

**City of Reykjavik**  
**FINANCIAL STATEMENT**  
**2014**



City of Reykjavik  
Reg. No. 530269-7609  
City Hall  
Tjarnargata 11  
101 Reykjavik

# City of Reykjavik

## FINANCIAL STATEMENT

### 2014

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Please note:

This is an English translation of the Icelandic Financial Statement of the City of Reykjavik.  
In the event of any discrepancy between the English and Icelandic versions the original Icelandic text shall prevail.

## Mayor's report and endorsement

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The annual financial statement of the City of Reykjavik for the year 2014 was prepared in accordance with the Local Authorities Act, the Annual Accounts Act and the Government Regulation on Municipal Accounts and Financial Statements. Details of accounting procedures are provided in the report, together with the changes that have occurred since the preceding year.

The activities of the City of Reykjavik, are divided into A and B operations, i.e. Reykjavík Municipal (A operations) and Reykjavik Group (A and B operations). Reykjavík Municipal comprises activities which are funded in part or in full through tax revenues. B operation companies are companies in which the City holds half of the shares or more and which are operated as financially independent units.

According to the Income Statement for Reykjavík Municipal, operating income amounted to ISK 83,761 million in 2014, of which tax revenues accounted for ISK 64,730 million. The municipal tax rate was 14.52% for the year 2014, which is the statutory maximum. The property tax rate was 0.20% for tax-class A, 1.32% for tax-class B and 1.65% for tax-class C. The maximum statutory rates are 0.625%, 1.32% and 1.65% for tax-classes A, B and C, respectively. Total operating revenue for the consolidated Reykjavik Group amounted to ISK 133,058 million over the year.

The operating result for Reykjavik Municipal (A operations) amounted to a loss of ISK 2.831, but the year's budget estimated a profit of 488 million. The operating result for Reykjavík Group (A and B operations) amounted to a profit of ISK 11,106 million, but the years budget estimated a profit of 8,120 million. In other respects reference is made to the financial statement.

Wages and wage-related costs for A operations amounted to ISK 44,862 million over the year, and the changes in pension obligations amounted to ISK 3.322 million.

The total assets of Reykjavík Group (consolidated A and B operations) according to the balance sheet at year-end 2014 amounted to ISK 504,396 million, while total liabilities amounted to ISK 287,145 million. Equity amounted to ISK 217,252 million, of which minority interests in own companies amounted to ISK 11,274 million.

On 31 December 2014 the population of the City of Reykjavik was 121,814.

The Resolution Committee of Kaupthing bank hf. has filed a lawsuit against the City of Reykjavík by a summons issued on 7 October 2012 relating to a rescission by the City of Reykjavík of currency and swap agreements. The primary claim of Kaupthing bank hf. against the City of Reykjavík amounts to ISK 1,819 million, with default interest from 18 November 2008 until the day of payment, net of the instalment paid by the City of Reykjavík on 3 April 2009, see further in note 50. On November 6, 2014, the Supreme Court issued a ruling in the case. The conclusion of the Court was that the City of Reykjavík was acquitted of all of Kaupthing Bank hf.'s claims.

To the City Council's best knowledge the annual statement is prepared in accordance with the law and presents a true and fair view of assets and liabilities, the financial status and operating income of Reykjavik Municipal and Reykjavik Group. The report of the Executive Board gives a clear picture of the required information.

The annual financial statement of the City of Reykjavík for the year 2014 is ready for auditing and due process before the Executive Board.

Reykjavík, 9 April 2015.

Mayor

## **Endorsement by the City Council**

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The annual financial statement of the City of Reykjavík for 2014 has been placed before the City Council in accordance with Article 61 of the Act on Local Authorities No. 138/2011 and was confirmed and endorsed at the second debate in the City Council.

Reykjavík, 12 May 2015.

City Council.

## Independent Auditor's Report

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To the City Council of Reykjavíkurborg

We have audited the accompanying financial statements of Reykjavíkurborg which consist of the financial statements of A operations and the financial statements of A and B operations. The financial statements comprise income statement, balance sheet, statement of cash flows, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **The City Council and Mayor's Responsibility for the Financial Statements**

The City Council and Mayor are responsible for the preparation and fair presentation of these financial statements in accordance with Icelandic Financial Statements Act No. 3/2006, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the municipality's financial performance in the year 2014, its financial position as at 31 December 2014, and of its cash flows for the year then ended in accordance with the Icelandic Financial Statements Act.

### **Report on the City Council and Executive Committee's report**

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the City Council and Executive Committee accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

Reykjavík, 12 May 2015

**KPMG ehf**

## Income Statement for the year 2014

	Notes	Reykjavik Municipal			Reykjavik Group		
		(A operation)			(A and B operation)		
		2014 Financial Statement	2014 Budget with annexes	2013* Financial Statement	2014 Financial Statement	2014 Budget with annexes	2013 Financial Statement
<b>OPERATING REVENUE</b>	4,25						
Tax revenues .....		64.729.790	64.412.104	60.650.042	64.324.272	63.701.194	60.179.431
Contributions from Equalisation Fund .....		5.368.182	5.438.000	5.296.465	5.368.182	5.438.000	5.296.465
Other revenues .....		13.662.579	14.206.466	14.585.803	63.365.734	64.966.063	64.103.693
<b>Total operating revenues</b>		<b>83.760.551</b>	<b>84.056.570</b>	<b>80.532.310</b>	<b>133.058.188</b>	<b>134.105.257</b>	<b>129.579.589</b>
<b>OPERATING EXPENSES</b>	5						
Wage cost and wage-related expenses .....	26	44.861.747	43.901.010	40.311.241	54.115.665	52.844.404	49.033.381
Changes in pension obligations .....	26	3.322.301	2.310.447	166.337	3.370.742	2.596.206	195.085
Other operating expenses .....		34.630.258	33.109.805	32.584.397	45.704.585	45.813.015	42.859.108
Depreciation .....	10,11,34	3.842.786	3.883.487	3.650.045	14.298.655	14.491.379	13.912.993
<b>Total operating expenses</b>		<b>86.657.093</b>	<b>83.204.749</b>	<b>76.712.020</b>	<b>117.489.646</b>	<b>115.745.005</b>	<b>106.000.567</b>
Operating result before financial items .....		( 2.896.541 )	851.821	3.820.290	15.568.542	18.360.252	23.579.022
Net financial items .....	6,27	65.668	( 364.299 )	( 650.568 )	( 6.278.505 )	( 10.901.427 )	( 9.021.029 )
Operating result before tax and effects of associated companies		( 2.830.873 )	487.521	3.169.722	9.290.037	7.458.824	14.557.993
Income tax .....	20,52	0	0	0	( 2.036.775 )	( 1.037.081 )	( 7.545.300 )
Changes in market value of investment assets .....	8,32	0	0	0	4.460.534	1.698.218	1.890.883
Share in associated companies' operating results .....	12,29	0	0	0	395.539	0	50
Minority interest .....		0	0	0	( 1.003.342 )	0	( 517.018 )
<b>Operating result</b> .....	45	<b>( 2.830.873 )</b>	<b>487.521</b>	<b>3.169.722</b>	<b>11.105.993</b>	<b>8.119.961</b>	<b>8.386.607</b>

\* Amounts which are compared to Reykjavik Municipal Financial Statement 2013 have been changed in accordance with changes in Reykjavik Group.

## Balance Sheet as at 31. December 2014

Assets	Notes	Reykjavik Municipal		Reykjavik Group	
		(A operation) 2014 Financial Statement	2013* Financial Statement	(A and B operation) 2014 Financial Statement	2013 Financial Statement
<b>FIXED ASSETS</b>					
Intangible assets:					
Intangible assets .....	7,30	0	0	1.333.728	1.242.808
Fixed tangible assets:	7,9,10				
Real estate .....	31,32	88.873.468	84.369.983	107.087.171	102.537.376
Utilities .....	32	0	0	264.015.379	249.660.185
Investment assets .....	32	0	0	46.964.975	41.816.642
Road systems .....	31,32	12.448.152	11.775.804	13.338.596	12.555.030
Machinery and equipment .....	31,32	3.369.138	2.104.952	6.785.109	5.150.223
Lease properties .....	33	7.647.709	7.672.008	7.647.709	7.672.008
		112.338.467	105.922.747	445.838.940	419.391.465
Investments:					
Shares in companies .....	11,40	7.364.280	7.686.562	4.915.913	6.187.732
Long-term receivables from own companies .....	12,42	13.738.262	14.396.516	0	0
Embedded derivative contracts .....	9,40	0	0	0	965.916
Derivative contracts .....	9	0	0	656.173	1.127.246
Deferred tax assets .....	20,52	0	0	2.727.075	1.708.664
Other long-term receivables .....	11,14,41	1.288.426	1.347.682	9.744.830	9.008.336
		22.390.968	23.430.760	18.043.991	18.997.894
<b>Total fixed assets</b>		134.729.436	129.353.507	465.216.658	439.632.166
<b>CURRENT ASSETS</b>					
Inventories .....	15	0	0	760.558	859.621
Short-term receivables:	14,16				
Unclaimed revenues and receivables .....	43	6.710.088	7.080.907	11.960.298	13.643.631
Next year's paym. of own comp. long-term receivab. ....	41	0	60.895	0	0
Next year's payment of other long-term receivables .....	41	228.434	160.960	591.344	230.583
Receivables from own companies .....		358.562	295.713	0	0
Pre-paid costs .....		0	0	7.819	167.403
Embedded derivatives contracts .....	9	0	0	237.282	0
Bank deposits, available from 3-12 months .....	44	0	0	3.000.144	0
Other receivables .....	43	2.186.432	2.306.220	2.745.074	2.674.222
Cash .....	17,44	8.004.670	9.772.323	19.877.287	21.142.441
<b>Total current assets</b>		17.488.186	19.677.018	39.179.807	38.717.901
<b>TOTAL ASSETS .....</b>		152.217.622	149.030.524	504.396.465	478.350.067
<b>Assets off the Balance Sheet .....</b>	18				

\* Amounts which are compared to Reykjavik Municipal Financial Statement 2013 have been changed according to changes in Reykjavik Group.

