

# Orkuveita Reykjavíkur

## Condensed Consolidated Interim Financial Statements 1 January to 30 June 2020

\*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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## Operating summary and key financial ratios

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>Amounts are at each years price level in ISK millions</i>	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Revenues .....	20.955	21.612	23.167	23.502	24.272
Expenses .....	( 8.215)	( 8.063)	( 8.626)	( 9.571)	( 9.879)
thereof energy purchase and transport .....	( 3.133)	( 2.898)	( 3.112)	( 2.870)	( 2.824)
<b>EBITDA .....</b>	<b>12.741</b>	<b>13.549</b>	<b>14.541</b>	<b>13.931</b>	<b>14.393</b>
Depreciation .....	( 5.303)	( 4.706)	( 4.616)	( 5.728)	( 6.284)
EBIT .....	<b>7.438</b>	<b>8.842</b>	<b>9.926</b>	<b>8.203</b>	<b>8.109</b>
<b>Result of the period .....</b>	<b>5.029</b>	<b>7.311</b>	<b>4.200</b>	<b>3.349</b>	<b>( 900)</b>
<b>Cash flow statement:</b>					
Received interest income .....	57	124	99	207	174
Paid interest expense .....	( 1.890)	( 2.013)	( 2.267)	( 2.726)	( 2.655)
Net cash from operating activities .....	11.774	12.652	10.988	13.330	12.520
Working capital from operation .....	10.617	11.707	12.048	10.027	11.164
<b>Liquid funds</b>					
	<b>30.6.2016</b>	<b>30.6.2017</b>	<b>30.6.2018</b>	<b>30.6.2019</b>	<b>30.6.2020</b>
Deposits and marketable securities .....	1.441	4.127	6.259	7.112	13.091
Cash and cash equivalents .....	7.049	14.151	10.917	14.912	15.097
Liquid funds total .....	8.490	18.278	17.176	22.024	28.187
<b>Key financial ratios</b>					
	<b>30.6.2016</b>	<b>30.6.2017</b>	<b>30.6.2018</b>	<b>30.6.2019</b>	<b>30.6.2020</b>
Equity ratio .....	38,3%	42,6%	47,3%	47,4%	47,2%
Current ratio .....	0,9	1,1	1,1	1,1	1,0
Net cash from operating activities / Net debt .....	6,0	4,7	5,7	5,0	5,6
Intererst coverage .....	5,6	5,7	4,6	4,6	4,3
ROCE .....	5,1%	6,4%	6,6%	4,8%	4,2%

# 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 fiber optic system in its service area.

The condensed consolidated interim financial statements for the period 1 January to 30 June 2020 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.

Loss of operations of the Group for the period 1 January to 30 June 2020 was ISK 900 million (1.1.-30.6.2019: Profit ISK 3.349 million). Comprehensive income for the period 1 January to 30 June 2020 was ISK 6.494 million (1.1.-30.6.2019: ISK 7.846 million). According to the statement of financial position the Group's assets were ISK 400.148 million at the end of the period (31.12.2019: ISK 369.884 million). Book value of equity at the end of the period was ISK 188.796 million (31.12.2019: ISK 182.299 million), resulting in equity ratio of 47,2% (31.12.2019: 49,3%).

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

Executive meetings have been held on a regular basis to discuss the position of the company due to the COVID-19 pandemic. The focus and actions of these meetings have primarily been on the safety and welfare of employees, with the aim of maintaining customer service. Furthermore, this work has focused on preventing that access to supplies from overseas impacts the delivery capacity of the company and continuity in operations.

Executives of the company have not assessed the impact of COVID-19 on the company's finances for the first six months of the year. Due to the nature of the business, providing homes and companies with basic services such as water and energy, impacts of decreased economic activity have limited effect on the income of the group.

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 2020 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 30 June 2020.

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 2020.

Reykjavík, 24 August 2020.

The Board of Directors:

*Brynhildur Davíðsdóttir*  
*Gylfi Magnússon*  
*Hildur Björnsdóttir*

*Eyþór Laxdal Arnalds*  
*Sigríður Rut Júlíusdóttir*  
*Valgarður Lyngdal Jónsson*

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, 2020, the operating summary and key financial ratios, 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, 24 August 2020.

