

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

	2020	2019	2018	2017	2016
<i>Amounts are at each years price level in ISK millions</i>	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.	1.1.-30.9.
Revenues	35.045	33.578	33.459	31.310	29.921
Expenses	(14.206)	(13.570)	(12.540)	(11.744)	(11.785)
thereof energy purchase and transmission	(4.181)	(4.163)	(4.404)	(4.238)	(4.555)
EBITDA	20.838	20.008	20.919	19.566	18.136
Depreciation	(9.606)	(8.900)	(6.965)	(7.051)	(7.584)
EBIT	11.233	11.108	13.954	12.515	10.551

Cash flow statement:

Received interest income	240	266	151	278	146
Paid interest expense	(3.724)	(3.791)	(2.977)	(2.990)	(2.600)
Net cash from operating activities	19.416	19.449	17.217	18.625	17.305
Working capital from operation	15.727	14.275	16.830	15.080	14.853

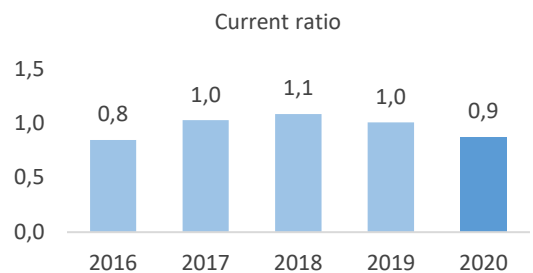
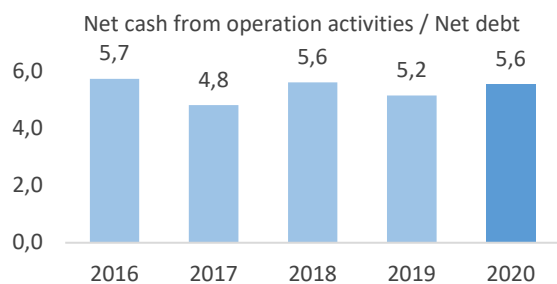
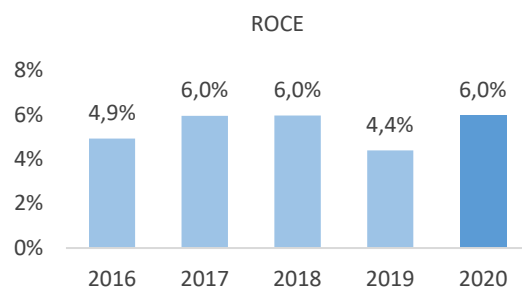
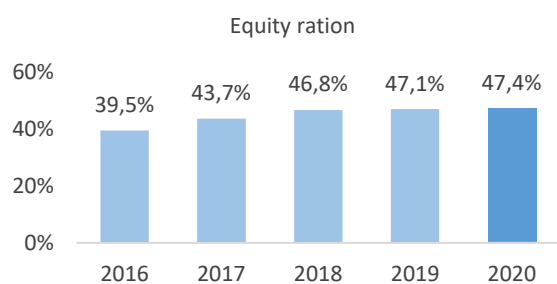
Liquid funds

	30.9.2020	30.9.2019	30.9.2018	30.9.2017	30.9.2016
Deposits and marketable securities	12.798	7.750	6.278	7.085	1.173
Cash and cash equivalents	11.549	13.221	13.667	11.341	9.271
Undrawn credit lines	6.500	8.500	8.500	8.500	8.500
Liquid funds total	30.847	29.472	28.445	26.926	18.944

Key financial ratios

	30.9.2020	30.9.2019	30.9.2018	30.9.2017	30.9.2016
Equity ratio	47,4%	47,1%	46,8%	43,7%	39,5%
Current ratio*	0,9	1,0	1,1	1,0	0,8
Net cash from operating activities / Net debt	5,6	5,2	5,6	4,8	5,7
Interest coverage	4,3	4,0	4,7	5,8	5,6
ROCE	6,0%	4,4%	6,0%	6,0%	4,9%

*without aluminum derivative



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 30 September 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. 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 2020 was ISK 744 million (1.1.-30.9.2019: Profit ISK 4.403 million). Comprehensive income for the period 1 January to 30 September 2020 was ISK 8.115 million (1.1.-30.9.2019: ISK 8.472 million). According to the statement of financial position the Group's assets were ISK 395.207 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 187.414 million (31.12.2019: ISK 182.299 million), resulting in equity ratio of 47,4% (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 nine 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 September 2020 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 30 September 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 September 2020.

Reykjavík, 23 November 2020.

