

**City of Reykjavik**  
**FINANCIAL STATEMENT**  
**2013**



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

# City of Reykjavik

## FINANCIAL STATEMENT

### 2013

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Please notice:

This is an English translation of the Icelandic Financial Statement of the City of Reykjavik.

In the event of any discrepancy between the English and Icelandic versions the original

Icelandic text shall prevail.

## Mayor's report and endorsement

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The annual financial statement of the City of Reykjavik for the year 2013 was prepared in accordance with the Local Authorities Act, the Annual Accounts Act and the Government Regulation on Municipal Accounts and Financial Statements. Details of accounting procedures are provided in the report, together with the changes that have occurred since the previous year.

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

According to the Income Statement for Reykjavík Municipal, operating income amounted to ISK 79,757 million in 2013, of which tax revenues accounted for ISK 60,650 million. The municipal tax rate was 14.48% for the year 2013, 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 129,580 million over the year.

The operating result for Reykjavík Group (A and B operations) amounted to a profit of ISK 3,008 million, but the years budget estimated a profit of 304 million. In other respects reference is made to the financial statements regarding the disposal of profit and loss.

Wages and wage-related costs for A operations amounted to ISK 40,139 million over the year, and the changes in pension obligations amounted to ISK 159 million.

The total assets of Reykjavík Group (consolidated A and B operations) according to the balance sheet at year-end 2013 amounted to ISK 478,350 million, while total liabilities amounted to ISK 286,332 million. Equity amounted to ISK 192,018 million, of which minority interests in own companies amounted to ISK 9,837 million.

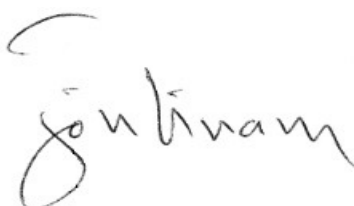
On 31 December 2013 the population of the City of Reykjavik was 121,116.

The Resolution Committee of Kaupthing bank hf. has filed a lawsuit against the City of Reykjavik by a summons issued on 7 October 2012 relating to a rescission by the City of Reykjavik of currency and swap agreements. The primary claim of Kaupthing bank hf. against the City of Reykjavik amounts to ISK 1,819 million, with default interest from 18 November 2008 until the day of payment, net of the instalment paid by the City of Reykjavik on 3 April 2009, see further in note 50. On November 22, 2013, the District Court of Reykjavik issued a ruling in the case. The conclusion of the Court was that the City of Reykjavik was acquitted of all of Kaupthing Bank hf.'s claims. Kaupthing Bank hf. has appealed the verdict of the District Court and the case was arraigned before the Supreme Court on April 9, 2014.

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

The annual financial statement of the City of Reykjavik for the year 2013 is ready for auditing and due process before the Executive Board.

Reykjavík, 10 April 2014.



Jón Gnarr  
Mayor

## Endorsement by the City Council

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The annual financial statement of the City of Reykjavík for 2013 has been placed before the City Council in accordance with Article 61 of the Act on Local Authorities No. 138/2011 and was confirmed and endorsed at the second debate in the City Council.

Reykjavík, 13 May 2014.

City Council:

Katla Söfn  
Páll Skulbr  
Harðmannsdóttir  
Eggr Ólafur Benediktsson  
Hjalmar Sveinsson  
Sigríður  
Björn Vilhelmsson  
Marta Guðjónsdóttir  
Sveinbjörn Pétursson  
Þorsteinn Halldórsson  
Jónína Þórunn  
Kjartan Magnússon  
Sólveig  
Dan Pásson  
Jónína

## Independent auditor's report

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### To the City Council of Reykjavík

We have audited the accompanying financial statements of the City of Reykjavik for the year 2013 which comprise the Mayor's report and endorsement, the financial statement for A - operations of the City's activities and consolidated financial statements for A - and B - operations. The financial statement comprise the balance sheet and the income statement, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management are responsible for the preparation and fair presentation of these financial statements in accordance with the Icelandic law on annual accounts and adopted accounting rules, and for internal control necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements including a review of the Mayor's report and endorsement for required disclosures in accordance with the Icelandic law on annual accounts.

