

# Orkuveita Reykjavíkur

Condensed consolidated  
Interim Financial Statements  
1 January to 30 June 2010

Orkuveita Reykjavíkur  
Bæjarhálsi 1  
110 Reykjavík

reg no. 551298-3029

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# Endorsement by the Board of Directors

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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 June 2010 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.

Profit of the operations of Orkuveita Reykjavíkur during the period amounted to ISK 5.118 million. According to the statement of financial position the Company's assets amount to ISK 277.703 million, book value of equity at the end of the period amounted to ISK 44.924 million and the Company's equity ratio is 16.2%

At the beginning of the year and at the end of the period the Company's shareholders were the following three

	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 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 that the consolidated financial statements give a fair view of the Company's assets, liabilities and financial position at 30 June 2010 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 that the condensed consolidated 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 of Orkuveita Reykjavíkur hereby confirm the Company's consolidated financial statements for the period 1 January to 30 June 2010.

Reykjavík, 27 August 2010.

The Board of Directors:

*Haraldur Flosi Tryggvason*

*Helga Jónsdóttir*

*Aðalsteinn Leifsson*

*Kjartan Magnússon*

*Hrönn Ríkharrðsdóttir*

*Sóley Tómasdóttir*

# 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 financial statements of Orkuveita Reykjavíkur, which comprise the interim statement of financial position as at 30 June 2010 and the interim statement of income, interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the six-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 believe that the accompanying interim financial information does not give a true and fair view of the financial position of the Company as at 30 June 2010, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 27 August 2010.

**KPMG hf.**

*Hlynur Sigurðsson*

*Auðunn Guðjónsson*

# Income Statement

## 1 January to 30 June 2010

	Skýr.	2010 1.4.-30.6.	2009 1.4.-30.6.	2010 1.1.-30.6.	2009 1.1.-30.6.
Operating revenue .....		6.139.441	5.383.081	13.560.941	11.924.505
Energy purchase .....	(	1.195.858)	( 1.112.668)	( 2.495.074)	( 2.428.331)
Salaries and salary related expenses .....	4 (	1.001.957)	( 985.402)	( 2.063.184)	( 1.962.440)
Other operating expenses .....	(	1.117.420)	( 928.464)	( 1.946.255)	( 1.841.739)
Depreciation and amortisation .....	5 (	1.950.704)	( 2.327.315)	( 3.902.345)	( 4.701.505)
Results from operating activities		<u>873.502</u>	<u>29.232</u>	<u>3.154.083</u>	<u>990.490</u>
Interest income .....		28.018	26.307	68.304	119.591
Interest expenses .....	(	749.621)	( 871.379)	( 1.653.699)	( 2.698.472)
Other income (expenses) on financial assets and liabilities .....	(	4.281.679)	( 13.990.115)	4.497.986	( 11.553.549)
Total financial income and expenses	6 (	5.003.283)	( 14.835.187)	2.912.590	( 14.132.430)
Share in profit of associated companies .....		<u>98.737</u>	<u>13.377</u>	<u>25.143</u>	<u>32.871</u>
Profit (loss) before income tax	(	4.031.044)	( 14.792.578)	6.091.816	( 13.109.069)
Income tax .....	7	<u>1.962.384</u>	<u>2.365.198</u>	<u>( 973.633)</u>	<u>2.494.143</u>
<b>Profit (loss) for the period</b>		<u>( 2.068.660)</u>	<u>( 12.427.380)</u>	<u>5.118.183</u>	<u>( 10.614.926)</u>
<b>Attributable to:</b>					
Equity holders of the Company .....	(	2.068.661)	( 12.415.187)	5.118.183	( 10.609.687)
Minority interest in subsidiaries .....		<u>0</u>	<u>( 12.191)</u>	<u>0</u>	<u>( 5.238)</u>
<b>Profit (loss) for the period</b>		<u>( 2.068.661)</u>	<u>( 12.427.378)</u>	<u>5.118.183</u>	<u>( 10.614.925)</u>

# Interim Statement of Comprehensive Income for 1 January to 30 June 2010

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	2010 1.1.-30.6.	2009 1.1.-30.6.
Profit (loss) for the period .....	5.118.183	( 10.614.924)
<b>Other comprehensive income</b>		
Depreciation transferred to retained earnings (deficit) .....	0	0
<b>Total comprehensive profit (loss) for the period</b>	<u>5.118.183</u>	<u>( 10.614.924)</u>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company .....	5.118.183	( 10.609.686)
Minority interest in subsidiaries .....	0	( 5.238)
<b>Total comprehensive profit (loss) for the period</b>	<u>5.118.183</u>	<u>( 10.614.924)</u>

# Interim Statement of Financial Position

## 30 June 2010

	Notes	30.6. 2010	31.12. 2009
<b>Assets</b>			
Property, plant and equipment .....	8	246.165.274	240.716.068
Intangible assets .....	9	1.597.186	1.648.403
Investments in associated companies .....		503.321	488.569
Investments in other companies .....		2.062.445	2.187.047
Embedded derivatives in electricity sales contracts .....	10	13.309.369	19.036.283
Other financial assets .....		8.030.488	7.656.562
Deferred tax assets .....	11	391.762	1.194.314
Total non-current assets		<u>272.059.844</u>	<u>272.927.246</u>
Inventories .....		619.896	752.353
Trade receivables .....		3.020.941	3.339.309
Embedded derivatives in electricity sales contracts .....	10	423.379	1.127.990
Other financial assets .....		36.425	82.267
Other receivables .....		457.915	353.240
Cash and cash equivalents .....		1.084.736	2.943.303
Total current assets		<u>5.643.292</u>	<u>8.598.462</u>
<b>Total assets</b>		<u><u>277.703.136</u></u>	<u><u>281.525.708</u></u>

