

Orkuveita Reykjavíkur

Condensed Consolidated Interim Financial Statements 1 January to 31 March 2020

*These Interim Financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Orkuveita Reykjavíkur
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110 Reykjavík

reg no. 551298-3029

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Endorsement by the Board of Directors and the CEO

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

The condensed consolidated interim financial statements for the period 1 January to 31 March 2020 are prepared in accordance with the International Financial Reporting Standard *IAS 34 Interim financial reporting*. The interim financial statements comprise the condensed consolidated interim financial statements of OR and subsidiaries. The interim financial statements have not been reviewed by the independent auditor of the company.

Loss of operations of the Group for the period 1 January to 31 March 2020 was ISK 2.647 million (1.1.-31.3.2019: Profit ISK 3.869 million). Comprehensive income for the period 1 January to 31 March 2020 was ISK 6.171 million (1.1.-31.3.2019: ISK 7.307 million). According to the statement of financial position the Group's assets were ISK 398.751 million at the end of the period (31.12.2019: ISK 369.884 million). Book value of equity at the end of the period was ISK 188.471 million (31.12.2019: ISK 182.299 million), resulting in equity ratio of 47,3% (31.12.2019: 49,3%).

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

	Share
Reykjavíkurborg	93,539%
Akraneskaupstaður	5,528%
Borgarbyggð	0,933%

Statement by the Board of Directors

According to the best knowledge of the Board of Directors and the CEO of Orkuveita Reykjavíkur, the condensed consolidated interim financial statements are in accordance with international financial reporting standard *IAS 34 on interim financial reporting*. It is the opinion of the Board of Directors and the CEO that the interim financial statements give a fair view of the Group's assets, liabilities and financial position 31 March 2020 and the Group's operating return and changes in cash and cash equivalents in the period 1 January to 31 March 2020.

The Board of Directors and the CEO of Orkuveita Reykjavíkur hereby confirm the Group's condensed consolidated interim financial statements for the period 1 January to 31 March 2020.

Reykjavík, 25 May 2020.

The Board of Directors:

Brynhildur Davíðsdóttir
Gylfi Magnússon
Sigríður Rut Júlíusdóttir
Katrín Atladóttir
Valgarður Lyngdal Jónsson

CEO:

Bjarni Bjarnason

Income Statement

1 January to 31 March 2020

	Notes	2020 1.1.-31.3.	2019 1.1.-31.3.
Operating revenue	4	13.265.322	12.642.287
Profit from sale of assets		0	332
Operating revenues, total		<u>13.265.322</u>	<u>12.642.619</u>
Energy purchase and distribution .....	(	1.559.743)	(1.494.705)
Salaries and salary related expenses .....	(	1.768.313)	(1.677.023)
Other operating expenses .....	(	1.390.401)	(1.544.938)
Operating expenses, total	(	<u>4.718.457)</u>	<u>(4.716.666)</u>
EBITDA		<u>8.546.866</u>	<u>7.925.953</u>
Depreciation and amortisation .....	(	3.080.479)	(2.829.257)
Results from operating activities, EBIT		<u>5.466.387</u>	<u>5.096.696</u>
Interest income		84.716	101.943
Interest expenses .....	(	1.596.772)	(1.708.903)
Other income (expenses) on financial assets and liabilities .....	(	10.065.745)	1.185.591
Total financial income and expenses	6	<u>(11.577.801)</u>	<u>(421.369)</u>
Share in profit of associated companies		1.791	2.062
(Loss) profit before income tax	(	<u>6.109.624)</u>	<u>4.677.389</u>
Income tax		3.462.237	(808.111)
(Loss) profit for the period	(	<u><u>2.647.387)</u></u>	<u><u>3.869.278</u></u>

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Comprehensive Income

1 January to 31 March 2020

	2020 1.1.-31.3.	2019 1.1.-31.3.
(Loss) profit for the period	(2.647.387)	3.869.278
Other comprehensive income		
Items moved to equity that could be moved later to the income statement		
Translation difference	8.818.453	3.437.446
	<u>8.818.453</u>	<u>3.437.446</u>
Other comprehensive income, after taxes	8.818.453	3.437.446
Total comprehensive income for the period	<u><u>6.171.066</u></u>	<u><u>7.306.724</u></u>