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

#### *Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Reykjavíkurborg as of 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with the Icelandic law on annual accounts and adopted accounting rules and that the Mayor's Report and endorsement contains, if not presented elsewhere in the financial statements, required disclosures in accordance with the Icelandic law on annual accounts.

Reykjavík, 13 May 2014

**PricewaterhouseCoopers ehf**



Guðmundur Snorrason  
State authorized public accountant

## Income Statement for the year 2013

	Notes	Reykjavik Municipal			Reykjavik Group		
		(A operation)			(A and B operation)		
		2013 Financial Statement	2013 Budget with annexes	2012 Financial Statement	2013 Financial Statement	2013 Budget with annexes	2012 Financial Statement
<b>OPERATING REVENUE</b>	3.24						
Tax revenues .....		60,650,042	60,853,869	56,900,507	60,179,431	60,178,097	56,447,239
Contributions from Equalisation Fund .....		5,296,465	5,123,313	5,119,412	5,296,465	5,123,313	5,119,412
Other revenues .....		13,810,806	10,901,888	11,058,422	64,103,693	61,862,354	58,746,506
<b>Total operating revenues</b>		<b>79,757,313</b>	<b>76,879,070</b>	<b>73,078,341</b>	<b>129,579,589</b>	<b>127,163,764</b>	<b>120,313,158</b>
<b>OPERATING EXPENSES</b>	4						
Wage cost and wage-related expenses .....	25	40,138,749	39,502,054	37,407,063	49,033,381	48,274,237	45,721,321
Changes in pension obligations .....	25.46	159,008	2,600,000	2,901,315	195,085	2,646,000	2,926,561
Other operating expenses .....		32,227,869	30,364,200	29,247,127	42,859,108	42,460,672	39,014,175
Depreciation .....	9,10,35	3,573,325	3,641,048	3,357,411	13,912,993	14,270,088	15,129,780
<b>Total operating expenses</b>		<b>76,098,951</b>	<b>76,107,302</b>	<b>72,912,916</b>	<b>106,000,567</b>	<b>107,650,997</b>	<b>102,791,837</b>
Operating result before financial items .....		3,658,361	771,768	165,425	23,579,022	19,512,767	17,521,321
Net financial items .....	5.26	( 650,640 )	( 467,836 )	( 209,126 )	( 9,021,029 )	( 10,641,252 )	( 21,308,438 )
Operating result before tax and effects of associated companies		3,007,722	303,932	( 43,701 )	14,557,993	8,871,515	( 3,787,117 )
Income tax .....	19.52	0	0	0	( 7,545,300 )	( 2,530,709 )	1,555,155
Changes in market value of investment assets .....	2.32	0	0	0	1,890,883	1,334,366	2,671,000
Share in associated companies' operating results .....	11.28	0	0	0	50	0	( 8,112 )
Minority interest .....		0	0	0	( 517,018 )	0	53,969
<b>Operating result</b> .....	27.45	<b>3,007,722</b>	<b>303,932</b>	<b>( 43,701 )</b>	<b>8,386,607</b>	<b>7,675,172</b>	<b>484,896</b>

