OR Reykjavík Energy

Consolidated Financial Statements 2022

Reykjavik Energy

ssn. 551298-3029
Bæjarháls 1, 110 Reykjavik, Iceland

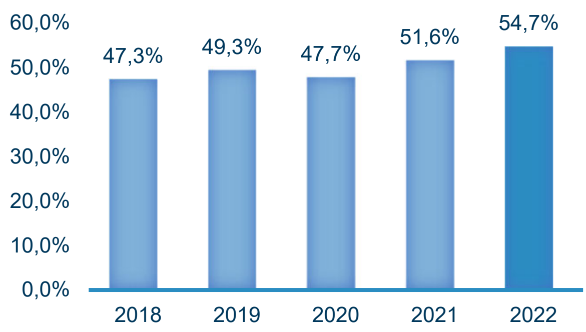
Contents

These Financial statements are translated from the Icelandic original. Should there be discrepancies between the two versions, the Icelandic version will take priority.

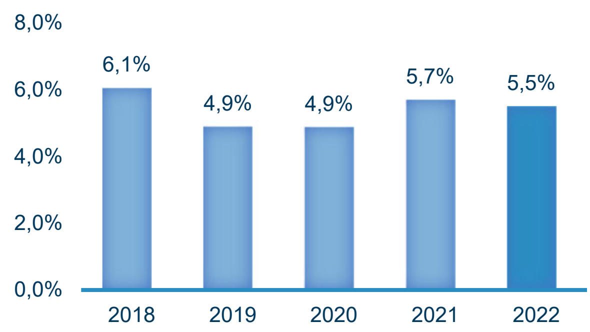
Orkuveita Reykjavíkur emphasizes these United Nations' Sustainable Development Goals in its operations

Financial ratios

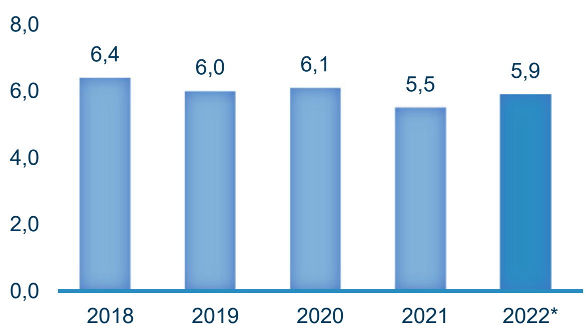
Equity ratio



ROA

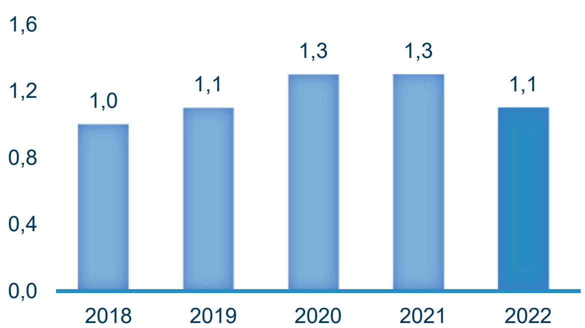


Net debt / Net cash from operation activities

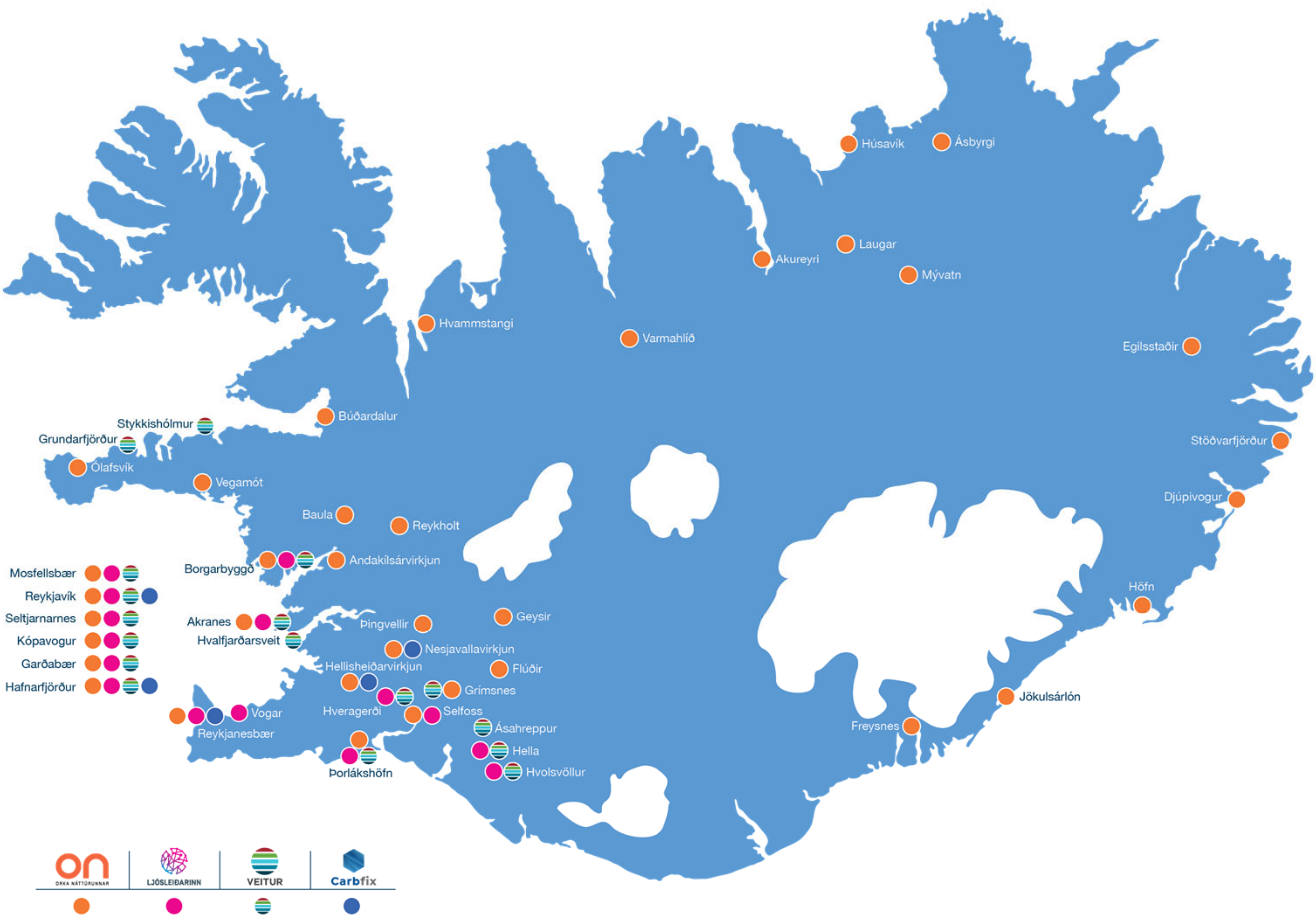


*Corrected for the settlement due to the currency agreement with Glitni

Current ratio without aluminum derivative



Services



Operating summary

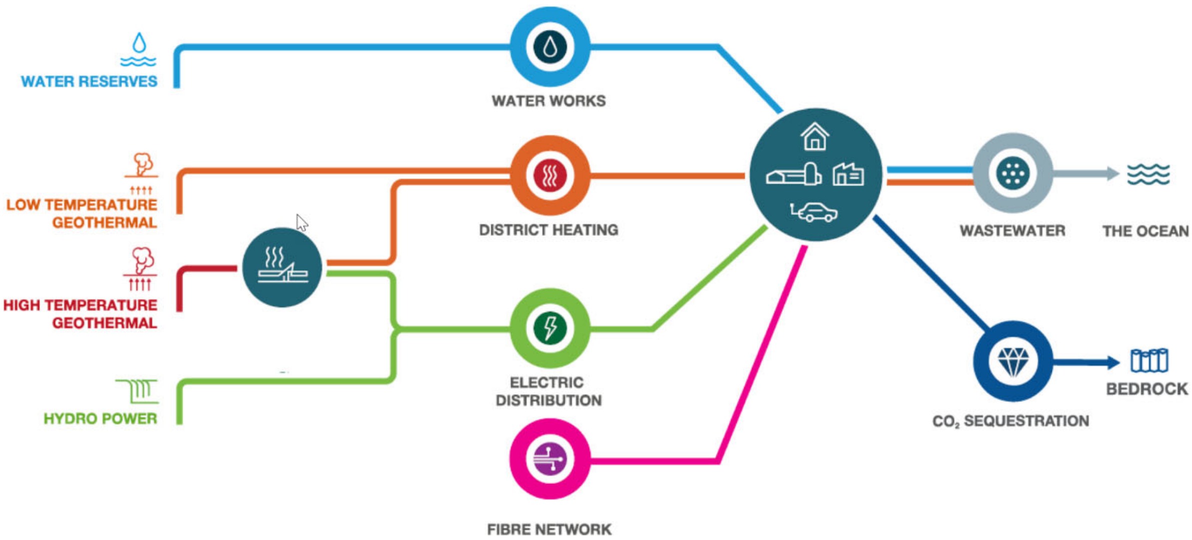
Operating year	**2022**	**2021**	**2020**	**2019**	**2018**
Amounts are at each years price level in ISK millions					
Revenues	56.965	51.890	48.627	46.570	45.916
Expenses	(21.220)	(18.380)	(19.172)	(18.398)	(17.299)
thereof energy purchase and distribution	(6.718)	(5.872)	(5.793)	(5.659)	(6.106)
EBITDA	**35.745**	**33.510**	**29.454**	**28.172**	**28.617**
Depreciation	(14.439)	(13.257)	(13.056)	(12.121)	(10.271)
EBIT	**21.306**	**20.253**	**16.398**	**16.051**	**18.346**
Cash flow statement:					
Received interest income	313	256	397	337	398
Paid interest expense*	(5.061)	(4.398)	(4.940)	(5.373)	(4.806)
Net cash from operating activities*	26.261	25.582	23.152	22.864	21.054
Working capital from operation	27.714	23.675	22.357	21.684	24.337
Liquid funds	**31.12.2022**	**31.12.2021**	**31.12.2020**	**31.12.2019**	**31.12.2018**
Deposits and marketable securities	11.071	14.657	14.867	9.833	7.223
Cash and cash equivalents	6.651	10.320	15.820	8.657	10.988
Undrawn credit lines	9.100	9.629	11.776	11.600	11.000
Liquid funds total	26.821	34.606	42.463	30.090	29.211

*The year 2022 is adjusted for the settlement of the currency agreement with Glitir (court case)

Endorsement by the Board of Directors and the CEO

Reykjavík Energy (OR) is a joint venture that is governed by Act no. 136/2013 on Reykjavík Energy. OR's statutory role is to engage in the harnessing, production and sale of electricity, hot water, and steam, and the operation of basic infrastructure, such as a distribution system for electricity, heating, water supply, sewerage, and fibre optics system, as well as other similar activities. It also encompasses other operations that can benefit from OR's research, knowledge, or facilities, as well as industrial development and innovation, as this relates to the company's core operations.

The overview below shows the core operations of the Reykjavík Energy Group. Below are the main business processes in the value chain and, finally, there are specific key stakeholders for each link in the chain.



Value chain	**RESOURCES** – Searching for and researching resources and acquiring rights to utilize them – Monitoring and control of utilization	**NEW DEVELOPMENTS** – Design and acquisition of permits – Purchase of materials, equipment, and services of contractors – Inspections and tests	**PROCESS AND DISTRIBUTION** – Reception of new construction for operations – Control and monitoring of processing – Inspection, maintenance, and renewal – Purchase of materials, equipment and services	**BUSINESS AND SERVICE** – Acquisition and registration of customers – Connection of homes and companies – Reading meters and issuing invoices – Response to malfunctions	**RESOURCES** – Reception monitoring
Stakeholders	**Public entities** Licensing, organization, and supervision **General public** Reviews on licences, right of appeal **OR owners** Confirmation of plans in new areas	**Public entities** Licensing, organization, and supervision **Contractors and suppliers** Construction, supply of materials, consultancy, financing **General public** Reviews and right of appeal **OR owners** Confirmation of plans in new areas	**Public entities** Monitoring of operations and resource utilization **General public** Tips, information **Customers** Information on service failure **Contractors and suppliers** Construction, supply of materials, consultancy, financing	**Customers** Payment of invoices, reading of meters **Public entities** Monitoring of security of supply, usage measurements and prices	**Public entities** Environmental impact monitoring **General public** Tips, information

Employees, organisations and associations of people and companies, as well as **inspectors of working conditions** in the labour market have an interest in the entire value chain

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as confirmed by the European Union, and the additional requirements set out in Icelandic law and regulations regarding financial statements of companies with listed bonds. It contains the Financial statements of Reykjavík Energy and its subsidiaries.

Endorsement by the Board of Directors and the CEO cont.

The Reykjavík Energy Group

Reykjavík Energy (OR) fulfils its statutory role in the community under four brands, in addition to the brand of the parent company, which plays a leadership role within the Group. The owners of Reykjavík Energy, at the beginning and end of 2022, were the City of Reykjavík (93.539%), Akranes municipality (5.528%) and Borgarbyggð municipality (0.933%). All subsidiaries within the Group are wholly owned by OR, see note 35 in Reykjavik Energy's consolidated financial statements.

<table>
<tr><td>OR
Orkuveita Reykjavíkur
OR Eignir ohf.</td><td colspan="3">The parent company manages the group's finances and procurement, human resources and information technology, operates a service division with a joint customer service and invoicing, and researchers that conduct research and innovation for the Group's companies. The parent company also operates specialist units that provide leadership and services, e.g. in terms of health and safety, environmental and climate issues, legal issues, and communications.
The average number of full-time equivalent positions under the Group was 577.
The Group's permanent employees at the end of 2022 were 496, 29% of whom were women and 71% men. At the end of the year, there was an equal number of men and women at OR Group's managerial level. A third of OR's Board of Directors is female, while the chair is male.</td></tr>
<tr><td>VEITUR</td><td>on
ORKA NÁTTÚRUNNAR</td><td>LJÓSLEIÐARINN</td><td>Carbfix</td></tr>
<tr><td colspan="4">Company</td></tr>
<tr><td>Veitur PLC
OR vatns- og fráveita sf.</td><td>Orka náttúrunnar PLC
ON Power PLC</td><td>Ljósleiðarinn LTD
Reykjavik Fibre Network LTD</td><td>Eignarhaldsfélagið Carbfix PLC
Carbfix Ltd.
Coda Terminal Ltd.</td></tr>
<tr><td colspan="4">Field of work</td></tr>
<tr><td>Veitur operates electric utilities and district heating utilities, almost all of which are licensed in their area of operation. Veitur takes care of the operations of OR Water and sewerage partnership, which performs the statutory obilgations of municipalities with regard to water supply and sewerage, especially in those municipalities that own OR.</td><td>Orka náttúrunnar PLC produces hot water and electricity at the Nesjavellir geothermal power plant and electricity at the Andakílsá hydropower station. The water goes to Veitur's district heating in the capital area, while the electricity goes mostly to the wholesale market. ISK is the working currency.

Orka náttúrunnar manages the operations of ON Power PLC which produces hot water and electricity at the Hellisheiði geothermal power plant. The water goes to Veitur's district heating in the capital area and the electricity to the wholesale market. USD is the working currency.</td><td>Reykjavík Fibre Network lays and operates an extensive fiber-optic network that is utilized by telecommunications companies in order to provide network services to households and companies.</td><td>Carbfix is a research, innovation, and consulting company in the field of carbon sequestration. It provides services to companies both within and outside the OR Group.
Carbfix hf. was established in 2022, under which Carbfix's current operations and future developments will fall.

At the beginning of 2023, operations and operation-related assets and liabilities were transferred from Eignarhaldsfélagið Carbfix ohf. to Carbfix hf. The main activity consists in the permanent sequestration of carbon in rock internationally, incl. structure and operation of projects, technical development and consulting. Eignarhaldsfélagið Carbfix ohf. Holds the patents related to Carbfix and the Coda Terminal is a project company for the carbon storage facility by the same name.</td></tr>
<tr><td colspan="4">Main Acts that apply to the operations
The Act on Reykjavík Energy applies to all operations of the Reykjavík Energy Group</td></tr>
<tr><td>Energy Act, Electricity Act
Act on the construction and operation of sewers
Act on municipal water supply
Water Act
Information Act
Administrative Act (water and sewerage)
Act on Environmental Responsibility</td><td>Electricity Act
Energy Act
Water Act
Competition Act
Act on Environmental Responsibility</td><td>Act on telecommunications
Competition Act</td><td>Act on Hygiene and Pollution Prevention
Act on Environmental Responsibility</td></tr>
</table>

Endorsement by the Board of Directors and the CEO cont.

