

Reykjavíkurborg

(City of Reykjavik)

Financial Statements 2016



Reykjavíkurborg
(City of Reykjavik)
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Reykjavíkurborg

(City of Reykjavik)

Financial Statements 2016

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Please note:

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

Mayor and Executive Committee's report and endorsement

The annual financial statements of Reykjavíkurborg (the City of Reykjavik) for the year 2016 were prepared in accordance with the Local Government Act, the Financial Statements Act and the Government Regulation on Municipal Accounts, Budget and Financial Statements. Details of accounting methods are provided in the financial statements.

The activities of the City of Reykjavik are divided into A and B operations, i.e. Reykjavík Municipal (A operation) 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 at least half of the shares and operate as financially independent units.

According to the Income Statement for Reykjavík Municipal, operating income amounted to ISK 100,567 million in 2016, of which tax revenues accounted for ISK 76,382 million. The municipal income tax rate was 14.52%, 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 155,556 million in 2016.

The operating result for Reykjavik Municipal (A operation) amounted to a profit of ISK 2.637 million, whereas the budget for the fiscal year projected a profit of ISK 475 million. The operating result for Reykjavík Group (A and B operations) amounted to a profit of ISK 26,372 million, whereas the year's budget projected a profit of ISK 11,673 million. The reasons for better operating results for A operation than anticipated in the budget are attributed mainly to higher municipal income tax, lower wage cost and wage-related expenses, and lower financial expenses. The operating result for the Reykjavik Group (A and B operations) was better than expected, which is mainly due to changes in the valuation of properties, changes in exchange rate, and changes in embedded derivatives in electricity sales agreements.

The total assets of Reykjavík Group (consolidated A and B operations) according to the balance sheet at year-end 2016 amounted to ISK 535,478 million, and total liabilities amounted to ISK 290,465 million. Equity amounted to ISK 245,013 million, of which minority interests amounted to ISK 13,477 million.

On 1 December 2016 the population of the City of Reykjavik was 123,133.

In accordance with recent changes in legislation on financial statements the municipality will publish for the first time a statement on governance and non-financial information. This information can be found in an attachment to the financial statements, *Statement of Governance and Non-Financial Information*.

According to the best knowledge of the Mayor and the Executive Committee, the financial statements have been prepared in accordance with law and give a true and fair view of assets and liabilities, the financial status and operating results of Reykjavik Municipal and Reykjavik Group. Furthermore, the report of the Mayor and Executive Committee contains the required information.

The Executive Committee agreed at its meeting on 6 April 2017 that the financial statements of the City of Reykjavik for the year 2016 are ready for auditing and due process before the City Council in accordance with Article 61 of the Local Government Act No. 138/2011.

Reykjavík, 27 April 2017.

Mayor

Executive Committee

Endorsement by the City Council

The financial statements of Reykjavíkurborg (the City of Reykjavík) for the year 2016 have been addressed by the City Council in accordance with Article 61 of the Local Government Act No. 138/2011 and are confirmed and endorsed at the second debate in the City Council.

Reykjavík, 9 May 2017.

City Council:

Independent Auditor's Report

To the City Council of Reykjavíkurborg

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Reykjavíkurborg for the year 2016 which comprise 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, information on significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the municipality's financial position as at 31 December 2016, its financial performance in the year 2016, and of its cash flows for the year then ended in accordance with the Icelandic Financial Statements Act and the Local Government Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the municipality in accordance with the Code of ethics for Icelandic auditors and we have fulfilled other ethical requirements of those rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
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Evaluation of pension obligations

<p>Reference is made to Note 44, "Pension obligations".</p> <p>The municipality bears obligations due to pension rights of current and former employees of the municipality. The pension obligations for A and B operations amounted to ISK 31.5 billion at year end 2016 and increased by ISK 3 billion during the year.</p> <p>In evaluating the pension obligations of A operations, assumptions about mortality rate and life expectancy are made in accordance with a proposal from the Icelandic Actuarial Society dated 1 March 2015. These assume that the mortality rate will continue to decrease and that average life expectancy will increase instead of using the experience of previous years. It is the assessment of management that this methodology provides a clearer view of the pension obligations of A operations and that these should be taken into consideration with reference to the Financial Statements Act.</p> <p>The municipality's pension obligations are estimated by management and are based on a recommendation from actuaries instead of being based on provisions in the Regulation No. 391/1998 on pension obligations and operations of pension funds which specifies assumptions regarding life expectancy and other items.</p>	<p>Our audit included among other things the following procedures:</p> <p>We reviewed and evaluated the methods used by management in evaluating pension obligations.</p> <p>We applied data analytic procedures where we set forth expectations regarding the balance of the obligations at year end, including regarding the development of the index for pension obligations for governmental employees, pension right earnings of active members of pension funds and payments to pension recipients, and compared these to the results of the actuary.</p> <p>We reviewed management controls regarding calculation of the obligations, their approach and evaluation of assumptions, e.g. classification of beneficiaries and salary benchmarks.</p> <p>We checked that the parties creating the obligations were classified correctly in the actuary's calculations.</p> <p>A meeting was held with the actuary, his methods regarding the calculations were reviewed and his competence evaluated.</p>
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Independent auditor's report, contd.

Key Audit Matters	How the matter was addressed in the audit
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Evaluation of pension obligations, contd.

<p>These are complicated calculations. Thus, evaluation of pension obligations are one of the key audit matters in our audit of the municipality's financial statements.</p>	<p>Confirmation of the actuary's independence towards the municipality and the pension fund was obtained.</p> <p>We reviewed the presentation in the financial statements, classification into long-term and short-term liabilities and information in the Notes.</p>
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Payroll expenses

<p>Reference is made to Note 25 "Salaries and salary related expenses".</p> <p>Salaries and salary related expenses of A operations were ISK 56.6 billion for the year 2016. Labour cost is a large portion of expenses and amounts to 56% of operating revenue of A operations.</p> <p>A new SAP HR and salary system was implemented for A operations during 2016. This was an extensive implementation and the system affects all parts of the A operations' salary processes. In such implementation there is increased risk of misstatement in items related to salary expenses.</p> <p>Thus, salaries and salary related expenses are one of the key audit matters in our audit of the municipality's financial statements.</p>	<p>Our audit work included among other things procedures aimed at determining the accuracy, integrity and reliability of HR and salary related data during the relevant period.</p> <p>The design, implementation and operating effectiveness of controls relating to the payroll process were assessed.</p> <p>We reviewed segregation of duties, authorizations and security configuration of the system. We tested controls with data link connection between systems.</p> <p>Extensive data analytical procedures were performed in addition to routine analytical procedures.</p>
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Valuation of production systems (power plants)

<p>Reference is made to Notes 7 and 30 "Property, plant and equipment".</p> <p>At end of year 2016 the carrying value of property, plant and equipment of A and B operations amounted to ISK 467,1 billion. Thereof the carrying value of electricity and hot water production system of Orkuveita Reykjavíkur amounted to ISK 135,6 billion. The fair value is determined by discounting future cash flow of the cash generating units where the assets belong. On regular basis the carrying amount is compared to the fair value or recoverable amount which is calculated by performing an impairment test.</p> <p>When impairment tests show that fair value of production systems are considerable above or below carrying amount then the assets are adjusted to fair value taken into consideration the sensitivity of the impairment test, but never exceeding depreciated replacement cost.</p>	<p>KPMG's valuation specialists were involved in the work and assessed the valuation models and assumptions used by management in their calculation of fair value of production systems.</p> <p>We assessed the management assumptions by comparing them to both internal information from the municipality and external industry information.</p> <p>We assessed if the design and implementation of the impairment tests used by management was appropriate.</p> <p>We assessed the reasonableness of the discount rates and risk free interest applied.</p> <p>We assessed the reasonableness of general assumptions, such as population projections, price level and future growth.</p>
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Independent auditor's report, contd.

Key Audit Matters	How the matter was addressed in the audit
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Valuation of production systems (power plants), contd.

<p>Due to the significance to the municipality's statement of financial position or 25% of total assets of A and B operations, valuation of production systems is a key audit matter in our audit of the financial statements of the municipality. Also due to inherent uncertainty involved in management forecasting of changes in price level, changes of volume, price changes and other management assumptions used for discounting estimated future cash flow for the production and due to the sensitivity of the impairment tests is for changes in assumptions.</p>	<p>Management calculation of the impairment test was compared to KPMG calculations. Current sensitive analysis was reviewed for each cash generating unit where effects of changes in EBITDA, future growth and/or yield on the results of the impairment test are shown.</p> <p>We reviewed the disclosures in the financial statements and that all the information is included which is required in accordance with accounting standards.</p>
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Other information

The City Council and Mayor are responsible for the other information. The other information comprises the information included in the report of the municipality's finance office. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the City Council and Mayor for the Financial Statements

The City Council and Mayor are responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Statements Act and Local Government Act, 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 fraud or error.

In preparing the financial statements, the City Council and Mayor are responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is no longer a realistic alternative.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.

Independent auditor's report, contd.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may have negative effect on the municipality's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the operating units under the A and B section of operations of the municipality to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit of the municipality and we remain solely responsible for our audit opinion.

We communicate with the City Council and Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the City Council and Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the City Council and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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 Mayor and City Council accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

The engagement partners on the audit resulting in this independent auditor's report are Auðunn Guðjónsson and Guðný Helga Guðmundsdóttir.

Reykjavik 9 May 2017.

KPMG ehf.

Income Statement for the year 2016

	Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
		2016	2016	2015	2016	2016	2015
		Financial Statements	Budget with Annexes	Financial Statements	Financial Statements	Budget with Annexes	Financial Statements
Operating revenue	3,24						
Tax revenues		76,382,206	75,851,386	69,284,591	75,880,679	75,282,659	68,861,055
Contributions from Municipal Equalisation Fund		6,703,615	6,138,200	6,193,805	6,703,615	6,138,200	6,193,805
Other revenues		17,480,772	18,320,683	15,556,321	72,972,144	73,370,574	68,872,375
Total operating revenues		100,566,592	100,310,269	91,034,718	155,556,437	154,791,433	143,927,235
Operating expenses	4						
Wage cost and wage-related expenses	25	51,608,243	52,396,696	49,151,203	63,474,707	64,759,907	59,851,032
Changes in pension obligations *	25,44	5,038,127	5,013,000	8,114,463	5,114,871	5,080,000	8,157,715
Changes in pension obligations **	25,44	0	0	6,508,573	0	0	6,508,573
Other operating expenses		36,566,003	36,748,597	35,970,773	49,887,068	50,185,174	48,559,418
Total operating expenses		93,212,374	94,158,293	99,745,013	118,476,647	120,025,081	123,076,739
Operating result before depreciation, EBITDA		<u>7,354,218</u>	<u>6,151,976</u>	<u>(8,710,295)</u>	<u>37,079,791</u>	<u>34,766,352</u>	<u>20,850,496</u>
Depreciation	9,10, 32	<u>(4,493,723)</u>	<u>(4,321,756)</u>	<u>(4,150,801)</u>	<u>(16,256,624)</u>	<u>(15,733,470)</u>	<u>(16,250,941)</u>
Operating result before financial items.....		<u>2,860,495</u>	<u>1,830,220</u>	<u>(12,861,096)</u>	<u>20,823,166</u>	<u>19,032,882</u>	<u>4,599,556</u>
Net financial items	5,26	<u>(223,530)</u>	<u>(1,355,635)</u>	<u>(774,540)</u>	<u>890,175</u>	<u>(9,003,003)</u>	<u>(13,221,055)</u>
Operating result before tax, adjustments and effects of associated companies		<u>2,636,965</u>	<u>474,585</u>	<u>(13,635,637)</u>	<u>21,713,341</u>	<u>10,029,879</u>	<u>(8,621,499)</u>
Income tax	19,48	0	0	0	(4,747,785)	(2,142,631)	582,946
Value adjustment of investment properties	7,30	0	0	0	10,942,130	3,786,000	4,079,899
Share in associated companies' operating results	11,28	0	0	0	(236,835)	0	(255,538)
Minority interests		0	0	0	(1,299,098)	0	(765,364)
Operating results.....	43	<u><u>2,636,965</u></u>	<u><u>474,585</u></u>	<u><u>(13,635,637)</u></u>	<u><u>26,371,753</u></u>	<u><u>11,673,248</u></u>	<u><u>(4,979,556)</u></u>

* For the evaluation of pension obligations, it is assumed that the national mortality rate will continue to decrease and that life expectancy will increase instead of basing assumptions on the experience of previous years. See notes 25 and 44.