**Grant Thornton endurskoðun ehf.**

*Davíð Arnar Einarsson*

# Income Statement

## 1 January to 30 June 2020

	Notes	2020 1.4.-30.6.	2019 1.4.-30.6.	2020 1.1.-30.6.	2019 1.1.-30.6.
Operating revenue .....	4	11.006.653	10.856.800	24.271.975	23.499.087
Sales profit .....		0	2.874	0	3.207
Total revenue		<u>11.006.653</u>	<u>10.859.675</u>	<u>24.271.975</u>	<u>23.502.294</u>
Energy purchase and distribution .....		( 1.264.680)	( 1.375.760)	( 2.824.423)	( 2.870.465)
Salaries and salary related expenses .....		( 2.193.711)	( 1.768.885)	( 3.962.024)	( 3.445.908)
Other operating expenses .....		( 1.702.153)	( 1.710.152)	( 3.092.554)	( 3.255.091)
Operating expenses, total		<u>( 5.160.545)</u>	<u>( 4.854.797)</u>	<u>( 9.879.001)</u>	<u>( 9.571.464)</u>
<b>EBITDA</b> .....		<u>5.846.108</u>	<u>6.004.877</u>	<u>14.392.973</u>	<u>13.930.831</u>
Depreciation and amortisation .....		( 3.203.338)	( 2.898.271)	( 6.283.817)	( 5.727.529)
<b>Results from operating activities</b> .....		<u>2.642.770</u>	<u>3.106.606</u>	<u>8.109.156</u>	<u>8.203.302</u>
Interest income .....		74.430	91.244	159.146	193.187
Interest expenses .....		( 2.175.319)	( 2.024.546)	( 3.772.091)	( 3.733.449)
Other income (expenses) on financial assets and liabilities .....		1.916.642	( 2.775.020)	( 8.149.103)	( 1.589.429)
Total financial income and expenses	6	<u>( 184.247)</u>	<u>( 4.708.321)</u>	<u>( 11.762.048)</u>	<u>( 5.129.690)</u>
Share in profit of associated companies .....		2.346	( 2.589)	4.137	( 528)
Profit (loss) before income tax		<u>2.460.869</u>	<u>( 1.604.305)</u>	<u>( 3.648.755)</u>	<u>3.073.084</u>
Income tax .....		( 713.160)	1.084.392	2.749.077	276.281
<b>Profit (lost) for the period</b>		<u><u>1.747.709</u></u>	<u><u>( 519.913)</u></u>	<u><u>( 899.678)</u></u>	<u><u>3.349.365</u></u>

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.

# Statement of Comprehensive Income

## 1 January to 30 June 2020

	2020	2019	2020	2019
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6.	1.1.-30.6.
Profit (loss) for the period .....	1.747.709	( 519.913)	( 899.678)	3.349.365
<b>Other comprehensive income</b>				
<b>Items moved to equity that could be moved later to the income statement</b>				
Translation difference .....	( 1.424.841)	1.059.305	7.393.612	4.496.751
	( 1.424.841)	1.059.305	7.393.612	4.496.751
Other comprehensive income, after taxes .....	( 1.424.841)	1.059.305	7.393.612	4.496.751
<b>Total comprehensive income for the period</b>	<b>322.868</b>	<b>539.391</b>	<b>6.493.933</b>	<b>7.846.115</b>

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# Statement of Financial Position

