

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

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

The condensed consolidated interim financial statements for the period 1 January to 30 June 2019 are prepared in accordance with the International Financial Reporting Standard IAS 34 Interim financial reporting. The interim financial statements comprise the condensed consolidated interim financial statements of OR and subsidiaries.

Profit of operations of the Group for the period 1 January to 30 June 2019 was ISK 3.349 million (1.1.-30.6.2018: ISK 4.200 million). Comprehensive income for the period 1 January to 30 June 2019 was ISK 7.846 million (1.1.-30.6.2018: ISK 5.220 million). According to the statement of financial position the Group's assets were ISK 355.751 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 168.673 million (31.12.2018: ISK 160.827 million), resulting in equity ratio of 47,4% (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 condensed consolidated interim financial statements are in accordance with international financial reporting standard IAS 34 on interim financial reporting. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 30 June 2019 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 30 June 2019.

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

Reykjavík, 26 August 2019.

The Board of Directors:

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

CEO:

*Bjarni Bjarnason*

# Independent Auditor's Review Report

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To the Board of Directors and owners of Orkuveita Reykjavíkur.

We have reviewed the accompanying condensed consolidated statement of financial position of Orkuveita Reykjavíkur as at June 30, 2019, the condensed consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information.

The Board of Directors and the CEO are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Reykjavík, 26 August 2019.

**Grant Thornton endurskoðun ehf.**

*Davíð Arnar Einarsson*

# Income Statement

## 1 January to 30 June 2019

	Notes	2019 1.4.-30.6.	2018 1.4.-30.6.	2019 1.1.-30.6.	2018 1.1.-30.6.
Operating revenue .....	4	10.856.800	10.905.595	23.499.087	23.166.630
Sales profit (loss) .....		2.874	( 966)	3.207	850
Total revenue		<u>10.859.675</u>	<u>10.904.629</u>	<u>23.502.294</u>	<u>23.167.480</u>
Energy purchase and distribution .....		( 1.375.760)	( 1.382.710)	( 2.870.465)	( 3.112.466)
Salaries and salary related expenses .....		( 1.768.885)	( 1.688.385)	( 3.445.908)	( 3.197.418)
Other operating expenses .....		( 1.710.152)	( 1.043.751)	( 3.255.091)	( 2.316.304)
Operating expenses, total		<u>( 4.854.797)</u>	<u>( 4.114.846)</u>	<u>( 9.571.464)</u>	<u>( 8.626.188)</u>
<b>EBITDA</b> .....		<u>6.004.877</u>	<u>6.789.783</u>	<u>13.930.831</u>	<u>14.541.292</u>
Depreciation and amortisation .....		( 2.898.271)	( 2.328.433)	( 5.727.529)	( 4.615.645)
<b>Results from operating activities</b> .....		<u>3.106.606</u>	<u>4.461.350</u>	<u>8.203.302</u>	<u>9.925.647</u>
Interest income .....		91.244	17.345	193.187	172.134
Interest expenses .....		( 2.024.546)	( 1.495.960)	( 3.733.449)	( 3.016.905)
Other income (expenses) on financial assets and liabilities .....		<u>( 2.775.020)</u>	<u>1.933.040</u>	<u>( 1.589.429)</u>	<u>( 2.809.801)</u>
Total financial income and expenses	6	<u>( 4.708.321)</u>	<u>454.425</u>	<u>( 5.129.690)</u>	<u>( 5.654.573)</u>
Share in profit of associated companies .....		( 2.589)	0	( 528)	6.058
(Loss) profit before income tax		<u>( 1.604.305)</u>	<u>4.915.775</u>	<u>3.073.084</u>	<u>4.277.132</u>
Income tax .....		1.084.392	( 1.105.069)	276.281	( 76.854)
<b>(Loss) profit for the period</b>		<u><u>( 519.913)</u></u>	<u><u>3.810.706</u></u>	<u><u>3.349.365</u></u>	<u><u>4.200.278</u></u>

The notes on pages 10 to 20 are an integral part of these Consolidated Interim Financial Statements.