** For the evaluation of pension obligations at the end of 2015 it was for the first time assumed that the national mortality rate will continue to decrease and that life expectancy will increase, instead of basing the assumptions on the experience of previous years. The effect of this change in assumptions was estimated at ISK 6,509 million for the year 2015; this figure is entered separately in the income statement.

Statement of Financial Position 31 December 2016

Assets	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		2016 Financial Statements	2015 Financial Statements	2016 Financial Statements	2015 Financial Statements
Fixed assets					
Intangible assets	6,29	0	0	1,503,771	1,366,036
Fixed tangible assets:	7,9,10				
Real estate	30	93,676,983	90,746,308	111,058,241	107,080,231
Utilities	30	0	0	262,149,549	276,088,982
Investment properties	30	0	0	65,654,198	53,494,476
Road systems	30	12,255,556	12,811,060	13,186,193	13,812,143
Machinery and equipment	30	4,204,149	4,070,189	8,039,004	7,865,634
Lease properties	31	7,027,579	7,653,336	7,027,579	7,653,336
		<u>117,164,267</u>	<u>115,280,893</u>	<u>467,114,763</u>	<u>465,994,803</u>
Investments and long-term receivables:					
Shares in companies	11,37	7,589,358	7,342,608	5,466,423	5,333,244
Long-term receivables from own companies	12,13,39	11,553,429	12,178,896	0	0
Derivative contracts	8	0	0	365,333	443,324
Deferred tax assets	19,48	0	0	3,714,879	5,499,678
Other long-term receivables	12,13,39	1,273,551	2,036,253	5,979,984	2,488,280
		<u>20,416,338</u>	<u>21,557,757</u>	<u>15,526,620</u>	<u>13,764,526</u>
Total fixed assets		<u>137,580,604</u>	<u>136,838,650</u>	<u>484,145,153</u>	<u>481,125,365</u>
Current assets					
Inventories	14	0	0	975,231	962,988
Short-term receivables:	13,15				
Unclaimed revenues and receivables		9,554,640	8,145,401	15,111,784	13,539,374
Next year's paym. of own comp. long-term receivab.	39	880,733	646,992	0	0
Next year's payment of other long-term receivables	39	809,749	646,350	1,020,637	9,512,263
Receivables from own companies		217,194	274,746	0	0
Pre-paid costs		0	0	364,856	39,419
Derivative contracts	8	0	0	393,183	805,795
Other short-term receivables		2,459,569	2,330,834	2,746,857	2,849,778
Restricted bank deposits	42	0	0	4,132,427	1,908,275
Cash	16,42	8,678,075	5,596,949	26,588,117	14,816,609
Total current assets		<u>22,599,960</u>	<u>17,641,272</u>	<u>51,333,091</u>	<u>44,434,501</u>
Total assets		<u>160,180,565</u>	<u>154,479,922</u>	<u>535,478,244</u>	<u>525,559,866</u>
Assets off the Balance Sheet	17				

Statement of Financial Position 31 December 2016

Equity and liabilities	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		2016 Financial Statements	2015 Financial Statements	2016 Financial Statements	2015 Financial Statements
Equity					
Equity account	43	76,414,827	73,777,863	231,536,166	211,307,443
Minority interest		0	0	13,476,735	12,699,686
Total equity		76,414,827	73,777,863	245,012,901	224,007,129
Obligations					
Pension obligations	18,44	28,762,464	25,851,628	29,354,369	26,394,289
Deferred tax liabilities	19,48	0	0	8,503,891	7,773,713
Other obligations		0	0	273,167	238,412
Total obligations		28,762,464	25,851,628	38,131,426	34,406,414
Long-term liabilities					
Long-term debts	20,46	29,055,502	27,735,826	183,856,557	194,179,918
Lease liabilities	21,47	11,574,619	12,119,302	11,574,619	12,119,302
Embedded derivatives in electricity contracts	8,38	0	0	8,913,368	11,095,112
Derivative contracts	8	0	0	2,713,071	2,320,623
Total long-term liabilities		40,630,121	39,855,128	207,057,614	219,714,954
Current liabilities					
Debts to credit institutions		0	0	3,959,984	1,114,211
Accounts payable		3,505,749	2,574,819	6,583,576	6,878,008
Embedded derivatives in electricity contracts	8,38	0	0	1,405,741	2,097,051
Next year's payments on long-term debts	46	1,402,078	1,266,270	15,725,361	20,717,068
Next year's payments on lease liabilities	47	764,673	725,216	764,673	725,216
Next year's payments on pension obligations	44	2,137,200	2,068,400	2,162,200	2,093,400
Accounts payable to own companies		235,486	615,030	0	0
Derivative contracts	8	0	0	2,311,883	1,755,978
Other payables	57	6,327,966	7,745,570	12,362,884	12,050,437
Total current liabilities		14,373,152	14,995,304	45,276,303	47,431,368
Total liabilities and obligations		83,765,737	80,702,060	290,465,343	301,552,737
Total equity and liabilities		160,180,565	154,479,922	535,478,244	525,559,866
Obligations off the Balance Sheet	49-51				

Statement of Cash Flows for the year 2016

Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
	2016 Financial statements	2016 Budget with annexes	2015 Financial statements	2016 Financial statements	2016 Budget with annexes	2015 Financial statements
Cash flows from operating activities						
	2,636,965	474,585	(13,635,637)	26,371,753	11,673,248	(4,979,556)
Adjustments not affecting cash flow:						
Gain on sold assets	(1,826,496)	(3,514,993)	(957,842)	(1,838,068)	(3,014,993)	(1,050,003)
Depreciation	4,493,723	4,321,756	4,150,801	16,256,624	15,733,470	16,250,941
Indexation, discounts and exch.rate differences	541,659	936,277	788,327	(2,418,510)	7,831,522	(491,826)
Provisions for investments and long-term receivables	0	0	243,020	0	0	243,020
Embedded derivatives, change	0	0	0	(2,873,054)	(4,691,013)	10,164,474
Value adjustment of investment properties	0	0	0	(10,942,130)	(3,786,000)	(4,079,899)
Effect of own companies and minority interests	0	0	0	1,535,933	0	1,020,902
Changes in pension obligations	5,038,127	5,013,000	14,623,036	5,114,871	5,080,000	14,666,288
Changes in deferred taxes	0	0	0	2,995,024	2,121,464	(582,946)
Other changes	48,771	0	0	49,860	0	(23,613)
Working capital provided by operating activities	10,932,749	7,230,625	5,211,706	34,252,304	30,947,698	31,137,782
Changes in operating assets and liabilities:						
Inventories decrease (increase)	0	0	0	(12,644)	(30,000)	(202,429)
Unclaimed revenues (increase) decrease	(100,471)	0	(972,452)	(405,915)	214,947	(911,459)
Other current receivables (increase) decrease	(1,381,219)	0	(602,538)	(1,445,928)	17,372	(1,147,282)
Current liabilities (decrease) increase	(885,336)	0	849,165	347,911	321,591	678,165
Contributions to pension payments	(2,058,491)	(1,950,000)	(1,784,104)	(2,085,991)	(1,950,000)	(1,804,960)
Change in operating assets and liabilities	(4,425,517)	(1,950,000)	(2,509,930)	(3,602,568)	(1,426,090)	(3,387,965)
Net cash provided by operating activities	6,507,232	5,280,625	2,701,776	30,649,737	29,521,608	27,749,817
Investments activities						
Investments in fixed tangible assets	(9,493,658)	(11,285,718)	(9,454,763)	(24,256,738)	(28,212,410)	(21,007,175)
Investment in investment properties	0	0	0	(1,276,405)	(2,748,000)	(2,413,576)
Investments in intangible assets	0	0	0	(207,833)	0	(109,212)
Road construction fees and building permits	4,110,542	7,137,363	3,090,468	4,789,016	7,137,363	3,589,005
Proceeds from sale of fixed tangible assets	825,953	929,100	228,911	922,130	1,416,893	1,725,243
Change in share holdings	(144,188)	(256,000)	(50,148)	15,063	(256,000)	5,171
Restricted bank deposits	0	0	0	(2,078,883)	0	1,084,922
Long-term receivables, change	1,211,849	907,794	15,554	4,366,142	7,444,421	(1,149,793)
Other investment activities	0	0	0	0	1,071,423	91,226
Investment activities	(3,489,502)	(2,567,461)	(6,169,978)	(17,727,509)	(14,146,309)	(18,184,189)
Financing activities						
New long-term borrowings	2,201,159	2,246,020	2,453,014	15,247,879	13,885,020	2,392,216
New lease liabilities	0	0	609,907	0	0	609,907
Repayments of long-term liabilities	(1,327,834)	(1,223,573)	(1,237,014)	(17,114,470)	(21,771,723)	(17,222,205)
Payments on lease liabilities	(734,317)	(758,843)	(674,108)	(734,317)	(758,843)	(674,108)
Paid-in capital	0	0	0	0	1,779,547	0
Short-term borrowings, change	0	0	0	1,796,329	0	435,493
Dividends paid	0	0	0	(75,779)	0	(42,294)
Other financing activities	(75,612)	(64)	(91,318)	0	0	0
Financing activities	63,396	263,540	1,060,481	(880,358)	(6,865,999)	(14,500,991)
(Decrease) Increase in cash and cash equivalents.....	3,081,126	2,976,704	(2,407,721)	12,041,871	8,509,299	(4,935,363)
Cash and cash equivalents at beginning of year.....	5,596,949	5,641,317	8,004,670	14,816,610	20,236,619	19,877,287
Effect of currency fluctuations on cash.....	0	0	0	(270,363)	0	(125,315)
Cash and cash equivalents at year-end.....	8,678,075	8,618,021	5,596,949	26,588,117	28,745,918	14,816,609
Investment and financing activities without cash flow effect						
Investments in fixed tangible assets	0	0	0	(555,151)	0	(379,066)
Investments in shares in companies	(96,000)	0	(160,000)	0	0	0
Short-term borrowings, change	96,000	0	160,000	555,151	0	379,066
New borrowings	0	0	0	5,816,713	0	0
Repayment of long-term liabilities	0	0	0	(5,816,713)	0	0

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Notes

1. Information on the Municipality

Reykjavíkurborg (the City of Reykjavík), the capital of Iceland, is a municipality with a population of 123,133, as at 1 December 2016. 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.

2. Basis of preparation

The financial statements of Reykjavíkurborg (the City of Reykjavík) include 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 Aðalsjóður (the City's Operation Fund), Eignasjóður (Real Estate Fund) and Bílastæðasjóður (Parking 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), Faxaflóahafnir sf. (Associated Icelandic Ports), Félagsbústaðir hf. (Reykjavík Social Housing), Íþróttá- og sýningahöllin ehf. (Sport and Exhibition Centre), Jörundur ehf. (real estate), Malbikunarstöðin Höfði hf. (Asphalt Station Hofdi), Orkuveita Reykjavíkur (Reykjavík Energy), Slökkvilið höfuðborgarsvæðisins bs. (Capital District Fire and Rescue Service), Sorpa bs. (Capital Area Waste Disposal Company) and Strætó bs. (Metropolitan Bus Transportation Company).