The Reykjavík Energy Group, cont.

VEITUR	ORKA NÁTTÚRUNNAR	LJÓSLEIDARINN	Carbfix
Income (see also note 3)			
Revenue is almost entirely from the sale of utilities with concessions to households and businesses. Tariffs are subject to supervision by the following authorities: District heating: Ministry of the Environment, Energy and Climate Electricity supply: National Energy Authority Water supply: Ministry of Infrastructure Sewerage: Ministry of Infrastructure	Revenue is from the sale of electricity in the general market, the sale of electricity in the wholesale market, the sale of hot water wholesale to Veitur's district heating in the capital area, guarantee of origin sales, and rent for the facilities at the Hellisheidi Geothermal Park in Ölfus. The wholesale price of hot water is subject to the supervision of the National Energy Authority, but the electricity market is a competitive market which is monitored by i.a. The Competition Authority and the National Energy Authority.	Revenues are, on the one hand, from fiber-optic connections to homes and companies that use the services of electronic communications companies via the Reykjavík Fibre Network's systems, and on the other hand from the wholesale of data transmission via fiber-optic cables within the communications companies' systems. The electronic communications market is a competitive market under the supervision of the Electronic Communications Office of Iceland and the Competition Authority.	Carbfix is a newly established start-up, based on the technology of the same name for carbon sequestration and the company's main income is grants from international competition funds for research and development.
Average number of full-time equivalent jobs 2022			
208,9	93,8	43,8	18,1
Proportion of women on boards and in chair positions at year-end 2022			
40%: Kona	60%: Kona	40%: Kona	40%: Kona

Key financial results for 2022

Profit from the Group's operations in 2022 amounted to ISK 8.437 million (2021: profit ISK 12.040 million). The Group's total profit in 2022 was ISK 36.783 million (2021: ISK 29.527 million). According to the balance sheet, the group's assets amounted to ISK 450.870 million at the end of the year (31.12.2021: ISK 413.882 million). Equity was ISK 246.436 million at the end of the year (31.12.2021: ISK 213.653 million) and the Group's equity ratio was 54,7% (31.12.2021: 51,6%).

On 30. September, 2021, Reykjavík Energy published a financial forecast in Nasdaq Iceland‘s news system. According to the forecast, revenue for 2022 would be ISK 54,2 billion, but turned out to be a little under ISK 57 billion, or 2.8 billion higher than estimated, mostly due to tariff changes and a higher income due to electricity sales linked to aluminium prices. Operating expenses were forecast at ISK 20.1 billion, but turned out to be ISK 21.2 billion, or 900 million higher than estimated. This increase is attributed to, i.a. price increases, higher transmission costs, and increased cost for energy buyers due to unforeseen malfunctions and lightning weather.

ISK 21.2 billion were invested over the course of the year, while the financial forecast had estimated ISK 20.6 billion.

The Board of Directors of Reykjavík Energy proposes at the Annual General Meeting that a dividend be paid to the owners in the year 2023, for the operating year 2022, not exceeding the amount of ISK 5.5 billion. In other respects, reference is made to the Financial Statements regarding the allocation of profits and other changes in equity.

Equality and human resources

Although half a decade has passed since the unexplained gender pay gap was eliminated within the OR group, and there is a gender balance in the group's management team, there is still a need to remain vigilant in matters of equality. Despite various initiatives, some jobs are extremely gender-based, especially the jobs of skilled workers. We will continue working on getting more genders interested in those jobs.

Employee turnover in 2022 was lower than the previous year, and measured job satisfaction remained the same between years. The challenges that the corona virus epidemic brought to companies from early 2020 extended into 2022, and Reykjavik Energy strives to meet them in a variety of ways.

In September 2022, CEO Bjarni Bjarnason announced that he planned to retire in 2023, after twelve years of service. The position was advertised and Sævar Freyr Þráinsson, mayor of Akranes, will take over the position of CEO at the beginning of April 2023.

Endorsement by the Board of Directors and the CEO cont.

Equality and human resources, cont.

There were also some changes among managing directors within the group. At Veitur, where Sólrún Kristjánsdóttir was chosen to lead, and at ON Power, where Árni Hrannar Haraldsson will take over as managing director in May 2023. Reykjavik Energy also saw some changes among managing directors in 2022, Benedikt K. Magnússon became managing director of Finance, Ellen Ýr Aðalsteinsdóttir became managing director of Human Resources and Culture, and Hera Grímsdóttir became managing director of Research and Innovation.

Sustainable Development Goals and ESG 2022

The OR Board of Directors has decided to put special emphasis on 5 of the 17 UN Sustainable Development Goals (SDGs) in the Group's operations. OR 2022's Annual Report describes in detail the performance in 2022 related to the SDGs and their sub-goals. The boards of OR subsidiaries have also set their own emphases in regard to the SDGs, in relation to their respective fields of work.

Achieve gender equality and empower all women and girls

Ensure availability and sustainable management of water and sanitation for all

Ensure access to affordable, reliable, sustainable, and modern energy for all

Ensure sustainable consumption and production patterns

Take urgent action to combat climate change and its impacts

Alongside the publication of these Financial Statements, OR will publish the integrated Annual report of OR for 2022. This is also prepared in accordance with the ESG reporting guide of Nasdaq OMX Nordic. The report goes into details regarding governance, environmental and climate issues, personnel and social issues, the group's business model and value chain, main business processes and stakeholders in the operation, OR's human rights policy and how OR defends against fraud and bribery. The report receives an independent external review and approval and is also signed by the board and CEO of OR. The OR 2022 annual report is accessible to all at https://arsskyrsla2022.or.is. It is also available there in pdf format. References to the report are in its individual subsections.

Here is a quick overview, while the annual report itself provides a more detailed account of each of the table‘s items.

Environment		Governance		Social	
U1. Greenhouse gas emissions	51,1 thousand.tn.	F1. CEO's salary ratio	3,1	S1. Gender ratio in the Board	66/33
U2. Emission intensity	896 tn./bn.kr	F2. Gender pay gap	0,1% in favour of men	S2. Independence of the Board	See report
U3. Energy usage	99,9% renewable.	F3. Employee turnover	11,8%	S3. Bonuses	No
U4. Energy Intensity	659 MWh./ person	F4. Gender equality	See report	S4. Collective labor agreements	97,9% union membership
U5. Energy mix	99,9% renewable	F5. Proportion of temporary staff	See report	S5. Supplier code of conduct	Yes
U6. Water usage	87 mn.m^3	F6. Anti-discrimination measures	See report	S6. Ethics and anti-corruption measures	See report

Endorsement by the Board of Directors and the CEO cont.

Sustainable Development Goals and ESG 2022, cont.

Environment		Governance		Social	
U7. Environmental operations	ISO 14001	F7. Ratio of work accidents	7,1/mn work hours	S7. Data protection	Yes
U8. Climate control/management	Yes	F8. Global health and safety	Sickness 4,5%	S8. Sustainability report	Yes
U9. Climate control/managers	Yes	F9. Child and forced labor	See report	S9. Procedures for providing information	SDGs and ESG
U10. Climate risk mitigation	See report	F10. Human rights	See report	S10. Data extracted / verified by an external party	Yes

Governance and internal control

OR's governance should ensure professionalism, efficiency, transparency, and responsibility in its operations. Based on the Act on Reykjavík Energy, the owners entered into a partnership agreement, which further specifies responsibilities and authority. It is accessible on OR's website, as is OR's Ownership Strategy, where the owners' emphases on the Group's work practices are explained. In 2022, the City of Reykjavík established an ownership policy, which states how the city intends to act in regard to the companies it owns. The policy may lead to changes within OR's Owner Policy. The Boards of the subsidiaries within the OR Group have established detailed rules of procedure as well as a Code of Ethics which can be found on OR's website or the websites of the subsidiary in question, and all minutes of OR's meetings are published on the company's website, together with non-confidential meeting documents.

Reykjavík Energy's values are *economy, foresight, and honesty*. OR's Code of Ethics is based on Reykjavík Energy's values. The Code of Ethics is documented and public and is intended to help employees ensure that honesty, respect, and equality characterize all communication, whether with customers, colleagues, the board, contractors or other stakeholders.

The rules of procedure of OR's Board of Directors take into account the Code of Ethics, Guidelines on Corporate Governance, published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland ehf. and the Confederation of Icelandic Employers, and a handbook for board members, published by KPMG. Subsidiaries are governed by the articles of association of each company and the rules of procedure of their boards.

According to law, OR's board consists of six representatives, five elected by the Reykjavík city council and one elected by the Akranes town council. The Reykjavík city council elects the chair and vice-chair of the board from among the city's representatives. At the end of 2022, the board of Reykjavík Energy was as follows:

- Dr. Gylfi Magnússon, chair, Professor of economics and finance at the University of Iceland.
- Vala Valtýsdóttir, Chair of the Board's Compensation Committee, lawyer and specialist in corporate law.
- Skúli Helgason, city representative from Reykjavík.
- Ragnhildur Alda Vilhjálmsdóttir, city representative from Reykjavík.
- Þórður Gunnarsson, resource economist.
- Valgarður Lyngdal Jónsson, town representative from Akranes.

Borgarbyggð Municipality and OR’s Employee Organisation have observers at board meetings.

The CEO of Reykjavik Energy is Bjarni Bjarnason, geologist and engineer.

The Compensation Committee is a sub-committee of the Board of OR.

The Audit Committee for the City of Reykjavík is also the Audit Committee for Reykjavík Energy, and one of its members is nominated by the board of Reykjavík Energy. The provisions regarding this are also stated in Article 9 of the joint ownership agreement for Reykjavík Energy.

Governance and internal control, cont.

The Audit Committee members are:

- Lárus Finnbogason, chair
- Einar Sveinn Hálfdánarson
- Sigrún Guðmundsdóttir
- Sunna Jóhannsdóttir – appointed by the board of OR

Reserve members are:

- Danielle Pamela Neben
- Páll Grétar Steingrímsson
- Ólafur Kristinsson

The Audit Committee is a sub-committee of the board of Reykjavík Energy, and works under its aegis. The purpose of having an Audit Committee is to improve governance in matters that have to do with financial surveillance. The work of Audit Committees is defined in chapter IX. A, in the laws on Financial statements.

The statutory tasks of audit committees are as follows:

- Monitoring the work process for the preparation of financial statements.
- Monitoring the organization and effectiveness of the entity's internal controls, internal audit, if applicable, and risk management.
- Monitoring the audit of the unit‘s Financial statements and consolidated Financial statements.
- Assessment and supervision of the accountant‘s or accountancy firm‘s independence and work
- A proposal to the board of directors regarding the selection of an accountant or accountancy firm.

The Audit Committee of Reykjavík Energy monitors governance, risk management effectiveness, and internal review by reviewing and approving the internal auditors' work plan. On the Audit Committee‘s meeting on 12. December 2022, the Committee was presented with the internal audit plan for 2023-2024 for discussion, which was then sent to the board of Reykjavík Energy for approval. The internal audit plan for 2023-2024 was approved by the board of OR, 19. December 2022, along with the approval of the boards of the subsidiaries.

The Audit Committee reviews and approves the audit plan of the external auditors, and, in preparing the plan, risk and uncertainty factors in the company's operations are assessed. Part of the external auditors' tasks is to evaluate internal control related to the company's accounting.

The Audit Committee also monitors the progress of the audit, reviews the results of the external auditors and explains its statement on the Financial statements to the board of Reykjavík Energy. The committee also pays special attention to how internal and external auditors‘ comments are resolved.

OR's board of directors actively monitors the most important uncertainties in the Group's operations and receives monthly reports on the state of finances, resources, occupational safety and health issues, and significant environmental factors. Risk management, operational risk, and other risks in OR's operations are discussed regularly at board meetings. The City of Reykjavík's Internal Audit also carries out financial and administrative supervision at OR on behalf of the Board. This means that the Internal Audit evaluates the effectiveness of risk management, supervisory methods, and governance with the aim of continuous improvement.

OR and its subsidiaries have implemented management systems in accordance with international standards and legal requirements. Independent accredited bodies regularly verify the functionality of these systems:

- ISO 9001 - International Quality Management Standard
- ISO 14001 - International Environmental Management Standard
- ISO 27001 - International standard for information security management
- ISO 45001- International standard for health and safety management at the workplace
- HACCP/GÁMES - International Food Control System
- ÍST 85 - Icelandic standard for equal pay
- Electrical safety management system
- Internal monitoring system for Sales meters

Endorsement by the Board of Directors and the CEO cont.

Governance and internal control, cont.

Strategic governance, the active implementation of risk policy, and the policies specified in OR's Ownership strategy and the partnership agreement are conducive to strengthening internal control. Internal control systems are regularly monitored in internal and external audits where their effectiveness is confirmed. If, following an audit, it becomes clear that improvements are needed, they are dealt with.

OR's management, managing directors, and directors are responsible for internal control in their respective fields. Risk & process management is a unit within OR that is responsible for ensuring that OR's internal control systems are active. OR's quality systems are independently certified by external parties. OR adheres to the standards of the Institute of Internal Auditors on the implementation of internal auditing. The City of Reykjavík's internal audit also serves as OR's internal auditor. OR‘s Compliance Officer supervises the disclosure of information to the Exchange and the Financial Supervisory Authority.

OR has a listed procedure for handling cases where there is a suspicion that an employee or manager has violated the company's rules or to have perpetrated fraud at work. The procedure is accessible to all staff. If a breach is suspected, the next supervisor or internal auditor of the company must be notified, who must then report the matter, while maintaining confidentiality regarding the information, including the name of the person who notified the matter. One such suspicion was flagged in 2022 regarding possible fraud. It was investigated by an internal auditor as a whistle-blower case, but further investigation did not lead to actions.

Success and uncertainties 2022

Reykjavík Energy's operations are inherently prudent, as the infrastructure services of the subsidiaries within the group must be safeguarded. We work according to a risk policy, which is regularly reviewed by the board. The main objective of the risk policy is to ensure that OR can fulfil its basic role in a safe and cost-effective manner with minimal risk. OR does this by:

- Reducing fluctuations in the Group's performance at any given time regarding the underlying risk in the operation and that risk factors are always within defined limits set by the board and listed in the risk manual.
- Ensuring that OR has sufficient funds to support the development of services and regular operations.
- Analysing, assessing, and managing risks in operations with regard to OR's operations, policies and defined boundaries.

Reykjavík Energy has set numerical targets for the Group in key areas, which it aims to achieve by the end of 2023. The progress is shared publicly on OR's website. Climate criteria are in line with the Paris Agreement, job satisfaction is measured by the *Ísland í vinnunni* database, and for brand measurements, the average measure of attitudes towards Icelandic company brands in the OR Group's field of work.

Here below are the goals and status of each key area at the end of 2022.

Total number of connectable electric cars	Size of carbon footprint, compared to 2015	Absence of employees due to illness or accidents	Job satisfaction according to analysis	Public attitude towards OR‘s brands
Goal: 40.000	Criteria: -30%	Goal: < 3,6%	Criteria: 4,2	Criteria: 5,7
Status: **38.203**	Goal: -40%	Status: **4,5%**	Goal: 4,5	Goal: 6,3
	Status: +5**%**		Status: **4,3**	Status: **6,1**

The Reykjavík Energy Group's utilization of natural resources consists mainly of the utilization of high temperature areas for electricity and heat production for district heating, low temperature areas for district heating, groundwater for water supply and for heating in power plants for district heating, sea as sewerage receivers, and the atmosphere as the receiver of emissions. The need for resources for energy production is assessed with energy management plans.

Endorsement by the Board of Directors and the CEO cont.

Success and uncertainties 2022, cont.

These, along with demand forecasts, are the basis for decisions regarding system development or increased energy supply. In 2022 the future vision for Veitur district heating was developed, based on the data gathering in the previous season. It reveals that careful consideration needs to be given to reserves in most utilities, along with significant additions to energy generation and the re-injections of water in high-temperature areas.