## Balance Sheet as at 31. December 2013

Assets	Notes	Reykjavik Municipal		Reykjavik Group	
		(A operation)		(A and B operation)	
		2013	2012	2013	2012
		Financial Statement	Financial Statement	Financial Statement	Financial Statement
<b>FIXED ASSETS</b>					
Intangible assets:					
Intangible assets .....	6,29	0	0	1,242,808	1,202,842
Fixed tangible assets:					
Real estate .....	7,9,10 30,31	82,995,912	81,653,578	102,537,376	101,872,574
Utilities .....	30,31	0	0	249,660,185	244,471,382
Investment assets .....	32	0	0	41,816,642	39,583,245
Road systems .....	30,31	11,775,804	10,649,881	12,555,030	11,386,929
Machinery and equipment .....	30,31	2,014,446	1,702,286	5,150,223	4,391,133
Lease properties .....	34	7,672,008	8,161,319	7,672,008	8,161,319
		<u>104,458,170</u>	<u>102,167,063</u>	<u>419,391,465</u>	<u>409,866,582</u>
Investments:					
Shares in companies .....	11,40	7,685,791	7,261,107	6,187,732	5,301,019
Long-term receivables from own companies .....	12,42	14,396,516	10,430,036	0	0
Embedded derivative contracts .....	8,41	0	0	965,916	14,150,678
Derivative contracts .....	8	0	0	1,127,246	893,934
Deferred tax assets .....	19,52	0	0	1,708,664	3,542,324
Other long-term receivables .....	12,13,42	1,347,682	1,753,663	9,008,336	12,063,462
		<u>23,429,989</u>	<u>19,444,806</u>	<u>18,997,894</u>	<u>35,951,418</u>
<b>Total fixed assets</b>		<u>127,888,159</u>	<u>121,611,869</u>	<u>439,632,166</u>	<u>447,020,841</u>
<b>CURRENT ASSETS</b>					
Inventories .....	14	0	0	859,621	716,343
Short-term receivables:					
Unclaimed revenues and receivables .....	13,15	7,247,801	6,835,557	13,643,631	12,067,955
Next year's paym. of own comp. long-term receivab. ....	42	60,895	65,290	0	0
Next year's payment of other long-term receivables .....	42	160,960	438,214	230,583	547,140
Receivables from own companies .....		85,879	156,991	0	0
Pre-paid costs .....		0	0	167,403	251,530
Assets available for sale .....	33	0	0	0	4,397,856
Embedded derivative contracts .....	8,41	0	0	0	587,982
Other receivables .....	44	2,304,597	2,250,370	2,674,222	2,520,655
Cash .....	16	9,771,921	11,764,007	21,142,441	20,861,689
<b>Total current assets</b>		<u>19,632,053</u>	<u>21,510,428</u>	<u>38,717,901</u>	<u>41,951,150</u>
<b>TOTAL ASSETS .....</b>		<u>147,520,212</u>	<u>143,122,297</u>	<u>478,350,067</u>	<u>488,971,991</u>

## Balance Sheet as at 31. December 2013

Equity and liabilities		Reykjavik Municipal		Reykjavik Group	
	Notes	(A operation)		(A and B operation)	
		2013	2012	2013	2012
		Financial Statement	Financial Statement	Financial Statement	Financial Statement
<b>EQUITY</b>					
Equity account .....	45	85,316,019	82,308,298	182,181,438	157,836,046
Minority interest .....		0	0	9,836,961	8,197,044
<b>Total equity</b>		<b>85,316,019</b>	<b>82,308,298</b>	<b>192,018,399</b>	<b>166,033,091</b>
<b>OBLIGATIONS</b>					
Pension obligations .....	18,46	11,637,428	13,031,100	12,335,502	13,725,868
Deferred tax liabilities .....	19,52	0	0	135,446	145,416
Other obligations .....		0	0	111,948	23,357
<b>Total obligations</b>		<b>11,637,428</b>	<b>13,031,100</b>	<b>12,582,896</b>	<b>13,894,641</b>
<b>LONG-TERM LIABILITIES</b>					
Long-term debts .....	20,48	24,794,490	24,322,929	219,773,229	248,788,473
Lease liabilities .....	21,49	11,730,816	11,866,227	11,730,816	11,866,227
Other long-term liabilities (fair value derivatives) .....		0	0	0	98,974
<b>Total long-term liabilities</b>		<b>36,525,306</b>	<b>36,189,156</b>	<b>231,504,045</b>	<b>260,753,675</b>
<b>CURRENT LIABILITIES</b>					
Debts to credit institutions .....		0	0	1,880,847	4,712,183
Accounts payable .....		2,789,290	2,535,658	5,157,458	4,190,874
Embedded derivatives .....	8,41	0	0	548,176	0
Next year's payment of long-term debts .....	48	2,851,020	1,144,261	21,701,091	27,570,628
Next year's payment of lease liabilities .....	49	551,143	512,953	551,143	512,953
Next year's payment of pension obligations .....	46	1,474,000	1,330,000	1,510,880	1,365,200
Accounts payable to own companies .....		391,763	215,570	0	0
Derivative contracts .....		0	0	1,390,870	150,300
Other payables .....	50,51	5,984,243	5,855,302	9,504,261	9,788,447
<b>Total current liabilities</b>		<b>14,041,458</b>	<b>11,593,743</b>	<b>42,244,726</b>	<b>48,290,584</b>
<b>Total liabilities and obligations</b>		<b>62,204,193</b>	<b>60,813,999</b>	<b>286,331,668</b>	<b>322,938,900</b>
<b>TOTAL EQUITY AND LIABILITIES .....</b>		<b>147,520,212</b>	<b>143,122,297</b>	<b>478,350,067</b>	<b>488,971,991</b>
<i>Off-Balance Sheet items</i> .....	53-55	190,953,840	228,160,964	19,980,898	19,554,136