The Board of Directors:

Brynhildur Davíðsdóttir
Gylfi Magnússon
Hildur Björnsdóttir

Eyþór Laxdal Arnalds
Sigríður Rut Júlíusdóttir
Valgarður Lyngdal Jónsson

CEO:

Bjarni Bjarnason

Income Statement

1 January to 30 September 2020

	Notes	2020 1.7.-30.9.	2019* 1.7.-30.9.	2020 1.1.-30.9.	2019* 1.1.-30.9.
Operating revenue		10.772.664	10.077.911	35.044.638	33.576.998
Sales profit (loss)		591	(1.959)	591	1.248
Total revenue	4	<u>10.773.255</u>	<u>10.075.952</u>	<u>35.045.230</u>	<u>33.578.246</u>
Energy purchase and distribution		(1.356.552)	(1.292.296)	(4.180.975)	(4.162.761)
Salaries and salary related expenses		(1.667.355)	(1.549.155)	(5.629.379)	(4.995.063)
Other operating expenses		(1.303.247)	(1.157.294)	(4.395.801)	(4.412.384)
Operating expenses, total		<u>(4.327.154)</u>	<u>(3.998.745)</u>	<u>(14.206.155)</u>	<u>(13.570.208)</u>
EBITDA		<u>6.446.101</u>	<u>6.077.207</u>	<u>20.839.075</u>	<u>20.008.038</u>
Depreciation and amortisation		(3.322.149)	(3.172.489)	(9.605.966)	(8.900.018)
Results from operating activities		<u>3.123.953</u>	<u>2.904.719</u>	<u>11.233.109</u>	<u>11.108.021</u>
Interest income		83.711	89.367	242.857	282.554
Interest expenses		(2.059.673)	(1.779.777)	(5.831.764)	(5.513.226)
Other income (expenses) on financial assets and liabilities		1.363.972	(117.652)	(6.785.131)	(1.707.080)
Total financial income and expenses	6	<u>(611.990)</u>	<u>(1.808.062)</u>	<u>(12.374.038)</u>	<u>(6.937.752)</u>
Share in profit of associated companies		0	0	4.137	(528)
Profit (loss) before income tax		<u>2.511.963</u>	<u>1.096.657</u>	<u>(1.136.792)</u>	<u>4.169.741</u>
Income tax		(868.511)	(42.601)	1.880.566	233.679
Profit for the period		<u><u>1.643.451</u></u>	<u><u>1.054.055</u></u>	<u><u>743.773</u></u>	<u><u>4.403.420</u></u>

* Comparable figures have been changed. See note 10.

The notes on pages 9 to 17 are an integral part of these Consolidated Interim Financial Statements.

Statement of Comprehensive Income

1 January to 30 September 2020

	2020	2019*	2020	2019*
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9.	1.1.-30.9.
Profit for the period	1.643.451	1.054.055	743.773	4.403.420
Other comprehensive income				
Items moved to equity that could be moved later to the income statement				
Translation difference	(25.432)	(428.539)	7.370.999	4.068.212
	(25.432)	(428.539)	7.370.999	4.068.212
Other comprehensive income, after taxes	(25.432)	(428.539)	7.370.999	4.068.212
Total comprehensive income for the period	1.618.019	625.517	8.114.772	8.471.632

* Comparable figures have been changed. See note 10.

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Statement of Financial Position

30 September 2020

	Notes	30.9.2020	31.12.2019
Assets			
Property, plant and equipment		344.838.111	328.956.132
Intangible assets		2.660.623	2.498.099
Right-of-use assets		2.556.203	2.488.863
Investments in associated companies		77.889	73.753
Investments in other companies		5.216.267	5.216.267
Hedge contracts		35.190	229.072
Deferred tax assets		8.047.195	4.879.759
Total non-current assets		363.431.478	344.341.945
Inventories		1.345.560	1.195.475
Trade receivables	7	4.845.076	4.915.008
Hedge contracts		105.567	388.451
Other receivables		482.572	368.978
Prepaid expenses		650.429	184.464
Deposits and marketable securities		12.797.592	9.833.014
Cash and cash equivalents		11.549.036	8.657.025
Total current assets		31.775.832	25.542.415
Total assets		395.207.310	369.884.360
Equity			
Revaluation reserve		90.481.773	93.186.474
Equity reserve		50.074.328	48.585.813
Fair value reserve		4.760.587	4.760.587
Translation reserve		9.782.818	2.411.820
Retained earnings		32.314.731	33.354.772
Total equity		187.414.237	182.299.466
Liabilities			
Loans and borrowings		145.499.345	138.955.006
Lease liabilities		2.416.925	2.355.873
Pension liability		651.898	723.084
Embedded derivatives in electricity sales contracts		7.520.134	5.307.027
Hedge contracts		380.263	613.778
Deferred tax liabilities		15.024.409	14.679.794
Total non-current liabilities		171.492.974	162.634.563
Accounts payable		2.464.002	2.926.455
Loans and borrowings		22.029.094	15.064.107
Lease liabilities		162.797	153.878
Embedded derivatives in electricity sales contracts		1.911.274	1.372.302
Hedge contracts		487.901	317.233
Deferred revenue	7	2.600.754	149.735
Current tax liability		1.335.852	1.693.071
Other current liabilities		5.308.425	3.273.550
Total current liabilities		36.300.099	24.950.331
Total liabilities		207.793.073	187.584.894
Total equity and liabilities		395.207.310	369.884.360

