Orkuveita Reykjavíkur

Condensed Consolidated
Interim Financial Statements
1 January to 30 September 2009

Orkuveita Reykjavíkur
Bæjarhálsi 1
110 Reykjavík

kt. 551298-3029

Contents

Endorsement by the Board of Directors and the Managing Director

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic law No.139/2001 on the founding of the partnership Orkuveita Reykjavíkur. The Company is an independent service company that produces and distributes electricity and distributes geothermal water for heating and cold water for consumption. It also operates sewage systems and fibre-optic cable system in its service area.

The condensed consolidated interim financial statements for the period 1 January to 30 September 2009 are prepared in accordance with the International Financial Reporting Standard IAS 34 Interim financial reporting. The financial statements comprise the consolidated interim financial statements of Orkuveita Reykjavíkur and subsidiaries. The financial statements have been reviewed by the independent auditor of the company.

Loss of the operations of Orkuveita Reykjavíkur during the period amounted to ISK 11.288 million. According to the statement of financial position the Company´s assets amount to ISK 267.255 million, book value of equity at the end of the period amounted to ISK 36.470 million and the Company´s equity ratio is 13.6%

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

	Share
Reykjavíkurborg	93.539%
Akraneskaupstaður	5.528%
Borgarbyggð	0.933%

The Icelandic Parliament passed changes to several Acts affecting the energy sector in this spring session 2008, which will come into effect 1 January 2010. These changes involve among others things that the Company must be split so that exclusive licence operations and competitive operations will be operated in separate entities. Preparations for these changes are underway.

Statement by the Board of Directors and the Director

According to the best knowledge of the Board of Directors and the Director of Orkuveita Reykjavíkur, the company´s condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU. It is the opinion of the Board of Directors and the Director that the condensed consolidated interim financial statements give a fair view of the Company's assets, liabilities and financial position at 30 September 2009 and the company´s operating return and changes in cash and cash equivalents for the period then ended.

It is the opinion of the Board of Directors and the Director that the condensed interim financial statements give a fair view of the Company´s operating development and results, its standing and describe the main risk factors and uncertainties faced by the Company.

The Board of Directors and the Director of Orkuveita Reykjavíkur hereby confirm the Company´s condensed consolidated interim financial statements for the period 1 January to 30 September 2009.

Reykjavík, 27 November 2009

The Board of Directors:
Guðlaugur G. Sverrisson
Kjartan Magnússon
Júlíus Vífill Ingvarsson
Gunnar Sigurðsson
Sigrún Elsa Smáradóttir
Þorleifur Gunnarsson

Director:
Hjörleifur B. Kvaran

Independent Auditor´s Review Report

To the Board of Directors and owners of Orkuveita Reykjavíkur

We have reviewed the accompanying condensed financial statements of Orkuveita Reykjavíkur, which comprise the interim statement of financial position as at 30 September 2009 and the interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this 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 others 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 could 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 belive that the accompanying interim financial information does not give a true and fair view of the financial position of the Company as at 30 September 2009, and of its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 27 November 2009

KPMG hf.
Hlynur Sigurðsson
Auðunn Guðjónsson

Interim statement of comprehensive income for the period ended 30 September 2009

	Notes	2009 1.7.-30.9.	2008 1.7.-30.9.	2009 1.1.-30.9.	2008 1.1.-30.9.
Operating revenue		6.035.481	5.447.259	17.959.986	16.816.467
Energy purchase		(1.066.933)	(939.674)	(3.380.357)	(2.917.229)
Salaries and salary rel. expenses	4	(902.257)	(985.572)	(2.864.697)	(2.882.002)
Other operating expenses		(1.232.583)	(1.155.709)	(3.189.229)	(2.834.715)
Depreciation and amortisation	5	(2.277.957)	(1.681.669)	(6.979.462)	(4.990.143)
Results from operating activities		555.752	684.635	1.546.242	3.192.378
Interest income		85.219	262.783	204.810	736.787
Interest expenses		(815.106)	(1.849.549)	(3.513.578)	(4.873.883)
Other (expenses) income on financial assets and liabilities		(310.590)	(26.930.076)	(11.864.139)	(46.566.922)
Total financial income and expenses	6	(1.040.477)	(28.516.842)	(15.172.907)	(50.704.018)
Share in profit (loss) of associated companies		0	29.739	32.871	43.597
(Loss) profit before income tax		(484.725)	(27.802.468)	(13.593.794)	(47.468.043)
Income tax	7	(188.652)	4.619.980	2.305.491	7.879.900
(Loss) profit for the period		(673.378)	(23.182.488)	(11.288.303)	(39.588.143)

Other comprehensive income

Comprehensive income is defined as profit (loss) for the period in addition with certain transactions in equity. During the period there were no such transactions and the comprehensive income is the same as profit (loss) for the period.

Attributable to:				
Owners of the Parent	(675.198)	(23.154.733)	(11.284.885)	(39.536.430)
Non-controlling interests	1.820	(27.755)	(3.418)	(51.713)
(Loss) profit for the period	(673.378)	(23.182.488)	(11.288.303)	(39.588.143)

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 5 Amounts are in ISK thousands

Interim Statement of Financial Position at 30 September 2009

	Notes	30.9. 2009	31.12. 2008
Assets			
Property, plant and equipment	8	234.275.481	226.970.432
Intangible assets	9	1.737.174	1.680.693
Investments in associated companies		669.886	574.470
Investments in other companies		2.533.880	10.026.011
Embedded derivatives in electricity sales contracts	10	10.650.456	9.091.449
Other financial assets		25.873	105.331
Deferred tax assets	11	6.476.121	4.169.441
Total non-current assets		256.368.870	252.617.827
Inventories		883.955	1.544.565
Trade receivables		2.851.418	3.292.480
Embedded derivatives in electricity sales contracts	10	295.459	0
Other financial assets		355.112	111.374
Investments in other companies		5.440.097	0
Other receivables		404.560	563.279
Cash and cash equivalents		655.182	1.243.639
Total current assets		10.885.782	6.755.337
Total assets		267.254.652	259.373.164
Equity			
Revaluation reserve		55.842.384	55.842.384
(Accumulated deficit)		(19.402.409)	(7.517.523)
Equity attributable to owners of the Parent		36.439.975	48.324.860
Non-controlling interests		30.353	33.770
Total equity		36.470.328	48.358.630
Liabilities			
Loans and borrowings	13	206.246.750	196.098.760
Retirement benefit obligation		439.624	456.027
Other financial liabilities		31.770	34.468
Total non-current liabilities		206.718.143	196.589.255
Account payables		2.396.974	2.443.340
Loans and borrowings	13	19.860.100	9.681.610
Other financial liabilities		18.214	17.645
Current tax liabilities	11	0	218
Other current liabilities		1.790.894	2.282.466
Total current liabilities		24.066.181	14.425.279
Total liabilities		230.784.325	211.014.534
Total equity and liabilities		267.254.652	259.373.164