## Balance Sheet as at 31. December 2014

Equity and liabilities	Notes	Reykjavik Municipal		Reykjavik Group	
		(A operation)		(A and B operation)	
		2014	2013*	2014	2013
		Financial Statement	Financial Statement	Financial Statement	Financial Statement
<b>EQUITY</b>					
Equity account .....	45	87.644.054	86.936.041	205.978.100	182.181.438
Minority interest .....		0	0	11.273.819	9.836.961
<b>Total equity</b>		<b>87.644.054</b>	<b>86.936.041</b>	<b>217.251.919</b>	<b>192.018.399</b>
<b>OBLIGATIONS</b>					
Pension obligations .....	19,46	13.446.896	11.842.577	13.967.160	12.335.502
Deferred tax liabilities .....	20,52	0	0	4.698.962	135.446
Other obligations .....		0	0	209.574	111.948
<b>Total obligations</b>		<b>13.446.896</b>	<b>11.842.577</b>	<b>18.875.696</b>	<b>12.582.896</b>
<b>LONG-TERM LIABILITIES</b>					
Long-term debts .....	21,48	26.057.138	24.794.490	210.310.407	219.773.229
Lease liabilities .....	22,49	11.755.749	11.730.816	11.755.749	11.730.816
Other long-term liabilities (at fair value derivative) .....	9,40	0	0	2.377.756	0
Derivative contracts .....	9	0	0	1.842.134	0
<b>Total long-term liabilities</b>		<b>37.812.887</b>	<b>36.525.306</b>	<b>226.286.045</b>	<b>231.504.045</b>
<b>CURRENT LIABILITIES</b>					
Debts to credit institutions .....		0	0	1.826.501	1.880.847
Accounts payable .....		3.321.665	2.809.850	5.381.403	5.157.458
Embedded derivatives .....	9,40	0	0	649.933	548.176
Next year's payment of long-term debts .....	48	1.175.691	2.851.020	20.161.374	21.701.091
Next year's payment of lease liabilities .....	49	637.787	551.143	637.787	551.143
Next year's payment of pension obligations .....	46	1.634.200	1.485.880	1.659.200	1.510.880
Accounts payable to own companies .....		13.947	25.795	0	0
Derivative contracts .....		0	0	1.194.980	1.390.870
Other payables .....	50,51	6.530.495	6.002.913	10.471.626	9.504.261
<b>Total current liabilities</b>		<b>13.313.785</b>	<b>13.726.600</b>	<b>41.982.805</b>	<b>42.244.726</b>
<b>Total liabilities and obligations</b>		<b>64.573.568</b>	<b>62.094.483</b>	<b>287.144.546</b>	<b>286.331.668</b>
<b>TOTAL EQUITY AND LIABILITIES .....</b>		<b>152.217.622</b>	<b>149.030.524</b>	<b>504.396.465</b>	<b>478.350.067</b>
<b>Obligations off the Balance Sheet .....</b>	53-55				

\* Amounts which are compared to Reykjavik Municipal Financial Statement 2013 have been changed in accordance with changes in Reykjavik Group.



## Statement of Cash Flows for the year 2014

	Notes	Reykjavik Municipal			Reykjavik Group		
			(A operation)		(A and B operation)		
		2014 Financial Statement	2014 Budget with annexes	2013* Financial Statement	2014 Financial Statement	2014 Budget with annexes	2013 Financial Statement
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Operating result according to Income Statement .....		(2.830.873)	487.521	3.169.722	11.105.993	8.119.961	8.386.607
Adjustments to reconcile net earnings with cash provided by operating activities							
Loss (gain) on sold assets .....		(70.098)	(1.600.000)	(727.034)	(102.789)	(1.604.826)	(1.362.723)
Depreciation .....	34	3.842.786	3.883.487	3.650.045	14.298.655	14.491.379	13.912.993
Indexation, discounts and exch.rate differences .....	6	232.560	912.587	817.951	(3.517.479)	4.722.991	(12.297.736)
Changes in provision of long-term receivables .....		4.900	0	9.200	4.900	0	9.200
Aluminium derivatives .....	40	0	0	0	3.445.428	0	14.320.921
Changes in market value of investment assets .....	32	0	0	0	(4.460.534)	1.698.218	(1.890.883)
Impact of own companies and minority interests .....		0	0	0	607.803	0	516.968
Changes in pension obligations .....	46	3.322.301	2.310.447	166.337	3.370.742	2.596.211	195.085
Changes in deferred taxes .....	52	0	0	0	2.036.775	1.037.081	7.545.300
Other changes .....		0	0	0	(553.929)	0	104.453
<b>Working capital provided by operating activities</b>		<b>4.501.576</b>	<b>5.994.043</b>	<b>7.086.221</b>	<b>26.235.565</b>	<b>31.061.015</b>	<b>29.440.185</b>
Changes in operating assets and liabilities:							
Inventories decrease (increase) .....		0	0	0	99.063	(10.000)	(143.278)
Unclaimed revenues (increase) decrease .....		290.712	0	(290.132)	134.876	72.300	(573.000)
Other current receivables (increase) decrease .....		208.056	0	(175.399)	1.282.545	(2.642.092)	(1.222.177)
Current liabilities (decrease) increase .....		1.041.192	0	395.449	3.604.706	(30.738)	2.244.856
Contributions to pension payments .....	46	(1.569.662)	(1.550.000)	(1.420.571)	(1.590.764)	(1.550.000)	(1.439.771)
<b>Change in operating assets and liabilities</b>		<b>(29.702)</b>	<b>(1.550.000)</b>	<b>(1.490.653)</b>	<b>3.530.426</b>	<b>(4.160.530)</b>	<b>(1.133.370)</b>
<b>Net cash provided by operating activities</b>		<b>4.471.874</b>	<b>4.444.043</b>	<b>5.595.567</b>	<b>29.765.990</b>	<b>26.900.485</b>	<b>28.306.815</b>
<b>INVESTMENT ACTIVITIES</b>							
Investments in fixed tangible assets .....	31-35	(8.172.453)	(8.518.323)	(7.249.434)	(16.993.219)	(18.322.122)	(12.204.251)
Investments in intangible assets .....	30	0	0	0	(167.012)	0	0
Road construction fees and building permits .....	36	1.611.577	2.700.000	2.037.300	1.881.752	2.700.000	2.037.300
Proceeds from sale of fixed tangible assets .....	36	430.982	0	29.959	732.268	151.358	5.217.877
Change in equity holdings .....		(197.346)	(289.000)	(424.685)	1.675.428	1.611.000	(409.039)
Bank deposits, available from 3-12 months .....	44	0	0	0	(3.000.144)	0	0
Long-term securities, change .....		899.753	202.221	(2.943.134)	(70.504)	424.232	739.858
Other investment activities .....		0	0	0	(1.837)	(6.900)	48.190
<b>Net cash provided by investment activities</b>		<b>(5.427.488)</b>	<b>(5.905.102)</b>	<b>(8.549.993)</b>	<b>(15.943.269)</b>	<b>(13.442.432)</b>	<b>(4.570.066)</b>
<b>FINANCING ACTIVITIES</b>							
New long-term borrowings .....		2.785.755	2.179.500	2.738.111	9.247.266	3.237.039	5.579.222
Repayment of long-term liabilities and obligations .....		(3.513.141)	(1.962.289)	(1.819.879)	(24.526.202)	(23.381.997)	(28.501.261)
Paid-in capital / other changes in equity .....		0	0	0	104.666	682.155	21.183
Short-term borrowings .....		0	0	0	201.582	(15.000)	713.971
Dividends paid .....		0	0	0	(42.290)	0	(42.294)
Other financing activities .....		(84.652)	8.169	44.253	0	0	0
<b>Net cash provided by financing activities</b>		<b>(812.038)</b>	<b>225.380</b>	<b>962.485</b>	<b>(15.014.978)</b>	<b>(19.477.803)</b>	<b>(22.229.179)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIV. ....</b>		<b>(1.767.652)</b>	<b>(1.235.679)</b>	<b>(1.991.941)</b>	<b>(1.192.256)</b>	<b>(6.019.749)</b>	<b>1.507.570</b>
CASH AND CASH EQUIV. AT BEGINNING OF YEAR .....		<b>9.772.323</b>	<b>9.358.910</b>	<b>11.764.264</b>	<b>21.141.608</b>	<b>26.319.550</b>	<b>20.861.689</b>
EFFECT OF CURRENCY FLUCTUATIONS ON CASH .....		<b>0</b>	<b>0</b>	<b>0</b>	<b>(72.065)</b>	<b>0</b>	<b>(1.226.819)</b>
CASH AND CASH EQUIV. AT YEAR-END .....	44	<b>8.004.670</b>	<b>8.123.231</b>	<b>9.772.323</b>	<b>19.877.287</b>	<b>20.299.801</b>	<b>21.142.441</b>
<b>INVESTMENT AND FINANCING ACTIVITIES WITHOUT CASH FLOW AFFECT</b>							
Investments in fixed tangible assets .....	31-35	(522.304)	0	0	(714.765)	0	(131.085)
Short-term borrowings (change) .....		0	0	0	192.461	0	131.085
Change in equity holdings .....		522.304	0	0	522.304	0	0
New long-term borrowings .....		0	0	0	2.040.000	0	0
Repayment of long-term liabilities .....		0	0	0	(2.040.000)	0	0

\* Amounts which are compared to Reykjavik Municipal Financial Statement 2013 have been changed in accordance with changes in Reykjavik Group.

## Notes

### Information

1. The City of Reykjavík, the capital of Iceland, is a municipality with a population 121,814, as at December 1st 2014. The municipality's offices are located in Reykjavík City Hall. The principles of administration and operation of local governments are provided for in the Local Government Act No. 138/2011.

### Basis of the Financial Statements

2. The financial statements of the City of Reykjavík include the annual accounts for the operating units pertaining to Reykjavík Municipal (A operations) and a consolidated statement for the City's entire operations, Reykjavík Group (i.e. consolidated A and B operations), as stipulated in Article 60 of the Local Government Act No. 138/2011. Reykjavík Municipal comprises activities which are partly or entirely funded by tax revenues. These include the City's Operation Fund, Public Works and Real Estate Fund. B operations comprise financially independent companies where the City holds 50% of the shares or more. These companies are largely funded by income generated by the services they provide. The companies in B operations are Aflvaki hf. (development/investment agency, closed down in 2007), Faxaflóahafnir sf. (Associated Icelandic Ports), Félagsbústaðir hf. (Reykjavík Social Housing), Íþrótt- og sýningahöllin ehf. (Sport and Exhibition Centre), Jörundur ehf. (Real Estate company), Malbikunarstöðin Höfði hf. (Asphalt Station Höfði), Orkuveita Reykjavíkur (electric utility), Slökkvilið höfuðborgarsvæðisins bs. (Capital District Fire and Rescue Service), Sorpa bs. (Sorpa, Capital Area Waste Disposal Company) and Strætó bs. (Strætó, Metropolitan Bus Transportation Company).

The financial statements are based on the cost principle and prepared in compliance with the Local Government Act, the Financial Statements Act No. 3/2006, Regulation No. 696/1996 on the presentation and contents of financial statements and consolidated financial statements, Regulation No. 944/2000 on the accounts and annual statements of municipalities, and notices issued by the Icelandic Ministry of the Interior regarding financial reporting by municipalities. In other respects the annual financial statements are largely based on the same reporting procedures as in the preceding year, except as stated in note 3.

Included in the annual financial statements for Reykjavík Group are the Annual Financial Reports of Orkuveita Reykjavíkur and Félagsbústaðir, which are prepared in compliance with International Financial Reporting Standards (IFRS). The most significant deviations in the A operation financial statement from the cost principle are the following:

- a part of the company's fixed tangible assets has been restated at fair market value;
- derivatives are stated at fair market value;
- shares in companies are recorded at fair value;
- financial instruments at fair market value through income statement are stated at fair market value;
- the operating lease agreement of Orkuveita Reykjavíkur for its headquarters is not recorded in the balance sheet.

Orkuveita Reykjavíkur, Félagsbústaðir hf. and other B operation companies' financial accounts are included unchanged in the annual accounts for Reykjavík Group.

Balances between Reykjavík Municipal entities and inter-unit transactions are eliminated in the financial statement for Reykjavík Municipal. Balances between A operations and B operation entities and inter-unit transactions are eliminated in the consolidated financial statement. Balances between operating entities and inter-unit transactions include real estate tax levies, rent collected by the Real Estate Fund and other inter-unit transactions relating to purchases of goods and services. They also include interest calculated on balances and long-term liabilities resulting from transfers of assets and investments.

