Orkuveita Reykjavíkur

Condenced Consolidated
Interim Financial Statements
1 January to 30 September 2019

*These Interim Financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Orkuveita Reykjavíkur
Bæjarháls 1
110 Reykjavík

reg no. 551298-3029

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Endorsement by the Board of Directors and the CEO

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law no.136/2013 on the founding of the partnership Orkuveita Reykjavíkur. The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems in its service area as well as a fiber optic system in its service area.

The condensed consolidated interim financial statements for the period 1 January to 30 September 2019 are prepared in accordance with the International Financial Reporting Standard IAS 34 Interim financial reporting. The interim financial statements comprise the condenced consolidated interim financial statements of OR and subsidiaries. The interim financial statements have not been reviewed by the independent auditor of the company.

Profit of operations of the Group for the period 1 January to 30 September 2019 was ISK 4.513 million (1.1.-30.9.2018: ISK 5.924 million). Comprehensive income for the period 1 January to 30 September 2019 was ISK 8.581 million (1.1.-30.9.2018: ISK 9.238 million). According to the statement of financial position the Group's assets were ISK 356.626 million at the end of the period (31.12.2018: ISK 340.089 million). Book value of equity at the end of the period was ISK 167.909 million (31.12.2018: ISK 160.827 million), resulting in equity ratio of 47,1% (31.12.2018: 47,3%).

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

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

Statement by the Board of Directors

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the condenced consolidated interim financial statements are in accordance with international financial reporting standard IAS 34 on interim financial reporting. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 30 September 2019 and the Group´s operating return and changes in cash and cash equivalents in the period 1 January to 30 September 2019.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condenced consolidated interim financial statements for the period 1 January to 30 September 2019.

Reykjavík, 25 November 2019.

The Board of Directors:

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

Deputy CEO:

Ingvar Stefánsson

Income Statement
1 January to 30 September 2019

	Notes	2019 1.7.-30.9.	2018 1.7.-30.9.	2019 1.1.-30.9.	2018 1.1.-30.9.
Operating revenue	4	10.077.911	10.291.867	33.576.998	33.458.498
Sales profit (loss)		(1.959)	56	1.248	906
Total revenue		10.075.952	10.291.923	33.578.246	33.459.404
Energy purchase and distribution		(1.292.296)	(1.291.039)	(4.162.761)	(4.403.505)
Salaries and salary related expenses		(1.549.155)	(1.390.024)	(4.995.063)	(4.587.441)
Other operating expenses		(963.965)	(1.232.891)	(4.219.056)	(3.549.195)
Operating expenses, total		(3.805.416)	(3.913.953)	(13.376.880)	(12.540.141)
EBITDA		6.270.536	6.377.970	20.201.366	20.919.262
Depreciation and amortisation		(3.179.338)	(2.349.620)	(8.906.867)	(6.965.265)
Results from operating activities		3.091.198	4.028.350	11.294.500	13.953.998
Interest income		89.367	89.068	282.554	261.202
Interest expenses		(1.786.916)	(1.668.697)	(5.520.365)	(4.685.603)
Other income (expenses) on financial assets and liabilities		(131.661)	(707.361)	(1.721.089)	(3.517.162)
Total financial income and expenses	6	(1.829.210)	(2.286.989)	(6.958.900)	(7.941.563)
Share in profit of associated companies		0	(25)	(528)	6.033
Profit before income tax		1.261.988	1.741.335	4.335.072	6.018.468
Income tax		(98.442)	(17.681)	177.839	(94.534)
Profit for the period		1.163.546	1.723.654	4.512.911	5.923.933

The notes on pages 9 to 19 are an integral part of these Consolidated Interim Financial Statements.