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 6 Amounts are in ISK thousands

Interim Statement of changes in Equity for the period ended 30 September 2009

	Revaluation reserve	(Accumulated deficit) Retained earnings	Attributable to owners of the Parent	Non-controlling interest	Total equity
1.1.-30.9. 2009					
Equity at 1 January 2009	55.842.384	(7.517.523)	48.324.861	33.770	48.358.630
Loss for the period		(11.284.885)	(11.284.885)	(3.418)	(11.288.303)
Total recognised loss	0	(11.284.885)	(11.284.885)	(3.418)	(11.288.303)
Dividends paid		(600.000)	(600.000)		(600.000)
Equity at 30 September 2009 ...	55.842.384	(19.402.408)	36.439.976	30.352	36.470.328
1.1.-30.9. 2008					
Equity at 1 January 2008	23.374.919	65.490.687	88.865.606	122.764	88.988.370
Loss for the period		(39.536.430)	(39.536.430)	(51.713)	(39.588.143)
Total loss for the period	0	(39.536.430)	(39.536.430)	(51.713)	(39.588.143)
Other changes				(12.000)	(12.000)
Dividends paid		(1.170.259)	(1.170.259)		(1.170.259)
Equity at 30 September 2008 ...	23.374.919	24.783.998	48.158.917	59.051	48.217.968

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 7 Amounts are in ISK thousands

Interim Statement of Cash Flows for the period ended 30 September 2009

	2009 1.1.-30.9.	2008 1.1.-30.9.
Cash flows from operating activities		
Loss for the period	(11.288.303)	(39.588.143)
Financial income and expenses	15.172.907	50.704.018
Other items not affecting cash flow	4.624.846	(2.909.600)
Changes in operating assets and liabilities	880.014	(1.333.331)
Working capital from operation before interests and taxes	9.389.464	6.872.944
Received interest income	203.606	812.914
Paid interest expenses	(4.073.663)	(3.603.201)
Paid due other financial income and expenses	(109.136)	(285.103)
Net cash from operating activities	5.410.271	3.797.554
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(13.506.123)	(21.409.204)
Acquisition of associated companies	(450)	(215.557)
Acquisition of other financial assets	(97.027)	(933.641)
Proceed from sale of shares in other companies	568.051	0
Proceed from sale of other assets	43.888	61.479
Net cash used in investing activities	(12.991.661)	(22.496.923)
Cash flows from financing activities		
Proceeds from new borrowings	5.261.995	13.789.204
Repayment of borrowings	(4.975.512)	(2.440.826)
Dividends paid	(600.000)	(1.170.259)
Credit facility, change	(542.789)	11.065.180
Current liabilities, increase	7.179.585	(2.785.440)
Net cash from financing activities	6.323.279	18.457.859
(Decrease) increase in cash and cash equivalents	(1.258.111)	(241.510)
Cash and cash equivalents at beginning of the year	1.243.639	3.751.013
Change in the Group	(5.907)	0
Effect of currency fluctuations on cash and cash equivalents	675.561	632.137
Cash and cash equivalents at period end	655.182	4.141.640
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	(1.416.139)	(1.228.216)
Acquisition of other companies	122.146	0
Other financial assets, change	(122.146)	0
Current liabilities, change	1.416.139	1.228.216
Other information:		
Working capital from operation	5.511.742	4.635.887

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 8 Amounts are in ISK thousands

Notes to the Interim Financial Statements

Notes

1. Reporting entity

Orkuveita Reykjavíkur is a partnership that complies with the Icelandic Act No.139/2001 on founding the partnership of Orkuveita Reykjavíkur. The Company´s headquarters are at Bæjarháls 1 in Reykjavík. The Company´s consolidated interim financial statements include the interim financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and share in associated companies.

The Company is an independent service company that produces and distributes electricity, distributes geothermal water for heating, cold water for consumption, sewer systems, and operates fibre-optic cable systems.

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 Company as at and for the year ended 31 December 2008.

The interim financial statements were approved by the Board of Directors 27 November 2009.

b. *Basis of measurement*

The accounting policies applied by the Group in these condensed consolidated interim financial stements are the same as those applied by the Group in its consolidated financial annual statements as at and for the year ended 31 December 2008. The consolidated financial statements for the Group as at and for the year ended 31 December 2008 are available upon request from the Company´s registered office at Bæjarháls 1, Reykjavík, at www.or.is or at The Nordic Stock Exchange´s website, www.omxgroup.com.

The consolidated interim financial statements have been prepared on the historical cost basis except for the following:

-a part of plant and equipment was revalued at fair value
-embedded derivatives in electricity contracts
-investments in other companies
-other financial assets and financial liabilities

c. *Functional and presentation currency*

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

d. *Use of estimates and judgements*

The preparation of 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 interim financial statements is included in the following notes:

Note 8 - Property, plant and equipment
Note 10 - Embedded derivatives in electricity contracts
Note 11 - Deferred tax assets and liabilities
Note 16 - Other issues

Notes

3. Segment reporting

Segment information is presented by the Group´s internal reporting. Business segments consist of distribution, production and sale, and other operation. In addition, information is provided on the Group´s sectors, which are electricity, hot water, sewer and fibre-optic cable systems.

