Orkuveita Reykjavíkur

Condensed Consolidated
Interim Financial Statements
1 January to 30 September 2011

Orkuveita Reykjavíkur
Bæjarhálsi 1
110 Reykjavík

reg no. 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 2011 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 1 January to 30 September 2011 amounted to ISK 5.344 million. According to the statement of financial position the Company´s assets amount to ISK 291.735 million, book value of equity at the end of the period amounted to ISK 54.642 million and the Company´s equity ratio is 18.7%.

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%

A change in the energy laws from 2009 that state that the Company must be split so that exclusive licence operations and competitive operations will be operated in separate entities, will come into effect 1 January 2012. Preparations for these changes are well underway. A government bill has emerged in Parlament that will delay the effective date of the law until January 2014, if approved.

Statement by the Board of Directors

According to the best knowledge of the Board of Directors of Orkuveita Reykjavíkur, the company´s consolidated 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 September 2011 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 consolidated 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 consolidated financial statements for the period 1 January to 30 September 2011.

Reykjavík, 28 November 2011.

The Board of Directors:
Haraldur Flosi Tryggvason
Sóley Tómasdóttir
Kjartan Magnússon
Brynhildur Davíðsdóttir
Gylfi Magnússon
Hrönn Ríkharðsdóttir

Managing Director:
Bjarni Bjarnason

Independent Auditor´s Review Report

To the Board of Directors and owners of Orkuveita Reykjavikur.

We have reviewed the accompanying condensed financial statements of Orkuveita Reykjavíkur, which comprise the interim statement of financial position as at 30 September 2011 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 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 2011, 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, 28 November 2011.

KPMG ehf.
Hlynur Sigurðsson
Auðunn Guðjónsson

Income Statement
1 January to 30 September 2011

	Note	2011 1.7.-30.9.	2010 1.7.-30.9.	2011 1.1.-30.9.	2010 1.1.-30.9.
Operating revenue		7.712.431	5.882.790	24.388.053	19.443.731
Energy purchase		(1.107.641)	(1.213.128)	(3.609.957)	(3.593.295)
Salaries and salary related expenses	4	(800.489)	(936.189)	(2.797.135)	(2.999.373)
Other operating expenses		(838.007)	(903.534)	(2.502.587)	(2.964.696)
Depreciation and amortisation	5	(2.041.576)	(2.033.962)	(6.177.998)	(5.936.307)
Results from operating activities		2.924.718	795.977	9.300.376	3.950.060
Interest income		37.540	44.542	106.874	112.846
Interest expenses		(1.217.787)	(297.649)	(4.019.317)	(1.951.348)
Other income (expenses) on financial assets and liabilities		(4.823.012)	15.735.056	(13.244.847)	20.233.042
Total financial income and expenses	6	(6.003.260)	15.481.949	(17.157.291)	18.394.540
Share in profit of associated companies		0	(835)	(5.400)	24.308
Profit (loss) before income tax		(3.078.541)	16.277.091	(7.862.314)	22.368.908
Income tax	7	1.556.667	(4.601.622)	2.518.767	(5.575.255)
Profit (loss) for the period		(1.521.875)	11.675.469	(5.343.548)	16.793.653
Attributable to:					
Equity holders of the Company		(1.521.875)	11.675.469	(5.343.548)	16.793.652
Minority interest in subsidiaries		0	0	0	0
Profit (loss) for the period		(1.521.875)	11.675.469	(5.343.548)	16.793.652

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Interim Statement of Comprehensive Income for 1 January to 30 September 2011

	2011 1.1.-30.9.	2010 1.1.-30.9.
(Loss) profit for the period	(5.343.548)	16.793.653
Other comprehensive income		
Revaluation reserve	6.678.661	1.032.692
Income tax effect of revaluation	0	(185.884)
Depreciation transferred to retained earnings (deficit)	0	0
Changes in fair value of assets available for sale	460.000	0
Total comprehensive profit for the period	1.795.113	17.640.461
Total comprehensive income attributable to:		
Equity holders of the Company	1.795.113	5.118.183
Minority interest in subsidiaries	0	0
Total comprehensive profit for the period	1.795.113	5.118.183

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 6 Amounts are in ISK thousands

Interim Statement of Financial Position
30 September 2011

	Notes	30.9. 2011	31.12. 2010
Assets			
Property, plant and equipment	8	255.624.249	248.030.995
Intangible assets	9	1.389.829	1.514.124
Investments in associated companies		128.310	313.364
Investments in other companies		1.933.269	2.062.442
Embedded derivatives in electricity sales contracts	10	14.884.994	18.809.205
Other financial assets		7.519.197	7.333.247
Deferred tax assets	11	237.533	206.742
Total non-current assets		281.717.380	278.270.119
Inventories		533.477	566.796
Trade receivables		4.334.727	3.661.642
Embedded derivatives in electricity sales contracts	10	922.128	1.601.900
Other financial assets		3.873	4.574
Other receivables		478.784	91.730
Cash and cash equivalents		3.744.341	2.343.648
Total current assets		10.017.330	8.270.290
Total assets		291.734.710	286.540.409

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 7 Amounts are in ISK thousand

Interim Statement of Financial Position
30 September 2011

	Notes	30.9. 2011	31.12. 2010
Equity			
Revaluation reserve		52.264.047	46.882.895
Fair value reserve		460.000	0
Retained earnings		1.913.132	5.959.171
Equity attributable to equity holders of the Company		54.637.178	52.842.066
Minority interest		4.704	4.704
Total equity	12	54.641.882	52.846.770
Liabilities			
Loans and borrowings	13	212.711.105	207.916.910
Retirement benefit obligation		545.092	441.487
Other financial liabilities		8.814	23.395
Deferred tax liabilities	11	1.292.428	3.780.403
Total non-current liabilities		214.557.439	212.162.195
Accounts payable		1.582.157	1.981.573
Loans and borrowings	13	16.854.926	17.273.990
Other financial liabilities		11.608	17.130
Other current liabilities		4.086.698	2.258.751
Total current liabilities		22.535.389	21.531.444
Total liabilities		237.092.828	233.693.639
Total equity and liabilities		291.734.710	286.540.409

