30.9. 2015					
Equity at 1 January 2015	69.446.324	1.760.000	4.235.355	23.968.184	99.409.863
Translation difference			134.335		134.335
Profit for the period				3.093.200	3.093.200
Total comprehensive income	0	0	134.335	3.093.200	3.227.535
Depreciation transferred to retained earnings	(2.023.948)			2.023.948	0
Equity at 30 September 2015	67.422.376	1.760.000	4.369.690	29.085.332	102.637.398

* 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, should be transferred from retained earnings to a restricted reserve account among equity. The same applies for fair value changes recognized in the income statement for financial assets measured at fair value through profit and loss. There is uncertainty regarding the implementation, scope and application of the new laws. Due to this uncertainty, fair value changes for the period have not been transferred to fair value reserve among equity nor share in profit or loss for associated companies.

Statement of Cash Flows

1 January to 30 September 2016

	2016	2015
	1.1.-30.9.	1.1.-30.9.
Cash flows from operating activities		
Profit for the period	9.368.293	3.093.200
Adjusted for:		
Financial income and expenses	(2.241.312)	7.971.757
Share in P/L of associates	3.413	(3.643)
Income tax	3.420.912	(130)
Depreciation, amortisation and impairment	7.584.386	7.172.346
Profit from sale of property, plants and equipment	(4.459)	(14.739)
Pension liability, change	45.962	39.733
Working capital from operation before interest and taxes	18.177.195	18.258.524
Inventories, decrease (increase)	30.734	(112.863)
Current assets, decrease	619.384	578.758
Current liabilities, increase	862.317	1.981.809
Cash generated from operations before interests and taxes	19.689.630	20.706.228
Received interest income	146.445	376.947
Paid interest expenses	(2.600.082)	(3.181.096)
Dividend received	28.493	0
Payments due to other financial income and expenses	40.360	223.951
Net cash from operating activities	17.304.846	18.126.030
Cash flows from investing activities		
Acquisition of property, plant and equipment	(8.309.978)	(7.251.532)
Acquisition of intangible assets	(111.828)	(71.390)
Proceeds from sale of property, plant and equipment	13.924	25.728
Change in deposits	554.381	1.500.144
Change in marketable securities	163.103	0
Net cash used in investing activities	(7.690.397)	(5.797.050)
Cash flows from financing activities		
Proceeds from new borrowings	4.342.988	0
Repayment of borrowings	(12.681.436)	(10.283.505)
Current liabilities, change	2.859.984	(1.693.456)
Net cash to financing activities	(5.478.464)	(11.976.961)
Increase in cash and cash equivalents	4.135.985	352.019
Cash and cash equivalents at year beginning	5.264.079	9.147.113
Effect of currency fluctuations on cash and cash equivalents	(128.925)	(136.463)
Cash and cash equivalents at end of period	9.271.139	9.362.669
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	(844.869)	(364.916)
Current liabilities, change	844.869	364.916
Proceeds from new borrowings	2.701.725	0
Repayment of borrowings	(2.701.725)	0
Other information:		
Working capital from operation	14.852.615	14.734.447

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	
		30.9.2016	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%
Úlfjótuvatn 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 and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

The condensed interim financial statements were approved by the Board of Directors on 28 November 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. Comparative amounts

Comparative amounts have been changed to reflect new classification of income and other expenses in the income statement. The change has no effect on the bottom line results of the income statement.

d. 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

2. Basis of preparation, contd.

e. 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.

f. 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.-30.9. 2016

	Utilities	ON Power	Other Operation	Adjustments	Total
External revenue	19.472.014	8.892.124	1.556.867	0	29.921.005
Inter-segment revenue	2.221.751	3.253.577	3.873.997	(9.349.325)	0
Total segment revenue	21.693.765	12.145.701	5.430.864	(9.349.325)	29.921.005
Segment operation expenses	(9.971.232)	(6.010.749)	(5.152.659)	9.349.325	(11.785.313)
Segment profit EBITDA	11.722.533	6.134.953	278.206	0	18.135.692
Depreciation, amortisation and impairment	(3.771.112)	(2.624.712)	(1.188.563)	0	(7.584.386)
Segment results, EBIT	7.951.422	3.510.241	(910.357)	0	10.551.305
Financial income and expenses	(2.743.743)	(3.647.878)	3.953.732	4.679.201	2.241.312
Share of loss of associated companies	0	0	(3.413)	0	(3.413)
Income tax	(507.151)	(20.397)	(1.208.851)	(1.684.512)	(3.420.912)
Profit for the period	4.700.528	(158.035)	1.831.111	2.994.688	9.368.293

1.1.-30.9. 2015

External revenue	18.414.479	9.073.339	1.463.251	0	28.951.069
Inter-segment revenue	2.476.241	2.541.094	3.671.086	(8.688.420)	0
Total segment revenue	20.890.720	11.614.433	5.134.337	(8.688.420)	28.951.069
Segment operation expenses	(8.828.409)	(5.992.707)	(4.584.844)	8.688.420	(10.717.539)
Segment profit EBITDA	12.062.311	5.621.726	549.493	0	18.233.530
Depreciation, amortisation and impairment	(3.797.825)	(2.716.539)	(657.981)	0	(7.172.346)
Segment results, EBIT	8.264.486	2.905.187	(108.488)	0	11.061.184
Financial income and expenses	(4.763.782)	(1.373.552)	4.940.899	(6.775.322)	(7.971.757)
Share of loss of associated companies	0	0	3.643	0	3.643
Income tax	(393.784)	(326.635)	(1.717.775)	2.438.324	130
Profit for the period	3.106.920	1.205.000	3.118.279	(4.336.999)	3.093.201