Business segments - divisions

1.1.-30.9. 2009	Distribution	Production and sale	Other operation	Adjust-ments	Total
External revenue	4.055.912	13.462.774	441.300	0	17.959.986
Inter-segment revenue	4.231.313	3.196.692	285.444	(7.713.449)	0
Total segment revenue	8.287.225	16.659.466	726.744	(7.713.449)	17.959.986
Segment result	1.696.273	560.856	(67.202)	0	2.189.927
Unallocated expenses					(643.685)
Result from operating activities					1.546.242
Financial income and expenses					(15.172.907)
Share of loss of associated companies					32.871
Income tax					2.305.491
Loss of the period					(11.288.303)

1.1.-30.9. 2008	Distribution	Production and sale	Other operation	Adjust-ments	Total
External revenue	4.428.679	11.802.361	585.427		16.816.467
Inter-segment revenue	4.583.969	3.004.027	823.536	(8.411.532)	0
Total segment revenue	9.012.648	14.806.388	1.408.963	(8.411.532)	16.816.467
Segment result	2.906.486	848.453	(133.326)	0	3.621.613
Unallocated expenses					(429.235)
Result from operating activities					3.192.378
Financial income and expenses					(50.704.018)
Share of loss of associated companies					43.597
Income tax					7.879.900
Loss for the period					(39.588.143)

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 11 Amounts are in ISK thousands

3. Segment reporting, contd.

Business segments - divisons, contd. 1.1.-30.9. 2009	Distribution	Production and sale	Other operation	Adjust-ments	Total
Financial position (30.9. 2009)					
Property, plant and equipment	100.023.840	125.425.697	422.176	8.403.768	234.275.481
Intangible assets			238.704	1.498.470	1.737.174
Investments in associated companies					669.886
Other unallocated assets					30.572.111
Total assets					267.254.652
Unallocated liabilities					230.784.325
Investments:					
Property, plant and equipment	3.638.248	10.487.769	2.254	53.107	14.181.378
Intangible assets	0	0	45.086	114.527	159.613
Depreciation:					
Property, plant and equipment	3.085.788	3.479.093	0	311.448	6.876.329
Intangible assets	0	0	0	103.133	103.133
1.1.-30.9. 2008					
Financial position (31.12. 2008)					
Property, plant and equipment	99.886.587	117.887.037	448.305	8.748.503	226.970.432
Intangible assets	0	0	193.619	1.487.074	1.680.693
Investments in associated companies					574.470
Other unallocated assets					30.147.569
Total assets					259.373.164
Unallocated liabilities					211.014.534
Investments:					
Property, plant and equipment	5.566.931	16.283.572	86.915	373.677	22.311.095
Intangible assets	0	0	153.968	172.938	326.906
Depreciation:					
Property, plant and equipment	2.405.779	2.123.625	0	360.334	4.889.738
Intangible assets	0	0	0	100.404	100.404

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 12 Amounts are in ISK thousands

3. Segment reporting, contd.

Business segments - sectors

1.1.-30.9. 2009	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Revenue							
External revenues	9.403.609	4.391.165	1.919.245	1.660.979	584.988	0	17.959.986
Inter-segment revenue	738.160	260.357	31.582	27.332	0	(1.057.431)	0
Total revenue	10.141.769	4.651.522	1.950.827	1.688.311	584.988	(1.057.431)	17.959.986
Assets (30.9. 2009)							
Property, plant and equity	116.858.109	56.017.899	17.282.686	36.384.574	7.732.213	0	234.275.481
Intangible assets	774.708	604.332	115.382	242.752	0	0	1.737.174
Unallocated assets							31.241.997
Total assets	117.632.817	56.622.231	17.398.068	36.627.326	7.732.213	0	267.254.652
Investments:							
Property, plant and equity	8.405.339	3.023.596	178.827	2.093.512	480.104	0	14.181.378
Intangible assets	59.324	73.031	8.819	18.439	0	0	159.613
Depreciation:							
Property, plant and equity	3.069.077	1.877.222	496.130	1.101.589	332.311	0	6.876.329
Intangible assets	39.404	32.134	9.897	21.698	0	0	103.133

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 13 Amounts are in ISK thousands

3. Segment reporting, contd.

Business segments - sectors, contd.

1.1.-30.9. 2008	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Revenue							
External revenues	8.614.894	4.337.375	1.544.898	2.011.430	307.870	0	16.816.467
Inter-segment revenue	906.417	360.197	60.292	78.499	0	(1.405.405)	0
Total revenue	9.521.311	4.697.572	1.605.190	2.089.929	307.870	(1.405.405)	16.816.467
Assets (31.12. 2008)							
Property, plant and equity	113.379.586	52.682.272	17.755.777	35.568.377	7.584.420	0	226.970.432
Intangible assets	785.175	541.594	117.479	236.445	0	0	1.680.693
Unallocated assets							30.722.039
Total assets	114.164.761	53.223.866	17.873.256	35.804.822	7.584.420	0	259.373.164
Investments:							
Property, plant and equity	15.774.450	4.579.836	622.739	1.122.458	211.612	0	22.311.095
Intangible assets	86.123	196.857	14.700	29.226	0	0	326.906
Depreciation:							
Property, plant and equity	1.852.510	1.583.425	379.180	800.441	274.182	0	4.889.738
Intangible assets	38.361	31.284	9.635	21.124	0	0	100.404

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 14 Amounts are in ISK thousands

Notes

4. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:	2009 1.1.-30.9.	2008 1.1.-30.9.
Salaries	2.724.381	2.847.892
Defined contribution pension plan expense	365.906	388.368
Retirement benefit obligation, change	(4.683)	24.200
Other salary related expenses	226.494	217.292
Total salaries and salary related expenses	3.312.098	3.477.752

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

Expensed in the income statement	2.864.697	2.882.002
Capitalised on projects	447.401	595.750
Total salaries and salary related expenses	3.312.098	3.477.752

5. Depreciation and amortisation

Depreciation and amortisation is specified as follows:	2009 1.1.-30.9.	2008 1.1.-30.9.
Depreciation of property, plant and equipment, cf.note 8	6.876.328	4.889.739
Amortisation of intangible assets, cf.note 9	103.133	100.404
Deprec. and amortisation recog. in the income statement	6.979.461	4.990.143

6. Financial income and expenses

Financial income and expenses are specified as follows:	2009 1.1.-30.9.	2008 1.1.-30.9.
Interest income	204.810	736.787
Interest expenses	(3.164.848)	(4.671.034)
Guarantee fee to owners	(348.730)	(202.849)
Total interest expenses	(3.513.578)	(4.873.883)
Fair value changes of embedded deriv. in electr. sales contr.	1.854.466	16.773.696
Fair value changes of shares in other companies	(1.313.912)	(45.012)
Foreign exhange difference and forward currency swaps	(12.411.323)	(63.378.517)
Dividends	6.630	82.911
Total income (expenses) on financial assets and liabilities	(11.864.139)	(46.566.922)
Total financial income and expenses	(15.172.907)	(50.704.018)

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 15 Amounts are in ISK thousands

6. Financial income and expenses, contd.

Financing cost due to construction of power plant to the amount of ISK 1.492,6 million is capitalised and has been recognised as reduction of financial expenses (1.1. to 30.9.2008: ISK 480,5 million).