### Changes in accounting principles

#### Capitalisation of investment assets

3. In accordance with a resolution of the City Council the operation of Bílastæðasjóður Reykjavíkur (Reykjavík Parking Services) is regarded as being a part of A operations as of January 1st 2014 but was previously a part of B operations. The equity of A operations on January 1st 2014 is increased by ISK 1,620 million due to these changes. The equity in the consolidated accounts for A and B operations is unchanged. The comparison amounts for 2013 in A operations have been amended in accordance with these changes. At the start of 2014 the accounting for Skíðasvæði höfuðborgarsvæðisins (Capital Area Ski Resort) was removed from the annual statement for A and B operations of the City of Reykjavík as an agreement between the cooperating municipalities on the changed operation of the ski resort came into force and effect at that time. The equity in the annual statement for A and B operations increases by ISK 283 million as a result of this change, but the equity for A operations remains unchanged.

## Notes, continued

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The accounting method for the recycling plants of Sorpa bs. has been changed during the year. The founding capital of recycling plants is removed, recycling plants are depreciated and an obligation amounting to the recorded price of the recycling plants is recorded. A claim against the municipalities is recorded against loans taken for the recycling plants. The claim is netted against the obligation to prevent expansion of the balance sheet. The equity in the annual statement for operations A and B decreases by ISK 174 as a result of this change, but the equity for A operations remains unchanged.

### Reporting procedures

#### Income recognition

4. Tax revenues are credited on the date of assessment, but balancing provisions are made for uncollected tax revenues. Tax revenues include municipal income tax, property tax and contributions to and from the Municipal Equalisation Fund, in addition to other revenues which are equivalent to taxes, such as ground rents.

Contributions to start-up costs and the collection of construction expenses are recognised in the Income Statement on the basis of the assets' anticipated useful life, except in the case of negligible amounts. Proceeds from the sale of goods and services are generally recognised in the Income Statement at the time that ownership and the right to claim have been transferred to the buyer. The same applies to grants.

Accrued interest income is recognised in the Income Statement based on the principal of debt and the terms of interest-bearing claims. Dividends are recognised in the Income Statement on the date of dividend declaration.

Profit or loss on the sale of fixed tangible assets is the calculated difference between their selling price and book value. The difference is recognised in the Income Statement as operating revenues or expenses.

#### Expense recognition

5. Expenses are recognised in the Income Statement at the time that they are incurred and the right to claim has been transferred to the seller.

#### 6. Price-level and exchange-rate criteria

Assets and liabilities in foreign currency are converted into their equivalents in Icelandic krónur (ISK) at the exchange rate applying at year-end 2014. Accrued exchange-rate differential, interest and indexation adjustments of the principal of assets and liabilities are entered in the Income Statement.

#### Intangible assets

7. Geothermal rights are capitalised in the Balance Sheet as an intangible asset at their depreciated cost price. Geothermal rights are separated from land on acquisition. Preparation costs are capitalised in the Balance Sheet as intangible assets if there is a reasonable probability that the work will generate revenues later. Cost is expensed over the projected utilisation time. Other intangible assets are assessed at cost value, net of accrued depreciation and impairment.

#### Capitalisation of fixed tangible assets

8. Fixed tangible assets, other than plots and land for which the municipality receives lease income, are entered as assets at cost net of depreciation based on their estimated useful economic life. The cost of operational assets consists of their purchasing price and the costs incurred by their acquisition and improvements. Purchases of tools and equipment for Reykjavik A operation under ISK 2.5 million are expensed.

Leased assets are real estate that the municipality leases pursuant to lease agreements with a minimum term of three years and no option of termination by the municipality within a year from their starting date. Orkuveita Reykjavíkur applies IFRS accounting principles when assessing whether assets leased by the company are recorded as leased assets.

The cost of a leased asset is regarded as its fair value on the date of the contract or the net present value of the minimum lease payments under the lease agreement, if lower.

Plots and land for which the municipality receives lease income are entered at fair value or net present value of future revenues pursuant to the current lease agreements, if lower. Plots and land are revalued regularly. Revaluation of plots and land is entered to the equity account.

## Notes, continued

The distribution and production systems of Orkuveita Reykjavíkur and operational assets of Íþrótt- og sýningahöllin ehf. (Sport and Exhibition Centre), are entered at restated value in the Balance Sheet for Reykjavík Group, which is their fair market value on the restatement date, net of any additional depreciation from that time. Revaluation of these assets is undertaken on a regular basis. All increases in valuation are entered as equity. Depreciation on the restated value is entered in the Income Statement.

Investment assets are real estate of Félagsbústaðir hf. owned by the company to raise rent revenue. Investment assets are recorded at fair value in accordance with International Financial Recording Standards (IFRS). The evaluation of investment assets is based on the real estate evaluation of the Icelandic National Registry. According to information from the National Registry, real estate prices are at fair value, estimated based on actual real estate market transactions. The evaluation is done in May each year based on the pricing of February the same year. The newly calculated evaluation comes into effect at the end of the year. The real estate evaluation covers both the buildings and the plots and is divided into building evaluation and plot evaluation. The real estate evaluation is extrapolated based on the real estate index until the end of the year. Changes in the evaluation of real estate are recorded under the item changes in the evaluation of financing assets in the income statement. Investment assets are not amortised.

### Financial instruments

9. Financial instruments are categorised as financial assets or liabilities at fair value through the Income Statement in the case of trading assets or trading liabilities, or if they are entered as financial instruments at fair value, then through the Income Statement on their initial entry in the accounts. Financial assets and liabilities at fair value through Orkuveita Reykjavíkur Income Statement are entered at fair value in the Balance Sheet. Changes in fair value are entered in the Income Statement.

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 and another instrument with the same provisions as the embedded derivative would be defined as a derivative, and the mixed contract is not stated at fair value in the income statement. Orkuveita Reykjavíkur uses derivatives to hedge against currency, interest and aluminium price risk. Derivative contracts are entered at fair value in the Balance Sheet, and changes in fair value are entered in the Income Statement.

### Depreciation of fixed tangible assets, other than leased assets

10. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the asset until scrap value is reached. In general, scrap value corresponds to one-year depreciation, not exceeding 10% of the original price. Sites and land from which the municipality generates lease revenue are not depreciated. The estimated useful life of fixed assets is as follows:

Buildings general purpose, offices and schools .....	25-50 years
Other buildings .....	25-50 years
Sites and land for planning .....	25 years
Road system .....	25 years
Orkuveita Reykjavíkur, distribution systems .....	5-50 years
Orkuveita Reykjavíkur, production systems .....	5-50 years
Orkuveita Reykjavíkur, geothermal rights .....	100 years
Machinery and equipment .....	3-15 years

### Depreciation of leased assets

11. The depreciation of leased assets is calculated as a fixed percentage based on lease period or estimated useful economic life, if shorter. If it is known that the Municipality will acquire the leased asset at the end of the lease period, the useful lifetime of the asset in question is used. Normally, residual value will correspond to one year's depreciation, up to a maximum of 10% of the original price. The estimated useful economic life of leased assets is itemised as follows:

Real estate .....	4-26 years
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## Notes, continued

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### Shares in companies

12. In the financial statement of the Municipal Fund, shares in companies, co-owned agencies and own enterprises are entered at cost price, although the book value of the Municipal Fund's shares at year-end 2001 remains unchanged in the annual financial report. The annual financial statement for Reykjavik Municipal focuses primarily on the use of tax revenues, and therefore shares in the results of other companies are not recognised. Contributions from Reykjavik Municipal to the operation of co-owned B operations companies constitute part of the cost of the respective departments of Reykjavik Municipal.

In the accounts for Reykjavik Group, shares in companies, agencies co-owned with other municipalities and the City's own enterprises are entered according to the equity method. In accordance with the equity method the City's share in the results and equity of associated companies is entered in the financial statements. The fair value of shares categorised as financial assets for sale is determined through the recognised evaluation method, except in cases where the price in recent transactions is used as a reference. Other equity shares are entered at cost price.

Depreciation of shares in companies that have been subject to impairment is calculated and entered in the annual statements following assessment.

### Long-term receivables

13. Long-term receivables are capitalised in the Balance Sheet according to their credit terms, less a provision for losses. Current maturities and payments in arrears are posted among current assets in the Balance Sheet.

### Provision for losses

14. A provision has been made for losses on long-term receivables, outstanding tax revenue and other receivables. This provision does not represent a final write-off but a reserve to meet possible losses. The provision is deducted from the appropriate Balance Sheet items. Changes in the provision based on actual losses during the year are entered in the Income Statement.

### Inventories

15. Inventories are valued at cost price, taking into consideration defective and obsolete goods.

### Short term receivables

16. Short term receivables are capitalised at par value, less exchange rate differentials and accrued interest in the case of interest-bearing receivables. A provision has been made to meet possible losses.

### Cash and cash equivalents

17. Cash and cash equivalents consist of cash, demand deposits with banks and market securities.

### Assets off the Balance Sheet

18. Land and plots owned by Reykjavik Municipal that are not leased and investments in traffic infrastructure before the beginning of 2002 are not capitalised in the balance sheet.

### Obligations

19. Pension obligations for the benefit of the City's employees are entered as a long-term liability in the Balance Sheet based on actuarial review. Changes in the liability during the year are recognised in the Income Statement.

## Notes, continued

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### Deferred income tax liability and assets

20. The deferred income tax liability and assets of entities owned under B operations have been calculated and entered in the Balance Sheet. The calculation is based on the temporary difference between Balance Sheet items as presented in the tax return, on the one hand, and in the Financial Statements, on the other hand. This difference is due to the fact that tax assessments are based on rules which differ from those governing financial statements. According to the current tax legislation transferable tax losses can be used against taxable revenues 10 years from their formation. The application of transferable tax loss has been assessed and calculations have been made regarding taxable revenues for the next few years. The income tax balance for transferable loss is recorded to the extent that it is believed to be of use.

### Long-term liabilities

21. Long-term liabilities are entered in the Balance Sheet at year-end in accordance with the applicable credit terms. Next year's instalments are recorded as short-term debts.

### Lease debts

22. At the original entering of an obligation relating to lease agreements, the lease debt is entered at the fair value of the leased asset or the net present value of the lease agreement, if lower. Minimum lease payments are divided into interest costs and instalments on the balance of debts. The interest costs are spread over the lease period based on effective interest.

Minimum lease payments are the payments that a lessee is required to pay during the contract term, excluding conditional rent, as well as maintenance, service costs, insurance and taxes, which are paid by the lessor. Orkuveita Reykjavíkur applies IFRS accounting principles when assessing whether a lease debt should be recorded in the balance sheet.

Calculation of the net present value of minimum lease payments is based on the lessor's required rate of return when it can be determined; if not, the net present value is based on the credit terms of the municipality for new capital at

### Budget

23. The budget with annexes for the year 2014 is a part of the annual statement and is published in the income statement, overview of cash flow and in the notes. The originally approved budget is explained, as well as the approved supplements and the budget with supplements in notes 63 and 64.

