Orkuveita Reykjavíkur

Consolidated
Financial Statements 2020

*These 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

Contents

Operating summary and key financial ratios

Amounts are at each years price level in ISK millions	2020	2019	2018	2017	2016
Revenues	48.627	46.570	45.916	43.666	41.423
Expenses	(19.172)	(18.398)	(17.299)	(17.285)	(16.062)
thereof energy purchase and distribution	(5.793)	(5.659)	(6.106)	(5.949)	(6.205)
EBITDA	**29.454**	**28.172**	**28.617**	**26.380**	**25.361**
Depreciation	(13.056)	(12.121)	(10.271)	(9.063)	(10.392)
EBIT	**16.398**	**16.051**	**18.346**	**17.318**	**14.968**

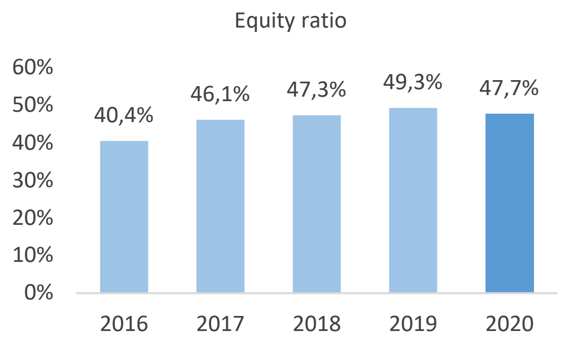
Cash flow statement:

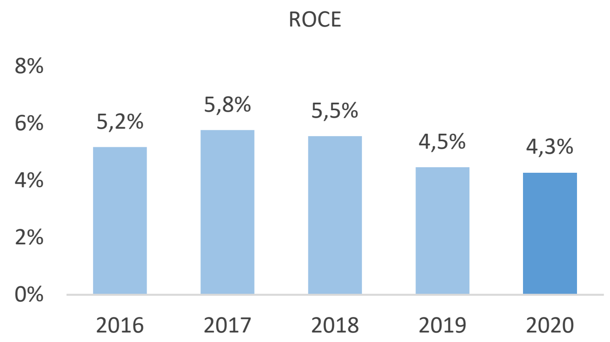
	2020	2019	2018	2017	2016
Received interest income	397	337	398	572	461
Paid interest expense	(4.940)	(5.373)	(4.806)	(4.186)	(4.146)
Net cash from operating activities	23.152	22.864	21.054	20.595	21.324
Working capital from operation	22.357	21.684	24.337	21.293	20.240

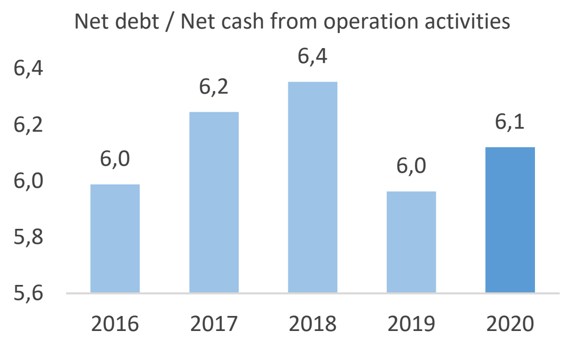
Liquid funds	**31.12.2020**	**31.12.2019**	**31.12.2018**	**31.12.2017**	**31.12.2016**
Deposits and marketable securities	14.867	9.833	7.223	6.125	4.132
Cash and cash equivalents	15.820	8.657	10.988	6.255	12.357
Undrawn credit lines	11.776	9.600	11.000	10.000	9.000
Liquid funds total	42.463	28.090	29.211	22.380	25.489

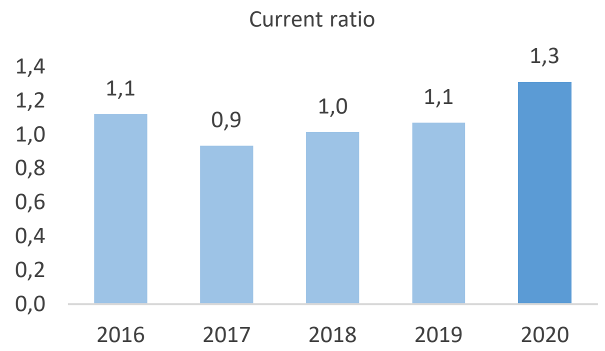
Key financial ratios	**31.12.2020**	**31.12.2019**	**31.12.2018**	**31.12.2017**	**31.12.2016**
Equity ratio	47,7%	49,3%	47,3%	46,1%	40,4%
Current ratio*	1,3	1,1	1,0	0,9	1,1
Net debt / Net cash from operating activities	6,1	6,0	6,4	6,2	6,0
Intererst coverage	4,0	4,2	4,0	5,0	5,1
ROCE	4,3%	4,5%	5,5%	5,8%	5,2%

*without aluminum derivative









Endorsement by the Board of Directors and the CEO

Orkuveita Reykjavíkur (OR) 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS´s) as adopted by the European Union and the additional requirements set out in the local rules and regulations regarding financial statements of companies with listed bonds. The financial consolidated statements comprise the financial statements of Orkuveita Reykjavikur and its subsidiaries.

Profit of operations of the Group for the year 2020 was ISK 5.628 million (2019: Profit ISK 6.916 million). Comprehensive income for the year 2020 was ISK 8.827 million (2019: ISK 22.972 million). According to the statement of financial position the Group's assets were ISK 394.164 million at the year-end (31.12.2019: ISK 369.884 million). Book value of equity at the end of the year was ISK 188.126 million (31.12.2019: ISK 182.299 million), resulting in equity ratio of 47,7% (31.12.2019: 49,3%).

On 30 September 2019, Orkuveita Reykjavíkur published a financial forecast in the Nasdaq Iceland news forum. According to the forecast, it was estimated that the income of 2020 would amount to ISK 48.7 billion, but in actuality it turned out to be ISK 48.6 billion, or ISK 0.1 billion less than estimated. The operational cost was forecasted to be ISK 18.7 billion but was ISK 19.2 billion, or ISK 0.5 billion higher than estimated. This can be traced to an increase in the cost of energy transmission due to the devaluation of the ISK, increase in the purchase of energy and higher cost due to Covid-19.

The year‘s investments in fixed assets was ISK 16.8 billion, while the forecast estimated ISK 19.7 billion, taking in consideration increased investments due to reinvigorating projects of ISK 2 billion, approved on 8 April 2020. The main reasons for lower investment are due to delays in the complete renovation and repairs of OR‘s facilities at Bæjarháls 1, fewer work-gaps due to more stable steam reserves in the power plants, as well as a few investments projects of Veitur that were delayed over the course of the year.

At the beginning and at the end of the year the Company´s shareholders were the following three municipalities:

	Share
Reykjavíkurborg	93,539%
Akraneskaupstaður	5,528%
Borgarbyggð	0,933%

The Board of Directors will propose at the 2021 Annual General Meeting that dividend amounting to ISK 4.000 million will be paid for the operational year 2020, and refers to the Consolidated Financial Statements regarding appropriation of the profit for the year and changes in Shareholders’ equity.

Information on success, risk and uncertainty issues

Veitur

Veitur ohf. has signed a declaration of intent to ensure that Veitur‘s development of electricity infrastructure will take into consideration the needs of public transportation and other eco-friendly modes of travel. The purpose is that the company will do its share in minimizing the society‘s cost of energy exchange in Icelandic transport.

Veitur plans to implement smart gauges for all its customers in the next few years and connect it to the system software. The company puts an emphasis on a smart and digital future, increased sustainability and efficiency in service to its customers. The goals are in line with Veitur‘s vision for the future, as can be seen in the company‘s policy on practical IT, constant reform in terms of the environment, and that it should be a forward seeking knowledge- and service company that paves the way for society‘s efficiency and increased quality of life.

Veitur, contd.
OR has mapped the effect of climate catastrophe on the Group‘s operations. An emphasis is placed on the water distribution systems, adjusting them to an increase in precipitation, thawing, temperature changes and the increase in sea levels. The Reykjavik water distribution monitors microbial contamination of potable water in real time, so reactions can be swift, and the quality of water can be ensured. They are now using cell flow monitors that provide a continuous view of the number of micro-organisms and changes in the number of micro-organisms in the drinking water. The monitor is the only one of its kind that can process automatically the whole process of monitoring cell flow, i.e. from taking the sample and to IT solutions that take care of the dissemination of the analysis to the end-user. Moreover, the district heating department estimates the demand for hot water in the long-term and to improve its utilisation as well as to ensure the security of supply. These projects constitute as both mitigation measures and adjustments due to the climate catastrophe, that Veitur is working on along with the municipalities.

Vatns- og fráveita's water-gathering areas thirteen in total, serving the whole of the capital area as well as the South and West of Iceland. The company works systematically to ensure water protection, other preventive measures and monitoring to ensure the quality of the water. Water protection areas are monitored, including the transportation of oil, gasoline and other hazardous material through Heiðmörk. Accidents and incidents due to dangerous behaviour within the water protection areas are registered, analysed and improvements are made where applicable. To prevent a pollution accident, the employees of Veitur and all its contractors that work within the water protection area are required to attend a course on environmental protection before commencing work. This is a demand stipulated in the tender documents.

In January 2021 a water main was ruptured during Vatns- og fráveita's repairs by Suðurgata in Reykjavík that resulted in a great flood of water streaming into the buildings of the University of Iceland. The main was being renewed and a wall in the valve house, that supports it, was taken down too early in the work phase. As there was still pressure on the main, it ruptured at the seams with these results. The incident is considered very serious within the company, and an investigation into work processes has commenced as well as communications between all those who are involved in construction and repairs within the company. For further explanations, see note 37 in the Groups Financial Statements.

Carbfix
By the end of 2019, OR‘s owner‘s meeting confirmed the decision of the board to establish a public limited company around the carbon storage method, Carbfix, which has been used at Hellisheiði power plant with great success over the past few years. Dr. Edda Sif Pind Aradóttir, former project manager of the Carbfix project, was hired to lead the new company.

The technology, which is considered to be green innovation, can be used to significantly reduce the emission of carbon dioxide into the atmosphere from a number of industries. This innovative project is a prime example of how goals set forth by the community can be combined with business interests and better numbers in the business accounts.

In its first year of operations, Carbfix has worked on further developments as well as making the method accessible to all who wish to use it in the fight against climate catastrophe. In August, both ON and Carbfix signed agreements with Swiss carbon capturing experts, Climeworks, to construct a new facility in the ON Geothermal Park, that will capture 4,000 tons of CO_2 from the atmosphere per year and permanently bind it in stone using the Carbfix method. These are important steps in the fight against climate change, and this is the first time these two revolutionary techniques are combined at such a scale. The project could have a significant effect on whether or not we manage to uphold the Paris accord.

Carbfix received a lot of attention last year for its innovative, green technology. It won two prestigious, international awards, The Keeling Curve Awards and the Ruggero Bertani European Geothermal Awards, as well as the Environmental awards of the city of Reykjavík 2020. It was also covered in the international press, from The Guardian, the Economist, and BBC, to Zac Effron‘s popular Netflix docuseries on the environment.

Endorsement by the Board of Directors and the CEO, contd.:

Orka náttúrunnar (ON)
Digital technology develops at great speed and there are many new digital ways of communicating with customers. Polls have shown that people would in general like to be able to access service through the internet wherever and whenever, and it is important for service companies to heed that call. ON puts an emphasis on being a part of this journey, and intends to e.g. improve its production processes with increased automation, new monitoring options, and to improve decision making.

ON began developing a net of rapid-charging points around Iceland in 2014. Since then, the charging behaviours of EV owners has changed considerably, and the capacity of charging points and EVs has increased as the charging points have become more numerous. However, the ON's price list has remained unchanged since its opening. As of last January, the price list was changed and adapted to the change in charging behaviour of EV owners, and the increased capacity of the charging stations.

ON's Geothermal Exhibition at the Hellisheiði Power Plant had to close down due to the Covid-19 epidemic, but the time was well spent in updating and developing the exhibition further.

ON's customers are the happiest consumers of all the electricity consumers in Iceland, according to the Icelandic Customer Satisfaction Scale 2020 (is. Íslenska ánægjuvogin 2020), introduced by Stjórnvísir at the end of January. This is the third time, and the second consecutive year, that ON has the highest score in this measurement of consumer satisfaction.

ON puts a strong emphasis on green innovation in its operations. ON's Geothermal Park encompasses a wide range of operations, which aim to utilise the resources of Hellisheidi Power Plant in the best way possible to benefit the environment and create value. The Geothermal Park is a platform for other businesses that are interested in operations that encourage geothermal innovations and the better utilization of the geothermal resource. ON's collaborative partners all share the common element of being trailblazers in the field of green innovation.

ON is in collaboration with OR and Carbfix to use the Carbfix method to effectively reduce emissions in daily operations of the Power Plant. By using the Carbfix method to permanently store CO_2 emitted from the Power plant, ON will not only reach its goal of carbon neutrality within ten years, but has also saved a considerable amount of money by using this new technology to also reduce hydrogen sulphide, instead of relying on older, more expensive and less effective ways.

The increased binding of CO_2 into stone at the Hellisheiði and Nesjavirkjun power plants, using the Carbfix method, will be the most significant factor in reducing the emission of greenhouse gasses from the Group. Energy change within the Groups carfleet is also an important factor as is utilizing the carbon dioxide in the Geothermal Park by Hellisheiði. The carbon emission rate per unit of produced electricity and hot water at ON's power plants has gone down from 2015 and is now 8.3 g of CO_2 equivalent per kWh.