## 30 June 2020

	Notes	30.6.2020	31.12.2019
<b>Assets</b>			
Property, plant and equipment .....		344.114.616	328.956.132
Intangible assets .....		2.652.279	2.498.099
Right-of-use assets .....		2.580.363	2.488.863
Investments in associated companies .....		77.889	73.753
Investments in other companies .....		5.216.267	5.216.267
Hedge contracts .....		74.985	229.072
Deferred tax assets .....		8.638.545	4.879.759
<b>Total non-current assets</b>		<u>363.354.944</u>	<u>344.341.945</u>
Inventories .....		1.443.242	1.195.475
Trade receivables .....	7	5.767.278	4.915.008
Hedge contracts .....		224.954	388.451
Other receivables .....		518.537	368.978
Prepaid expenses .....		651.514	184.464
Deposits and marketable securities .....		13.090.507	9.833.014
Cash and cash equivalents .....		15.096.662	8.657.025
<b>Total current assets</b>		<u>36.792.693</u>	<u>25.542.415</u>
<b>Total assets</b>		<u>400.147.638</u>	<u>369.884.360</u>
<b>Equity</b>			
Revaluation reserve .....		91.374.196	93.186.474
Equity reserve .....		53.882.876	48.585.813
Fair value reserve .....		4.760.587	4.760.587
Translation reserve .....		9.808.250	2.411.820
Retained earnings .....		28.970.309	33.354.772
<b>Total equity</b>		<u>188.796.218</u>	<u>182.299.466</u>
<b>Liabilities</b>			
Loans and borrowings .....		147.156.079	138.955.006
Lease liabilities .....		2.416.781	2.355.873
Pension liability .....		645.560	723.084
Embedded derivatives in electricity sales contracts .....		10.028.619	5.307.027
Hedge contracts .....		407.555	613.778
Deferred tax liabilities .....		15.146.090	14.679.794
<b>Total non-current liabilities</b>		<u>175.800.684</u>	<u>162.634.563</u>
Accounts payable .....		2.725.607	2.926.455
Loans and borrowings .....		21.747.845	15.064.107
Lease liabilities .....		161.363	153.878
Embedded derivatives in electricity sales contracts .....		2.388.190	1.372.302
Hedge contracts .....		401.589	317.233
Deferred revenue .....	7	2.162.083	149.735
Current tax liability .....		939.888	1.693.071
Other current liabilities .....		5.024.170	3.273.550
<b>Total current liabilities</b>		<u>35.550.735</u>	<u>24.950.331</u>
<b>Total liabilities</b>		<u>211.351.420</u>	<u>187.584.894</u>
<b>Total equity and liabilities</b>		<u>400.147.638</u>	<u>369.884.360</u>

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.



# Statement of Changes in Equity

## 1 January to 30 June 2020

	Revaluation reserve	Equity reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
<b>1.1.- 30.6.2020</b>						
Equity at 1 January 2020 .....	93.186.474	48.585.813	4.760.587	2.411.820	33.354.772	182.299.466
Translation difference .....				7.393.612		7.393.612
Loss for the period .....					( 899.678)	( 899.678)
Total comprehensive income .....	0	0	0	7.393.612	( 899.678)	6.493.933
Depreciation transferred to retained earnings .....	( 1.812.277)				1.812.277	0
Share in profit of subsidiaries and associates transf. to equity reserve .....		5.380.837			( 5.380.837)	0
Equity at 30 June 2020 .....	91.374.196	53.966.650	4.760.587	9.805.431	28.886.535	188.793.399
<b>1.1.- 30.6.2019</b>						
Equity at 1 January 2019 .....	83.821.060	42.972.671	3.395.941	540.882	30.096.679	160.827.232
Translation difference .....				4.496.751		4.496.751
Profit for the period .....					3.349.365	3.349.365
Total comprehensive income .....	0	0	0	4.496.751	3.349.365	7.846.115
Depreciation transferred to retained earnings .....	( 1.685.829)				1.685.829	0
Share in profit of subsidiaries and associates transf. to equity reserve .....		5.295.933			( 5.295.933)	0
Equity at 30 June 2019 .....	82.135.231	48.268.603	3.395.941	5.037.632	29.835.940	168.673.347

The notes on pages 10 to 18 are an integral part of these Consolidated Interim Financial Statements.