Capitalized finance cost is calculated from an estimate of the Icelandic interest rates that would have given a good indication of the interest terms the Group would have received, if the power plant constructions were financed in ISK during the construction period. This is done to reflect that the foreign currency denominated interest rates of the Group´s debt portfolio does not give good indication of interest incurred during construction time. The average of monthly REIBOR fixing during the period 1.1. to 30.9.2009 is used, the average is 12.69%. A margin that reflects the Group´s terms from the Icelandic banks during 1.1. to 30.9.2009 is added, this margin is 1.25%. In addition the Group´s owners annual guaranty fee of 0.25% is added, in total the interest rate is 14.19%.

	2009 1.1.-30.9.	2008 1.1.-30.9.
Interest expenses, charged in the income statement	(3.513.578)	(4.873.883)
Capitalised finance cost	(1.492.568)	(480.504)
Interest expenses	(5.006.146)	(5.354.397)

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities. Change in fair value that is recognised in the income statement amounts to revenue of ISK 1.854 million (1.1. to 30.9.2008: revenue of ISK 16.774 million).

7. Income tax

Orkuveita Reykjavikur is tax liable in accordance with Article 2 of law no.90/2003 on income tax. The part of the Company´s operation concerning operation of cold water supply and sewer is though exempt from income tax.

Income tax recognised in the income statement is specified as follows:	2009 1.1.-30.9.	2008 1.1.-30.9.
Change in deferred income tax	(2.305.491)	(7.879.900)
Income tax recognised in the income statement	(2.305.491)	(7.879.900)

Reconciliation of effective tax rate:		2009 1.1.-30.9.		2008 1.1.-30.9.
(Loss) before tax		(13.593.794)		(47.468.043)
Income tax according to current tax ratio	23.5%	(3.194.542)	23.5%	(11.154.990)
Change in the tax ratio	0.0%	0	1.0%	(455.557)
Non-taxable oper. of water supply and sewer	(4.0%)	543.686	(7.4%)	3.513.541
Other items	(2.5%)	345.365	(0.5%)	217.106
Effective income tax	17.0%	(2.305.491)	16.6%	(7.879.900)

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 16 Amounts are in ISK thousands

Notes

8. Property, plant and equipment

Property, plant and equipment is specified as follows:

1.1.-30.9. 2009	Production system	Distribution system	Other real estates	Other equipments	Total
Cost					
Balance at year beginning	164.856.768	184.796.025	10.471.217	2.550.391	362.674.401
Additions during the period	10.464.243	3.001.075	699.354	16.707	14.181.379
Sold/dismissed dur. the per.		412.243	12.157	902.790	1.327.190
Balance at end of period	175.321.011	188.209.343	11.182.728	3.469.888	378.182.970
Depreciation					
Balance at year beginning	46.181.542	85.742.803	1.855.065	1.924.560	135.703.969
Depreciated during the period	3.502.419	3.076.143	185.663	112.103	6.876.328
Sold/dismissed dur. the per.		412.243	12.157	902.790	1.327.190
Balance at end of period	49.683.961	89.231.189	2.052.885	2.939.453	143.907.487
Carrying amounts					
At 1.1. 2009................................	118.675.226	99.053.223	8.616.153	625.831	226.970.432
At 30.9. 2009..............................	125.637.050	98.978.154	9.129.844	530.435	234.275.483
Thereof assets in con-struction at end of period..........	22.263.388	1.698.053	0	0	23.961.441

1.1.-31.12. 2008	Production system	Distribution system	Other real estates	Other equipments	Total
Cost					
Balance at year beginning	112.503.139	138.979.119	9.696.737	2.791.851	263.970.846
Reclassification of assets	272.626	(116.328)	(42.958)	(535.364)	(422.025)
Additions during the year	22.755.532	7.189.060	817.439	293.904	31.055.935
Revaluation	29.325.471	38.744.174	0	0	68.069.645
Balance at year end	164.856.768	184.796.025	10.471.217	2.550.391	362.674.401
Depreciation					
Balance at year beginning	34.657.781	63.034.380	1.670.824	2.190.924	101.553.909
Reclassifications of assets	91.051	34.849	(770)	(500.325)	(375.194)
Depreciated during the year	3.207.411	3.174.612	185.011	233.961	6.800.995
Revaluation	8.225.299	19.498.962	0	0	27.724.260
Balance at year end	46.181.542	85.742.803	1.855.065	1.924.560	135.703.969
Carrying amounts					
At 1.1. 2008................................	77.845.358	75.944.739	8.025.913	600.927	162.416.937
At 31.12. 2008............................	118.675.226	99.053.223	8.616.153	625.831	226.970.432
Thereof assets in con-struction at end of period..........	12.389.190	0	0	0	12.389.190

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 17 Amounts are in ISK thousands

Notes

8. Property, plant and equipment, contd.

Obligations

In May 2008 the Company entered into a contract concerning purchase of equipment for power plants. The equipment will be delivered in the years 2010 and later. The contract and other contracts regarding developments at Hellisheiði amount to ISK 39.8 billion as per exchange rate at the end of the period (31.12. 2008: ISK 35.5 billion). Furthermore, the Company 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 30 September 2009 is estimated at ISK 239,5 million (31.12. 2008: ISK 1.9 billion).