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Financial Position

31 March 2020

	Notes	31.3.2020	31.12.2019
Assets			
Property, plant and equipment		346.116.959	328.956.132
Intangible assets		2.602.310	2.498.099
Right-of-use assets		2.570.030	2.488.863
Investments in associated companies		75.543	73.753
Investments in other companies		5.216.267	5.216.267
Hedge contracts		0	229.072
Deferred tax assets		9.284.969	4.879.759
Total non-current assets		365.866.078	344.341.945
Inventories		1.295.706	1.195.475
Trade receivables	7	6.827.918	4.915.008
Hedge contracts		578.129	388.451
Other receivables		558.041	368.978
Prepaid expenses		557.706	184.464
Deposits and marketable securities		12.271.941	9.833.014
Cash and cash equivalents		10.795.636	8.657.025
Total current assets		32.885.076	25.542.415
Total assets		398.751.155	369.884.360
Equity			
Revaluation reserve		92.265.956	93.186.474
Equity reserve		53.139.364	48.585.813
Fair value reserve		4.760.587	4.760.587
Translation reserve		11.230.272	2.411.820
Retained earnings		27.074.352	33.354.772
Total equity		188.470.531	182.299.466
Liabilities			
Loans and borrowings		150.251.014	138.955.006
Lease liabilities		2.385.808	2.355.873
Pension liability		624.290	723.084
Embedded derivatives in electricity sales contracts		11.758.423	5.307.027
Hedge contracts		519.068	613.778
Deferred tax liabilities		15.351.911	14.679.794
Total non-current liabilities		180.890.513	162.634.563
Accounts payable		2.664.549	2.926.455
Loans and borrowings		16.424.870	15.064.107
Lease liabilities		156.384	153.878
Embedded derivatives in electricity sales contracts		2.725.280	1.372.302
Hedge contracts		271.890	317.233
Deferred revenue	7	548.208	149.735
Current tax liability		759.501	1.693.071
Other current liabilities		5.839.428	3.273.550
Total current liabilities		29.390.110	24.950.331
Total liabilities		210.280.624	187.584.894
Total equity and liabilities		398.751.155	369.884.360

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Changes in Equity

1 January to 31 March 2020

	Revaluation reserve	Equity reserve	Fair value reserve	Translation reserve	Retained earnings	Total equity
1.1.- 31.3.2020						
Equity at 1 January 2020	93.186.474	48.585.813	4.760.587	2.411.820	33.354.772	182.299.466
Translation difference				8.818.453		8.818.453
Profit for the period					(2.647.387)	(2.647.387)
Total comprehensive income	0	0	0	8.818.453	(2.647.387)	6.171.066
Depreciation transferred to retained earnings	(920.517)				920.517	0
Share in profit of subsidiaries and associates transf. to equity reserve		4.553.551			(4.553.551)	0
Equity at 31 March 2020	92.265.956	53.139.364	4.760.587	11.230.272	27.074.352	188.470.531
1.1.- 31.3.2019						
Equity at 1 January 2019	83.821.060	42.972.671	3.395.941	540.882	30.096.679	160.827.232
Translation difference				3.437.446		3.437.446
Profit for the period					3.869.278	3.869.278
Total comprehensive income	0	0	0	3.437.446	3.869.278	7.306.724
Depreciation transferred to retained earnings	(842.866)				842.866	0
Share in profit of subsidiaries and associates transf. to equity reserve		3.739.799			(3.739.799)	0
Equity at 31 March 2019	82.978.193	46.712.469	3.395.941	3.978.328	31.069.025	168.133.956

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Statement of Cash Flows for 1 January to 31 March 2020