# Statement of Cash Flows for 1 January to 30 June 2020

	2020 1.1.-30.6.	2019 1.1.-30.6.
<b>Cash flows from operating activities</b>		
(Loss) profit for the period .....	( 899.678)	3.349.365
Adjusted for:		
Financial income and expenses .....	11.762.048	5.129.690
Share in P/L of associates .....	( 4.137)	528
Income tax .....	( 2.749.077)	( 276.281)
Depreciation and amortisation .....	6.283.817	5.727.529
Profit from sale of property, plants and equipment .....	0	( 3.207)
Pension liability, change .....	( 77.524)	42.695
Working capital from operation before interest and taxes	14.315.450	13.970.319
Inventories, (increase) decrease .....	( 247.766)	37.049
Current assets, increase .....	( 954.656)	( 42.354)
Current liabilities, increase .....	2.608.761	2.111.706
Cash generated from operations before interests and taxes	15.721.788	16.076.719
Received interest income .....	173.874	207.281
Paid interest expenses .....	( 2.655.299)	( 2.726.102)
Dividend received .....	87.596	55.407
Payments due to other financial income and expenses .....	( 5.597)	158.947
Paid taxes .....	( 802.023)	( 441.944)
Net cash from operating activities	12.520.340	13.330.308
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment .....	( 7.294.127)	( 7.570.309)
Acquisition of intangible assets .....	( 316.030)	( 359.527)
Proceeds from sale of property, plant and equipment .....	0	4.042
Change in deposits .....	( 2.500.000)	( 1.500.000)
Change in marketable securities .....	( 131.249)	2.080.291
Net cash used in investing activities	( 10.241.406)	( 7.345.503)
<b>Cash flows from financing activities</b>		
Proceeds from new borrowings .....	11.449.064	8.883.658
Repayment of borrowings .....	( 7.629.318)	( 10.980.693)
Payments of currency hedges .....	90.757	( 263.747)
Current liabilities, change .....	( 56.170)	0
Net cash from (used in) financing activities	3.854.332	( 2.360.781)
<b>Increase in cash and cash equivalents</b> .....	6.133.266	3.624.024
<b>Cash and cash equivalents at year beginning</b> .....	8.657.025	10.988.087
<b>Effect of currency fluctuations on cash and cash equivalents</b> .....	306.371	299.713
<b>Cash and cash equivalents at the end of the period</b> .....	15.096.662	14.911.824
<b>Investments and financing without payment effects:</b>		
Acquisition of property, plant and equipment .....	240.235	213.370
Current liabilities, change .....	( 240.235)	( 213.370)
<b>Other information:</b>		
Working capital from operation .....	11.163.989	10.026.944

The notes on pages 10 to 18 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	
		30.6.2020	31.12.2019
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%
ON Power ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	0%	100%
Úlfjótuvatn frítímabyggð ehf.	Preparation company	0%	100%
CarbFix ohf.	Consulting, researches and innovation	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 2019. Same accounting principles are applied as for the year 2019. 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 consolidated interim financial statements were approved by the Board of Directors on 24 August 2020.

### 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 39 with the consolidated financial statements for the year ended 31 December 2019.

### 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

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## 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.

<b>Products and services</b>	<b>Nature, timing of revenue recognition and payments terms</b>
------------------------------	---

- |                       |   |
|-----------------------|---|
| <b>a.</b> Electricity | ON Power ohf. and Orka náttúrunnar ohf. generate electricity and sell 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>b.</b> Hot water   | ON Power, Orka náttúrunnar 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:

	2020	2019
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Electricity.....	9.864.782	9.729.701
Hot water.....	7.350.457	6.703.740
Cold water.....	1.689.568	1.633.941
Sewer system.....	2.890.121	2.763.931
Other revenues.....	2.477.046	2.670.981
Revenues from sales of goods and services total.....	<u>24.271.975</u>	<u>23.502.294</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, Energy sale and production, 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 39 with the consolidated financial statements for the year ended 31 December 2019.

### Business segments - divisions

1.1.- 30.6.2020	Utilities	Energy sale and production	Other Operation	Adjustments	IFRS 16*	Total
External revenue .....	15.755.996	7.002.944	1.513.034	0		24.271.975
Inter-segment revenue .....	1.923.786	5.510.775	3.600.681	( 11.035.242)		0
Total segment revenue .....	17.679.782	12.513.719	5.113.716	( 11.035.242)		24.271.975
Segment operation expenses .....	( 9.462.904)	( 7.092.240)	( 4.477.645)	11.035.242	118.546	( 9.879.001)
Segment profit EBITDA .....	8.216.878	5.421.479	636.070	0	118.546	14.392.973
Depreciation and amortisation .....	( 2.864.597)	( 2.453.734)	( 907.121)	0	( 58.366)	( 6.283.817)
Segment results, EBIT .....	5.352.281	2.967.745	( 271.051)	0	60.180	8.109.156
Financial income and expenses .....	( 1.791.053)	( 335.684)	( 3.862.225)	( 5.735.852)	( 37.072)	( 11.761.886)
Share in profit of associated companies .....	0	0	4.137	0		4.137
Income tax .....	( 439.684)	( 518.790)	1.559.377	2.156.862	( 8.689)	2.749.077
Profit (loss) for the period .....	3.121.544	2.113.271	( 2.569.762)	( 3.578.989)	14.420	( 899.516)
<b>1.1.- 30.6.2019</b>						
External revenue .....	14.789.689	7.024.361	1.688.244	0		23.502.294
Inter-segment revenue .....	1.636.793	2.431.192	3.784.370	( 7.852.355)		0
Total segment revenue .....	16.426.483	9.455.553	5.472.614	( 7.852.355)		23.502.294
Segment operation expenses .....	( 8.790.030)	( 4.198.020)	( 4.474.359)	7.852.355	38.591	( 9.571.464)
Segment profit EBITDA .....	7.636.452	5.257.533	998.255	0	38.591	13.930.831
Depreciation and amortisation .....	( 2.668.993)	( 2.285.030)	( 742.433)	0	( 31.072)	( 5.727.529)
Segment results, EBIT .....	4.967.459	2.972.502	255.822	0	7.518	8.203.302
Financial income and expenses .....	( 1.644.903)	( 279.924)	( 2.609.088)	( 589.145)	( 6.630)	( 5.129.690)
Share in profit of associated companies .....	0	0	( 528)	0		( 528)
Income tax .....	( 368.407)	( 515.478)	938.982	221.519	( 334)	276.281
Profit (loss) for the period .....	2.954.149	2.177.100	( 1.414.812)	( 367.627)	554	3.349.365