Gagnaveita Reykjavíkur (GR)
GR, which owns and operates Ljósleiðarinn (en. Fibre Optics), is working diligently according to the Icelandic authorities' plans to be fully connected in terms of fibre optics as soon as possible. A fiber optic cable now reaches every urban household in Kópavogur, Seltjarnarnes, Garðabær, Hafnarfjörður, Mosfellsbær and Reykjavík. The leaders of all six municipalities will receive a confirmation of this achievement from Gagnaveita Reykjavíkur. The municipalities have paved the way in digital service for its inhabitants and in facilitating their participation in the municipalities' government through the internet. Furthermore, fibre optic developments support businesses and support innovation with strong infrastructure, as well as providing the foundation for the fifth generation of cell-phone systems.

Over 120.000 households in Iceland are now connected via fibre optics, or 82% of Icelandic homes. Today, 65,9% make use of the connection, which is the highest rate in Europe. Still, 20.000 homes remain to be connected in Iceland. Considering just GR's plans for fibre optic developments, it is estimated that 90% will be connected by 2023.

Endorsement by the Board of Directors and the CEO, contd.:

Internal auditing
Goal oriented management, effective implementation of risk policy and the policies that are listed in OR‘s owners‘ policy and the company‘s agreements, are conductive towards internal monitoring. Internal monitoring systems are themselves regularly audited, both from within and outside, to confirm their effectiveness. If an audit reveals a need for reform, actions will follow. Risk management, which is a part of OR‘s Finances provides the Group with service-based leadership, and has a monitoring role at the second defence line. Risk management, operational risks and other risks within OR‘s operations are regularly the topic of discussion during board meetings. Internal auditing also monitors financial and governance supervision at OR, on behalf of the board. This entails that Internal auditing provides an analysis with the goal of increasing the efficiency of risk monitoring, monitoring methods, and governance.

See notes 27 to and including 31 of the financial statements for further information regarding OR‘s risk management.

Corporate governance

The principal operations of Orkuveita Reykjavíkur (OR) are governed by Act no.136/2013. The corporate governance of OR should ensure professionalism, efficiency, cost effectiveness, transparency and responsible management. The partnership agreement and ownership policy can be viewed on OR’s website www.or.is. Moreover, the Board of Directors of OR and the boards of directors of the subsidiaries in the Group have established precise working rules and a code of ethics, which can also be found on the company’s website.

OR‘s Code of Ethics are built on honesty, one of OR‘s core values. The Code of Ethics are registered and public, and are intended to help employers to place honesty, respect, and equality at the forefront of all communications, whether with customers, colleagues, board, contractors or other interested parties.

The working rules take into account the company´s Code of Ethics, Guidelines on corporate governance, which were issued by the Icelandic Chamber of Commerce, Nasdaq OMX Iceland ehf. and SA - Business Iceland and a handbook for board members, issued by KPMG. Subsidiaries have their separate company agreements and their Board´s procedures. The Board of Orkuveita Reykjavíkur has appointed a Compensation committee and has nominated a representative in Reykjavík City´s Audit committee.

Equal rights are integral to OR, and the Group‘s equal rights policy is committed to constant reform. OR places the human rights provisions in the Icelandic Constitution as the grounds for its equal rights policy, whose focus is that each person is valued based on their own merit and they have equal rights. The Equal rights policy is based on values and OR‘s overall policy, and is put forth in coordinance with the OR‘s Ownership Policy.

The Board of OR emphasises transparency in its work and the Board‘s minutes as well as accompanying documents, that are not subject to confidentiality, are accessible on the company‘s website. The minutes include for example all decisions made by the board and board members also have the right to book reservations regarding their opinions on specific matters.

OR salaries and union relations
OR‘s Ownership Strategy specifies that managements‘ salaries shall be similar to comparable jobs, however, taking into account that the company is owned by public parties. The salaries of managers and other employees of OR should not be setting the industry standards. In no employment contract of OR management or employees are there any direct contact between wages and specific operational measurements, neither financial or otherwise. The salaries of board-members, as well as those of managers and CEOs within the Group are specified in OR‘s financial statements.

OR is a member of the Confederation of Icelandic Enterprise (SA) through its membership of Samorka, an organisation of energy and distribution companies. OR negotiates with unions in collaboration with SA. OR also has various other communications with workers unions. Employees are free to join whichever union they prefer or to stand outside one, as the regulations for the work environment stipulate.

Endorsement by the Board of Directors and the CEO, contd.:

Tenders and purchasing policies
It is a part of OR‘s policy to have open calls for tender when purchasing products, services or construction services, and that the most favourable offer be accepted. Otherwise, closed tenders are used, price comparisons among as many as possible, direct contracts or purchases. The most favourable offer is not only judged by prices alone. It includes factors such as security, environmental matters, and the tender documents also has provisions to prevent „ID number jumping“ (is. Kennitöluflakk).

Internal auditing and quality systems
Managers of OR, CEOs and directors, are responsible for the Internal audits in their given fields. Processes and reforms are responsible for keeping OR‘s internal auditing processes active. OR‘s quality systems are externally audited by an independent source. OR follows standards of the Organisation of internal auditors (is. Samtök innri endurskoðenda) for internal auditing. The internal auditor of the City of Reykjavík plays the role of the internal auditor of OR. OR has a Compliance Officer who monitors information given to the stock exchange and Financial Supervision.

OR has a documented procedures to deal with issues where there is suspicion that an employee or manager has broken the Group‘s rules, or if they are found guilty of misconduct at work. These work procedures are accessible to all employees. If there is suspicion of an infraction, employees have a responsibility to report to their closest supervisor or the Internal auditors of the company who are then responsible for taking matters further, while still maintaining full confidentiality while managing the information, including the name of the person reporting.

Responsibility regarding natural resources
Orkuveita Reykjavíkur is trusted with a great responsibility for the resources it utilizes. The responsibility is to act according to the ideological principles of sustainable development and to ensure sustainable utilisation. This means that the coming generations will have the same opportunities as those present living, to utilize the resources and furthermore that the upholding of these principles can be confirmed. OR is committed to seek favourable solution, where the utilisation of resources for the good of the people are valued in conjunction with other interests. OR will protect the resources from dangers and invasiveness, due to the responsibility it has been given. OR works according to an environmental and resource policy, published on the company website, www.or.is, and is subject to an independent auditor according to ISO 14001. OR‘s annual report for 2020 gives a more in-depth report of the environmental aspects of the company‘s operations, you will find it on arsskyrsla2020.or.is.

The board of Orkuveita Reykjavíkur has decided to put a special emphasis on five of the 17 United Nations‘ Sustainable Development Goals in the Group‘s operations:

Alongside the consolidated financial statements for Orkuveita Reykjavíkur, published on 12 March 2021, the Group‘s Annual Report of 2020 will be released. The report goes over the governance of the company and is signed by independent experts in the field of finance, the environment, social affairs, and governance, as well as board members of Orkuveita Reykjavíkur and the CEO. The Annual Report will be published online and will be available here: https://arsskyrsla2020.or.is.

The Board of Directors

In accordance with the law on undertakings, the Board of Directors of OR comprises six members, five elected by the City Council of Reykjavík and one elected by the town council of Akranes. Borgarbyggð has an observer on the board. The City Council of Reykjavík elects a chairperson and vice-chairperson to the board from a group of members of the City Council of Reykjavik. The Board of Directors is responsible for the finances and operations of OR. The board of Directors appoints two committees: The Audit Committee and The Compensation Committee.

In conjunction with the financial statements, OR publishes the Annual Report 2020, which includes a more detailed description of OR's governance practices. The report can be found on the URL arsskyrsla2020.or.is.

Non-financial information

In parallel with the financial statements, Orkuveita Reykjavíkur issues its Annual Report 2020. The report is integrated and prepared in accordance with the guidelines from Nasdaq OMX Nordic. It outlines governance, environmental issues, human rights and social affairs, as required by Act no. 3/2006 on annual accounts. The report also outlines the business model of the OR Group, the main business processes and stakeholders in the operation. It describes OR´s human rights policy and how OR tracks fraud and bribery. There are also reports from the Chairman and CEO. In the Appendix with the Financial Statements p. 64 more non-financial information is disclosed.

The report is endorsed by independent financial, environmental, social and administrative experts, as well as the directors of Orkuveita Reykjavíkur and the CEO.

In light of the Covid-19 virus it is evident that the epidemic will influence the Icelandic economy and the world at large. OR conducts stress tests on a regular basis which assumes currency depreciation, reduction of aluminium prices and increased inflation. Cash position is currently strong and today total cash amounts to about ISK 30,7 billion. Furthermore, the company has access to credit lines amounting to ISK 11,3 billion throughout 2020. The company is strong and operable and is well capable to handle shocks in the foreseeable future. Due to the nature of the business, providing basic services to households and businesses, the effects of the economic downturn on the company's income are limited.

Statement of the Board of Directors

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the consolidated financial statements are in accordance with IFRS´s as they have been approved by EU and the additional requirements set out in the local rules and regulations regarding Financial statements of companies with listed bonds. It is the opinion of the Board of Directors and the CEO that the Financial Statements give a fair view of the Group’s assets, liabilities and financial position 31 December 2020 and the Group´s operating return and changes in cash and cash equivalents in the year 2020. The Financial Statements also describe the main risk factors and uncertainties faced by the Group.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's consolidated financial statements for the year 2020.

Reykjavík, 12 March 2021.

The Board of Directors:

Brynhildur Davíðsdóttir
Gylfi Magnússon
Sigríður Rut Júlíusdóttir
Hildur Björnsdóttir
Eyþór Laxdal Arnalds
Valgarður Lyngdal Jónsson

CEO:

Bjarni Bjarnason

Independent Auditor's Report

To the Board of Directors and Owners of Orkuveitu Reykjavíkur.

Opinion on the Consolidated Financial Statement

Opinion

We have audited the accompanying Consolidated Financial Statements of Orkuveitan Reykjavíkur. (hereafter the Group) for the year 2020. The Consolidated Financial Statements comprise the Statement by the Board of Directors and CEO, the Statement of Income, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Changes in Equity, a summary of significant accounting policies and other explanatory information.

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated results of operations of the Group. for the year 2020, its consolidated financial position as at December 31, 2020, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our Report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in Iceland, and we have fulfilled all ethical requirements therein. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements for the year 2020. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our opinion the following matters were key audit matters:

Explanation of Key Audit Matter	Responses to Key Audit Matter
Valuation of production and distribution systems See note 38 (d) on significant accounting policies and note 12 on property, plant and equipment. We have defined the valuation of production and distribution systems as a key audit matter in our audit. The Group‘s production and distribution systems are carried at revalued amount. An assessment is made of the changes in construction costs of similar types of assets and both cost and accumulated depreciation are revalued accordingly. The Group performs impairment tests on the reporting date and recognises impairment loss if value in use is lower than book value of an asset. Revalued amount will also not be higher than value in use.	As part of our audit, we reviewed the Group‘s methodology for valuing the production and distribution systems and its consistency with international financial reporting standards. We reviewed the Group‘s processes for the revaluation and impairment tests. We also reviewed the functionality of models used in the assessments. We evaluated management assumptions by comparing to public information where applicable. Where assumptions are not based on public information, we made our own evaluation on management assumptions. We used the work of a valuation specialist to assist in this evaluation.

The assumptions used for revaluation and impairment tests are based on management assessments and are partly subjective. With production and distribution systems being a significant part of the consolidated financial statements, any change in assumptions can have significant effect on the income statement and balance sheet of the Group. Our work both included estimates of the revaluation assessments and the impairment tests of the production and distribution systems.

Revenue recognition

See note 38 (j) on significant accounting policies and note 3 on operation and revenue recognition of Group's components.

Revenue from sale and distribution of electricity and hot water is recognised based on measurements into the systems, taking into account energy losses occurring in the distribution systems. Differences between the actual amounts that go into the systems, minus losses and invoiced usage, leads to a period correction.

Due to the fact that income recognition at the end of the year is based on management estimates, there is uncertainty regarding revenue recognition relating to revenue cut-off and existence. For that reason, we focus specifically on revenue cutoff in our audit, as well as performing other audit procedures relating to revenue recognition.

In our audit of revenues, we have assessed controls relating to revenues in the Group. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Group, including review of how access to finance and accounting related IT systems is controlled.

We have used substantive testing methods where we have for example reviewed reconciliations between accounting systems and subsystems and received third party confirmation of energy usage, turnover and outstanding balances at year-end from specific customers. We have also reviewed deposits after year-end where balance confirmations from customers were not available.

We have also performed substantive tests where we have compared our expectations to actual revenue recognition in the Group.

Valuation of embedded derivatives

See note 28 (c) on significant accounting policies, note 17 on embedded derivatives in electricity sales contracts and note 32 on fair value hierarchy.

Because prices of specific electricity sales contracts with large counterparties are tied to aluminium prices, the Group recognises embedded derivatives on the balance sheet. As electricity and aluminium prices are generally not closely related, financial reporting standards require the risk relating to this relationship to be evaluated specifically.

The embedded derivatives are considered to be third level financial items, where estimates are based on management assumptions and unobservable inputs. Because of the vulnerability of the estimate, any change in assumptions can have significant effect on the income statement and balance sheet of the Group. For these reasons, we assume there is significant risk related to embedded derivatives and have therefore defined them as a key audit matter.

In our audit, we reviewed the Group's pricing methodology and consistency with international financial reporting standards.

We reviewed the Group's process for analysing and assessing assumptions used in the valuation, as well as reviewing valuation models used. We recalculated derivative valuations based on information we collected.

We used the work of a valuation specialist to assist with this review.

Other Information

The Board of Directors and the CEO are responsible for all information presented by the Group, both the Consolidated Financial Statements as well as other information. Our opinion does not cover other information other than we specificly discuss in our opinion here above. The other information comprises for example endorsment of the Board of directors and the CEO and unaudited report on governance report of the information included in the Annual Report, but does not include the Consolidated Financial Statements and our Auditor’s Report thereon. Our opinion on the Consolidated Financial Statements does not cover other information issued by the Group, and we do not express any form of assurance on the information in those documents thereon. In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the Statement by the Board of Directors and CEO accompanying the Consolidated Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

The Board of Directors and CEO’s Responsibilities for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and CEO are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and CEO either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor’s Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicated with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit. Our Audit Report, which has been provided to the Board of Directors and the Audit Committee, reports these matters and is in accordance with this report.