### Statement of Cash Flows

24. Investments affecting net cash are included among investment activities in the Statement of Cash Flows.

## Notes, continued

### Operating revenue

25. Operating revenue is itemised as follows:

	Reykjavik Municipal		Reykjavik Group	
	(A operation)		(A and B operation)	
	2014	2014	2014	2014
	Financial	Budget with	Financial	Budget with
	Statement	annexes	Statement	annexes
<b>Tax revenues</b>				
<i>Municipal income tax:</i>				
Paid municipal income tax .....	57.836.761	57.306.122	57.836.761	57.306.122
Share of Equalisation Fund in income tax .....	(3.067.101)	(3.195.282)	(3.067.101)	(3.195.282)
Share of Equalisation Fund for Social Welfare .....	(3.943.415)	(3.757.166)	(3.943.415)	(3.757.166)
	50.826.244	50.353.674	50.826.244	50.353.674
Postpaid municipal tax .....	2.334.031	1.461.000	2.334.031	1.461.000
Tax changes .....	(485.043)	0	(485.043)	0
Amortization of tax revenues .....	(570.684)	0	(570.684)	0
Changes in provision for lost revenue .....	200.000	0	200.000	0
	52.304.548	51.814.674	52.304.548	51.814.674
<i>Property tax</i>				
Property tax .....	11.510.635	11.553.300	11.137.940	10.899.931
Site lease, residential and commercial .....	1.019.434	1.044.131	986.611	986.589
Write-off property tax revenues .....	(104.827)	0	(104.827)	0
	12.425.242	12.597.430	12.019.725	11.886.520
Total tax revenues .....	64.729.790	64.412.104	64.324.272	63.701.194
<b>Contributions from Equalisation Fund</b>				
Contribution for special needs of disabled students etc.	3.965.472	4.014.000	3.965.472	4.014.000
Expense equalisation contributions .....	1.402.710	1.424.000	1.402.710	1.424.000
	5.368.182	5.438.000	5.368.182	5.438.000
<b>Other income</b>				
Fees for services provided .....	7.766.995	7.678.534	14.344.002	
Income from assets .....	16.147.479	16.669.412	17.354.565	
Other repayments .....	4.240.352	4.116.385	4.240.352	
Other income .....	5.946.322	6.427.201	54.437.375	
Gain from sale of assets .....	67.422	0	166.084	
Inter-unit transactions eliminated .....	(20.505.992)	(20.685.066)	(27.176.644)	
	13.662.579	14.206.466	63.365.734	64.966.063
Total operating revenue .....	83.760.551	84.056.570	133.058.188	134.105.257

## Notes, continued

### Wage cost and wage-related expenses

26. Wage cost and wage-related expenses are as follows:

	Reykjavik Municipal		Reykjavik Group	
	(A operation)		(A and B operation)	
	2014 Financial Statement	2014 Budget with annexes	2014 Financial Statement	2014 Budget with annexes
Wages .....	35.979.803		43.700.741	
Wage-related expenses .....	8.660.863		10.588.325	
Total wage cost and wage-related expenses .....	44.640.666	43.901.010	54.289.066	52.844.404
Changes in accrued vacation obligations .....	231.251	0	185.298	0
Transfer/capitalisation of salaries .....	( 10.170 )	0	( 358.700 )	0
	44.861.747	43.901.010	54.115.665	52.844.404
Changes in pension obligations .....	3.322.301	2.310.447	3.370.742	2.596.206
Total wage cost and wage-related expenses .....	48.184.048	46.211.457	57.486.407	55.440.611
Average full time equivalent positions .....	6.826		7.880	

Salaries paid to the City's Executive Board and City Council amounted to ISK 143.8 million for the year 2014.

### Financial items

27. Financial income and financial (expenses) are as follows:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Dividends on equity shares .....	370.250	65.133
Risk charge for guarantees .....	679.678	( 47.395 )
Interest income and price index adjustments .....	1.268.953	1.443.525
Interest expenses and price index adjustments .....	( 1.981.497 )	( 6.746.323 )
Financial income tax .....	( 269.622 )	( 280.127 )
Profit from sale of securities .....	2.675	548.935
Hedge contracts .....	0	( 4.004.287 )
Adjustments of principal amounts of loans.....	0	185.057
Exchange rate difference .....	( 4.769 )	5.242.631
Changes in fair value and forward currency contracts .....	0	( 2.685.654 )
Total financial income and (expenses) .....	65.668	( 6.278.505 )



## Notes, continued

### Statement of operations

28. A operations and B operations of the City are as follows:

	2014			2014
	Financial Statements			Budget with annexes
Operation Fund	Expenses	Revenues	Balance	Net
Tax revenue .....	104.827	71.641.906	( 71.537.080)	( 71.188.104)
Contribution to B operations companies .....	2.585.602	0	2.585.602	2.575.372
Department of Sports and Leisure .....	7.587.369	1.431.542	6.155.828	6.093.490
Department of Culture and Tourism .....	4.170.968	344.362	3.826.606	3.793.373
Department of Education and Recreation .....	40.998.696	3.711.648	37.287.048	36.474.886
Central administration offices .....	4.015.111	1.433.583	2.581.528	2.619.670
Department of Environment and Transport .....	7.801.512	1.813.552	5.987.960	6.324.628
Department of Welfare .....	23.900.962	5.201.277	18.699.685	18.224.011
Joint expenses .....	5.625.642	68.491	5.557.151	4.805.608
Operation of Municipal Fund sectors .....	96.790.690	85.646.361	11.144.329	9.722.933
Financial income and financial expenses .....	270.612	4.291.753	( 4.021.141)	( 4.549.755)
<b>Municipal Fund total</b>	<b>97.061.303</b>	<b>89.938.114</b>	<b>7.123.188</b>	<b>5.173.178</b>
<b>Reykjavik Municipal (A operation) organisations</b>				
Public Works and Real Estate Fund .....	15.192.509	19.297.206	( 4.104.697)	( 5.509.596)
Reykjavik Parking Service .....	679.293	866.911	( 187.618)	( 151.103)
Internal transactions .....	( 21.945.100)	( 21.945.100)	0	0
<b>A operations total</b>	<b>90.988.005</b>	<b>88.157.131</b>	<b>2.830.873</b>	<b>( 487.521)</b>
<b>B operations enterprises</b>				
Aflvaki hf. ....	( 57)	4.013	( 4.070)	0
Faxaflóahafnir, Associated Icelandic Ports .....	2.404.352	3.048.784	( 644.432)	( 276.796)
Reykjavik Social Housing hf. ....	2.793.671	7.506.916	( 4.713.245)	( 837.949)
Sport and Exhibition Centre hf. ....	351.836	419.669	( 67.832)	157.800
Jörundur hf. ....	99.629	65.508	34.121	72.190
Asphalt Station Hofdi hf. ....	1.241.524	1.259.220	( 17.697)	383
Orkuveita Reykjavíkur .....	29.657.018	38.525.887	( 8.868.869)	( 6.287.688)
Capital Area Skiing Resort .....	0	0	0	63.082
Capital District Fire and Rescue Service .....	2.133.211	2.136.331	( 3.120)	( 80.257)
Sorpa, Capital Area Waste Disposal Company .....	2.575.242	2.771.571	( 196.329)	( 166.207)
Strætó, Metropolitan Bus Transport. Company .....	4.859.325	5.229.412	( 370.088)	( 386.522)
Internal transactions .....	( 6.769.279)	( 7.076.170)	306.890	109.524
	39.346.472	53.891.141	( 14.544.669)	( 7.632.440)
Share in associated companies, result .....		395.539	( 395.539)	0
Minority interest .....	0	( 1.003.342)	1.003.342	0
<b>B operations total</b>	<b>39.346.472</b>	<b>53.283.339</b>	<b>( 13.936.867)</b>	<b>( 7.632.440)</b>
<b>Reykjavik Group (A and B operations total)</b>	<b>130.334.477</b>	<b>141.440.470</b>	<b>( 11.105.993)</b>	<b>( 8.119.961)</b>

The results of financial income and expenses of Reykjavik Group organisations are entered as income or expenses, as applicable.

## Notes, continued

### Share in the result of associated companies

29. Shares in the results of associated companies are itemised as follows:

	<b>Reykjavik Group (A and B operations)</b>
Minjavernd hf .....	91.678
Harpa - Concert and Conference Hall. ....	124.987
Sítus .....	176.912
Associated companies .....	1.962
	<u>395.539</u>

### Intangible assets

30. Intangible assets are as follows:

	<b>Intangible assets</b>
Total value 1.1.2014 .....	2.596.852
Depreciations 1.1.2014 .....	<u>( 1.354.044 )</u>
Book value 1.1.2014 .....	1.242.808
Capitalised during the year .....	167.012
Depreciations .....	<u>( 76.092 )</u>
Book value 31.12.2014 .....	<u>1.333.728</u>

### Fixed tangible assets

*Reykjavik Municipal (A operations)*

31. Fixed tangible assets are as follows:

	<b>Real estate</b>	<b>Road systems</b>	<b>Machinery and equipment</b>	<b>Total</b>
Total value 1.1. 2014 .....	126.871.072	14.332.841	4.008.108	145.212.021
Depreciations 1.1. 2014 .....	( 43.875.160 )	( 2.557.038 )	( 1.993.661 )	( 48.425.859 )
Internal transactions from B operation to A operat. ....	1.374.071	0	90.506	1.464.577
Book value 1.1.2014 .....	84.369.983	11.775.804	2.104.952	98.250.739
Internal transactions .....	( 34 )	0	34	0
Revaluation of building sites and land 31.12.2014 .....	3.538.886	0	0	3.538.886
Capitalised during the year .....	4.050.201	2.457.604	1.651.176	8.158.981
Road construction fees/Equalisation Fund .....	0	( 1.204.299 )	0	( 1.204.299 )
Sold or disposed of during the year .....	( 769.965 )	0	( 873 )	( 770.837 )
Depreciation .....	<u>( 2.315.603 )</u>	<u>( 580.956 )</u>	<u>( 386.152 )</u>	<u>( 3.282.711 )</u>
Book value 31.12.2014 .....	<u>88.873.468</u>	<u>12.448.152</u>	<u>3.369.137</u>	<u>104.690.758</u>
Depreciation rate .....	2 - 10 %	4%	10 - 25%	

## Notes, continued

### Reykjavik Group (A and B operations)

32. Fixed tangible assets are itemised as follows:

	Real estate	Utilities	Road system Mach. & equipm.	Total
Total value 1.1. 2014 .....	170.297.871	435.941.971	28.404.981	634.644.823
Depreciations 1.1. 2014 .....	( 67.760.495 )	( 186.281.786 )	( 10.699.728 )	( 264.742.009 )
Book value 1.1.2014 .....	102.537.376	249.660.185	17.705.253	369.902.815
Translation difference .....	824	10.497.497	775	10.499.096
Revaluation .....	3.377.502	7.346.371	( 283.526 )	10.440.348
Capitalised during the year .....	5.553.782	5.329.386	5.453.239	16.336.408
Road construction fees .....	0	0	( 1.204.299 )	( 1.204.299 )
Sold or disposed of during the year .....	( 1.040.824 )	( 22.193 )	( 8.016 )	( 1.071.034 )
Depreciation .....	( 3.341.490 )	( 8.795.868 )	( 1.539.720 )	( 13.677.078 )
Book value 31.12.2014 .....	<u>107.087.171</u>	<u>264.015.379</u>	<u>20.123.706</u>	<u>391.226.256</u>
Depreciation rate .....	2 - 4 %	2 - 20 %	4 - 33,3 %	

	(A operations)	(A and B operations)
Investment assets are itemised as follows:		
Book value 1.1.2014 .....	0	41.816.642
Revaluation .....	0	4.460.534
Capitalised during the year .....	0	835.800
Sold during the year .....	0	( 148.001 )
Book value 31.12.2014 .....	<u>0</u>	<u>46.964.975</u>

The presentation of Félagsbústaðir (Reykjavik Social Housing) is based on fair value measurement. Valuation changes resulting from fair value measurements are entered through the Income Statement

Orkuveita Reykjavíkur performs a special re-evaluation of its production systems; the re-evaluation extends to assets used for the production of electricity, hot water and cold water. The fair value of production assets is determined by the depreciated and restated cost price. This entails that changes in the building cost of similar assets are assessed and both the cost price and accumulated depreciation are re-assessed in accordance with those changes. The same method is applied in determining the fair value of Orkuveita Reykjavíkur distribution systems, which have been subject to a special re-evaluation. Re-evaluated distribution systems are used for operations that require special permits, and the income limit is primarily based on changes in the building cost index. This is taken into consideration when determining fair value. The re-evaluation during the year led to an increase of the recorded price of the production system for electricity by ISK 7,600 million and a decrease of the content provider system by ISK 254 million. The permanent fixed assets of the Sport and Exhibition Centre hf. are recorded at the re-evaluated cost price net of depreciation.