9. Intangible assets

Intangible assets are specified as follows:

1.1.-30.9. 2009	Heating rights	Preparation cost	Software	Total
Cost				
Balance at year beginning	1.427.031	193.620	1.746.214	3.366.865
Additions during the period		45.086	114.527	159.613
Sold/dismissed during the period			212.493	212.493
Balance at year end	1.427.031	238.706	2.073.234	3.738.971
Amortisation				
Balance at year beginning	410.674	0	1.275.497	1.686.171
Additions during the year	10.365		92.768	103.133
Sold/dismissed during the period			212.493	212.493
Balance at year end	421.039	0	1.580.758	2.001.797
Carrying amounts				
At 1.1. 2009	1.016.357	193.620	470.717	1.680.693
At 30.9. 2009	1.005.992	238.706	492.476	1.737.174

1.1.-31.12. 2008				
Cost				
Balance at year beginning	1.427.031	64.888	1.107.268	2.599.187
Additions during the period	0	0	422.025	422.025
Sold/dismissed during the period	0	128.732	216.921	345.652
Balance at year end	1.427.031	193.620	1.746.214	3.366.865
Amortisation				
Balance at year beginning	390.881	0	768.318	1.159.199
Additions during the year	0	0	375.195	375.195
Sold/dismissed during the period	19.793	0	131.984	151.777
Balance at year end	410.674	0	1.275.497	1.686.171
Carrying amounts				
At 1.1. 2008	1.036.150	64.888	338.950	1.439.988
At 31.12. 2008	1.016.357	193.620	470.717	1.680.693

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 18 Amounts are in ISK thousands

10. Embedded derivatives in electricity sales contracts

Four electricity sales contracts have been made to 20 years, one with Landsvirkjun in regards of Norðurál and three with Norðurál in regards of the aluminium plant at Grundartangi, in addition to contracts with Landsnet hf. on distribuiton of electricity. Orkuveita Reykjavíkur and Norðurál have also made an electricity sales contract due to sale of electricity to a pending aluminium plant in Helguvik, where delivery of electricity for the first stage is estimated to begin in the year 2011, but this contract is longterm for 25 years. These electricity sales contracts are made in USD and the price of the electricity is connected to the world market price of aluminium.

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 provision of IAS 39 on financial instruments, the fair value of those embedded derivatives for Grundartangi and partially for Helguvík has been measured and recognised in the financial statements.

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 an 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 30 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 change 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.

The fair value of embedded derivatives due to electricity sales contracts, which have not yet been executed and that are uncertain, is calculated in the same way. Their fair value amounts to a total of ISK 6.819 million at 30 September 2009 (31.12.2008: ISK 8.257 million) and is not recognised in the interim financial statements.

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

	30.9. 2009	31.12. 2008
Non-Current embedded derivatives 1.1.	9.091.449	8.154.304
Current emedded derivatives	1.854.466	937.145
Total embedded derivatives	10.945.915	9.091.449

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

	30.9. 2009	31.12. 2008
Non-Current embedded derivatives	10.650.456	9.412.328
Current emedded derivatives	295.459	(320.879)
Total embedded derivatives	10.945.915	9.091.449

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 19 Amounts are in ISK thousands

Notes

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

1.1.-30.9. 2009	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	4.169.441		4.169.441
Calculated income tax for the period	2.305.491		2.305.491
Other changes	1.189		1.189
Deferred tax assets/liabilities at the end of the period	6.476.121	0	6.476.121

1.1.-31.12. 2008	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	190.443	4.716.084	(4.525.641)
Effect of change in income tax rate	0	(537.295)	537.295
Effect of a revaluation of non-current assets	(6.895.739)	0	(6.895.739)
Calculated income tax for the year	10.874.518	(4.189.747)	15.064.266
Current tax liabilities	218	0	218
Other changes	0	10.958	(10.958)
Deferred tax assets/liabilities at year end	4.169.441	0	4.169.441

Deferred tax assets and liabilities are attributable to the following:

	30.9. 2009		31.12. 2008	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(11.050.704)		(11.085.420)	0
Embedded derivatives	(2.572.290)		(2.136.491)	0
Other items	171.470		171.992	0
Effect of carry forward taxable loss	19.927.645		17.219.360	0
Deferred tax assets/liabilities at end of per.	6.476.121	0	4.169.441	0

12. Equity

It is the Copmany´s policy to maintain a strong equity standing in order to support stability and future development of the operation. Dividend payments have been determined as a percentage of equity, independent from the profit or loss of the relevant year. The owners´ meeting takes the decision of dividend payments.

Equity ratio of the Group at the end of the period is 13.6% (31.12.2008: 18.6%). Return on equity is negative by 41.5% during the period (1.1. to 31.12.2008: negative by 69.4%).

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 20 Amounts are in ISK thousands

13. Loans and borrowings

The Group´s interest-bearing loans and borrowings are measured at amortised cost. For more information about the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 14.

Non-current liabilities	**30.9. 2009**	**31.12. 2008**
Bank loans	191.178.492	178.925.311
Credit facility	15.740.308	15.059.998
Bond issuance	7.766.464	7.553.061
	214.685.265	201.538.370
Current portion on non-current liabilitiy	(8.438.514)	(5.439.610)
	206.246.750	196.098.760
Current liabilities		
Current portion on non-current liabilities	8.438.514	5.439.610
Bank loans	11.421.585	4.242.000
	19.860.100	9.681.610
Total interest on non-current liabilities	226.106.850	205.780.370

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

		30.9. 2009		31.12. 2008	
	Date of maturity	**Average interest rate**	**Carrying amount**	**Average interest rate**	**Carrying amount**
Liabilities in CHF	26.6.2036	0,80%	41.039.217	2,31%	39.214.737
Liabilities in EUR	26.6.2036	1,39%	85.558.796	4,77%	76.654.728
Liabilities in USD	10.3.2028	1,08%	31.571.594	2,66%	31.994.843
Liabilities in JPY	26.6.2036	0,79%	22.210.911	1,10%	23.635.999
Liabilities in GBP	26.6.2036	1,62%	8.054.023	3,67%	3.282.738
Liabilities in SEK	5.10.2027	1,10%	14.389.936	4,26%	12.676.195
Liabilities in CAD	31.3.2012	0,85%	3.892.313	2,61%	6.317.637
			206.716.790		193.776.877
Liablities in ISK:					
Indexed		5,19%	7.968.474	5,17%	7.761.493
Non-indexed		9,75%	11.421.585	21,09%	4.242.000
			19.390.059		12.003.493
Total interest-bearing loans and borrowings			226.106.850		205.780.370

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 21 Amounts are in ISK thousands

13. Loans and borrowings, contd.

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

	30.9. 2009	31.12. 2008
1.10. 2009 to 30.9 2010 / 1.1. to 31.12 2009	8.438.514	5.439.610
1.10. 2010 to 30.9 2011 / 1.1. to 31.12 2010	16.543.058	5.060.784
1.10. 2011 to 30.9 2012 / 1.1. to 31.12 2011	15.006.252	24.159.150
1.10. 2012 to 30.9 2013 / 1.1. to 31.12 2012	27.261.414	9.927.624
1.10. 2013 to 30.9 2014 / 1.1. to 31.12 2013	15.951.261	28.769.781
Later	131.484.765	128.181.421
Total non-current liabilities, including next year´s repayment	214.685.265	201.538.370

Guarantees and pledges

The owners of the parent company are responsible, pro rata, for all of the Parent´s and HAB´s liabilities and obligations. The Group has not pledged its assets as guarantee for its liabilities.