During a severe cold spell at the end of 2022 and at the beginning of 2023, there were reductions in deliveries to heavy users of heating utilities, e.g. swimming pools. Effective dissemination of information to the public and other stakeholders led to a widespread understanding of these measures in the community. Regarding high temperatures, the reduction was in accordance with forecasts, and the goals of maintenance drilling for steam were mostly as foreseen. Steam production for the Hellisheiði geothermal power plant will be strengthened by doubling the steam pipeline from Hverahlíð, which will be commissioned in 2024. The cold-water reserve is good and all water samples passed the quality requirements. Real-time monitoring of the quality of drinking water in Reykjavík has given good results. Heavy rainfall and maintenance of a treatment plant for the sewage in the capital area led to more frequent overflow of the treatment and pumping stations. Measurements of the quality of the sea water during the summer of 2022 indicate, however, little pollution to the sea due to sewage.

The Group's carbon footprint increased in 2022, mostly due to problems in the operation of the air treatment plant by the Hellisheiði geothermal powerplant. However, a large step towards reducing the carbon footprint will be taken with the enlargement of the air treatment plant at Hellisheiði in 2025. At Nesjavallavirkjun, the operation of an experimental plant of the same nature was planned for 2022, but was postponed until the first quarter of 2023. There, carbon dioxide and hydrogen sulphide will be captured from geothermal steam and disposed of by turning it into stone using the Carbfix method. Hydrogen sulphide did not exceed regulatory limits in the group's operating area in 2022.

Climate risk affects all aspects of OR's operations, but especially utility operations. During the year, work continued to incorporate the knowledge gained through Veitur's reporting into the group's other risk management, as well as the results of risk analysis from other companies in the group. The risk mainly relates to adaptation to sea level rise, more intense rainfall and thaws, and uncertain long-term changes in air temperature with a corresponding change in demand for water for domestic heating. The risk of increased frequency of lightning was also included in the group's risk matrix. Countermeasures and adaptation measures are being worked on simultaneously. One of them is that customers become more aware of their use of energy and that control improves utilization. Veitur's smart meter system supports both, and during the year systematic meter replacements began, which are on schedule in terms of time, cost, and quality.

Reykjavík Energy (OR) began issuing Green Bonds in 2019, within the Green Bond framework. As a result, more bids were received for issued bonds than before. In 2021, OR introduced a new framework for Green Financing, which also covers different financing formats than those of issuing bonds. The change means that the Group's green assets are now being financed, and not specific projects of individual subsidiaries. All the Group's financing in 2022 fell under the new Green Financing framework, including the independent bond issue of the Reykjavík Fibre Network. During the year, the Reykjavík Fibre Network‘s green bonds were listed on Nasdaq Iceland's main market.

In 2021, OR issued a Code of Conduct for the Group's suppliers. They are based on the 10 pillars of the UN's Global Compact and the purpose of the Code is to achieve a better grasp of the sustainability of the Group‘s entire value chain. By signing the Code of Conduct, the Supplier agrees to comply with requirements to respect human rights, labor market rules, the environment, and to counteract corruption. Corresponding requirements have been included in OR's tender documents for years, but now they also apply to smaller procurements than those that go into formal tenders. In year-end 2022, 121 domestic and international suppliers had signed the Code of Conduct, and all those who participate in the group's tenders must also confirm the code of conduct.

During the year, the owners of OR authorized the establishment of a special limited company for the operation of Carbfix. Carbfix's projects are very expensive and are considered high-risk investments, so preparations have begun to get share capital from external sources to support the further development of Carbfix's activities, financing the development of Coda Terminal in Straumsvík, and other projects. Carbfix received an important recognition in the year when the company received a grant of ISK 16 billion from the European Union's Innovation Fund for the development of the reception and disposal center Coda Terminal in Straumsvík. The grant is dependent on Carbfix financing the development of the project in other respects.

Endorsement by the Board of Directors and the CEO cont.

Success and uncertainties 2022, cont.

Visits to ON Power’s Geothermal exhibition at the Hellisheiði powerplant returned to normal in 2022 after a drop in the number of visitors in previous years due to the restrictions of the corona virus outbreak. Elliðaárstöð, a new destination that uses the premises of the power station by Elliðaár, is being rapidly developed by OR. It was decided to combine these operations into one unit, and the Geothermal exhibition was therefore sold to the parent company during the year. Furthermore, it was decided to discontinue ON Power’s street light service. It was advertised for sale in 2022 and a new party will take over the service in 2023. Reykjavík Fibre Optics responded to the changing conditions in the telecommunications market with a variety of actions in 2022, including the rental of wires in the so-called NATO cable, new contracts with telecommunications companies and the purchase of Sýn's main network.

The purchase of Sýn's core network is subject to the approval of the Competition Authority and, consequently, a new service agreement with Sýn. At the same time, the owners of OR were requested to approve a share capital increase from external sources. The matter is now being discussed by the owners. See also note 37 in OR's consolidated financial statements.

The company's financial position is strong and at the end of the year was ISK 17.7 billion. in addition, the group has access to credit lines in the amount of ISK 9.1 billion. at the end of 2022. This solid liquidity position ensured that the company was able to face setbacks such as the unfavourable outcome of the Court of Appeal in the so-called Glitnir case in 2021. In 2022, a settlement due to this court case was due and OR paid ISK 2.6 billion in interest expense. This one-time settlement had the effect that cash from operations was ISK 23.7 billion, but would otherwise have been ISK 26.3 billion.

Expectations for the sale of OR's 6.7% holding in Landsnet did not materialize during the year, but towards the end of the year the government's purchase of other holdings in Landsnet was finalized. The aim is to sell OR's holdings in the first half of the year 2023.

Reykjavík Fibre Network's claim against Síminn, which was made as a follow-up to the decision of the what is now called Electronic Communications Office of Iceland (ECOI) due to a violation of the media law, has not yet been concluded. ECOI ruled in favour of Reykjavík Fibre Network and others in 2018, the District Court ruled in the case in 2020, the Court of Appeals ruled in the case in 2022 and now Síminn has received permission to appeal to the Supreme Court. It is not clear when a result is expected. In addition to this, a formal process was initiated by OR, where a dispute regarding the terms of the electricity sales agreement with Norðurál, which ON Power is in charge of implementing, was referred to an international court of arbitration. See also note 37 in OR's consolidated financial statements.

In notes 27 to 31 with the financial statements, you can find further discussion of Reykjavík Energy’s main risks.

The company is well operational and can absorb shocks for the foreseeable future. Due to the nature of the business, providing basic services to households and businesses, the impact of a recession in the economy on the company's income is limited.

Statement by the Board of Directors and the CEO

To the best of Reykjavík Energy's Board of Directors and its CEO‘s knowledge, the consolidated Financial Statements are in accordance with International Financial Reporting Standards, as confirmed by the European Union, and additional requirements set out in Icelandic legislation and regulation on the financial statements of listed companies. In the opinion of the Board of Directors and the CEO, the Financial Statements give a true and fair view of the Group's assets, liabilities, and financial position as of 31 December 2022, together with its operating results and changes in cash during the year, as well as describing major risks and uncertainties facing the Group.

Reykjavík, 14 March 2023

Board of Directors:

Gylfi Magnússon
Vala Valtýsdóttir
Skúli Helgason
Ragnhildur Alda Vilhjálmsdóttir
Þórður Gunnarsson

CEO:

Bjarni Bjarnason

Independent Auditor's Report

To the Board of Directors and Owners of Orkuveitu Reykjavíkur.

Opinion on the Consolidated Financial Statement

Opinion

We have audited the accompanying Consolidated Financial Statements of Orkuveitan Reykjavíkur. (hereafter the Group) for the year 2022. The Consolidated Financial Statements comprise the Statement by the Board of Directors and CEO, the Statement of Income, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Changes in Equity, a summary of significant accounting policies and other explanatory information.

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated results of operations of the Group. for the year 2022, its consolidated financial position as at December 31, 2022, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our Report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in Iceland, and we have fulfilled all ethical requirements therein. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements for the year 2022. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our opinion the following matters were key audit matters:

Explanation of Key Audit Matter	Responses to Key Audit Matter
Valuation of production and distribution systems See note 38 (d) pages 61-62 on significant accounting policies and note 12 page 32-34: on property, plant and equipment. We have defined the valuation of production and distribution systems as a key audit matter in our audit. The Group's production and distribution systems are carried at revalued amount. An assessment is made of the changes in construction costs of similar types of assets and both cost and accumulated depreciation are revalued accordingly. The Group performs impairment tests on the reporting date and recognises impairment loss if value in use is lower than book value of an asset. Revalued amount will also not be higher than value in use. The assumptions used for revaluation and impairment tests are based on management assessments and are partly subjective. With production and distribution systems being a significant part of the consolidated financial statements, any change in assumptions can have significant effect on the income statement and balance sheet of the Group. Our work both included estimates of the revaluation assessments and the impairment tests of the production and distribution systems.	As part of our audit, we reviewed the Group's methodology for valuing the production and distribution systems and its consistency with international financial reporting standards. We reviewed the Group's processes for the revaluation and impairment tests. We also reviewed the functionality of models used in the assessments. We evaluated management assumptions by comparing to public information where applicable. Where assumptions are not based on public information, we made our own evaluation on management assumptions. We used the work of a valuation specialist to assist in this evaluation.

Key Audit Matters, contd.

Revenue recognition

See note 38 (j) page 64 on significant accounting policies and note 3 pages 24-25 on operation and revenue recognition of Group's components.

Revenue from sale and distribution of electricity and hot water is recognised based on measurements into the systems, taking into account energy losses occurring in the distribution systems. Differences between the actual amounts that go into the systems, minus losses and invoiced usage, leads to a period correction.

Due to the fact that income recognition at the end of the year is based on management estimates, there is uncertainty regarding revenue recognition relating to revenue cut-off and existence. For that reason, we focus specifically on revenue cutoff in our audit, as well as performing other audit procedures relating to revenue recognition.

In our audit of revenues, we have assessed controls relating to revenues in the Group. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Group, including review of how access to finance and accounting related IT systems is controlled.

We have used substantive testing methods where we have for example reviewed reconciliations between accounting systems and subsystems and received third party confirmation of energy usage, turnover and outstanding balances at year-end from specific customers. We have also reviewed deposits after year-end where balance confirmations from customers were not available.

We have also performed substantive tests where we have compared our expectations to actual revenue recognition in the Group.

Valuation of embedded derivatives

See note 28 (c) pages 48-49 on significant accounting policies, note 17 page 37 on embedded derivatives in electricity sales contracts and note 32 pages 53-54 on fair value hierarchy.

Because prices of specific electricity sales contracts with large counterparties are tied to aluminium prices, the Group recognises embedded derivatives on the balance sheet. As electricity and aluminium prices are generally not closely related, financial reporting standards require the risk relating to this relationship to be evaluated specifically.

The embedded derivatives are considered to be third level financial items, where estimates are based on management assumptions and unobservable inputs. Because of the vulnerability of the estimate, any change in assumptions can have significant effect on the income statement and balance sheet of the Group. For these reasons, we assume there is significant risk related to embedded derivatives and have therefore defined them as a key audit matter.

In our audit, we reviewed the Group's pricing methodology and consistency with international financial reporting standards.

We reviewed the Group's process for analysing and assessing assumptions used in the valuation, as well as reviewing valuation models used. We recalculated derivative valuations based on information we collected.

We used the work of a valuation specialist to assist with this review.

Other Information

The Board of Directors and the CEO are responsible for all information presented by the Group, both the Consolidated Financial Statements as well as other information. Our opinion does not cover other information other than we specificly discuss in our opinion here above. The other information comprises for example endorsment of the Board of directors and the CEO and unaudited report on governance report of the information included in the Annual Report, but does not include the Consolidated Financial Statements and our Auditor's Report thereon. Our opinion on the Consolidated Financial Statements does not cover other information issued by the Group, and we do not express any form of assurance on the information in those documents thereon. In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Other Information, contd.

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the Statement by the Board of Directors and CEO accompanying the Consolidated Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

The Board of Directors and CEO's Responsibilities for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and CEO either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent auditor's report, contd.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements, contd.

We communicated with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit. Our Audit Report, which has been provided to the Board of Directors and the Audit Committee, reports these matters and is in accordance with this report.

We have not provided the Group with any services that are prohibited according to laws on auditors. We have provided the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determined those matters that were of most significance in the audit of the Consolidated Financial Statements of the current year and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Orkuveita Reykjavíkur we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of the Group for the year 2022 with the file name 5493004ARP9VPUIX5B73-2022-12-31-is.zip are prepared, in all material respects, in compliance with laws no. 20/2021 *disclosure obligation of issuers of securities and the obligation to flag* relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

The Board of Directors and CEO are responsible for preparing the consolidated financial statements in compliance with laws no. 20/2021 *disclosure obligation of issuers of securities and the obligation to flag*. This responsibility includes preparing the consolidated financial statements in a XHTML format in accordance to EU regulation 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the Consolidated Financial Statements of Orkuveita Reykjavíkur for the year 2022 with the file name 5493004ARP9VPUIX5B73-2022-12-31-is.zip prepared, in all material respects, in compliance with the ESEF Regulation.

We were elected auditors for the Group in the Group's annual general meeting on 28 April 2022 and this is therefore the 4 continuous fiscal year where we are the Group's auditors.

On behalf of Grant Thornton endurskoðun ehf.

Reykjavik, 14 March 2023

Davíð Arnar Einarsson, State Authorized Public Accountant

Theodór Sigurbergsson, State Authorized Public Accountant

Income Statement 2022

	Notes	2022	2021
Operating revenue	4	56.919.366	51.745.550
Profit from sale of assets		45.455	144.286
Operating revenues, total		56.964.822	51.889.836
Energy purchase and distribution		(6.717.534)	(5.871.919)
Salaries and salary related expenses	7	(7.939.019)	(7.502.005)
Other operating expenses		(6.563.422)	(5.006.382)
Operating expenses, total		(21.219.976)	(18.380.306)
EBITDA		35.744.846	33.509.530
Depreciation and amortisation	9	(14.439.275)	(13.256.961)
Results from operating activities, EBIT		21.305.571	20.252.570
Interest income		314.071	182.844
Interest expenses		(12.965.835)	(8.394.213)
Other income (expenses) on financial assets and liabilities		1.368.286	4.154.981
Total financial income and expenses	10	(11.283.478)	(4.056.388)
Share in loss of associated companies	15	(3.159)	(3.967)
Profit before income tax		10.018.933	16.192.215
Income tax	11	(1.581.692)	(4.152.386)
Profit for the year		8.437.242	12.039.829
Attributable to:			
Equity holders of the Company		8.437.304	12.039.829
Minority interest in subsidiaries		(63)	0
Profit for the year		8.437.242	12.039.829

The notes on pages 23 to 69 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 18 Amounts are in ISK thousand

Statement of Comprehensive Income 2022

	Notes	2022	2021
Profit for the year		8.437.242	12.039.829
Other comprehensive income			
Items moved to equity that will not be moved later to the income statement			
Revaluation reserve, increase	12	27.367.756	18.501.057
Income tax effect of revaluation	19	(3.795.162)	(2.645.771)
Changes in fair value for financial assets at fair value through OCI	16	(463.000)	228.000
		23.109.594	16.083.286
Items moved to equity that could be moved later to the income statement			
Translation difference	22	5.235.764	1.403.976
Other comprehensive income, after taxes		28.345.358	17.487.262
Total comprehensive income for the year		36.782.600	29.527.091

The notes on pages 23 to 69 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 19 Amounts are in ISK thousand