The financial statements have been prepared on the historical cost basis and comply 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, and Regulation No. 1212/2015 on the accounting, budgeting and financial statements of municipalities.

Included in the consolidated financial statements for Reykjavík Group are the financial statements of Orkuveita Reykjavíkur and Félagsbústaðir hf., which have been prepared in accordance with International Financial Reporting Standards (IFRS). The most significant deviations from the accounting policies for municipalities are:

- a part of fixed tangible assets has been restated at fair market value;
- embedded derivatives are stated at fair market value;
- shares in companies are stated at fair market value;
- other assets and liabilities are stated at fair market value;
- the operating lease agreement of Orkuveita Reykjavíkur for its headquarters is not included in the balance sheet.

The financial statements of Orkuveita Reykjavíkur and Félagsbústaðir hf. are included unchanged in the consolidated financial statements of Reykjavík Group. The financial statements are largely based on the same accounting policies as the previous year.

Balances between Reykjavík Municipal entities and inter-unit transactions are eliminated in the financial statements for Reykjavík Municipal. Balances between A operation and B operation entities and inter-unit transactions are eliminated in the consolidated financial statements. 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.

Accounting methods

3. Income recognition

Tax revenues are recognised on the date of levying, 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 plot rents.

Capital expenditure and collection of construction fees are recognised in the Income Statement as decrease to construction costs and are recognised as a deduction from depreciation over the assets' anticipated useful life. Proceeds from 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 accordingly.

Notes

4. Expense recognition

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.

5. Indexation and exchange-rate criteria

Assets and liabilities which are indexed or denominated in foreign currency are recognised in the financial statements at the indexation or exchange rate applying at year-end 2016. Accrued indexation and exchange-rate differences are recognised in the Income Statement.

6. Intangible assets

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.

7. Capitalisation of fixed tangible assets

Fixed tangible assets, other than plots and land for which the municipality receives lease income, are recognised as assets at cost net of depreciation based on their estimated useful life. The cost of operational assets consists of their purchasing price and the costs incurred from their acquisition and improvements. Purchases of tools and equipment for Reykjavík A operation under ISK 2.5 million are expensed, with the exception that equipment which is subject to compulsory registration is capitalised.

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 policies 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 on a regular basis. Revaluation of plots and land is recognised as equity.

The distribution and production systems of Orkuveita Reykjavíkur and operational assets of Íþrótt- og sýningahöllin ehf. are recognised 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 recognised as equity. Depreciation on the restated value is entered in the Income Statement.

Investment properties are real estate of Félagsbústaðir hf. owned by the company with the object of raising rent revenue. Investment properties are recognised at fair value in accordance with International Financial Reporting Standards (IFRS). The evaluation of investment properties is based on the official real estate evaluation of the Icelandic National Registry. According to information from the National Registry, the official real estate evaluation is fair value estimated in real estate market transactions. The evaluation is performed in May each year based on pricing in February of 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 building cost index until the end of the year. Changes in the evaluation of investment properties are recognised under the item value adjustment of investment properties income statement.

8. Financial instruments

Financial instrument is categorised as financial asset or liability at fair value in the Income Statement in the case of trading assets or trading liabilities, or if they are recognised as financial instruments at fair value in the Income Statement at their initial entry in the accounts. Financial assets and liabilities at fair value in Orkuveita Reykjavíkur's Income Statement are recognised at fair value in the Balance Sheet. Changes in fair value are recognised in the Income Statement.

Embedded derivatives are separated from the host contract and recognised separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, another instrument with the same provisions as the embedded derivative would be defined as a derivative, and the mixed contract is not recognised at fair value in the income statement. Orkuveita Reykjavíkur uses derivatives to hedge against currency, interest and aluminium price risk. Derivative contracts are recognised at fair value in the Balance Sheet, and changes in fair value are recognised in the Income Statement.

Notes

9. Depreciation of fixed tangible assets, other than leased assets

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

General purpose buildings, offices and schools.....	25-50 years
Other buildings.....	25-50 years
Plots 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
Vehicles, machinery and equipment.....	3-15 years

10. Depreciation of leased assets

The depreciation of leased assets is calculated as a fixed percentage based on lease period or estimated useful life, if shorter. If it is known that the municipality will acquire the leased asset at the end of the lease period, the useful life of the asset in question is used. In general, residual value corresponds to one year's depreciation, not exceeding 10% of the original price. The estimated useful life of leased assets is as follows

Real estate.....	4-26 years
------------------	------------

11. Shares in companies

In the financial statements of Reykjavík Municipal, shares in companies, co-owned municipal agencies and own enterprises are entered at cost, although the book value at year-end 2001 remains unchanged in the financial statements. The financial statements of Reykjavík Municipal focuses primarily on the use of tax revenues, and therefore shares in the results of other companies are not recognised. Contributions from Reykjavík Municipal to the operations of co-owned B operations companies constitute part of the cost of the respective segments of Reykjavík Municipal.

In the consolidated financial statements of Reykjavík Group, shares in associated companies are recognised according to the equity method. The equity method entails that the City's share in the results and equity of associated companies is recognised in the financial statements. The fair value of shares categorised as financial assets for sale is determined through recognised evaluation methods, except in cases where the price in recent transactions is used as a reference. Other equity shares are recognised at cost.

Depreciation of shares in companies that have been subject to impairment is calculated and recognised in the financial statements following a valuation.

12. Long-term receivables

Long-term receivables are recognised in the Balance Sheet in accordance with their credit terms, less a provision for losses. Current maturities and payments in arrears are recognised among current assets in the Balance Sheet.

13. Provision for losses

Long-term receivables, outstanding tax revenue and other short-term receivables have been evaluated with regards to risk of loss and a provision is made in the financial statements with an indirect depreciation. This provision does not represent a final write-off but a reserve is created to meet possible losses. Changes in the provision based on actual losses during the year are recognised in the Income Statement.

14. Inventories

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

Notes

15. Short term receivables

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

16. Cash and cash equivalents

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

17. Assets off the Balance Sheet

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

18. Obligations

Pension obligations for the benefit of the City's employees are recognised as a long-term liability in the Balance Sheet based on actuarial assessment. Changes in the liability during the year are recognised in the Income Statement, see note 44.

19. Deferred income tax liability and assets

The deferred income tax liability and assets of entities in B operations which are subject to income tax, have been calculated and recognised in the financial statements. The calculation is based on the temporary difference between the tax return on the one hand, and 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 recognised to the extent that it is believed to be of use.

20. Long-term liabilities

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

21. Lease debts

At the original recognition 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 policies when assessing whether a lease debt should be recognised 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 the date of the contract.

22. Budget

The budget with annexes for the year 2016 is a part of the financial statements and is included in the income statement, statement of cash flow and in the notes

23. Statement of Cash Flows

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

Notes

24. Operating revenue

Operating revenue is specified as follows:

	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
	2016 Financial Statement	2016 Budget with Annexes	2016 Financial Statement	2016 Budget with Annexes
Tax revenues				
Municipal income tax:				
Paid municipal income tax	68,705,540	67,792,924	68,705,540	67,792,924
Share of Municipal Equalisation Fund in income tax	(3,643,476)	(3,595,079)	(3,643,476)	(3,595,079)
Share of Mun.Eq.Fund in tax relating to the disabled	(4,684,469)	(4,622,245)	(4,684,469)	(4,622,245)
	60,377,596	59,575,600	60,377,596	59,575,600
Postpaid municipal income tax	2,975,576	1,350,000	2,975,576	1,350,000
Tax changes	(580,469)	0	(580,469)	0
Amortization of tax revenues	(1,030,113)	0	(1,030,113)	0
Changes in provision for lost revenue	500,000	0	500,000	0
	62,242,589	60,925,600	62,242,589	60,925,600
Property tax				
Property tax *	12,961,232	13,725,652	12,501,360	13,204,161
Plot rent	1,174,024	1,200,134	1,132,369	1,152,898
Write-off/depreciation of property tax revenues	4,360	0	4,360	0
	14,139,617	14,925,786	13,638,089	14,357,059
Total tax revenues.....	76,382,206	75,851,386	75,880,679	75,282,659
Contributions from Municipal Equalisation Fund				
Contribution for the disabled	5,060,300	4,464,000	5,060,300	4,464,000
Municipal Equalisation Fund, other contributions	1,643,315	1,674,200	1,643,315	1,674,200
	6,703,615	6,138,200	6,703,615	6,138,200
Other income				
Fees for services provided	8,939,771	7,649,330	23,335,243	
Income from assets	17,820,842	18,439,603	19,056,997	
Other repayments	4,874,857	4,585,773	4,874,857	
Other income	6,796,959	6,535,531	54,493,180	
Gain from sale of assets	1,819,934	3,573,952	1,823,722	
Inter-unit transactions eliminated	(22,771,591)	(22,463,507)	(30,611,855)	
	17,480,772	18,320,683	72,972,144	73,370,574
Total operating revenue	100,566,592	100,310,269	155,556,437	154,791,433

* A reassessment of property tax due to changes in the property valuation of the Harpa Concert and Conference Hall over the years 2011-2016 was conducted in 2016, which led to a reduction in the property tax by ISK 737 million; the reduction is recognised in the property tax for 2016. See note 54 for further information.

Notes

25. Wage cost and wage-related expenses

Wage cost and wage-related expenses are specified as follows:

	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
	2016 Financial Statement	2016 Budget with Annexes	2016 Financial Statement	2016 Budget with Annexes
Wages	41,721,141		51,905,831	
Wage-related expenses	9,866,335		12,199,583	
Total wage cost and wage-related expenses	51,587,476	52,396,696	64,105,414	64,759,907
Changes in accrued vacation obligations	127,749	0	212,090	0
Transfer/capitalisation of salaries	(106,982)	0	(842,796)	0
	51,608,243	52,396,696	63,474,707	64,759,907
Changes in pension obligations	5,038,127	5,013,000	5,114,871	5,080,000
Total wage cost and wage-related expenses	56,646,370	57,409,696	68,589,579	69,839,907
Average full-time equivalent positions	6,887		8,105	

Salaries and salary related expenses relating to the City's Executive Committee and City Council amounted to ISK 164 million for the year 2016.