	2020 1.1.-31.3.	2019 1.1.-31.3.
Cash flows from operating activities		
(Loss) profit for the period	(2.647.387)	3.869.278
Adjusted for:		
Financial income and expenses	11.577.801	421.369
Share in P/L of associates	(1.791)	(2.062)
Income tax	(3.462.237)	808.111
Depreciation and amortisation	3.080.479	2.829.257
Profit from sale of property, plants and equipment	0	(332)
Pension liability, change	(98.794)	42.236
Working capital from operation before interest and taxes	8.448.071	7.967.856
Inventories, increase	(100.231)	(18.517)
Current assets, increase	(2.847.246)	(1.363.033)
Current liabilities, increase	1.685.487	1.211.993
Cash generated from operations before interests and taxes	7.186.082	7.798.299
Received interest income	102.043	165.427
Paid interest expenses	(1.060.501)	(939.654)
Dividend received	87.596	1.195
Payments due to other financial income and expenses	13.262	47.074
Paid taxes	(252.353)	(184.586)
Net cash from operating activities	6.076.129	6.887.754
Cash flows from investing activities		
Acquisition of property, plant and equipment	(3.649.343)	(3.575.657)
Acquisition of intangible assets	(180.006)	(172.507)
Proceeds from sale of property, plant and equipment	0	4.042
Change in deposits	(3.000.000)	1.500.000
Change in marketable securities	490.302	2.166.015
Net cash used in investing activities	(6.339.048)	(78.107)
Cash flows from financing activities		
Proceeds from new borrowings	5.897.872	3.528.181
Repayment of borrowings	(3.765.533)	(7.499.052)
Payments of currency hedges	(25.477)	(214.536)
Current liabilities, change	(37.930)	0
Net cash used in financing activities	2.068.931	(4.185.407)
Increase in cash and cash equivalents	1.806.013	2.624.240
Cash and cash equivalents at year beginning	8.657.025	10.988.087
Effect of currency fluctuations on cash and cash equivalents	332.599	218.865
Cash and cash equivalents at the end of the period	10.795.636	13.831.192
Investments and financing without payment effects:		
Acquisition of property, plant and equipment	233.581	609.030
Current liabilities, change	(233.581)	(609.030)
Other information:		
Working capital from operation	5.975.464	5.541.802

The notes on pages 9 to 16 are an integral part of these Consolidated Interim Financial Statements.

Notes

1. Reporting entity

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

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

Subsidiaries in the Group	Main operations	Share	
		31.3.2020	31.12.2019
Gagnaveita Reykjavíkur ehf.	Data transfer	100%	100%
OR Eignir ohf.	Holding company	100%	100%
Veitur ohf.	Distribution of electricity and hot water	100%	100%
Orka náttúrunnar ohf.	Sale of electricity	100%	100%
ON Power ohf.	Sale of electricity	100%	100%
OR Vatns- og fráveita sf.	Cold water and sewage	100%	100%
Reykjavík Energy Invest ehf.	Investments	100%	100%
Úlfjótsvatn frítímabyggð ehf.	Preparation company	100%	100%
CarbFix ohf.	Consulting, researches and innovation	100%	100%

2. Basis of preparation

a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standard *IAS 34 Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2019. Same accounting principles are applied as for the year 2019. The annual financial statements can be found at the company's web site; www.or.is and at the web site of the Icelandic Stock exchange market; www.nasdaqomxnordic.com.

The consolidated interim financial statements were approved by the Board of Directors on 25 May 2020.

b. Functional and presentation currency

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

c. Basis of measurement

The consolidated interim financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 39 with the consolidated financial statements for the year ended 31 December 2019.

d. Foreign currency

i Trade in foreign currencies

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

Notes

2. Basis of preparation, contd.

d. Foreign currency, contd.

ii Subsidiary with other functional currency than the Icelandic krona

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

e. Use of estimates and judgements

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

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

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.

Notes

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

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

4. Revenues from sales of goods and services

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

	2020	2019
	1.1.-31.3.	1.1.-31.3.
Electricity.....	5.128.418	5.098.532
Hot water.....	4.462.712	4.053.413
Cold water.....	864.382	824.203
Sewer system.....	1.461.269	1.398.205
Other revenues.....	1.348.542	1.267.933
Revenues from sales of goods and services total.....	13.265.322	12.642.287

Notes

5. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are *Utilities*, that represent licensed operations in hot and cold water, distribution of electricity and sewage, 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 and the fiber optic operations. The parent company's main activities is providing service to subsidiaries, rental of housing and equipment, incidental sale of specialist consultancy services and more. Reykjavik fiber network represents the fiber optic operations. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 39 with the consolidated financial statements for the year ended 31 December 2019.