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 8 Amounts are in ISK thousand

Interim Statement of Changes in Equity for the period ended 30 September 2011

	Revaluation reserve	Fair value reserve	Retained earnings (Accumulated deficit)	Attributable to equity holders of the Company	Minority interest	Total equity
1.1.-30.9. 2011						
Equity at 1 January 2011	46.882.894	0	5.959.170	52.842.064	4.705	52.846.769
Revaluation	6.678.661			6.678.661		6.678.661
Depreciation transferred to retained earnings (deficit)	(1.297.508)		1.297.508	0		0
Changes in fair value of assets available for sale		460.000		460.000		460.000
Loss for the period			(5.343.548)	(5.343.548)	0	(5.343.548)
Total comprehensive income	5.381.153	460.000	(4.046.040)	1.795.113	0	1.795.113
Equity at 30 September 2011 ...	52.264.047	460.000	1.913.130	54.637.177	4.705	54.641.882
1.1.-30.9. 2010						
Equity at 1 January 2010	49.417.335	0	(8.816.337)	40.600.998	56.487	40.657.485
Revaluation	1.032.692			1.032.692		1.032.692
Income tax effect of revaluation	(185.885)			(185.885)		(185.885)
Solvence of revaluation due to depreciation	(1.377.911)		1.377.911	0		0
Profit for the period			16.793.652	16.793.652	0	16.793.652
Total comprehensive income	(531.104)	0	18.171.563	17.640.459	0	17.640.459
Other changes				0	(51.541)	(51.541)
Dividends paid			(800.000)	(800.000)		(800.000)
Equity at 30 September 2010 ...	48.886.231	0	8.555.226	57.441.457	4.946	57.446.403

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 9 Amounts are in ISK thousand

Interim Statement of Cash Flows for the period ended 30 September 2011

	2011 1.1.-30.9.	2010 1.1.-30.9.
Cash flows from operating activities		
(Loss) profit for the period	(5.343.548)	16.793.652
Financial income and expenses	17.157.291	(18.394.540)
Other items not affecting the cash flow	3.739.665	11.457.023
Changes in operating assets and liabilities	813.890	1.417.584
Working capital from operation before interest and taxes	16.367.297	11.273.720
Received interest income	98.008	100.927
Paid interest expenses	(2.308.698)	(1.465.551)
Dividend received	43.840	16.159
Paid due to other financial income and expenses	(82.324)	(98.317)
Net cash from operating activities	14.118.123	9.826.939
Cash flows from investing activities		
Acquisition of property, plant and equipment	(7.594.002)	(12.716.829)
Acquisition of intangible assets	(58.608)	(68.594)
Proceeds from sale of property, plant and equipment	215.878	0
Acquisition of subsidiaries	0	(100.000)
Acquisition of other financial assets	(16.887)	0
Proceeds from sale of other companies	27.898	0
Proceeds and repayment of other financial assets	990	4.092
Net cash used in investing activities	(7.424.731)	(12.881.331)
Cash flows from financing activities		
Proceeds from new borrowings	0	10.397.949
Repayment of borrowings	(8.730.430)	(3.573.427)
Proceeds from new borrowings from the owners	7.925.360	0
Dividends paid	0	(600.000)
Credit facility, change	(4.862.091)	(4.327.901)
Current liabilities, (decrease) increase	400.000	(1.105.720)
Net cash from financing activities	(5.267.161)	790.901
Increase (decrease) in cash and cash equivalents	1.426.230	(2.263.491)
Cash and cash equivalents at year beginning	2.343.648	2.943.303
Effect of currency fluctuations on cash and cash equivalents	(25.538)	53.689
Cash and cash equivalents at the end of the period	3.744.340	733.501
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	(323.273)	(637.887)
Proceeds from sale of assets	110.000	0
Acquisition of other companies, change	0	(73.898)
Proceeds from sale of other companies	299.451	0
Other financial assets, change	0	23.898
Receivables, change	(409.451)	0
Current liabilities, change	323.273	711.785
Other information:		
Working capital from operation	12.936.991	8.328.551

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Notes to the Interim Financial Statements

Notes

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 Reykjavik. 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 2010.

The condensed consolidated interim financial statements were approved by the Board of Directors and the Director on 28 November 2011.

b. *Basis of measurement*

The consolidated 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 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 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

3. Segment reporting

Business divisions and sectors

Orkuveita Reykjavíkur´s service area is mainly in the Reykjavík city area, but it also extends to the southern and western parts of Iceland. The Company is divided into three seperate divisions: Production and Sales, Utilities and Other Operation.

Production and Sales generate electricity and harness hot water from the power plants as well as selling electricity to wholesale and retail customers.

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

Other operations cover the new construction and operation of street lighting, rental of housing and equipment, incidental sale of specialist consultancy services and more.

The Company is also divided by its sectors, **Electricity, Hot water**, **Cold water**, **Sewer** and **Fibre-optic system**. The sectors operate in different legal environments, both regarding income tax and value added tax, revenue targets as set forth in the electricity and earnings law. The sectors hot water, cold water, sewerage and the distribution of electricity are exclusivly licensed by law, however the generation of electricity, sale of power and sale of data transfer is subject to the open market.

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

Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	The National Energy Authority is sent a rate list for authorisation. Rates are officially published.
Electricity, production	Energy sales are subject to the open market, electricity rate changes are therefore not subject to government approval.
Cold water	The legal limitation on the upper limit of the rate is 0.5% of the real estate value. Rates are officially published in the Law and Ministerial Gazette.
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fibre-optic data system	This is a competitive practice that is supervised by The Post and Telecom Administration.

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.