# Interim Statement of Financial Position

## 30 June 2010

	Notes	30.6. 2010	31.12. 2009
<b>Equity</b>			
Revaluation reserve .....		48.493.862	49.417.335
Accumulated deficit .....		( 3.574.680)	( 8.816.337)
Equity attributable to equity holders of the Company		44.919.182	40.600.999
Minority interest .....		4.946	56.487
<b>Total equity</b>	12	<u>44.924.128</u>	<u>40.657.486</u>
<b>Liabilities</b>			
Loans and borrowings .....	13	210.807.241	221.254.126
Retirement benefit obligation .....		435.793	464.547
Other financial liabilities .....		9.882	50.186
Deferred tax liabilities .....	11	182.043	10.963
Total non-current liabilities		<u>211.434.960</u>	<u>221.779.822</u>
Accounts payable .....		2.388.560	2.368.066
Loans and borrowings .....	13	16.697.764	15.314.040
Other financial liabilities .....		8.593	24.977
Other current liabilities .....		2.249.132	1.381.317
Total current liabilities		<u>21.344.048</u>	<u>19.088.400</u>
<b>Total liabilities</b>		<u>232.779.008</u>	<u>240.868.222</u>
<b>Total equity and liabilities</b>		<u><u>277.703.136</u></u>	<u><u>281.525.708</u></u>



# Interim Statement of changes in Equity for the period ended 30 June 2010

	Revaluation reserve	Accumulated deficit	Attributable to equity holders of the Company	Minority interest	Total equity
<b>1.1.-30.6 2010</b>					
Equity at 1 January 2010 .....	49.417.335	( 8.816.337)	40.600.998	56.487	40.657.485
Depreciation transferred to retained earnings (deficit) .....	( 923.473)	923.473	0		0
Profit for the period .....		5.118.183	5.118.183	0	5.118.183
Total comprehensive income .....	( 923.473)	6.041.656	5.118.183	0	5.118.183
Other changes .....			0	( 51.541)	( 51.541)
Dividends paid .....		( 800.000)	( 800.000)		( 800.000)
Equity at 30 June 2010 .....	48.493.862	( 3.574.681)	44.919.181	4.946	44.924.127

<b>1.1.-30.6 2009</b>					
Equity at 1 January 2009 .....	55.842.384	( 7.517.523)	48.324.861	33.770	48.358.631
Loss for the period .....		( 10.609.687)	( 10.609.687)	( 5.238)	( 10.614.925)
Total comprehensive income .....	0	( 10.609.687)	( 10.609.687)	( 5.238)	( 10.614.925)
Dividends paid .....		( 400.000)	( 400.000)		( 400.000)
Equity at 30 June 2009 .....	55.842.384	( 18.527.210)	37.315.174	28.532	37.343.704

# Interim Statement of Cash Flows for the period ended 30 June 2010

	2010 1.1.-30.6.	2009 1.1.-30.6.
Profit (loss) for the period .....	5.118.183	( 10.614.924)
Financial income and expenses .....	( 2.912.590)	14.132.429
Other items not affecting the cash flow .....	4.822.081	2.160.297
Changes in operating assets and liabilities .....	633.439	366.626
Working capital from operation before interest and taxes	7.661.114	6.044.428
Received interest income .....	100.010	119.940
Paid interest expenses .....	( 1.102.554)	( 3.301.386)
Dividend received .....	16.159	0
Paid due to other financial income and expenses .....	193.209	13.046
Net cash from operating activities	6.867.936	2.876.028
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment .....	( 9.068.517)	( 9.389.520)
Acquisition of intangible assets .....	( 25.249)	( 145.027)
Acquisition of associated companies .....	0	( 450)
Acquisition of subsidiaries .....	( 100.000)	0
Acquisition of other financial assets .....		( 50.944)
Proceeds and repayment of other financial assets .....	4.169	604.999
Net cash used in investing activities	( 9.189.597)	( 8.980.942)
<b>Cash flows from financing activities</b>		
Proceeds from new borrowings .....	10.397.949	5.261.995
Repayment of borrowings .....	( 7.108.553)	( 3.970.848)
Dividends paid .....	( 400.000)	( 400.000)
Credit facility, change .....	( 3.588.121)	( 325.013)
Current liabilities, increase .....	1.258.633	5.038.000
Net cash from financing activities	559.907	5.604.134
<b>Decrease in cash and cash equivalents .....</b>	( 1.761.753)	( 500.780)
<b>Cash and cash equivalents at year beginning .....</b>	2.943.303	1.243.639
<b>Changes in the Group .....</b>	0	( 5.907)
<b>Effect of currency fluctuations on cash and cash equivalents .....</b>	( 96.814)	668.822
<b>Cash and cash equivalents at period end .....</b>	1.084.736	1.405.774
<b>Investments and financing without payment effects:</b>		
Acquisition of property, plant and equipment .....	( 1.021.611)	( 987.075)
Proceeds from sale of other companies .....	0	122.416
Other financial assets, change .....	0	( 122.416)
Current liabilities, change .....	1.021.611	987.075
<b>Other information:</b>		
Working capital from operation .....	6.256.202	3.331.688

# Notes to the Interim Financial Statements

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# Notes

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## 1. Reporting entity

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

The Company is an independent service company that produces and distributes electricity, distributes geothermal water for heating, cold water for consumptions, 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 2009.

The interim financial statements were approved by the Board of Directors on 27 August 2010.

### b. Basis of measurement

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial annual statements as at and for the year ended 31 December 2009. The consolidated financial statements for the Group as at and for the year ended 31 December 2009 are available upon request from the Company's registered office at Bæjarháls 1, Reykjavík, at [www.or.is](http://www.or.is) or at The Nordic Stock Exchange's website, [www.omxgroup.com](http://www.omxgroup.com).

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

- A part of property, plant and equipment have been revalued at fair value.
- Derivative agreements are stated at fair value.
- Assets held for sale are stated at fair value.
- Financial instruments at fair value through profit and loss are stated at fair value.