14. Risk management and financial instruments

a. *Overview*

Orkuveita Reykjavikur has approved a policy on objectives and execution of risk management. The main objectives with risk management according to the policy is to contribute to a stable return and limit financing cost by limiting fluctuations in currency exchange and aluminium prices and to contribute to a low intrest rate.

The Group´s currency risk is related to cash flow risk and risk in the balance sheet. Interest rate risk related to the variance of variable interests and fixed interest and can relate to both cash flow and the balance sheet. Risk due to variance of aluminium prices is due to the relation between electricity price to industries and aluminium price level and relates to the cash on electricity sale to industry consumers.

The Group´s currency risk is monitored both in cash flow and in the balance sheet with generally accepted calculation methods. Annual standard deviation and daily value at risk for liabilities and estimated cash flow in foreign currencies is measured. Risk in cash flow due to changes in aluminium prices and interests is measured based on the same method.

The policy defines risk and sets performance levels. The Company´s Board of Directors receives on a regular basis a statement on the standing and performance of the Group´s risk management.

Decision making and control on the execution of the risk management is in the hands of a risk committee. The risk committee consists of the Director, Managing Director of finance, Head of financial and risk management and Head of the financial department.

•Market risk
•Liquidity risk
•Credit risk

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 22 Amounts are in ISK thousands

14. Risk management and financial instruments contd.

b. *Market risk*

Market risk is the risk that changes in the market price of foreign currencies, aluminium price and interests will affect the group´s income or the value of its financial instruments. This is the risk that weights the most in the Group and is divided into:

•Currency risk due to liabilities in the balance sheet and cash flow in foreign currencies.
•Interest rate risk due to loans.
•Risk due to changes in the world market price of aluminium.

i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than Icelandic kronas (ISK). Currencies mainly creating risk are Euro (EUR), Swiss Francs (CHF), Japanese Yens (JPY), United States dollar (USD) and Swedish kronas (SEK).

Approx 91.4% of the Group´s non-current loans are in foreign currencies and creates thus currency risk. This currency risk is hedged in accordance with the Company´s policy on risk management where the interest cost of the loans is assessed together with the currency risk. Interest rate of loans in foreign currencies was considerably lower than for loans in Icelandic kronas. 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 170.679 millions. That amount is based on the future price of aluminium on LME (London Metal Exhange) on the accounting date and expectations of price development of aluminium for the next 30 years according to the assessment of CRU, an independent evaluation party, as available on the accounting date.

Foreign exhange rate of the main currencies during the year is specified as follows:

	1.1.-30.9. 2009	2008	30.9. 2009	31.12. 2008
	Average exchange rate		Exchange rate	
CHF	111,755	80,698	119,56	113,905
EUR	168,831	127,457	181,045	169,470
USD	123,385	88,088	124,075	121,245
JPY	1,304	0,863	1,38605	1,3402
GBP	190,729	159,361	198,51	176,745
SEK	15,803	13,195	17,7625	15,523
CAD	106,061	81,585	116,67	98,750
Narrow trade index (TWI at year-end)	218,886	166,444	232,87	216,300

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 23 Amounts are in ISK thousands

14. Risk management and financial instruments, contd.

b. *Market risk, contd.*

i) Currency risk, contd.

Exposure to currency risk
The Group´s exposure to currency risk based on the nominal amounts is specified as follows:

30.9. 2009	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(41.039.217)	(85.558.796)	(31.571.594)	(22.210.911)	(8.054.023)	(3.892.313)	(14.389.936)		(206.716.790)
Accounts payable	(8.959)				(126)			(1.856)	(10.942)
Trade receivables		191.551	424.719			1.398	21		617.688
Bank deposits	667	43.061	217.605	84.763	127	48	35	0	346.307
Aluminium derivatives			10.945.915						10.945.915
Balance sheet risk	(41.047.509)	(85.324.184)	(19.983.355)	(22.126.148)	(8.054.022)	(3.890.867)	(14.389.881)	(1.856)	(194.817.822)
Estimated sale in 2009/2010			5.177.170						5.177.170
Estimated purchase in 2009/2010	(12.609)	(4.290.418)	(146.146)	(3.437.205)			(218)	(127)	(7.886.724)
Off Balance-sheet risk	(12.609)	(4.290.418)	5.031.024	(3.437.205)	0	0	(218)	(127)	(2.709.554)
Swaps	(698.156)			648.172					(49.984)
Net risk	(41.758.275)	(89.614.601)	(14.952.331)	(24.915.181)	(8.054.022)	(3.890.867)	(14.390.099)	(1.983)	(197.577.360)

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 24 Amounts are in ISK thousands

14. Risk management and financial instruments, contd.

b. *Market risk, contd.*

i) Currency risk, contd.

Exposure to currency risk, contd.

31.12. 2008	**CHF**	**EUR**	**USD**	**JPY**	**GBP**	**CAD**	**SEK**	**DKK**	**Total**
Loans and borrowings	(39.214.737)	(76.654.728)	(31.994.843)	(23.635.999)	(3.282.738)	(6.317.637)	(12.676.195)		(193.776.877)
Accounts payable							(2.645)	(2.235)	(4.880)
Trade receivables	11.922	214.851	406.224		1.061			10.595	644.653
Bank deposits	2.516	26.204	428.906	81	7.104	44.489	2.833		512.133
Aluminium derivatives			9.091.449						9.091.449
Balance sheet risk	(39.200.299)	(76.413.673)	(22.068.264)	(23.635.918)	(3.274.573)	(6.273.148)	(12.676.007)	8.360	(183.533.522)
Estimated sale in 2009/2010			4.235.432						4.235.432
Estimated purchase in 2009/2010		(2.852.531)	(143.411)	(1.650.829)	(538)	(1.183)	(6.890)	(528)	(4.655.910)
Off Balance-sheet risk	0	(2.852.531)	4.092.021	(1.650.829)	(538)	(1.183)	(6.890)	(528)	(420.478)
Swaps	(835.899)			783.787					(52.112)
Net risk	(40.036.198)	(79.266.204)	(17.976.243)	(24.502.960)	(3.275.111)	(6.274.331)	(12.682.897)	7.832	(184.006.112)