Business segments - divisions

1.1.-30.9. 2011	**Utilities**	**Production and sale**	**Other Operation**	**Adjust-ments**	**Total**
External revenue	15.511.871	8.729.046	146.756	380	24.388.053
Inter-segment revenue	263.378	2.246.895	359.878	(2.870.151)	0
Total segment revenue	15.775.249	10.975.941	506.634	(2.869.771)	24.388.053
Segment result	1.929.404	7.256.179	2.230.127	(2.115.334)	9.300.376
Unallocated expenses					0
Results from operating activities					9.300.376
Financial income and expenses					(17.157.291)
Share of loss of associated companies					(5.400)
Income tax					2.518.767
Loss for the period					(5.343.548)

1.1.-30.9. 2010	**Utilities**	**Production and sale**	**Other Operation**	**Adjust-ments**	**Total**
External revenue	11.789.558	7.198.602	455.571	0	19.443.731
Inter-segment revenue	79.873	2.260.067		(2.339.940)	0
Total segment revenue	11.869.431	9.458.669	455.571	(2.339.940)	19.443.731
Segment result	2.993.044	1.984.485	(114.958)	0	4.862.571
Unallocated expenses					(912.511)
Results from operating activities					3.950.060
Financial income and expenses					18.394.540
Share of profit of associated companies					24.308
Income tax					(5.575.255)
Profit for the period					16.793.653

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3. Segment reporting, contd.

Business segments - divisions, contd. 1.1.-30.9. 2011	Utilities	Production and sale	Other Operation	Adjust-ments	Total
Balance sheet (30.9. 2011)					
Property, plant and equipment	127.648.456	120.118.776	262.999	7.594.019	255.624.250
Intangible assets	0	0	83.932	1.305.897	1.389.829
Shares in associates					128.310
Other unallocated assets					34.592.322
Total assets					291.734.711
Unallocated liabilities					237.092.828
Investsments:					
Property, plant and equipment	1.549.580	5.547.561	4.862	(192.313)	6.909.690
Intangible assets	0	0	0	58.608	58.608
Depreciation, amortization:					
Property, plant and equipment	3.424.886	2.281.993	0	288.218	5.995.097
Intangible assets	0	0	87.930	94.972	182.902
1.1.-30.9. 2010					
Balance sheet (31.12. 2010)					
Property, plant and equipment	122.791.706	116.906.563	284.930	8.047.796	248.030.995
Intangible assets	0	0	171.862	1.342.262	1.514.124
Shares in associates					313.364
Other unallocated assets					36.681.926
Total assets					286.540.409
Unallocated liabilities					233.693.640
Investsments:					
Property, plant and equipment	3.903.543	8.868.559	27.506	(439.616)	12.359.992
Intangible assets	0	0	14.372	54.223	68.595
Depreciation, amortization:					
Property, plant and equipment	3.204.383	2.246.805	0	300.367	5.751.555
Intangible assets	0	0	90.000	94.752	184.752

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3. Segment reporting, contd.

Business segments - sectors

1.1.-30.9. 2011	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust-ments	Total
Income							
External revenue	12.744.534	6.269.606	2.105.255	2.419.423	849.235	0	24.388.053
Inter-segment revenue	787.045	115.159	32.187	36.990	0	(971.381)	0
Total segment revenue	13.531.579	6.384.765	2.137.442	2.456.413	849.235	(971.381)	24.388.053
Balance sheet (30.9. 2011)							
Property, plant and equipment	129.049.904	57.259.836	18.739.089	40.336.724	10.238.695	0	255.624.248
Intangible assets	706.490	397.347	91.413	194.579	0	0	1.389.829
Unallocated assets							34.720.632
Total assets	129.756.394	57.657.183	18.830.502	40.531.303	10.238.695	0	291.734.709
Investments							
Property, plant and equipments	5.262.857	591.533	95.712	81.858	877.730	0	6.909.690
Intangible assets	31.296	14.242	4.220	8.850	0	0	58.608
Depreciation, amortization							
Property, plant and equipments	2.655.271	1.796.733	340.552	861.061	341.479	0	5.995.096
Intangible assets	36.286	117.521	9.114	19.981	0	0	182.902

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3. Segment reporting, contd.

Business segments - sectors, contd.

1.1.-30.9. 2010	Electricity	Hot water	Cold water	Sewer	Fibre-optic cable system	Adjust- ments	Total
Income							
External revenue	10.750.602	3.985.006	2.013.112	2.000.618	694.393	0	19.443.731
Inter-segment revenue	767.645	98.101	42.894	42.627	0	(951.267)	0
Total segment revenue	11.518.247	4.083.107	2.056.006	2.043.245	694.393	(951.267)	19.443.731
Balance sheet (31.12. 2010)							
Property, plant and equipment	126.291.579	58.562.485	17.080.343	36.394.144	9.702.444	0	248.030.995
Intangible assets	710.057	502.058	96.643	205.366	0	0	1.514.124
Unallocated assets							36.995.290
Total assets	127.001.636	59.064.543	17.176.986	36.599.510	9.702.444	0	286.540.409
Investments							
Property, plant and equipments	9.474.597	937.397	166.598	1.022.721	758.678	0	12.359.991
Intangible assets	29.064	27.169	3.958	8.404	0	0	68.595
Depreciation, amortization							
Property, plant and equipments	2.583.367	1.644.266	347.534	913.123	263.265	0	5.751.555
Intangible assets	125.225	30.015	9.245	20.267	0	0	184.752

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Notes

4. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2011 1.1.-30.9.	2010 1.1.-30.9.
Salaries	2.464.680	2.801.562
Defined contribution pension expenses	332.395	373.442
Defined benefit pension expenses	117.750	(19.502)
Other salary related expenses	293.072	329.824
Total salaries and salary related expenses	3.207.897	3.485.326

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

	2011 1.1.-30.9.	2010 1.1.-30.9.
Expensed in the income statement	2.797.135	2.999.373
Capitalised on projects	410.762	485.953
Total salaries and salary related expenses	3.207.897	3.485.326

Anna Skúladóttir left her position as CFO of the parent company in January 2011. Expenses due to the termination of her employment, salary related expenses included, were all expensed upon her departure from the company.