We have not provided the Group with any services that are prohibited according to laws on auditors. We have provided the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determined those matters that were of most significance in the audit of the Consolidated Financial Statements of the current year and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We were elected auditors for the Group in the Group's annual general meeting on 24 April 2020 and this is therefore the 3 continuous fiscal year where we are the Group's auditors.

On behalf of Grant Thornton endurskoðun ehf.
Reykjavík, 12 March 2021.

Davíð Arnar Einarsson, State Authorized Public Accountant

J. Sturla Jónsson, State Authorized Public Accountant

Income Statement 2020

	Notes	2020	2019
Operating revenue	4	48.619.545	46.569.730
Profit from sale of assets		6.978	396
Operating revenues, total		48.626.523	46.570.126
Energy purchase and distribution		(5.793.122)	(5.658.834)
Salaries and salary related expenses	7	(7.750.009)	(6.871.986)
Other operating expenses		(5.629.196)	(5.867.087)
Operating expenses, total		(19.172.327)	(18.397.906)
EBITDA		29.454.196	28.172.219
Depreciation and amortisation	9	(13.056.194)	(12.121.294)
Results from operating activities, EBIT		16.398.002	16.050.925
Interest income		313.417	416.293
Interest expenses		(7.642.896)	(7.194.532)
Other expenses on financial assets and liabilities		(3.522.869)	(2.019.003)
Total financial income and expenses	10	(10.852.347)	(8.797.242)
Share in profit of associated companies	15	4.137	(544)
Profit before income tax		5.549.792	7.253.139
Income tax	11	78.298	(336.769)
Profit for the year		5.628.090	6.916.370

The notes on pages 19 to 63 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 14 Amounts are in ISK thousand

Statement of Comprehensive Income 2020

	Notes	2020	2019
Profit for the year		5.628.090	6.916.370
Other comprehensive income			
Items moved to equity that will not be moved later to the income statement			
Revaluation reserve, increase		0	14.922.393
Income tax effect of revaluation		0	(2.102.110)
		0	12.820.283
Items moved to equity that could be moved later to the income statement			
Changes in fair value for financial assets at fair value through OCI	16	706.413	1.364.646
Translation difference	23	2.492.019	1.870.935
		3.198.432	3.235.581
Other comprehensive income, after taxes		3.198.432	16.055.863
Total comprehensive income for the year		8.826.522	22.972.234

The notes on pages 19 to 63 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 15 Amounts are in ISK thousand

Statement of Financial Position
31 December 2020

	Notes	31.12.2020	31.12.2019
Assets			
Property, plant and equipment	12	337.493.229	328.956.132
Intangible assets	13	2.837.133	2.498.099
Right-of-use assets	14	2.590.642	2.488.863
Investments in associated companies	15	81.389	73.753
Investments in other companies	16	5.922.680	5.216.267
Hedge contracts	18	509.904	229.072
Deferred tax assets	19	6.675.003	4.879.759
Total non-current assets		356.109.980	344.341.945
Inventories	20	1.249.674	1.195.475
Trade receivables	21	5.439.828	4.915.008
Hedge contracts	18	45.399	388.451
Other receivables	21	404.863	368.978
Prepaid expenses		227.706	184.464
Deposits and marketable securities	22	14.866.902	9.833.014
Cash and cash equivalents	22	15.820.051	8.657.025
Total current assets		38.054.423	25.542.415
Total assets		394.164.403	369.884.360
Equity			
Revaluation reserve		89.478.008	93.186.474
Equity reserve		60.207.208	48.585.813
Development reserve		108.308	0
Fair value reserve		5.467.000	4.760.587
Translation reserve		4.903.838	2.411.820
Retained earnings		27.961.627	33.354.772
Total equity	23	188.125.988	182.299.466
Liabilities			
Loans and borrowings	24	152.350.925	138.955.006
Lease liabilities	14	2.472.960	2.355.873
Pension liability	25	659.027	723.084
Embedded derivatives in electricity sales contracts	17	4.907.730	5.307.027
Hedge contracts	18	571.981	613.778
Deferred tax liabilities	19	14.662.897	14.679.794
Total non-current liabilities		175.625.520	162.634.563
Accounts payable		2.822.579	2.926.455
Loans and borrowings	24	19.349.528	15.064.107
Lease liabilities	14	167.953	153.878
Embedded derivatives in electricity sales contracts	17	1.048.651	1.372.302
Hedge contracts	18	846.690	317.233
Deferred revenue		541.288	149.735
Current tax liability	11	1.847.570	1.693.071
Other current liabilities	26	3.788.635	3.273.550
Total current liabilities		30.412.895	24.950.331
Total liabilities		206.038.415	187.584.894
Total equity and liabilities		394.164.403	369.884.360

The notes on pages 19 to 63 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 16 Amounts are in ISK thousand

Statement of Changes in Equity for the year 2020

	Revaluation reserve	Equity reserve	Develop-ment reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
The year 2020							
Equity at 1 January 2020	93.186.474	48.585.813	0	4.760.587	2.411.820	33.354.772	182.299.466
Changes in fair value for financial assets at fair value through OCI				706.413			706.413
Translation difference					2.492.019		2.492.019
Profit for the year						5.628.090	5.628.090
Total comprehensive income	0	0	0	706.413	2.492.019	5.628.090	8.826.522
Depreciation transferred to retained earnings	(3.708.466)					3.708.466	0
Share in profit of subsidiaries and associates transferred to equity reserve		11.621.394				(11.621.394)	0
Transfer to development reserve			108.308			(108.308)	0
Dividends paid						(3.000.000)	(3.000.000)
Equity at 31 December 2020	89.478.008	60.207.208	108.308	5.467.000	4.903.838	27.961.627	188.125.988
The year 2019							
Equity at 1 January 2019	83.821.060	42.972.671	0	3.395.941	540.882	30.096.679	160.827.232
Adjustment 1.1.	(21.564)					21.564	0
Revaluation, increase	14.922.393						14.922.393
Income tax effect of revaluation	(2.102.110)						(2.102.110)
Changes in fair value for financial assets at fair value through OCI				1.364.646			1.364.646
Translation difference					1.870.938		1.870.938
Profit for the year						6.916.370	6.916.370
Total comprehensive income	12.798.719	0	0	1.364.646	1.870.938	6.937.931	22.972.234
Depreciation transferred to retained earnings	(3.433.305)					3.433.305	0
Share in profit of subsidiaries and associates transferred to equity reserve		5.613.142				(5.613.142)	0
Divident paid						(1.500.000)	(1.500.000)
Equity at 31 December 2019	93.186.474	48.585.813	0	4.760.587	2.411.820	33.354.773	182.299.466

The notes on pages 19 to 63 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 17 Amounts are in ISK thousand

Statement of Cash Flows for the year 2020

	Notes	2020	2019
Cash flows from operating activities			
Profit for the year		5.628.090	6.916.370
Adjusted for:			
Financial income and expenses	10	10.852.347	8.797.242
Share in P/L of associates	15	(4.137)	544
Income tax	11	(78.298)	336.769
Depreciation and amortisation	9	13.056.194	12.121.294
Profit from sale of property, plants and equipment		(6.978)	(396)
Pension liability, change		(61.057)	42.980
Working capital from operation before interest and taxes		29.386.161	28.214.803
Inventories, increase		(54.199)	(175.668)
Current assets, (increase) decrease		(601.636)	895.581
Current liabilities, increase		599.287	58.929
Cash generated from operations before interests and taxes		29.329.613	28.993.646
Received interest income		396.760	337.231
Paid interest expenses		(4.940.326)	(5.372.708)
Dividend received		88.119	55.713
Payments due to other financial income and expenses		(11.742)	327.848
Paid taxes		(1.710.389)	(1.477.262)
Net cash from operating activities		23.152.033	22.864.467
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(15.986.233)	(18.537.372)
Acquisition of intangible assets	13	(699.222)	(772.281)
Proceeds from sale of property, plant and equipment		17.000	9.713
Acquisition of associated companies		(3.500)	(7.000)
Proceeds from sale of other companies		0	12.472
Change in deposits		(4.000.000)	500.000
Change in marketable securities		(154.324)	(2.286.016)
Net cash used in investing activities		(20.826.279)	(21.080.484)
Cash flows from financing activities			
Proceeds from new borrowings	24	29.965.498	16.966.850
Repayment of borrowings	24	(22.225.138)	(19.145.055)
Payments of currency hedges		(37.742)	(484.429)
Dividends paid	23	(3.000.000)	(1.500.000)
Repayment of lease liability	14	(93.188)	(144.238)
Net cash used in financing activities		4.609.429	(4.306.872)
Increase (decrease) in cash and cash equivalents		6.935.184	(2.522.888)
Cash and cash equivalents at year beginning		8.657.025	10.988.087
Effect of currency fluctuations on cash and cash equivalents		227.842	191.827
Cash and cash equivalents at the end of the year	22	15.820.051	8.657.025
Investments and financing without payment effects:			
Acquisition of property, plant and equipment		(98.773)	(65.139)
Current liabilities, change		98.773	65.139
Other information:			
Working capital from operation	36	22.357.403	21.683.679

The notes on pages 19 to 63 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 18 Amounts are in ISK thousand

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 Reykjavik. OR's consolidated financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and a share in associated companies. The consolidated financial statments of Orkuveita Reykjavíkur is a part of the consolidated financial statements of Reykjavík city.

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.

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements set out in the local rules and regulations regarding financial statements of companies with listed bonds.

The consolidated financial statements were approved by the Board of Directors on 12 March 2021.

Significant accounting policies for the Group are described in note 38.

b. *Functional and presentation currency*

The consolidated 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 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 38.

d. *Use of estimates and judgements*

The preparation of the consolidated 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 12 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment.)
- note 16 - Investments in other companies (presumptions made when calculating fair value of assets classified as assets held for sale.)
- note 17 - Embedded derivatives in electricity sales contracts (presumptions when calculating fair value)
- note 18 - Hedge contracts (presumptions when calculating fair value)
- note 19 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax losses)
- note 28 - Market risk

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.
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.

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

	Products and services	Nature, timing of revenue recognition and payments terms
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 recevables 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
Electricity	19.692.020	19.383.914
Hot water	14.134.120	12.789.501
Cold water	3.441.212	2.890.309
Sewer system	5.839.857	5.594.225
Other revenues	5.519.314	5.912.178
Revenues from sales of goods and services total	48.626.523	46.570.126

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 21 Amounts are in ISK thousand

5. Segment reporting

Business divisions and sectors

The Group's service area is mainly in the Reykjavík city area, but it also extends to the southern and western parts of Iceland. The Group is divided into three separate divisions: Energy sale and production, Utilities and Other Operation.

Energy sale and production generate electricity and harness hot water from the power plants, sells electricity to wholesale and retail customers as well as the new construction and operation of street lighting.

Utilities distribute electricity, harnessing hot water from low-temperature fields and the geothermal plants and distribute it for space heating. It also collects and distributes cold water from reservoirs and runs a sewerage system.

Other operations cover the fiber optic system, rental of housing and equipment, incidental sale of specialist consultancy services and more. Also development and distibution the CarbFix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change.

The Group is income taxed and collects value added tax, except for operations regarding cold water and sewer but they are regulated by law no. 33/2004 concerning cold water suppliers of municipalities and law no. 9/2009 concerning the operations of sewer. The provision of hot water supply is subject to law no. 58/1967, concerning earnings from hot water. The distribution of electricity is subject to law no. 65/2003, which stipulates revenue caps that are decided by the National Energy Authority.

Sector	Official obligations
Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	Price rates are subject to authorisation from The National Energy Authority. Rates are officially published.
Electricity, production	Energy sales are subject to the open market, electricity rate changes are therefore not subject to government approval.
Cold water	The legal limitation on the upper limit of the rate is 0,5% of the real estate value. Rates are officially published in the Ministerial Gazette.
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fiber-optic data system	This is a competitive practice that is supervised by The Post and Telecom Administration.

Customers that have significant effect on the Group's revenues

One customer of Energy sale and production has significant effect on the Group's revenues in the year 2020 due to the purchase of electricity for heavy industry. The Group´s revenues from this customer represents approximately ISK 6.157 million or 12,7% of total revenues. (2019: ISK 5.903 million, or 12.7% of total revenue).

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 22 Amounts are in ISK thousand

5. Segment reporting, contd.

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, the fiber optic operations and Carbfix. 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 and Carbfix is working on development and distibution the of the CarbFix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change.
Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 38.