### c. Functional and presentation currency

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

### d. Use of estimates and judgements

The preparation of the 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.

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

- note 8 ..... Property, plant and equipment
- note 10 ..... Embedded derivatives in electricity sale contracts
- note 11 ..... Deferred tax assets and liabilities

# Notes

## 3. Segment reporting

Segment information is presented by the Group's business segments according to the Group's organisation and internal reporting. Business segments consist of utilities, production and sale, and other operation. In addition, information is provided on the Group's sectors, which are electricity, hot water, cold water, sewer and fibre-optic cable systems. Organisational change was implemented in the beginning of the year 2010, where a part of production, i.e. production of cold water and hot water in low-temperature geothermal areas, was merged into distribution, forming a new segment called utilities. Comparative amounts have been changed in accordance.

### Business segments - divisions

#### 1.1.-30.6 2010

	Utilities	Production and sale	Other Operation	Adjustments	Total
External revenue .....	8.298.824	5.217.620	44.497	0	13.560.941
Inter-segment revenue .....	136.903	973.302	253.216	( 1.363.421)	0
Total segment revenue .....	8.435.727	6.190.922	297.713	( 1.363.421)	13.560.941

Segment result .....	3.037.726	777.644	( 18.918)	0	3.796.452
Unallocated expenses .....					( 642.369)
Results from operating activities .....					3.154.083
Financial income and expenses .....					2.912.590
Share of profit of associated companies .....					25.143
Income tax .....					( 973.633)
Profit for the period .....					5.118.183

#### 1.1.-30.6 2009

External revenue .....	7.854.861	3.895.517	174.127	0	11.924.505
Inter-segment revenue .....	109.669	792.049	310.116	( 1.391.352)	( 179.518)
Total segment revenue .....	7.964.530	4.687.566	484.243	( 1.391.352)	11.744.987

Segment result .....	1.307.216	208.184	( 29.903)	0	1.485.497
Unallocated expenses .....					( 495.007)
Results from operating activities .....					990.490
Financial income and expenses .....					( 14.132.429)
Share of profit of associated companies .....					32.871
Income tax .....					2.494.144
Loss for the period .....					( 10.614.924)

# Notes

## 3. Segment reporting, contd.

### Business segments - divisions, contd.

1.1.-30.6 2010

#### Balance sheet (30.6. 2010)

	Utilities	Production and sale	Other Operation	Adjust- ments	Total
Property, plant and equipment .....	117.862.146	119.741.851	418.797	8.142.480	246.165.274
Intangible assets .....			253.287	1.343.899	1.597.186
Shares in associates .....					503.321
Other unallocated assets .....					29.270.283
Total assets .....					277.536.064
Unallocated liabilities .....					232.611.937

#### Investments:

Property, plant and equipment .....	2.892.667	6.303.908	18.138	60.372	9.275.085
Intangible assets .....	0	0	5.798	19.451	25.249

#### Depreciation, amortization:

Property, plant and equipment .....	2.141.972	1.497.247	0	199.946	3.839.165
Intangible assets .....	0	0	0	63.180	63.180

1.1.-30.6 2009

#### Balance sheet (31.12. 2009)

Property, plant and equipment .....	117.199.312	114.847.151	419.717	8.249.888	240.716.068
Intangible assets .....	0	0	247.490	1.400.913	1.648.403
Shares in associates .....					488.569
Other unallocated assets .....					38.672.668
Total assets .....					281.525.708
Unallocated liabilities .....					240.868.222

#### Investments:

Property, plant and equipment .....	2.538.620	6.370.180	1.510	40.683	8.950.993
Intangible assets .....	0	0	45.589	99.438	145.027

#### Depreciation, amortization:

Property, plant and equipment .....	2.065.812	2.348.433	0	216.621	4.630.866
Intangible assets .....	0	0	0	70.639	70.639

# Notes

## 3. Segment reporting, contd.

### Business segments - sectors

1.1.-30.6 2010

	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjustments	Total
<b>Income</b>							
External revenue .....	7.385.788	3.048.197	1.336.958	1.344.842	445.156	0	13.560.941
Inter-segment revenue .....	531.871	68.191	25.811	25.964	0	( 651.837)	0
Total segment revenue .....	7.917.659	3.116.388	1.362.769	1.370.806	445.156	( 651.837)	13.560.941
<b>Balance sheet (30.6. 2010)</b>							
Property, plant and equipment .....	128.509.609	55.627.088	17.168.278	36.699.257	8.161.042	0	246.165.274
Intangible assets .....	725.706	567.759	96.761	206.960	0	0	1.597.186
Unallocated assets .....							29.940.676
Total assets .....	129.235.315	56.194.847	17.265.039	36.906.217	8.161.042	0	277.703.136
<b>Investments</b>							
Property, plant and equipments .....	7.158.966	806.216	105.254	811.372	393.277	0	9.275.085
Intangible assets .....	10.387	10.389	1.439	3.034	0	0	25.249
<b>Depreciation, amortization</b>							
Property, plant and equipments .....	1.716.020	1.102.765	231.765	613.105	175.510	0	3.839.165
Intangible assets .....	24.139	19.686	6.063	13.292	0	0	63.180

# Notes

## 3. Segment reporting, contd.

### Business segments - sectors, contd.

1.1.-30.6 2009

	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjustments	Total
<b>Income</b>							
External revenue .....	6.111.106	3.076.137	1.263.655	1.090.633	382.974	0	11.924.505
Inter-segment revenue .....	603.290	209.586	34.020	29.362	0	( 876.258)	0
Total segment revenue .....	6.714.396	3.285.723	1.297.675	1.119.995	382.974	( 876.258)	11.924.505
<b>Balance sheet (31.12. 2009)</b>							
Property, plant and equipment .....	122.432.015	56.435.597	17.335.655	36.569.527	7.943.274	0	240.716.068
Intangible assets .....	739.683	582.308	105.068	221.344	0	0	1.648.403
Unallocated assets .....							39.161.236
Total assets .....	123.171.698	57.017.905	17.440.723	36.790.871	7.943.274	0	281.525.708
<b>Investments</b>							
Property, plant and equipments .....	4.747.422	2.308.009	192.325	1.387.024	316.214	0	8.950.994
Intangible assets .....	51.409	69.554	7.856	16.208	0	0	145.027
<b>Depreciation, amortization</b>							
Property, plant and equipments .....	2.029.489	1.306.557	332.222	741.057	221.541	0	4.630.866
Intangible assets .....	26.988	22.010	6.779	14.862	0	0	70.639