5. Depreciation and amortisation

Depreciation and amortisation is specified as follows:

	2011 1.1.-30.9.	2010 1.1.-30.9.
Depreciation of property, plant and equipment, cf. note 8	5.995.097	5.751.555
Amortisation of intangible assets, cf. note 9	182.903	184.752
Depreciation and amortisation recognised in the income statement	6.178.000	5.936.307

6. Financial income and expenses

Financial income and expenses are specified as follows:

	2011 1.1.-30.9.	2010 1.1.-30.9.
Interest income	106.874	112.846
Interest expense	(3.425.246)	(1.416.726)
Guarantee fee to owners 1)	(594.071)	(534.622)
Total interest expenses	(4.019.317)	(1.951.348)
Fair value changes of embedded derivatives in electricity sales contracts	(4.603.983)	1.154.294
Fair value changes of assets available for sale	(556.036)	(148.500)
Fair value changes of financial assets and financial liabilities through P/L	289.806	515.194
Forward currency swaps	583	(31.811)
Foreign exchange difference	(8.420.363)	18.727.705
Dividends	45.145	16.159
Total of other income (expenses) on financial assets and liabilities	(13.244.847)	20.233.041
Total financial income and expenses	(17.157.290)	18.394.539

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Notes

6. Financial income and expenses, contd.

1) Orkuveita Reykjavíkur paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings. The fee is 0.375% on yearly basis. The calculation of the fee is done at the end of each quarter. The guarantee fee amounted to ISK 594,1 million in the period 1 January to 30 September 2011 (1.1. to 30.9. 2010: ISK 534,6 million) and is accounted for among interest expenses.

Capitalised financing cost

Financing cost due to construction of a power plant to the amount of ISK 1.279 million is capitalised and has been recognised as reduction of financial expenses (1.1. to 30.9. 2010: ISK 1.432 million).

Interest ratio used to calculate capitalised financing cost for the period 1.1. to 30.9. 2011 is 7.46% (1.1. to 30.9. 2010: 9.52%).

The interest ratio is determined from the ratio of interest expense during the period on average remainder of all Company loans calculated from the currency rate/index of the borrowing day of each loan.
When determing the rate the average monthly REIBOR fixings for the period are used. In the period this ratio was 4.32% (1.1. to 30.9. 2010: 7.896%). On top of this ratio there is added a margin that reflects the Group´s terms from the Icelandic banks, it is 2.76% in the period (1.1. to 30.9. 2010: 1.25%). In addition the Company´s owners guaranty fee is added, which is 0.375%.

If there is exchange currency gain on the loans in the reporting period, the interest ratio is determined as the ratio between interst expenses during the period of the average remaining loans according to the currency rate/index of the borrowing date of each loan.

If there is exchange currency loss during the period, it is taken into consideration when determining the interest ratio. The interest ratio will not, however, be higher than the comparative interest rate in Icelandic krona. The interest ratio 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 when there is exchange currency loss.

	2011 1.1.-30.9.	2010 1.1.-30.9.
Interest expenses, charged in the income statement	(4.019.317)	(1.951.348)
Capitalised finance cost	(1.279.276)	(1.431.827)
Interest expenses	(5.298.593)	(3.383.175)

Fair value changes through P/L

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 expense of ISK 4.870 million. (1.1. to 30.9. 2010: gain ISK 1.521 million).

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Notes

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:	2011 1.1.-30.9.	2010 1.1.-30.9.
Change in deferred income tax	2.518.767	(5.575.255)
Income tax income / (expense) is recognised in the income statement	2.518.767	(5.575.255)

Reconciliation of effective tax rate:		2011 1.1.-30.9.		2010 1.1.-30.9.
(Loss) profit before income tax		(7.862.314)		22.368.908
Income tax according to current tax ratio	36.0%	2.830.433	32.7%	(7.314.633)
Non-taxable operation of water supply and sewer	(0.7%)	(55.658)	(8.0%)	1.789.020
Effect of various tax rates in the Group	(0.2%)	(15.809)	(0.2%)	52.059
Other items	(3.1%)	(240.200)	0.5%	(101.702)
Effective income tax (income / (expense))	32.0%	2.518.766	25.0%	(5.575.256)

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 20 Amounts are in ISK thousand

8. Property, plant and equipment

Property, plant and equipment is specified as follows:

1.1.-30.9. 2011	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	191.999.364	193.739.637	8.367.940	5.520.843	399.627.784
Additions during the period	5.581.267	1.513.208	33.191	79.316	7.206.982
Sold or disposed of	(285.303)		(692)	(11.298)	(297.293)
Revaluation		6.678.661			6.678.661
Balance at end of the period	197.295.328	201.931.506	8.400.439	5.588.861	413.216.134
Depreciation					
Balance at year beginning	53.917.500	93.547.119	1.691.261	2.440.910	151.596.790
Depreciated during the period	3.131.840	2.642.463	107.391	113.403	5.995.097
Balance at end of the period	57.049.340	96.189.582	1.798.652	2.554.313	157.591.887
Carrying amounts					
At 1.1. 2011................................	138.081.864	100.192.518	6.676.679	3.079.933	248.030.994
At 30.9. 2011..............................	140.245.988	105.741.924	6.601.787	3.034.548	255.624.247
Thereof assets in construction at period end........	12.168.686	2.016.203	0	0	14.184.889

1.1.-31.12. 2010	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	181.419.827	189.223.393	8.338.751	5.391.704	384.373.675
Reclassification of assets	0	0	0	13.285	13.285
Additions during the year	10.579.537	3.288.896	29.189	115.854	14.013.476
Revaluation	0	1.227.348	0	0	1.227.348
Balance at year end	191.999.364	193.739.637	8.367.940	5.520.843	399.627.784
Depreciation					
Balance at year beginning	49.965.530	89.853.132	1.549.340	2.289.605	143.657.607
Depreciated during the year	3.951.970	3.499.331	141.921	151.305	7.744.527
Sold or disposed of	0	194.656	0	0	194.656
Balance at year end	53.917.500	93.547.119	1.691.261	2.440.910	151.596.790
Carrying amounts					
At 1.1. 2010................................	131.454.297	99.370.261	6.789.411	3.102.099	240.716.068
At 31.12. 2010............................	138.081.864	100.192.518	6.676.679	3.079.933	248.030.994
Thereof assets in construction at year end..........	28.392.186	2.271.439	0	0	30.663.625