26. Financial income and financial expenses

Financial income and (expenses) are specified as follows:

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operativos
Dividends on equity shares	345,423	129,233
Risk charge for guarantees	923,641	(87,374)
Interest income and indexation	1,448,755	1,325,376
Interest expenses and indexation	(2,656,446)	(7,988,627)
Financial income tax	(258,003)	(272,541)
Gain on sale of securities	6,563	6,563
Hedge contracts	0	(2,945,089)
Exchange rate difference	(33,464)	8,465,657
Changes in fair value	0	2,256,978
Total financial income and (expenses)	(223,530)	890,175

27. Statement of operations

Operations of the City's segments, departments and companies are specified as follows:

Municipal Fund	2016 Financial statements			2016 Budget with Annexes
	Expenses	Revenues	Balance	Net
Tax revenue	0	84,653,427	(84,653,427)	(83,527,672)
Contribution to B operation companies	2,723,880	0	2,723,880	2,790,733
Department of Sports and Leisure	8,423,444	1,715,460	6,707,985	6,835,478
Department of Culture and Tourism	4,644,947	447,320	4,197,628	4,291,040
Department of Education and Recreation	46,286,615	4,112,309	42,174,306	42,371,416
Central administration offices	4,398,252	1,587,795	2,810,456	2,966,455
Department of Environment and Transport	8,588,163	2,119,130	6,469,033	6,714,964
Department of Welfare	26,505,380	5,931,778	20,573,602	21,185,615
Joint expenses	7,110,208	157,102	6,953,107	7,773,143
Operation of Municipal Fund sectors	108,680,890	100,724,321	7,956,569	11,401,172
Financial income and financial expenses	376,915	4,922,295	(4,545,380)	(4,122,347)
Municipal Fund total	109,057,805	105,646,616	3,411,189	7,278,825

Notes

27. Statement of operations, continued:

Reykjavik Municipal (A operation) organisations	2016 Financial statements			2016 Budget with Annexes
	Expenses	Revenues	Balance	Net
Public Works and Real Estate Fund	17,403,172	22,972,702	(5,569,530)	(7,649,858)
Reykjavik Parking Services	744,132	1,222,756	(478,624)	(103,551)
Internal transactions in A operation	(24,353,126)	(24,353,126)	0	0
A operations total	102,851,984	105,488,948	(2,636,965)	(472,569)
B operation companies				
Aflvaki hf.	123	0	123	64
Faxaflóahafnir sf.	2,666,754	3,409,542	(742,788)	(421,691)
Félagsbústaðir hf.	3,467,828	14,245,183	(10,777,355)	(3,413,731)
Íþróttá- og sýningahöllin hf.	446,819	404,652	42,167	136,481
Jörundur ehf.	7,694	0	7,694	0
Malbikunarstöðin Höfði hf.	1,400,908	1,452,672	(51,764)	(41,216)
Orkuveita Reykjavíkur	28,068,002	41,423,226	(13,355,225)	(7,942,995)
Slökkvilið höfuðborgarsvæðisins bs.	2,485,880	2,535,555	(49,675)	(27,873)
Sorpa bs.	2,907,857	3,325,556	(417,700)	(314,718)
Strætó bs.	7,297,710	7,477,379	(179,669)	(26,156)
	48,749,575	74,273,766	(25,524,192)	(12,051,835)
Share in associated companies' results	0	(236,835)	236,835	0
Minority interest	0	(1,299,098)	1,299,098	0
B operations total	48,749,575	72,737,834	(23,988,259)	(12,051,835)
Internal transactions in B operations	(8,595,262)	(8,341,791)	253,471	853,172
Reykjavik Group (A and B operations) total	143,006,296	169,884,991	(26,371,753)	(11,671,232)

The results of financial income and expenses of Reykjavik Group organisations and B operation companies are recognised as income or expenses, as applicable.

28. Share in the results of associated companies

Shares in the results of associated companies are specified as follows:

	Reykjavik Group A and B operations
Minjavernd hf.	1,038
Harpa tónlistar- og ráðstefnuhús ohf.	(235,561)
Situs ehf.	180
Orkuveitan - associated companies	(3,413)
Sorpa - associated company	922
	<u>(236,835)</u>

29. Intangible assets

Intangible assets are specified as follows:

	Reykjavik Group A and B operations
Total value 1.1.2016	2,711,697
Depreciations 1.1.2016	(1,345,661)
Book value 1.1.2016	1,366,036
Additions	207,833
Depreciations	(70,099)
Book value 31.12.2016	<u>1,503,771</u>

Notes

30. Fixed tangible assets

Fixed tangible assets of A operation are specified as follows:	Reykjavik Municipal A operations			
	Real estate	Road systems	Machinery and equipment	Total
Total value 1.1.2016	140,463,886	16,362,160	7,120,472	163,946,517
Depreciations 1.1.2016	(49,717,578)	(3,551,100)	(3,050,282)	(56,318,960)
Book value 1.1.2016	90,746,308	12,811,060	4,070,189	107,627,557
Re-classification	(34,500)	34,500	0	0
Additions	5,734,602	2,916,444	842,612	9,493,658
Road construction fees	0	(2,869,419)	0	(2,869,419)
Sold or disposed of	(247,143)	0	0	(247,143)
Depreciation	(2,522,284)	(637,029)	(708,652)	(3,867,965)
Book value 31.12.2016	93,676,983	12,255,556	4,204,149	110,136,688
Depreciation rate	2 - 10%	4%	10 - 25%	

Fixed tangible assets of A and B operations are specified as follows:	Reykjavik Group A and B operations			
	Real estate	Utilities	Road system mach. & equipm.	Total
Total value 1.1.2016	173,796,461	506,706,685	33,575,055	714,078,201
Depreciations 1.1.2016	(66,716,230)	(230,617,703)	(11,897,277)	(309,231,211)
Book value 1.1.2016	107,080,231	276,088,982	21,677,778	404,846,990
Re-classification	3,505	(38,165)	34,660	0
Translation difference	(1,121)	(15,886,033)	(6,561)	(15,893,715)
Revaluation	72,266	0	0	72,266
Additions	8,095,395	12,062,975	4,643,687	24,802,056
Road construction fees		0	(2,869,419)	(2,869,419)
Sold or disposed of during the year	(775,616)	0	(175,792)	(951,408)
Impairment of assets under construction		(990,284)		(990,284)
Depreciation	(3,416,418)	(9,087,926)	(2,079,155)	(14,583,500)
Book value 31.12.2016	111,058,241	262,149,549	21,225,197	394,432,986
Depreciation rate	2 - 4%	2 - 20%	4 - 33,3%	

Collateral:

Long-term liabilities of Félagsbústaða hf. amounting to ISK 28,518 million at the end of the year 2016, are secured by collateral in the company's real estate. Debts of Íþrótt- og sýningarhöllin hf. amounting to ISK 2,058 million are secured by collateral in the company's real estate and in a rental agreement with the City of Reykjavík.

Investment properties are specified as follows:	Reykjavik Municipal	Reykjavik Group
	A operation	A and B operations
Book value 1.1.2016	0	53,494,476
Revaluation during the year	0	10,942,130
Additions	0	1,276,405
Sold during the year	0	(58,813)
Book value 31.12.2016	0	65,654,198

The presentation of Félagsbústaðir hf. is based on fair value measurement. Valuation changes resulting from fair value measurements are recognised in the Income Statement.

Orkuveita Reykjavíkur performs a special re-evaluation of its production systems and 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's 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. No re-evaluation was performed at Orkuveita Reykjavíkur in the year 2016.

The permanent fixed assets of Íþrótt- og sýningarhöllin hf. are recognised at the re-evaluated cost price, net of depreciation.

Notes

31. Leased properties of A operations

Leased properties of A operations are specified as follows:

	Reykjavik Municipal A operations
Total value 1.1.2016	11,459,137
Total value 31.12.2016	11,459,137
Depreciation 1.1.2016	(3,805,801)
Depreciation during the year	(625,758)
Total depreciation 31.12.2016	(4,431,558)
Book value 31.12.2016	7,027,579
Depreciation rate	4 - 25%

32. Depreciation and impairment

Depreciation and impairment in the income statement are specified as follows:

	Reykjavik Municipal A operation	Reykjavik Group A and B operations
Depreciation of fixed tangible assets, see note 30	3,867,965	14,583,500
Depreciation of properties under construction, see note 30	0	(990,284)
Depreciation of intangible assets, see note 29	0	70,099
Depreciation of leased properties, see note 31	625,758	625,758
Depreciation during the year	4,493,723	14,289,072
Recognised in the income statement	4,493,723	16,256,624
Recognised as a reduction of obligations	0	13,015
	4,493,723	16,269,640

33. Investments in fixed tangible assets

Investments of A operations during the year are specified as follows:

	2016 Financial Statements	2016 Budget with annexes
Property, machinery and equipment:		
Culture	256,611	281,000
Education	2,192,473	2,211,000
Sports and leisure	1,000,130	966,185
Social Services	112,085	120,000
Building plots and land	850,184	741,000
Other properties	650,998	1,685,033
Software, machinery and equipment	689,010	852,000
Renovation and major maintenance of buildings	963,422	935,000
Total property, machinery and equipment	6,714,911	7,791,218

Notes

33. Investments in fixed tangible assets, continued:

	2016 Financial Statements	2016 Budget with annexes
Road system		
Road construction	2,778,747	3,494,500
Road construction fees over the year	<u>(2,869,419)</u>	<u>(4,243,470)</u>
Road system total	<u>(90,672)</u>	<u>(748,970)</u>
Total capitalised investment	6,624,239	7,042,248
Road construction fees over the year	<u>2,869,419</u>	<u>4,243,470</u>
Total investment of A operations	<u><u>9,493,658</u></u>	<u><u>11,285,718</u></u>

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

Faxaflóahafnir sf.	1,934,802	2,105,000
Félagsbústaðir hf.	1,280,477	2,748,000
Orkuveita Reykjavíkur	12,745,495	13,119,191
Slökkvilið höfuðborgarsvæðisins bs.	54,914	72,500
Strætó bs	117,342	370,000
Sorpa bs	328,509	1,215,000
Other B operation companies	<u>123,261</u>	<u>45,000</u>
Total investment of B operations	<u>16,584,800</u>	<u>19,674,692</u>
Total investment of Reykjavik Group in fixed tangible assets during the year	<u><u>26,078,459</u></u>	<u><u>30,960,410</u></u>

34. Selling price of building rights, road construction fees and sale of fixed assets

	2016 Financial Statements	2016 Budget with annexes
Selling price of building rights, plots and road construction fees:		
Road construction fees A operations	2,869,419	4,243,470
Sold building rights A operations	<u>1,241,123</u>	<u>2,893,893</u>
	4,110,542	7,137,363
Sale of B operations' plots	<u>678,474</u>	<u>0</u>
	<u>4,789,016</u>	<u>7,137,363</u>
Selling price of fixed assets:		
Selling price of fixed assets of A operations	825,953	929,100
Selling price of fixed assets of B operations	<u>96,177</u>	<u>487,795</u>
	<u>922,130</u>	<u>1,416,895</u>

35. Official value and insurance value of buildings

	Reykjavik Municipal A operation	Reykjavik Group A and B operations
Fire insurance valuation, the official property valuation and book value of real estate are specified as follows at year-end 2016:		
Official property valuation of buildings	89,148,937	175,003,179
Official property valuation of plots	24,952,895	55,081,901
Fire insurance valuation	156,965,428	252,518,082
Book value	93,676,983	176,712,439

Notes

36. Insurance value of liquid assets

According to a resolution of the City Council, 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 amounted to ISK 331,195 million at year end 2016.

37. Shares in companies

	Share	Reykjavik		
		Municipal A operation Book value	Reykjavik Group A and B operations Book value	
Shares in companies are specified as follows:				
Subsidiaries	A operation , A and B operation			
Aflvaki hf.	54,5%	95,7%	4,363	
Félagsbústaðir hf.	100,0%	100,0%	3,001,000	
Íþróttá- og sýningahöllin hf.	50,0%	50,0%	50,000	
Jörundur ehf	100,0%	100,0%	0	
Malbikunarstöðin Höfði hf.	99,0%	100,0%	190,575	
Slökkvilið höfuðborgarsvæðisins bs.	60,8%	60,8%	1,027,526	
Sorpa bs.	66,7%	66,7%	486,019	
Strætó bs.	60,3%	60,3%	514,504	
Orkuveita Reykjavíkur	93,5%	93,5%	0	
Faxaflóahafnir	75,6%	75,6%	59,111	
Subsidiaries total			<u>5,333,098</u>	
Associated companies				
Harpa tónlistar- og ráðstefnuhús ohf.	46,0%	46,0%	555,370	0
Situs ehf	46,0%	46,0%	0	8,183
Minjavernd hf.	38,3%	38,3%	107,839	317,973
Metan hf.		100,0%		23,791
Íslensk Nýorka		29,0%		27,670
Netorka hf.		38,4%		25,521
Orkuskiptiinn REYST hf.		45,0%		6,146
Associated companies total			<u>663,209</u>	<u>409,284</u>
Other companies				
Landsnet hf.		6,78%		3,222,160
Lánasjóður sveitarfélaga ohf.	17,47%	17,47%	1,547,831	1,547,831
Eignarhaldsfélagið Spölur ehf.		23,50%	300	51,787
Galantatem		3,80%		13,082
Keilir		11,30%		18,500
Landskerfi bókasafna hf.	20,60%	20,60%	29,524	29,524
Neyðarlínan hf.	12,50%	20,40%	2,000	9,394
Rekstrarfélagið Stæði ehf	22,97%	22,97%	919	919
DMM lausnir ehf		13,40%		23,898
Vísindagarðar Háskóla Íslands ehf.	5,44%	5,44%	11,688	11,688
Halakot ehf		100,00%		51,000
Vatnsveita Hvalfjarðarsveitar sf.		50,00%		75,481
Þróunarfélag Grundatanga ehf	16,67%	33,33%	750	1,500
Other companies			40	376
Other companies total			<u>1,593,051</u>	<u>5,057,139</u>
Total shares			<u>7,589,358</u>	<u>5,466,423</u>

The share capital of Félagsbústaðir hf. was increased by ISK 256 million this year and shares in Landsnet hf. were re-evaluated at ISK 377 million this year.