Sensitivity analysis

Strengthening by 10% of the Icelandic krona against the following currencies would have increased (decreased) equity and profit or loss by the amounts shown

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
1.1.-30.9. 2009	3.140.134	6.527.300	1.528.727	1.692.650	616.133	297.651	1.100.826	142	14.903.563
1.1.-31.12. 2008	2.998.823	5.845.646	1.688.222	1.808.148	250.505	479.896	969.715	(640)	14.040.315

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 25 Amounts are in ISK thousands

14. Risk management and financial instruments, contd.

b. *Market risk, contd.*

ii) Interest rate risk

Interest-bearing financial assets and liabilities are specified as follows at the end of the period:

Fixed rate instruments	**30.9. 2009**	**31.12. 2008**
Financial assets	380.984	216.705
Financial liabilities	15.054.736	15.015.002
	14.673.752	14.798.297

Variable rate instruments		
Financial liabilities	211.102.098	190.817.481
	211.102.098	190.817.481

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for avariable rate instruments
A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or (loss)	
1.1.-30.9. 2009	**100 p increase**	**100p decrease**
Variable rate instruments	(3.158.234)	3.337.086
Cash flow sensitivity, net	(3.158.234)	3.337.086
1.1.-31.12. 2008		
Variable rate instruments	(2.435.472)	2.612.795
Cash flow sensitivity, net	(2.435.472)	2.612.795

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 26 Amounts are in ISK thousands

Notes

14. Risk management and financial instrumetns, contd.

b. *Market risk, contd.*

iii) Aluminium price risk

The Group has entered into electricity sales contracts where the sales price of electricity is based on among other things the LME (London Metal Exchange). The Group has not hedged specifically against aluminium price changes. Revenue from the electricity sales contracts related to aluminium price level amounted to 18.7% (1.1 to 30.9. 2008: 14.8%) of the Group´s total revenue for the year.

Sensitivity analysis

A change in aluminium price level by 10% at year end, whether by increase or decrease, would have the following effect on the Group´s profit or loss after taxes.

	Profit or (loss)	
	30.9. 2009	**31.12. 2008**
Increase by 10%	9.537.718	6.897.313
Decrease by 10%	(9.548.754)	(6.844.999)

iv) Other market risk

Other market risk is limited as investments in bonds and shares are an insubtantial part of the Group´s operation.

v) Correlation of aluminium price and interest rates

Our research has shown correlation in the price of aluminium and interest rates, an aluminium price change leads changes in interest rates. This correlation results in embedded hedging.

c. *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, without incurring unacceptable losses or risking damage to the Group´s reputation.

Owners´ guarantees for the Comapny´s loans and a good credit rating has enabled the Company to obtain access to loans at good terms. The Company pays for owners´ guarantee a 0.25% guarantee fee on the principal of the loans at each time. Power plant projects at Hellisheiði have primarily been financed with loans from the European investment Bank (EIB), the Europe Development Bank (CEB) and the Nordic Investment Bank (NIB), but all of those banks have expressed an interest of continued participation in the financing of geothermal power plant projects, such as the power plant of Hellisheiði. The loans are long term and have been determined in accordance with long term agreements on sale of electricity in order to limit the Company´s risk inherent with refinancing.

The Group´s cash and cash equivalents at the end of the period amounted to ISK 0.7 billion. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 3,8 billion. The Group had thus in total ensured capital at year end to the amount of approx. ISK 4.5 billion. The corresponding amount at year end 2008 amounted to ISK 14.8 billion.

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 27 Amounts are in ISK thousands

14. Risk management and financial instrumetns, contd.

c. *Liquidity risk contd.*

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

30.9. 2009

Non-derivative financial instruments	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**After 1 - 2 years**	**After 2 - 5 years**	**More than 5 years**
Interest-bearing liabilities	226.106.849	(250.326.283)	(18.982.486)	(12.314.803)	(75.303.262)	(143.725.732)
Accounts payable	2.396.974					
Other liabilities ...	1.790.894					
Derivative financial instruments						
Curr. swaps	(49.984)	(55.305)	(18.057)	(21.797)	(15.451)	0
	230.244.733	(250.381.589)	(19.000.543)	(12.336.600)	(75.318.713)	(143.725.732)

31.12. 2008

Non-derivative financial instruments	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**After 1 - 2 years**	**After 2 - 5 years**	**More than 5 years**
Interest-bearing liabilities	205.780.370	(261.357.284)	(27.696.004)	(8.775.085)	(62.352.858)	(162.533.337)
Accounts payable	2.443.340	(2.443.340)	(2.443.340)			
Other liabilities ...	2.282.684	(2.282.684)	(2.282.684)			
Derivative financial instruments						
Curr. swaps	(52.113)	(60.872)	(17.480)	(14.827)	(28.565)	0
	210.454.281	(266.144.180)	(32.439.508)	(8.789.912)	(62.381.423)	(162.533.337)

Non-current loans will presumably be refinanced in order to prolong the loan term. Therefore, the distribution of the repayments will presumably be different from the above.

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 28 Amounts are in ISK thousands

14. Risk management and financial instrumetns, contd.

d. *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, and arises principally from the Group´s receivables from customers. Losses due to unpaid receivables are insubstantial and have limited effect on the Group´s return.

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

	30.9. 2009	31.12. 2008
Trade receivables	2.851.418	3.292.480
Other current receivables	404.560	563.279
Other financial assets	355.112	111.374
Cash and cash equivalents	655.182	1.243.639
	4.266.271	5.210.772

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

Trade receivable, industrial consumers	549.690	478.427
Trade receivable, retail	2.301.728	2.814.053
	2.851.418	3.292.480

Impairment

The aging of trade receivables and allowance for doubtful accounts at the reporting date was:

	30.9. 2009		31.12. 2008	
	Gross balance	Allowance	Gross balance	Allowance
Non-overdue receivables	2.347.421	77.541	2.707.804	68.112
Overdue receivables	760.939	179.401	811.966	159.178
	3.108.360	256.942	3.519.770	227.290

e. *Fair value*

Fair value versus carrying amounts

The carrying amount of financial assets and liabilities in the financial statements is the same as their fair value with the exception that interest-bearing liabilities are booked at amortised cost. Their carrying amount and fair value are specified as follows:

	30.9. 2009		31.12. 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(226.106.849)	(215.182.995)	(205.780.370)	(185.480.733)
Embedded derivatives in electricity sales contracts	10.945.915	10.945.915	9.091.449	9.091.449
Currency swaps	(49.984)	(49.984)	(52.113)	(52.113)

The fair value of interest-bearing liabilities is based on the prensent value of future principal and interest payments, discounted with the market rate of interest and an appropriate risk premium on the accounting date.