Assets in construction

In a draft Parliamentary Resolution submitted by the Minister of Industry on protection and utilisation of natural resources, which is based on a Framework Program on protection and utilisation of hydropower and geothermal power, the area of Bitra is categorised in a protected area. The book value of OR's assets and research in the area is ISK 785 million. If the draft Parliamentary Resolution will be approved unchanged regarding this item, most of this amount will be depreciated.

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 21 Amounts are in ISK thousand

8. Property, plant and equipment, contd.

Revaluation

Revaluation was carried out for the utilities system at the end of September 2011 as a part of the regular revaluation of the group´s assets. The revaluation led to an increase of book values of sewage and cold water assets that amounted to ISK 6.679 million. A revaluation was of the utilities systems was last done at year-end 2008. The systematic overview did not lead to revaluation of assets in other categories.

When revaluating, the relevant asset groups are measured at fair value. The aforementioned increases are recognised in a revaluation reserve among equity.

The fair value of utilities assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revalued in accordance with those changes. The calculation is based on official information and actual statistics from the Group's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within and outside of the Company. For utilities assets the building cost index is also taken into account since the operations are subject to special licence and income limits that are primarily based on changes in the building cost index.

Revaluation regarding other systems of the Company was not done in the period from 1 January to 30 September 2011.

Impairment tests were performed at year end in order to confirm both carrying amounts of assets and main assets under construction would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the utilities and production systems. The impairment are based on several assumptions, the main assumptions are:
i) weighted average cost of capital (WACC) is 4.05% to 5.72%,
ii) the future growth is between 0% to 2.5%
iii) weighted probability of different results regarding negotiations with buyers of power.
Uncertainty is regarding when projects in development will be started due to unfinished power sale contracts and funding of projects.
Further explanation on impairment test is in note 3 h in the financial statements for the year 2010.

Information on revalued assets at year end

	Production system	Distribution system	Total
30.9. 2011			
Revalued carrying amount	140.245.988	105.741.924	245.987.912
Thereof effect of revaluation	(31.650.116)	(36.773.744)	(68.423.860)
carrying amount before effect of revaluation	108.595.872	68.968.180	177.564.052
31.12. 2010			
Revalued carrying amount	138.081.864	100.192.518	238.274.382
Thereof effect of revaluation	(32.678.679)	(31.130.251)	(63.808.930)
carrying amount before effect of revaluation	105.403.185	69.062.267	174.465.452

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 22 Amounts are in ISK thousand

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 2011 to 2014. The contract and other contracts regarding developments at Hellisheiði amount to ISK 14.2 billion as per exchange rate at the end of the period (31.12.2010: ISK 32.5 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 the end of the period is estimated at ISK 1.3 billion (31.12.2010: ISK 1.8 billion).

9. Intangible assets

Intangible assets are specified as follows:

1.1.-30.9. 2011	Heating rights	Preparation cost	Software	Total
Cost				
Balance at year beginning	1.427.031	261.864	2.964.934	4.653.829
Additions during the period	0	0	58.608	58.608
Balance at end of the period	1.427.031	261.864	3.023.542	4.712.437
Amortisation				
Balance at year beginning	438.570	90.000	2.611.134	3.139.704
Amortisation during the period	9.488	87.930	85.485	182.903
Balance at end of the period	448.058	177.930	2.696.619	3.322.607
Carrying amounts				
At 1.1. 2011	988.461	171.864	353.800	1.514.125
At 30.9. 2011	978.973	83.934	326.923	1.389.830

31.12. 2010	Heating rights	Preparation cost	Software	Total
Cost				
Balance at year beginning	1.427.031	247.492	2.895.665	4.570.188
Reclassification of assets	0	0	(13.285)	(13.285)
Additions during the year	0	14.372	82.554	96.926
Balance at year end	1.427.031	261.864	2.964.934	4.653.829
Amortisation				
Balance at year beginning	424.631	0	2.497.153	2.921.784
Amortisation during the year	13.939	90.000	113.981	217.920
Balance at year end	438.570	90.000	2.611.134	3.139.704
Carrying amounts				
At 1.1. 2010	1.002.400	247.492	398.512	1.648.404
At 31.12. 2010	988.461	171.864	353.800	1.514.124

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 23 Amounts are in ISK thousand

10. Embedded derivatives in electricity sales contracts

Four electricity sales contracts have been made, originally 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 has begun but the contract has a duration of 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 in electricity sales contracts is specified as follows:

	30.9. 2011	31.12. 2010
Fair value of embedded derivatives at the beginning of the year	20.411.105	20.164.273
Fair value changes during the period	(4.603.983)	246.832
Fair value of embedded derivatives at the end of the period	15.807.122	20.411.105

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

Non-current embedded derivatives	14.884.994	18.809.205
Current embedded derivatives	922.128	1.601.900
Total embedded derivatives at the end of the period	15.807.122	20.411.105

The embedded derivative with Norðurál Helguvík ehf. (NH) is stated at the book value of ISK 2.1 billion. The constructions of the aluminium plant at Helguvík have been delayed and there is uncertainty regarding continuance of the project. It was scheduled to begin delivery of power to the aluminium plant 1 September and NH was obliged to begin payments from that date. NH has used a option in the contract that allows NH to use the power at the aluminium plant at Grundartangi.
Counter party risk is valued by the management as considerable and the risk is reflected in the stated book value of the derivative. At this stage management doesn´t see reason to move down the book value of the embedded derivative.
If the contract will be terminated or renegotiated on other terms, the book value of the embedded derivative would be fully expensed through P/L.