# Statement of Comprehensive Income

## 1 January to 30 June 2019

	2019	2018	2019	2018
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6.	1.1.-30.6.
(Loss) profit for the period .....	( 519.913)	3.810.706	3.349.365	4.200.278
<b>Other comprehensive income</b>				
<b>Items moved to equity that could be moved later to the income statement</b>				
Translation difference .....	1.059.305	4.021.739	4.496.751	1.019.389
	<u>1.059.305</u>	<u>4.021.739</u>	<u>4.496.751</u>	<u>1.019.389</u>
Other comprehensive income, after taxes .....	1.059.305	4.021.739	4.496.751	1.019.389
<b>Total comprehensive income for the period</b>	<u>539.391</u>	<u>7.832.445</u>	<u>7.846.115</u>	<u>5.219.667</u>

The notes on pages 10 to 20 are an integral part of these Consolidated Interim Financial Statements.

# Statement of Financial Position

## 30 June 2019

	Notes	30.6.2019	31.12.2018
<b>Assets</b>			
Property, plant and equipment .....		313.867.669	303.582.858
Intangible assets .....		2.245.046	1.999.523
Right-of-use assets .....	10	427.683	0
Investments in associated companies .....		66.769	67.296
Investments in other companies .....		3.859.015	3.859.015
Hedge contracts .....		87.343	295.670
Deferred tax assets .....		5.006.566	3.819.233
Total non-current assets		<u>325.560.091</u>	<u>313.623.595</u>
Inventories .....		982.759	1.019.807
Trade receivables .....	7	5.326.091	5.482.511
Hedge contracts .....		863.880	946.717
Other receivables .....		524.983	496.986
Prepaid expenses .....		469.627	307.939
Deposits and marketable securities .....		7.112.109	7.223.231
Cash and cash equivalents .....		14.911.824	10.988.087
Total current assets		<u>30.191.275</u>	<u>26.465.279</u>
<b>Total assets</b>		<u><u>355.751.366</u></u>	<u><u>340.088.874</u></u>
<b>Equity</b>			
Revaluation reserve .....		82.135.231	83.821.060
Equity reserve .....		48.268.603	42.972.671
Fair value reserve .....		3.395.941	3.395.941
Translation reserve .....		5.037.632	540.882
Retained earnings .....		29.835.940	30.096.679
<b>Total equity</b>		<u>168.673.347</u>	<u>160.827.232</u>
<b>Liabilities</b>			
Loans and borrowings .....		140.751.906	133.577.622
Lease liabilities .....	10	356.812	0
Pension liability .....		725.099	682.404
Embedded derivatives in electricity sales contracts .....		4.564.019	4.270.604
Hedge contracts .....		872.618	777.053
Deferred tax liabilities .....		13.138.954	12.813.107
Total non-current liabilities		<u>160.409.409</u>	<u>152.120.791</u>
Accounts payable .....		3.068.305	3.125.135
Loans and borrowings .....		14.769.387	17.706.249
Lease liabilities .....	10	69.982	0
Embedded derivatives in electricity sales contracts .....		1.341.995	1.046.265
Hedge contracts .....		350.668	548.022
Deferred revenue .....	7	1.882.454	162.980
Current tax liability .....		945.632	1.497.031
Other current liabilities .....		4.240.187	3.055.169
Total current liabilities		<u>26.668.610</u>	<u>27.140.851</u>
<b>Total liabilities</b>		<u>187.078.019</u>	<u>179.261.642</u>
<b>Total equity and liabilities</b>		<u><u>355.751.366</u></u>	<u><u>340.088.874</u></u>

The notes on pages 10 to 20 are an integral part of these Consolidated Interim Financial Statements.

# Statement of Changes in Equity

## 1 January to 30 June 2019

	Revaluation reserve	Equity reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
<b>1.1.-30.6. 2019</b>						
Equity at 1 January 2019 .....	83.821.060	42.972.671	3.395.941	540.882	30.096.679	160.827.232
Translation difference .....				4.496.751		4.496.751
Profit for the period .....					3.349.365	3.349.365
Total comprehensive income .....	0	0	0	4.496.751	3.349.365	7.846.115
Depreciation transferred to retained earnings .....	( 1.685.829)				1.685.829	0
Share in profit of subsidiaries and associates transf. to equity reserve ...		5.295.933			( 5.295.933)	0
Equity at 30 June 2019 .....	82.135.231	48.268.603	3.395.941	5.037.632	29.835.940	168.673.347
<b>1.1.-30.6. 2018</b>						
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 .....				1.019.389		1.019.389
Profit for the period .....					4.200.278	4.200.278
Total comprehensive income .....	0	0	0	1.019.389	4.200.278	5.219.667
Depreciation transferred to retained earnings .....	( 1.315.379)				1.315.379	0
Share in profit of subsidiaries and associates transf. to equity reserve ...		5.978.133			( 5.978.133)	0
Equity at 30 June 2018 .....	79.034.262	22.783.480	3.144.133	( 4.341.926)	47.833.243	148.453.191

The notes on pages 10 to 20 are an integral part of these Consolidated Interim Financial Statements.