Notes

38. Embedded derivatives

Orkuveita Reykjavíkur has entered into four aluminium price related power sale agreements for an initial period of 20 years, one with Landsvirkjun relating to Norðurál and three with Norðurál relating to 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 Helgúvík and delivery pursuant to that agreement has begun but 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.

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 risk management department of Orkuveita Reykjavíkur is authorised to hedge the aluminium price risk for up to 5 years. At the accounting date the hedging amounted to 50% of the estimated sales linked to the price of aluminium for the next 12 months.

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 financial reporting standards on financial instruments the fair value of embedded derivatives concerning Grundartangi, and partially concerning Helgúvík, has been evaluated and recognised in the financial statements.

Embedded derivatives in power sale agreements that are recognised in the financial statements are recorded as assets or liabilities in the balance sheet at fair value on the accounting date and the changes to the fair value over the year are recognised in the income statement as income and expenses on financial assets and financial liabilities.

Fair value of embedded derivatives in electricity sales contracts is specified as follows:	2016	2015
Fair value of embedded derivatives in electricity contracts at the beginning of the year	(13,192,163)	(3,027,689)
Fair value changes during the year	2,873,054	(10,164,474)
Fair value of embedded derivatives in electricity contracts at the end of the year (liability)	(10,319,109)	(13,192,163)

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

Non-current embedded derivatives (liability)	(8,913,368)	(11,095,112)
Current embedded derivatives (liability)	(1,405,741)	(2,097,051)
Total embedded derivatives	(10,319,109)	(13,192,163)

Among the embedded derivatives of power contracts is a contract with Norðurál Helgúvík ehf. ("NH") in the amount of minus ISK 2.4 billion. Construction work relating to an aluminium smelter at Helgúvík 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 the aluminium smelter at Grundartangi.

39. Long-term receivables

Long-term receivables are specified as follows:

Long term claims of A operations against B operations' companies	2016	2015
Subordinated loan to Orkuveita Reykjavíkur, indexed, 3.05%-4.25% interest rate	12,434,163	12,825,889
Current maturities of long term claims	(880,733)	(646,992)
Total long-term claims against B operations' companies	11,553,429	12,178,896

Annual maturities are specified as follows:

Year 2016	0	646,992
Year 2017	880,733	862,653
Year 2018	1,178,401	1,154,143
Year 2019	1,277,623	1,251,306
Year 2020	1,277,623	1,251,306
Year 2021	1,277,623	1,251,306
Later	6,542,158	6,408,182
Total long-term receivables against B-operations' companies	12,434,163	12,825,889

Notes

39. Long-term receivables, continued:

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
Other long-term receivables		
Receivables from other companies	3,926,762	8,844,082
Provision for losses	(1,843,462)	(1,843,462)
	2,083,300	7,000,621
Next year's payments on long-term receivables	(809,749)	(1,020,637)
	<u>1,273,551</u>	<u>5,979,984</u>
 Annual maturities are specified as follows:		
Year 2017	809,749	1,020,637
Year 2018	415,699	4,696,250
Year 2019	232,301	377,062
Year 2020	198,835	337,471
Year 2021	158,647	202,648
Later	2,111,531	2,210,015
Total, other long-term receivables	<u>3,926,762</u>	<u>8,844,082</u>

The long-term receivables in the consolidated financial statements include a bond recognised at market value in the income statement. The bond is denominated in USD and carries 5.1% interest. The loan is a bullet bond in the amount of ISK 4.1 billion, due in the beginning of 2018. The bond is linked to the price of aluminium to a certain extent and secured by a collateral in shares in HS Orka hf. The bond is recognised 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.

40. Inventories

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
Inventories are specified as follows:		
Inventory of materials	0	582,934
Raw material	0	268,170
Supplies in stock	0	92,102
Products ready for use	0	32,025
	<u>0</u>	<u>975,231</u>

41. Current receivables

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
Provisions for current receivables are specified as follows:		
Provision for receivables other than tax revenue at the beginning of the year	243,000	749,572
Actual losses during the year	(56,521)	(131,474)
Provision for losses during the year	128,621	207,299
Provision for receivables other than tax revenue at year-end	<u>315,100</u>	<u>825,397</u>

Outstanding tax revenue, excluding default interest and provisions, amounted to ISK 11,201 million at year-end. A provision is recognised as a reduction in tax revenue and an amount of ISK 526 million is written off in the financial statements. The total provision for tax revenue at year-end amounted to ISK 5,211 million.

Notes

42. Cash and bank deposits

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
Net cash is specified as follows:		
Bank deposits with three to twelve month maturities	0	3,000,000
Marketable securities	0	1,132,427
	0	4,132,427
Bank deposits and short-term securities, redeemable without notice	8,678,075	26,588,117
	<u>8,678,075</u>	<u>30,720,544</u>

43. Equity

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
Changes in equity:		
Equity 1.1.2016	73,777,863	211,307,443
Changes in the market value of equity shares	0	352,792
Re-evaluation of fixed assets	0	28,906
Translation differences of Orkuveita Reykjavíkur *	0	(6,570,434)
Other changes	0	45,706
Operating results	<u>2,636,965</u>	<u>26,371,753</u>
Equity 31.12.2016	<u>76,414,827</u>	<u>231,536,166</u>

* Translation difference is the exchange rate difference resulting from the conversion of financial statements in operations that use a functional currency other than the Icelandic króna.

44. Pension obligations

The net present value of the pension obligations of A operations due to LsRb (Reykjavik employees' pension fund) amounted to ISK 30,900 million at the end of 2016, while the net present value of A and B operations amounted to ISK 31,517 million, taking into consideration the share in the pension fund's net assets. The benefit rights largely follow wage changes and are adjusted based on a 2% interest rate, but in other respects a 3.5% interest rate is used for adjustment.

In evaluation of the pension obligations of A operations due to LsRb, assumptions about mortality rate and life expectancy are made in accordance with a proposal from the Icelandic Actuarial Society dating from 1 March 2015. The LsRb actuarial valuation uses existing mortality and life expectancy tables which are based on experience from the years 2010-2014. The amendment of 1 March 2015 proposes a new methodology in estimating mortality rate and life expectancy by assuming that the mortality rate will continue to decrease and that average life expectancy will increase over the next decades instead of using the experience of previous years. It is the assessment of management that this new methodology provides a clearer view of the pension obligations of A operations at year-end 2016 and that the City is required to take this into consideration in order to comply with the Financial Statements Act, even though this new methodology is not yet effective under current actuarial valuation regulations of pension funds. The managements' assessment is based, among other things, on the fact that LsRb is closed to new members.

The evaluation of the obligations was done by LsRb's actuary using the same methodology as in the actuarial valuation with the modified assumptions mentioned above.

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
The obligations are specified as follows:		
Pension obligations 1.1.2016	27,920,028	28,487,689
Contributions to pension payments during the year	(2,058,491)	(2,085,991)
Change in pension obligations during the year	<u>5,038,127</u>	<u>5,114,871</u>
Pension obligations 31.12.2016	<u>30,899,664</u>	<u>31,516,569</u>
Pension obligations, short-term	2,137,200	2,162,200
Pension obligations, long-term	<u>28,762,464</u>	<u>29,354,369</u>
	<u>30,899,664</u>	<u>31,516,569</u>

Notes

44. Pension obligations, continued:

Estimated payments in 2017 due to pension obligations are recognised among current liabilities in the Balance Sheet.

Estimated future pension payments for Reykjavik Municipal by period:

Payments 2017-2021	6,516,025
Payments 2022-2026	6,307,251
Payments 2027-2031	5,702,504
Payments 2032 and later	<u>12,373,883</u>
	<u>30,899,664</u>

In 2007 the operating fund made a payment on its pension obligation to LSR with securities deriving from the sale of Landsvirkjun. The pension fund keeps this payment separate from other assets of the fund when calculating the City's pension obligations.

45. Pension obligations to Brú Pension Fund

As revealed in the Notes to the Annual Financial Statements for 2015, an imbalance existed between the assets of the Fund and the earned entitlements of the members of Division A of the Brú Pension Fund. With the enactment of Act No. 127/2016, the Act on the Pension Fund for State Employees was amended, and the amendment extended to the Brú Pension Fund. The amended articles of association of the Brú Pension Fund have the effect that as of 1 June 2017 the accrual of entitlements in Division A of the Fund will change from an equal accrual of rights to an age-linked accrual; the general age for taking a pension will be raised from 65 to 67, and the contribution of employers will be reduced from 12% to 11.5%. The entitlements of persons who have started taking a pension on 1 June 2017 and persons who reach the age of 60 at that time will not be curtailed or increased, even in the event of curtailments or increases for other Fund members. As a result of these changes the Fund anticipates that employers will settle all accrued Division A pension liabilities as from 31 May 2017. It is furthermore assumed that employers will pay to Brú the assessed future liabilities to the Supplementary Pension Fund in respect of Fund members possessing entitlements in the current earning system on 31 May 2017, and also a contribution to the Prudential Fund in the same manner as the State Treasury in respect of Division A of the Pension Fund for State Employees. If this process goes through there will no longer be any need to increase employers' contributions, as discussed in the Annual Financial Statements for 2015.

46. Long-term liabilities

Long-term liabilities are specified as follows:

Long-term liabilities to foreign credit institutions listed by currency:

	Reykjavik Municipal A operations	Reykjavik Group A and B operations
Liabilities in USD	0	30,554,614
Liabilities in GBP	0	2,544,687
Liabilities in EUR	0	37,291,065
Liabilities in CHF	0	12,148,428
Liabilities in JPY	0	5,868,767
Liabilities in SEK	0	3,747,424
	<u>0</u>	<u>92,154,985</u>

Long-term liabilities to Icelandic credit institutions are specified as follows:

Liabilities in EUR	0	328,270
Domestic loans, indexed	27,534,580	94,165,684
Domestic loans, not indexed	2,923,000	12,932,979
	<u>30,457,580</u>	<u>107,426,933</u>

Total long-term liabilities to foreign and Icelandic credit institutions	30,457,580	199,581,917
Current maturities of long-term liabilities	<u>(1,402,078)</u>	<u>(15,725,361)</u>
Total long-term liabilities	<u>29,055,502</u>	<u>183,856,557</u>

Estimated annual maturities of long-term liabilities are specified as follows:

	A operations	A and B operations
Year 2017	1,402,078	15,725,361
Year 2018	1,385,417	15,582,401
Year 2019	1,167,874	14,103,404
Year 2020	813,101	13,555,771
Year 2021	770,475	12,533,596
Later	<u>24,918,635</u>	<u>128,081,384</u>
	<u>30,457,580</u>	<u>199,581,917</u>

Notes

47. Lease liabilities

The Public Works and Real Estate Fund has made lease contracts for real estate which are recognised as liabilities, see note 21. Lease contracts are indexed.