## Statement of Cash Flows for the year 2013

	Reykjavik Municipal			Reykjavik Group			
	Notes	(A operation)		(A and B operation)			
		2013 Financial Statement	2013 Budget with annexes	2012 Financial Statement	2013 Financial Statement	2013 Budget with annexes	2012 Financial Statement
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Operating result according to Income Statement .....		3,007,722	303,932	( 43,701 )	8,386,607	7,675,172	484,896
Adjustments to reconcile net earnings to cash provided by operating activities							
Loss (Gain) on sold assets .....		( 727,034 )	( 650,000 )	( 121,765 )	( 1,362,723 )	( 659,366 )	( 488,265 )
Depreciation .....	35	3,573,325	3,641,048	3,357,411	13,912,993	14,270,088	15,129,780
Indexation, discounts and exch.rate differences .....	5	817,951	958,737	1,059,606	( 12,297,736 )	6,456,429	12,668,626
Changes in provision of long-term receivables .....		9,200	0	0	9,200	0	51,225
Aluminium derivatives .....		0	0	0	14,320,921	0	2,944,310
Changes in market value of investment assets .....		0	0	0	( 1,890,883 )	( 1,334,366 )	( 2,671,000 )
Impact of own companies and minority interests .....		0	0	0	516,968	0	( 45,858 )
Changes in pension obligations .....	46	159,008	2,600,000	2,901,315	195,085	2,646,000	2,926,561
Changes in deferred taxes .....		0	0	0	7,545,300	2,583,053	( 1,555,155 )
Other changes .....		0	0	0	104,453	0	0
<b>Working capital provided by operating activities</b>		<b>6,840,172</b>	<b>6,853,717</b>	<b>7,152,866</b>	<b>29,440,184</b>	<b>31,637,010</b>	<b>29,445,119</b>
Changes in operating assets and liabilities:							
Inventories decrease (increase) .....		0	0	0	( 143,278 )	27,000	8,064
Unclaimed revenues (increase) decrease .....		( 290,132 )	0	7,651	( 573,000 )	406,880	( 837,471 )
Other current receivables (increase) decrease .....		( 176,339 )	0	( 449,392 )	( 1,222,177 )	( 2,072,533 )	( 1,616,824 )
Current liabilities (decrease) increase .....		382,573	0	1,082,143	2,244,856	( 133,332 )	1,993,466
<b>Change in operating assets and liabilities</b>		<b>( 83,898 )</b>	<b>0</b>	<b>640,401</b>	<b>306,401</b>	<b>( 1,771,985 )</b>	<b>( 452,765 )</b>
<b>Net cash provided by operating activities</b>		<b>6,756,274</b>	<b>6,853,717</b>	<b>7,793,268</b>	<b>29,746,585</b>	<b>29,865,025</b>	<b>28,992,355</b>
<b>INVESTMENT ACTIVITIES</b>							
Investments in fixed tangible assets .....	23	( 7,204,657 )	( 8,456,000 )	( 6,760,444 )	( 12,204,251 )	( 15,969,448 )	( 12,240,436 )
Road construction fees and building permits .....	30-34	2,037,300	997,000	783,964	2,037,300	997,000	1,120,456
Proceeds from sale of fixed tangible assets .....		29,959	0	188,407	5,217,877	4,676,664	1,205,231
Change in equity holdings .....		( 424,685 )	( 86,536 )	( 545,081 )	( 409,039 )	( 86,536 )	194,125
Long-term securities, change .....		( 2,943,134 )	( 3,898,503 )	( 841,955 )	739,858	67,526	( 207,991 )