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11. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

1.1.-30.9. 2011	Tax assets	Tax liabilities	Net amount
Deferred tax assets/liabilities at the beginning of the year	206.741	3.780.403	(3.573.662)
Calculated income tax for the period	30.792	(2.487.975)	2.518.767
Deferred tax assets/liabilities at end of the period	237.533	1.292.428	(1.054.895)

1.1.-31.12. 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
Effect of change in income tax rate on evaluation	(20.435)	1.513.975	(1.534.410)
Calculated income tax for the year	(781.321)	2.255.465	(3.036.786)
Other changes	(185.817)	0	(185.817)
Deferred tax assets/liabilities at end of the period	206.741	3.780.403	(3.573.661)

Deferred tax assets and liabilities are attributable to the flollowing:

	30.9. 2011		31.12. 2010	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	(264.121)	16.731.001	(433.321)	17.023.296
Embedded derivatives	0	5.690.564	0	7.347.998
Other items	17.692	(401.040)	(25.549)	1.286.811
Effect of carry forward taxable loss	483.962	(20.728.096)	665.612	(21.877.702)
Deferred tax assets/liabilities at year end	237.533	1.292.429	206.742	3.780.403

Management has concluded based on their projections that there will be sufficient taxable profit in the future to use the stated deferred taxable asset.

12. Equity

Equity ratio of the Group at the end of the period is 18.7% (31.12.2010: 18.4%). Return on equity was negative by 12.4% in the period 1.1. to 30.9. 2011 (1.1. to 31.12. 2010: positive by 34.4%).

No dividends is paid to the parent company's owners in the year 2011. (2010: ISK 800 million.)

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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.

Non-current liabilities	**30.9. 2011**	**31.12. 2010**
Bank loans	193.695.068	193.902.191
Subordinated loan from owners of the Company	8.132.461	0
Credit facilities	4.282.470	8.766.600
Bond issuance	22.226.032	21.692.110
	228.336.031	224.360.901
Current portion on non-current liabilities	(15.624.926)	(16.443.990)
	212.711.105	207.916.911

Current liabilities		
Current portion on non-current liabilities	15.624.926	16.443.990
Short-term bank loans	1.230.000	830.000
	16.854.926	17.273.990
Total interest bearing loans and borrowings	229.566.031	225.190.901

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:

		30.9. 2011		31.12. 2010	
	Date of maturity	**Average interest rate**	**Carrying amount**	**Average interest rate**	**Carrying amount**
Liabilities in CHF	26.6.2036	0.54%	44.099.107	0.58%	41.746.713
Liabilities in EUR	6.12.2032	2.01%	69.106.657	1.29%	75.620.884
Liabilities in USD	8.11.2030	1.44%	38.016.787	1.37%	37.772.740
Liabilities in JPY	26.6.2036	0.49%	22.976.850	0.57%	21.949.837
Liabilities in GBP	26.6.2036	1.80%	7.144.340	1.69%	7.078.811
Liabilities in SEK	5.10.2027	2.81%	11.829.845	1.61%	13.548.619
			193.173.586		197.717.604
Liabilities in Icelandic kronas:					
Indexed	1.10.2037	4.76%	35.162.445	4.92%	26.643.296
Non-indexed	15.10.2011	7.00%	1.230.000	7.50%	830.000
			36.392.445		27.473.296
Total interest-bearing loans and borrowings			229.566.031		225.190.900

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 26 Amounts are in ISK thousand

13. Loans and borrowings, contd.

Repayment on non-current liabilities are specified as follows on the next years:	**30.9. 2011**	**31.12. 2010**
1.10. 2011 to 30.9. 2012 / 1.1. to 31.12. 2011	15.624.926	16.443.990
1.10. 2012 to 30.9. 2013 / 1.1. to 31.12. 2012	25.577.440	12.605.836
1.10. 2013 to 30.9. 2014 / 1.1. to 31.12. 2013	16.937.708	27.976.909
1.10. 2014 to 30.9. 2015 / 1.1. to 31.12. 2014	12.949.666	14.881.311
1.10. 2015 to 30.9. 2016 / 1.1. to 31.12. 2015	17.939.004	12.369.891
Later	139.307.287	140.082.963
Total non-current liabilities, including next year's repayment	228.336.031	224.360.900

Guarantees and pledges

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

Covenants

Loans for the amount of ISK 15.069 million have certain covenants (31.12.2010: ISK 14.313). Management regularly evaluate the covenants and in their view there is no danger of them being breached.

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

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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), United States dollar (USD) and Swedish kronas (SEK).

Due to the economic situation in Iceland the Company has limited or no possibility to hedge against foreign currency risk since counterparties in forward contracts and other derivates are not available in the Icelandic

Approx. 84.1% 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 157.842 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 25 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.-30.9. 2011	1.1.-31.12. 2010	30.9. 2011	31.12. 2010
	Average exchange rate		Exchange rate at year end	
CHF	131,80	116,83	130,33	122,85
EUR	162,21	161,34	158,61	153,8
USD	115,40	122,19	117,95	114,91
JPY	1,435	1,465	1,531	1,413
GBP	186,17	188,54	184,26	178,43
SEK	18,00	17,35	17,29	17,14
CAD	117,98	118,48	113,52	115,16
TWI	217,42	216,30	213,91	207,09

Interim Financial Statements of Orkuveita Reykjavikur 30 September 2011 28 Amounts are in ISK thousand

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):