Business segments - divisions

1.1.- 31.3.2020	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
External revenue	8.855.160	3.654.078	756.084	0		13.265.322
Inter-segment revenue	851.222	2.925.621	1.823.994	(5.600.837)		0
Total segment revenue	9.706.382	6.579.699	2.580.078	(5.600.837)		13.265.322
Segment operation expenses	(4.472.663)	(3.874.355)	(2.067.730)	5.600.837	95.454	(4.718.457)
Segment profit EBITDA	5.233.719	2.705.344	512.349	0	95.454	8.546.866
Depreciation and amortisation	(1.430.719)	(1.203.344)	(418.066)	0	(28.350)	(3.080.479)
Segment results, EBIT	3.803.000	1.502.000	94.283	0	67.104	5.466.387
Financial income and expenses	(558.054)	662.268	(3.859.264)	(7.804.375)	(18.376)	(11.577.801)
Share in profit of associated companies	0	0	1.791	0		1.791
Income tax	(479.923)	(411.022)	1.437.059	2.934.445	(18.322)	3.462.237
Profit (loss) for the period	2.765.023	1.753.246	(2.326.132)	(4.869.930)	30.406	(2.647.387)
1.1.- 31.3.2019						
External revenue	8.175.224	3.653.566	813.829	0		12.642.619
Inter-segment revenue	735.078	1.149.183	1.852.423	(3.736.684)		(0)
Total segment revenue	8.910.302	4.802.749	2.666.252	(3.736.684)		12.642.619
Segment operation expenses	(4.230.189)	(2.077.262)	(2.145.899)	3.736.684		(4.716.666)
Segment profit EBITDA	4.680.113	2.725.487	520.353	0		7.925.953
Depreciation and amortisation	(1.332.238)	(1.127.968)	(369.051)	0		(2.829.257)
Segment results, EBIT	3.347.875	1.597.519	151.303	0		5.096.696
Financial income and expenses	(645.968)	48.042	(1.342.268)	1.518.826		(421.369)
Share in profit of associated companies	0	0	2.062	0		2.062
Income tax	(367.353)	(315.319)	445.640	(571.078)		(808.111)
Profit (loss) for the period	2.334.553	1.330.241	(743.264)	947.747		3.869.278

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

Notes

5. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
Balance sheet (31.3.2020)						
Property, plant and equipment and intangible assets	167.305.302	147.616.296	33.797.671	0		348.719.269
Right-of-use assets					2.570.030	2.570.030
Other assets	21.268.407	13.961.056	171.563.096	(159.330.703)		47.461.856
						398.751.155
Loans and borrowings	62.437.099	64.261.293	166.675.883	(126.698.391)		166.675.883
Lease liabilities					2.542.191	2.542.191
Other liabilities	14.601.209	15.634.155	34.413.284	(23.586.100)		41.062.549
						210.280.624
Investments 1.1.-31.3.2020						
Property, plant and equipment and intangible assets	1.972.748	974.533	648.487	0		3.595.768
Balance sheet (31.12.2019)						
Property, plant and equipment and intangible assets	166.763.273	131.123.708	33.567.250	0		331.454.232
Right-of-use assets					2.488.863	2.488.863
Other assets	17.485.349	10.956.734	158.713.621	(151.214.439)		35.941.265
						369.884.360
Loans and borrowings	62.611.008	57.530.973	154.019.113	(120.141.981)		154.019.113
Lease liabilities					2.509.752	2.509.752
Other liabilities	12.867.235	13.439.264	31.664.028	(26.914.498)		31.056.029
						187.584.894
Investments 1.1.-31.3.2019						
Property, plant and equipment and intangible assets	1.654.051	559.866	937.687	0		3.151.603

Notes

6. Financial income and expenses

	2020 1.1.-31.3.	2019 1.1.-31.3.
Financial income and expenses are specified as follows:		
Interest income	84.716	101.943
Interest expense and paid indexation	(1.236.847)	(1.213.829)
Indexation	(201.174)	(319.503)
Guarantee fee to owners 1)	(158.751)	(175.572)
Total interest expenses	(1.596.772)	(1.708.903)
Fair value changes of embedded derivatives in electricity sales contracts	(7.804.375)	1.518.826
Fair value changes of financial assets and financial liabilities through P/L	313.944	244.615
Fair value changes of hedge contracts	100.660	(51.415)
Hedge contracts	(10.110)	(167.672)
Foreign exchange difference	(2.753.460)	(359.957)
Dividends	87.596	1.195
Total of other income (expenses) on financial assets and liabilities	(10.065.745)	1.185.591
Total financial income and expenses	(11.577.801)	(421.369)