\* Segment reporting as used by management does not take into account the guidance of IFRS 16.

# Notes

## 5. Segment reporting, contd.

### Business segments - divisions, contd.

	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
<b>Balance sheet (30.6.2020)</b>						
Property, plant and equipment and intangible assets .....	167.858.669	144.896.827	34.011.400	0		346.766.895
Right-of-use assets .....					2.580.363	2.580.363
Other assets .....	22.337.598	8.888.612	174.470.306	( 154.896.137)		50.800.379
						<u>400.147.638</u>
Loans and borrowings .....	62.874.070	62.494.474	168.903.924	( 125.368.544)		168.903.924
Lease liabilities .....					2.578.143	2.578.143
Other liabilities .....	15.430.275	10.467.150	35.548.775	( 21.780.756)		39.665.444
						<u>211.147.512</u>
<b>Investments 1.1.-30.6.2020</b>						
Property, plant and equipment and intangible assets .....	3.959.992	2.058.659	1.351.271	0		7.369.922
<b>Balance sheet (31.12.2019)</b>						
Property, plant and equipment and intangible assets .....	166.763.273	131.123.708	33.567.250	0		331.454.232
Right-of-use assets .....					2.488.863	2.488.863
Other assets .....	17.485.349	10.956.734	158.713.621	( 151.214.439)		35.941.265
						<u>369.884.360</u>
Loans and borrowings .....	62.611.008	57.530.973	154.019.113	( 120.141.981)		154.019.113
Lease liabilities .....					2.509.752	2.509.752
Other liabilities .....	12.867.235	13.439.264	31.664.028	( 26.914.498)		31.056.029
						<u>187.584.894</u>
<b>Investments 1.1.-30.6.2019</b>						
Property, plant and equipment and intangible assets .....	3.876.409	1.815.520	2.003.585	0		7.695.514

# Notes

## 6. Financial income and expenses

	2020	2019
	1.1.-30.6.	1.1.-30.6.
Financial income and expenses are specified as follows:		
Interest income .....	159.146	193.187
Interest expense and paid indexation .....	( 2.289.046)	( 2.337.208)
Indexation .....	( 1.157.369)	( 1.049.834)
Guarantee fee to owners 1) .....	( 325.676)	( 346.407)
Total interest expenses .....	( 3.772.091)	( 3.733.449)
Fair value changes of embedded derivatives in electricity sales contracts .....	( 5.737.480)	( 589.145)
Fair value changes of financial assets and financial liabilities through P/L .....	644.571	449.975
Fair value changes of hedge contracts .....	( 195.717)	( 189.374)
Hedge contracts .....	90.757	( 103.875)
Foreign exchange difference .....	( 3.038.830)	( 1.212.417)
Dividends .....	87.596	55.407
Total of other income (expenses) on financial assets and liabilities .....	( 8.149.103)	( 1.589.429)
Total financial income and expenses .....	( 11.762.048)	( 5.129.690)