The notes on pages 9 to 17 are an integral part of these Consolidated Interim Financial Statements.

Statement of Changes in Equity

1 January to 30 September 2020

	Revaluation reserve	Equity reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.- 30.9.2020						
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				7.370.999		7.370.999
Profit for the period					743.773	743.773
Total comprehensive income	0	0	0	7.370.999	743.773	8.114.772
Depreciation transferred to retained earnings	(2.704.701)				2.704.701	0
Share in profit of subsidiaries and associates transf. to equity reserve		1.488.515			(1.488.515)	0
Dividends paid					(3.000.000)	(3.000.000)
Equity at 30 September 2020	90.481.773	50.074.328	4.760.587	9.782.818	32.314.731	187.414.237
1.1.-30.9.2019*						
Equity at 1 January 2019	83.821.060	42.972.671	3.395.941	540.882	30.096.679	160.827.232
Translation difference				4.068.212		4.068.212
Profit for the period					4.403.420	4.403.420
Total comprehensive income	0	0	0	4.068.212	4.403.420	8.471.632
Depreciation transferred to retained earnings	(2.520.053)				2.520.053	0
Share in profit of subsidiaries and associates transf. to equity reserve		6.575.762			(6.575.762)	0
Divident paid					(1.500.000)	(1.500.000)
Equity at 30 September 2019	81.301.007	49.548.432	3.395.941	4.609.094	28.944.390	167.798.864

* Comparative figures have been changed. See note 10.

The notes on pages 9 to 17 are an integral part of these Consolidated Interim Financial Statements.

Statement of Cash Flows for 1 January to 30 September 2020

	2020 1.1.-30.9.	2019* 1.1.-30.9.
Cash flows from operating activities		
Profit for the period	743.773	4.403.420
Adjusted for:		
Financial income and expenses	12.374.038	6.937.752
Share in P/L of associates	(4.137)	528
Income tax	(1.880.566)	(233.679)
Depreciation and amortisation	9.605.966	8.900.018
Profit from sale of property, plants and equipment	(591)	(1.248)
Pension liability, change	(71.186)	45.996
Working capital from operation before interest and taxes	20.767.297	20.052.786
Inventories, (increase) decrease	(150.085)	47.946
Current assets, decrease	107.840	1.402.757
Current liabilities, increase	3.038.386	1.941.222
Cash generated from operations before interests and taxes	23.763.438	23.444.711
Received interest income	240.354	266.083
Paid interest expenses	(3.724.371)	(3.791.468)
Dividend received	88.119	55.407
Payments due to other financial income and expenses	102.785	255.475
Paid taxes	(1.053.892)	(781.457)
Net cash from operating activities	19.416.432	19.448.751
Cash flows from investing activities		
Acquisition of property, plant and equipment	(11.310.537)	(13.100.828)
Acquisition of intangible assets	(431.790)	(506.618)
Proceeds from sale of property, plant and equipment	1.184	6.948
Proceeds from sale of other companies	0	7.394
Change in deposits	(2.000.000)	(700.000)
Change in marketable securities	(167.701)	702.951
Net cash used in investing activities	(13.908.846)	(13.590.153)
Cash flows from financing activities		
Proceeds from new borrowings	15.004.625	11.163.425
Repayment of borrowings	(14.874.535)	(13.176.909)
Payments of currency hedges	(37.742)	(410.138)
Dividends paid	(3.000.000)	(1.500.000)
Current liabilities, change	(73.906)	(124.832)
Net cash used in financing activities	(2.981.559)	(4.048.454)
Increase in cash and cash equivalents	2.526.028	1.810.145
Cash and cash equivalents at year beginning	8.657.025	10.988.087
Effect of currency fluctuations on cash and cash equivalents	365.983	423.040
Cash and cash equivalents at the end of the period	11.549.036	13.221.272
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	306.376	191.042
Current liabilities, change	(306.376)	(191.042)
Other information:		
Working capital from operation	15.726.829	14.274.795

* Comparable figures have been changed. See note 10.