Business segments - divisions

The year 2020	Utilities	Energy sale and production	Other Operation	Adjust-ments	IFRS 16*	Total
External revenue	30.980.893	14.415.534	3.230.096	0		48.626.523
Inter-segment revenue	5.019.268	10.222.671	8.018.632	(23.260.572)		(0)
Total segment revenue	36.000.161	24.638.205	11.248.728	(23.260.572)		48.626.523
Segment operation expenses	(19.733.603)	(13.582.972)	(9.282.989)	23.260.572	166.665	(19.172.327)
Segment profit EBITDA	16.266.558	11.055.233	1.965.739	0	166.665	29.454.196
Depreciation and amortisation	(5.750.380)	(5.293.309)	(1.892.632)	0	(119.873)	(13.056.194)
Segment results, EBIT	10.516.178	5.761.925	73.107	0	46.792	16.398.002
Financial income and expenses	(3.933.205)	(2.432.032)	(5.135.512)	724.576	(76.174)	(10.852.347)
Share in profit of associated companies	0	0	4.137	0		4.137
Income tax	(935.595)	(691.996)	1.967.101	(262.200)	989	78.298
Profit (loss) for the year	5.647.379	2.637.896	(3.091.167)	462.376	(28.393)	5.628.090

The year 2019	Utilities	Energy sale and production	Other Operation	Adjust-ments	IFRS 16*	Total
External revenue	28.888.456	14.179.522	3.502.147	0		46.570.126
Inter-segment revenue	4.014.286	4.726.898	8.343.194	(17.084.378)		(0)
Total segment revenue	32.902.742	18.906.420	11.845.341	(17.084.378)		46.570.126
Segment operation expenses	(17.941.848)	(8.274.973)	(9.427.386)	17.084.378	161.923	(18.397.906)
Segment profit EBITDA	14.960.894	10.631.448	2.417.955	0	161.923	28.172.219
Depreciation and amortisation	(5.430.576)	(4.946.765)	(1.633.149)	0	(110.805)	(12.121.294)
Segment results, EBIT	9.530.318	5.684.683	784.807	0	51.118	16.050.925
Financial income and expenses	(3.043.492)	(2.630.320)	(1.688.965)	(1.362.459)	(72.006)	(8.797.242)
Share in profit of associated companies	0	0	(544)	0		(544)
Income tax	(732.959)	(602.751)	478.803	512.285	7.854	(336.769)
Profit (loss) for the year	5.753.866	2.451.612	(425.899)	(850.175)	(13.035)	6.916.370

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

Consolidated Financial Statements of Orkuveita Reykjavikur 2020 23 Amounts are in ISK thousand

5. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
Balance sheet (31.12.2020)						
Property, plant and equipment and intangible assets	170.907.579	134.658.796	34.763.987	0		340.330.362
Right-of-use assets					2.590.642	2.590.642
Other assets	17.299.445	9.017.863	180.282.563	(155.356.472)		51.243.399
						394.164.403
Loans and borrowings	63.350.425	59.115.637	171.700.453	(122.466.062)		171.700.453
Lease liabilities					2.640.913	2.640.913
Other liabilities	13.438.843	9.820.903	37.631.920	(29.194.617)		31.697.049
						206.038.415
Investments						
Property, plant and equipment and intangible assets	9.894.685	3.790.152	3.099.391	0		16.784.228
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
						369.884.360
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
						187.584.894
Investments						
Property, plant and equipment and intangible assets	9.959.235	4.867.051	4.548.507	0		19.374.792

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Notes

6. Analysis of geothermal power plant operation

Return analysis of production of electricity and hot water, cf. Article 41, paragraph 5 of law no. 65/2003:

	Electricity 2020	Hot water 2020	Electricity 2019	Hot water 2019
Geothermal power plant				
Revenue	9.978.521	4.181.425	9.745.898	3.972.998
Operating expenses	(2.184.318)	(1.074.388)	(2.260.428)	(985.692)
Depreciation and amortisation	(3.611.269)	(1.639.636)	(3.405.497)	(1.492.114)
Profit before financial expenses	4.182.934	1.467.401	4.079.973	1.495.191
Return on investment	4,2%	4,4%	4,3%	4,8%

The power plants at Hellisheiði and Nesjavellir are mixed production plants, where both hot water and energy are produced.
The cost allocation is based on Orka náttúrunnar and ON Power´s methods, that the National Energy Authority "NEA" has not approved. NEA is obligated to set new cost allocation rules after having disapproved the companies proposal, NEA has not yet carried this out. Until NEA sets new rules for cost allocation, the return of the sectors are reported using Orka náttúrunnar and ON Power's methods.

7. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2020	2019
Salaries	7.289.655	6.531.982
Defined contribution pension expenses	938.688	866.243
Defined benefit pension expenses	(27.574)	73.843
Other salary related expenses	630.105	597.684
Total salaries and salary related expenses	8.830.874	8.069.752

Salaries and salary related expenses are stated in the financial statements as follows:

	2020	2019
Expensed in the income statement	7.750.009	6.871.986
Capitalised on projects	1.080.866	1.197.767
Total salaries and salary related expenses	8.830.874	8.069.752

Number of employees:

	2020	2019
Number of annual working units	612	602

Management's salaries and benefits for the parent company and subsidiaries are specified as follows:

	2020	2019
Salaries to the Board of Directors of the Parent Company	17.149	19.274
Salaries of the CEO of the Parent Company	31.899	31.634
Salaries of four Managing Directors of the Parent Company (3 before 1.10.2019)	105.911	86.220
Salaries to the Board of Directors of four subsidiaries (3 in the year 2019)	12.318	14.915
Salaries of four Managing Directors of subsidiaries (3 in the year 2019)	106.141	80.889
	273.418	232.932

8. Auditors fee

	2020	2019
Audit of financial statements and review of interim financial statements	20.323	19.056
Other services	3.463	1.375
Total auditors fee	23.786	20.431

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Notes

9. Depreciation, amortisation and impairment

	2020	2019
Depreciation, amortisation and impairment is specified as follows:		
Depreciation of property, plant and equipment cf. note 12	12.576.132	11.736.785
Depreciation of Right-of-use assets, cf. Note 14	119.873	110.805
Amortisation of intangible assets, cf. note 13	360.189	273.704
Depreciation, amortisation and impairment expensed in income statement	13.056.194	12.121.294

10. Financial income and expenses

	2020	2019
Financial income and expenses are specified as follows:		
Interest income	313.417	416.293
Interest expense and paid indexation	(4.337.988)	(4.738.400)
Indexation	(2.658.020)	(1.779.693)
Guarantee fee to owners 1)	(646.888)	(676.439)
Total interest expenses	(7.642.896)	(7.194.532)
Fair value changes of embedded derivatives in electricity sales contracts	722.948	(1.362.459)
Fair value changes of assets available for sale	0	5.078
Fair value changes of financial assets and financial liabilities through P/L	879.564	586.648
Fair value changes of hedge contracts	(549.880)	(230.800)
Hedge contracts	(43.742)	(122.306)
Foreign exchange difference	(4.619.877)	(950.877)
Dividends	88.119	55.713
Total of other income (expenses) on financial assets and liabilities	(3.522.869)	(2.019.003)
Total financial income and expenses	(10.852.347)	(8.797.243)

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 Reykjavikur 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 647 million in the year 2020 (2019: ISK 676 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 38. Change in fair value that is recognized in the income statement amounts to ISK 1.053 million income in the year 2020 (2019: expence 1.002 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 1.429 million income in the year 2020 (2019: expence ISK 5 million).

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11. Income tax

The Group's companies are tax liable according with Article 2 of law no. 90/2003 on income tax. The part of the Group's operation concerning operation of cold water supply and sewer is though exempt from income tax.

The parent Company´s tax rate is 37,6%, other taxable subsidiaries have a 20% tax rate.

Income tax recognised in the income statement is specified as follows:

	2020	2019
Current income tax	1.847.570	1.693.071
Change in deferred income tax	(1.925.868)	(1.356.302)
Income tax recognised through P/L	(78.298)	336.769

Reconciliation of effective tax rate:

		2020		2019
Profit before income tax		5.549.792		7.253.139
Income tax according to tax ratio of parent	37,6%	2.086.722	37,6%	2.727.424
Effect of tax rates of subsidiaries	(26,7%)	(1.480.390)	(17,3%)	(1.256.754)
Effect of valuation of impairment of deferred tax losses	0,0%	0	(0,4%)	(26.082)
Non-taxable operation of water supply and sewer	(12,9%)	(716.278)	(14,6%)	(1.059.885)
Effect of different functional currencies in the Group	0,37%	20.677	0,0%	940
Other items	0,20%	10.970	(0,67%)	(48.874)
Effective income tax	(1,4%)	(78.298)	4,6%	336.769

Income tax recognised in other comprehensive income

Deferred tax

Due to income and expenses moved direct to equity	2020	2019
Tax effect of revaluation	0	2.102.110
Deferred tax, total	0	2.102.110

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12. Property, plant and equipment

The year 2020	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	286.821.727	333.939.325	8.588.468	3.698.076	633.047.596
Additions during the year	6.384.782	8.894.595	586.423	219.205	16.085.006
Translation difference	5.829.966	0	0	0	5.829.966
Sold or disposed of	(2.366.948)	21.206	(118.888)	(662.992)	(3.127.622)
Balance at year end	296.669.526	342.855.126	9.056.003	3.254.290	651.834.946
Depreciation					
Balance at year beginning	120.910.890	180.405.224	686.648	2.088.703	304.091.464
Depreciated during the year	6.632.187	5.405.879	152.152	385.914	12.576.132
Translation difference	791.721	0	0	0	791.721
Sold or disposed of	(2.347.628)	3.791	(120.793)	(652.969)	(3.117.600)
Balance at year end	125.987.170	185.814.894	718.007	1.821.647	314.341.717
Carrying amounts					
At 1.1. 2020	165.910.837	153.534.101	7.901.820	1.609.374	328.956.132
At 31.12. 2020	170.682.357	157.040.232	8.337.996	1.432.643	337.493.228

The year 2019	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	260.440.447	305.542.948	8.254.030	3.296.922	577.534.348
Additions during the year	7.892.160	9.945.634	333.211	431.505	18.602.511
Translation difference	4.144.473	0	0	0	4.144.473
Sold or disposed of	0	0	0	(30.352)	(30.352)
Revaluation, increase	14.344.647	18.450.743	1.227	0	32.796.617
Balance at year end	286.821.727	333.939.325	8.588.468	3.698.076	633.047.596
Depreciation					
Balance at year beginning	107.220.489	164.524.931	546.567	1.659.502	273.951.489
Depreciated during the year	6.077.989	5.068.983	139.577	450.236	11.736.785
Translation difference	550.001	0	0	0	550.001
Sold or disposed of	0	0	0	(21.035)	(21.035)
Revaluation, increase	7.062.411	10.811.309	504	0	17.874.224
Balance at year end	120.910.890	180.405.224	686.648	2.088.703	304.091.464
Carrying amounts					
At 1.1. 2019	153.219.958	141.018.017	7.707.463	1.637.421	303.582.858
At 31.12. 2019	165.910.837	153.534.101	7.901.820	1.609.374	328.956.132

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12. Property, plant and equipment, contd.

Revaluation

When revaluating, the relevant asset groups are measured at fair value. The aforementioned revaluation is recognised in a revaluation reserve among equity taken into account effects of deferred income tax as further explained in note 38 d. The revaluation is carried out by experts within the Group.

Revaluation was last conducted according to the following table:

	Date of Revaluation
Production systems	
Hot water	30.9.2019
Cold water	30.9.2019
Electricity	31.12.2018
Distribution systems	
Hot water	30.9.2019
Cold water	30.9.2019
Sewage	30.9.2019
Electricity	30.9.2019
Fiber-optic cable system	31.12.2015

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Group's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within the Group. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems. Revaluation is classified as level 3 of the hierarchy of fair value, further explained in note 32.

Information on revalued assets at year end

	Production system	Distribution system	Total
31.12.2020			
Revalued carrying amount	170.682.357	157.040.232	327.722.589
Thereof effect of revaluation	(49.995.549)	(55.203.793)	(105.199.342)
Carrying amount before effect of revaluation	120.686.808	101.836.439	222.523.247
31.12.2019			
Revalued carrying amount	165.910.837	153.534.101	319.444.939
Thereof effect of revaluation	(51.331.512)	(57.341.666)	(108.673.177)
Carrying amount before effect of revaluation	114.579.326	96.192.436	210.771.762

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12. Property, plant and equipment, contd.

Impairment tests

Impairment tests were performed at the end of September 2020 for distribution systems, production systems and power plants in order to confirm if both carrying amounts of assets and main assets under construction would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the utilities and production systems.

The recoverable amount of each sector was evaluated based on value in use. The value in use was determined by discounting the expected future cash flows at the continued use in each sector. Cash flows were based on the future cash flow of the next five years. In assessing value in use, management make the plan for business development, based on both internal and external information.

The following criteria was used in assessing the value in use:

	Year 2020				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2021-2025	0,0%	1,9%	1,3%	1,6%	0,98%
CAGR w.r.t. to price changes	0,5%	0,7%	0,4%	0,3%	0,0%-6,8%
EBITDA CARG 2021-2025	-1,8%	1,4%	4,7%	4,9%	0,11%
WACC	3,7%	3,7%	4,0%	3,8%	4,35%-7,85%

	Year 2019				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2020-2024	1,3%	1,7%	4,7%	0,9%	1,1%
CAGR w.r.t. to price changes	0,6%	0,7%	0,7%	0,7%	0,0%-6,54%
EBITDA CARG 2020-2024	2,3%	3,1%	6,4%	0,7%	-1,4%
WACC	4,0%	4,0%	4,3%	4,1%	4,22%-7,83%

Impairment for distribution system for Utilities or Power plants is unlikely because of additional value. However the test for electricity in power plants is sensitive to changes in key assumptions. If the required rate of ROCE increased by 0,1 percentage points, and other criteria are kept unchanged the calculated impairment of additional value in electricity for power plants would be ISK 7,1 billion. If the projected EBITDA is 1% lower during the planning period and other terms are unchanged, calculated impairment would be ISK 4,3 billion. In neither case is there any impairment.

Rateable value and insurance value

The rateable value of the Group's assets measured in the rateable value assessment amounted to ISK 32.241 million at year end 2020 (2019: ISK 32.849 million). The fire insurance value of the company's assets amounted to ISK 48.117 million at the same time (2019: ISK 45.023 million). Among those assets are real estates capitalised among production and distribution systems. The insurance value of the Group's assets amounted to ISK 402.885 million at year end 2020 (2019: ISK 397.366 million).

Obligations

The Group has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at year end is estimated at ISK 1.903 million (2019: ISK 2.628 million).