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
Lease liabilities	12,339,292	12,339,292
Next year's payments	(764,673)	(764,673)
Long-term lease liabilities	<u>11,574,619</u>	<u>11,574,619</u>

Annual lease liabilities are specified as follows:

Year 2017	764,673	764,673
Year 2018	796,497	796,497
Year 2019	802,534	802,534
Year 2020	822,335	822,335
Year 2021	857,718	857,718
Later	8,295,535	8,295,535
	<u>12,339,292</u>	<u>12,339,292</u>

The lease agreement of Orkuveita Reykjavíkur for its headquarters is not included in lease liabilities but recognised in accordance with international accounting standard IAS 17, see note 58.

Other information on lease contracts:

	Lease period	Book value 31.12.2016
Sports facilities	2006 - 2035	4,969,890
Office buildings	2002 - 2032	5,998,909
Other facilities	2007 - 2030	<u>1,370,493</u>
		<u>12,339,292</u>

Minimum payments on lease contracts are specified as follows, not at net present value:

	Sports facilities	Office buildings	Other facilities	Total
Year 2017	802,572	633,234	241,847	1,677,653
Year 2018	802,572	633,234	239,550	1,675,356
Year 2019	802,572	633,234	205,655	1,641,461
Year 2020	802,572	633,234	184,100	1,619,906
Year 2021	802,572	633,234	182,329	1,618,135
Later	5,551,523	6,565,724	1,017,313	13,134,559
Total	<u>9,564,384</u>	<u>9,731,892</u>	<u>2,070,794</u>	<u>21,367,070</u>

Total payments on lease contracts amounted to ISK 1,672 million in 2016 and are specified as follows in the financial statements:

	Reykjavik Municipal	Reykjavik Group
	A operations	A and B operations
Payments reducing lease liabilities	734,317	734,317
Interest payments	<u>466,523</u>	<u>466,523</u>
	1,200,841	1,200,841
Operating expenses	<u>471,387</u>	<u>471,387</u>
Total lease payments	<u>1,672,227</u>	<u>1,672,227</u>

Notes

48. Taxes

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

Companies in B operations for which income tax is calculated are: Orkuveita Reykjavíkur, Slökkvilið höfuðborgarsvæðisins bs, Íþrótt- og sýningarhöllin hf and Malbikunarstöðin Höfði hf.

Changes in the calculated deferred income tax assets (liabilities) are specified as follows:	Deferred tax assets	Deferred tax liabilities
Balance at the beginning of the year	5,499,678	7,773,713
Effect of special re-evaluation of fixed assets	0	14,453
Calculated income tax during the year	(3,695,347)	1,052,438
Other changes	288,831	(205,655)
Income tax payable during 2017	<u>1,621,717</u>	<u>(131,059)</u>
Balance at year-end	<u>3,714,879</u>	<u>8,503,891</u>

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

	Deferred tax assets	Deferred tax liabilities
Fixed tangible assets	0	8,873,040
Embedded derivatives	3,714,879	0
Other items	0	866,686
Impact of carry-forward loss	40,685	(1,553,723)
Provision due to uncertainty regarding utilisation	<u>(40,685)</u>	<u>317,888</u>
Balance at year-end	<u>3,714,879</u>	<u>8,503,891</u>

Obligations and guarantees off the Balance Sheet

49. Operational contracts and service contracts

Overview of grants, contracts, asset and operational lease agreements of Reykjavik Municipal:

	Total obligations	Obligations due in 2017
City Executive Committee grants	171,010	72,690
Cultural grants	3,184,761	1,083,304
Grants and service contracts, Sports and Leisure	3,736,600	1,201,900
Grants and service contracts, Social Services	7,746,434	2,675,148
Grants and service contracts, Education	17,886	17,886
Concert and Conference Hall	7,652,816	505,434
Operational agreements for Public Works and Real Estate Fund	746,575	516,850
Operational Investment agreements for Public Works and Real Estate Fund	1,971,100	1,523,100
Obligations of Reykjavik Parking Services	<u>593,000</u>	<u>401,000</u>
Total	<u>25,820,183</u>	<u>7,997,312</u>

Notes

50. Guarantees

Summary of guarantee obligations of Reykjavik Municipal to third parties in respect of bond loans:	Reykjavik Municipal
	A operation
Churches	270,152
Félagsbústaðir hf.	5,704,538
Guarantee obligations of A operations against a third party	<u>5,974,689</u>

51. Liabilities

The A operation's off-Balance Sheet obligations are specified as follows:

	City's share in liabilities	A operation balance	A and B operations
Faxaflóahafnir sf.	75,6%	673,145	
Orkuveita Reykjavíkur	93,5%	122,991,097	
Slökkvilið höfuðborgarsvæðisins bs.	56,9%	135,101	
Sorpa bs.	56,9%	191,387	
Strætó bs.	56,9%	71,781	
Félagsbústaðir hf.	100,0%	5,704,538	
A-operation liabilities off the balance sheet relating to B-operation companies		<u>129,767,048</u>	

52. Statement of financial position at year-end

The City's assets, liabilities and equity are specified as follows:

	Share	Assets	Liabilities	Equity
Reykjavik Municipal (A operations)	100,0%	160,180,565	83,765,737	76,414,827
Aflvaki hf.	95,7%	10,547	0	10,547
Faxaflóahafnir sf.	75,6%	10,865,316	1,022,187	9,843,129
Félagsbústaðir hf.	100,0%	67,754,437	35,042,629	32,711,808
Íþróttta og sýningahöllin hf.	50,0%	1,412,461	1,112,154	300,307
Jörundur ehf.	100,0%	40	47,589	(47,549)
Malbikunarstöðin Höfði hf.	100,0%	1,252,436	186,670	1,065,766
Orkuveita Reykjavíkur	93,5%	282,535,505	167,410,930	114,656,294
Slökkvilið höfuðborgarsvæðisins bs.	60,8%	1,497,249	468,281	1,028,968
Sorpa bs.	66,7%	2,156,049	693,191	1,462,858
Strætó bs.	60,3%	1,725,847	588,581	1,137,266
Internal transactions		(19,933,610)	(13,914,523)	(6,019,087)
Total		<u>510,115,642</u>	<u>276,648,336</u>	<u>232,999,024</u>
Minority share		25,362,602	11,885,867	13,476,735
Balance according to the financial statements		<u>535,478,244</u>	<u>288,534,204</u>	<u>246,475,759</u>

Notes

Other

53. Electricity sales contracts with Norðurál Helguvík

Orkuveita Reykjavíkur will perform the first part of the power purchase agreement with Norðurál Helguvík ehf. (NH) notwithstanding a disagreement since 2009 on whether Orkuveita Reykjavíkur is required to deliver more energy than already delivered. NH has not taken any legal action, but reserves the right to require Orkuveita Reykjavíkur to supply additional energy and/or pay compensation for alleged damage suffered as a result of failure to deliver energy. Orkuveita Reykjavíkur has categorically rejected such claims against the company. The potential amounts or consequences of a potential court case are unknown, but the company's management is of the opinion that the risk of any such proceedings has now receded. An arbitration court has reached a conclusion in proceedings between HS Orka and NH, which concerns a similar situation. The conclusion of the arbitration court, according to reports from the parties, is that no obligation remains on HS Orka's part. Also, NH's compensation claims have been rejected. Orkuveita Reykjavíkur's management believes there is no reason to enter a liability in the financial statements with respect to this situation.

54. Property valuation of Harpa

Last 28 October the Icelandic National Register revised its real estate assessment of the Harpa Reykjavik Concert Hall and Conference Centre at Austurbakki 2 in Reykjavik; the new assessment is based, among other things, on a judgment rendered by the Supreme Court of Iceland on 25 February 2016, where the ruling of the State Appeals Committee on Property Valuation of May 2012 was overturned. A reassessment of the real estate tax on the property for the years 2011 - 2016 has now been completed with a resulting reduction in the tax by ISK 737 million; the real estate tax entry for the year 2016 has been reduced by a corresponding amount. Harpa ohf. has appealed the National Register's reassessment of 28 October to the Appeals Committee on Property Valuation.

55. Value-added tax encumbrance.

Reykjavík Parking Services own a share in Harpa's 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 encumbrance at year-end 2016 amounts to approximately ISK 211 million.

56. Real estate sold to Félagsbústaðir hf.

In December 2016 the City of Reykjavik concluded an agreement with Félagsbústaðir hf. for the purchase of 88 residential units in 16 properties for the amount of ISK 1,703 million. Delivery and payments will take place in 2017.

Notes

57. Litigation

Other payables of A and B operations include matured derivative contracts of Orkuveita Reykjavíkur. The contracts have not been settled and are the subject of litigation. The process of their settlement is subject to significant uncertainty. In earlier accounting periods a total of ISK 740 million have been credited in Orkuveita Reykjavíkur's accounts in respect of these contracts. These entries do not imply any admission of the debt on the part of Orkuveita Reykjavíkur, and the amount may increase or decrease on final settlement of the contracts.

Strætó bs. (Metropolitan Bus Transportation Company) was sued by two parties that were not awarded a contract following a tender procedure for transportation in the capital area in 2010. In the first suit the plaintiff called for an admission of liability on the part of Strætó for alleged unlawful and criminal conduct in the tender procedure. Judgment was rendered last 31 March. The judgment of the District Court upheld the entitlement of the plaintiff to damages from the respondent for lost profit and cost of participation in the pre-selection process. The case has been appealed to the Supreme Court, where hearings are anticipated next 23 May. It is the assessment of Strætó's management that there is no reason to enter a liability in the financial statements relating to this lawsuit. In the second case the plaintiff claimed damages in the amount of ISK 530 million for damage in the form of lost profit and cost of participation in the tender process. Judgment was rendered last 16 June. The District Court held that the conditions for liability for damages were met in the case and assessed the financial damage of the plaintiff for lost profit at ISK 100 million. The judgment has been appealed to the Supreme Court, where hearings are anticipated next 23 May. A liability in the amount of ISK 152 million for potential damages and default interest has been entered under other payables in the balance sheet.

Several holders of framework contracts for driving services for the disabled and handicapped school children reported Strætó bs. to the Public Procurement Complaints Commission in November 2015. The applicants called on the Commission to express an opinion regarding Strætó's liability for damages for violations of the terms of a framework agreement on the performance of the driving services. Last 21 June the Public Procurement Complaints Commission concluded that Strætó bs. had violated its obligations under the framework contract in its ranking of framework contract holders in the performance of the driving services and purchases of driving services from parties external to the framework contract. The Commission returned the opinion that Strætó bs. was liable for damages to the applicants, but no position was taken regarding the extent of the potential financial loss of the applicants. The conclusion of the Commission is being reviewed, but the position taken by Strætó bs. is that the applicants suffered no financial loss.

The Public Procurement Complaints Commission received a complaint from BL ehf. dated 16 February 2017 with respect to a decision made by Strætó bs. regarding the acceptance of a bid following Mini-competition III, grounded in the specifications of a negotiated procedure and Terms No. 13002 on the renewal of buses. The Decision of the Commission dated 9 March 2017 concluded that the deadline for complaints had passed when the complaint was received. Accordingly, it is likely that the final ruling of the Commission will be to dismiss the case.

On 20 April 2016 the District Court of Reykjavík rendered its judgment in a lawsuit of the Metropolitan Area Fire Department against Íslandsbanki in relation to three loan agreements. The Court rejected the Fire Department's claims. The Supreme Court overturned the District Court's judgment on 6 April 2017 and approved the main claim in the case amounting to ISK 260 million.

The Competition Authority published a Decision on 21 December 2012 with the conclusion that Sorpa bs. had abused its dominant position in the market for the operation of refuse collection centres, on the one hand, and landfills or final disposals of waste, on the other hand. Sorpa appealed the decision to the Competition Appeals Committee, which confirmed the decision of the Competition Authority by a ruling issued on 18 March 2013. Sorpa did not accept the conclusion of the Appeals Committee and initiated legal proceedings for the invalidation of the ruling. The claims made by Sorpa were denied by a judgment of the District Court of Reykjavík. Sorpa appealed to the Supreme Court. A judgment of the Supreme Court issued on 2 February 2017 upheld the District Court's decision. Sorpa has not entered the resulting liability in its accounts.