# Statement of Cash Flows

## 1 January to 30 June 2019

	<b>2019</b>	<b>2018</b>
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
<b>Cash flows from operating activities</b>		
Profit for the period .....	3.349.365	4.200.278
Adjusted for:		
Financial income and expenses .....	5.129.690	5.654.573
Share in P/L of associates .....	528	( 6.058)
Income tax .....	( 276.281)	76.854
Depreciation and amortisation .....	5.727.529	4.615.645
Profit from sale of property, plants and equipment .....	( 3.207)	( 850)
Changes in fair value of investment property .....	0	( 71.353)
Pension liability, change .....	42.695	54.848
Working capital from operation before interest and taxes	13.970.319	14.523.937
Inventories, decrease (increase) .....	37.049	( 285.511)
Current assets, increase .....	( 42.354)	( 1.623.056)
Current liabilities, increase .....	2.111.706	1.604.840
Cash generated from operations before interests and taxes	16.076.719	14.220.211
Received interest income .....	207.281	99.456
Paid interest expenses .....	( 2.726.102)	( 2.266.929)
Dividend received .....	55.407	21.524
Payments due to other financial income and expenses .....	158.947	( 404.471)
Paid taxes .....	( 441.944)	( 682.180)
Net cash from operating activities	13.330.308	10.987.611
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment .....	( 7.570.309)	( 6.102.425)
Acquisition of intangible assets .....	( 359.527)	( 241.912)
Proceeds from sale of property, plant and equipment .....	4.042	20.400
Change in deposits .....	( 1.500.000)	0
Change in marketable securities .....	2.080.291	( 740.244)
Other financial assets .....	0	3.903.482
Net cash used in investing activities	( 7.345.503)	( 3.160.700)
<b>Cash flows from financing activities</b>		
Proceeds from new borrowings .....	8.883.658	5.338.562
Repayment of borrowings .....	( 10.980.693)	( 7.229.331)
Payments of currency hedges .....	( 263.747)	( 1.397.743)
Net cash used in financing activities	( 2.360.781)	( 3.288.511)
<b>Increase in cash and cash equivalents</b> .....	3.624.024	4.538.400
<b>Cash and cash equivalents at year beginning</b> .....	10.988.087	6.254.983
<b>Effect of currency fluctuations on cash and cash equivalents</b> .....	299.713	123.619
<b>Cash and cash equivalents at the end of the period</b> .....	14.911.824	10.917.002
<b>Investments and financing without payment effects:</b>		
Acquisition of property, plant and equipment .....	213.370	( 91.233)
Current liabilities, change .....	( 213.370)	91.233
<b>Other information:</b>		
Working capital from operation .....	10.026.944	12.047.712

The notes on pages 10 to 20 are an integral part of these Consolidated Interim Financial Statements.

# Notes

## 1. Reporting entity

Orkuveita Reykjavíkur "OR" is a partnership that complies with the Icelandic law no. 136/2013 on Orkuveita Reykjavíkur. OR's headquarters are at Bæjarháls 1 in Reykjavík. OR's condensed consolidated interim financial statements include the interim financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and a share in associated companies.

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

Subsidiaries in the Group	Main operations	Share	
		30.6.2019	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%
Úlfjótuvatn frítímabyggð ehf.	Preparation company	100%	100%
Foss fasteignafélag slhf.	Operation of real estate	100%	100%

## 2. Basis of preparation

### a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standard *IAS 34 Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2018. Same accounting principles are applied as for the year 2018 except for that this is the first set of the Group's interim financial statements in which 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](http://www.or.is) and at the web site of the Icelandic Stock exchange market; [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com).

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

# Notes

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## 2. Basis of preparation, contd.