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13. Intangible assets

Intangible assets are specified as follows:

The year 2020	Heating rights	Software	Development cost	Total
Cost				
Balance at year beginning	1.427.031	3.020.288	0	4.447.319
Additions during the year	0	563.838	135.385	699.222
Sold or disposed of	0	(55.440)	0	(55.440)
Balance at end of the year	1.427.031	3.528.686	135.385	5.091.101
Amortisation				
Balance at year beginning	457.768	1.491.451	0	1.949.219
Amortisation during the year	0	360.189	0	360.189
Sold or disposed of	0	(55.440)	0	(55.440)
Balance at end of the year	457.768	1.796.199	0	2.253.968
Carrying amounts				
At 1.1. 2020	969.263	1.528.837	0	2.498.100
At 31.12. 2020	969.263	1.732.486	135.385	2.837.133
The year 2019				
Cost				
Balance at year beginning	1.427.031	2.248.007	0	3.675.038
Additions during the year	0	772.281	0	772.281
Balance at year end	1.427.031	3.020.288	0	4.447.319
Amortisation				
Balance at year beginning	457.768	1.217.747	0	1.675.515
Amortisation during the year	0	273.704	0	273.704
Balance at year end	457.768	1.491.451	0	1.949.219
Carrying amounts				
At 1.1. 2019	969.263	1.030.260	0	1.999.523
At 31.12. 2019	969.263	1.528.837	0	2.498.100

14. Lease agreements

Significant accounting policies are described in note 38t.

The Group rents office space and land. These leases are for long periods of time, but usually with the possibility of renewal at the end of the lease. Some leases include additional lease payments that are based on a change in certain indices. The Group may not enter into sublease agreements for certain leases.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group charges lease payments for these leases on a straight-line basis during the lease term.

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14. Lease agreements, contd.

Changes in right-of-use assets in the year are specified as follows:

	2020	2019
Right-of-use assets		
Right-of-use assets at year beginning	2.488.863	2.571.612
Additions or extended contracts during the year	53.454	9.248
Indexation	168.198	18.808
Depreciation of the year	(119.873)	(110.805)
Right-of-use assets at year-end	2.590.642	2.488.863

Amounts in Profit and Loss Account:		
Right-of-use assets, depreciation	119.873	110.805

Changes in lease liabilities in the year are specified as follows:

	2020	2019
Lease liabilities		
Lease liabilities at year beginning	2.509.752	2.571.612
New lease liabilities or extended contracts during the year	53.454	9.248
Interests	76.174	72.006
Repayment of lease liabilities	(166.665)	(161.923)
Indexation	168.198	18.808
Lease liabilities at year-end	2.640.913	2.509.752

Undiscounted cash flow due to lease payments is as follows:

	Within a year	In 1 to 5 years	After 5 years	Total
Lease payments	167.953	531.358	3.768.464	4.467.775
Interests	(77.212)	(275.009)	(1.474.642)	(1.826.863)
Total	90.741	256.349	2.293.823	2.640.913

Income statement:	2020	2019
Interest expenses:	76.174	72.006
Statement of Cash Flows:		
Interest rate of rent payments (presented in cash flow statement in line "Paid interest expenses")	73.478	17.684
The installment element of the lease payments (presented in a cash flow statement in the line "Payments of lease liabilities")	93.187	144.238

Most of the Group's leasing contracts for real estate include extension permits that the Group may use up to one year before the end of an unenforceable lease period. At the beginning of the lease, the Group assesses whether it is considered likely that it will utilize extensions. If there are significant changes in circumstances that are within the control of the Group, it will reassess whether the extension rights will be used.

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15. Investments in associated companies

	2020		2019	
		Carrying		Carrying
	Share	amount	Share	amount
Íslensk Nýorka ehf.	29,46%	33.235	29,88%	27.378
Netorka hf.	38,41%	42.138	38,41%	40.347
Orkuskólinn REYST hf.	45,00%	6.017	45,00%	6.027
Total		81.389		73.753

The Group's share in the profit of its associated companies amounted to ISK 4.137 thousand in 2020 (2019: loss of ISK 544 thousand).

16. Investments in other companies

Investments in other companies are specified as follows:	Share	2020	2019
Landsnet hf. 1)	6,8%	5.867.000	5.160.587
Other shares in companies		55.680	55.680
Other shares in companies, total		5.922.680	5.216.267

Fair value of financial assets available for sale is based on generally accepted valuation methods performed by independent experts and internal experts. Fair value change of Landsnet hf. amounted to ISK 706 million in 2020 (2019: ISK 1.365 million) and the increase was transferred to a fair value reserve among equity. See further discussion in note 32.

1) According to provisions in the Energy laws no. 65/2003 only current owners of shares in Landsnet are allowed to assign their shares to other owners of Landsnet and are not allowed to sell their shares to other parties.

17. Embedded derivatives in electricity sales contracts

	2020	2019
Fair value of embedded derivatives at the beginning of the year	(6.679.329)	(5.316.869)
Fair value changes during the year	722.948	(1.362.459)
Fair value of embedded derivatives at year-end asset/(liability)	(5.956.381)	(6.679.329)

The allocation of embedded derivatives in electricity sales contracts is specified as follows:

	2020	2019
Non-current embedded derivatives asset/(liability)	(4.907.730)	(5.307.027)
Current embedded derivatives, asset/(liability)	(1.048.651)	(1.372.302)
Total embedded derivatives at year-end	(5.956.381)	(6.679.329)

Further discussion regarding embedded derivatives can be found in note 28 c.

18. Hedge contracts

Financial assets at fair value through profit or loss:	2020	2019
Non-current assets		
Hedge contracts	509.904	229.072
Current assets		
Hedge contracts	45.399	388.451
Non current liabilities		
Hedge contracts	(571.981)	(613.778)
Current liabilities		
Hedge contracts	(846.690)	(317.233)

Hedge contracts are measured by discounted future cash flow and market observable data is used in the price determination.

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19. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

2020	Tax assets	Tax liabilities	Net amount
Deferred tax assets/(liabilities) at the beginning of the year	4.879.759	(14.679.794)	(9.800.035)
Calculated income tax for the year	1.775.858	(1.697.238)	78.620
Current tax liability	19.386	1.828.184	1.847.570
Other changes	0	(114.050)	(114.050)
Deferred tax assets/(liabilities) at end of the year	6.675.003	(14.662.897)	(7.987.895)
2019			
Deferred tax assets/(liabilities) at the beginning of the year	3.819.233	(12.813.107)	(8.993.875)
Calculated income tax for the year	1.048.204	(1.384.973)	(336.769)
Current tax liability	12.322	1.680.749	1.693.071
Tax effect on the revaluation account	0	(2.085.755)	(2.085.755)
Other changes	0	(76.707)	(76.707)
Deferred tax assets/(liabilities) at end of the year	4.879.759	(14.679.794)	(9.800.035)

Deferred tax assets and liabilities are attributable to the following:

	31.12.2020		31.12.2019	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	788.958	(14.809.204)	732.841	(14.849.805)
Embedded derivatives	2.239.599	0	2.511.428	0
Other items	1.954.481	108.290	824.656	81.249
Effect of carry forward taxable loss	1.691.965	38.016	810.835	113.468
Effect of write-down of taxable loss	0	0	0	(24.706)
Deferred tax assets/(liabilities) at year end	6.675.003	(14.662.897)	4.879.759	(14.679.794)

Carry forward taxable loss

Based on current tax law, a carry forwards taxable loss can be used against taxable profit within 10 years from when it was incurred. Carry forwards taxable loss at year end can be used as follows:

	2020	2019
Carry forward taxable loss for the year 2009, usable until year 2019	-	123.530
Carry forward taxable loss for the year 2016, usable until year 2026	-	205.368
Carry forward taxable loss for the year 2017, usable until year 2027	159.548	238.443
Carry forward taxable loss for the year 2018, usable until year 2028	41.429	41.429
Carry forward taxable loss for the year 2019, usable until year 2029	2.059.754	2.115.047
Carry forward taxable loss for the year 2020, usable until year 2030	2.429.258	-
Carry forwards taxable loss at year end	4.689.989	2.723.818
Carry forward taxable loss for the year 2009, write-down	-	123.530
Total write-down of taxable loss	0	123.530

Management has evaluated the utilization of income tax losses and made plans for taxable profit for the next years. Deferred tax assets due to the taxable loss carried forward is recognized to the extent that it is believed to be useful.

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Notes

20. Inventories

	2020	2019
Inventory of materials	1.249.674	1.195.475

The Group's material inventories consist of material for maintenance, renewal and construction of the Group's production and distribution systems. A part of the inventories is defined as safety inventories, i.e. inventories that are necessary to have on hand in case of malfunction or maintenance even though their turnover is low. The value of inventories is estimated regularly. Inventories for renewal and new constructions are accounted for among property, plant and equipment as part of building cost of assets under construction.

21. Receivables

Trade receivables is specified as follows at year end:	2020	2019
Trade receivables, industrial consumers	838.993	730.191
Trade receivables, retail	4.756.092	4.284.565
Trade receivables, total	5.595.085	5.014.756
Allowance for doubtful accounts	(155.258)	(99.749)
	5.439.828	4.915.008
Other current receivables are specified as follows at year end:		
Capital income tax	176.318	172.085
Accrued interest income	61.334	131.247
Receivables from employees	4.307	2.754
Other receivables	162.903	62.892
	404.863	368.978

22. Cash and cash equivalents, deposits and marketable securities

Cash and cash equivalents and deposits at year end are specified as follows:	2020	2019
Bank deposits, available from three to twelve months	6.500.000	2.500.000
Marketable securities	8.366.902	7.333.014
	14.866.902	9.833.014
Bank balances available within three months	15.820.051	8.657.025

23. Equity

Equity ratio of the Group at year end 2020 is 47,7% (2019: 49,3%). Return on equity was positive by 3,1% in the year 2020 (2019: positive by 4,1%).

Revaluation reserve

Revaluation reserve comprises of increase in the value of properties, plant and equipment after taking tax effects into account. Depreciation of the revaluated price are expensed in the income statement and transferred at the same time from the revaluation reserve account to retained earnings.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of financial statements of operations with other functional currency than ISK.

Fair value reserve

Fair value reserve comprises change of the value of assets categorised as available for sale after taking tax effects into account.

Equity reserve

According to the Financial Statements Act no. 3/2006, share in profit of subsidiaries and associates, which exceeds the dividends received or the dividend decided of retained earnings, is accounted for on a restricted reserve account among equity.

Development reserve

According to the Financial Statement Act no. 3/2006, companies that capitalize developmental cost should account for the same amount on a restricted reserve account among equity.

Retained earnings

Dividend in the amount of ISK 3.000 million was paid to the owners of the parent Company in the year 2020. (2019: ISK 1.500 million).

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24. 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 28. Loans and borrowings are specified as follows:

Non-current liabilities	31.12.2020	31.12.2019
Bank loans	90.611.094	94.785.840
Subordinated loan from owners of the Company	3.550.949	10.489.126
Bond issuance	77.538.410	48.744.147
	171.700.453	154.019.113
Current portion on non-current liabilities	(19.349.528)	(15.064.107)
	152.350.925	138.955.006
Current liabilities		
Current portion on non-current liabilities	19.349.528	15.064.107
Total interest bearing loans and borrowings	171.700.453	154.019.113

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		31.12.2020		31.12.2019	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	5.10.2027	0,00%	8.961.014	0,00%	9.255.023
Liabilities in EUR	19.12.2027	0,77%	20.569.184	0,68%	20.397.149
Liabilities in USD	19.11.2033	2,04%	33.949.380	3,20%	31.642.746
Liabilities in JPY	10.5.2027	0,01%	3.107.268	0,01%	3.801.448
Liabilities in GBP	26.2.2024	1,13%	1.589.628	1,80%	1.825.255
Liabilities in SEK	5.10.2027	0,06%	2.611.626	0,04%	2.613.969
			70.788.101		69.535.590
Liabilities in Icelandic kronas:					
Indexed	18.2.2055	2,76%	84.547.786	3,51%	71.488.523
Non-indexed	5.4.2035	2,96%	16.364.565	4,93%	12.995.000
			100.912.352		84.483.523
Total interest-bearing loans and borrowings			171.700.453		154.019.113

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

31.12.2020

The year 2021	19.349.528
The year 2022	14.927.515
The year 2023	19.046.846
The year 2024	14.967.994
The year 2025	14.734.478
Later	88.674.091
Total non-current liabilities, including next year's repayment	171.700.453

31.12.2019

The year 2020	15.064.107
The year 2021	15.492.569
The year 2022	14.770.524
The year 2023	15.553.737
The year 2024	14.507.819
Later	78.630.358
Total non-current liabilities, including next year's repayment	154.019.113

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24. Loans and borrowings, contd.,

Changes in loans and borrowings in the year are specified as follows:	2020	2019
Movements with payment effects		
Total interest bearing loans and borrowings 1. January	154.019.113	151.283.870
New borrowings	29.965.498	16.966.850
Repayment of borrowings	(22.225.138)	(19.145.055)
Movements without payment effects		
Currency fluctuation	7.235.628	2.955.842
Indexation	2.705.352	1.957.605
New borrowings	0	0
Total interest bearing loans and borrowings 31. December	171.700.453	154.019.113

Guarantees and pledges

The owners of the parent company are responsible, pro rata, for 48,7% of all loans and borrowings. The Group has not pledged its assets as guarantee for its liabilities.

Covenants

Loans for the amount of ISK 81.617 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 (31.12.2019: ISK 64.490 million). Management regularly evaluate the covenants and in their view there is not risk of them being breached. At the end of the year the Group measured up to all financial covenants of loan agreements.

25. Retirement benefit obligation

The Group has retirement benefit obligation due to benefits of current and former employees in pension benefit plans.