Notes

58. Operating lease

Orkuveita Reykjavíkur as lessee

Arrangement of the operating lease agreement of Orkuveita Reykjavíkur.

Orkuveita Reykjavíkur concluded a 20-year lease agreement with Foss Fasteignafélag ehf. for the Group's headquarters at Bæjarhóls 1 and Réttarhóls at the end of 2013. The agreement includes an option to buy that Orkuveita Reykjavíkur can exercise after 10 years and 20 years. The rent for the first 10 years is ISK 223.9 million per year, indexed. If the option to buy is not exercised after 10 years, the minimum rent for the next 10 years will be ISK 290.2 million per year, indexed. 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 financial statements 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	2016	2015
Rent entered as expenses.....	257,040	257,040
Conditional lease	10,106	6,084
Forward lease entered as income.....	(41,172)	(48,048)
	<u>225,974</u>	<u>215,076</u>
Rent for non-terminable operating lease agreement		
Within the year.....	257,040	257,040
In 1 to 5 years.....	1,028,160	1,028,160
After 5 years.....	3,146,615	3,370,505
	<u>4,431,815</u>	<u>4,655,705</u>
Expected future revenues from sub-leasing.....	<u>137,986</u>	<u>197,442</u>

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 to ten years.

Expected future revenues from non-terminable operating lease agreements

Within the year.....	44,848	48,437
In 1 to 5 years.....	93,137	140,535
After 5 years.....	0	8,470
	<u>137,985</u>	<u>197,442</u>

Impact on the financial statements if opinion 1/2010 were to be applied to the lease agreement

The non-terminable lease debt under the lease agreement calculated to present value was on 31 December 2016 approximately ISK 1,408 million, and the value of the leased property was ISK 1,255 million. Interest expense and indexation during the year would have amounted to approximately ISK 91 million and depreciation of the leased property would have amounted to ISK 184 million.

59. 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 engaged in business with related parties during the year. Business with related parties included, among other things, general services provided by the municipality and public charges levied on related parties. The transactions are carried out 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 Local Government Act.

Notes

60. Comparison of operating budgets

The overview below explains the operating budget for 2016 pursuant to the originally approved budget of the municipality, approved annexes and original budget with annexes. The budget with annexes is shown in the Income Statement and other notes to the financial statements for comparison with the year's actual figures.

	Reykjavik Municipal A operation			Reykjavik Group A and B operations		
	2016 Original Budget	2016 Annexes to Budget	2016 Original Budget with annexes	2016 Original Budget	2016 Annexes to Budget	2016 Original Budget with annexes
Operating revenue						
Tax revenues.....	74,551,386	1,300,000	75,851,386	73,982,659	1,300,000	75,282,659
Contributions to Municipal Equalisation Fund.....	6,048,200	90,000	6,138,200	6,048,200	90,000	6,138,200
Other revenues.....	17,695,705	624,978	18,320,683	72,745,597	624,978	73,370,574
	<u>98,295,292</u>	<u>2,014,978</u>	<u>100,310,269</u>	<u>152,776,456</u>	<u>2,014,978</u>	<u>154,791,433</u>
Operating expenses						
Wage cost and wage-related expenses.....	57,333,983	75,713	57,409,696	69,764,195	75,713	69,839,908
Other operating expenses.....	34,925,867	1,822,730	36,748,597	48,362,444	1,822,730	50,185,174
Depreciation.....	4,335,403	(13,647)	4,321,756	15,747,117	(13,647)	15,733,470
	<u>96,595,254</u>	<u>1,884,796</u>	<u>98,480,049</u>	<u>133,873,757</u>	<u>1,884,796</u>	<u>135,758,551</u>
Operating result before financial items.....	1,700,038	130,182	1,830,220	18,902,699	130,182	19,032,882
Financial income and (financial expenses).....	(1,355,635)	0	(1,355,635)	(9,003,003)	0	(9,003,003)
Operating result before tax	344,403	130,182	474,585	9,899,696	130,182	10,029,879
Income tax.....	0	0	0	(2,142,631)	0	(2,142,631)
Changes in valuation of investment properties.....	0	0	0	3,786,000	0	3,786,000
Operating result.....	<u>344,403</u>	<u>130,182</u>	<u>474,585</u>	<u>11,543,065</u>	<u>130,182</u>	<u>11,673,248</u>

* In the approved budget changes to the valuation of investment properties were recognised with financial income and financial expenses.

Notes

61. Comparison of cash flow budgets

The overview below shows the cash flow budget for 2016 pursuant to the originally approved budget of the municipality, approved annexes and original budget with annexes. The budget with annexes is shown in the cash flow statement and other notes to the financial statements for comparison with the year's actual figures.

	Reykjavik Municipal A operation			Reykjavik Group A and B operations		
	2016 Original Budget	2016 Annexes to Budget	2016 Original Budget with annexes	2016 Original Budget	2016 Annexes to Budget	2016 Original Budget with annexes
Cash flows from operating activities						
Operating result	344,402	130,182	474,585	11,543,065	130,182	11,673,248
Adjustments not affecting cash flow:						
Depreciation.....	4,335,403	(13,647)	4,321,756	15,747,117	(13,647)	15,733,470
Indexation, discounts and exch.rate differences.....	936,277	0	936,277	3,140,509	0	3,140,509
Gain on sold assets.....	(3,014,993)	(500,000)	(3,514,993)	(3,014,993)	(500,000)	(3,514,993)
Value adjustment of investment properties.....	0	0	0	(3,786,000)		(3,786,000)
Changes in deferred income tax liability.....	0	0	0	2,121,464	0	2,121,464
Changes in pension obligations.....	5,013,000	0	5,013,000	5,080,000	0	5,080,000
Working capital provided by						
operating activities (to op. activities).....	7,614,089	(383,465)	7,230,625	30,831,162	(383,465)	30,447,698
Changes in operating assets and liabilities:						
Inventories, decrease (increase).....	0	0	0	(30,000)	0	(30,000)
Unrecovered revenues, decrease (increase)	0	0	0	214,947	0	214,947
Other current receivables, decrease (increase)	0	0	0	17,372	0	17,372
Current liabilities, increase (decrease).....	0	0	0	321,591	0	321,591
Contribution to pension obligations.....	(1,950,000)	0	(1,950,000)	(1,950,000)	0	(1,950,000)
Changes in operating assets and liabilities.....	(1,950,000)	0	(1,950,000)	(1,426,090)	0	(1,426,090)
Net cash provided by						
operating activities (to operating activities).....	5,664,089	(383,465)	5,280,625	29,405,072	(383,465)	29,021,608
Investment activities						
Investments in fixed tangible assets.....	(10,514,951)	(770,767)	(11,285,718)	(30,189,643)	(770,767)	(30,960,410)
Road construction fees.....	4,243,469	0	4,243,469	4,243,469	0	4,243,469
Sales of building rights.....	2,393,893	500,000	2,893,893	2,393,893	500,000	2,893,893
Proceeds from sale of fixed tangible assets.....	929,100	0	929,100	1,416,895	0	1,416,895
Share holdings, change.....	(256,000)	0	(256,000)	(256,000)	0	(256,000)
Long-term receivables, change.....	907,794	0	907,794	8,515,844	0	7,444,421
Other investment activities.....	0	0	0	0	0	1,071,423
Investment activities.....	(2,296,695)	(270,767)	(2,567,462)	(13,875,542)	(270,766)	(14,146,309)
Financing activities						
New long-term borrowings.....	2,246,020	0	2,246,020	13,885,020	0	13,885,020
Repayment of long-term borrowings.....	(1,223,573)	0	(1,223,573)	(21,771,723)	0	(21,771,723)
Paid in capital / other changes in equity.....	(758,843)	0	(758,843)	(758,843)	0	(758,843)
Short-term borrowings, change.....	0	0	0	1,779,547	0	1,779,547
Other activities.....	(64)	0	(64)	0	0	0
Financing activities.....	263,540	0	263,540	(6,865,999)	0	(6,865,999)
Increase (decrease) in cash and cash equivalents.....	3,630,934	(654,232)	2,976,702	8,663,531	(654,231)	8,009,299
Cash and cash equivalent at beginning of year.....	5,641,317	0	5,641,317	20,236,619	0	20,236,619
Cash and cash equivalent at year-end.....	9,272,251	(654,232)	8,618,019	28,900,150	(654,231)	28,245,918

Notes

62. Financial ratios

Overview of financial ratios:

Ratio of operating income:

	Reykjavik Municipal A operation		Reykjavik Group A and B operations	
	2016 Financial Statements	2016 Budget with annexes	2016 Financial Statements	2016 Budget with annexes
Municipal income tax	61,9%	60,7%	40,0%	39,4%
Property taxes	14,1%	14,9%	8,8%	9,3%
Total tax revenues	76,0%	75,6%	48,8%	48,6%
Contribution from Municipal Equalisation Fund	6,7%	6,1%	4,3%	4,0%
Other revenues	17,4%	18,3%	46,9%	47,4%
Total operating revenues	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	51,3%	52,2%	40,8%	41,8%
Increase in pension obligations	5,0%	5,0%	3,3%	3,3%
Other operating expenses	36,4%	36,6%	32,1%	32,4%
Total operating expenses	92,7%	93,9%	76,2%	77,5%
Contribution margin (EBITDA)	7,3%	6,1%	23,8%	22,5%
Depreciation	4,5%	4,3%	10,5%	10,2%
Operating result before financial income (expenses)	2,8%	1,8%	(14,1%)	13,4%
Financial income and (expenses)	(0,2%)	(1,4%)	0,6%	(5,8%)
Income tax	0,0%	0,0%	(3,1%)	(1,4%)
Irregular income	0,0%	0,0%	0,0%	0,0%
Effects of minority interest and subsidiaries	0,0%	0,0%	(1,0%)	0,0%
Operating results	2,6%	0,5%	17,0%	7,5%
Working capital provided by operations	10,9%	7,2%	22,0%	20,0%
Investments in fixed tangible assets	(9,4%)	(11,3%)	(16,5%)	(20,0%)
Total liabilities and obligations	83,3%	-	186,7%	-

In ISK thousand per inhabitant:

Operations:

	Reykjavik Municipal A operation		Reykjavik Group A and B operations	
	2016 Financial Statements	2016 Budget with annexes	2016 Financial Statements	2016 Budget with annexes
Tax revenue	620	619	616	615
Contributions from Municipal Equalisation Fund	54	50	54	50
Other revenue	142	150	593	599
Total operating revenue	817	819	1,263	1,264
Wage cost and wage-related expenses	(460)	(469)	(557)	(570)
Other operating expenses and depreciation	(333)	(335)	(537)	(538)
Financial income and (expenses)	(2)	(11)	7	(74)
Other	0	0	38	13
Operating result (positive)	21	4	214	95

Cash flow:

Working capital provided by operating activities	89	59	280	253
Cash and cash equiv. provided by operating activities	53	43	250	241

Other ratios:

	A operation		A and B operations	
	2016	2015	2014	2013
Current ratio - curr. assets/curr. liabilities	1,57	1,18	1,13	0,94
Equity ratio - equity/total assets	0,48	0,48	0,46	0,43

Population (source: Statistics Iceland):

	2016	2015	2014	2013
Population on 1 December	123,133	122,452	121,814	121,116
Change from previous year	681	638	698	1,484