# Notes

## 4. Salaries and salary related expenses

	2010	2009
	1.1.-30.6.	1.1.-30.6.
Salaries and salary related expenses are specified as follows:		
Salaries .....	1.947.974	1.891.852
Defined contribution pension expenses .....	243.139	240.918
Defined benefit pension expenses .....	( 20.826)	( 8.792)
Other salary related expenses .....	215.188	140.857
Total salaries and salary related expenses .....	2.385.475	2.264.835

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

Expensed in the income statement .....	2.063.184	1.962.440
Capitalised on projects .....	322.291	302.395
Total salaries and salary related expenses .....	2.385.475	2.264.835

## 5. Depreciation and amortisation

	2010	2009
	1.1.-30.6.	1.1.-30.6.
Depreciation and amortisation is specified as follows:		
Depreciation of property, plant and equipment, cf. note 8 .....	3.839.166	4.630.866
Amortisation of intangible assets, cf. note 9 .....	63.180	70.639
Depreciation and amortisation recognised in the income statement .....	3.902.346	4.701.505

## 6. Financial income and expenses

	2010	2009
	1.1.-30.6.	1.1.-30.6.
Financial income and expenses are specified as follows:		
Interest income .....	68.304	119.591
Interest expense .....	( 1.318.387)	( 2.471.840)
Guarantee fee to owners .....	( 335.312)	( 226.632)
Total interest expenses .....	( 1.653.699)	( 2.698.472)
Fair value changes of embedded derivatives in electricity sales contracts .....	( 6.431.525)	( 1.054.399)
Fair value changes of assets available for sale .....	( 148.500)	( 350.718)
Fair value changes of financial assets and financial liabilities through P/L .....	340.505	0
Forward currency swaps .....	( 50.862)	39.792
Foreign exchange difference .....	10.772.210	( 10.194.112)
Dividends .....	16.159	5.888
Total of other income (expenses) on financial assets and liabilities .....	4.497.986	( 11.553.549)
Total financial income and expenses .....	2.912.590	( 14.132.430)

# Notes

## 6. Financial income and expenses, contd.

Financing cost due to construction of a power plant to the amount of ISK 929,2 million is capitalised and has been recognised as reduction of financial expenses (1.1. to 30.6. 2009: ISK 976,5 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 a good indication of interest incurred during construction time. The average of monthly REIBOR fixings during the period 1.1. to 30.6. 2010 is used, the average is 8.44%. A margin that reflects the Group's terms from the Icelandic banks during the period 1.1. to 30.6. 2010 is added, this margin is 1.25%. In addition the Group's owners guaranty fee of 0.375% is added, in total the interest rate is 10.07%. (1.1. to 30.6. 2009: 16.38%)

	2010	2009
	1.1.-30.6.	1.1.-30.6.
Interest expenses, charged in the income statement .....	( 1.653.699)	( 2.698.472)
Capitalised finance cost .....	( 929.182)	( 976.496)
Interest expenses .....	( 2.582.881)	( 3.674.978)

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 expenses of ISK 6.091,0 million. (1.1. to 30.6. 2009: expense ISK 1.054,4 million).

## 7. Income tax

Orkuveita Reykjavíkur 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:		2010	2009
		1.1.-30.6.	1.1.-30.6.
Change in deferred income tax .....	( 973.633)		2.494.143
Income tax recognised in the income statement .....	( 973.633)		2.494.143
Reconciliation of effective tax rate:		2010	2009
		1.1.-30.6.	1.1.-30.6.
Profit (loss) before income tax .....	6.091.816		( 13.109.068)
Income tax according to current tax ratio .....	32.7% ( 2.073.881)	23.5%	3.080.631
Non-taxable operation of			
water supply and sewer .....	16.3% 992.917 ( 3.5%) ( 459.665)		
Effect of various tax rates in the Group .....	0.7% 44.206 0.1% 9.871		
Other items .....	1.0% 63.125 ( 1.0%) ( 136.694)		
Effective income tax .....	( 16.0%) ( 973.633)	19.0%	2.494.143