Condenced Consolidated Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2019 4 Amounts are in ISK thousands

Statement of Comprehensive Income
1 January to 30 September 2019

	2019 1.7.-30.9.	2018 1.7.-30.9.	2019 1.1.-30.9.	2018 1.1.-30.9.
Profit for the period	1.163.546	1.723.654	4.512.911	5.923.933
Other comprehensive income				
Items moved to equity that could be moved later to the income statement				
Translation difference	(428.213)	2.295.144	4.068.538	3.314.533
	(428.213)	2.295.144	4.068.538	3.314.533
Other comprehensive income, after taxes	(428.213)	2.295.144	4.068.538	3.314.533
Total comprehensive income for the period	735.333	4.018.799	8.581.449	9.238.466

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Statements of Orkuveita Reykjavíkur 30 September 2019 5 Amounts are in ISK thousand

Statement of Financial Position
30 September 2019

	Notes	30.9.2019	31.12.2018
Assets			
Property, plant and equipment		315.551.944	303.582.858
Intangible assets		2.326.603	1.999.523
Right-of-use assets	10	2.096.600	0
Investments in associated companies		66.769	67.296
Investments in other companies		3.851.621	3.859.015
Hedge contracts		64.726	295.670
Deferred tax assets		5.128.033	3.819.233
Total non-current assets		329.086.296	313.623.595
Inventories		971.861	1.019.807
Trade receivables	7	3.993.137	5.482.511
Hedge contracts		819.505	946.717
Other receivables		610.590	496.986
Prepaid expenses		172.835	307.939
Deposits and marketable securities		7.750.440	7.223.231
Cash and cash equivalents		13.221.272	10.988.087
Total current assets		27.539.641	26.465.279
Total assets		356.625.936	340.088.874
Equity			
Revaluation reserve		81.301.007	83.821.060
Equity reserve		49.549.025	42.972.671
Fair value reserve		3.395.941	3.395.941
Translation reserve		4.609.420	540.882
Retained earnings		29.053.288	30.096.679
Total equity		167.908.681	160.827.232
Liabilities			
Loans and borrowings		139.158.496	133.577.622
Lease liabilities	10	1.791.302	0
Pension liability		728.400	682.404
Embedded derivatives in electricity sales contracts		5.946.904	4.270.604
Hedge contracts		829.637	777.053
Deferred tax liabilities		12.960.795	12.813.107
Total non-current liabilities		161.415.533	152.120.791
Accounts payable		2.727.796	3.125.135
Loans and borrowings		14.860.008	17.706.249
Lease liabilities	10	131.355	0
Embedded derivatives in electricity sales contracts		1.650.582	1.046.265
Hedge contracts		251.068	548.022
Deferred revenue	7	2.198.788	162.980
Current tax liability		1.304.786	1.497.031
Other current liabilities		4.177.340	3.055.169
Total current liabilities		27.301.723	27.140.851
Total liabilities		188.717.256	179.261.642
Total equity and liabilities		356.625.936	340.088.874

The notes on pages 9 to 19 are an integral part of these Consolidated Interim Financial Statements.

Amounts are in ISK thousand

Statement of Changes in Equity
1 January to 30 September 2019

	Revaluation reserve	Equity reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.-30.9. 2019						
Equity at 1 January 2019	83.821.060	42.972.671	3.395.941	540.882	30.096.679	160.827.232
Translation difference				4.068.538		4.068.538
Profit for the period					4.512.911	4.512.911
Total comprehensive income	0	0	0	4.068.538	4.512.911	8.581.449
Depreciation transferred to retained earnings	(2.520.053)				2.520.053	0
Share in profit of subsidiaries and associates transf. to equity reserve		6.576.355			(6.576.355)	0
Dividends paid					(1.500.000)	(1.500.000)
Equity at 30 September 2019	81.301.007	49.549.025	3.395.941	4.609.420	29.053.288	167.908.681
1.1.-30.9. 2018						
Equity at 1 January 2018	80.349.640	16.805.347	3.144.133	(5.361.315)	48.295.719	143.233.524
Translation difference				3.314.533		3.314.533
Profit for the period					5.923.933	5.923.933
Total comprehensive income	0	0	0	3.314.533	5.923.933	9.238.466
Depreciation transferred to retained earnings	(1.982.190)				1.982.190	0
Share in profit of subsidiaries and associates transf. to equity reserve		8.314.199			(8.314.199)	0
Divident paid					(1.250.000)	(1.250.000)
Equity at 30 September 2018	78.367.451	25.119.546	3.144.133	(2.046.782)	46.637.642	151.221.990

The notes on pages 9 to 19 are an integral part of these Consolidated Interim Financial Statements.