Notes

63. Reykjavik Municipal financial ratios

Summary of Reykjavik Municipal financial ratios over the past 5 years:	2016 Budget with annexes	Financial Statements				
		2016	2015	2014	2013	2012
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	(15,992)	(13,830)	(13,297)	493	515	(1,182)
Liabilities thresholds.....	67%	63%	71%	65%	63%	60%
Other ratios:						
Long-term liabilities and obligations in proportion to working capital provided by operations (in years)	9,66	6,35	12,61	11,39	7,04	6,88
Equity ratio - equity/total assets	48%	48%	48%	58%	58%	58%
Working capital provided by operations in proportion to payment of liabilities	3,65	5,30	2,73	1,28	3,76	2,06
Current asset ratio - current assets/current liabilities	1,49	1,57	1,18	1,31	1,40	1,86
As a ratio of operating revenue:						
Tax revenue	75,6%	76,0%	76,1%	77,3%	76,0%	77,9%
Contributions from Municipal Equalisation Fund	6,1%	6,7%	6,8%	6,4%	6,6%	7,0%
Other revenue	18,3%	17,4%	17,1%	16,3%	17,3%	15,1%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	52,2%	51,3%	54,0%	53,6%	50,3%	51,2%
Increase in pension obligations	5,0%	5,0%	16,1%	4,0%	0,2%	4,0%
Other operating expenses	36,6%	36,4%	39,5%	41,3%	40,4%	40,0%
Depreciation	4,3%	4,5%	4,6%	4,6%	4,5%	4,6%
Total operating expenses	98,2%	97,2%	114,1%	103,5%	95,4%	99,8%
Operating result before financial items	1,8%	2,8%	(14,1%)	(3,5%)	4,6%	0,2%
Financial income and (expenses)	(1,4%)	(0,2%)	(0,9%)	0,1%	(0,8%)	(0,3%)
Operating result (negative)	0,5%	2,6%	(15,0%)	(3,4%)	3,8%	(0,1%)
Contribution margin (EBITDA)	6,1%	7,3%	-9,6%	1,1%	9,1%	4,8%
Working capital provided by operations	7,2%	10,9%	5,7%	5,4%	8,6%	9,8%
Investments in fixed tangible assets	(11,3%)	(9,4%)	(10,4%)	(9,8%)	(9,0%)	(9,3%)
Total liabilities and obligations - debt ratio	83%	83%	89%	77%	78%	83%
In ISK thousand per inhabitant						
Operation:						
Tax revenue	616	620	566	531	501	476
Contributions from Municipal Equalisation Fund	50	54	51	44	44	43
Other revenue	149	142	127	112	114	92
Total operating revenue	815	817	743	688	659	611
Wage cost and wage-related expenses	(426)	(419)	(401)	(368)	(331)	(313)
Increase in pension obligations	(41)	(41)	(119)	(27)	(1)	(24)
Other operating expenses and depreciation	(334)	(333)	(328)	(316)	(296)	(273)
Financial income and (expenses)	(11)	(2)	(6)	1	(5)	(2)
Operating result (negative)	4	21	(111)	(23)	25	(0)
Cash flow:						
Working capital provided by operations	59	89	43	37	56	60
Cash and cash equivalents provided by operations	43	53	22	37	56	65
Investments in fixed tangible assets	(92)	(77)	(77)	(67)	(59)	(57)
Balance Sheet:						
Assets	1,281	1,301	1,262	1,250	1,218	1,196
Equity	609	621	603	719	704	688
Liabilities	673	680	659	530	514	508
Tax rates:						
Municipal income tax	14,52%	14,52%	14,52%	14,52%	14,48%	14,48%
Property tax, class A	0,20%	0,20%	0,20%	0,20%	0,20%	0,20%
Property tax, class B	1,32%	1,32%	1,32%	1,32%	1,32%	1,32%
Property tax, class C	1,65%	1,65%	1,65%	1,65%	1,65%	1,65%
Population (source: Statistics Iceland):						
Population on 1 December	123,133	123,133	122,452	121,814	121,116	119,632
Change from previous year	0	681	698	1,484	847	(84)
Change from previous year (ratio)	0,0%	0,6%	0,6%	1,2%	0,7%	(0,1%)

Notes

64. Reykjavik Group financial ratios

Summary of Reykjavik Group

financial ratios over the past 5 years:

	2016 Budget with annexes	Financial Statements				
		2016	2015	2014	2013	2012
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	-	7,806	(824)	8,061	-	-
Liabilities thresholds.....	-	85%	97%	92%	92%	93%
Other ratios:						
Long-term liabilities and obligations in proportion to working capital provided by operations (years)	8,40	7,16	8,16	9,34	8,29	9,33
Equity ratio - equity/total assets	44%	46%	43%	43%	40%	31%
Working capital provided by operations in proportion to payment of liabilities	1,37	1,92	1,74	1,07	1,03	1,67
Current asset ratio - current assets/current liabilities	1,38	1,13	0,94	0,93	0,92	0,87
As a ratio of operating revenue:						
Tax revenue	48,6%	48,8%	47,8%	48,3%	46,4%	46,9%
Contributions from Municipal Equalisation Fund	4,0%	4,3%	4,3%	4,0%	4,1%	4,3%
Other revenue	47,4%	46,9%	47,9%	47,6%	49,5%	48,8%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	41,8%	40,8%	41,6%	40,7%	37,8%	38,0%
Increase in pension obligations	3,3%	3,3%	10,2%	2,5%	0,2%	2,4%
Other operating expenses	32,4%	32,1%	33,7%	34,3%	33,1%	32,4%
Depreciation	10,2%	10,5%	11,3%	10,7%	10,7%	13,0%
Total operating expenses	87,7%	86,6%	96,8%	88,3%	81,8%	85,9%
Operating result before financial items	12,3%	13,4%	3,2%	11,7%	18,2%	14,1%
Financial income and (expenses)	(5,8%)	0,6%	(9,2%)	(4,7%)	(7,0%)	(17,7%)
Other	1,1%	3,0%	2,5%	1,4%	(4,8%)	1,3%
Operating result (negative)	7,5%	17,0%	(3,5%)	8,3%	6,5%	(2,2%)
Contribution margin (EBITDA)	22,5%	23,8%	14,5%	22,4%	28,9%	27,1%
Working capital provided by operations	20,0%	22,0%	21,6%	19,7%	22,7%	24,5%
Investments in fixed tangible assets	(18,2%)	(15,6%)	(16,3%)	(12,9%)	(9,4%)	(10,1%)
Total liabilities and obligations. - debt ratio	106%	107%	112%	104%	106%	114%
In ISK thousand per inhabitant						
Operation:						
Tax revenue	611	616	559	522	489	458
Contributions from Municipal Equalisation Fund	50	54	50	44	43	42
Other revenue	596	593	559	515	521	477
Total operating revenue	1,257	1,263	1,169	1,081	1,052	977
Wage cost and wage-related expenses	(526)	(515)	(486)	(439)	(398)	(371)
Increase in pension obligations	(41)	(42)	(119)	(27)	(2)	(24)
Other operating expenses and depreciation	(535)	(537)	(526)	(487)	(461)	(444)
Financial income and (expenses)	(73)	7	(107)	(51)	(73)	(173)
Other	13	38	30	15	(51)	13
Operating result (negative)	95	214	(40)	90	67	(22)
Cash flow:						
Working capital provided by operations	251	278	254	215	243	246
Cash and cash equivalents provided by operations	240	249	227	244	246	242
Investments in fixed tangible assets	(229)	(197)	(191)	(141)	(101)	(102)
Balance Sheet:						
Assets	4,239	4,349	4,292	4,141	3,950	3,936
Equity	1,863	1,990	1,829	1,783	1,585	1,237
Liabilities	2,376	2,359	2,463	2,357	2,364	2,699
Tax rates:						
Municipal income tax	14,52%	14,52%	14,52%	14,48%	14,48%	13,03%
Property tax, class A	0,20%	0,20%	0,20%	0,20%	0,20%	0,20%
Property tax, class B	1,32%	1,32%	1,32%	1,32%	1,32%	1,32%
Property tax, class C	1,65%	1,65%	1,65%	1,65%	1,65%	1,65%
Population (source: Statistics Iceland):						
Population on 1 December	123,133	123,133	122,452	121,814	121,116	119,632
Change from previous year	0	681	698	1,484	847	(84)
Change from previous year (ratio)	0,0%	0,6%	0,6%	1,2%	0,7%	(0,1%)

Statement on governance and non-financial information

Statement on governance

The governance of municipalities is subject to the Local Government Act No. 138/2011, as amended, and Decision No. 715 of 8 July 2013 on the government of the Municipality. The City of Reykjavík has listed bonds in a stock exchange and is therefore subject to the Rules for issuers of financial instruments published by the Iceland Stock Exchange. The City Council is elected in a general election by the residents of the Municipality every four years.

The City Council is responsible for the functioning of an effective internal control, which is formal, documented and regularly verified. Internal control has the purpose of providing assurance that the Municipality achieves results and efficiency in its work in accordance with the targets set by the Municipality, that reliable and proper financial information is provided to external parties and that compliance is observed with the laws and regulations that apply to its activities.

The City of Reykjavík's Audit Committee works under the auspices of the City Council in accordance with Chapter IX of the Financial Statements Act No. 3/2006 and in accordance with the statutes of the government of the City of Reykjavík and the standing orders of the City Council No. 715/2013 and in accordance with law. The City Council has approved working procedures for the Audit Committee which are accessible on the City's website along with information on committee members.

Internal audit is charged with oversight of the finances and governance of the City of Reykjavík under the auspices of the Executive Committee. In its work, Internal Audit assesses and improves the effectiveness of the risk management, control strategies and governance of agencies and companies in which the City of Reykjavík has a majority holding. Working procedures for Internal audit, which have been approved by the Executive Committee, are accessible on the City's website.

As regards risk management, reference is made to Chapter VII of the Local Government Act, e.g. on powers of financial management, the binding nature of decisions on the financial budget for the year, responsible use of funds, large investments and financial obligations and restrictions regarding mortgages and issuances of guarantees. The Municipality observes the provisions of the Local Government Act in these respects.

A regular part of the Municipality's activities is to monitor main components in the Municipality's operations and thus ensure continuity in the operations and minimise risk. Risk management is integrated with responsibility for daily operations of the City. In order to ensure that the Municipality's accounts are in accordance with the Local Government Act and relevant accounting standards, the Municipality has emphasised well defined areas of responsibilities, acceptable segregation of duties and regular reporting. Monthly reporting processes and analysis for individual segments are an important factor in monitoring the results and adherence to the approved budget. Monthly reports are prepared and delivered to the Executive Committee.

The number of members of the City Council and committees and boards working under the auspices of the Municipality is specified in a Decision on the government of the Municipality, which can be accessed on its website. Information can also be accessed on the website regarding the membership of individual committees, councils and boards.

Point 2 of Article 44 of the Local Government Act lays down a rule on the gender ratio of committees appointed by the City Council. The Municipality observes these rules in appointing committees. As regards the City Council, its composition is determined by ranking of candidates on ballots and the results of local elections. Six members of the City Council are men and five are women. The members of the current Council have various backgrounds and education.

Codes of conduct and good government practices are provided for in Article 29 of the Local Government Act. The Municipality has adopted a Code of Conduct, dated 10 January 2017, which is accessible on the City's website.

Non-financial information

According to the Local Government Act No. 138/2011, municipalities are independent public entities governed by democratically elected municipal governments representing the residents of the municipality. The Municipality carries out the tasks assigned to it by law, *inter alia* regarding education and youth, social services, sport and leisure, culture, sanitation matters and environmental affairs. Furthermore, the Municipality observes the requirements relating to its activities under other acts of law, including the Administrative Procedure Act, the Act on the equal rights and equal position of men and women and the Act on public procurement. Also in force is a Code of Conduct dated 10 January 2017, which was adopted on the basis of Article 29 of the Local Government Act and can be accessed on the City's website.

No significant deviations have been identified by public regulatory bodies or auditors regarding the activities of the Municipality relating to environmental affairs, social and employment affairs, human rights affairs or corruption or bribery.