The Group's accrued retirement benefit obligation amounted to ISK 692 million at year end 2020, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2019: ISK 753 million). The Group updates the obligation according to an assessment from an actuary each year when that assessment is available. Premises for life expectancy are in accordance with provisions of Regulation no. 391/1998 on obligatory insurance of pension benefits and operation of pension funds. The estimated increase in the obligation in the year is based on general increase in salaries taken into account interests. During the year, adjustments were made to the obligation due to employees moving between companies. As a result the retirement benefit obligation decreased. The decrease is recognized in the income statement among salaries and salary related expenses. The part of the obligation that is estimated to be payable in the year 2021 is recognised among current liabilities.

	2020	2019
Retirement benefit obligation at the beginning of the year	753.084	710.104
Contribution due to pension payments during the year	(33.483)	(30.863)
Decrease in the pension fund obligation during the year	(27.574)	73.843
Retirement benefit obligation at year end	692.027	753.084
Non-current component of retirement benefit obligation	659.027	723.084
Current component of retirement benefit obligation	33.000	30.000
Retirement benefit obligation at year end	692.027	753.084

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26. Current liabilities

Other current liabilities is specified as follows:	2020	2019
Unpaid taxes	428.076	311.208
Unpaid salaries and salary related items	1.750.339	1.436.757
Accrued interest expenses	751.557	746.025
Current component of retirement benefit obligation	33.000	30.000
Derivative contracts in default, see note 37	740.000	740.000
Other liabilities	85.663	9.561
Total current liabilities	3.788.635	3.273.550

27. Risk management and financial instruments

The risk policy was updated and approved by the Board of Directors of OR and owners of the parent company at the end of year 2020. The Board´s policy is that in all of the Group´s operations, risks are to be considered and by that implementing efficient decision making and governance. The risk policy explains the overview and main targets of the Board in this matter. The risk policy also defines the main risk factors, measurement indicators, objectives and risk limits in the daily risk management. One of the main foundation in the risk policy is to define the risk factors which are of relevance, measure their impact and define acceptable limits when controlling them.

Decision making and control on the execution of the risk management is in the hands of a risk council. The risk council consists of the CEO, CFO, Head of risk management, Head of treasury, planning and analysis and Deputy to the CFO. It overviews for instance:
• that suitable methods are used to recognise and measure risk
• that risk monitoring systems are in place and efficient
• that the risk policy of the Board is complied with in the operations of the Group
The Risk management department oversees and controls risk. The objective of the department is to monitor, analyse and control the financial risks of the Group.
Financial risk is divided into:
• Market risk, further discussed in note 28
• Liquidity risk, further discussed in note 29
• Credit risk, further discussed in note 30
• Operational risk, further discussed in note 31

28. Market risk

Market risk is the risk that changes in the exchange rate of foreign currencies, aluminium price, interests and other price changes will affect the Group’s income or the value of its financial instruments. With regards to the current Balance Sheet, market risk is mainly due to changes in interest, exchange rates, CPI and aluminium price but risk regarding portfolio assets such as shares in companies and bonds is minimal. The risk that weighs the most in the Group is divided into:

a. Currency risk due to assets and liabilities in the balance sheet and cash flow in foreign currencies.
b. Interest rate risk due to loans and contracts made by the Group
c. Risk due to changes in the world market price of aluminium.

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28. Market risk, contd.

a. *Currency risk*

Currency risk is the risk of changes in exchange rates having a negative effect on the Group's income. Currency risk is measured in the difference between assets and liabilities in each currency where taken into consideration all assets, liabilities and derivatives. The Risk Management department is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations. Limits on the minimum/maximum currency imbalance in cash flows for the next 5 financial years have been approved.

The Group is exposed to currency risk on sales, purchases and borrowings. Main currency exposures are in Euro (EUR), Swiss Francs (CHF), United States dollar (USD) and Icelandic kronas (ISK).

Approx. 41% of the Group's interest bearing loans are in foreign currencies. The Group has entered into long term electricity sales contracts in foreign currency (USD). The expected future revenues from these contracts on the accounting date amount to approx. ISK 67.430 million (2019: ISK 71.489 million). That amount is based on the future price of aluminium on LME (London Metal Exchange), the USD exchange rate and longterm expectations of price development of aluminium according to, an independent evaluation party CRU, as available on the accounting date.

	2020	2019	31.12.2020	31.12.2019
	Average exchange rate		Exchange rate at year end	
CHF	144,330	123,460	144,380	125,140
EUR	154,520	137,300	156,100	135,830
USD	135,270	122,650	127,210	121,100
JPY	1,270	1,126	1,234	1,116
GBP	173,590	156,490	173,550	159,420
SEK	14,750	12,968	15,569	12,994
CAD	100,950	105,710	99,910	109,590
TWI	200,920	180,974	200,456	179,696

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28. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk

The Group's exposure to currency risk is specified as follows:

31.12.2020	**CHF**	**EUR**	**USD**	**JPY**	**SEK**	**ISK**	**Other currencies**	**Total**
Loans and borrowings	(8.961.014)	(20.569.184)	(33.949.380)	(3.107.268)	(2.611.626)		(1.589.628)	(70.788.101)
Trade receivables (accounts payables)	0	217	196.989	0	(1.606)	113.460	(21.608)	287.452
Bank deposits	260.965	809.126	4.411.361	25.911	113.225	272.975	228.289	6.121.853
Embedded derivatives			(5.956.381)					(5.956.381)
Hedge contracts		(34.130)	(829.238)					(863.369)
Receivables/(payables) within the Group*		(126)	(2.066.939)			(838.481)		(2.905.546)
Loans and borrowings to related parties*			45.817.850					45.817.850
Total risk through P/L	(8.700.049)	(19.794.098)	7.624.262	(3.081.357)	(2.500.008)	(452.046)	(1.382.947)	(28.286.243)
Subsidiaries equity in USD**			54.907.420					54.907.420
Investments in other companies			5.867.000					5.867.000
Total risk through P/L and in equity	(8.700.049)	(19.794.098)	68.398.682	(3.081.357)	(2.500.008)	(452.046)	(1.382.947)	32.488.177

(*) The functional currency of ON Power is in USD and exchange gains/losses from assets and liabilities in ISK are accounted for through P/L. In addition the exchange gains/losses for foreign assets and liabilities of the parent company towards it´s subsidiary, ON Power, are accounted through P/L .

(**) The functional currency of ON Power is in USD and translational differences due to changes in the USD/ISK exchange rate is accounted for in equity.

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28. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk, contd.

31.12.2019	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
Loans and borrowings	(9.255.023)	(20.397.149)	(31.642.746)	(3.801.448)	(2.613.969)		(1.825.255)	(69.535.590)
Trade receivables (accounts payables)	1	(196.658)	451.163	(0)	713	(202.639)	(7.400)	45.181
Bank deposits	274.804	1.224.839	446.418	292.357	152.223	151.394	380.942	2.922.977
Embedded derivatives			(6.679.329)					(6.679.329)
Hedge contracts		(109.304)	(204.184)					(313.489)
Receivables/(payables) within the group*		(105.950)	(2.939.110)			1.770.490		(1.274.570)
Loans and borrowings to related parties*			44.122.941					44.122.941
Total risk through P/L	(8.980.218)	(19.584.221)	3.555.153	(3.509.092)	(2.461.033)	1.719.246	(1.451.713)	(30.711.879)
Subsidiaries equity in USD**			51.029.008					51.029.008
Investments in other companies			5.160.587					5.160.587
Total risk through P/L and in equity	(8.980.218)	(19.584.221)	59.744.748	(3.509.092)	(2.461.033)	1.719.246	(1.451.713)	25.477.716

Sensitivity analysis
Appreciation by 10% of the Icelandic krona against the following currencies at year-end would have increased (decreased) equity and profit or (loss) by the amounts shown below, taking into account tax effects. This analysis assumes that all other variables, in particular interest rates and aluminium prices, remain constant. Depreciation by 10% of the Icelandic krona against the above currencies would have had the equivalent, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
				Profit or (loss)				
The year 2020	870.005	1.979.410	(762.426)	308.136	250.001	45.205	138.295	2.828.624
The year 2019	898.022	1.958.422	(355.515)	350.909	246.103	(171.925)	145.171	3.071.188
				Equity				
The year 2020	870.005	1.979.410	(6.839.868)	308.136	250.001	45.205	138.295	(3.248.818)
The year 2019	898.022	1.958.422	(5.974.475)	350.909	246.103	(171.925)	145.171	(2.547.772)

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28. Market risk, contd.

b. *Interest rate risk*

Interest rate risk is the risk of changes in interest rates having a negative effect on the Group's income. The Group is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Group´s liabilities both have fixed and variable interest rates, majority being subject to fixed interest rates. The risk management department monitors that interest rate risk is within preset limits and has permission to control interest rate risk with derivatives for the next 5 financial years within approved limits. On the accounting date hedges covered 82% of loans, taking into account hedges, with fixed interest rates 1 year ahead.

Interest-bearing financial assets and liabilities are specified as follows:

	31.12.2020	31.12.2019
Fixed rate instruments		
Financial liabilities	(100.944.357)	(83.755.223)
Variable rate instruments		
Financial liabilities	(70.756.095)	(70.263.891)
Financial instruments at fair value		
Marketable securities	8.366.902	7.333.014
Hedge contracts	(863.369)	(313.489)
	7.503.534	7.019.526

The following table shows the calculated effect of changes in interest on one year cash flows and on the value of financial instruments measured at fair value, taken into account the effect of taxes. The analysis was done in the same way for the year 2019.

Sensitivity analysis on interest	**Cash flow sensitivity analysis**		**Fair value sensitivity analysis**	
31.12.2020	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	144.689	(152.710)
Investments in other companies	0	0	(1.418.445)	2.881.957
Hedge contracts	57.369	(57.369)	35.582	27.176
Interest bearing liabilities	(246.943)	246.943	0	0
	(189.574)	189.574	(1.238.174)	2.756.423
31.12.2019	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	155.587	(163.786)
Investments in other companies	0	0	(1.072.618)	1.898.285
Hedge contracts	86.143	(86.143)	262.074	(271.255)
Interest bearing liabilities	(251.305)	251.305	0	0
	(165.162)	165.162	(654.957)	1.463.244

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28. Market risk, contd.

c. *Aluminium risk*

Aluminium risk is the risk that changes in the price of aluminium has a negative impact on the income of the Group.

Two electricity sales contracts are in place at the accounting date. One is with Norðurál in regards of the aluminium plant at Grundartangi and Norðurál have also made an electricity sales contract due to sale of electricity to a pending aluminium plant in Helguvík, where delivery of electricity has begun partly with delivery to Grundartangi. These electricity sales contracts are denominated in USD and the price of the electricity is connected to the market price of aluminium. Income of electricity contracts that is effected by price of aluminium is 12,7% of total revenue in the reporting year 2020 (2019: 12,7%).

To reduce risk due to aluminium prices the Group has entered into derivative contracts to reduce the fluctuation of income affected by aluminium prices. The risk management department has permission to hedge this risk within approved limits for the nest 5 financial years. At the accounting date hedges amounted to 60% of expected income affected by aluminium price for the next 12 months (31.12 2019: 52%).

Embedded derivatives in electricity sales contracts

The aforementioned electricity sales contracts include embedded derivatives as income thereon is subject to changes in the future world market price of aluminium. In accordance with provisions of International standards on financial instruments, the fair value of embedded derivatives for Grundartangi has been measured and recognised in the financial statements and partly for the contracts with Helguvík.

As the market value of the embedded derivatives is not available their fair value has been measured with generally accepted evaluation methods. The expected net present value of the cash flow of a contract on the accounting date has been measured, based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and expectations of price development of aluminium for the next 25 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date. From the expected net present value of cash flow of the contract on the accounting date the expected net present value based on premises on aluminium price on the initial date of the contract is deducted. The difference is the fair value of the derivative. The valuation is based on the premises that the derivative has no value at the initial date of the contract.

Embedded derivatives of the electricity sales contracts recognised in the financial statements are capitalised in the balance sheet at fair value at the accounting date and fair value changes during the year are recognised in the income statement among income on financial assets and liabilities.

28. Market risk, contd.

c. *Aluminium risk, contd.*

In the following table shows the calculated effect on financial instruments measured at fair value due to change in aluminium price, taking tax effect into account.

Sensitivity analysis on the price of aluminium

31.12.2020	**Sensitivity of Fair value**	
	10% decrease	**10% increase**
Embedded derivatives	(3.382.919)	3.382.919
Aluminium hedges	309.029	(585.965)
Total	(3.073.890)	2.796.954

31.12.2019	**Sensitivity of Fair value**	
	10% decrease	**10% increase**
Embedded derivatives	(3.925.777)	3.925.777
Aluminium hedges	206.704	(203.968)
Total	(3.719.073)	3.721.809

d. *Other market risk*

Other market risk such as interest spread and risk in shares in other companies is limited as investments in such securities is an insubstantial part of the Group's operation with the exception of liquity management. The value of the financial assets tied up in funds or in asset management is subject to changes in the market, e.g. due to price changes in the bond- and equity markets. For further information, see note 29.

29. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Group's cash and cash equivalents at end of the year amounted to ISK 15.820 million and deposits available in three to twelve months amounting to ISK 6.500 million as well as marketable securities amounting to ISK 8.367 million. Therefore the Group owned ISK 30.687 million in bank deposits at year end 2020. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 11.776 million. The Group had thus in total ensured capital at year-end to the amount of approx. ISK 42.463 million. The corresponding amount at year end 2019 amounted to ISK 28.290 million.

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29. Liquidity risk, contd.