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Statement of Cash Flows
1 January to 30 September 2019

	2019 1.1.-30.9.	2018 1.1.-30.9.
Cash flows from operating activities		
Profit for the period	4.512.911	5.923.933
Adjusted for:		
Financial income and expenses	6.958.900	7.941.563
Share in P/L of associates	528	(6.033)
Income tax	(177.839)	94.534
Depreciation and amortisation	8.906.867	6.965.265
Profit from sale of property, plants and equipment	(1.248)	(313.103)
Changes in fair value of investment property	0	(71.353)
Pension liability, change	45.996	76.111
Working capital from operation before interest and taxes	20.246.114	20.610.918
Inventories, decrease (increase)	47.946	(117.353)
Current assets, decrease (increase)	1.402.757	(385.396)
Current liabilities, increase	1.941.222	1.436.949
Cash generated from operations before interests and taxes	23.638.040	21.545.117
Received interest income	266.083	150.776
Paid interest expenses	(3.899.092)	(2.976.620)
Dividend received	55.407	21.524
Payments due to other financial income and expenses	255.475	(568.903)
Paid taxes	(781.457)	(955.052)
Net cash from operating activities	19.534.455	17.216.842
Cash flows from investing activities		
Acquisition of property, plant and equipment	(13.100.828)	(10.395.571)
Acquisition of intangible assets	(506.618)	(336.221)
Proceeds from sale of property, plant and equipment	6.948	419.237
Acquisition of associated companies	0	(200)
Proceeds from sale of other companies	7.394	0
Change in deposits	(700.000)	0
Change in marketable securities	702.951	(700.684)
Other financial assets	0	3.903.482
Net cash used in investing activities	(13.590.153)	(7.109.958)
Cash flows from financing activities		
Proceeds from new borrowings	11.163.425	9.914.200
Repayment of borrowings	(13.176.909)	(9.933.149)
Payments of currency hedges	(410.138)	(1.569.199)
Dividends paid	(1.500.000)	(1.250.000)
Credit facility, change	(210.536)	0
Current liabilities, change	0	0
Net cash used in financing activities	(4.134.157)	(2.838.148)
Increase in cash and cash equivalents	1.810.145	7.268.737
Cash and cash equivalents at year beginning	10.988.087	6.254.983
Changes in the Group	0	0
Effect of currency fluctuations on cash and cash equivalents	423.040	143.104
Cash and cash equivalents at the end of the period	13.221.272	13.666.824
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	191.042	(277.789)
Current liabilities, change	(191.042)	277.789
Other information:		
Working capital from operation	14.543.396	16.829.896

The notes on pages 9 to 19 are an integral part of these Consolidated Interim Financial Statements.

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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 condenced consolidated interim financial statements include the interim financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and a share in associated companies.

The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems in its service area as well as a fiber optic system in its service area.

		Share	
Subsidiaries in the Group	**Main operations**	**30.9.2019**	**31.12.2018**
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ohf.	Holding company	100%	100%
Veitur ohf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	100%	100%
Úlfljótsvatn frítímabyggð ehf.	Preparation company	100%	100%
Foss fasteignafélag slhf.	Operation of real estate	100%	100%

2. Basis of preparation

a. *Statement of compliance*

These condenced consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standard *IAS 34 Interim Financial Reporting.* They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjuction with the consolidated financial statements of the Group for the year ended 31 December 2018. Same accounting principles are applied as for the year 2018 except for IFRS 16 has been applied. Changes to significant accounting policies are described in note 10. The annual financial statements can be found at the company's web site; www.or.is and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

The consolidated interim financial statements were approved by the Board of Directors on 26 August 2019.

b. *Functional and presentation currency*

The consolidated interim financial statements are presented in Icelandic kronas, which is the Company's functional currency. All financial information has been rounded to the nearest thousand unless otherwise stated.

c. *Basis of measurement*

The consolidated interim financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 41 with the consolidated financial statements for the year ended 31 December 2018.

d. *Foreign currency*

i Trade in foreign currencies

Trade in foreign currencies is reported into each consolidation company at the rate of the business day. Monetary assets and debts in foreign currencies are reported in the rate of the reporting date. Other assets and debts reported at fair value in foreign currency are reported at the rate of the day the fair value was set. Exchange difference due to foreign trade is reported through P/L.