### d. Foreign currency, contd.

#### ii Subsidiary with other functional currency than the Icelandic krona

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

### e. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. 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.

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

# Notes

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

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

## 4. Revenues from sales of goods and services

The Group's income from sales of goods and services is specified as follows:

	2019	2018
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Electricity.....	9.729.701	10.079.519
Hot water.....	6.703.740	6.670.735
Cold water.....	1.633.941	1.569.628
Sewer system.....	2.763.931	2.637.677
Other revenues.....	2.670.981	2.209.920
Revenues from sales of goods and services total.....	<u>23.502.294</u>	<u>23.167.480</u>

# Notes

## 5. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities*, that represent licensed operations in hot and cold water, distribution of electricity and sewage, *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.

<b>Business segments - divisions</b>						
<b>1.1.-30.6. 2019</b>	<b>Utilities</b>	<b>ON Power</b>	<b>Other Operation</b>	<b>Adjust- ments</b>	<b>Effects of IFRS 16*</b>	<b>Total</b>
External revenue .....	14.789.689	7.024.361	1.688.244	0		23.502.294
Inter-segment revenue .....	1.636.793	2.431.192	3.784.370	( 7.852.355)		0
Total segment revenue .....	16.426.483	9.455.553	5.472.614	( 7.852.355)		23.502.294
Segment operation expenses .....	( 8.790.030)	( 4.198.020)	( 4.474.359)	7.852.355	38.591	( 9.571.464)
Segment profit EBITDA .....	7.636.452	5.257.533	998.255	0	38.591	13.930.831
Depreciation and amortisation .....	( 2.668.993)	( 2.285.030)	( 742.433)	0	( 31.072)	( 5.727.529)
Segment results, EBIT .....	4.967.459	2.972.502	255.822	0	7.518	8.203.302
Financial income and expenses .....	( 1.644.903)	( 279.924)	( 2.609.088)	( 589.145)	( 6.630)	( 5.129.690)
Share in (loss) profit of associated companies .....	0	0	( 528)	0		( 528)
Income tax .....	( 368.407)	( 515.478)	938.982	221.519	( 334)	276.281
Profit (loss) for the period .....	2.954.149	2.177.100	( 1.414.812)	( 367.627)	554	3.349.365
<b>1.1.-30.6. 2018</b>						
External revenue .....	14.455.828	7.299.508	1.412.145	0		23.167.480
Inter-segment revenue .....	1.190.636	2.416.865	3.335.301	( 6.942.802)		( 0)
Total segment revenue .....	15.646.463	9.716.373	4.747.446	( 6.942.802)		23.167.480
Segment operation expenses .....	( 7.748.052)	( 4.064.761)	( 3.756.177)	6.942.802		( 8.626.188)
Segment profit EBITDA .....	7.898.411	5.651.611	991.269	0		14.541.292
Depreciation and amortisation .....	( 2.483.121)	( 1.501.112)	( 631.411)	0		( 4.615.645)
Segment results, EBIT .....	5.415.290	4.150.499	359.858	0		9.925.647
Financial income and expenses .....	( 1.612.183)	( 889.233)	880.042	( 4.033.199)		( 5.654.573)
Share in profit of associated companies .....	0	0	6.058	0		6.058
Income tax .....	( 461.775)	( 631.782)	( 463.779)	1.480.483		( 76.854)
Profit (loss) for the period .....	3.341.332	2.629.484	782.178	( 2.552.716)		4.200.278

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

# Notes

## 5. Segment reporting, contd.

### Business segments - divisions, contd.

	Utilities	ON Power	Other Operation	Adjust- ments	Effects of IFRS 16*	Total
<b>Balance sheet (30.6.2019)</b>						
Property, plant and equipment and intangible assets .....	153.867.022	130.324.167	31.921.526	0		316.112.715
Other assets .....	21.961.555	8.786.764	165.771.197	( 157.308.548)	427.683	<u>39.638.650</u>
						<u>355.751.366</u>
Loans and borrowings .....	62.650.592	60.088.916	159.784.138	( 127.002.353)	426.794	155.948.087
Other liabilities .....	13.749.698	8.830.075	35.172.753	( 26.622.595)		<u>31.129.931</u>
						<u>187.078.019</u>
<b>Investments</b>						
Property, plant and equipment and intangible assets .....	3.876.409	1.815.520	2.003.585	0		7.695.514
<b>Balance sheet (31.12.2018)</b>						
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)		<u>34.506.493</u>
						<u>340.088.874</u>
Loans and borrowings .....	62.300.634	58.219.127	155.477.198	( 124.713.088)		151.283.870
Other liabilities .....	11.189.885	8.310.387	30.092.174	( 21.614.674)		<u>27.977.771</u>
						<u>179.261.642</u>
<b>Investments (30.6.2018)</b>						
Property, plant and equipment and intangible assets .....	2.384.595	1.892.323	2.202.966	0		6.479.884