Other investment activities .....		0	0	0	48,190	( 72,000 )	38,061
<b>Net cash provided by investment activities</b>		<b>( 8,505,216 )</b>	<b>( 11,444,039 )</b>	<b>( 7,175,109 )</b>	<b>( 4,570,066 )</b>	<b>( 10,386,794 )</b>	<b>( 9,890,554 )</b>
<b>FINANCING ACTIVITIES</b>							
New long-term borrowings .....		2,738,111	3,299,000	2,852,934	5,579,222	5,734,789	4,324,808
Repayment of long-term liabilities and obligations .....		( 1,819,879 )	( 1,992,172 )	( 3,468,959 )	( 28,501,261 )	( 27,866,055 )	( 17,582,743 )
Contributions to pension payments .....	46	( 1,408,680 )	( 1,250,000 )	( 1,289,465 )	( 1,439,771 )	( 1,250,000 )	( 1,399,526 )
Paid-in capital / other changes in equity .....		0	0	0	21,183	67,375	243,189
Short-term borrowings .....		0	0	0	713,971	0	67,120
Dividends paid .....		0	0	0	( 42,294 )	0	( 42,294 )
Other financing activities .....		247,304	210,976	1,253,779	0	( 15,000 )	0
<b>Net cash provided by financing activities</b>		<b>( 243,144 )</b>	<b>267,804</b>	<b>( 651,711 )</b>	<b>( 23,668,950 )</b>	<b>( 23,328,891 )</b>	<b>( 14,389,446 )</b>
INCREASE (DECREASE) IN CASH AND CASH EQUIV. ....		<b>( 1,992,086 )</b>	<b>( 4,322,518 )</b>	<b>( 33,552 )</b>	<b>1,507,570</b>	<b>( 3,850,660 )</b>	<b>4,712,355</b>
CASH AND CASH EQUIV. AT BEGINNING OF YEAR .....		<b>11,764,007</b>	<b>10,660,845</b>	<b>11,797,559</b>	<b>20,861,689</b>	<b>17,787,674</b>	<b>15,743,801</b>
EFFECT OF CURRENCY FLUCTUATIONS ON CASH .....		<b>0</b>	<b>0</b>	<b>0</b>	<b>( 1,226,818 )</b>	<b>0</b>	<b>405,534</b>
CASH AND CASH EQUIV. AT YEAR-END .....	16	<b>9,771,921</b>	<b>6,338,327</b>	<b>11,764,007</b>	<b>21,142,441</b>	<b>13,937,014</b>	<b>20,861,689</b>

### Basis of the Financial Statements

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

The financial statements are based on the cost principle and prepared in compliance with the Local Government Act, the Financial Statements Act No. 3/2006, Regulation No. 696/1996 on the presentation and contents of financial statements and consolidated financial statements, Regulation No. 944/2000 on the accounts and annual statements of municipalities, and notices issued by the Icelandic Ministry of the Interior regarding financial reporting by municipalities.

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

- a part of the company's fixed tangible assets has been restated at fair market value;
- derivatives are stated at fair market value;
- financial instruments at fair market value through income statement are stated at fair market value.

Orkuveita Reykjavíkur and Félagsbústaðir hf.'s financial accounts are included unchanged in the annual accounts for Reykjavik Group. In other respects the annual financial statements are largely based on the same reporting procedures as in the preceding year, except as stated in note 2.