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2. Basis of preparation, contd.

d. *Foreign currency, contd.*

ii Subsidiary with other functional currency than the Icelandic krona

Assets and liabilities in the operations of a company of the group that has USD as its functional currency are translated into Icelandic kronas at the rate of the reporting date. Income and expenses of this operation is calculated into Icelandic kronas at the average exchange rate of the period. The exchange difference due to this is reported in a special account in the statement of comprehensive income. When operations with another functional currency than the Icelandic krona are sold, partly or in full, the accommodating exchange difference is recognised in P/L.

e. *Use of estimates and judgements*

The preparation of the consolidated interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about the new significant judgements related to lessee accounting under IFRS 16 when the Group is lessee, is described in note 10.

3. Operation and revenue recognition of Group's components

The following provides information about the operation of Group's components. Breakdown of revenue for different operations is given in note 4 and income by segment in note 5.

	Products and services	Nature, timing of revenue recognition and payments terms
a.	Electricity	ON Power generates electricity and sells electricity and Utilities distribute electricity according to law no. 65/2003. Revenue from the sale and distribution of electricity is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. Upon connection of new users to distribution systems of electricity and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of electricity generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
b.	Hot water	ON Power and Utilities generate harness hot water and Utilities distribute harness hot water. Revenue from the sale and distribution of harness hot water is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. Upon connection of new users to distribution systems of harness hot water or upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of harness hot water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.

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

	Products and services	Nature, timing of revenue recognition and payments terms
c.	Cold water	OR Water and Sewage collects and distributes cold water from reservoirs. Revenue from the sale of cold water is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate value. In addition revenue is stated for cold water according to measurement from specific industries. Upon connection of new users to distribution systems of cold water and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale of cold water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
d.	Sewer system	OR Water and Sewage runs the sewer system. Revenue is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate rateable value. Upon connection of new users to sewage system and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new sewer systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sewer system generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
e.	Other revenues	Gagnaveita Reykjavíkur operates fiber optics data system. Revenue from fiber optics data system is recognised in the income statement upon delivery of the goods and service. This is a competitive practice that is supervised by The Post and Telecom Administration. Orkuveita Reykjavíkur the parent company operates rental of housing and equipment, incidental sale of specialist consultancy services and more. Rental income is recorded as income in the income statement linearly over the lease term and other revenue is recognised upon delivery of goods or services. Trade 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:

	2019 1.1.-30.9.	2018 1.1.-30.9.
Electricity	14.340.594	14.432.307
Hot water	8.844.595	9.004.644
Cold water	2.146.081	2.370.042
Sewer system	4.162.147	3.971.910
Other revenues	4.084.829	3.680.501
Revenues from sales of goods and services total	33.578.246	33.459.404

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5. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities,* that represent licensed operations in hot and cold water, distribution of electricity and sewage, *ON Power*, representing the competitive operations in producing and sale of electricity and hot water and *Other Operation,* that represents the activities of the parent company and the fiber optic operations. The parent company's main activities is providing service to subsidiaries, rental of housing and equipment, incidental sale of specialist consultancy services and more. Reykjavik fiber network represents the fiber optic operations. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 41 with the consolidated financial statements for the year ended 31 December 2018.

Business segments - divisions

1.1.-30.9. 2019	**Utilities**	**ON Power**	**Other Operation**	**Adjust-ments**	**Total**
External revenue	20.590.471	10.338.422	2.649.354	0	33.578.246
Inter-segment revenue	2.639.159	3.557.501	5.814.595	(12.011.255)	0
Total segment revenue	23.229.630	13.895.923	8.463.949	(12.011.255)	33.578.246
Segment operation expenses	(12.681.009)	(5.884.963)	(6.822.163)	12.011.255	(13.376.880)
Segment profit EBITDA	10.548.620	8.010.960	1.641.786	0	20.201.366
Depreciation and amortisation	(4.100.885)	(3.729.060)	(1.197.798)	120.875	(8.906.867)
Segment results, EBIT	6.447.736	4.281.901	443.988	120.875	11.294.500
Financial income and expenses	(2.395.895)	(921.553)	(1.389.466)	(2.251.986)	(6.958.900)
Share in (loss) profit of associated companies	0	0	(528)	0	(528)
Income tax	(402.686)	(671.566)	432.160	819.931	177.839
Profit (loss) for the period	3.649.155	2.688.782	(513.846)	(1.311.180)	4.512.911