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 0,85% (2019: 0,89%) and 0,61% (2019: 0,60%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 326 million in the period 1 January to 30 June 2020 (1.1.-30.6.2019: ISK 346 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 39 with the financial statements of the Group for the year 2019. Change in fair value that is recognized in the income statement amounts to ISK 5.289 million expense in the period 1 January to 30 June 2020 (1.1.-30.6.2019: expense 329 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 5.737 million expense in the period 1 January to 30 June 2020 (1.1.-30.6.2019: expense ISK 589 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:

	30.6.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities .....	168.903.924	182.798.117	154.019.113	160.699.452

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:

	30.6.2020	31.12.2019
Embedded derivatives in electr. sales contr. ....	5,29% til 6,0%	6,84% to 7,21%
Hedge contracts .....	-0,4% til 1,4%	-0,4% to 1,9%
Interest bearing loans .....	0,88% til 3,05%	1,23% to 6,01%

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 2019. 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
<b>30.6.2020</b>				
Shares in companies .....	0	0	5.216.267	5.216.267
Embedded derivatives in sales contracts .....	0	0	( 12.416.809)	( 12.416.809)
Hedge contracts .....	0	( 509.206)	0	( 509.206)
Marketable securities .....	8.090.507	0	0	8.090.507
	8.090.507	( 509.206)	( 7.200.542)	380.760
<b>31.12.2019</b>				
Shares in companies .....	0	0	5.216.267	5.216.267
Embedded derivatives in sales contracts .....	0	0	( 6.679.329)	( 6.679.329)
Hedge contracts .....	0	( 313.489)	0	( 313.489)
Marketable securities .....	7.333.014	0	0	7.333.014
	7.333.014	( 313.489)	( 1.463.062)	5.556.464

# 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 30 June 2020 as well as a statement of receivables and payables at the end of the period. Transactions and positions with subsidiaries are eliminated in the interim financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

	<b>2020</b>	<b>2019</b>
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Sale to related parties:		
Reykjavik City.....	1.108.094	1.096.144
Institutions and companies controlled by Reykjavik City.....	375.687	356.788
Associates.....	0	170
	<u>1.483.781</u>	<u>1.453.102</u>
Purchases from related parties:		
Reykjavik City.....	33.607	23.505
Institutions and companies controlled by Reykjavik City.....	23.001	6.407
Associates.....	29.932	29.005
	<u>86.541</u>	<u>58.917</u>
	<b>30.6.2020</b>	<b>31.12.2019</b>
Receivables for related parties:		
Reykjavik City.....	124.886	184.011
Institutions and companies controlled by Reykjavik City.....	59.197	65.356
	<u>184.083</u>	<u>249.366</u>
Payables for related parties:		
Reykjavik City.....	179.389	168.214
Institutions and companies controlled by Reykjavik City.....	981	771
Associates.....	513	7.000
	<u>180.883</u>	<u>175.985</u>
Interest bearing loans from owners of the parent Company:		
Reykjavik City .....	9.263.386	9.811.423
Akranes town .....	547.451	579.839
Borgarbyggð, municipality .....	92.397	97.864
	<u>9.903.234</u>	<u>10.489.126</u>
	<b>2020</b>	<b>2019</b>
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Interest expense on loans from owners of the parent Company:		
Reykjavik City .....	486.445	532.329
Akranes town .....	29.046	31.127
Borgarbyggð, municipality .....	4.852	5.254
	<u>520.342</u>	<u>568.710</u>

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavik 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.

# Notes

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## 10. Other matters

### **Derivative contracts in default**

Among other current liabilities are derivative contracts accounted for that are in default. In previous periods ISK 740 million have been expensed. The contracts have not been settled due to great uncertainties on how to settle them and Orkuveita Reykjavíkur was sued regarding the claims. At the beginning of July 2020, the Reykjavík District Court ruled in favor of Glitnir HoldCo ehf. and judged Orkuveita Reykjavíkur to pay Glitnir HoldCo ISK 747 million plus interests. As at 1 July 2020, the amount with penalty interest is ISK 3.108 million.

It is the opinion of the management that there is not a reason to change the precautionary entry in question. The argument being that the final ruling has not been cast. The court does not seem to have taken into account Orkuveita Reykjavíkur's views in the case and the company has therefore instructed its lawyer to appeal the judgment of the Reykjavík District Court to the National Court. No payments will be made until the final decision of the courts is available, whether it is before the National Court or the Supreme Court.