Contractual payments due to financial instruments, including estimated interest payments, are specified as follows:

31.12.2020

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Trade receivables	5.439.828	5.439.828	5.439.828	0	0	0
Other receivables	404.863	404.863	404.863	0	0	0
Deposits	6.500.000	6.500.000	6.500.000	0	0	0
Marketable securities	8.366.902	8.366.902	8.366.902	0	0	0
Cash and cash equivalents	15.820.051	15.820.051	15.820.051	0	0	0
Interest-bearing liabilities	(171.700.453)	(204.856.007)	(22.613.652)	(17.798.455)	(55.995.854)	(108.448.045)
Accounts payable	(2.822.579)	(2.822.579)	(2.822.579)	0	0	0
Other liabilities	(3.788.635)	(3.788.635)	(3.788.635)	0	0	0
	(141.780.023)	(174.935.577)	7.306.778	(17.798.455)	(55.995.854)	(108.448.045)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivatives	(5.956.381)	67.430.057	7.055.996	7.187.410	22.620.445	30.566.207
Hedge contracts	(863.369)	(1.409.052)	(835.698)	(547.501)	(25.854)	0
	(6.819.750)	66.021.005	6.220.298	6.639.909	22.594.591	30.566.207

31.12.2019

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Trade receivables	4.915.008	4.915.008	4.915.008	0	0	0
Other receivables	368.978	368.978	368.978	0	0	0
Deposits	2.500.000	2.500.000	2.500.000	0	0	
Marketable securities	7.333.014	7.333.014	7.333.014	0	0	0
Cash and cash equivalents	8.657.025	8.657.025	8.657.025	0	0	0
Interest-bearing liabilities	(154.019.113)	(189.602.397)	(21.567.633)	(18.900.312)	(53.088.328)	(96.046.124)
Accounts payable	(2.926.455)	(2.926.455)	(2.926.455)	0	0	0
Other liabilities	(3.273.550)	(3.273.550)	(3.273.550)	0	0	0
	(136.445.093)	(172.028.377)	(3.993.612)	(18.900.312)	(53.088.328)	(96.046.124)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivatives	(6.679.329)	71.488.870	6.174.299	6.432.786	21.097.067	37.784.717
Hedge contracts	(313.489)	(53.800)	181.726	(154.582)	(80.944)	0
	(6.992.817)	71.435.070	6.356.026	6.278.204	21.016.124	37.784.717

If non-current loans are refinanced in order to prolong the loan terms, it can be assumed that the distribution of the repayments will be different from the above.

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30. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly due to whole sale electricity contracts and derivatives that the Group has entered into for hedging purposes. Possible losses due to unpaid receivables are insubstantial and have limited effect on the Group's return. The Group disregards the financing factors of receivables that are expected to be collected within a year according to authorization in IFRS 15.

When entering into contracts it shall be insured, as possible, that the counterparty is trustworthy and settlement with large counterparties shall be looked into regularly as well as their credit rating.

The carrying amount of financial assets represents the maximum credit exposure, which is specified as follows:

	31.12.2020	31.12.2019
Trade receivables	5.439.828	4.915.008
Other current receivables	404.863	368.978
Hedge contracts	555.303	617.522
Deposits	6.500.000	2.500.000
Marketable securities	8.366.902	7.333.014
Cash and cash equivalents	15.820.051	8.657.025
Total	37.086.946	24.391.547

Financial assets as stated above are categorised at amortised cost or at fair value throught P/L. Their categorisation can be seen in note 33.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

Trade receivables, industrial consumers	838.993	730.191
Trade receivable, retail	4.600.835	4.184.817
Total	5.439.828	4.915.008

Impairment of trade receivables

The year 2020	Gross balance	Impairment	Book value
Not past due receivables	5.216.756	72.019	5.144.737
Past due, 1 to 30 days	215.463	5.640	209.823
Past due, 31 to 90 days	50.471	7.952	42.519
Past due, 91 days and older	112.396	69.647	42.749
Total	5.595.085	155.258	5.439.828

The year 2019	Gross balance	Impairment	Book value
Not past due receivables	4.579.258	65.388	4.513.870
Past due, 1 to 30 days	241.703	4.911	236.792
Past due, 31 to 90 days	95.264	5.572	89.692
Past due, 91 days and older	98.531	23.877	74.653
Total	5.014.756	99.749	4.915.008

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30. Credit risk, contd.

Changes in impairment of accounts receivables is specified as follows:	2020	2019
Balance at year beginning	99.749	125.264
Receivables written off	66.194	55.162
Impairment	(10.685)	(80.677)
Balance at year end	155.258	99.749

Allowance due to receivables is valuated at each reporting date by management. Collectability is valuated both in general using historic evidence and economic conditions and also specifically for receivables that are in default. Allowance is only deemed necessary for trade receivables.

Receivables due to sewage and cold water have statutory lien in properties and therefore allowance is not considered for those claims.

The Customer Services department governs the collection of receivables and supplies customers with information regarding claims. Collection is done in a well defined process where among other things, consistency in procedures is maintained as much as possible.

Impairment of trade receivables is among other operating expenses in P/L.

31. Operational risk

Operational risk is the risk of negative impact on income as the result of natural disasters, weather, sabotage, terrorism, riots, war, poisoning, pollution, breakdowns, fires, accidents, inadequate information systems, administrative error, inadequate controls, prosecutions, fraud and human error. The risk management department assesses operational risk and monitors known operational risks of the Group and measures on a regular basis, if possible.

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32. Fair value

Comparison of fair value versus carrying amounts

The carrying amounts of financial assets and financial liabilities is equal to their fair value with the exception that interest bearing loans are stated at amortised cost. The fair values of interest bearing liabilities, together with the carrying amounts are specified as follows:

	31.12.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	171.700.453	183.772.703	154.019.113	160.699.542

The fair value of interest bearing liabilities is calculated based on present value of future principal and interest cash flows, discounted at the interest rate plus appropriate interest rate risk premium at the reporting date. The fair value of interest bearing liabilities is defined at Level 2.

Interest rates used for determining fair value

Where applicable, the interest yield curve at the reporting date is used in discounting estimated cash flow. The interests are specified as follows:

	31.12.2020	31.12.2019
Embedded derivatives in electr. sales contr.	9,58% to 10,72%	6,84% to 7,21%
Hedge contracts	-0,6% to 0,2%	-0,4% to 1,9%
Interest bearing liabilities	0,45% to 3,32%	1,23% to 6,01%

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.

31.12.2020	Level 1	Level 2	Level 3	Total
Shares in companies	0	0	5.922.680	5.922.680
Embedded derivatives in sales contracts	0	0	(5.956.381)	(5.956.381)
Hedge contracts	0	(863.369)	0	(863.369)
Marketable securities	8.366.902	0	0	8.366.902
	8.366.902	(863.369)	(33.701)	7.469.833
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

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32. Fair value, contd.

Changes in assets and liabilities defined at level 3 is specifed as follows:	2020	2019
Balance at year beginning	(1.463.062)	(1.457.854)
Valuation changes	1.429.361	(5.207)
Balance at year end	(33.701)	(1.463.062)

Embedded derivatives in electric sales contracts that have more than ten years duration is classified under level 3 due to the fact that the forward market for aluminium only reaches maximum of ten years.

Fair value measurement

A part of the Group´s financial assets and financial liabilities are measured at fair value. Fair value of these assets and liabilities are determined by market data or price in recent transactions if that is available. Otherwise, accepted valuation methods are used. Further information on fair value calculations can be found in the discussion of the relevant assets and liabilities in notes 16, 17 and 18.

33. Overview of financial instruments

Financial assets and financial liabilities are specified in the following financial groups:

	31.12.2020			31.12.2019		
	Amortised cost	Financial asset/ financial liability at fair value through P/L	Financial asset/ financial liability at fair value through OCI	Amortised cost	Financial asset/ financial liability at fair value through P/L	Financial asset/ financial liability at fair value through OCI
Shares in other companies			5.922.680			5.216.267
Embedd. contr.		(5.956.381)			(6.679.329)	
Hedge contr.		555.303			617.522	
Trade receivabl.	5.439.828			4.915.008		
Other receivabl.	404.863			368.978		
Prepaid exp.	227.706			184.464		
Bank deposits and marketable securities	6.500.000	8.366.902		2.500.000	7.333.014	
Cash	15.820.051			8.657.025		
Interest-bearing liabilities	(171.700.453)			(154.019.113)		
Hedge contr.		(1.418.671)			(931.011)	
Account payabl.	(2.822.579)			(2.926.455)		
Deferred rev.	(541.288)			(149.735)		
Other current liabilities	(3.788.635)			(3.273.550)		
	(150.460.507)	1.547.153	5.922.680	(143.743.378)	340.197	5.216.267

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

Sale to related parties:	**2020**	**2019**
Reykjavik City	2.008.642	2.224.274
Institutions and companies controlled by Reykjavik City	660.075	594.091
Associates	0	170
	2.668.717	2.818.535
Purchases from related parties:		
Reykjavik City	87.808	66.682
Institutions and companies controlled by Reykjavik City	44.537	11.471
Associates	65.170	58.230
	197.516	136.383
Receivables for related parties:		
Reykjavik City	167.785	184.011
Institutions and companies controlled by Reykjavik City	38.605	65.356
	206.389	249.366
Payables for related parties:		
Reykjavik City	11.105	168.214
Institutions and companies controlled by Reykjavik City	0	771
Associates	6.994	7.000
	18.099	175.985

Interest bearing loans from owners of the parent Company:		
Reykjavik City	3.321.522	9.811.423
Akranes town	196.296	579.839
Borgarbyggð, municipality	33.130	97.864
	3.550.949	10.489.126
Interest expense on loans from owners of the parent Company:		
Reykjavik City	930.850	1.029.792
Akranes town	53.847	60.803
Borgarbyggð, municipality	9.297	10.262
	993.993	1.100.858

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 10. Management´s salaries and benefits are listed in note 7.

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35. Group entities

Subsidiaries	Main operation	Share 31.12.2020	Share 31.12.2019
Gagnaveita Reykjavíkur ehf.	Data transfer	100,0%	100,0%
OR Eignir ohf.	Holding company	100,0%	100,0%
Veitur ohf.	Distribution of electricity and hot water	100,0%	100,0%
Orka náttúrunnar ohf.	Sale of electricity	100,0%	100,0%
ON Power ohf.	Sale of electricity	100,0%	100,0%
OR vatns- og fráveita sf.	Cold water and sewage	100,0%	100,0%
Reykjavík Energy Invest ehf.	Investments	0%	100,0%
Úlfljótsvatn frítímabyggð ehf.	Preparation company	0%	100,0%
Carbfix ohf.	Consulting, researches and innovation	100,0%	100,0%

36. Statement of cash flows

Working capital from operation is specified as follows:	2020	2019
Profit for the year	5.628.090	6.916.370
Operating items that do not affect cash flow:		
Depreciation	13.056.194	12.121.294
Profit from sale of assets	(6.978)	(396)
Profit from sale of investments in other companies	0	(5.078)
Share in profit (loss) of associated companies	(4.137)	544
Pension liability change	(61.057)	42.980
Currency fluctuation and indexation	7.542.116	2.826.334
Embedded derivatives in electricity contracts	(451.119)	850.175
Deferred tax liability	(2.221.748)	(222.486)
Hedge contracts	(3.567)	29.395
Fair value changes	(879.564)	(586.648)
Effects of currency fluctuation on cash and cash equivalents	(149.367)	(199.140)
Other items	(91.460)	(89.665)
Working capital from operation	22.357.403	21.683.679

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37. 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 favour of Glitnir HoldCo ehf. and judged Orkuveita Reykjavíkur to pay Glitnir HoldCo ISK 747 million plus interests. As at 31.12.2020, the amount with penalty interest is ISK 3.238 million.

It is the opinion of the management that there is not a reason to change the precautionary entry in question. The argrument being that the final ruling has not been cast. The court does not seem to have considered 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.

Repair at headquarters

At the end of August 2015, severe water damage occurred at the company's headquarters on Bæjarháls 1. From the beginning, the actions of OR's management has been aimed at creating adequate working conditions for employees. Experts have been consulted in all main decisions. Attempts have also been made to find the most sensible ways to remedy and investigate what caused the damage. In 2017, the building was closed and operations relocated. It was decided to go into a detailed options analysis and look at the possibilities that were in the situation. The result was to remove the defective walls of the house, repair it and rebuild the walls. OR is working with Hornsteinar arkitektar and Verkís on the project. A tender for work on the reconstruction has now begun, but price offers have not been opened.

Water damage at Vatns- og fráveita

A water main was rubted on 21 January 2021 during Vatns- og fráveita's repair by Suðurgata in Reykjavík. The rubtion resulted in a great flood of water streaming into the buildings of the University of Iceland. The damage has been reported to the insurance companies of Vatns- og fráveita, consultants and contractors. A damage assessment has not been carried out or an assessment of liability. Vatns- og fráveita has a free liability insurance that covers liability that falls on the company. The terms of that insurance prescribe about ISK 5 million deductible and 50% of the amount of damage thereafter. The ceiling of the insurance is ISK 300 million.

Litigation and claims

Gagnaveita Reykjavíkur submitted a claim on March 5th 2019 to Síminn hf. demanding compensation for damage allegedly suffered as a result of violation of the Media Act, which was the subject of Decision published by the Post and Telecom Administration (PTA) on July 3th 2018. The claim amounts to ISK 1,3 billion for loss of income, accrued cost and interest. A formal response was requested from Síminn. On March 19th, 2019 a response came from Síminn where they rejected the claim entirely. Síminn hf. took legal action against the Post and Telecom Administration, Gagnaveita Reykjavíkur hf., Sýn hf. and Míla ehf. in respect of the Decision of the Administration regarding the alleged violation. The ruling of the District Court was announced on 1 July 2020, where the PTA decision was upheld, albeit with some changes in the criteria. The case was appealed to the National Court by Síminn hf., PTA and Sýn hf., the date of proceedings has not been decided.

No entries have been made regarding this claim in the company's annual financial report for the year 2020.