# Notes

## 8. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Production system	Utility system	Other real estates	Other equipment	Total
<b>1.1.-30.6 2010</b>					
<b>Cost or deemed cost</b>					
Balance at year beginning .....	181.419.827	189.223.393	8.338.751	5.391.704	384.373.675
Reclassification of assets .....				13.288	13.288
Additions during the period .....	7.538.306	1.654.055	11.664	71.059	9.275.084
Balance at end of period .....	188.958.133	190.877.448	8.350.415	5.476.051	393.662.047
<b>Depreciation</b>					
Balance at year beginning .....	49.965.530	89.853.132	1.549.340	2.289.605	143.657.607
Depreciated during the period ....	1.938.630	1.753.615	70.838	76.083	3.839.166
Balance at end of period .....	51.904.160	91.606.747	1.620.178	2.365.688	147.496.773
<b>Carrying amounts</b>					
At 1.1. 2010.....	131.454.297	99.370.261	6.789.411	3.102.099	240.716.068
At 30.6. 2010.....	137.053.973	99.270.701	6.730.237	3.110.363	246.165.274
Thereof assets in construction at end of period.....	32.932.936	2.039.183	0	0	34.972.119
<b>1.1.-31.12 2009</b>					
<b>Cost or deemed cost</b>					
Balance at year beginning .....	164.856.768	184.796.025	8.283.140	4.407.876	362.343.809
Reclassification of assets .....	0	0	0	( 809.125)	( 809.125)
Additions during the year .....	16.563.059	3.850.561	43.454	890.125	21.347.199
Sold or disposed of .....	0	576.807	12.157	902.828	1.491.792
Balance at year end .....	181.419.827	189.223.393	8.338.751	5.391.704	384.373.675
<b>Depreciation</b>					
Balance at year beginning .....	46.181.542	85.742.803	1.391.818	2.057.215	135.373.378
Reclassification of assets .....	0	0	0	( 887.574)	( 887.574)
Depreciated during the year .....	3.783.988	3.533.522	145.387	217.136	7.680.033
Sold or disposed of .....		576.807	12.135	902.828	1.491.770
Balance at year end .....	49.965.530	89.853.132	1.549.340	2.289.605	143.657.607
<b>Carrying amounts</b>					
At 1.1. 2009.....	118.675.226	99.053.222	6.891.322	2.350.661	226.970.431
At 31.12. 2009.....	131.454.297	99.370.261	6.789.411	3.102.099	240.716.068
Thereof assets in construction at year end.....	23.772.336	1.699.301	0	0	25.471.637

# 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 this year and later. The contract and other contracts regarding developments at Hellisheiði amount to ISK 39.6 billion as per exchange rate at the end of the period from 1.1. to 30.6. 2010 (31.12.2009: ISK 41.0 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 June 2010 is estimated at ISK 1.6 billion (31.12.2009: ISK 2.4 billion).

## 9. Intangible assets

Intangible assets are specified as follows:

	Heating rights	Preparation cost	Software	Total
<b>1.1.-30.6 2010</b>				
<b>Cost</b>				
Balance at year beginning .....	1.427.031	247.492	2.895.665	4.570.188
Reclassification of assets .....			( 13.288)	( 13.288)
Additions during the period .....		5.798	19.451	25.249
Balance at end of period .....	1.427.031	253.290	2.901.828	4.582.149
<b>Amortisation</b>				
Balance at year beginning .....	424.631	0	2.497.153	2.921.784
Amortisation during the period .....			63.180	63.180
Balance at end of period .....	424.631	0	2.560.333	2.984.964
<b>Carrying amounts</b>				
At 1.1. 2010.....	1.002.400	247.492	398.512	1.648.404
At 30.6. 2010.....	1.002.400	253.290	341.495	1.597.185
<b>1.1.-31.12 2009</b>				
<b>Cost</b>				
Balance at year beginning .....	1.427.031	193.620	1.746.214	3.366.865
Reclassification of assets .....	0	0	809.124	809.124
Additions during the year .....	0	53.872	126.025	179.897
Sold or disposed of .....	0	0	214.302	214.302
Balance at year end .....	1.427.031	247.492	2.895.665	4.570.188
<b>Amortisation</b>				
Balance at year beginning .....	410.674	0	1.275.497	1.686.171
Reclassification of assets .....	0	0	887.574	887.574
Amortisation during the year .....	13.957	0	119.780	133.737
Sold or disposed of .....	0	0	214.302	214.302
Balance at year end .....	424.631	0	2.497.153	2.921.784
<b>Carrying amounts</b>				
At 1.1. 2009.....	1.016.357	193.620	470.717	1.680.694
At 31.12. 2009.....	1.002.400	247.492	398.512	1.648.403

# Notes

## 10. Embedded derivatives in electricity sales contracts

Four electricity sales contracts have been made to the next 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 distribution of electricity. Orkuveita Reykjavíkur and Norðurál have also made an electricity sales contract due to sale of electricity to a pending aluminium plant in Helguvík, where delivery of electricity for the first stage is estimated to begin in the year 2011 and the contract is to the 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 provisions of IAS 39 on financial instruments, the fair value of those embedded derivatives 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 period 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 8.344 million at the end of the period 30 June 2010 (31.12. 2009: ISK 9,459 million) and is not recognised in the financial statements.

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

	30.6. 2010	31.12. 2009
Fair value of embedded derivatives at the beginning of the year .....	20.164.272	9.091.449
Fair value changes during the period .....	( 6.431.525)	11.072.823
Fair value of embedded derivatives at the end of the period .....	13.732.747	20.164.272

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

Non-current embedded derivatives .....	13.309.369	19.036.283
Current embedded derivatives .....	423.379	1.127.990
Total embedded derivatives at the end of the period .....	13.732.748	20.164.273

# Notes

## 11. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

1.1.-30.6 2010	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year .....	1.194.314	10.963	1.183.351
Calculated income tax for the period .....	( 802.553)	171.080	( 973.633)
Deferred tax assets/liabilities at end of period .....	391.761	182.043	209.718

### 1.1.-31.12 2009

Deferred tax assets/liabilities at the beginning of the year .....	4.169.441	0	4.169.441
Effect of change in income tax rate on evaluation .....	( 4.385.022)	0	( 4.385.022)
Calculated income tax for the year .....	1.409.087	10.963	1.398.124
Other changes .....	808	0	808
Deferred tax assets/liabilities at year end .....	1.194.314	10.963	1.183.352

Deferred tax assets and liabilities are attributable to the following:

	30.6. 2010		31.12. 2009	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment .....	( 177.337)	15.811.629	( 15.612.117)	13.983
Embedded derivatives .....		4.490.608	( 6.593.717)	0
Other items .....	2.559	111.752	2.274.492	( 848)
Effect of carry forward taxable loss .....	566.539	( 20.231.947)	21.125.656	( 2.172)
Deferred tax assets/liabilities at year end .....	391.761	182.042	1.194.314	10.963

## 12. Equity

It is the Company'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 makes the decision on dividend payments.