Orkuveita Reykjavíkur has entered into an agreement on the purchase of two 45MW turbine units for power plant construction. According to the agreement, Orkuveita Reykjavíkur must confirm the purchase of the turbine units before June 1st 2016, or the agreement may be terminated. The outstanding amount of the agreement is approximately ISK 7.1 billion. The cost of terminating the agreement would be negligible.

## Notes, continued

	(A operations)	(A and B operations)
<b>33. Leased properties</b>		
Total value 1.1. 2014 .....	10.335.094	10.335.094
Capitalised during the year .....	535.776	535.776
Book value 31.12.2014 .....	<u>10.870.870</u>	<u>10.870.870</u>
Depreciation 01.01.2014 .....	( 2.663.086 )	( 2.663.086 )
Depreciation during the year .....	<u>( 560.075 )</u>	<u>( 560.075 )</u>
Depreciation 31.12.2014 .....	<u>( 3.223.161 )</u>	<u>( 3.223.161 )</u>
Book value 31.12.2014 .....	<u>7.647.709</u>	<u>7.647.709</u>
Depreciation rate .....	4 - 25%	4 - 25%
<b>34. Depreciation in the Income Statement for Consolidated A and B operations is as follows:</b>		
	(A operation)	(A and B operation)
Depreciation of fixed tangible assets, notes 31 - 32 .....	3.282.711	13.677.078
Depreciation of intangible assets, note 30 .....	0	76.092
Depreciation of leased properties, note 33 .....	560.075	560.075
Entered in income statement .....	<u>3.842.786</u>	<u>14.313.245</u>
Recorded in income statement .....	3.842.786	14.298.655
Recorded as a reduction of obligations .....	<u>0</u>	<u>12.875</u>
	<u>3.842.786</u>	<u>14.311.529</u>
<b>35. Investments of Reykjavik Municipal in fixed tangible assets are as follows:</b>		
Investments of A operations during the year are itemised as follows:	<b>2014</b>	<b>2014</b>
	<b>Financial</b>	<b>Budget with</b>
	<b>Statement</b>	<b>annexes</b>
<i>Property, machinery and equipment:</i>		
Culture .....	451.934	469.500
Education .....	1.881.691	1.837.000
Sports and leisure .....	774.170	741.000
Social Services .....	273.475	420.000
Building plots and land .....	116.573	115.000
Other properties .....	78.904	85.000
Software, machinery and equipment .....	643.878	894.000
Renovation and major maintenance of buildings .....	817.683	800.000
Purchased property .....	127.807	121.000
Leased property .....	535.776	0
Share in assets of the Capital Area Ski Resorts .....	522.304	0
Reykjavik Parking Service .....	133.922	153.323
Total property, machinery and equipment	<u>6.358.118</u>	<u>5.635.823</u>
<i>Road system</i>		
Road construction .....	2.036.639	2.587.500
Road construction fees, special projects .....	300.000	295.000
Road construction fees over the year .....	<u>( 1.204.299 )</u>	<u>( 1.100.000 )</u>
Road system total	<u>1.132.340</u>	<u>1.782.500</u>

## Notes, continued

	Total capitalized investment	7.490.458	7.418.323
Road construction fees over the year		1.204.299	1.100.000
	Total investment	8.694.756	8.518.323

Investments of B operations during the year are itemised as follows:

Faxaflóahafnir, Associated Icelandic Ports	1.014.353	933.000
Félagsbústaðir, Reykjavik Social Housing hf.	841.922	827.920
Orkuveita Reykjavíkur	5.786.380	5.826.345
Capital District Fire and Rescue Service	423.278	441.534
Strætó, Metropolitan Bus Transport. Company	588.259	750.000
Sorpa, Capital Area Waste Disposal Company	196.860	895.000
Other B operation companies	162.174	130.000
	Total investment	9.803.799

Total investment - Reykjavik Group	17.707.982	18.322.122
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36. The selling price of properties, plants and equipment is as follows:

	2014 Financial Statement	2014 Budget with annexes
Selling price of fixed assets:		
Building permits	1.204.299	1.100.000
Property	407.278	1.600.000
	1.611.577	2.700.000
Selling price of fixed assets		
Selling price of fixed assets of A operations	430.982	0
Selling price of fixed assets of B operations	301.286	151.358
	732.268	151.358

### *Official value and insurance value of buildings*

37. The official fire insurance valuation, the Icelandic Property Registry valuation and book value of real estate were itemised as follows at year-end 2014:

	Reykjavik Municipal (A operations)	Reykjavik Group (A and B operations)
Property Registry valuation of buildings	78.831.170	153.853.526
Property Registry valuation of sites	27.847.087	56.127.554
Fire insurance valuation	135.629.826	173.397.388
Book value	88.873.468	107.087.171

### *Insurance price of liquid assets*

38. According to the resolution of the Reykjavik City government, liquid assets of A operations are not specifically insured, except in the case of statutory liability insurances. The insurance value of liquid assets of B operations amounts to ISK 10,353 million.



## Notes, continued

### Embedded derivatives

40. Orkuveita Reykjavíkur has entered into four power sale agreements for an initial period of 20 years, one with Landsvirkjun concerning Norðurál and three with Norðurál concerning the aluminium smelter at Grundartangi, as well as agreements with Landsnet hf. concerning power transmission. Orkuveita Reykjavíkur and Norðurál have also entered into a power sale agreement concerning power sales to the planned aluminium smelter in Helguvík and delivery pursuant to that agreement has begun; the agreement has a term of 25 years. These power sale agreements are made in USD and the power price is linked to the world market price of aluminium. Revenues from power sale agreements linked to aluminium prices amounted to 15.1% of the total group revenues of Orkuveita Reykjavíkur in 2014 (2013: 18,3%). In order to reduce the aluminium price risk, Orkuveita Reykjavíkur has entered into derivative agreements to reduce fluctuations in revenues linked to aluminium prices. The treasury department and the risk management department have the authority to hedge the aluminium price risk ahead of time for 5 years. On the settlement date the hedging amounted to 58% of the estimated sales linked to the price of aluminium to the end of the year 2014 (2013: 44,0%).

Power sale agreements linked to aluminium prices entail embedded derivatives, as their revenues are subject to future changes in the world market price of aluminium. In accordance with the provisions of international accounting standards on financial instruments the fair value of embedded derivatives concerning Grundartangi, and partially concerning Helguvík, has been evaluated and entered in the annual statement.

As the market price for embedded derivatives is not known, their fair value has been evaluated using accepted evaluation methods. The expected present value of the cash flow of agreements has been determined based on the forward price of aluminium on the London Metal Exchange on the settlement date and expectations regarding the price trend of aluminium for the next 25 years. This is based on the assessment of CRU, an independent analyst, as available on the settlement date. The present value cash flow of agreements on the settlement date, based on aluminium prices which were the basis on the starting date of the agreements, has been subtracted from the present value of cash flow on the settlement date. The difference is the fair value of the derivative. This is based on the assumption that the derivative has no value on the starting date of the agreement.

Embedded derivatives in power sale agreements that are entered in the annual statement are recorded as assets in the balance sheet at fair value on the settlement date and the changes to the fair value over the year are entered in the balance sheet with income and expenses of real estate and financial debts.

The fair value of embedded derivatives in electricity sales contracts is itemised as follows:	2014	2013
Fair value of embedded derivatives at the beginning of the year .....	417.739	14.738.660
Fair value changes during the period .....	( 3.445.428 )	( 14.320.921 )
Fair value of embedded derivatives at the end of the period .....	( 3.027.689 )	417.739

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

Non-current embedded derivatives .....	( 2.377.756 )	965.916
Current embedded derivatives .....	( 649.933 )	( 548.176 )
Total embedded derivatives at the end of the period .....	( 3.027.689 )	417.739

Among the embedded derivatives of power contracts is a contract with Norðurál Helguvík ehf. ("NH") in the amount of minus ISK 0.6 billion. Construction work relating to an aluminium smelter at Helguvík has been significantly delayed and there is some uncertainty regarding the future of the project. The plan was to deliver power to the aluminium smelter on 1 September 2011 and NH's payment obligation started on that date. NH has used provisions of the contract to divert the power to another aluminium smelter at Grundartangi.

### 41. Long-term receivables

Long-term receivables are itemised as follows:

Long term claims of A operations against B operations	2014	2013
Claims against B operations, indexed, 4% interest rate .....	1.163.276	2.010.863
Subordinated loan to Orkuveita Rvk., indexed, 4% interest rate .....	12.574.986	12.446.548
	13.738.262	14.457.411
Current maturities of long term claims .....	0	( 60.895 )
Total long-term claims against B operations .....	13.738.262	14.396.516

## Notes, continued

Annual maturities are as follows:

2014 .....	0	60.895
2015 .....	0	63.225
2016 .....	0	65.628
2017 .....	627.854	693.498
2018 .....	913.898	982.054
2019 .....	1.196.767	1.267.530
Later .....	10.999.742	11.324.580
Total long-term receivables against B-operations .....	<u>13.738.262</u>	<u>14.457.411</u>

Other long-term receivables are as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	(A operations)	(A and B operations)
Receivables from other companies .....	3.300.352	12.119.665
Provision for losses .....	<u>( 1.783.491 )</u>	<u>( 1.783.491 )</u>
	1.516.861	10.336.174
Next year's payments on long-term receivables .....	<u>( 228.434 )</u>	<u>( 591.344 )</u>
	<u>1.288.426</u>	<u>9.744.830</u>

Annual maturities are as follows:

2015 .....	228.434	591.344
2016 .....	175.024	8.558.721
2017 .....	88.048	88.048
2018 .....	68.163	68.163
2019 .....	61.797	61.797
Later .....	895.394	968.100
Total, other long-term receivables .....	<u>1.516.861</u>	<u>10.336.174</u>

The long-term receivables in the consolidated accounts include a bond denominated in USD and carrying 1.5% interest. The loan is a bullet bond due in 2016. The bond is linked to the price of aluminium to a certain extent and secured by a mortgage on sold shares in HS Orka hf. The bond is entered at market value in the income statement and derivatives are not separated from the bond. The market value is based on the forward price of aluminium, discounted at the interest rate of the currency in question in addition to an appropriate counterparty risk margin.

## Inventories

42. Inventories are itemised as follows

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	(A operations)	(A and B operations)
Inventory of materials .....	0	434.943
Raw material .....	0	216.507
Supplies in stock .....	0	82.000
Product ready for use .....	0	27.108
	<u>0</u>	<u>760.558</u>



## Notes, continued

### Current receivables and securities

43. Provisions for current receivables and securities are itemised as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Provision for receivables other than tax revenue at the beginning of the year .....	35.600	583.586
Actual losses during the year .....	( 5.104 )	( 163.369 )
Provision for losses during the year .....	5.304	166.323
Provision at year-end .....	<u>35.800</u>	<u>586.540</u>

Outstanding tax revenue, excluding default interest, was ISK 11,124 million at year-end. A provision is entered as a reduction in tax revenue and an amount of ISK 476 million is written off in the Financial Statements. The total provision for tax revenue at year-end amounted to ISK 6,118 million.