Statement of Financial Position
31 December 2022

	Notes	31.12.2022	31.12.2021
Assets			
Property, plant and equipment	12	406.760.917	363.713.260
Intangible assets	13	3.106.779	2.966.481
Right-of-use assets	14	2.180.951	2.576.177
Investments in associated companies	15	81.264	80.923
Investments in other companies	16	55.680	55.680
Embedded derivatives in electricity sales contracts	17	1.448.798	0
Hedge contracts	18	78.545	73.264
Deferred tax assets	19	3.759.231	3.812.930
Total non-current assets		417.472.164	373.278.714
Inventories	20	2.297.853	1.337.505
Trade receivables	21	6.360.401	5.625.149
Embedded derivatives in electricity sales contracts	17	110.312	1.548.338
Investments in other companies	16	5.632.000	6.095.000
Hedge contracts	18	346.984	17.036
Other receivables	21	692.873	674.401
Prepaid expenses		236.167	328.780
Deposits and marketable securities		11.070.605	14.657.369
Cash and cash equivalents		6.650.749	10.319.874
Total current assets		33.397.944	40.603.452
Total assets		450.870.108	413.882.166
Equity			
Revaluation reserve		121.092.491	101.733.552
Equity reserve		74.657.104	66.451.877
Development reserve		111.277	123.873
Fair value reserve		5.232.000	5.695.000
Translation reserve		11.543.578	6.307.814
Retained earnings		33.799.290	33.340.963
Equity attributable to equity holders of the Company		246.435.741	213.653.079
Minority interest		337	0
Total equity	22	246.436.078	213.653.079
Liabilities			
Loans and borrowings	23	151.000.804	149.859.537
Lease liabilities	14	2.076.354	2.475.864
Pension liability	24	668.460	630.879
Embedded derivatives in electricity sales contracts	17	0	931.389
Hedge contracts	18	40.275	332.279
Deferred tax liabilities	19	21.047.364	16.929.779
Total non-current liabilities		174.833.258	171.159.726
Accounts payables		3.673.238	3.522.684
Loans and borrowings	23	19.805.390	15.187.655
Lease liabilities	14	190.640	179.498
Hedge contracts	18	150.384	1.584.188
Deferred revenue		596.681	142.970
Current tax liability	11	1.490.981	1.753.949
Other current liabilities	25	3.693.458	6.698.418
Total current liabilities		29.600.771	29.069.361
Total liabilities		204.434.030	200.229.088
Total equity and liabilities		450.870.108	413.882.166

The notes on pages 23 to 69 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 20 Amounts are in ISK thousand

Statement of Changes in Equity 2022

	Revaluation reserve	Equity reserve	Develop-ment reserve	Fair value reserve	Translation reserve	Retained earnings	Attributable to equity holders of the Company	Minority interest	Total equity
The year 2022									
Equity at 1 January 2022	101.733.552	66.451.877	123.873	5.695.000	6.307.814	33.340.963	213.653.079	0	213.653.079
Revaluation, increase	27.367.756						27.367.756		27.367.756
Income tax effect of revaluation	(3.795.162)						(3.795.162)		(3.795.162)
Changes in fair value for financial assets at fair value through OCI				(463.000)			(463.000)		(463.000)
Translation difference					5.235.764		5.235.764		5.235.764
Profit (loss) for the year						8.437.304	8.437.304	(63)	8.437.242
Total comprehensive income	23.572.594	0	0	(463.000)	5.235.764	8.437.304	36.782.662	(63)	36.782.600
Depreciation transferred to retained earnings	(4.213.655)					4.213.655	0		0
Share in profit of subsidiaries and associates transferred to equity reserve		8.205.227				(8.205.227)	0		0
Other changes							0	400	400
Transfer to development reserve			(12.596)			12.596	0		0
Dividends paid						(4.000.000)	(4.000.000)		(4.000.000)
Equity at 31 December 2022	121.092.491	74.657.104	111.277	5.232.000	11.543.578	33.799.290	246.435.741	337	246.436.078
The year 2021									
Equity at 1 January 2021	89.478.008	60.207.208	108.308	5.467.000	4.903.838	27.961.627	188.125.988	0	188.125.988
Revaluation, increase	18.501.057						18.501.057		18.501.057
Income tax effect of revaluation	(2.645.771)						(2.645.771)		(2.645.771)
Changes in fair value for financial assets at fair value through OCI				228.000			228.000		228.000
Translation difference					1.403.976		1.403.976		1.403.976
Profit for the year						12.039.829	12.039.829	0	12.039.829
Total comprehensive income	15.855.286	0	0	228.000	1.403.976	12.039.829	29.527.091	0	29.527.091
Depreciation transferred to retained earnings	(3.599.741)					3.599.741	0		0
Share in profit of subsidiaries and associates transferred to equity reserve		6.244.669				(6.244.669)	0		0
Transfer to development reserve			15.565			(15.565)	0		0
Divident paid						(4.000.000)	(4.000.000)		(4.000.000)
Equity at 31 December 2021	101.733.552	66.451.877	123.873	5.695.000	6.307.814	33.340.963	213.653.079	0	213.653.079

The notes on pages 23 to 69 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 21 Amounts are in ISK thousand

Statement of Cash Flows for the year 2022

	Notes	2022	2021
Cash flows from operating activities			
Profit for the year		8.437.242	12.039.829
Adjusted for:			
Financial income and expenses	10	11.283.478	4.056.388
Share in P/L of associates	15	3.159	3.967
Income tax	11	1.581.692	4.152.386
Depreciation and amortisation	9	14.439.275	13.256.961
Profit from sale of property, plants and equipment		(45.455)	(144.286)
Pension liability, change		39.581	(26.148)
Working capital from operation before interest and taxes		35.738.972	33.339.096
Inventories, increase		(543.531)	(87.831)
Work in process, increase		(416.817)	0
Current assets, increase		(520.904)	(639.144)
Current liabilities, (decrease) increase		(205.163)	246.166
Cash generated from operations before interests and taxes		34.052.556	32.858.288
Received interest income		312.766	256.459
Paid interest expenses		(5.061.235)	(4.397.886)
Interest on settlement of currency agreements (court case)		(2.578.937)	0
Dividend received		164.861	120.972
Payments due to other financial income and expenses		(1.433.124)	(1.408.825)
Paid taxes		(1.774.668)	(1.847.091)
Net cash from operating activities		23.682.219	25.581.917
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(20.409.489)	(17.598.548)
Acquisition of intangible assets	13	(607.822)	(519.866)
Proceeds from sale of property, plant and equipment		119.934	168.522
Acquisition of associated companies		(3.500)	(3.500)
Change in deposits		0	6.500.000
Change in marketable securities		2.934.876	(5.618.663)
Net cash used in investing activities		(17.966.001)	(17.072.056)
Cash flows from financing activities			
Proceeds from new borrowings	23	11.137.877	14.283.912
Repayment of borrowings	23	(16.477.427)	(24.183.955)
Dividends paid	22	(4.000.000)	(4.000.000)
Repayment of lease liability	14	(95.075)	(98.186)
Net cash used in financing activities		(9.434.625)	(13.998.229)
Decrease in cash and cash equivalents		(3.718.407)	(5.488.368)
Cash and cash equivalents at year beginning		10.319.874	15.820.051
Effect of currency fluctuations on cash and cash equivalents		49.283	(11.809)
Cash and cash equivalents at the end of the year		6.650.749	10.319.874
Other information:			
Working capital from operation	36	27.713.639	23.674.975

The notes on pages 23 to 69 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 22 Amounts are in ISK thousand

Notes

1. Reporting entity

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

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

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements set out in the local rules and regulations regarding financial statements of companies with listed bonds.

The consolidated financial statements were approved by the Board of Directors on 14 March 2023.

Significant accounting policies for the Group are described in note 38.

b. *Functional and presentation currency*

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

c. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 38.

d. *Use of estimates and judgements*

The preparation of the consolidated 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 12 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment.)
- note 16 - Investments in other companies (presumptions made when calculating fair value of assets classified as Financial assets at fair value through OCI.)
- note 17 - Embedded derivatives in electricity sales contracts (presumptions when calculating fair value)
- note 18 - Hedge contracts (presumptions when calculating fair value)
- note 19 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax losses)
- note 27 - Market risk

3. Operation and revenue recognition of Group's components

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

	Products and services	Nature, timing of revenue recognition and payments terms
a.	Electricity	ON Power ohf. and Orka náttúrunnar ohf. generate electricity and sell electricity and Utilities distribute electricity according to law no. 65/2003. Revenue from the sale and distribution of electricity is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. Upon connection of new users to distribution systems of electricity and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of electricity generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
b.	Hot water	ON Power, Orka náttúrunnar and Utilities generate harness hot water and Utilities distribute harness hot water. Revenue from the sale and distribution of harness hot water is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. Upon connection of new users to distribution systems of harness hot water or upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of harness hot water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
c.	Cold water	OR - vatns- og fráveita collects and distributes cold water from reservoirs. Revenue from the sale of cold water is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate value. In addition revenue is stated for cold water according to measurement from specific industries. Upon connection of new users to distribution systems of cold water and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale of cold water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.

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

Products and services

d. Sewer system	OR - vatns- og fráveita runs the sewer system. Revenue is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate rateable value. Upon connection of new users to sewage system and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new sewer systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sewer system generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
e. Other revenues	Ljósleiðarinn operates fiber optics data system. Revenue from fiber optics data system is recognised in the income statement upon delivery of the goods and service. This is a competitive practice that is supervised by The Electronic Communications Office of Iceland. Orkuveita Reykjavíkur the parent company operates rental of housing and equipment, incidental sale of specialist consultancy services and more. The income of the Carbfix companies is due to consulting, construction and operation of disposal sites. Rental income is recorded as income in the income statement linearly over the lease term and other revenue is recognised upon delivery of goods or services. Trade receivables from other revenues generally have a 30 day grace period.

4. Revenues from sales of goods and services

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

	2022	2021
Electricity	24.062.357	22.081.359
Hot water	15.705.724	14.112.039
Cold water	3.663.319	3.523.769
Sewer system	6.513.702	6.010.583
Other revenues	6.974.265	6.017.800
Revenues from sales of goods and services total	56.919.366	51.745.550

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 25 Amounts are in ISK thousand

5. Segment reporting

Business divisions and sectors

The Group's service area is mainly in the Reykjavík city area, but it also extends to the southern and western parts of Iceland. The Group is divided into three separate divisions: Energy sale and production, Utilities and Other Operation.

Energy sale and production generate electricity and harness hot water from the power plants, sells electricity to wholesale and retail customers as well as the new construction and operation of street lighting.

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 and runs a sewerage system.

Other operations cover the fiber optic system, rental of housing and equipment, incidental sale of specialist consultancy services and more. Also development and distribution of the Carbfix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change.

The Group is income taxed and collects value added tax, except 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.

Sector	Official obligations
Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	Price rates are subject to authorisation from The National Energy Authority. 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 Ministerial Gazette.
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fiber-optic data system	This is a competitive practice that is supervised by The Electronic Communications Office of Iceland.

Customers that have significant effect on the Group's revenues

One customer of Energy sale and production has significant effect on the Group's revenues in the year 2022 due to the purchase of electricity for heavy industry. The Group´s revenues from this customer represents approximately ISK 9.653 million or 16.9% of total revenues. (2021: ISK 8.378 million, or 16,1% of total revenue).

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 26 Amounts are in ISK thousand

5. Segment reporting, contd.

Segment information is presented by the Group's internal reporting. Business segments presented are Utilities, that represent licensed operations in hot and cold water, distribution of electricity and sewage, Energy sale and production, representing the competitive operations in producing and sale of electricity and hot water and Other Operation, that represents the activities of the parent company, the fiber optic operations and The Carbfix companies. The parent company's main activities is providing service to subsidiaries, rental of housing and equipment, incidental sale of specialist consultancy services and more. Reykjavik fiber network represents the fiber optic operations and The Carbfix companies are working on development and distibution the of the Carbfix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 38.

Business segments - divisions		Energy sale	Other	Adjust-		
The year 2022	**Utilities**	**and production**	**Operation**	**ments**	**IFRS 16***	**Total**
External revenue	34.557.078	18.101.837	4.305.906	0		56.964.822
Inter-segment revenue	5.413.669	6.517.806	9.980.125	(21.911.601)		(0)
Total segment revenue	39.970.748	24.619.643	14.286.032	(21.911.601)		56.964.822
Segment operation expenses	(21.135.767)	(10.799.847)	(11.294.645)	21.838.815	171.467	(21.219.976)
Segment profit EBITDA	18.834.981	13.819.796	2.991.387	(72.785)	171.467	35.744.846
Depreciation and amortisation	(6.697.930)	(5.344.154)	(2.335.724)	54.662	(116.129)	(14.439.275)
Segment results, EBIT	12.137.051	8.475.642	655.663	(18.123)	55.338	21.305.571
Financial income and expenses	(8.039.429)	(2.709.472)	(1.441.863)	969.481	(62.195)	(11.283.478)
Share in loss of associated companies	0	0	(3.159)	0		(3.159)
Income tax	(391.084)	(1.121.383)	282.450	(354.252)	2.579	(1.581.692)
Profit (loss) for the year	3.706.538	4.644.787	(506.909)	597.106	(4.279)	8.437.242
The year 2021						
External revenue	31.636.055	16.338.974	3.914.807	0		51.889.836
Inter-segment revenue	4.809.368	8.731.561	9.599.222	(23.140.151)		0
Total segment revenue	36.445.423	25.070.535	13.514.029	(23.140.151)		51.889.836
Segment operation expenses	(20.592.408)	(11.358.125)	(9.675.656)	23.071.626	174.257	(18.380.306)
Segment profit EBITDA	15.853.015	13.712.410	3.838.373	(68.525)	174.257	33.509.530
Depreciation and amortisation	(5.934.076)	(5.221.711)	(2.025.583)	51.355	(126.947)	(13.256.961)
Segment results, EBIT	9.918.940	8.490.698	1.812.791	(17.169)	47.310	20.252.570
Financial income and expenses	(5.081.383)	(5.254.790)	(244.422)	6.600.430	(76.224)	(4.056.388)
Share in loss of associated companies	0	0	(3.967)	0		(3.967)
Income tax	(568.486)	(629.260)	(493.939)	(2.471.572)	10.871	(4.152.386)
Profit for the year	4.269.072	2.606.649	1.070.463	4.111.688	(18.042)	12.039.830

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

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 27 Amounts are in ISK thousand

5. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
Balance sheet (31.12.2022)						
Property, plant and equipment and intangible assets	212.808.689	149.985.284	47.073.723	0		409.867.696
Right-of-use assets					2.180.951	2.180.951
Other assets	23.181.593	11.637.831	189.044.494	(185.042.458)		38.821.461
						450.870.108
Loans and borrowings	75.471.782	59.629.752	170.806.194	(135.101.533)		170.806.194
Lease liabilities					2.266.994	2.266.994
Other liabilities	16.934.061	11.334.039	53.926.153	(50.833.411)		31.360.842
						204.434.030
Investments						
Property, plant and equipment and intangible assets	11.849.074	3.200.457	6.117.078	0		21.166.608
Balance sheet (31.12.2021)						
Property, plant and equipment and intangible assets	188.654.726	137.513.969	40.511.046	0		366.679.741
Right-of-use assets					2.576.177	2.576.177
Other assets	19.054.117	10.896.392	187.047.232	(172.371.492)		44.626.249
						413.882.166
Loans and borrowings	68.675.925	57.795.104	165.047.192	(126.471.030)		165.047.192
Lease liabilities					2.655.361	2.655.361
Other liabilities	16.040.778	11.224.130	50.026.064	(44.764.436)		32.526.535
						200.229.088
Investments						
Property, plant and equipment and intangible assets	11.992.633	2.300.589	4.228.820	0		18.522.041

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 28 Amounts are in ISK thousand

Notes

6. Analysis of geothermal power plant operation

Return analysis of production of electricity and hot water, cf. Article 41, paragraph 5 of law no. 65/2003:

	Electricity 2022	Hot water 2022	Electricity 2021	Hot water 2021
Geothermal power plant				
Revenue	13.427.092	4.837.520	12.211.221	4.958.641
Operating expenses	(2.504.779)	(1.362.312)	(2.354.935)	(1.274.160)
Depreciation and amortisation	(3.923.068)	(1.335.121)	(4.005.916)	(1.138.493)
Profit before financial expenses	6.999.244	2.140.087	5.850.370	2.545.989
Return on investment	5,9%	5,6%	5,7%	8,2%

The power plants at Hellisheiði and Nesjavellir are mixed production plants, where both hot water and energy are produced.
The cost allocation is based on Orka náttúrunnar and ON Power´s methods, that the National Energy Authority "NEA" has not approved. NEA is obligated to set new cost allocation rules after having disapproved the companies proposal, NEA has not yet carried this out. Until NEA sets new rules for cost allocation, the return of the sectors are reported using Orka náttúrunnar and ON Power's methods.

7. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:

	2022	2021
Salaries	7.461.098	7.077.519
Defined contribution pension expenses	1.007.547	959.265
Defined benefit pension expenses, changes	76.794	9.167
Other salary related expenses	672.567	617.346
Total salaries and salary related expenses	9.218.005	8.663.297

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

	2022	2021
Expensed in the income statement	7.939.019	7.502.005
Capitalised on projects	1.278.986	1.161.292
Total salaries and salary related expenses	9.218.005	8.663.297

Number of employees:

	2022	2021
Number of annual working units	577	581

Management's salaries and benefits for the parent company and subsidiaries are specified as follows:

	2022	2021
Salaries to the Board of Directors of the Parent Company	24.537	20.797
Salaries of the CEO of the Parent Company	48.510	48.783
Salaries of four Managing Directors of the Parent Company*	120.457	138.690
Salaries to the Board of Directors of four subsidiaries	17.964	14.182
Salaries of four Managing Directors of subsidiaries	153.680	135.049
Termination expenses	32.846	17.673
	397.994	375.176

* For four months of 2021 there were five Managing Directors.

8. Auditors fee

	2022	2021
Audit of financial statements and review of interim financial statements	33.609	27.026
Other services	3.941	5.002
Total auditors fee	37.549	32.028

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 29 Amounts are in ISK thousand

9. Depreciation, amortisation and impairment

	2022	2021
Depreciation, amortisation and impairment is specified as follows:		
Depreciation of property, plant and equipment cf. note 12	13.855.622	12.736.800
Amortisation of intangible assets, cf. note 13	467.523	393.214
Depreciation of Right-of-use assets, cf. Note 14	116.129	126.947
Depreciation, amortisation and impairment expensed in income statement	14.439.275	13.256.960

10. Financial income and expenses

	2022	2021
Financial income and expenses are specified as follows:		
Interest income	314.071	182.844
Interest expense and paid indexation	(4.960.939)	(4.031.786)
Indexation	(7.513.412)	(3.832.508)
Guarantee fee to owners 1)	(491.483)	(529.919)
Total interest expenses	(12.965.835)	(8.394.213)
Fair value changes of embedded derivatives in electricity sales contracts	942.160	6.573.330
Fair value changes of financial assets and financial liabilities through P/L	(651.888)	671.804
Fair value changes of hedge contracts	2.061.035	(962.797)
Interest on settlement of currency agreements (court case)	0	(2.578.937)
Hedge contracts	(1.335.910)	(1.408.740)
Foreign exchange difference	141.812	1.739.350
Dividends	211.077	120.972
Total of other income (expenses) on financial assets and liabilities	1.368.286	4.154.981
Total financial income and expenses	(11.283.478)	(4.056.388)

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavikur in 2005. The fee on yearly basis for its licensed operations is 0,82% (2021: 0,81%) and 0,63% (2021: 0,60%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 491 million in the year 2022 (2021: ISK 530 million) and is accounted for among interest expenses.

Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 38. Change in fair value that is recognized in the income statement amounts to ISK 2.351 million expenses in the year 2022 (2021: income ISK 6.282 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 479 million income in the year 2022 (2021: income ISK 6.801 million).

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 30 Amounts are in ISK thousand

Notes

11. Income tax

The Group's companies are tax liable according with Article 2 of law no. 90/2003 on income tax. The part of the Group's operation concerning operation of cold water supply and sewer is though exempt from income tax.

The parent Company´s tax rate is 37,6%, other taxable subsidiaries have a 20% tax rate.

Income tax recognised in the income statement is specified as follows:	**2022**	**2021**
Current income tax	1.490.981	1.753.949
Change in deferred income tax	90.710	2.398.436
Income tax recognised through P/L	1.581.692	4.152.386

Reconciliation of effective tax rate:		**2022**		**2021**
Profit before income tax		10.018.933		16.192.215
Income tax according to tax ratio of parent	37,6%	3.767.119	37,6%	6.088.273
Effect of tax rates of subsidiaries	(13,0%)	(1.302.424)	(7,1%)	(1.141.887)
Non-taxable operation of water supply and sewer	(8,0%)	(805.474)	(4,6%)	(750.246)
Effect of different functional currencies in the Group	(0,32%)	(31.858)	(0,09%)	(15.075)
Other items	(0,46%)	(45.670)	(0,18%)	(28.679)
Effective income tax	15,8%	1.581.692	25,6%	4.152.386

Income tax recognised in other comprehensive income

Deferred tax

Due to income and expenses moved direct to equity	**2022**	**2021**
Tax effect of revaluation	3.795.162	2.645.771
Deferred tax, total	3.795.162	2.645.771

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 31 Amounts are in ISK thousand

12. Property, plant and equipment

The year 2022	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	317.329.727	381.612.662	10.263.261	3.794.059	712.999.709
Additions during the year	5.598.798	12.375.382	1.965.103	619.303	20.558.586
Translation difference	11.719.890	0	0	0	11.719.890
Sold or disposed of	(864.542)	(1.660.687)	(8.175)	(198.224)	(2.731.629)
Revaluation, increase	21.915.947	40.001.687	0	0	61.917.634
Balance at year end	355.699.819	432.329.044	12.220.189	4.215.137	804.464.189
Depreciation					
Balance at year beginning	140.653.075	205.804.966	781.623	2.046.786	349.286.450
Depreciated during the year	7.102.980	6.225.233	198.394	329.015	13.855.622
Translation difference	2.668.674	0	0	0	2.668.674
Sold or disposed of	(864.542)	(1.660.654)	(1.811)	(130.344)	(2.657.351)
Revaluation, increase	12.347.884	22.201.994	0	0	34.549.878
Balance at year end	161.908.071	232.571.539	978.205	2.245.457	397.703.273
Carrying amounts					
At 1.1. 2022	176.676.652	175.807.696	9.481.638	1.747.273	363.713.260
At 31.12. 2022	193.791.748	199.757.504	11.241.984	1.969.680	406.760.916

The year 2021	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	296.669.526	342.855.126	9.056.003	3.254.290	651.834.946
Additions during the year	4.453.577	11.572.904	1.330.226	642.773	17.999.480
Translation difference	3.152.458	0	0	0	3.152.458
Sold or disposed of	(89.203)	(86.597)	(122.968)	(103.003)	(401.772)
Revaluation, increase	13.143.369	27.271.229	0	0	40.414.598
Balance at year end	317.329.727	381.612.662	10.263.261	3.794.059	712.999.709
Depreciation					
Balance at year beginning	125.987.170	185.814.894	718.007	1.821.647	314.341.717
Depreciated during the year	6.633.720	5.586.469	186.380	330.231	12.736.800
Translation difference	683.451	0	0	0	683.451
Sold or disposed of	(63.051)	(86.630)	(122.764)	(105.092)	(377.537)
Revaluation, increase	7.411.786	14.490.232	0	0	21.902.018
Balance at year end	140.653.075	205.804.966	781.623	2.046.786	349.286.450
Carrying amounts					
At 1.1. 2021	170.682.357	157.040.232	8.337.996	1.432.643	337.493.228
At 31.12. 2021	176.676.652	175.807.696	9.481.638	1.747.273	363.713.260

Investments during the year without payment effect amounted to ISK 1.938,2 million at year-end 2022. (2021: ISK 1.788,8 million). The year's change in investments without payment effect amounts to ISK 149,5 million.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 32 Amounts are in ISK thousand

12. Property, plant and equipment, contd.

Revaluation

When revaluating, the relevant asset groups are measured at fair value. The aforementioned revaluation is recognised in a revaluation reserve among equity taken into account effects of deferred income tax as further explained in note 38 d. The revaluation is carried out by experts within the Group.

Revaluation was last conducted according to the following table:

	Date of Revaluation
Production systems	
Hot water	30.9.2022
Cold water	30.9.2022
Electricity	31.12.2018
Distribution systems	
Hot water	30.9.2022
Cold water	30.9.2022
Sewage	30.9.2022
Electricity	30.9.2022
Fiber-optic cable system	30.9.2022

The fair value of these 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 revaluated 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 the Group. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems. Revaluation is classified as level 3 of the hierarchy of fair value, further explained in note 32.

Information on revalued assets at year end

	Production system	Distribution system	Total
31.12.2022			
Revalued carrying amount	193.791.748	199.757.504	393.549.253
Thereof effect of revaluation	(63.239.182)	(76.482.941)	(139.722.124)
Carrying amount before effect of revaluation	130.552.566	123.274.563	253.827.129
31.12.2021			
Revalued carrying amount	176.676.652	175.807.696	352.484.348
Thereof effect of revaluation	(53.113.203)	(65.811.657)	(118.924.860)
Carrying amount before effect of revaluation	123.563.448	109.996.040	233.559.488

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 33 Amounts are in ISK thousand

12. Property, plant and equipment, contd.

Impairment tests

Impairment tests were performed at the end of December 2022 for distribution systems, production systems and power plants. The tests were performed uning the balance at the end of September 2022 in order to confirm if 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 distribution and production systems.

The recoverable amount of each sector was evaluated based on value in use. The value in use was determined by discounting the expected future cash flows at the continued use in each sector. Cash flows were based on the future cash flow of the next five years. In assessing value in use, management make the plan for business development, based on both internal and external information.

The following criteria was used in assessing the value in use:

	Year 2022				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2023-2027	2,4%	3,7%	0,6%	1,3%	2,1%
CAGR w.r.t. to price changes	0,0%	0,0%	0,4%	0,4%	0,0%-7,8%
EBITDA CARG 2023-2027	3,7%	6,5%	-0,2%	0,7%	1,7%
WACC	5,1%	5,0%	5,0%	5,0%	3,13%-9,72%

	Year 2021				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2022-2026	1,9%	2,5%	1,6%	1,9%	4,1%
CAGR w.r.t. to price changes	0,7%	0,5%	0,4%	0,3%	0,15%-0,20%
EBITDA CARG 2022-2026	5,2%	3,7%	5,0%	4,6%	6,2%
WACC	3,6%	3,7%	3,2%	3,4%	3,59%-4,35%

Impairment for distribution system for Utilities or Power plants is unlikely because of additional value. However the test for electricity in power plants is sensitive to changes in key assumptions. If the required rate of ROCE increased by 0,1 percentage points, and other criteria are kept unchanged the calculated impairment of additional value in electricity for power plants would be ISK 4,2 billion. If the projected EBITDA is 1% lower during the planning period and other terms are unchanged, calculated impairment would be ISK 2,8 billion. In neither case is there any impairment.

Rateable value and insurance value

The rateable value of the Group's assets measured in the rateable value assessment amounted to ISK 45.610 million at year end 2022 (2021: ISK 39.603 million). The fire insurance value of the company's assets amounted to ISK 60.951 million at the same time (2021: ISK 52.042 million). Among those assets are real estates capitalised among production and distribution systems. The insurance value of the Group's assets amounted to ISK 487.634 million at year end 2022 (2021: ISK 454.249 million).

Obligations

The Group 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 year end is estimated at ISK 4.476 million (2021: ISK 5.144 million).

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 34 Amounts are in ISK thousand

13. Intangible assets

Intangible assets are specified as follows:

The year 2022	Heating rights	Software	Development cost	Total
Cost				
Balance at year beginning	1.427.031	3.867.437	192.278	5.486.747
Additions during the year	0	617.118	(9.296)	607.822
Balance at end of the year	1.427.031	4.484.556	182.982	6.094.569
Amortisation				
Balance at year beginning	457.768	2.055.060	7.437	2.520.265
Amortisation during the year	0	461.075	6.448	467.523
Balance at end of the year	457.768	2.516.135	13.885	2.987.789
Carrying amounts				
At 1.1. 2022	969.263	1.812.377	184.841	2.966.481
At 31.12. 2022	969.263	1.968.420	169.097	3.106.780
The year 2021				
Cost				
Balance at year beginning	1.427.031	3.528.686	135.385	5.091.101
Additions during the year	0	465.668	56.894	522.562
Sold or disposed of	0	(126.916)	0	(126.916)
Balance at year end	1.427.031	3.867.437	192.278	5.486.746
Amortisation				
Balance at year beginning	457.768	1.796.199	0	2.253.968
Amortisation during the year	0	385.777	7.437	393.214
Sold or disposed of	0	(126.916)	0	(126.916)
Balance at year end	457.768	2.055.060	7.437	2.520.265
Carrying amounts				
At 1.1. 2021	969.263	1.732.486	135.385	2.837.133
At 31.12. 2021	969.263	1.812.377	184.841	2.966.481

14. Lease agreements

Significant accounting policies are described in note 38t.

The Group rents office space and land. These leases are for varying lengths of time, but usually with the possibility of renewal at the end of the lease. Some leases include additional lease payments that are based on a change in certain indices. The Group may not enter into sublease agreements for certain leases.

The Group has elected not to recognise right-of-use assets and lease liabilities for some short-term leases and leases of low-value assets. The Group charges lease payments for these leases on a straight-line basis during the lease term.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 35 Amounts are in ISK thousand

14. Lease agreements, contd.

Changes in right-of-use assets in the year are specified as follows:

	2022	2021
Right-of-use assets		
Right-of-use assets at year beginning	2.576.177	2.590.642
Additions or extended contracts during the year	258.466	101.751
Reduction due to termination of contracts during the year	(614.027)	(33.915)
Indexation	76.465	44.645
Depreciation of the year	(116.129)	(126.947)
Right-of-use assets at year-end	2.180.951	2.576.177

Amounts in Income statement:		
Right-of-use assets, depreciation	116.129	126.947

Changes in lease liabilities in the year are specified as follows:

	2022	2021
Lease liabilities		
Lease liabilities at year beginning	2.655.361	2.640.913
New lease liabilities or extended contracts during the year	258.466	101.751
Reduction due to termination of contracts during the year	(614.027)	(33.915)
Interests	62.195	76.224
Repayment of lease liabilities	(171.467)	(174.257)
Indexation	76.465	44.645
Lease liabilities at year-end	2.266.994	2.655.361

Undiscounted cash flow due to lease payments is as follows:

	Within a year	In 1 to 5 years	After 5 years	Total
Lease payments	190.640	475.722	2.950.286	3.616.648
Interests	(62.635)	(226.495)	(1.060.525)	(1.349.655)
Total	128.005	249.227	1.889.761	2.266.994

Amounts in Income statement:	2022	2021
Interest expenses:	62.195	76.224

Amounts in Statement of Cash Flows:

Interest rate of rent payments		
(presented in cash flow statement in line "Paid interest expenses")	76.392	76.071
The installment element of the lease payments		
(presented in cash flow statement in the line "Payments of lease liabilities")	95.075	98.186

Most of the Group's leasing contracts for real estate include extension permits that the Group may use up to one year before the end of an unenforceable lease period. At the beginning of the lease, the Group assesses whether it is considered likely that it will utilize extensions. If there are significant changes in circumstances that are within the control of the Group, it will reassess whether the extension rights will be used.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 36 Amounts are in ISK thousand

15. Investments in associated companies

	2022		2021	
	Share	Carrying amount	Share	Carrying amount
Íslensk Nýorka ehf.	28,81%	31.212	29,11%	32.758
Netorka hf.	38,41%	46.657	38,41%	44.411
Orkuskólinn REYST hf.	45,00%	3.395	45,00%	3.753
Total		81.264		80.923

The Group's share in the loss of its associated companies amounted to ISK 3.159 thousand in 2022 (2021: loss of ISK 3.967 thousand).

16. Investments in other companies

	Share	2022	Share	2021
Non-current assets				
Other shares in companies		55.680		55.680
Current assets				
Landsnet hf. 1)	6,8%	5.632.000	6,8%	6.095.000
Investments in other companies, total		5.687.680		6.150.680

Fair value of financial assets available for sale is based on generally accepted valuation methods performed by independent experts and internal experts. Fair value decrease of Landsnet hf. amounted to ISK 463 million in 2022 (2021 increase: ISK 228 million) and the decrease was transferred to a fair value reserve among equity. See further discussion in note 32.

1) Legal provisions on the changed ownership of electricity transmission companies came into effect on July 1, 2022, according to Article 19 Act no. 74/2021. The law stipulates a change in Landsnet's ownership in such a way that it becomes directly owned by the state and/or municipalities. OR's share in Landsneti hf. at the end of 2022 it is therefore recognized as current assets. See explanation 37 for details.