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 29 Amounts are in ISK thousands

14. Risk management and financial instrumetns, contd.

e. *Fair value, contd.*

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. 2009	31.12. 2008
Interest-bearing liabilities	0.071%-9.2%	0.02% - 18.575%
Embedded derivatives in electricity sales contracts	0.211%-3.935%	0.135% - 2.743%

f. *Summary of financial agreements*

Financial assets and financial liabilities are specified as follows:

	30.9. 2009			31.12. 2008		
	Loans and receivables	Financial asset/liabilities at fair value through P/L	Available for sale	Loans and receivables	Financial asset/liabilities at fair value through P/L	Available for sale
Investments in other companies			7.973.977		294.909	9.731.102
Embedded derivatives in electr. Contr.		10.945.915			9.091.449	
Other fin. ass.	380.984			216.705		
Trade receivab. ..	2.851.418			3.292.480		
Other receivab. ..	404.560			563.279		
Cash	655.182			1.243.639		
Interest-bearing loans	(226.106.849)			(205.780.370)		
Other fin. liab.		(49.984)			(52.113)	
Acc. payable	(2.396.974)			(2.443.340)		
Other curr. liab. ..	(1.790.894)			(2.282.466)		

15. Group entities

Shares in subsidiaries included in the consolidated interim financial statements are specified as follows:

	Main operation	Nominal value	Share 30.9. 2009	Share 31.12. 2008
Gagnaveita Reykjavíkur ehf.	Data transfer	4.736.841	100.0%	100.0%
Hitaveita Akraness og Borgarfj	Heating supplier		79.3%	79.3%
Reykjavík Energy Invest ehf.	Investment company	3.004.723	100.0%	100.0%
Úlfljótsvatn frítímabyggð ehf.	Preparation company	225.000	100.0%	100.0%
Hrafnabjargavirkjun	Preparation company	6.000	60.0%	60.0%

Main changes in the Group during the period

Orkuveita Reykjavikur founded REYST Graduate School in the year 2008 with Reykjavik University and University of Iceland. According to the founding agreement of the owners, Reykjavik University and University of Iceland increased their share in February 2009. Now all parties own one third of REYST hf. Therefore REYST has become an associate company at Orkuveita Reykjavikur but was before a subsidiary.

Interim Financial Statements of Orkuveita Reykjavíkur 30 September 2009 30 Amounts are in ISK thousands

16. Other issues

Hitaveita Suðurnesja (now HS Orka hf. and HS Veitur hf.)

At the end of August Orkuveita Reykjavikur and Magma Sweden entered into a sales contract, with Orkuveita Reykjavikur´s shares in HS Orka. The contract also included sale of shares in HS Orka that belonged to Hafnafjordur municipality. Orkuveita Reykjavikur and Hafnarfjordur municipality were in dispute regarding the shares and Hafnarfjordur municipality had subpoenead Orkuveita Reykjavikur for the purchase price. The dispute regarded Orkuveita Reykjavikur´s opinion that it could not fulfil its obligation to buy the shares of Hafnarfjordur municipality according to the ruling of the Competitive Authority which was confirmed by the Appeals Committee. A ruling made from the District court 18 March 2009 was in favour of Hafnarfjordur municipality. Orkuveita Reykjavikur has appealed the ruling to the Supreme Court. During the dispute Orkuveita Reykjavikur and Hafnarfjordur municipality have worked together in a sales process on shares of both parties, which as mentioned above, was concluded in the sale of all the shares to Magma Sweden.

In the contracts are certain conditions, for example that the owners agree to the sale, that the lenders of HS Orka agree with the contract because of conditions that were in HS Orka´s loans and exploitation of a pre-emption . Since there is uncertainty that some of the conditions have been fulfilled on the day of approval of the quarterly financial statements, the sale is not stated in the financial statements for the period.

In the contracts it is stated that when all conditions have been met, Orkuveita Reykjavikur and Hafnarfjordur municipality will cease above mentioned legal actions. When the contracts are finalised there will be a further charge in the financial statements that is now assumed to be ISK 2.272 million due to the purchase of shares in HS Orka that belonged to Hafnarfjordur municipality.

The shares in HS Orka that belong to Orkuveita Reykjavikur are booked at fair value in the financial statements. Since there is a binding sales agreement of the shares between the unrelated parties, it is a strong indication of the fair value of the shares. The fair value is valued according to the value of the payment in the offer and it led to a charge amounting to ISK 962 million which is stated in the financial statements.

If the contracts are not fulfilled the fair value of the shares will be valued from other recent dealings with the shares, or reliable indications of the fair value using approved value techniques. The last known trade with the shares in HS Orka was on a lower business rate than the fair values of the contracts are between Magma and Orkuveita Reykjavikur. If the contracts with Magma are not fulfilled the expense of the shares in the ownership of Orkuveita Reykjavikur could be greater, taken into account the fore mentioned.

Derivative contracts in default

After the collapse of the Icelandic banks trading in the foreign exchange market in Iceland has been little and it can hardly be stated that the foreign exchange market is active. Due to the collapse, the Central Bank of Iceland issued rules on foreign exchange based on authority contained in the Act amending the Foreign Exchange Act No. 87/1992, which imposed restrictions on investment and transactions in foreign exchange.

Derivative contracts in default according to agreements with Glitnir banki hf. (old bank) are accounted for amongst other current liabilities. The agreements have not been calculated to date due to uncertainties both with Orkuveita Reykjavíkur and the Receivership Committees of the old banks concerning how to handle these calculations. It was decided, as a precaution, to refer to the mid rate of the Central Bank of Iceland as at 7 October 2008 which is the latest exchange rate before the Receivership Committee took over Glitnir banki hf.'s operations. The trade weighted index at that time was 175 and accordingly derivative contracts in default as accounted for in the financial statements are negative amounting to ISK 181.2 million. The contracts were accounted for amongst other financial assets or other financial liabilities but are now amongst other current liabilities.