1.1.-30.9. 2018	**Utilities**	**ON Power**	**Other Operation**	**Adjust-ments**	**Total**
External revenue	20.914.286	10.371.832	2.173.285	0	33.459.404
Inter-segment revenue	2.252.443	3.477.972	5.630.638	(11.361.052)	0
Total segment revenue	23.166.729	13.849.804	7.803.923	(11.361.052)	33.459.404
Segment operation expenses	(11.923.745)	(5.957.813)	(6.019.636)	11.361.052	(12.540.141)
Segment profit EBITDA	11.242.985	7.891.991	1.784.287	0	20.919.262
Depreciation and amortisation	(3.724.834)	(2.303.884)	(936.547)	0	(6.965.265)
Segment results, EBIT	7.518.151	5.588.107	847.740	0	13.953.997
Financial income and expenses	(2.437.870)	(997.228)	(429.651)	(4.076.813)	(7.941.563)
Share in profit of associated companies	0	0	6.033	0	6.033
Income tax	(591.592)	(879.629)	(120.196)	1.496.882	(94.534)
Profit (loss) for the period	4.488.689	3.711.250	303.926	(2.579.932)	5.923.933

Amounts are in ISK thousand

5. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust-ments	Total
Balance sheet (30.9.2019)					
Property, plant and equipment and intangible assets	155.480.819	129.704.412	32.693.315	0	317.878.546
Right-of-use assets	4.225.677	1.086.728	1.942.562	(5.158.367)	2.096.600
Other assets	19.126.605	7.368.506	165.680.396	(155.524.718)	36.650.790
					356.625.936
Loans and borrowings	62.593.919	59.129.925	158.281.348	(125.986.689)	154.018.504
Lease liabilities	4.249.223	1.030.330	1.950.976	(5.307.873)	1.922.657
Other liabilities	13.866.667	8.733.021	34.938.112	(24.761.705)	32.776.096
					188.717.256
Investments					
Property, plant and equipment and intangible assets	6.824.686	3.416.142	3.136.123	0	13.376.952
Balance sheet (31.12.2018)					
Property, plant and equipment and intangible assets	152.659.606	122.261.566	30.661.209	0	305.582.381
Other assets	17.305.051	7.786.039	159.058.806	(149.643.402)	34.506.493
					340.088.874
Loans and borrowings	62.300.634	58.219.127	155.477.198	(124.713.088)	151.283.870
Other borrowings	11.189.885	8.310.387	30.092.174	(21.614.674)	27.977.771
					179.261.642
Investments (30.9.2018)					
Property, plant and equipment and intangible assets	4.484.984	3.088.876	3.494.002	0	11.067.863

Amounts are in ISK thousand

6. Financial income and expenses

Financial income and expenses are specified as follows:

	2019 1.1.-30.9.	2018 1.1.-30.9.
Interest income	282.554	261.202
Interest expense and paid indexation	(3.655.252)	(2.905.145)
Indexation	(1.350.325)	(1.250.093)
Guarantee fee to owners 1)	(514.788)	(530.364)
Total interest expenses	(5.520.365)	(4.685.603)
Fair value changes of embedded derivatives in electricity sales contracts	(2.280.616)	(4.076.813)
Fair value changes of assets available for sale	5.078	0
Fair value changes of financial assets and financial liabilities through P/L	545.627	(186.784)
Fair value changes of hedge contracts	(108.569)	2.566.151
Hedge contracts	(154.057)	(2.147.287)
Foreign exchange difference	216.041	306.046
Dividends	55.407	21.524
Total of other income (expenses) on financial assets and liabilities	(1.721.089)	(3.517.162)
Total financial income and expenses	(6.958.900)	(7.941.563)

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 0,89% (2018: 0,91%) and 0,60% (2018: 0,58%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 515 million in the period 1 January to 30 September 2019 (1.1.-30.9.2018: ISK 530 million) and is accounted for among interest expenses.

Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 41 with the financial statements of the Group for the year 2018. Change in fair value that is recognized in the income statement amounts to ISK 1.838 million expense in the period 1 January to 30 September 2019 (1.1.-30.9.2018: expense ISK 1.697 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 2.281 million expense in the period 1 January to 30 September 2019 (1.1.-30.9.2018: expense ISK 4.264 million).

7. Receivables and deferred revenue

The balance of trade receivables and deferred revenue changes considerably between periods since income is collected evenly but actual usage fluctuates significantly between periods. Also, billing for cold water and sewage is done in the first nine months of the year but income disbursed evenly over the year. Recognition of income is subject to usage and deliverance of the service in accordance with accounting standards.

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8. Fair value

Comparison of fair value versus carrying amounts

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

	30.9.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	154.018.504	153.876.725	151.283.870	153.218.591

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

Interest rates used for determining fair value

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

	30.9.2019	31.12.2018
Embedded derivatives in electr. sales contr.	6,0% til 6,61%	3,72% to 5,83%
Hedge contracts	-0,8% til 2,1%	-0,7% to 2,8%
Interest bearing loans	0,9% til 6,3%	1,19% to 7,94%

Sensitivity analysis on effect of change in interest rates, currency and price of alumnium are shown in note 29 in the financial statements of the Group for the year 2018. It is recommended to take into consideration this note while reading the interim financial statements for the current period since change in these presumptions can have considerable effect on certain amounts in the interim financial statements.

Fair value hierarchy

The table below analysis financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). Valuation of shares in other companies is prepared by specialists within the company and other specialists and based on the results and official data on future earnings and investments in underlying assets.

30.9.2019	Level 1	Level 2	Level 3	Total
Shares in companies	0	0	3.851.621	3.851.621
Embedded derivatives in sales contracts	0	0	(7.597.485)	(7.597.485)
Hedge contracts	0	(196.474)	0	(196.474)
Marketable securities	4.050.440	0	0	4.050.440
	4.050.440	(196.474)	(3.745.864)	108.102

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

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Notes

9. Related parties

Definition of related parties

Reykjavik city, institutions and companies ruled by the city, associated companies, Board members, Directors and key management are considered as the Group's related parties. Spouses of the before mentioned and financially dependent children are also considered as related parties as well as companies owned by or directed by those in question.

Transactions with related parties

The parties mentioned here above have had transactions with the Group within the period. Terms and conditions of these transactions were equivalent with transactions with unrelated parties.

The following gives an overview of the transactions with related parties during the period 1 January to 30 September 2019 as well as a statement of receivables and payables at the end of the period. Transactions and positions with subsidiaries are eliminated in the financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

	2019	**2018**
Sale to related parties:	**1.1.-30.9.**	**1.1.-30.9.**
Reykjavik City	1.441.165	1.068.081
Institutions and companies controlled by Reykjavik City	493.261	267.478
Associates	170	0
	1.934.596	1.335.559
Purchases from related parties:		
Reykjavik City	23.505	24.466
Institutions and companies controlled by Reykjavik City	6.407	7.929
Associates	43.619	40.406
	73.531	72.801
	30.9.2019	**31.12.2018**
Receivables for related parties:		
Reykjavik City	126.943	142.723
Institutions and companies controlled by Reykjavik City	52.734	43.122
Associates	0	0
	179.677	185.845
Payables for related parties:		
Reykjavik City	213.208	352.786
Institutions and companies controlled by Reykjavik City	1.464	1.373
Associates	96	418
	214.768	354.577
Interest bearing loans from owners of the parent Company:		
Reykjavik City	10.097.871	10.898.111
Akranes town	596.767	644.060
Borgarbyggð, municipality	100.721	108.703
	10.795.359	11.650.874

	2019	**2018**
Interest expense on loans from owners of the parent Company:	**1.1.-30.9.**	**1.1.-30.9.**
Reykjavik City	783.238	716.967
Akranes town	46.232	42.180
Borgarbyggð, municipality	7.803	7.119
	837.273	766.266

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 6.