1) The Group paid a guarantee fee to current and former owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Orkuveita Reykjavíkur in 2005. The fee on yearly basis for its licensed operations is 0,85% (2019: 0,89%) and 0,61% (2019: 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 159 million in the period 1 January to 31 March 2020 (1.1.-31.3.2019: ISK 176 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 39 with the financial statements of the Group for the year 2019. Change in fair value that is recognized in the income statement amounts to ISK 7.390 million expense in the period 1 January to 31 March 2020 (1.1.-31.3.2019: income 1.712 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 7.804 million expense in the period 1 January to 31 March 2020 (1.1.-31.3.2019: income ISK 1.519 million).

7. Receivables and deferred revenue

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

Notes

8. Fair value

Comparison of fair value versus carrying amounts

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

	31.3.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	166.675.883	181.551.788	154.019.113	160.699.452

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:

	31.3.2020	31.12.2019
Embedded derivatives in electr. sales contr.	5,62% til 6,56%	6,84% to 7,21%
Hedge contracts	-0,4% til 1,4%	-0,4% to 1,9%
Interest bearing loans	1,12% til 4,06%	1,23% to 6,01%

Sensitivity analysis on effect of change in interest rates, currency and price of aluminium are shown in note 29 in the financial statements of the Group for the year 2019. It is recommended to take into consideration this note while reading the interim financial statements for the current period since change in these presumptions can have considerable effect on certain amounts in the interim financial statements.

Fair value hierarchy

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

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

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

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

31.3.2020	Level 1	Level 2	Level 3	Total
Shares in companies	0	0	5.216.267	5.216.267
Embedded derivatives in sales contracts	0	0 (14.483.704)	(14.483.704)	(14.483.704)
Hedge contracts	0 (212.829)	0	(212.829)	(212.829)
Marketable securities	4.050.440	0	0	4.050.440
	4.050.440	(212.829)	(9.267.437)	(5.429.825)
31.12.2019				
Shares in companies	0	0	5.216.267	5.216.267
Embedded derivatives in sales contracts	0	0 (6.679.329)	(6.679.329)	(6.679.329)
Hedge contracts	0 (313.489)	0	(313.489)	(313.489)
Marketable securities	7.333.014	0	0	7.333.014
	7.333.014	(313.489)	(1.463.062)	5.556.464

Notes

9. Related parties

Definition of related parties

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

Transactions with related parties

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

The following gives an overview of the transactions with related parties during the period 1 January to 31 March 2020 as well as a statement of receivables and payables at the end of the period. Transactions and positions with subsidiaries are eliminated in the interim financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

	2020 1.1.-31.3.	2019 1.1.-31.3.
Sale to related parties:		
Reykjavik City.....	277.969	397.693
Institutions and companies controlled by Reykjavik City.....	130.131	164.018
	408.100	561.711
Purchases from related parties:		
Reykjavik City.....	30.178	14.302
Institutions and companies controlled by Reykjavik City.....	4.988	2.433
Associates.....	14.960	14.514
	50.125	31.249
	31.3.2020	31.12.2019
Receivables for related parties:		
Reykjavik City.....	155.808	184.011
Institutions and companies controlled by Reykjavik City.....	57.850	65.356
	213.658	249.366
Payables for related parties:		
Reykjavik City.....	199.993	168.214
Institutions and companies controlled by Reykjavik City.....	953	771
Associates.....	0	7.000
	200.947	175.985
Interest bearing loans from owners of the parent Company:		
Reykjavik City	9.493.009	9.811.423
Akranes town	561.021	579.839
Borgarbyggð, municipality	94.688	97.864
	10.148.718	10.489.126
	2020 1.1.-31.3.	2019 1.1.-31.3.
Interest expense on loans from owners of the parent Company:		
Reykjavik City	241.054	267.317
Akranes town	14.246	15.771
Borgarbyggð, municipality	2.404	2.662
	257.704	285.750

Guarantee fee to owners

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 6.