### Cash and Bank deposits

44. Net cash is itemised as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Short-term securities, redeemable without prior notice .....	5.828.374	6.556.664
Bank balances .....	<u>2.176.297</u>	<u>13.320.623</u>
	8.004.670	19.877.287
Bank deposits, available from 3-12 months .....	0	3.000.144
	<u>8.004.670</u>	<u>22.877.431</u>

### Equity

45. Changes in equity:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Equity 1.1.2014 .....	85.316.019	182.181.438
Reykjavík Parking Services moved from B operations to A operations .....	1.620.022	0
	86.936.041	182.181.438
Capital Area Ski Resort moved to A operations .....	0	283.176
The effects of changes in accounting methods .....	0	( 174.002 )
Special revaluation of fixed tangible assets .....	0	5.544.760
Revaluation of plots and land .....	3.538.886	3.538.886
Changes in the market value of equity shares .....	0	( 507.213 )
Impact of split-up of Orkuveita Reykjavíkur on income tax assessment .....	0	3.961.709
Other changes .....	0	43.353
Operating result for the year .....	( 2.830.873 )	11.105.993
Equity 31.12.2014 .....	<u>87.644.054</u>	<u>205.978.100</u>

### Pension obligations

46. According to an actuarial evaluation, the net present value of the pension obligations of Reykjavik Municipal amounted to ISK 15,081 million at year-end 2014, and for Reykjavik Group the pension obligation amounted to ISK 15,626 million at year-end 2014. These figures are adjusted based on 2% interest, taking into consideration the share in the pension fund's net assets.

The obligations are itemised as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Pension obligations 1.1.2014 .....	13.328.457	13.846.382
Contributions to pension payments during the year .....	( 1.569.662 )	( 1.590.764 )
Change in the pension obligations during the year .....	3.322.301	3.370.742
Pension obligations 31.12.2014 .....	<u>15.081.096</u>	<u>15.626.360</u>

## Notes, continued

Pension obligations, short-term .....	1.634.200	1.659.200
Pension obligations, long-term .....	13.446.896	13.967.160
	<u>15.081.096</u>	<u>15.626.360</u>

Estimated payments in 2015 due to the pension obligations are entered among current liabilities in the Balance Sheet.

Estimated future pension payments for Reykjavik Municipal:

Payments 2015 - 2019 .....	3.193.783
Payments 2020 - 2024 .....	3.062.308
Payments 2025 - 2029 .....	2.752.943
Payments 2030 and later .....	6.072.062
	<u>15.081.096</u>

In 2007 the Main Fund made a payment on its pension obligation using securities deriving from the sale of Landsvirkjun. The pension fund keeps this payment separate from other assets of the fund when calculating the pension obligation of the City.

47. A new actuarial survey conducted by the actuary of the Local Government Employee Pension Fund has been made available for the year 2014, which shows that premiums need to be increased by almost 4,51 percentage points. The statutes of the pension fund stipulate that the premium for members of the fund should be 4% of wages and the premium (countercontribution) of the employer should be 12%, but that these amounts should be reviewed annually in accordance with an actuarial survey. If the employers' premium had been increased by the board of the pension fund at the beginning of 2014 the City's expenditure would have increased by ISK 785 million in 2014. According to the appraisal the total assets of the fund amounted to ISK 140 billion, and obligations amounted to ISK 160 billion. Obligations over assets thus amount to ISK 20 billion, or 12.5% of the obligations.

### Long-term liabilities

48. Liabilities in foreign currencies are as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Long-term liabilities to foreign credit institutions listed by currency:		
Liabilities in USD .....	0	42.746.619
Liabilities in GBP .....	0	4.677.097
Liabilities in EUR .....	0	58.003.193
Liabilities in CHF .....	0	17.116.028
Liabilities in JPY .....	88.412	8.533.289
Liabilities in SEK .....	0	6.055.595
	<u>88.412</u>	<u>137.131.820</u>
Long-term liabilities to Icelandic credit institutions are itemised as follows by currency:		
Liabilities in EUR .....	0	637.650
Domestic loans, index-linked .....	27.144.418	90.974.519
Domestic loans without index link .....	0	1.727.792
	<u>27.144.418</u>	<u>93.339.961</u>
Total long-term liabilities to foreign and Icelandic credit institutions .....	27.232.829	230.471.781
Current maturities of long-term liabilities .....	<u>(1.175.691)</u>	<u>(20.161.374)</u>
Long-term liabilities, total .....	<u>26.057.138</u>	<u>210.310.407</u>

## Notes, continued

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	(A operations)	(A and B operations)
Estimated annual maturities of long-term liabilities are itemised as follows:		
2015 .....	1.175.691	20.161.374
2016 .....	1.099.366	20.281.048
2017 .....	1.117.825	15.881.030
2018 .....	1.107.301	16.409.703
2019 .....	898.079	14.428.886
Later .....	21.834.568	143.309.740
Total .....	<u>27.232.829</u>	<u>230.471.781</u>

### 49. Overview of lease liabilities

The Public Works and Real Estate Fund has made lease contracts for real estate which are entered as liabilities on the balance sheet, see note 22. Lease contracts are index-linked:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	(A operations)	(A and B operations)
Lease liabilities .....	12.393.536	12.393.536
Next year's payments .....	( 637.787 )	( 637.787 )
Long-term lease liabilities .....	<u>11.755.749</u>	<u>11.755.749</u>

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	(A operations)	(A and B operations)
Annual lease liabilities are itemised as follows:		
2015 .....	637.787	637.787
2016 .....	661.713	661.713
2017 .....	684.784	684.784
2018 .....	713.604	713.604
2019 .....	717.597	717.597
Later .....	8.978.050	8.978.050
	<u>12.393.536</u>	<u>12.393.536</u>

The lease agreement of Orkuveita Reykjavíkur for its headquarters is included in lease obligations but entered instead in accordance with international accounting standard IAS 17, see note no. 61.

Other information on lease contracts	<b>Lease period</b>	<b>Book value 31.12.2014</b>
Sports and athletic facilities .....	2006 - 2035	5.381.157
Office buildings .....	2002 - 2032	6.037.661
Other facilities .....	2007 - 2030	974.718
		<u>12.393.536</u>

## Notes, continued

Payments on lease contracts are itemised as follows (not entered at net present value):

	Sports and athletic facilities	Office buildings	Other facilities	Total
2015 .....	434.555	515.212	143.106	1.092.872
2016 .....	434.555	515.212	137.431	1.087.197
2017 .....	434.555	515.212	129.486	1.079.253
2018 .....	434.555	515.212	129.486	1.079.253
2019 .....	434.555	515.212	111.685	1.061.451
Later .....	3.843.735	6.416.380	578.526	10.838.640
	<b>6.016.509</b>	<b>8.992.439</b>	<b>1.229.719</b>	<b>16.238.667</b>

Total payments for lease contracts amounted 1,477 million ISK in 2014 and are itemised as follows:

	Reykjavik Municipal (A operations)	Reykjavik Group (A and B operations)
Payments in reduction of lease liabilities .....	584.339	584.339
Interest debt .....	468.562	468.562
	1.052.901	1.052.901
Operating expense .....	424.576	424.576
Total lease payments .....	<b>1.477.477</b>	<b>1.477.477</b>

### Other current liabilities

50. On 18 November 2008, the City of Reykjavik rescinded all currency and interest swap agreements with Kaupthing bank hf. due to a foreseeable default by the bank. The City of Reykjavik believed it to be evident that the bank would not be able to fulfil its obligations under the currency and interest swap agreements; according to the agreements the contracting parties were to swap certain capital payments in 2009, 2010 and 2011, and in fact the bank defaulted on the first and only instalment relating to an interest settlement before the rescission. The conventional legal effect of a rescission is that the position of the contracting parties should be the same as if the contracts had never been made.

The City of Reykjavik was of the opinion that its debt to Kaupthing bank hf. in respect of the rescission, with interest, was just over ISK 251 million, and this debt was paid to the bank on 3 April 2009. The Resolution Committee of Kaupthing bank hf. protested the rescission and filed a lawsuit against the City of Reykjavik by means of a summons issued on 7 October 2012. The principal claim of Kaupthing Bank hf. against the City of Reykjavik is ISK 1,819 million, with default interest from 18 November 2008, until the day of payment, net of the instalment paid by the City of Reykjavik on April 3, 2009. The principal hearing in the case was held before the District Court of Reykjavik on October 7, 2013. On November 22, 2013, the District Court of Reykjavik issued a ruling in the case. The conclusion of the Court was that the City of Reykjavik was acquitted of all of Kaupthing Bank hf.'s claims. Kaupthing hf. appealed the verdict and the judgement of the Supreme Court was issued on November 6th 2014, where the Supreme Court confirmed that the City of Reykjavik had been justified in rescinding the agreement and moreover acquitted the City of Reykjavik of Kaupthing hf.'s monetary claim. No obligations relating to this lawsuit are entered in the annual statement.

51. Called-in derivative agreements of Orkuveita Reykjavikur are entered among other short-term liabilities of Reykjavik Group. The agreements have not been settled, but Orkuveita Reykjavikur has been issued a summons to appear in court in connection with the agreements. There is significant uncertainty, both at Orkuveita Reykjavikur and among the winding-up boards of the banks, regarding the proper settlement of these agreements. ISK 740 million have been debited in respect of these agreements in previous periods in the accounts of Orkuveita Reykjavikur. Those provisions do not constitute an admission of the debt on the part of Orkuveita Reykjavikur, and the figure could increase or decrease on the settlement of the agreements.

### Taxes

52. Deferred income tax assets and liabilities:

B operation companies are partially or wholly subject to payment of income tax. Income tax for these companies is calculated and entered in the Financial Statement. The balance of financial items in the tax return, on the one hand, and the Financial Statement, on the other hand, results in the formation of either deferred assets or liabilities.

Companies in B operations for which income tax is calculated are: Orkuveita Reykjavikur, the Capital District Fire and Rescue Services, Sports and Exhibition Centre and Asphalt Station Hofdi.