Covid-19

The COVID-19 epidemic that swept through 2020 has affected the economy of Iceland and the world. The epidemic has had an insignificant effect on the company's operations. Its cash position is strong at the moment and the company is well operational and can handle shocks for the foreseeable future.

The company has not received any public subsidies or used other government measures for COVID-19. No loan terms have been renegotiated due to the epidemic. Its impact on the company's financial instruments, impairment of assets and the fair value of assets and liabilities do not threaten the company's operations or finances for the foreseeable future.

38. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a. *Basis of consolidation*

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are entered in the Group's financial statements by using the equity method.
Associated companies are reported at original cost, including business cost. After the original transaction the share of the Company is reported until significant influence ceases or joint control is concluded.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. *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 currencies than the Icelandic krona

Assets and debts in the operations of a company of the consolidated financial statements that has USD as its functional currency are calculated into Icelandic kronas at the rate of the reporting date. Income and expenses of this companies operation is calculated into Icelandic kronas at the average exchange rate of the year. 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.

c. *Financial instruments*

i) Non-derivative financial assets

Loans, receivables and cash in bank are recognised when received. All other financial instruments are recognised in the financial statements when the Company becomes a party of contractual provisions of the relevant financial instruments.

38. Significant accounting policies, contd.

c. *Financial instruments, contd.*

i) Non-derivative financial assets, contd.

Financial assets are eliminated from the financial statements if the Company's contractual right to cash flow due to the financial asset expires or if the Group transfers the assets to another party without retaining control or nearly all risk and gain inherent with their ownership. Any interest in transferred financial assets that is created or retained by the group is recognized as a separate asset or liability.

Non-derivative financial instruments comprise of; financial assets at fair value throught OCI, financial assets at fair value through P/L and financial assets at amortised cost.

Financial assets at fair value through OCI

The Group's investments in equity securities are classified as financial assets at fair value throught OCI. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses for monetary items are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Fair value changes recognised under equity are derecognised when the financial asset at fair value through OCI is derecognised.

Financial assets at fair value through profit or loss

A Financial asset is classified at fair value through profit or loss if it is current asset or if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if purchase and sale decisions are based on their fair value in accordance with the Company´s risk policy or investment plan. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Direct transaction cost is recognised in the income statement as it is incurred.

Financial assets af amortised cost

Financial assets at amortised cost are financial assets with certain or determinable payments and are not listed in active markets. Such assets are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial assets at amortised cost are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets at amortised cost comprise of receivables and other current assets.

Cash and cash equivalents comprise cash balances and deposits available within three months.

ii) Non-derivative financial liabilities

Financial liabilities are eliminated from the financial statements when the contractual agreements of the instrument are no longer valid.

The Group classifies non-derivative financial liabilities as financial liabilities at amortised cost. Such liabilities are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

Other non-derivative financial liabilities comprise of borrowings, accounts payable and other current liabilities.

iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value in the balance sheet and fair value changes are recognised in the income statement.

38. Significant accounting policies, contd.

c. *Financial instruments, contd.*

iv) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

d. *Property, plant and equipment*

i) Recognition and measurement

Items of property, plant and equipment, except distribution and production systems, are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Interest expenses on loans used to finance cost of buildings in construction are capitalised over the construction period. Interest is not calculated on preparation cost. After the assets have been taken into use interest expenses are expensed in the income statement.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated over their useful lives.

The Group's distribution- and production systems, are stated at revalued carrying amount in the balance sheet, which is their fair value at the revaluation date less additional depreciation from that date. Revaluation of those assets is made on a regular basis. Value surplus due to the revaluation is recognised in a revaluation reserve among equity after taking the effect on deferred tax liability into consideration. Depreciation on the revalued carrying amount is recognised in the income statement. Upon sale or discontinuance of the asset the part of the revaluation reserve belonging to the asset is transferred from the revaluation reserve to retained earnings after taking tax effect into consideration. No recognition takes place from the revaluation reserve to retained earning unless the relevant asset is sold or discontinued.

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Company's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within and outside of the Company. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the Construction cost index. This is taken into consideration when revaluating these systems.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. All other cost is expensed in the income statement when incurred.

38. Significant accounting policies, contd.

d. *Property, plant and equipment, contd.*

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Estimated useful lives are specified as follows:

Production system	7-60 years
Electricity distribution systems	15-80 years
Heating distribution systems	15-60 years
Cold water distribution systems	15-90 years
Sewer distribution system	15-60 years
Fiber-optic distribution system	9-41 years
Other real estate	25-50 years
Other equipment	3-25 years

Depreciation methods, useful lives and scrap value are reviewed on the accounting date.

e. *Intangible assets*

i) Heating rights

Heating rights are recognised in the balance sheet at amortised cost as intangible assets. Heating rights are separated from land up on purchase.

ii) Other intangible assets

Other intangible assets are measured at cost less accumulated depreciation and impairment losses.

iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives is determined as follows:

Software	5-7 years

f. *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

38. Significant accounting policies, contd.

g. *Impairment*

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value at each time. The Group defines decrease in fair value below cost as a subjective indication of impairment of available-for-sale financial assets when:

- decrease is 15% below cost or
- fair value decrease lasts for at least six months.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

ii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

Impairment is recognized if the carrying amount of an asset or a cash generating unit exceeds its estimated recoverable amount. A cash generating unit is the smallest separable group of assets that form a cash flow that is mostly independent of other units or groups of units. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset´s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

h. *Employee benefits*

i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the income statement when they are due.

ii) Defined benefit plans

The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method. Changes in the obligation are recognised in the income statement as incurred.

38. Significant accounting policies, contd.

i. *Obligations*

An obligation is recognised in the balance sheet when the Group has the legal right or has entered into an obligation due to previous events and it is likely that it will incur cost upon settling the obligation. The obligation is measured on the basis of the estimated future cash flow, discounted based on interests reflecting market interests, and the risk inherent with the obligation.

j. *Revenue*

i) Revenues from sale and distribution of electricity and hot water

Revenue from the sale and distribution of electricity and hot water is recognised in the income statement according to measured delivery to purchasers during the year 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. The revenue cap is based on actual figures from prior years from the operation of distribution utilities, the depreciation of assets, real losses in the distribution system and return on equity. When setting the revenue cap financial income and expenses are not taken into account. The rate is decided from the revenue cap and projections of sale of electricity in the Group´s utilities area.

ii) Revenues from sale of cold water and sewage

Revenue from the sale of cold water and sewage are based on the size of properties plus a fixed fee and are set forth linearly in the income statement. In addition revenue is stated for cold water according to measurement from specific industries.

iii) Connection revenues

Upon connection of new users to distribution systems of electricity, water and sewage or upon renewal of connection an initial fee is charged. The initial fee meets cost due to new distribution systems or their renewal. Income on connection fees is recognised in the income statement upon delivery of the service.

iv) Rental income

Rental income is recorded as income in the income statement linearly over the lease term.

v) Other revenues

Other revenue is recognised when generated or upon delivery of goods or services.

38. Significant accounting policies, contd.

k. *Financial income and expenses*

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gain and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement. Borrowing cost is recognised in the income statement based on effective interests.

Effective interest is the required rate of return used when discounting estimated cash flow over the estimated useful life of a financial instrument or a shorter period when applicable, so that it equals to the book value of the financial asset or liability in the balance sheet.

Currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

l. *Income tax*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The income tax ratio for the parent company is 37,6% and the tax ratio for the subsidiaries is 20,0%. Cold water supply and sewage is exempt from tax.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax was measured in accordance with the current tax rate, which is 37,6% for the parent company that is a partnership and 20,0% for the subsidiaries that are companies with limited liability.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m. *Segment reporting*

A segment is a distinguishable component of the Group that is engaged in business and is capable to earn revenues and accept cost, both within and outside of the Group. The return of all segments is overviewed by management to value their performance.

Segment results and their assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment investments are investments in property, plant and equipment and intangible assets.
Inter-segment pricing is determined on an arm's length basis.

38. Significant accounting policies, contd.

n. *Determination of fair value*

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.
The Group´s CFO is responsible for overseeing all significant fair value measurements, including Level 3 fair values. Risk management, led by the CFO, regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then that information is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.
When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in 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).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarch, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values can be found in relevant notes and in note 32 regarding fair value.

o. *Property, plant and equipment*

The fair value of production- and fiber-optic systems that have undergone a revaluation is determined on the basis of the depreciated replacement cost, which consists in the assessment of changes in construction cost of comparable assets and both cost and accumulated depreciation are revalued in accordance with those changes. The results of the impairment tests are also taken into consideration and revaluation is not recognised beyond the expected future cash flow of those assets.

p. *Investments in equity and debt securities*

The fair value of financial assets at fair value through profit or loss is determined on the basis of their market value at the reporting date. If the market value is not known the valuation is based on generally accepted valuation methods. Valuation methods can be based on known recent financial transactions between unrelated parties. In applying these valuation methods factors are considered which would be used in the respective market concerning calculation of fair value and the methods are in accordance with generally accepted methods concerning valuation of financial assets.

38. Significant accounting policies, contd.

q. *Derivatives*

The fair value of derivatives is based on their market value, if available. If the market value is not available the fair value is determined on the basis of generally accepted valuation methods.

Valuation methods may be based on prices in recent transactions between unrelated parties. The measurement is based on the value of other financial instruments comparable to the instrument in question, methods in order to evaluate the present value of cash flow or other valuation methods, which may be applied in order to reliably assess the real market value. When valuation methods are applied all factors are used, which market parties would use in price evaluations, and the methods are in accordance with generally accepted methods for the price evaluation of financial instruments. The Group verifies on a regular basis its valuation methods and tests them by using a price obtained in a transaction on an active market with the same instrument, without adjustments and changes, or are based on information from an active market.

The fair value of derivative agreements not listed in active markets is determined by use of valuation methods, which are regularly reviewed by qualified employees. All valuation models used must be approved and tested in order to ensure that the results reflect the data used.

The most reliable indication of the fair value of derivative agreements at the beginning is the purchase value, unless the fair value of the instruments is verifiable in comparison with other listed and recent market transactions with the same financial instrument or based on a valuation method where variables are only based on market data. When such data is available the Group recognises profit or loss at the initial registration date of the instruments.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

r. *Trade and other receivables*

The fair value of trade and other receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date if applicable. This fair value is determined for disclosure purposes.

s. *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

t. *Leases*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

38. Significant accounting policies, contd.

t. *Leases, contd.*

i As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
– fixed payments, including in-substance fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable under a residual value guarantee; and
– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets and lease liabilities are listed in the balance sheet.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

38. Significant accounting policies, contd.

t. *Leases, contd.*

ii As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

39. New accounting standards not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

– IFRS 17 Insurance Contracts
– Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
– References to the Conceptual Framework
– Proceeds before Intended Use (Amendments to IAS 16)
– Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
– Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)
– Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

Non-Financial Information (unaudited)

OR Values
The values of OR are foresight, efficiency and integrity and serve as the guiding principles of all of the activities of the company.

Environment
Orkuveita Reykjavíkur is trusted for the resources it utilizes. The responsibility involves working on the ideology of sustainable development and ensuring sustainable utilization, namely that generations have the same opportunities as present-day generations to exploit the resources and that it can be verified that this is done. OR commits itself to seeking successful solutions where public resource utilization is weighed and evaluated in relation to other interests. OR will protect the resources from hazards and imposition, due to the responsibility of the company. OR operates according to the environmental and the resource policy, published on the company's website, www.or.is, and is subject to independent certification under ISO 14001. Transparency is a key element in OR's business and a detailed article is prepared for environmental aspects of the operation in 2020 in the annual report of OR 2020, at the URL arsskyrsla2020.or.is.

Social issues
Orkuveita Reykjavíkur is a large company nationwide and has extensive knowledge and experience in the utilization of geothermal energy and other aspects of the company's operations. OR disseminates knowledge and encourages responsible environmental and positive impacts on society. Transparency is a key element in OR's business and makes the company fully aware of the social aspects of the business in 2020 in the annual report, OR 2020, at the URL arsskyrsla2020.or.is.

Human resources
At Orkuveita Reykjavíkur, people have the skills needed to perform the tasks that the company's activities require. On the OR web site, www.or.is, you can find employee policy, remuneration policy and the employee KPI. OR ensures that employees enjoy equal rights, in accordance with the Gender Equality Policy and Equal Opportunities. OR´s employee Policy is based on the company´s values and overall policies and is set in accordance with the Company's corporate governance policy. The company reports on human resources in 2020 in the annual report, OR 2020, at arsskyrsla2020.or.is

Corruption, bribery and human rights
At OR there are registered work procedures for the processing of issues when a staff member is alleged to have violated company rules or committed fraud at work. The rules of procedure are accessible to all employees on the company’s intranet. These specify what are considered to be deviations or violations at work. If an employee becomes aware of possible breaches committed by another employee(s) at work or there are grounds to suspect fraudulent activities or incidents, the immediate superior must be notified. It is also possible to notify the company's internal auditor of any potential breaches or frauds. Those who receive indications of possible violations or fraud have a duty to report it, but to treat the information with complete confidentiality. OR’s lawyer can also provide legal advice or assistance as the case may be. The management of OR, managing directors and directors are responsible for the internal supervision of their specific divisions. Quality Control is responsible for ensuring that OR’s internal monitoring system is effective. OR's quality control system is independently certified by external entities.
OR attaches great importance to gender equality, and the Equal Opportunities Policy of the Company implements a commitment for continuous improvement on equality at the workplace. The company adopts the human rights provisions of the Constitution on the basis of the equality policy aimed at evaluating individuals for their own merit and for equal rights. The equality policy is based on OR values and overall policies and is set in accordance with the company's corporate governance policy.

More information on non-financial information
In conjunction with the annual accounts, OR publishes the Annual Report 2020, which includes more detailed information about non-financial information. The report is available at arsskyrsla2020.or.is.