Equity ratio of the Group at the end of the period is 16.2% (31.12.2009: 14.4%). Return on equity was positive by 27.1% in the period from 1.1. to 30.6. 2010 (1.1. to 31.12. 2009: negative by 5.5%).

# Notes

## 13. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 14.

<b>Non-current liabilities</b>	<b>30.6. 2010</b>	<b>31.12. 2009</b>
Bank loans .....	197.717.108	199.828.760
Credit facilities .....	11.193.207	14.988.936
Bond issuance .....	16.812.761	16.527.168
	225.723.076	231.344.864
Current portion on non-current liabilities .....	( 14.915.834)	( 10.090.738)
	210.807.242	221.254.126
<b>Current liabilities</b>		
Current portion on non-current liabilities .....	14.915.834	10.090.738
Short-term bank loans .....	1.781.930	5.223.303
	16.697.764	15.314.041
Total interest bearing loans and borrowings .....	227.505.006	236.568.167

### Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

		<b>2010</b>		<b>2009</b>	
	<b>Date of maturity</b>	<b>Average interest rate</b>	<b>Carrying amount</b>	<b>Average interest rate</b>	<b>Carrying amount</b>
Liabilities in CHF .....	26.6.2036	0.62%	40.504.870	0.72%	41.607.299
Liabilities in EUR .....	26.6.2036	1.19%	75.929.892	1.30%	84.089.942
Liabilities in USD .....	19.2.2030	1.09%	43.531.508	0.92%	44.716.978
Liabilities in JPY .....	26.6.2036	0.61%	22.822.718	0.69%	21.613.747
Liabilities in GBP .....	26.6.2036	1.61%	7.681.532	1.62%	8.202.315
Liabilities in SEK .....	5.10.2027	0.80%	13.107.960	0.81%	14.079.999
			203.578.481		214.310.280

Liabilities in Icelandic kronas:

Indexed .....	10.1.2037	4.98%	22.144.595	4.88%	16.734.583
Non-indexed .....	15.12.2010	10.45%	1.781.930	10,50%	5.523.303
			23.926.525		22.257.886
Total interest-bearing loans and borrowings .....			227.505.006		236.568.166

# Notes

## 13. Loans and borrowings, contd.

Repayment on non-current liabilities are specified as follows on the next years:	<b>30.6. 2010</b>	<b>31.12. 2009</b>
1.7. 2010 to 30.6. 2011 / 1.1. to 31.12. 2010.....	14.915.834	10.090.738
1.7. 2010 to 30.6. 2012 / 1.1. to 31.12. 2011.....	14.960.482	17.689.392
1.7. 2010 to 30.6. 2013 / 1.1. to 31.12. 2012.....	24.732.834	13.307.154
1.7. 2010 to 30.6. 2014 / 1.1. to 31.12. 2013.....	16.182.976	30.606.873
1.7. 2010 to 30.6. 2015 / 1.1. to 31.12. 2014.....	12.444.633	14.904.521
Later .....	142.486.317	144.746.186
Total non-current liabilities, including next year's repayment .....	225.723.075	231.344.864

### Guarantees and pledges

The owners of the parent company are responsible, pro rata, for all of the Parent company'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 Reykjavíkur 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 interest rate.

The Group's currency risk is related to cash flow risk and risk in the balance sheet. Interest rate risk is related to the variance of variable interests and fixed interests 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 can relate both to the cash flow or the balance sheet.

The Group's currency risk is monitored both in cash flow and in the balance sheet with generally accepted calculation methods. Annual standards 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.

Financial risk is divided into:

- Market risk
- Liquidity risk
- Credit risk



# Notes

## 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 weighs 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 a currency other than Icelandic kronas (ISK). Currencies mainly creating risk are Euro (EUR), Swiss Francs (CHF), Japanese Yens (JPY) and Swedish kronas (SEK).

Approx. 89.5% of the Group's non-current loans are in foreign currencies. The 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 a foreign currency (USD). The expected future revenues from these contracts on the accounting date amount to approx. ISK 170.773 millions. That amount is 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.

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

	1.1.-30.6 2010	1.1.-31.12 2009	30.6. 2010	31.12. 2009
	Average exchange rate		Exchange rate at year end	
CHF .....	118,2	114,325	118,325	121,215
EUR .....	169,93	172,665	156,7	179,8
USD .....	127,88	123,601	127,47	124,81
JPY .....	1,4	1,325	1,44045	1,35075
GBP .....	195,09	193,893	190,545	202,165
SEK .....	17,34	16,306	16,443	17,52
CAD .....	123,63	109,041	120,21	119,01
TWI .....	225,56	223,324	213,43	232,83

# Notes

## 14. Risk management and financial instruments, contd.

### b. Market risk, contd.

#### i) Exposure to currency risk

The Group's exposure to currency risk based on the nominal amounts is specified as follows (in ISK thousand):

30.6. 2010	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings .....	( 40.504.870)	( 75.929.892)	( 43.531.508)	( 22.822.718)	( 7.681.532)	0	( 13.107.960)	0	( 203.578.481)
Accounts payables .....		( 200.502)		( 271.329)		( 3.491)	( 1.284)	( 6.497)	( 483.103)
Trade receivables .....			491.677		3.761				495.437
Bank deposits .....	311	52.417	746.493	2.019	1.678	361	260		803.539
Aluminium derivatives .....			13.732.747						13.732.747
Balance sheet risk .....	( 40.504.559)	( 76.077.977)	( 28.560.591)	( 23.092.028)	( 7.676.093)	( 3.130)	( 13.108.984)	( 6.497)	( 189.029.860)
Estimated sale in 2010 ....			5.547.412						5.547.412
Estim. Purch. in 2010 .....		( 1.189.321)	( 32.149)	( 153.098)				( 869)	( 1.375.437)
Balance sheet risk .....	0	( 1.189.321)	5.515.262	( 153.098)	0	0	0	( 869)	4.171.975
Swaps .....	( 609.077)			590.602					( 18.474)
Net risk .....	( 41.113.636)	( 77.267.298)	( 23.045.329)	( 22.654.523)	( 7.676.093)	( 3.130)	( 13.108.984)	( 7.366)	( 184.876.359)