Notes

3. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust- ments	Total
Balance sheet (30.9.2016)					
Property, plant and equipment and intangible assets	140.363.358	108.227.772	18.395.816	0	266.986.947
Other assets	14.911.953	7.129.897	378.788.818	(369.822.473)	31.008.195
					<u>297.995.142</u>
Loans and borrowings	68.448.059	62.880.292	150.448.762	(131.328.351)	150.448.762
Other liabilities	9.992.664	4.729.862	28.793.865	(13.780.441)	29.735.950
					<u>180.184.712</u>
Investments					
Property, plant and equipment and intangible assets	4.756.464	2.121.271	2.379.753	0	9.257.488
Balance sheet (31.12.2015)					
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>
Investments					
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.-30.9.	1.1.-30.9.
Financial income and expenses are specified as follows:		
Interest income	196.355	302.811
Interest expense and indexation	(3.257.525)	(3.460.389)
Guarantee fee to owners 1)	(506.224)	(539.541)
Total interest expenses	(3.763.748)	(3.999.929)
Fair value changes of embedded derivatives in electricity sales contracts	4.679.201	(6.773.121)
Fair value changes of financial assets and financial liabilities through P/L	(582.962)	192.235
Hedge contracts	(2.148.726)	(1.817.942)
Foreign exchange difference	3.832.892	4.115.580
Dividends	28.301	8.609
Total of other income (expenses) on financial assets and liabilities	5.808.706	(4.274.640)
Total financial income and expenses	2.241.312	(7.971.757)

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 506 million in the period 1 January to 30 September 2016 (1.1.-30.9.2015: ISK 540 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 4.096 million. (1.1.-30.9.2015: expense ISK 6.582 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:

Non-current liabilities	30.9.2016	31.12.2015
Bank loans	112.558.177	130.929.982
Subordinated loan from owners of the Company	13.466.700	13.711.809
Bond issuance	21.563.901	20.993.546
	<u>147.588.777</u>	<u>165.635.337</u>
Current portion on non-current liabilities	(14.516.789)	(19.288.436)
	<u>133.071.988</u>	<u>146.346.901</u>
Current liabilities		
Current portion on non-current liabilities	14.516.789	19.288.436
Short-term bank loans	2.859.984	0
	<u>17.376.773</u>	<u>19.288.436</u>
Total interest bearing loans and borrowings	<u>150.448.762</u>	<u>165.635.337</u>

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		30.9.2016		31.12.2015	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	5.10.2027	0.00%	13.531.346	0.00%	15.858.990
Liabilities in EUR	19.12.2027	0.75%	41.514.679	0.79%	49.424.015
Liabilities in USD	15.11.2038	1.97%	32.428.877	1.62%	39.472.704
Liabilities in JPY	10.5.2027	0.01%	7.272.721	0.13%	7.550.385
Liabilities in GBP	26.2.2024	1.53%	2.719.266	1.74%	4.031.464
Liabilities in SEK	5.10.2027	0.00%	4.196.628	0.00%	5.155.106
			<u>101.663.518</u>		<u>121.492.664</u>
Liabilities in Icelandic kronas:					
Indexed	9.5.2046	4.13%	44.739.009	4.03%	42.907.674
Non-indexed	5.12.2018	6.90%	4.046.234	7.40%	1.235.000
			<u>48.785.244</u>		<u>44.142.674</u>
Total interest-bearing loans and borrowings			<u>150.448.762</u>		<u>165.635.337</u>

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

30.9.2016

1.10.2016-30.09.2017.....	17.376.773
1.10.2017-30.09.2018.....	14.945.141
1.10.2018-30.09.2019.....	15.009.511
1.10.2019-30.09.2020.....	13.194.280
1.10.2020-30.09.2021.....	12.724.102
Later	77.198.954
Total non-current liabilities, including next year's repayment	<u>150.448.762</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 16.8 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 September 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:

	30.9.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	150.448.762	139.036.259	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:

	30.9.2016	31.12.2015
Embedded derivatives in electr. sales contr.	3.74% to 9.25%	3.35% to 10.13%
Financial assets at fair value through P/L	7.1% to 7.1%	7.51% to 7.51%
Interest bearing loans	3.07% to 7.35%	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.

Notes

9. Subsequent events

Agreement between Magma Energy Sweden and OR

On the 29th of September an agreement between Orkuveita Reykjavíkur and Magma Energy Sweden to reschedule payments on a bond which was to fully mature in December 2016 was signed subject to board approval. According to the agreement, half of the bond's amount will be paid when the agreement has been confirmed and the other half in early 2018. Shares in HS Orka will continue to be pledged to secure payment and the interest rate will increase to 5%. Board approval was granted on 3rd of October 2016 but all conditions precedent to the agreement had not been met on the accounting day.