According to a decision of the Registry of Annual Financial Reports, Félagsbústaðir hf. is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). To comply with the decision the company prepared new reports in accordance with IFRS for the fiscal years of 2011 and 2012 for publication in the Stock Exchange in January 2014. The revision did not result in any changes in amounts, but the notes with the report are more detailed. The changes had no impact on the consolidated accounts of the Municipality of Reykjavik for the years 2011 and 2012.

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

### Changes in accounting principles

#### Capitalisation of investment assets

2. Investment assets owned by Félagsbústaðir hf., which are capitalised with permanent operating assets, are stated at fair value as of January 1, 2013, but were previously stated at cost value with consideration to amortisation. Changes in fair value are entered under the item changes to evaluations of investment assets in the income statement. Investment assets are not amortised. The equity of Reykjavik Group on January 1, 2013, increases by ISK 18.1 billion due to these changes. The comparison amounts of 2012 have been amended in accordance with the changed accounting principles. The consolidated budget for 2013 is prepared on the basis of fair value accounting.

## Notes, continued

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### Reporting procedures

#### Income recognition

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

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

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

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

#### Expense recognition

4. 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. Price-level and exchange-rate criteria

Assets and liabilities in foreign currency are converted into their equivalents in Icelandic krónur (ISK) at the exchange rate applying at year-end 2013. Accrued exchange-rate differential, interest and indexation adjustments of the principal of assets and liabilities are entered in the Income Statement.

#### Intangible assets

6. Geothermal rights are capitalised in the Balance Sheet as an intangible asset at the 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.

#### Capitalization of fixed tangible assets

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

Leased assets are real estate that the municipality leases pursuant to lease agreements with a minimum term of three years and no option of termination by the municipality within a year from their starting date.

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.

At the original entry of leased assets at the beginning of 2010 cost and accrued depreciation are calculated from the contracting date of a lease contract.

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

The distribution and production systems of Orkuveita Reykjavíkur are entered at restated value in the Balance Sheet for Reykjavik Group, which is their fair market value on the restatement date, net of any additional depreciation from that time. Revaluation of these assets is undertaken on a regular basis. All increases in valuation are entered as equity. Depreciation on the restated value is entered in the Income Statement.

## Notes, continued

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

### Financial instruments

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

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

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

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

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

### Depreciation of leased assets

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

Real estate .....	4-25 years
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## Notes, continued

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### Shares in companies

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

In the accounts for Reykjavik Group, shares in companies, agencies co-owned with other municipalities and the City's own enterprises are entered according to the equity method. According to the equity method the City's share in the results and equity of associated companies is entered in the financial statements. Shares in companies where the City holds less than 20% are entered at cost price.

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

### Long-term receivables

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

### Provision for losses

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

### Inventories

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

### Short term receivables

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

### Cash and cash equivalents

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

### Assets off the Balance Sheet

17. Land and plots owned by Reykjavik Municipal that are not leased and investments in traffic infrastructure before the beginning of 2002 are not capitalized in the balance sheet unless they were acquired in recent years in the course of planning or plot allocation.

### Obligations

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

## Notes, continued

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### Deferred income tax liability and assets

19. The deferred income tax liability and assets of entities owned under B operations have been calculated and entered in the Balance Sheet. The calculation is based on the temporary difference between Balance Sheet items as presented in the tax return, on the one hand, and in the Financial Statements, on the other hand. This difference is due to the fact that tax assessments are based on rules which differ from those governing financial statements.

### Long-term liabilities

20. Long-term liabilities are entered in the Balance Sheet at year-end in accordance with the applicable credit terms.

### Lease debts

21. At the original entering of an obligation relating to lease agreements, the lease debt is entered at the fair value of the leased asset or the net present value of the lease agreement, if lower. Minimum lease payments are divided into interest costs and instalments of 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.

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.

### Budget

22. The budget for the year 2013 is part of the Financial Statements and is shown in the Income Statement and Statement of Cash flows.