# Notes

## 14. Risk management and financial instruments, contd.

### b. Market risk, contd.

#### i) Exposure to currency risk, contd.

31.12. 2009	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings .....	( 41.607.299)	( 84.089.942)	( 44.716.978)	( 21.613.747)	( 8.202.315)	0	( 14.079.999)	0	( 214.310.280)
Accounts payables .....	( 12.374)	( 18.066)	( 37.368)						( 67.808)
Trade receivables .....			530.440		12	1.426	20	1.691	533.588
Bank deposits .....	234	7.084	2.556.769	308	3.251	230	106	0	2.567.982
Aluminium derivatives .....			20.164.273						20.164.273
Balance sheet risk .....	( 41.619.439)	( 84.100.924)	( 21.502.864)	( 21.613.439)	( 8.199.053)	1.656	( 14.079.873)	1.691	( 191.112.245)
Estimated sale in 2010 ....			5.921.599						5.921.599
Estim. Purch. in 2010 .....		( 2.297.992)	( 135.676)	( 1.593.073)					( 4.026.741)
Balance sheet risk .....	0	( 2.297.992)	5.785.923	( 1.593.073)	0	0	0	0	1.894.859
Swaps .....	( 709.012)			633.849					( 75.163)
Net risk .....	( 42.328.451)	( 86.398.916)	( 15.716.941)	( 22.572.663)	( 8.199.053)	1.656	( 14.079.873)	1.691	( 189.292.550)

### Sensitivity analysis

Strengthening by 10% of the Icelandic krona against the following currencies at 31 March 2010 would have increased (decreased) equity and profit or loss by the amounts shown below.

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
1.1.-30.6 2010	2.725.957	5.120.048	1.922.128	1.554.093	516.601	211	882.235	437	12.721.710
1.1.-31.12 2009	3.183.887	6.433.721	1.648.901	1.653.428	627.228	( 127)	1.077.110	( 129)	14.624.019

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009. Weakening by 10% of the Icelandic krona against the above currencies at 31 March would have had the equivalent, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

# Notes

## 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:

<b>Fixed rate instruments</b>	<b>30.6. 2010</b>	<b>31.12. 2009</b>
Financial assets .....	8.066.913	7.738.829
Financial liabilities .....	26.421.059	26.792.325
	<u>18.354.146</u>	<u>19.053.496</u>

#### Variable rate instruments

Financial liabilities .....	201.102.421	209.851.004
	<u>201.102.421</u>	<u>209.851.004</u>

#### 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 variable 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. Presentation has been changed from the financial statements 2009, by taking out of the calculations the effect of the embedded aluminium electric sale contract derivative. Comparative amounts have been changed in accordance.

	<b>Profit or (loss)</b>	
	<b>100 p increase</b>	<b>100 p decrease</b>
<b>1.1.-30.6 2010</b>		
Variable rate instruments .....	( 1.343.446)	134.344.591
Cash flow sensitivity, net .....	( 1.343.446)	134.344.591
<b>1.1.-31.12 2009</b>		
Variable rate instruments .....	( 2.093.277)	2.093.277
Cash flow sensitivity, net .....	( 2.093.277)	2.093.277

# Notes

## 14. Risk management and financial instruments, 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 world market price of aluminium. The Group has not hedged specifically against aluminium price changes. Revenue from the electricity sales contracts related to aluminium price level amounted to 21.6% in the period from 1.1. to 30.6. 2010 (1.1. to 31.12. 2009: 17.6%) of the Group's total revenue for the year.

#### Sensitivity analysis

A change in the 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)	
	30.6. 2010	31.12. 2009
Increase by 10% .....	11.053.082	10.264.565
Decrease by 10% .....	( 11.065.451)	( 10.370.869)

#### iv) Other market risk

Other market risk is limited as investments in bonds and shares are an insubstantial 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, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Owners' guarantees for the Company's loans has enabled the Company to obtain access to loans at good terms. 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). 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.

EIB has financed half of the construction cost for the fifth phase of the power plant at Hellisheidi. Discussions are ongoing regarding the financing of the latter half. It is expected that the financing of the phase will be concluded this year.

The Group's cash and cash equivalents at the end of the period amounted to ISK 1.1 billion. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 7 billion. The Group had thus in total ensured capital at the end of the period to the amount of approx. ISK 8.1 billion. The corresponding amount at year end 2009 amounted to ISK 16.7 billion.

# Notes

## 14. Risk management and financial instruments, contd.

### c. Liquidity risk, contd.

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

30.6. 2010

#### Non-derivative financial instruments

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest-bearing						
liabilities .....	227.505.005	( 285.450.404)	( 18.903.806)	( 18.669.779)	( 67.168.968)	( 180.707.851)
Accounts						
payable .....	2.388.560	( 2.388.560)	( 2.388.560)			
Other liabilities ...	2.249.132	( 2.249.132)	( 2.249.132)			

#### Derivative financial instruments

Currency						
swaps .....	18.474	17.218	8.250	5.620	3.347	
	232.161.171	( 290.070.878)	( 23.533.248)	( 18.664.159)	( 67.165.621)	( 180.707.851)

31.12. 2009

#### Non-derivative financial instruments

Interest-bearing						
liabilities .....	236.568.166	( 264.168.863)	( 18.307.776)	( 36.219.530)	( 64.152.032)	( 145.489.525)
Accounts						
payable .....	2.368.066	( 2.368.066)	( 2.368.066)			
Other liabilities ...	1.381.317	( 1.381.317)	( 1.381.317)			

#### Derivative financial instruments

Currency						
swaps .....	75.163	( 81.803)	( 24.876)	( 21.983)	( 34.944)	0
	240.392.712	( 268.000.049)	( 22.082.035)	( 36.241.513)	( 64.186.976)	( 145.489.525)

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.