17. Embedded derivatives in electricity sales contracts

	2022	2021
Fair value of embedded derivatives at the beginning of the year	616.949	(5.956.381)
Fair value changes during the year	942.160	6.573.330
Fair value of embedded derivatives at year-end asset/(liability)	1.559.110	616.949

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

	2022	2021
Non-current embedded derivatives asset/(liability)	1.448.798	(931.389)
Current embedded derivatives, asset/(liability)	110.312	1.548.338
Total embedded derivatives at year-end	1.559.109	616.949

Further discussion regarding embedded derivatives can be found in note 27 c.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 37 Amounts are in ISK thousand

18. Hedge contracts

Financial assets at fair value through profit or loss:	2022	2021
Assets		
Hedge contracts, non-current	78.545	73.264
Hedge contracts, current	346.984	17.036
	425.530	90.300
Liabilities		
Hedge contracts, non-current	(40.275)	(332.279)
Hedge contracts, current	(150.384)	(1.584.188)
	(190.659)	(1.916.467)
Net Hedge contracts assets (liabilities)	234.870	(1.826.167)

Hedge contracts are measured by discounted future cash flow and market observable data is used in the price determination.

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

2022	Tax assets	Tax liabilities	Net amount
Deferred tax assets/(liabilities) at beginning of the year	3.812.930	(16.929.779)	(13.116.849)
Calculated income tax for the year	(91.175)	(1.490.517)	(1.581.692)
Current tax liability	46.437	1.444.544	1.490.981
Tax effect on the revaluation account	0	(3.795.162)	(3.795.162)
Other changes	(8.962)	(276.451)	(285.412)
Deferred tax assets/(liabilities) at end of the year	3.759.230	(21.047.364)	(17.288.134)
2021			
Deferred tax assets/(liabilities) at beginning of the year	6.675.003	(14.662.897)	(7.987.895)
Calculated income tax for the year	(2.888.687)	(1.263.699)	(4.152.386)
Current tax liability	26.614	1.727.336	1.753.949
Tax effect on the revaluation account	0	(2.645.771)	(2.645.771)
Other changes	0	(84.747)	(84.747)
Deferred tax assets/(liabilities) at end of the year	3.812.930	(16.929.779)	(13.116.849)

Deferred tax assets and liabilities are attributable to the following:

	31.12.2022		31.12.2021	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment	897.394	(20.753.226)	840.820	(17.344.151)
Embedded derivatives	(586.225)	0	(231.973)	0
Other items	(214.403)	(307.401)	635.223	414.372
Effect of carry forward taxable loss	3.662.464	13.262	2.568.859	0
Deferred tax assets/(liabilities) at year end	3.759.231	(21.047.364)	3.812.930	(16.929.779)

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 38 Amounts are in ISK thousand

19. Deferred tax assets and liabilities, cont.

Carry forward taxable loss

Based on current tax law, a carry forwards taxable loss can be used against taxable profit within 10 years from when it was incurred. Carry forwards taxable loss at year end can be used as follows:

	2022	2021
Carry forward taxable loss for the year 2018, usable until year 2028	41.429	41.429
Carry forward taxable loss for the year 2019, usable until year 2029	2.059.754	2.059.754
Carry forward taxable loss for the year 2020, usable until year 2030	2.398.725	2.398.725
Carry forward taxable loss for the year 2021, usable until year 2031	2.332.165	2.332.165
Carry forward taxable loss for the year 2022, usable until year 2032	3.099.628	-
Carry forwards taxable loss at year end	9.931.701	6.832.073

Management has evaluated the utilization of income tax losses and made plans for taxable profit for the next years. Deferred tax assets due to the taxable loss carried forward is recognized to the extent that it is believed to be useful.

20. Inventories

	2022	2021
Inventory of materials	1.881.036	1.337.505
Work in process	416.817	0
	2.297.853	1.337.505

The Group's material inventories consist of material for maintenance, renewal and construction of the Group's production and distribution systems. A part of the inventories is defined as safety inventories, i.e. inventories that are necessary to have on hand in case of malfunction or maintenance even though their turnover is low. The value of inventories is estimated regularly. Inventories for renewal and new constructions are accounted for among property, plant and equipment as part of building cost of assets under construction.

Works in progress are projects in areas that are under development and intended for resale.

21. Receivables

Trade receivables is specified as follows at year end:	2022	2021
Trade receivables, industrial consumers	1.151.734	1.159.284
Trade receivables, retail	5.344.289	4.613.079
Trade receivables, total	6.496.023	5.772.363
Allowance for doubtful accounts	(135.622)	(147.214)
	6.360.401	5.625.149
Other current receivables are specified as follows at year end:		
Capital income tax	222.055	166.192
Accrued interest income	6.053	3.509
Receivables from employees	3.186	2.676
Other receivables	461.578	502.025
	692.873	674.401

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 39 Amounts are in ISK thousand

22. Equity

Equity ratio of the Group at year end 2022 is 54,7% (2021: 51,6%). Return on equity was positive by 3,7% in the year 2022 (2021: positive by 6,2%).

Revaluation reserve

Revaluation reserve comprises of increase in the value of properties, plant and equipment after taking tax effects into account. Depreciation of the revaluated price are expensed in the income statement and transferred at the same time from the revaluation reserve account to retained earnings.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of financial statements of operations with other functional currency than ISK.

Fair value reserve

Fair value reserve comprises change of the value of assets categorised at fair value through OCI after taking tax effects into account.

Equity reserve

According to the Financial Statements Act no. 3/2006, share in profit of subsidiaries and associates, which exceeds the dividends received or the dividend decided of retained earnings, is accounted for on a restricted reserve account among equity.

Development reserve

According to the Financial Statement Act no. 3/2006, companies that capitalize development cost should account for the same amount on a restricted reserve account among equity.

Retained earnings

Dividend in the amount of ISK 4.000 million was paid to the owners of the parent Company in the year 2022. (2021: ISK 4.000 million).

23. Loans and borrowings

Interest bearing loans are recorded using the method of amortised cost. Further information on the Group's exposure to interest rate and foreign currency risk, see note 27. Loans and borrowings are specified as follows:

Non-current liabilities	**31.12.2022**	**31.12.2021**
Bank loans	74.208.461	77.649.505
Bond issuance	96.597.733	87.397.686
	170.806.194	165.047.192
Current portion on non-current liabilities	(19.805.390)	(15.187.655)
	151.000.804	149.859.537

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		**31.12.2022**		**31.12.2021**	
	Date of maturity	**Average interest rate**	**Carrying amount**	**Average interest rate**	**Carrying amount**
Liabilities in CHF	5.10.2027	0,20%	6.432.675	0,00%	7.166.297
Liabilities in EUR	19.12.2027	2,59%	16.307.554	0,80%	17.390.754
Liabilities in USD	26.11.2035	5,21%	37.372.874	2,03%	34.665.932
Liabilities in JPY	5.10.2027	0,04%	1.733.353	0,02%	2.187.201
Liabilities in GBP	26.2.2024	4,12%	782.265	1,11%	1.207.197
Liabilities in SEK	5.10.2027	1,98%	1.632.162	0,02%	2.069.306
			64.260.884		64.686.686
Liabilities in Icelandic kronas:					
Indexed	18.2.2055	2,62%	87.705.830	2,62%	81.376.580
Non-indexed	18.2.2042	6,41%	18.839.481	4,06%	18.983.926
			106.545.311		100.360.506
Total interest-bearing loans and borrowings			170.806.194		165.047.191

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 40 Amounts are in ISK thousand

23. Loans and borrowings, cont.

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

31.12.2022

The year 2023	19.805.390
The year 2024	15.598.029
The year 2025	19.068.623
The year 2026	16.480.001
The year 2027	11.209.707
Later	88.644.444
Total non-current liabilities, including next year's repayment	170.806.194

31.12.2021

The year 2022	15.187.655
The year 2023	19.196.497
The year 2024	15.082.367
The year 2025	15.967.229
The year 2026	14.038.102
Later	85.575.342
Total non-current liabilities, including next year's repayment	165.047.192

Changes in loans and borrowings in the year are specified as follows:	2022	2021
Movements with payment effects		
Total interest bearing loans and borrowings 1 January	165.047.192	171.700.453
New borrowings	11.137.877	14.283.912
Repayment of borrowings	(16.477.427)	(24.183.955)
Movements without payment effects		
Currency fluctuation	3.458.236	(678.424)
Indexation	7.640.317	3.925.206
Total interest bearing loans and borrowings 31 December	170.806.194	165.047.192

Guarantees and pledges

Orkuveita Reykjavíkur is allowed to make financial obligations for the company's needs and to undertake responsibility for respective payments. Financial obligations that shall be the responsibility of the owners are subject to their approval. If responsibility for financial obligations is accepted by the owners, the internal division of responsibility must be in proportion to their share of ownership in the company. Owners' liability does not cover other obligations of the company and it cannot amount to a higher percentage than 80% of the financial needs of a project for which owner's liability is granted. Owners' responsibility of financial obligations incurred before the Act no. 144/2010 entered into force, remain valid until the day they are fully fulfilled. At the reporting date the owners were responsible pro rata for 38,3% of the Group's loans and borrowings. The Group has not pledged its assets to secure debts.

Covenants

Loans for the amount of ISK 115.138 million have certain covenants that regard repayment time as a proportion of EBITDA and as interests as a proportion of EBITDA as well as reviewing that budgets are within set limits (31.12.2021: ISK 102.279 million). Management regularly evaluate the covenants and in their view there is not risk of them being breached. At the end of the year the Group measured up to all financial covenants of loan agreements.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 41 Amounts are in ISK thousand

24. Retirement benefit obligation

The Group has retirement benefit obligation due to benefits of current and former employees in pension benefit plans.

The Group's accrued retirement benefit obligation amounted to ISK 705,5 million at year end 2022, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2021: ISK 665,9 million). The Group updates the obligation according to an assessment from an actuary each year when that assessment is available. Premises for life expectancy are in accordance with provisions of Regulation no. 391/1998 on obligatory insurance of pension benefits and operation of pension funds. The estimated increase in the obligation in the year is based on general increase in salaries taken into account interests. The part of the obligation that is estimated to be payable in the year 2023 is recognised among current liabilities.

	2022	2021
Retirement benefit obligation at the beginning of the year	665.879	692.027
Contribution due to pension payments during the year	(37.213)	(35.315)
Increase in the pension fund obligation during the year	76.794	9.167
Retirement benefit obligation at year end	705.460	665.879
Non-current component of retirement benefit obligation	668.460	630.879
Current component of retirement benefit obligation	37.000	35.000
Retirement benefit obligation at year end	705.460	665.879

25. Current liabilities

Other current liabilities is specified as follows:	2022	2021
Unpaid taxes	696.321	670.554
Unpaid salaries and salary related items	1.785.455	1.711.810
Accrued interest expenses	1.088.810	790.891
Current component of retirement benefit obligation	37.000	35.000
Derivative contracts in default (court case)	0	3.335.937
Other liabilities	85.872	154.226
Total current liabilities	3.693.458	6.698.418

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 42 Amounts are in ISK thousand

26. Risk management and financial instruments

OR's activities are characterized by prudence in accordance with the obligations of a company owned by municipalities, as a public entity according to Act on Orkuveita Reykjavikur and other laws, rules and standards on duties and good governance.

The primary objective of risk management is to ensure that OR can perform its basic function in a safe and cost-effective manner with minimal risk. OR does this by:

• reduce fluctuations in the group's performance at all times with regard to the underlying risks in the operation and that risk factors are always within defined limits set by the board and recorded in a risk manual,
• ensure that OR has enough funds to support the development of services and regular operations,
• identify, assess and manage risks in operations taking into account activities, OR's policies and defined limits.

The willingness to take risks is based on:
• OR's financial position is solid
• assets are well preserved,
• the company's reputation is protected,
• operation in accordance with the law as well as external and internal rules,
• fraud not being tolerated,
• the safety and health of employees and users of the service is guaranteed,
• responsible use of resources,
• that information are secured, accessible and available and
• environmental considerations are taken as a guiding light in the activities.

The villingness to take risk is further defined in OR's specific policies and rules.

Financial risk is divided into:
• Market risk, further discussed in note 27
• Liquidity risk, further discussed in note 28
• Credit risk, further discussed in note 29
• Operational risk, further discussed in note 30
• Project and investment risk, further discussed in note 31

27. Market risk

Market risk is the risk that changes in the exchange rate of foreign currencies, aluminium price, interests and other price changes will affect the Group’s income or the value of its financial instruments. With regards to the current Balance Sheet, market risk is mainly due to changes in interest, exchange rates, CPI and aluminium price but risk regarding portfolio assets such as shares in companies and bonds is minimal. The risk that weighs the most in the Group is divided into:

a. Currency risk due to assets and liabilities in the balance sheet and cash flow in foreign currencies.
b. Interest rate risk due to loans and contracts made by the Group
c. Risk due to changes in the world market price of aluminium.

27. Market risk, contd.

a. *Currency risk*

Currency risk is the risk of changes in exchange rates having a negative effect on the Group's income. Currency risk is measured in the difference between assets and liabilities in each currency where taken into consideration all assets, liabilities and derivatives. The Risk Management department is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations. Limits on the minimum/maximum currency imbalance in cash flows for the next 5 financial years have been approved.

The Group is exposed to currency risk on sales, purchases and borrowings in different currencies. Main currency exposures are in United States dollar (USD), Euro (EUR) and Swiss Francs (CHF).

Approx. 38% of the Group's interest bearing loans are in foreign currencies. The Group has entered into long term electricity sales contracts in foreign currency. The expected future revenues from these contracts on the accounting date amount to approx. ISK 68.897 million (2021: ISK 69.130 million). That amount is based on the future price of aluminium on LME (London Metal Exchange), the USD exchange rate and longterm expectations of price development of aluminium according to, an independent evaluation party CRU, as available on the accounting date. In addition to the above, other smaller sales agreements have been made in foreign currency.

Exchange rates of main currencies:	2022	2021	31.12.2022	31.12.2021
	Average exchange rate		Exchange rate at year end	
CHF	141,828	138,974	153,850	142,830
EUR	142,329	150,189	151,500	147,600
USD	135,464	127,047	142,040	130,380
JPY	1,033	1,157	1,077	1,133
GBP	166,901	174,707	170,810	175,730
SEK	13,387	14,807	13,622	14,392
CAD	103,953	101,304	104,920	102,420
TWI	190,262	196,103	199,831	195,602

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 44 Amounts are in ISK thousand

27. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk

The Group's exposure to currency risk is specified as follows:

31.12.2022	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
Loans and borrowings	(6.432.675)	(16.307.554)	(37.372.874)	(1.733.353)	(1.632.162)		(782.265)	(64.260.884)
Trade receivables (accounts payables)		(107.770)	916.007		(3.955)	(144.408)	(19.470)	640.404
Bank deposits	10.502	383.115	2.432.032	112	603	2.177	152	2.828.693
Embedded derivatives			1.559.109					1.559.109
Hedge contracts			234.869					234.869
Receivables/(payables) within the Group*			(4.365.683)			(1.476.624)		(5.842.307)
Loans and borrowings to related parties*			45.711.616					45.711.616
Total risk through P/L	(6.422.173)	(16.032.209)	9.115.076	(1.733.241)	(1.635.514)	(1.618.855)	(801.583)	(19.128.499)
Subsidiaries equity in foreign currency**		7.538	67.154.748					67.162.286
Investments in other companies			5.632.000					5.632.000
Total risk through P/L and in equity	(6.422.173)	(16.024.671)	81.901.824	(1.733.241)	(1.635.514)	(1.618.855)	(801.583)	53.665.788

(*) The functional currency of ON Power is in USD and exchange gains/losses from assets and liabilities in ISK are accounted for through P/L. In addition the exchange gains/losses for foreign assets and liabilities of the parent company towards it´s subsidiary, ON Power, are accounted through P/L .

(**) The translation differences in the Group's equity is due to translation of subsidiaries' equity with a foreign functional currency.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 45 Amounts are in ISK thousand

27. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk, contd.