# Notes

## 6. Financial income and expenses

	2019	2018
	1.1.-30.6.	1.1.-30.6.
Financial income and expenses are specified as follows:		
Interest income .....	193.187	172.134
Interest expense and paid indexation .....	( 2.337.208)	( 1.917.129)
Indexation .....	( 1.049.834)	( 742.779)
Guarantee fee to owners 1) .....	( 346.407)	( 356.998)
Total interest expenses .....	( 3.733.449)	( 3.016.905)
Fair value changes of embedded derivatives in electricity sales contracts .....	( 589.145)	( 4.033.199)
Fair value changes of financial assets and financial liabilities through P/L .....	449.975	( 186.784)
Fair value changes of hedge contracts .....	( 189.374)	2.053.805
Hedge contracts .....	( 103.875)	( 1.802.458)
Foreign exchange difference .....	( 1.212.417)	1.137.310
Dividends .....	55.407	21.524
Total of other income (expenses) on financial assets and liabilities .....	( 1.589.429)	( 2.809.801)
Total financial income and expenses .....	( 5.129.690)	( 5.654.573)

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavíkur in 2005. The fee on yearly basis for its licensed operations is 0,89% (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 346 million in the period 1 January to 30 June 2019 (1.1.-30.6.2018: ISK 357 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 329 million expense in the period 1 January to 30 June 2019 (1.1.-30.6.2018: expense ISK 2.166 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 589 million expense in the period 1 January to 30 June 2019 (1.1.-30.6.2018: expense ISK 4.220 million).

## 7. Receivables and deferred revenue

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

# Notes

## 8. Fair value

### Comparison of fair value versus carrying amounts

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

	30.6.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities .....	155.521.293	154.102.138	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:

	30.6.2019	31.12.2018
Embedded derivatives in electr. sales contr. ....	4,71% to 5,37%	3,72% to 5,83%
Hedge contracts .....	-0,7% to 2,4%	-0,7% to 2,8%
Interest bearing loans .....	0,98% to 6,69%	1,19% to 7,94%

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium are shown in note 29 in the financial statements of the Group for the year 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.

	Level 1	Level 2	Level 3	Total
<b>30.6.2019</b>				
Shares in companies .....	0	0	3.859.015	3.859.015
Embedded derivatives in sales contracts .....	0	0	( 5.906.015)	( 5.906.015)
Hedge contracts .....	0	( 272.063)	0	( 272.063)
Marketable securities .....	2.612.109	0	0	2.612.109
	<u>2.612.109</u>	<u>( 272.063)</u>	<u>( 2.047.000)</u>	<u>293.047</u>
<b>31.12.2018</b>				
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
	<u>4.223.231</u>	<u>( 82.688)</u>	<u>( 1.457.854)</u>	<u>2.682.689</u>



# Notes

## 9. Related parties

### Definition of related parties

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

### Transactions with related parties

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

The following gives an overview of the transactions with related parties during the period 1 January to 30 June 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.