# Notes

## 14. Risk management and financial instruments, 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:

	30.6. 2010	31.12. 2009
Trade receivable .....	3.020.941	3.339.309
Other current receivables .....	457.915	353.240
Other financial assets .....	8.066.913	7.738.829
Cash and cash equivalents .....	1.084.736	2.943.303
	<u>12.630.505</u>	<u>14.374.681</u>

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

Trade receivable, industrial consumers .....	628.820	682.585
Trade receivable, retail .....	2.392.121	2.656.724
	<u>3.020.941</u>	<u>3.339.309</u>

### Impairment

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

	30.6. 2010		31.12. 2009	
	Gross balance	Allowance	Gross balance	Allowance
Non-overdue receivables .....	1.973.946	35.847	2.573.050	36.917
Overdue receivables .....	1.356.131	273.289	1.056.886	253.710
	<u>3.330.077</u>	<u>309.136</u>	<u>3.629.936</u>	<u>290.627</u>

### e. Fair value

#### Fair values 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 financial assets and liabilities, together with the carrying amounts are specified as follows:

	30.6. 2010		31.12. 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities .....	( 227.505.005)	( 217.316.662)	( 236.568.166)	( 218.876.273)

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

# Notes

## 14. Risk management and financial instruments, 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:

	30.6. 2010	31.12. 2009
Interest-bearing liabilities .....	0.04333% - 7.5%	0.05% - 9.0%
Embedded derivatives in electr. sales contr. ....	0.25% - 3.694%	0.169% - 4.537%

#### 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 og 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).

30.6. 2010	Level 2	Level 3	Total
Shares in companies .....		2.062.445	2.062.445
Embedded derivatives in sales contracts .....		13.732.747	13.732.747
Other financial assets .....		7.737.205	7.737.205
Other financial liabilities .....	( 18.474)	( 18.474)	
	( 18.474)	23.532.397	23.513.923
<b>31.12. 2009</b>			
Shares in companies .....		2.187.047	2.187.047
Embedded derivatives in sales contracts .....		20.164.273	20.164.273
Other financial assets .....		7.396.701	7.396.701
Other financial liabilities .....	( 75.163)	( 75.163)	
	( 75.163)	29.748.021	29.672.858

Embedded derivatives in electric sales contracts that have more than 10 year duration er classified under level 3 due to the fact that the forward market for aluminium only reaches maximum of ten years.



# Notes

## 14. Risk management and financial instruments, contd.

### f. Overview of financial instruments

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

	30.6. 2010			31.12. 2009		
	Financial asset/ financial liability		Available for sale	Financial asset/ financial liability		Available for sale
	Loans and receivables	at fair value through P/L		Loans and receivables	at fair value through P/L	
Shares in other companies .....			2.062.445			2.187.047
Embedd. electr. sales contracts ..		13.732.747			20.164.273	
Other financial assets .....	329.707	7.737.205		342.128	7.396.701	
Trade receivabl. .	3.020.941			3.339.309		
Other receivabl. ..	457.915			353.240		
Cash .....	1.084.736			2.943.303		
Interest-bearing .. liabilities .....	( 227.505.005)		( 236.568.166)			
Other financial liabilities .....	( 18.474)			( 75.163)		
Account payabl. . (	2.388.560)		( 2.368.066)			
Other current liabilities .....	( 2.249.132)		( 1.381.317)			
	( 227.249.398)	21.451.478	2.062.445	( 233.339.569)	27.485.811	2.187.047

## 15. Group entities

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

	Main operation	Nominal value	Share	
			30.6. 2010	31.12. 2009
Gagnaveita Reykjavíkur ehf.	Data transfer .....	4.736.841	100.0%	100.0%
Hitaveita Akraness og Borgarfj	Heating supplier .....			79.3%
Reykjavík Energy Invest ehf.	Investments .....	3.004.723	100.0%	100.0%
Úlfjótuvatn frítímabyggð ehf.	Preperation company .....	225.000	100.0%	100.0%
Hrafnabjargavirkjun	Preperation company .....	6.000	60.0%	60.0%

### Main changes in the Group during the year

In January 2010 Reykjavík Energy purchased 20.7% share in Hitaveita Akraness og Borgarfjarðar (HAB) from the state. With the purchase Reykjavík Energy became the only owner of HAB. HAB was intergrated into Reykjavík Energy as of 1 January 2010.

# Notes

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## 16. Other issues

### **Delays of power plant constructions**

Due to delays in meeting contractual conditions in energy sales contracts between Orkuveita Reykjavíkur and Nordural Helguvík, an uncertainty is present about the continuation of energy production projects. Therefore there have also been delays in the performance of contracts with other parties, such as machine producers and contractors. Negotiations have been conducted about compensations due to such delays. The most extensive are contracts with Mitsubishi Heavy Industries and Balce Dürr, regarding delivery of machinery, and negotiations with Járðboranir regarding compensations for time delays of drilling for power plant projects. There is uncertainty regarding how projects will proceed and therefore it is not conclusive what the compensations will amount to. Managers do not believe that there is a reason to make a precautionary deduction in the interim financial statements regarding the fore mentioned matters.

### **Effect of fluctuations in foreign exchange rates and aluminium prices on the Company's standing**

On 27 August 2010 the TWI is 208,0 but was 213,4 at the end of the accounting period 30 June 2010. If interest bearing loans and borrowings would be accounted for according to the TWI on 27 August 2010 they would have amounted to ISK 222.0 billion or ISK 5.5 billion lower than accounted for at the end of the accounting period. Embedded derivatives in sales contracts, when taken into consideration changes in aluminium price and currency exchange rates, would have amounted to ISK 12.3 billion on the reporting date or 1.4 billion lower than on the accounting date. Further information about the effect of changes in the exchange rates and aluminium prices can be found in note 14.

### **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.