31.12.2021	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
Loans and borrowings	(7.166.297)	(17.390.754)	(34.665.932)	(2.187.201)	(2.069.306)		(1.207.197)	(64.686.686)
Trade receivables (accounts payables)		(167.991)	914.978		(401)	(30.995)	(4.515)	711.075
Bank deposits	2.320	133.458	1.809.111	1.058	1.171	2.754	51.655	2.001.527
Embedded derivatives			616.949					616.949
Hedge contracts			(1.826.166)					(1.826.166)
Receivables/(payables) within the group*			(4.463.001)			(1.148.899)		(5.611.900)
Loans and borrowings to related parties*			44.459.387					44.459.387
Total risk through P/L	(7.163.977)	(17.425.288)	6.845.327	(2.186.143)	(2.068.536)	(1.177.141)	(1.160.056)	(24.335.813)
Subsidiaries equity in foreign currency**			58.241.335					58.241.335
Investments in other companies			6.095.000					6.095.000
Total risk through P/L and in equity	(7.163.977)	(17.425.288)	71.181.662	(2.186.143)	(2.068.536)	(1.177.141)	(1.160.056)	40.000.521

Sensitivity analysis
Appreciation by 10% of the Icelandic krona against the following currencies at year-end would have increased (decreased) equity and profit or (loss) by the amounts shown below, taking into account tax effects. Depreciation by 10% of the Icelandic krona against the following currencies would have had the equivalent, but opposite effect. This analysis assumes that all other variables, in particular interest rates and aluminium prices, remain constant.

	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
				Profit or (loss)				
The year 2022	642.217	1.603.221	(911.508)	173.324	163.551	161.885	80.158	1.912.850
The year 2021	716.398	1.742.529	(684.533)	218.614	206.854	117.714	116.006	2.433.581
				Equity				
The year 2022	642.217	1.602.467	(8.190.182)	173.324	163.551	161.885	80.158	(5.366.579)
The year 2021	716.398	1.742.529	(7.118.166)	218.614	206.854	117.714	116.006	(4.000.052)

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 46 Amounts are in ISK thousand

27. Market risk, contd.

b. *Interest rate risk*

Interest rate risk is the risk of changes in interest rates having a negative effect on the Group's income. The Group is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Group´s liabilities both have fixed and variable interest rates, majority being subject to fixed interest rates. It is especially monitored that the interest rate risk is within the defined limits, there are sources to manage the interest rate risk with hedging contracts within the defined limits regarding the minimum/maximum fixed interest rate in cash flow for the next 5 financial years. On the accounting date hedges covered 81% of loans, taking into account hedges, with fixed interest rates 1 year ahead.

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

	31.12.2022	31.12.2021
Fixed rate instruments		
Financial liabilities	(109.144.384)	(99.241.377)
Variable rate instruments		
Financial liabilities	(61.661.810)	(65.805.815)
Financial instruments at fair value		
Marketable securities	11.070.605	14.657.369
Hedge contracts	234.870	(1.826.167)
	11.305.475	12.831.203

The following table shows the calculated effect of changes in interest on one year cash flows and on the value of financial instruments measured at fair value, taken into account the effect of taxes. The analysis was done in the same way for the year 2021.

Sensitivity analysis on interest	**Cash flow sensitivity analysis**		**Fair value sensitivity analysis**	
31.12.2022	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	47.097	(43.987)
Investments in other companies	0	0	(641.271)	723.013
Hedge contracts	0	0	(603)	(605)
Interest bearing liabilities	(189.395)	189.395	0	0
	(189.395)	189.395	(594.778)	678.421
31.12.2021	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	50.306	(54.110)
Investments in other companies	0	0	(1.625.771)	3.246.739
Hedge contracts	41.117	(41.117)	25.646	(51.718)
Interest bearing liabilities	(220.795)	220.795	0	0
	(179.678)	179.678	(1.549.819)	3.140.910

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 47 Amounts are in ISK thousand

27. Market risk, contd.

c. *Aluminium risk*

Aluminium risk is the risk that changes in the price of aluminium has a negative impact on the income of the Group.

The group has entered into electricity sales contracts in dollars that are linked to the development of world market prices for aluminum. Income from electricity sales contracts linked to aluminum prices amounted to 16,9% of the group's total income in 2022 (2021:16,1%)

To reduce risk due to aluminium prices the Group has entered into derivative contracts to reduce the fluctuation of income affected by aluminium prices. The risk management department has permission to hedge this risk within approved limits for the next 5 financial years. At the accounting date hedges amounted to 69% of expected income affected by aluminium price for the next 12 months (31.12 2021: 89%).

Embedded derivatives in electricity sales contracts

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 International standards on financial instruments, the fair value of embedded derivatives for Grundartangi has been measured and recognised in the financial statements and partly for the contracts with Helguvík.

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 a 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 long term expectations of price development of aluminium 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 of the derivative. The valuation is based on the premises that the derivative has no value at the initial date of the contract.

Embedded derivatives of the electricity sales contracts recognised in the financial statements are capitalised in the balance sheet at fair value at the accounting date and fair value changes during the year are recognised in the income statement among income on financial assets and liabilities.

27. Market risk, contd.

c. *Aluminium risk, contd.*

The following table shows the calculated effect on financial instruments measured at fair value due to change in aluminium price, taking tax effect into account.

Sensitivity analysis on the price of aluminium

	Sensitivity of Fair value	
31.12.2022	**10% decrease**	**10% increase**
Embedded derivatives	(3.580.885)	3.580.885
Aluminium hedges	582.767	(582.767)
Total	(2.998.117)	2.998.117

	Sensitivity of Fair value	
31.12.2021	**10% decrease**	**10% increase**
Embedded derivatives	(3.827.863)	3.827.863
Aluminium hedges	983.022	(1.058.701)
Total	(2.844.840)	2.769.162

d. *Other market risk*

Other market risk such as interest spread and risk in shares in other companies is limited as investments in such securities is an insubstantial part of the Group's operation with the exception of liquity management. The value of the financial assets tied up in funds or in asset management is subject to changes in the market, e.g. due to price changes in the bond- and equity markets. For further information, see note 28.

28. 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.

The Group's cash and cash equivalents at end of the year amounted to ISK 6.651 million as well as marketable securities amounting to ISK 11.071 million. Therefore the Group owned ISK 17.721 million in bank deposits at year end 2022. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 9.100 million. The Group had thus in total ensured capital at year-end to the amount of approx. ISK 26.821 million. The corresponding amount at year end 2021 amounted to ISK 34.606 million.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 49 Amounts are in ISK thousand

28. Liquidity risk, contd.

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

31.12.2022

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Trade receivables	6.360.401	6.360.401	6.360.401	0	0	0
Other receivables	692.873	692.873	692.873	0	0	0
Marketable securities	11.070.605	11.070.605	11.070.605	0	0	0
Cash and cash equivalents	6.650.749	6.650.749	6.650.749	0	0	0
Interest-bearing liabilities	(170.806.194)	(213.536.972)	(25.484.696)	(20.628.843)	(57.241.559)	(110.181.873)
Accounts payable	(3.673.238)	(3.673.238)	(3.673.238)	0	0	0
Other liabilities	(3.693.458)	(3.693.458)	(3.693.458)	0	0	0
	(153.398.262)	(196.129.040)	(8.076.764)	(20.628.843)	(57.241.559)	(110.181.873)

Derivative financial instruments, net financial assets and financial liabilities

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Embedded derivatives	1.559.109	68.896.568	9.604.769	10.027.842	26.927.060	22.336.898
Hedge contracts	234.870	302.012	283.519	55.168	(36.675)	0
	1.793.979	69.198.581	9.888.288	10.083.011	26.890.385	22.336.898

31.12.2021

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Trade receivables	5.625.149	5.625.149	5.625.149	0	0	0
Other receivables	674.401	674.401	674.401	0	0	0
Marketable securities	14.657.369	14.657.369	14.657.369	0	0	0
Cash and cash equivalents	10.319.874	10.319.874	10.319.874	0	0	0
Interest-bearing liabilities	(165.047.192)	(200.378.478)	(18.625.353)	(22.318.196)	(53.368.080)	(106.066.850)
Accounts payable	(3.522.684)	(3.522.684)	(3.522.684)	0	0	0
Other liabilities	(6.698.418)	(6.698.418)	(6.698.418)	0	0	0
	(143.991.500)	(179.322.787)	2.430.339	(22.318.196)	(53.368.080)	(106.066.850)

Derivative financial instruments, net financial assets and financial liabilities

	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Embedded derivatives	616.949	69.130.064	10.143.657	9.607.663	25.259.708	24.119.036
Hedge contracts	(1.826.167)	(3.008.122)	(2.653.618)	(437.654)	83.150	0
	(1.209.217)	66.121.941	7.490.038	9.170.009	25.342.859	24.119.036

If non-current loans are refinanced in order to prolong the loan terms, it can be assumed that the distribution of the repayments will be different from the above.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 50 Amounts are in ISK thousand

29. 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. Credit risk is mainly due to wholesale electricity contracts and derivatives that the Group has entered into for hedging purposes. There is also credit risk due to retail sales, but possible losses due to unpaid receivables are insubstantial and have limited effect on the Group's return. The Group disregards the financing factors of receivables that are expected to be collected within a year according to authorization in IFRS

When entering into contracts it shall be insured, as possible, that the counterparty is trustworthy and settlement with large counterparties shall be looked into regularly as well as their credit rating.

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

	31.12.2022	31.12.2021
Trade receivables	6.360.401	5.625.149
Other current receivables	692.873	674.401
Hedge contracts	425.530	90.300
Marketable securities	11.070.605	14.657.369
Cash and cash equivalents	6.650.749	10.319.874
Total	25.200.158	31.367.093

Financial assets as stated above are categorised at amortised cost or at fair value through P/L. Their categorisation can be seen in note 33.

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

Trade receivables, industrial consumers	1.151.734	1.159.284
Trade receivable, retail	5.208.667	4.465.865
Total	6.360.401	5.625.149

Impairment of trade receivables

The year 2022	Gross balance	Impairment	Book value
Not past due receivables	5.644.350	66.215	5.578.134
Past due, 1 to 30 days	359.302	4.626	354.676
Past due, 31 to 90 days	349.291	8.675	340.615
Past due, 91 days and older	143.080	56.105	86.975
Total	6.496.023	135.622	6.360.401

The year 2021	Gross balance	Impairment	Book value
Not past due receivables	5.378.359	75.128	5.303.232
Past due, 1 to 30 days	271.988	9.847	262.140
Past due, 31 to 90 days	38.721	3.267	35.453
Past due, 91 days and older	83.295	58.972	24.324
Total	5.772.363	147.214	5.625.149

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 51 Amounts are in ISK thousand

29. Credit risk, contd.

Changes in impairment of Trade receivables is specified as follows:

	2022	2021
Balance at year beginning	147.214	155.258
Receivables written off	11.503	51.485
Impairment	(23.095)	(59.528)
Balance at year end	135.622	147.214

Allowance due to receivables is valuated at each reporting date by management. Collectability is valuated both in general using historic evidence and economic conditions and also specifically for receivables that are in default. Allowance is only deemed necessary for trade receivables.

Receivables due to sewage and cold water have statutory lien in properties and therefore allowance is not considered for those claims.

The Customer Services department governs the collection of receivables and supplies customers with information regarding claims. Collection is done in a well defined process where among other things, consistency in procedures is maintained as much as possible.

Impairment of trade receivables is among other operating expenses in P/L.

30. Operational risk

Operational risk is defined as the risk of loss or damage that may occur due to inadequate internal processes or systems, equipment failure, personnel behavior or due to external factors in the operating environment. OR's Risk Council monitors risks in the group, changes that occur in them as well as key measures regarding the effectiveness of risk management within all units of the group.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 52 Amounts are in ISK thousand

31. Project and investment risk

Profitability assessment is carried out in accordance with the procurement process of each company. It should be considered that the expected profit or expected profitability meets the objectives of the profitability policy and supports other policies of the company. Projects are evaluated in accordance with the overall strategy and aim for the expected profit or expected profitability to meet the objectives of the profitability strategy and support other policies of the company.

32. Fair value

Comparison of fair value versus carrying amounts

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

	31.12.2022		31.12.2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	170.806.194	177.796.952	165.047.192	176.771.819

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

Interest rates used for determining fair value

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

	31.12.2022	31.12.2021
Embedded derivatives in electr. sales contr.	11,11% to 12,44%	7,99% to 9,49%
Hedge contracts	4,3% to 5,4%	0,1% to 1,3%
Interest bearing liabilities	0,49% to 12,72%	0,49% to 3,88%

Fair value hierarchy

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

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

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

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

31.12.2022	Level 1	Level 2	Level 3	Total
Shares in other companies	0	0	5.687.680	5.687.680
Embedded derivatives in sales contracts	0	0	1.559.109	1.559.109
Hedge contracts	0	234.870	0	234.870
Marketable securities	11.070.605	0	0	11.070.605
	11.070.605	234.870	7.246.789	18.552.264
31.12.2021				
Shares in other companies	0	0	6.150.680	6.150.680
Embedded derivatives in sales contracts	0	0	616.949	616.949
Hedge contracts	0	(1.826.167)	0	(1.826.167)
Marketable securities	14.657.369	0	0	14.657.369
	14.657.369	(1.826.167)	6.767.629	19.598.832

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 53 Amounts are in ISK thousand

32. Fair value, contd.

Changes in assets and liabilities defined at level 3 is specified as follows:	**2022**	**2021**
Balance at year beginning	6.767.629	(33.701)
Valuation changes	479.160	6.801.330
Balance at year end	7.246.789	6.767.629

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

Fair value measurement
A part of the Group´s financial assets and financial liabilities are measured at fair value. Fair value of these assets and liabilities are determined by market data or price in recent transactions if that is available. Otherwise, accepted valuation methods are used. Further information on fair value calculations can be found in the discussion of the relevant assets and liabilities in notes 16, 17 and 18.

33. Overview of financial instruments

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

	31.12.2022			**31.12.2021**		
	Amortised cost	**Financial asset/ financial liability at fair value through P/L**	**Financial asset/ financial liability at fair value through OCI**	**Amortised cost**	**Financial asset/ financial liability at fair value through P/L**	**Financial asset/ financial liability at fair value through OCI**
Shares in other companies		55.680			55.680	
Shares in other companies			5.632.000			6.095.000
Embedd. contr.		1.559.109			616.949	
Hedge contr.		425.530			90.300	
Trade receivabl.	6.360.401			5.625.149		
Other receivabl.	692.873			674.401		
Marketable securities		11.070.605			14.657.369	
Cash	6.650.749			10.319.874		
Interest-bearing liabilities	(170.806.194)			(165.047.192)		
Hedge contr.		(190.659)			(1.916.467)	
Account payabl.	(3.673.238)			(3.522.684)		
Other liabilities	(3.693.458)			(6.698.418)		
Total	(164.468.867)	12.920.264	5.632.000	(158.648.869)	13.503.832	6.095.000

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 54 Amounts are in ISK thousand

34. Related parties

Definition of related parties

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

Transactions with related parties

The parties mentioned here above have had transactions with the Group within the year.

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

Sale to related parties:	**2022**	**2021**
Reykjavik City	2.157.024	1.787.928
Institutions and companies controlled by Reykjavik City	636.048	643.833
Associates	0	1.040
	2.793.072	2.432.801
Purchases from related parties:		
Reykjavik City	148.617	135.004
Institutions and companies controlled by Reykjavik City	24.806	95.510
Associates	114.608	72.944
Board members and key employees	71.414	0
	359.445	303.458
Receivables for related parties:		
Reykjavik City	464.740	199.107
Institutions and companies controlled by Reykjavik City	38.505	44.932
	503.245	244.039
Payables for related parties:		
Reykjavik City	238.416	176.414
Institutions and companies controlled by Reykjavik City	975	1.035
	239.391	177.449
Interest expense on loans from owners of the parent Company:		
Reykjavik City	457.422	526.868
Akranes town	31.559	36.055
Borgarbyggð, municipality	2.502	3.113
	491.483	566.036

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 10. Management´s salaries and benefits are listed in note 7.