	<b>2019</b>	<b>2018</b>
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Sale to related parties:		
Reykjavik City.....	1.096.144	726.151
Institutions and companies controlled by Reykjavik City.....	356.788	179.251
Associates.....	170	0
	<u>1.453.102</u>	<u>905.402</u>
Purchases from related parties:		
Reykjavik City.....	23.505	16.410
Institutions and companies controlled by Reykjavik City.....	6.407	5.459
Associates.....	29.005	26.852
	<u>58.917</u>	<u>48.721</u>
	<b>30.6.2019</b>	<b>31.12.2018</b>
Receivables for related parties:		
Reykjavik City.....	222.806	142.723
Institutions and companies controlled by Reykjavik City.....	51.387	43.122
Associates.....	189	0
	<u>274.381</u>	<u>185.845</u>
Payables for related parties:		
Reykjavik City.....	187.220	352.786
Institutions and companies controlled by Reykjavik City.....	1.498	1.373
Associates.....	0	418
	<u>188.717</u>	<u>354.577</u>
Interest bearing loans from owners of the parent Company:		
Reykjavik City .....	10.393.710	10.898.111
Akranes town .....	614.251	644.060
Borgarbyggð, municipality .....	103.672	108.703
	<u>11.111.633</u>	<u>11.650.874</u>
	<b>2019</b>	<b>2018</b>
	<b>1.1.-30.6.</b>	<b>1.1.-30.6.</b>
Interest expense on loans from owners of the parent Company:		
Reykjavik City .....	532.329	555.038
Akranes town .....	31.127	32.661
Borgarbyggð, municipality .....	5.254	5.512
	<u>568.710</u>	<u>593.211</u>

### Guarantee fee to owners

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.

# Notes

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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 except for that the Group has elected not to recognise right-of-use assets and lease liabilities for leases of land owned by municipalities due to uncertainty in whether it classifies as lease under the terms of IFRS 16. When a conclusion has been reached on whether to recognise a right-of-use assets and lease liabilities for leasing of land owned by municipalities under the terms of IFRS 16 it would lead to a significant increase of right-of-use assets and lease liabilities in the balance sheet and significant affect on Group's financial statements.

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.

### *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 and land lease contracts for land owned by municipalities. 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 June 2019 is summarised below:

	<b>1 January to 30 June 2019</b>	<b>1 January 2019</b>	<b>30 June 2019</b>
Impacts on transition on balance sheet:			
Right-of-use assets .....		453.394	427.683
Lease liabilities .....		453.394	426.794
Income tax payable .....			334
Equity .....			554
Impacts on transition on income statement:			
Depreciation .....	31.072		
Interest cost .....	6.630		
Reversal of operating leases expense .....	( 38.591)		
Income tax .....	334		
Total impact on income statement 1.1.2019 to 30.6.2019 .....	( 554)		

# Notes

## 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 half for the year 2019 would have been ISK 39 million lower and profit for the period ISK 550 thousand lower. The impact on first half of 2019 is summarised below:

<b>Income statements</b>	<b>1 January to 30 June 2019</b>	<b>Impact of new standard</b>	<b>After IFRS 16 1.1.-30.6.2019</b>
Operating income .....	23.502.294	0	23.502.294
Operating expenses .....	( 9.610.054)	38.591	( 9.571.464)
<b>EBITDA</b>	<b>13.892.240</b>	<b>38.591</b>	<b>13.930.831</b>
Depreciation and impairment .....	( 5.696.456)	( 31.072)	( 5.727.529)
<b>Results from operating activities, EBIT</b>	<b>8.195.783</b>	<b>7.518</b>	<b>8.203.302</b>
Financial income and expenses .....	( 5.123.060)	( 6.630)	( 5.129.690)
Share in profit of associated companies .....	( 528)	0	( 528)
<b>Profit before income tax</b>	<b>3.072.196</b>	<b>888</b>	<b>3.073.084</b>
Income tax .....	276.615	( 334)	276.281
<b>Profit for the period</b>	<b>3.348.810</b>	<b>554</b>	<b>3.349.365</b>

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

<b>Balance sheet</b>	<b>31.12.2018</b>	<b>Impact of new standard</b>	<b>1.1.2019</b>
Right-of-use assets .....	0	453.394	453.394
Total assets .....	313.623.595	453.394	314.076.989
Equity .....	160.827.232	0	160.827.232
Non-current lease liabilities .....	0	383.412	383.412
Current lease liabilities .....	0	69.982	69.982
Total liabilities .....	179.261.642	453.394	179.715.035
Total equity and liabilities .....	340.088.874	453.394	340.542.267

## 11. Other matters

### **Correction on water fee**

On March 15th, the Ministry of Transport and Local Government ruled, following a charge from residents, that the water fee had been too high in the year 2016. Subsequently, it was decided to correct the fee. The correction, which covers four water supply areas of eight, amounts to ISK 440 million plus interest payments totaling ISK 61 million.

### **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.