30.9. 2011	**CHF**	**EUR**	**USD**	**JPY**	**GBP**	**CAD**	**SEK**	**DKK**	**Total**
Loans and borrowings	(44.099.107)	(69.106.657)	(38.016.787)	(22.976.850)	(7.144.340)	0	(11.829.845)	0	(193.173.586)
Accounts payables		(4.535)	(79.512)					(2.757)	(86.803)
Trade receivables			489.583	4.567	0				494.150
Bank deposits	1.228	1.069.186	712.402	91.161	942	3.142	1.341	84	1.879.487
Aluminium derivatives			15.807.122						15.807.122
Other financial assets			7.474.333						7.474.333
Balance sheet risk	(44.097.879)	(68.042.006)	(13.612.858)	(22.881.122)	(7.143.397)	3.142	(11.828.504)	(2.673)	(167.605.297)
Estimated sale in 2011			7.724.452						7.724.452
Estim. Purch. in 2011		(2.019.358)	(119.485)	(2.152.684)	(3.360)				(4.294.887)
Balance sheet risk	0	(2.019.358)	7.604.966	(2.152.684)	(3.360)	0	0	0	3.429.565
Swaps	(376.897)			356.475					(20.423)
Net risk	(44.474.776)	(70.061.364)	(6.007.892)	(24.677.332)	(7.146.757)	3.142	(11.828.504)	(2.673)	(164.196.155)

14. Risk management and financial instruments, contd.

b. *Market risk, contd.*

i) Exposure to currency risk, contd.

31.12. 2010	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
Loans and borrowings	(41.746.713)	(75.620.884)	(37.772.740)	(21.949.837)	(7.078.811)	0	(13.548.619)	0	(197.717.604)
Accounts payables		(139.201)	(63.820)		(85)		(1.902)	(665)	(205.673)
Trade receivables			504.502						504.502
Bank deposits	55	474.769	669.812	79	998	347	7.867		1.153.927
Aluminium derivatives			20.411.105						20.411.105
Other financial assets			7.184.527						7.184.527
Balance sheet risk	(41.746.658)	(75.285.316)	(9.066.614)	(21.949.758)	(7.077.898)	347	(13.542.654)	(665)	(168.669.216)
Estimated sale in 2011			6.853.028						6.853.028
Estim. Purch. in 2011		(1.385.737)	(30.098)	(853.697)				(536)	(2.270.068)
Balance sheet risk	0	(1.385.737)	6.822.930	(853.697)	0	0	0	(536)	4.582.960
Swaps	(538.046)			497.521					(40.525)
Net risk	(42.284.704)	(76.671.053)	(2.243.684)	(22.305.934)	(7.077.898)	347	(13.542.654)	(1.201)	(164.126.781)

Sensitivity analysis

Strengthening by 10% of the Icelandic krona against the following currencies at end of the period would have increased (decreased) equity and profit or loss by the amounts shown below, taking into account tax effects.

	Profit or (loss)								
	CHF	EUR	USD	JPY	GBP	CAD	SEK	DKK	Total
1.1.-30.9. 2011	2.822.264	4.354.688	871.223	1.464.392	457.177	(201)	757.024	171	10.726.738
1.1.-31.12. 2010	2.671.786	4.818.260	580.263	1.404.785	452.985	(22)	866.730	43	10.794.830

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2010. Weakening by 10% of the Icelandic krona against the above currencies would have had the equivalent, but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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14. Risk management and financial instruments, contd.

b. *Market risk, contd.*

ii) Interest rate risk

A majority of the Company´s loans bear variable rates. Due to present market conditions in Iceland the Company does barely hedge against interest rate risk.

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

Fixed rate instruments	**30.9. 2011**	**31.12. 2010**
Financial assets	7.523.070	7.337.821
Financial liabilities	41.439.110	28.229.743
	33.916.040	20.891.922

Variable rate instruments		
Financial liabilities	188.147.343	197.001.682
	188.147.343	197.001.682

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.

	Profit or (loss)	
1.1.-30.9. 2011	**100 p increase**	**100 p decrease**
Variable rate instruments	(1.204.143)	1.204.143
Cash flow sensitivity, net	(1.204.143)	1.204.143
1.1.-31.12. 2010		
Variable rate instruments	(1.255.499)	1.255.499
Cash flow sensitivity, net	(1.255.499)	1.255.499

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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 market price of aluminium on the 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 19.2% in the period 1.1. to 30.9. 2011 (1.1. to 31.12. 2010: 20.4%) of the Group's total revenue.

Sensitivity analysis

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

	Profit or (loss)	
	30.9. 2011	**31.12. 2010**
Increase by 10%	6.838.425	6.797.375
Decrease by 10%	(6.863.972)	(6.827.243)

iv) Other market risk

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

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.

The Group's cash and cash equivalents at end of the period amounted to ISK 3.7 billion. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 8.2 billion. The Group had thus in total ensured capital at end of the period to the amount of approx. ISK 11.9 billion. The corresponding amount at year end 2010 amounted to ISK 9.7 billion.

In accordance with the action plan between the Company and its owners from 29 March 2011, the Company is to recieve a loan from it´s owners, amounting to ISK 12 billion, granted proportionally in conformity with their ownership. In this respect the Company received a loan amounting to ISK 8 billion in April this year and ISK 4 billion will be granted in the year 2013. The loans have a 15 year duration with the best terms the Municipality Credit Iceland Plc. offers. The loans are without repayment of the principal for the first five years.

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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:

30.9. 2011

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	229.566.030	(267.293.172)	(19.830.445)	(28.782.417)	(58.578.257)	(160.102.054)
Accounts payable	1.582.157	(1.582.157)	(1.582.157)			
Other liabilities ...	4.086.698	(4.086.698)	(4.086.698)			
Derivative financial instruments						
Currency swaps	20.423	(19.335)	(11.175)	(8.160)	0	0
	235.255.308	(272.981.362)	(25.510.474)	(28.790.577)	(58.578.257)	(160.102.054)

31.12. 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	225.190.900	(287.602.690)	(20.199.148)	(16.505.776)	(70.305.962)	(180.591.804)
Accounts payable	1.981.573	(1.981.573)	(1.981.573)			
Other liabilities ...	2.258.751	(2.258.751)	(2.258.751)			
Derivative financial instruments						
Currency swaps	40.525	(42.350)	(17.086)	(14.079)	(11.185)	0
	229.471.749	(291.885.364)	(24.456.558)	(16.519.855)	(70.317.147)	(180.591.804)