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 55 Amounts are in ISK thousand

35. Group entities

Subsidiaries	Main operation	Share 31.12.2022	Share 31.12.2021
Ljósleiðarinn ehf.	Data transfer	100,0%	100,0%
OR Eignir ohf.	Holding company	100,0%	100,0%
Veitur ohf.	Distribution of electricity and hot water	100,0%	100,0%
Orka náttúrunnar ohf.	Sale of electricity	100,0%	100,0%
ON Power ohf.	Sale of electricity	100,0%	100,0%
OR vatns- og fráveita sf.	Cold water and sewage	100,0%	100,0%
Eignarhaldsfélagið Carbfix ohf.	Consulting, researches and innovation	99,9%	100,0%
Carbfix hf.	Consulting, researches and innovation	100,0%	0,0%
Coda Terminal hf.	Construction of a carbon disposal plant	100,0%	0,0%

36. Statement of cash flows

Working capital from operation is specified as follows:	2022	2021
Profit for the year	8.437.242	12.039.829
Operating items that do not affect cash flow:		
Depreciation and amortisation	14.439.275	13.256.961
Profit from sale of assets	(45.455)	(144.286)
Share in profit of associated companies	3.159	3.967
Pension liability change	39.581	(26.148)
Currency fluctuation and indexation	7.262.977	2.160.207
Embedded derivatives in electricity sales contracts	(587.908)	(4.101.758)
Fair value changes of hedge contracts	(2.112.934)	1.262.545
Deferred tax liability	(239.921)	(59.550)
Fair value changes of financial assets and liabilities through P/L	651.888	(671.804)
Effects of currency fluctuation on cash and cash equivalents	(70.907)	11.431
Other items	(63.358)	(56.419)
Working capital from operation	27.713.639	23.674.975

Consolidated Financial Statements of Orkuveita Reykjavikur 2022 56 Amounts are in ISK thousand

37. Other matters

Purchase of Sýn's core network
On December 2, 2022, Ljósleiðarinn ehf. and Sýn hf. signed a ISK 3 billion purchase agreement of Sýn's core network, and a 12-year service agreement between the two companies. Funding has been completed but is subject to the approval of the Competition Authority. Results should be clear by the first quarter of 2023.

Electricity contract with Norðurál referred to international arbitration
In 2022, a formal process was initiated by OR, where a dispute over the terms of the electricity sales agreement with Norðurál, which ON Power is responsible for implementing, was referred to international arbitration. The case pertains to OR's demand for a review of contracts, where the balance between the interests of the contracting parties has been disturbed due to events and assumptions over which OR has no control. In this phase of the case, will result of the arbitration only refer to whether the balance between the contracting parties has been disturbed due to unforeseeable incidents, resulting in a discussion of changes in contracts, but not to take a position on possible amounts.

Sale of shares in Landsnet
Over the past months, plans have been in place to sell OR’s shares in Landsnet, as the Electricity Act stipulates that the transmission company must be directly owned by the Icelandic state and/or municipalities. At the end of 2020, OR's board agreed that a declaration of intent regarding a change in Landsnet's ownership would be signed, and to begin negotiations regarding the sale of the shares. As a result, negotiations began with representatives of the Ministry of Finance on the matter. At the end of 2022, the ministry negotiated with state-owned companies to purchase their shares in Landsnet, but the ministry wanted to finalise those agreements before its purchase of OR's share was completed. The book value of the shares in Landsnet is estimated at ISK 5,6 billion on 31.12.2022 and is included among current assets, see explanation 16 for details. The aim is to complete the sale of OR’s share in 2023.

Repair at headquarters
At the end of August 2015, severe water damage occurred at the company's headquarters on Bæjarháls 1. From the beginning, the actions of OR's management has been aimed at creating adequate working conditions for employees. Experts have been consulted in all main decisions. Attempts have also been made to find the most sensible ways to remedy and investigate what caused the damage. In 2017, the building was closed and operations relocated. It was decided to go into a detailed options analysis and look at the possibilities that were in the situation. The result was to remove the defective walls of the house, repair it and rebuild the walls. Orkuveita Reykjavíkur entered into a construction contract with Ístak for the renovation of the building. The construction began in May 2021 and is on schedule, the estimated date of completion is March 2023.The estimated construction time is 22 months and the amount of the construction contract with Ístak is about 1.580 million ISK, while the accrued construction costs of the construction contract with Ístak is about 1.494 million ISK. Additional construction costs, which consist of the payment of indexation to Ístak, side projects and additional works, together with the costs of moving the control centers that are accounted for on the project, now amount to about 120 million ISK. Preparations for the necessary interior renovations in the west building have begun, and the aim is for the tendering process for the project to begin in March 2023. Preparation for contruction in the vaulted space has started. It is a new project that was approved by the board separately.

37. Other matters, cont.

Water damage at Vatns- og fráveita

A water main was rubted on 21 January 2021 during Orkuveita Reykavíkur - Vatns- og fráveita's repair by Suðurgata in Reykjavík. The rubtion resulted in a great flood of water streaming into the buildings of the University of Iceland. The University of Iceland (HÍ) requested court-appointed assessors to assess the extent of the damage and they submitted an assessment report in January 2022. In that assessment, the cost of renovations was estimated at a total of ISK 123,6 million . The HÍ submitted a request to the District Court of Reykjavík on March 4th 2022 requesting reassessment by court-appointed assessors. With a letter dated May 16th, 2022, HÍ filed a claim for damages against OR - Vatns- og fráveita ohf., VÍS and other parties for joint responsibility for the payment of almost ISK 224 million plus interest and late interest. The claim was rejected by a joint letter from VÍS and Veitur ohf., dated May 27th, 2022. OR - Vatns- og fráveita has a free liability insurance that covers liability that falls on the company. The terms of that insurance prescribe about ISK 5 million deductible and 50% of the amount of damage thereafter. The ceiling of the insurance is ISK 300 million.

Litigation and claims

Ljósleiðarinn ehf. submitted a claim on March 5th, 2019 to Síminn hf. demanding compensation for damage allegedly suffered as a result of violation of the Media Act, which was the subject of Decision published by the Electronic Communications office of Iceland (ECOI) (formerly: the Post and Telecom Administration (PTA)) on July 3rd, 2018. The claim amounts to ISK 1,3 billion for loss of income, accrued cost and interest. A formal response was requested from Síminn. On March 19th, 2019 a response came from Síminn where they rejected the claim entirely. Síminn hf. took legal action against ECOI, Ljósleiðarinn ehf., Sýn hf. and Míla ehf. in respect of the Decision of the Administration regarding the alleged violation. The ruling of the District Court was announced on July 1st, 2020, where the ECOI decision was upheld, albeit with some changes in the criteria. The case was appealed to the National Court by Síminn hf., which confirmed the substantive result of the ECOI. Síminn requested leave to appeal to the Supreme Court, and the leave to appeal has been approved by the Supreme Court, and an appeal policy has been issued by the Supreme Court.

No entries have been made regarding this claim in the company's Financial Statemenst for the year 2022.

38. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a. Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are entered in the Group's financial statements by using the equity method.
Associated companies are reported at original cost, including business cost. After the original transaction the share of the Company is reported until significant influence ceases or joint control is concluded.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

i) Trade in foreign currencies

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

ii) Subsidiary with other currencies than the Icelandic krona

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

c. Financial instruments

i) Non-derivative financial assets

Loans, receivables and cash in bank are recognised when received. All other financial instruments are recognised in the financial statements when the Company becomes a party of contractual provisions of the relevant financial instruments.

38. Significant accounting policies, contd.

c. Financial instruments, contd.

i) Non-derivative financial assets, contd.

Financial assets are eliminated from the financial statements if the Company's contractual right to cash flow due to the financial asset expires or if the Group transfers the assets to another party without retaining control or nearly all risk and gain inherent with their ownership. Any interest in transferred financial assets that is created or retained by the group is recognized as a separate asset or liability.

Non-derivative financial instruments comprise of; financial assets at fair value throught OCI, financial assets at fair value through P/L and financial assets at amortised cost.

Financial assets at fair value through OCI

The Group’s investments in equity securities are classified as financial assets at fair value throught OCI. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss is transferred to retained earnings. Dividends are recognised af income in profit or loss.

Financial assets at fair value through profit or loss

A Financial asset is classified at fair value through profit or loss if it is current asset or if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if purchase and sale decisions are based on their fair value in accordance with the Company´s risk policy or investment plan. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Direct transaction cost is recognised in the income statement as it is incurred.

Financial assets af amortised cost

Financial assets at amortised cost are financial assets with certain or determinable payments and are not listed in active markets. Such assets are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial assets at amortised cost are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets at amortised cost comprise of receivables and other current assets.

Cash and cash equivalents comprise cash balances and deposits available within three months.

ii) Non-derivative financial liabilities

Financial liabilities are eliminated from the financial statements when the contractual agreements of the instrument are no longer valid.

The Group classifies non-derivative financial liabilities as financial liabilities at amortised cost. Such liabilities are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

Other non-derivative financial liabilities comprise of borrowings, accounts payable and other current liabilities.

iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value in the balance sheet and fair value changes are recognised in the income statement.

38. Significant accounting policies, contd.

c. Financial instruments, contd.

iv) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

d. Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment, except distribution and production systems, are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Interest expenses on loans used to finance cost of buildings in construction are capitalised over the construction period. Interest is not calculated on preparation cost. After the assets have been taken into use interest expenses are expensed in the income statement.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated over their useful lives.

The Group's distribution- and production systems, are stated at revalued carrying amount in the balance sheet, which is their fair value at the revaluation date less additional depreciation from that date. Revaluation of those assets is made on a regular basis. Value surplus due to the revaluation is recognised in a revaluation reserve among equity after taking the effect on deferred tax liability into consideration. Depreciation on the revalued carrying amount is recognised in the income statement. Upon sale or discontinuance of the asset the part of the revaluation reserve belonging to the asset is transferred from the revaluation reserve to retained earnings after taking tax effect into consideration. No recognition takes place from the revaluation reserve to retained earning unless the relevant asset is sold or discontinued.

The fair value of these 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 revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Company'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. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the Construction cost index. This is taken into consideration when revaluating these systems.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. All other cost is expensed in the income statement when incurred.

38. Significant accounting policies, contd.

d. Property, plant and equipment, contd.

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Estimated useful lives are specified as follows:

Production system	7-60 years
Electricity distribution systems	15-50 years
Heating distribution systems	10-60 years
Cold water distribution systems	30-90 years
Sewer distribution system	15-60 years
Fiber-optic distribution system	9-46 years
Other real estate	25-50 years
Other equipment	3-25 years

Depreciation methods, useful lives and scrap value are reviewed on the accounting date.

e. Intangible assets

i) Heating rights

Heating rights have indefinite useful life. They are recognised in the balance sheet at cost. Heating rights are separated from land up on purchase.

ii) Other intangible assets

Other intangible assets are measured at cost less accumulated depreciation and impairment losses.

iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives is determined as follows:

Software	5-7 years

f. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

38. Significant accounting policies, contd.

g. Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value at each time. The Group defines decrease in fair value below cost as a subjective indication of impairment of available-for-sale financial assets when:

- decrease is 15% below cost or
- fair value decrease lasts for at least six months.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment is recognized if the carrying amount of an asset or a cash generating unit exceeds its estimated recoverable amount. A cash generating unit is the smallest separable group of assets that form a cash flow that is mostly independent of other units or groups of units. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset´s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

h. Employee benefits

i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the income statement when they are due.

ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method. Changes in the obligation are recognised in the income statement as incurred.

38. Significant accounting policies, contd.

i. Obligations

An obligation is recognised in the balance sheet when the Group has the legal right or has entered into an obligation due to previous events and it is likely that it will incur cost upon settling the obligation. The obligation is measured on the basis of the estimated future cash flow, discounted based on interests reflecting market interests, and the risk inherent with the obligation.

j. Revenue

i) Revenues from sale and distribution of electricity and hot water

Revenue from the sale and distribution of electricity and hot water is recognised in the income statement according to measured delivery to purchasers during the year plus a fixed fee.

The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. The revenue cap is based on actual figures from prior years from the operation of distribution utilities, the depreciation of assets, real losses in the distribution system and return on equity. When setting the revenue cap financial income and expenses are not taken into account. The rate is decided from the revenue cap and projections of sale of electricity in the Group´s utilities area.

ii) Revenues from sale of cold water and sewage

Revenue from the sale of cold water and sewage are based on the size of properties plus a fixed fee and are set forth linearly in the income statement. In addition revenue is stated for cold water according to measurement from specific industries.

iii) Connection revenues

Upon connection of new users to distribution systems of electricity, water and sewage or upon renewal of connection an initial fee is charged. The initial fee meets cost due to new distribution systems or their renewal. Income on connection fees is recognised in the income statement upon delivery of the service.

iv) Rental income

Rental income is recorded as income in the income statement linearly over the lease term.

v) Other revenues

Other revenue is recognised when generated or upon delivery of goods or services.

38. Significant accounting policies, contd.

k. Financial income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gain and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement. Borrowing cost is recognised in the income statement based on effective interests.

Effective interest is the required rate of return used when discounting estimated cash flow over the estimated useful life of a financial instrument or a shorter period when applicable, so that it equals to the book value of the financial asset or liability in the balance sheet.

Currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

l. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The income tax ratio for the parent company is 37,6% and the tax ratio for the subsidiaries is 20,0%. Cold water supply and sewage is exempt from tax.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax was measured in accordance with the current tax rate, which is 37,6% for the parent company that is a partnership and 20,0% for the subsidiaries that are companies with limited liability.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m. Segment reporting

A segment is a distinguishable component of the Group that is engaged in business and is capable to earn revenues and accept cost, both within and outside of the Group. The return of all segments is overviewed by management to value their performance.

Segment results and their assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment investments are investments in property, plant and equipment and intangible assets.

38. Significant accounting policies, contd.

n. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.
The Group´s CFO is responsible for overseeing all significant fair value measurements, including Level 3 fair values. Risk management, led by the CFO, regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then that information is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.
When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in 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).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarch, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values can be found in relevant notes and in note 32 regarding fair value.

o. Property, plant and equipment

The fair value of production- and fiber-optic systems that have undergone a revaluation is determined on the basis of the depreciated replacement cost, which consists in the assessment of changes in construction cost of comparable assets and both cost and accumulated depreciation are revalued in accordance with those changes. The results of the impairment tests are also taken into consideration and revaluation is not recognised beyond the expected future cash flow of those assets.

p. Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss is determined on the basis of their market value at the reporting date. If the market value is not known the valuation is based on generally accepted valuation methods. Valuation methods can be based on known recent financial transactions between unrelated parties. In applying these valuation methods factors are considered which would be used in the respective market concerning calculation of fair value and the methods are in accordance with generally accepted methods concerning valuation of financial assets.

38. Significant accounting policies, contd.

q. Derivatives

The fair value of derivatives is based on their market value, if available. If the market value is not available the fair value is determined on the basis of generally accepted valuation methods.

Valuation methods may be based on prices in recent transactions between unrelated parties. The measurement is based on the value of other financial instruments comparable to the instrument in question, methods in order to evaluate the present value of cash flow or other valuation methods, which may be applied in order to reliably assess the real market value. When valuation methods are applied all factors are used, which market parties would use in price evaluations, and the methods are in accordance with generally accepted methods for the price evaluation of financial instruments. The Group verifies on a regular basis its valuation methods and tests them by using a price obtained in a transaction on an active market with the same instrument, without adjustments and changes, or are based on information from an active market.

The fair value of derivative agreements not listed in active markets is determined by use of valuation methods, which are regularly reviewed by qualified employees. All valuation models used must be approved and tested in order to ensure that the results reflect the data used.

The most reliable indication of the fair value of derivative agreements at the beginning is the purchase value, unless the fair value of the instruments is verifiable in comparison with other listed and recent market transactions with the same financial instrument or based on a valuation method where variables are only based on market data. When such data is available the Group recognises profit or loss at the initial registration date of the instruments.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

r. Trade and other receivables

The fair value of trade and other receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date if applicable. This fair value is determined for disclosure purposes.

s. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

t. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

38. Significant accounting policies, contd.

t. Leases, contd.

i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

– fixed payments, including in-substance fixed payments;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets and lease liabilities are listed in the balance sheet.

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

38. Significant accounting policies, contd.

t. Leases, contd.

ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

39. New accounting standards not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements.

– Amendments to IAS 12 Income Taxes
– Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
– Amendments to IAS 1 Presentation of Financial Statements
– Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 9)
– IFRS 17 Insurance Contracts