The notes on pages 9 to 17 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	
		30.9.2020	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%
Úlfjótsvatn 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 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 23 November 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

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 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. 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
	1.1.-30.9.	1.1.-30.9.
Electricity.....	14.421.562	14.340.594
Hot water.....	10.086.173	8.844.595
Cold water.....	2.573.597	2.146.081
Sewer system.....	4.351.163	4.162.147
Other revenues.....	3.612.735	4.084.829
Revenues from sales of goods and services total.....	35.045.230	33.578.246

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		Energy sale	Other	Adjust-		
1.1.- 30.9.2020	Utilities	and production	Operation	ments	IFRS 16*	Total
External revenue	22.400.667	10.309.582	2.334.981	0		35.045.230
Inter-segment revenue	3.730.856	7.836.160	5.792.356	(17.359.373)		0
Total segment revenue	26.131.524	18.145.742	8.127.337	(17.359.373)		35.045.230
Segment operation expenses	(14.823.562)	(10.083.006)	(6.800.075)	17.359.373	141.115	(14.206.155)
Segment profit EBITDA	11.307.962	8.062.736	1.327.262	0	141.115	20.839.075
Depreciation and amortisation	(4.308.863)	(3.791.208)	(1.418.024)	0	(87.871)	(9.605.966)
Segment results, EBIT	6.999.099	4.271.528	(90.762)	0	53.244	11.233.109
Financial income and expenses	(2.910.271)	(1.337.303)	(5.320.138)	(2.750.451)	(55.875)	(12.374.038)
Share in profit of associated companies	0	0	4.137	0		4.137
Income tax	(640.044)	(579.162)	2.064.430	1.034.352	989	1.880.566
Profit (loss) for the period	3.448.784	2.355.063	(3.342.334)	(1.716.099)	(1.642)	743.773
1.1.-30.9.2019*						
External revenue	20.590.471	10.338.422	2.649.354	0		33.578.246
Inter-segment revenue	2.639.159	3.557.501	5.814.595	(12.011.255)		0
Total segment revenue	23.229.630	13.895.923	8.463.949	(12.011.255)		33.578.246
Segment operation expenses	(12.838.131)	(5.928.529)	(6.939.636)	12.011.255	124.832	(13.570.208)
Segment profit EBITDA	10.391.499	7.967.394	1.524.313	0	124.832	20.008.038
Depreciation and amortisation	(4.003.473)	(3.705.313)	(1.118.908)		(72.324)	(8.900.018)
Segment results, EBIT	6.388.025	4.262.082	405.405	0	52.508	11.108.021
Financial income and expenses	(2.312.639)	(957.503)	(1.342.470)	(2.280.616)	(44.525)	(6.937.752)
Share in profit of associated companies	0	0	(528)	0		(528)
Income tax	(407.173)	(644.686)	431.028	857.512	(3.002)	233.679
Profit (loss) for the period	3.668.214	2.659.893	(506.564)	(1.423.104)	4.982	4.403.420

* 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
Balance sheet (30.9.2020)						
Property, plant and equipment and intangible assets	168.721.415	144.469.417	34.307.902	0		347.498.733
Right-of-use assets					2.556.203	2.556.203
Other assets	20.412.893	6.837.213	174.881.268	(156.979.000)		45.152.374
						<u>395.207.311</u>
Loans and borrowings	63.169.176	61.811.649	167.528.439	(124.980.825)		167.528.439
Lease liabilities					2.579.722	2.579.722
Other liabilities	16.745.971	10.158.714	36.904.134	(26.123.907)		37.684.912
						<u>207.793.073</u>
Investments 1.1.-30.9.2020						
Property, plant and equipment and intangible assets	6.267.005	3.009.679	2.159.267	0		11.435.951
Balance sheet (31.12.2019)						
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>
Investments 1.1.-30.9.2019						
Property, plant and equipment and intangible assets	6.824.686	3.416.142	3.136.123	0		13.376.952