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

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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 year end:

	30.9. 2011	31.12. 2010
Trade receivable	4.334.727	3.661.642
Other current receivables	478.784	91.730
Other financial assets	7.523.070	7.337.821
Cash and cash equivalents	3.744.341	2.343.648
	16.080.922	13.434.841

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

Trade receivable, industrial consumers	433.012	451.120
Trade receivable, retail	3.901.715	3.210.522
	4.334.727	3.661.642

Impairment

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

	30.9. 2011		31.12. 2010	
	Gross balance	Allowance	Gross balance	Allowance
Not past due receivables	3.402.094	62.036	2.902.451	81.489
Past due, 1 to 30 days	728.987	20.855	141.469	7.004
Past due, 31 to 90 days	68.852	10.233	281.275	8.319
Past due, 91 days and older	433.758	205.841	636.928	203.669
	4.633.691	298.965	3.962.123	300.481

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

	30.9. 2011		31.12. 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	(229.566.030)	(223.849.021)	(225.190.900)	(217.643.060)

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.

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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:

	30.9. 2011	31.12. 2010
Embedded derivatives in electr. sales contr.	2.08% to 10.20%	1.68% to 7.74%
Other financial assets	6.37% to 7.35%	5.44% to 7.22%
Interest bearing loans	1.98% to 5.46%	1.54% to 5.57%

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).

30.9. 2011	Level 2	Level 3	Total
Shares in companies	0	1.933.269	1.933.269
Embedded derivatives in sales contracts	0	15.807.122	15.807.122
Other financial assets	0	7.474.333	7.474.333
Other financial liabilities	(20.423)	0	(20.423)
	(20.423)	25.214.724	25.194.301

31.12. 2010	Level 2	Level 3	Total
Shares in companies		2.062.445	2.062.445
Embedded derivatives in sales contracts		20.411.105	20.411.105
Other financial assets		7.184.527	7.184.527
Other financial liabilities	(40.525)		(40.525)
	(40.525)	29.658.077	29.617.552

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.

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14. Risk management and financial instruments, contd.

f. *Overview of financial instruments*

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

	30.9. 2011			31.12. 2010		
	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale	Loans and receivables	Financial asset/ financial liability at fair value through P/L	Available for sale
Shares in other companies			1.933.269			2.062.445
Embedd. electr. sales contracts ..		15.807.122			20.411.105	
Other financial assets	48.736	7.474.333		153.293	7.184.527	
Trade receivabl. .	4.334.727			3.661.642		
Other receivabl. ..	478.784			91.730		
Cash	3.744.341			2.343.648		
Interest-bearing liabilities	(229.566.030)			(225.190.900)		
Other financial liabilities		(20.423)			(40.525)	
Account payabl. .	(1.582.157)			(1.981.573)		
Other current liabilities	(4.086.698)			(2.258.751)		
	(226.628.297)	23.261.032	1.933.269	(223.180.911)	27.555.107	2.062.445

15. Group entities

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

Subsidiaries	Main operation	Nominal value	Share 30.9. 2011	Share 31.12. 2010
Gagnaveita Reykjavíkur ehf.	Data transfer	4.736.841	100.0%	100.0%
Reykjavík Energy Invest ehf.	Investments	510.223	100.0%	100.0%
Úlfljótsvatn 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 August 2011 the share capital in Reykjavik Energy Invest ehf. (REI) was decreased by ISK 2.5 billion, or from ISK 3.005 million to ISK 510 million. The decrease was on one hand to level out REI´s deficit that amounted to ISK 1.5 billion and on the other hand to depreciate the mother company´s payment obligation amounting to ISK 1.0 million.

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16. Other issues

Embedded derivatives in electricity sales contracts

Among the embedded derivatives are contracts with Norðurál-Grundartanga ehf. and Norðurál-Helguvík ehf. From 1 October Norðuál have reduced their orders of electricity based on these contracts, the reduction amounts to approximately ISK 500 million per year given the current price of aluminium and exchange rate. Orkuveita Reykjavíkur does not accept Norðurál´s interperation regarding this matter and objects to their reduction in payments and is therefore in a dispute with Norðurál.

Delays of power plant constructions

The continuation of energy production projects has been called into question due to delays in meeting contractual conditions of energy sales contracts between Orkuveita Reykjavíkur and Norðurál Helguvik ehf. (NH). A review of energy sales contracts is ongoing with Norðurál. It is OR´s opinion that some of the contractual conditions have been breached and OR is in dispute with NH on this matter. As a result, there have also been delays in the fulfilling of contracts with other parties such as machine producers and contractors. Negotiations have been conducted concerning compensation due to these delays. The largest concern contracts with Mitsubishi Heavy Industries (MHI) and Balcke Dürr (BD) regarding the delivery of machinery, Orkuveita Reykjavíkur´s obligation regarding those contracts is discussed in note 8. Since uncertainty remains regarding investments, the amount of compensation to MHI and BD is unknown, but could be considerable if realised. It is the view of the management that there is no reason to make provisions in the interim financial statements regarding the matter at this point. The management is confident that solutions which should lower these costs considerably will be realised.
The contract with Jarðboranir regarding drilling for power plant projects has been terminated. The total cost of delay and termination of the contract amounted to ISK 692 million, but ISK 675 million were expensed in the financial statements for the year 2010 and ISK 18 million are expensed through P/L in the current reporting period.

Effect of fluctations in foreign exchange rates and aluminium prices on the Company´s standing

28 November 2011, the day Orkuveita Reykjavíkur´s interim financial statements for the period 1 January to 30 September 2011 were authorised for issue, the TWI is 216,01 but was 214,6 at the reporting date 30 September 2011. If interest bearing loans and borrowings would be accounted for according to the foreign exchange rates on 28 November 2011 they would have amounted to ISK 231.3 billion or ISK 1.7 billion higher 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 17.4 billion on the reporting date or 1.6 billion higher 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.