Changes in the calculated deferred income tax assets (liabilities) during the year are as follows:

## Notes, continued

	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>
Balance at the beginning of the year .....	1.708.664	135.446
Adjustment for the division of Orkuveita Reykjavíkur on 1.1.2014.....	1.391.168	1.391.168
Impact of special revaluation of fixed assets .....	( 423.478 )	1.613.298
Calculated income tax for revenues and expenses during the year .....	50.721	1.570.282
Income tax payable during 2015 .....	0	( 11.232 )
Balance at year-end .....	<u>2.727.075</u>	<u>4.698.962</u>

Deferred income tax assets and liabilities are itemised as follows in separate Balance Sheet items:

	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>
Fixed tangible assets .....	( 819.239 )	9.613.881
Embedded derivatives .....	1.089.968	0
Other items .....	( 1.629.625 )	36.157
Impact of carry-forward loss .....	4.085.971	( 4.951.077 )
Balance at year-end .....	<u>2.727.075</u>	<u>4.698.962</u>

### Obligations and guarantees off the Balance Sheet

	<b>Total obligations</b>	<b>Obligations due in 2015</b>
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#### *Operational contracts and service contracts*

53. Grants, contracts, asset and operational lease agreements of Reykjavík Municipal are itemised as follows:

City Executive Board grants .....	85.640	42.350
Cultural grants .....	1.557.883	964.498
Grants to Sports and Leisure .....	2.305.000	1.268.000
Grants and service contracts, Social Services .....	2.112.487	1.952.500
Grants and service contracts, Education .....	64.723	29.823
Harpa, Concert and Conference Hall .....	7.568.339	485.374
Operational agreements for Public Works and Real Estate Fund .....	715.184	456.227
Operational Investment agreements for Public Works and Real Estate Fund .....	465.200	465.200
Obligations of Reykjavík Parking Services .....	798.237	0
	<u>15.672.693</u>	<u>5.663.972</u>

#### *Guarantees*

54. Summary of guarantee obligations of Reykjavík Municipal to third parties in respect of bond loans:

	<b>Reykjavík Municipal (A operations)</b>
Churches .....	290.285
Reykjavík Social Housing hf. ....	2.742.047
Guarantee obligations of A operations against a third party .....	<u>3.032.332</u>

## Notes, continued

### Liabilities

55. The City's off-Balance Sheet obligations are as follows:

	City's share in liabilities	A operations Balance	A and B operation
Faxaflóahafnir, Associated Icelandic Ports .....	75,6%	839.757	
Orkuveita Reykjavíkur .....	93,5%	159.464.961	
Capital District Fire and Rescue Services .....	57,8%	248.422	
Sorpa, Capital Area Waste Disposal Company .....	57,8%	280.147	
Strætó, Metropolitan Bus Transportation Company .....	57,8%	187.305	
		<u>161.020.592</u>	<u>0</u>
Total operating and service agreements obligations and guarantees off the balance sheet .....		<u>179.725.617</u>	<u>18.705.025</u>

### Statement of financial position at year-end

56. The City's assets, liabilities and equity are itemised as follows:

	Share	Assets	Liabilities	Equity
Reykjavik Municipal (A operations) .....	100,0%	152.217.622	64.573.568	87.644.054
Aflvaki hf. ....	95,7%	10.719	0	10.719
Faxaflóahafnir, Associated Icelandic Ports .....	75,6%	9.985.771	1.067.250	8.918.521
Félagsbústaðir, Reykjavik Social Housing hf. ....	100,0%	47.290.996	29.873.072	17.417.924
Sport and Exhibition Centre hf. ....	50,0%	1.444.312	1.110.804	333.508
Jörundur hf. ....	100,0%	1.315.774	1.354.623	( 38.850 )
Asphalt Station Hofdi hf. ....	100,0%	1.096.289	159.934	936.354
Orkuveita Reykjavíkur .....	93,5%	279.990.475	187.003.483	92.986.992
Capital District Fire and Rescue Services .....	60,8%	1.457.016	664.961	792.055
Sorpa, Capital Area Waste Disposal Company .....	66,7%	1.538.792	632.960	905.833
Strætó, Metropolitan Bus Transportation Company .....	60,3%	1.528.295	513.135	1.015.160
Internal transactions .....		<u>( 20.208.823 )</u>	<u>( 15.264.654 )</u>	<u>( 4.944.169 )</u>
Total .....		<u>477.667.237</u>	<u>271.689.137</u>	<u>205.978.100</u>
Minority share .....		<u>26.729.228</u>	<u>15.455.409</u>	<u>11.273.819</u>
Balance according to Financial Statements .....		<u>504.396.465</u>	<u>287.144.546</u>	<u>217.251.919</u>

### Other

57. Orkuveita Reykjavíkur has followed an action plan referred to as “The Plan”, that was prepared in collaboration with its owners since spring of 2011. The Plan contained very ambitious goals on restraints in operation and a reduction in investments, as well as approved adjustments to the rate tariff sale of assets and loans from the owners. The action plan has succeeded.

58. Postponement of operations.

Considerable delays have occurred in waiving the conditions precedent in the power purchase agreement with Norðurál Helgúvík ehf. (NH) for the second and third phase of the aluminium smelter in Helgúvík. There is therefore ongoing uncertainty whether the construction of the smelter will happen or not. The agreement with NH has been under review and this review is not complete. Orkuveita Reykjavíkur believes that the premises for parts of the agreements with NH are broken, but there is an ongoing dispute with NH regarding this point.

As a result, negotiations have been concluded with Mitsubishi Heavy Industries (MHI) and Balcke Durr (BD) regarding the turbine units provided for in the power purchase agreement; the relevant liabilities are addressed in Note 32. Uncertainty still persists regarding the start of construction of the Hverahlíð power plant, but the agreement with MHI and BD has largely resolved the uncertainty. The management of Orkuveita Reykjavíkur is of the opinion that there is no reason to record any obligation in the financial statement regarding the matter.

## Notes, continued

### 59. Value-added tax encumbrance.

Real Estate Jörundur ehf. is recorded in a special provision pursuant to Art. 6(4) of Act no. 50/1998 on value-added tax. The tax liability for value-added tax at year-end 2014 amounts to approximately ISK 265 million.

Reykjavík Parking Services owns a share in the Harpa – Concert and Conference Hall parking garage. The parking garage is recorded in a special provision pursuant to Art. 6(4) of Act no. 50/1998 on value added tax. The total value-added tax payable at the end of year 2014 amounts to approximately ISK 198 million.

### 60. Litigation.

Strætó bs. (Metropolitan Bus Transportation Company) Has been summoned to appear before the District Court by two parties that were not awarded a contract following a tender for transportation in the capital area in 2010. In one of the cases the plaintiff claims ISK 530 million in damages for loss of profit; in the other case the plaintiff calls for an admission of liability. Strætó bs. has rejected the claims. It is estimated that the District Court will pronounce judgment in late 2015 or early 2016. The directors of Strætó bs. believe that there is no reason to enter any obligation in the annual statement in respect of this matter.

Slökkvilið höfuðborgarsvæðisins bs. (Capital District Fire and Rescue Service) has submitted claims for adjustments of fx indexed loans that were paid in 2011 and 2012. The claims of the municipality amount to a total of ISK 600 million. The District Court issued a ruling in the case against Lánasjóður Sveitarfélaga (Local government loan fund) in March 2015 and the Court found in favour of the Capital Fire and Rescue Service, which was awarded ISK 370 million for the adjustment, with interest. A result is expected in the other case against Íslandsbanki hf. in 2015. No claims are entered in the annual statement for 2014 in respect of these cases.

### 61. Operating lease of facilities

#### Orkuveita Reykjavíkur as lessee.

#### Arrangement of the operating lease agreement of Orkuveita Reykjavíkur.

Following the sale of the head offices of Orkuveita Reykjavíkur, which was concluded at the end of October, 2013, a 20-year operating lease agreement was concluded with Foss Fasteignafélag ehf. for all Orkuveita Reykjavíkur's real estate at Bæjarháls and Réttarháls. The agreement includes an option to buy that Orkuveita Reykjavíkur can exercise after 10 years or 20 years. The rent for the first 10 years is ISK 223.9 million per year, linked to the consumer price index. If the option is not exercised in 10 years, the minimum rent for the next 10 years will be ISK 290.2 million per year, linked to the consumer price index. The rent does not include any operating expenses and the amounts presented in the following tables have not been calculated at present value. In the annual statement of the City of Reykjavík the operating lease agreement between Orkuveita Reykjavíkur and Foss Fasteignafélag ehf. is treated in accordance with international accounting standard IAS 17.

#### Operating lease payments and income for the year.

	2014	2013
Rent entered as expenses .....	262.565	37.315
Conditional lease entered as income .....	2.795	0
Forward lease entered as income .....	( 47.203 )	( 4.630 )
	<u>218.157</u>	<u>32.685</u>

#### Rent for non-terminable operating lease agreement.

Within the year .....	257.040	223.890
In 1 to 5 years .....	1.028.160	895.560
After 5 years .....	3.597.158	3.984.035
	<u>4.882.358</u>	<u>5.103.485</u>

Expected future revenues from sub-leasing .....	<u>172.522</u>	<u>219.725</u>
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#### Orkuveita Reykjavíkur as lessor.

Orkuveita Reykjavíkur has entered into an agreement for the sub-lease of a part of leased real estate for a period of five years with an option to extend by ten years.

#### Expected future revenues from non-terminable operating lease agreements.

Within the year .....	48.048	47.203
In 1 to 5 years .....	124.474	172.522
	<u>172.522</u>	<u>219.725</u>

**Impact on the annual statement if opinion 1/2010 were to be applied to the lease agreement.**

Non-terminable lease debt under the lease agreement calculated to present value was on 31.12.2014 approximately ISK 1,682 million, and the value of the leased property was ISK 1,622 million. Interest expense and indexation during the year would have amounted to approximately ISK 90 million and depreciation of the leased property would have amounted to ISK 184 million.

**62. Related parties**

The City Council and the highest-ranking directors of the municipality are defined as parties related to the municipality. The spouses of these parties, financially dependent children and other financially dependent parties also fall within this definition, as well as companies owned or controlled by these parties.

The municipality has been engaged in business with related parties during the year. Business with related parties entailed, among other things, general services provided by the municipality and public charges levied on related parties. The transactions are performed on the same basis as in the case of unrelated parties and the terms and conditions of the transactions are similar as in the case of unrelated parties. The determination of business between related parties is subject to the competence rules of Art. 20 of the Act on Local Governments.



## Notes, continued

### 63. Comparison of operating budgets.

The overview below explains the operating budget for 2014 pursuant to the originally approved Budget of the municipality, approved annexes and budgets attached to annexes. The Budget with annexes is shown in the profit and loss account and other notes to the annual statement for comparison with the year's real figures.

	Reykjavik Municipal			Reykjavik Group		
	(A operation)			(A and B operation)		
	2014	2014	2014	2014	2014	2014
	Original	Annexes to	Original	Original	Annexes to	Original
	Budget	Budget	Budget with	Budget	Budget	Budget with
			annexes			annexes
<b>OPERATING REVENUE</b>						
Tax revenues .....	63.062.104	1.350.000	64.412.104	62.351.194	1.350.000	63.701.194
Contributions to Equalisation Fund (net)	5.438.000	0	5.438.000	5.438.000	(0)	5.438.000
Other revenues .....	13.736.238	470.228	14.206.466	64.495.835	470.228	64.966.063
	<u>82.236.342</u>	<u>1.820.228</u>	<u>84.056.570</u>	<u>132.285.030</u>	<u>1.820.228</u>	<u>134.105.257</u>
<b>OPERATING EXPENSES</b>						
Wage cost and wage-related expenses .....	44.991.687	1.219.770	46.211.457	54.220.842	1.219.770	55.440.611
Other operating expenses .....	32.501.870	607.935	33.109.805	45.205.080	607.935	45.813.015
Depreciation .....	3.883.487	0	3.883.487	14.491.379	0	14.491.379
	<u>81.377.044</u>	<u>1.827.705</u>	<u>83.204.750</u>	<u>113.917.301</u>	<u>1.827.705</u>	<u>115.745.006</u>
Operating result before financial items .....	859.298	(7.477)	851.821	18.367.729	(7.478)	18.360.251
Net financial items .....	(364.299)	0	(364.299)	(10.901.428) *	0	(10.901.427)
Operating result before tax	495.000	(7.477)	487.521	7.466.301	(7.478)	7.458.824
Income tax .....	0	0	0	(1.037.081)	0	(1.037.081)
Changes in evaluation of investment assets.....	0	0	0	1.698.218 *	0	1.698.218
<b>Operating result .....</b>	<u>495.000</u>	<u>(7.477)</u>	<u>487.521</u>	<u>8.127.438</u>	<u>(7.478)</u>	<u>8.119.961</u>

\* In the approved budget changes to evaluation of investment assets were entered with investment income and investment expenses.

## Notes, continued

### 64. Comparison of cash flow budgets.

The overview below explains the operating budget for 2014 pursuant to the originally approved budget of the municipality, approved annexes and budgets attached to annexes. The Budget with annexes is shown in the cash flow overview and other notes to the annual statement for comparison with the year's real figures.