### Statement of Cash Flows

23. Investments affecting net cash are included among investment activities in the Statement of Cash Flows. Investments financed through accounts payable or debt instruments are also shown.

## Notes, continued

### Operating revenue

24. Operating revenue is itemised as follows:

	Reykjavik Municipal		Reykjavik Group	
	(A operation)		(A and B operation)	
	2013 Financial Statement	2013 Budget	2013 Financial Statement	2013 Budget
<b>Tax revenues</b>				
<i>Municipal income tax:</i>				
Paid municipal income tax .....	53,822,223	53,598,218	53,822,223	53,598,218
Share of Equalisation Fund in income tax .....	(2,862,093)	(2,945,900)	(2,862,093)	(2,945,900)
Share of Equalisation Fund in disability concernment .....	(3,531,154)	(3,634,552)	(3,531,154)	(3,634,552)
	47,428,976	47,017,766	47,428,976	47,017,766
Subsequently imposed municipal tax .....	2,517,134	1,800,000	2,517,134	1,800,000
Tax changes .....	157,044	0	157,044	0
Amortization of tax revenues .....	(891,361)	0	(891,361)	0
Changes in provision .....	(200,000)	0	(200,000)	0
	49,011,793	48,817,766	49,011,793	48,817,766
<i>Property tax</i>				
Property tax .....	10,723,009	11,102,852	10,296,823	10,490,873
Site lease, residential and commercial .....	938,831	933,251	894,406	869,458
Amortization of property tax revenues .....	(23,591)	0	(23,591)	0
	11,638,249	12,036,103	11,167,638	11,360,331
Total tax revenues .....	60,650,042	60,853,869	60,179,431	60,178,097
<i>Contributions from Equalisation Fund</i>				
Expense equalisation contributions .....	3,877,921	3,810,068	3,877,921	3,810,068
Contribution for special needs of disabled students etc. ....	1,418,544	1,313,245	1,418,544	1,313,245
	5,296,465	5,123,313	5,296,465	5,123,313
<i>Other income</i>				
Fees for services provided .....	6,591,462	6,606,748	15,567,610	
Income from assets .....	15,766,347	15,838,260	16,904,625	
Other repayments .....	4,176,896	2,989,285	4,317,600	
Other income .....	6,288,921	5,126,556	52,581,474	
Gain from sale of assets .....	0	0	629,400	
Inter-unit transactions eliminated .....	(19,012,820)	(19,658,961)	(25,897,016)	
	13,810,806	10,901,888	64,103,693	61,862,354
Total operating revenue .....	79,757,313	76,879,070	129,579,589	127,163,764

## Notes, continued

### Wage cost and wage-related expenses

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

	Reykjavik Municipal		Reykjavik Group	
	(A operation)		(A and B operation)	
	2013 Financial Statement	2013 Budget	2013 Financial Statement	2013 Budget
Wages .....	32,288,432		39,686,501	
Wage-related expenses .....	7,728,710		9,503,079	
Total wage cost and wage-related expenses .....	40,017,142	39,502,054	49,189,580	48,274,237
Changes in accrued vacation obligations .....	145,500		242,249	
Transfer/capitalisation of salaries .....	( 23,894 )		( 398,447 )	
	40,138,749	39,502,054	49,033,381	48,274,237
Changes in pension obligations .....	159,008	2,600,000	195,085	2,646,000
Total wage cost and wage-related expenses .....	40,297,757	42,102,054	49,228,466	50,920,237
Average full time equivalent positions .....	6,728		7,779	

Salaries paid to the City's Executive Board and City Council amounted to ISK 121.0 million for the year 2013.