Notes

6. Financial income and expenses

	2020	2019
	1.1.-30.9.	1.1.-30.9.
Financial income and expenses are specified as follows:		
Interest income	242.857	282.554
Interest expense and paid indexation	(3.385.004)	(3.648.114)
Indexation	(1.957.087)	(1.350.325)
Guarantee fee to owners 1)	(489.673)	(514.788)
Total interest expenses	(5.831.764)	(5.513.226)
Fair value changes of embedded derivatives in electricity sales contracts	(2.752.079)	(2.280.616)
Fair value changes of assets available for sale	0	5.078
Fair value changes of financial assets and financial liabilities through P/L	796.877	545.627
Fair value changes of hedge contracts	(413.919)	(108.569)
Hedge contracts	69.313	(154.057)
Foreign exchange difference	(4.573.440)	230.050
Dividends	88.119	55.407
Total of other income (expenses) on financial assets and liabilities	(6.785.131)	(1.707.080)
Total financial income and expenses	(12.374.038)	(6.937.752)

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 490 million in the period 1 January to 30 September 2020 (1.1.-30.9.2019: ISK 515 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 2.369 million expense in the period 1 January to 30 September 2020 (1.1.-30.9.2019: expense 1.838 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 2.752 million expense in the period 1 January to 30 September 2020 (1.1.-30.9.2019: expense ISK 2.281 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:

	30.9.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	167.528.439	184.322.570	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:

	30.9.2020	31.12.2019
Embedded derivatives in electr. sales contr.	5,28% to 6,15%	6,84% to 7,21%
Hedge contracts	-0,5% to 0,3%	-0,4% to 1,9%
Interest bearing loans	0,37% to 2,94%	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
30.9.2020				
Shares in companies	0	0	5.216.267	5.216.267
Embedded derivatives in sales contracts	0	0 (	9.431.408) (	9.431.408)
Hedge contracts	0 (	727.408)	0 (	727.408)
Marketable securities	8.297.592	0	0	8.297.592
	8.297.592	(727.408)	(4.215.141)	3.355.043
31.12.2019				
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 September 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.

	2020	2019
	1.1.-30.9.	1.1.-30.9.
Sale to related parties:		
Reykjavik City.....	1.455.418	1.441.165
Institutions and companies controlled by Reykjavik City.....	525.345	493.261
Associates.....	0	170
	<u>1.980.763</u>	<u>1.934.596</u>
Purchases from related parties:		
Reykjavik City.....	36.807	23.505
Institutions and companies controlled by Reykjavik City.....	27.516	6.407
Associates.....	45.536	43.619
	<u>109.859</u>	<u>73.531</u>
	30.9.2020	31.12.2019
Receivables for related parties:		
Reykjavik City.....	29.480	184.011
Institutions and companies controlled by Reykjavik City.....	52	65.356
	<u>29.532</u>	<u>249.366</u>
Payables for related parties:		
Reykjavik City.....	179.767	168.214
Institutions and companies controlled by Reykjavik City.....	0	771
Associates.....	0	7.000
	<u>179.767</u>	<u>175.985</u>
Interest bearing loans from owners of the parent Company:		
Reykjavik City	4.976.245	9.811.423
Akranes town	294.175	579.839
Borgarbyggð, municipality	49.650	97.864
	<u>5.320.070</u>	<u>10.489.126</u>
	2020	2019
	1.1.-30.9.	1.1.-30.9.
Interest expense on loans from owners of the parent Company:		
Reykjavik City	750.950	783.238
Akranes town	44.748	46.232
Borgarbyggð, municipality	7.502	7.803
	<u>803.200</u>	<u>837.273</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

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 sentenced Orkuveita Reykjavíkur to pay Glitnir HoldCo ISK 747 million plus interests. As of 1 July 2020, the amount with penalty interest is ISK 3.108 million.

It is the management opinion 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.

Changes in comparative figures

On 1 January 2019, IFRS 16 on Lease Agreements entered into force. The standard sets out new guidelines on the presentation of lease agreements in the accounts of the lessee and the lessor. With the implementation of IFRS 16, lessees are obliged to recognise assets and liabilities for all leases agreements. A lessee is required to recognise the present value of lease payments as lease liability and a right-of-use asset is recognised as an asset.

Companies that have implemented the International Financial Reporting Standards (IFRS) must comply with the standard, and this applies to the Orkuveita Reykjavíkur Group. At the beginning of 2019, all indications were that the standard also applied to companies that prepare their annual accounts in accordance with the Financial Statements Act. The Ministry of Industry and Innovation did on the other hand, issue an announcement at the beginning of 2020, announcing that that the standard was being implemented in the Financial Statements Act with certain amendments. The amendments stipulate that all companies that prepare their accounts in accordance with the Financial Statements Act will be allowed to apply the same accounting methods as before, when recognising and classifying leases for the years 2019 and 2020.

The subsidiaries of Orkuveita Reykjavíkur have decided not to change their previous accounting methods for recognising and classifying lease agreements. As a result, the comparative amounts in the previous year's income statement will change accordingly.