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10. Changes in significant accounting policies

The Group has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. Accounting of lessees under IFRS 16 significantly changes how operating lessees when the Group is the lessee are accounted for. Due to this the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments and has recognised in income statement depreciation and interest costs. Until year end 2018 the Group recognised the lease payments associated with leases agreements as an expense on a straight-line basis over the lease term and not recognised on balance sheet right-of-use assets nor lease liabilities associated with lease agreements. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 by recording right-of-use asset and lease liabilities at 1 January 2019. The comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component. The Group applied the exemption in IFRS 16 not to take a position on whether the contracts that were not treated in accordance with the earlier standard IAS 17 contain lease liabilities.

As a lessee

The Group is recording right-of-use assets and lease liabilities for properties lease contracts in which it is a lessee. The Group does not record right-of-use assets and lease liabilities for land lease contracts with municipalities where the Group is making lease payments to municipalities. Right-of-use assets and lease liabilities are presented as a separate line item in the balance sheet.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Notes

10. Changes in significant accounting policies, cont.

As a lessee, cont.

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

Significant accounting policies

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, and subsequently at cost less any accumulated depreciation and impairment losses, 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 Group's incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

At transition to IFRS 16 lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

Impact on transition during the period

On transition to IFRS 16, the Group recognised in balance sheet right-of-use assets equal to lease liabilities on 1 January 2019. As a result of initially applying IFRS 16, in relation to the leases the Group has recognised depreciation and interest costs, instead of operating leases expense. The impact on transition at 1 January 2019 and the period 1 January to 30 September 2019 is summarised below:

	1 January to 30.sep.19	1 January 2019	30 September 2019
Impacts on transition on balance sheet:			
Right-of-use assets		2.153.051	2.096.600
Lease liabilities		2.153.051	1.922.657
Deferred tax liabilities			3.326
Equity			(23.339)
Impacts on transition on balance sheet:			
Depreciation	79.173		
Interest cost	65.673		
Reversal of operating leases expense	(124.832)		
Income tax	3.326		
Total impact on income statement 1.1.2019 to 30.9.2019	23.339		

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10. Changes in significant accounting policies, cont.

Impact on transition during the period, cont.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3,65%.

If the standard would not have been implemented on 1 January 2019 then the EBITDA for the first nine months of the year 2019 would have been ISK 125 million lower and profit for the period ISK 23 thousand higher. The impact on first nine months of 2019 is summarised below:

Income statements	2019 1.1.-30.09.	Impact of new standard	After IFRS 16 1.1.-30.9.2019
Operating income	33.578.246	0	33.578.246
Operating expenses	(13.501.712)	124.832	(13.376.880)
EBITDA	20.076.535	124.832	20.201.366
Depreciation	(8.827.694)	(79.173)	(8.906.867)
Results from operating activities, EBIT	11.248.841	45.659	11.294.500
Financial income and expenses	(6.893.227)	(65.673)	(6.958.900)
Share in profit of associated companies	(528)	0	(528)
Profit before income tax	4.355.086	(20.014)	4.335.072
Income tax	181.164	(3.326)	177.839
Profit for the period	4.536.250	(23.339)	4.512.911

The impact on transition to IFRS 16 on Group's balance sheet 1 January 2019 is summarised below:

Balance sheet	31.12.2018	Impact of new standard	1.1.2019
Right-of-use assets	0	2.153.051	2.153.051
Total assets	313.623.595	2.153.051	315.776.646
Equity	160.827.232	0	160.827.232
Non-current lease liabilities	0	2.021.696	2.021.696
Current lease liabilites	0	131.355	131.355
Total liabilites	179.261.642	2.153.051	181.414.693
Total equity and liabilites	340.088.874	2.153.051	342.241.925

11. Other matters

Potential unbundling of ON Power

Unbundling of the operation of ON Power is in consideration due to uncertainty whether the company is allowed to continue with the operating currency in USD. A final decision is not yet available and will be taken by the owners.

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