	Reykjavik Municipal			Reykjavik Group		
	(A operation)			(A and B operation)		
	2014 Original Budget	2014 Annexes to Budget	2014 Original Budget with annexes	2014 Original Budget	2014 Annexes to Budget	2014 Original Budget with annexes
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating result .....	495.000	(7.478)	487.521	8.127.438	(7.478)	8.119.961
Adjustments to reconcile net earnings with cash provided by operating activities:						
Depreciation .....	3.883.487	0	3.883.487	14.491.379	0	14.491.379
Indexation, discounts and exch.rate differences .....	912.587	0	912.587	4.722.991	0	4.722.991
Loss (Gain) on sold assets .....	(1.600.000)	0	(1.600.000)	(1.604.826)	0	(1.604.826)
Restatement of investment assets .....	0	0	0	1.698.218	0	1.698.218
Changes in obligations .....	2.310.447	0	2.310.447	3.633.292	0	3.633.292
<b>Working capital</b>	<b>6.001.521</b>	<b>(7.478)</b>	<b>5.994.043</b>	<b>31.068.492</b>	<b>(7.478)</b>	<b>31.061.015</b>
Changes in operating assets and liabilities:						
Inventories decrease (increase) .....	0	0	0	(10.000)	0	(10.000)
Unrecovered revenues (increase) decrease .....	0	0	0	72.300	0	72.300
Other current receivables (increase) decrease .....	0	0	0	(2.642.092)	0	(2.642.092)
Current liabilities (decrease) increase .....	0	0	0	(30.738)	0	(30.738)
Contribution to pension obligation .....	(1.550.000)	0	(1.550.000)	(1.550.000)	0	(1.550.000)
Changes in operating assets/liabilities.....	<u>(1.550.000)</u>	<u>0</u>	<u>(1.550.000)</u>	<u>(4.160.530)</u>	<u>0</u>	<u>(4.160.530)</u>
Net cash provided by operating activities	<u>4.451.521</u>	<u>(7.478)</u>	<u>4.444.043</u>	<u>26.907.962</u>	<u>(7.478)</u>	<u>26.900.485</u>
<b>INVESTMENT ACTIVITIES</b>						
Investments in fixed tangible assets .....	(8.425.000)	(93.323)	(8.518.323)	(18.228.799)	(93.323)	(18.322.122)
Proceeds from sale of fixed tangible assets .....	0	0	0	151.358	0	151.358
Sale of building permits .....	2.700.000	0	2.700.000	2.700.000	0	2.700.000
Change in equity holdings .....	(289.000)	0	(289.000)	1.611.000	0	1.611.000
Change in long-term securities .....	202.221	0	202.221	424.232	0	424.232
Other investment activities .....	0	0	0	(6.900)	0	(6.900)
Investment activities	<u>(5.811.779)</u>	<u>(93.323)</u>	<u>(5.905.102)</u>	<u>(13.349.109)</u>	<u>(93.322)</u>	<u>(13.442.432)</u>
<b>FINANCING ACTIVITIES</b>						
New long-term borrowings .....	2.179.500	0	2.179.500	3.237.039	0	3.237.039
Repayment of long-term borrowings .....	(1.962.289)	0	(1.962.289)	(23.381.997)	(0)	(23.381.997)
Changes in equity .....	0	0	0	682.155	0	682.155
Changes in short-term borrowings .....	0	0	0	(15.000)	0	(15.000)
Other changes .....	8.169	0	8.169	0	0	0
Financing activities .....	<u>225.380</u>	<u>0</u>	<u>225.380</u>	<u>(19.477.803)</u>	<u>0</u>	<u>(19.477.803)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIV. ....</b>	<b>(1.134.878)</b>	<b>(100.800)</b>	<b>(1.235.679)</b>	<b>(5.918.950)</b>	<b>(100.800)</b>	<b>(6.019.750)</b>
<b>CASH AND CASH EQUIV. AT BEGINNING OF YEAR .....</b>	<b>9.358.910</b>	<b>0</b>	<b>9.358.910</b>	<b>26.319.551</b>	<b>0</b>	<b>26.319.551</b>
<b>CASH AND CASH EQUIV. AT YEAR-END .....</b>	<b>8.224.032</b>	<b>(100.800)</b>	<b>8.123.231</b>	<b>20.400.601</b>	<b>(100.800)</b>	<b>20.299.801</b>

## Notes, continued

### Financial ratios

#### 65. Principal financial ratios:

	Reykjavik Municipal (A operations)		Reykjavik Group (A and B operations)	
	2014 Financial Statement	2014 Budget	2014 Financial Statement	2014 Budget
<b>Ratio of operating income</b>				
Municipal income tax .....	62,4%	61,6%	39,3%	38,6%
Property taxes .....	14,8%	15,0%	9,0%	8,9%
Total tax revenues .....	77,3%	76,6%	48,3%	47,5%
Contribution from Equalisation Fund .....	6,4%	6,5%	4,0%	4,1%
Other revenues .....	16,3%	16,9%	47,6%	48,4%
Total operating revenues .....	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses .....	53,6%	52,2%	40,7%	39,4%
Increase in pension obligations .....	4,0%	2,7%	2,5%	1,9%
Other operating expenses .....	41,3%	39,4%	34,3%	34,2%
Depreciation .....	4,6%	4,6%	10,7%	10,8%
Operating expenses .....	103,5%	99,0%	88,3%	86,3%
Operating result before financial items .....	( 3,5%)	1,0%	11,7%	13,7%
Financial items .....	0,1%	( 0,4%)	( 4,7%)	( 8,1%)
Income tax .....	0,0%	0,0%	( 1,5%)	( 0,8%)
Investment assets revalued .....	0,0%	0,0%	0,0%	0,0%
Effects of own companies/minority interest .....	0,0%	0,0%	( 0,5%)	0,0%
Operating result (negative) .....	( 3,4%)	0,6%	8,3%	6,1%
Working capital provided by operations .....	5,4%	7,1%	19,7%	23,2%
Investment activities .....	( 6,5%)	( 7,0%)	( 12,0%)	( 10,0%)
<b>In ISK thousand per inhabitant:</b>				
<b>Operations</b>				
Tax revenue .....	531	529	528	523
Contributions from Equalisation Fund .....	44	45	44	45
Other revenue .....	112	117	520	533
Total operating revenue .....	688	690	1.092	1.101
Wage cost and wage-related expenses .....	( 396 )	( 379 )	( 472 )	( 455 )
Other operating expenses and depreciation .....	( 316 )	( 304 )	( 493 )	( 495 )
Financial items .....	1	( 3 )	( 52 )	( 89 )
Income tax .....	0	0	( 17 )	( 9 )
Investment assets revalued .....	0	0	0	0
Effects of own companies/minority interest .....	0	0	( 5 )	0
Operating result (negative) .....	( 23 )	4	91	67
<b>Cash flow:</b>				
Working capital provided by operating activities ....	37	49	215	255
Net increase (decrease) in cash and cash equivalents	37	36	244	221

<b>Balance Sheet</b>	Reykjavik Municipal (A operations)		Reykjavik Group (A and B operations)	
	2014 Financial Statement	2013 Financial Statement	2014 Financial Statement	2013 Financial Statement
Assets .....	1.250	1.218	4.141	3.950
Equity .....	719	704	1.783	1.585
Liabilities .....	530	514	2.357	2.364
<b>Other ratios</b>				
Current ratio - curr. assets/curr. liabilities	1,31	1,40	0,93	0,92
Equity ratio - equity/total assets .....	0,58	0,58	0,43	0,40
<b>Population (source: Statistics Iceland):</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Population on December 1st. ....	121.814	121.116	119.632	118.785
Increase from previous year .....	698	1.484	847	( 123 )

## Notes, continued

### 66. Summary of Reykjavik Municipal principal ratios over the past 5 years:

	2014	2013	2012	2011	2010
<b>As a ratio of operating revenue:</b>					
Tax revenue .....	77,3%	76,0%	77,9%	78,5%	81,8%
Contributions from Equalisation Fund .....	6,4%	6,6%	7,0%	6,1%	0,0%
Other revenue .....	16,3%	17,3%	15,1%	15,4%	18,1%
Total operating revenue .....	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses .....	53,6%	50,3%	51,2%	51,0%	51,4%
Increase in pension obligations .....	4,0%	0,2%	4,0%	6,4%	0,6%
Other operating expenses .....	41,3%	40,4%	40,0%	41,5%	43,4%
Depreciation .....	4,6%	4,5%	4,6%	4,6%	4,9%
Total operating expenses .....	103,5%	95,4%	99,8%	103,5%	100,4%
Operating result before financial items .....	( 3,5%)	4,6%	0,2%	( 3,5%)	( 0,4%)
Financial items .....	0,1%	( 0,8%)	( 0,3%)	( 0,6%)	2,8%
Extraordinary income .....	0,0%	0,0%	0,0%	0,0%	0,0%
Operating result (negative) .....	( 3,4%)	3,8%	( 0,1%)	( 4,1%)	2,4%
Working capital provided by operations .....	5,4%	8,6%	9,8%	10,0%	10,0%
Net increase (decrease) in cash and cash equivalents .....	5,3%	8,5%	10,7%	10,3%	7,0%
Net cash from (used in) investing activities .....	( 6,5%)	( 10,7%)	( 9,8%)	( 19,0%)	( 7,9%)
<b>In ISK thousand per inhabitant</b>					
<b>Operation:</b>					
Tax revenue .....	531	501	476	453	420
Contributions from Equalisation Fund .....	44	44	43	35	0
Other revenue .....	112	114	92	89	93
Total operating revenue .....	688	659	611	577	513
Wage cost and wage-related expenses .....	( 368 )	( 331 )	( 313 )	( 295 )	( 264 )
Increase in pension obligations .....	( 27 )	( 1 )	( 24 )	( 37 )	( 3 )
Other operating expenses and depreciation .....	( 316 )	( 296 )	( 273 )	( 266 )	( 248 )
Financial items .....	1	( 5 )	( 2 )	( 3 )	14
Extraordinary income .....	0	0	0	0	0
Operating result (negative) .....	( 23 )	25	( 0 )	( 24 )	12
<b>Cash flows:</b>					
Working capital provided by operations .....	37	56	60	58	51
Net increase (decrease) in cash and cash equivalents .....	37	56	65	60	36
Net cash from (used in) investing activities .....	( 45 )	( 70 )	( 60 )	( 110 )	( 40 )
<b>Balance Sheet:</b>					
Assets .....	1.250	1.218	1.196	1.152	1.077
Equity .....	719	704	688	672	675
Liabilities .....	530	514	508	479	402
<b>Other ratios</b>					
Current asset ratio - current assets/current liabilities .....	1,31	1,40	1,86	1,87	2,42
Equity ratio - equity/total assets .....	58%	58%	58%	58%	63%
Debt ratio of A operation - debt/income .....	77%	78%	83%	83%	78%
<b>Tax rates:</b>					
Municipal income tax .....	14,52%	14,48%	14,48%	13,03%	13,03%
Real property tax, class A .....	0,200%	0,200%	0,200%	0,225%	0,214%
Real property tax, class B .....	1,32%	1,32%	1,32%	1,32%	1,32%
Real property tax, class C, formerly class B .....	1,65%	1,65%	1,65%	1,65%	1,65%
<b>Population (source: Statistics Iceland):</b>					
Population on December 1st. ....	121.814	121.116	119.632	118.785	118.908
Increase from previous year .....	698	1.484	847	( 84 )	471
Proportional increase from previous year .....	0,6%	1,2%	0,7%	( 0,1%)	0,4%