### Financial items

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

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Dividends on equity shares .....	212,964	132,988
Risk charge for guarantees .....	765,840	( 52,571 )
Interest income and price index adjustments .....	2,143,591	1,284,700
Interest expenses and price index adjustments .....	( 3,230,510 )	( 9,720,446 )
Financial income tax .....	( 413,675 )	( 428,234 )
Hedge contracts .....	0	( 1,355,128 )
Exchange rate difference .....	( 128,850 )	17,616,185
Changes in fair value and forward currency contracts .....	0	( 16,498,524 )
Total financial income and (expenses) .....	( 650,640 )	( 9,021,029 )



## Notes, continued

### Statement of operations

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

Operation Fund	2013			2013
	Financial Statements			Budget
	Expenses	Revenues	Balance	Net
Tax revenue .....		67,529,810	( 67,529,810)	( 67,174,182)
Contribution to B operations companies .....	2,418,591	0	2,418,591	2,405,551
Department of Sports and Leisure .....	6,680,245	1,058,510	5,621,734	5,607,563
Department of Culture and Tourism .....	3,805,268	273,167	3,532,101	3,574,473
Department of Education and Recreation .....	37,726,945	3,674,934	34,052,011	33,608,140
Central administration offices .....	3,696,193	1,372,417	2,323,776	2,465,273
Department of Environment and Transport .....	7,894,821	1,751,447	6,143,374	6,097,020
Department of Welfare .....	21,709,512	5,216,122	16,493,389	17,129,268
Joint expenses .....	2,928,468	409,309	2,519,158	4,912,919
Operation of Municipal Fund sectors .....	86,860,043	81,285,716	5,574,326	8,626,024
Financial income and financial expenses .....	411,019	6,049,039	( 5,638,021)	( 5,559,877)
<b>Municipal Fund total</b>	<b>87,271,061</b>	<b>87,334,756</b>	<b>( 63,695)</b>	<b>3,066,147</b>
<b>Reykjavik Municipal (A operation) organisations</b>				
Public Works and Real Estate Fund .....	16,123,692	19,067,719	( 2,944,027)	( 3,370,079)
Internal transactions .....	( 20,434,818)	( 20,434,818)	0	0
<b>A operations total</b>	<b>82,959,936</b>	<b>85,967,657</b>	<b>( 3,007,722)</b>	<b>( 303,932)</b>
<b>B operations enterprises</b>				
Aflvaki hf. ....	251	96	154	0
Reykjavik Parking Service. ....	613,069	775,069	( 162,000)	( 152,197)
Faxaflóahafnir, Associated Icelandic Ports .....	2,255,271	2,842,895	( 587,624)	( 309,313)
Reykjavik Social Housing hf. ....	1,359,210	2,965,600	( 1,606,390)	( 689,366)
Sport and Exhibition Centre hf. ....	479,104	357,016	122,087	150,000
Jörundur hf. ....	122,553	64,964	57,588	62,614
Asphalt Station Hofdi hf. ....	1,176,598	1,146,164	30,434	( 11,000)
Orkuveita Reykjavíkur .....	35,857,373	39,209,438	( 3,352,065)	( 6,261,302)
Capital Area Skiing Resort .....	328,035	268,500	59,535	63,742
Capital District Fire and Rescue Service .....	2,031,731	2,019,078	12,653	( 23,590)
Sorpa, Capital Area Waste Disposal Company .....	2,330,244	2,429,393	( 99,150)	( 8,239)
Strætó, Metropolitan Bus Transport. Company .....	4,681,649	5,177,855	( 496,205)	( 321,925)
Internal transactions .....	( 7,370,010)	( 7,495,138)	125,128	129,336
	43,865,077	49,760,931	( 5,895,854)	( 7,371,240)
Share in associated companies result .....		50	( 50)	0
Minority interest .....		( 517,018)	517,018	0
<b>B operations total</b>	<b>43,865,077</b>	<b>49,243,963</b>	<b>( 5,378,886)</b>	<b>( 7,371,240)</b>
<b>Reykjavik Group (A and B operations total)</b>	<b>126,825,013</b>	<b>135,211,621</b>	<b>( 8,386,607)</b>	<b>( 7,675,172)</b>

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

## Notes, continued

### Share in the result of associated companies

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

	<b>Reykjavik Group (A and B operations)</b>
Minjavernd hf .....	4,843
Orkuveita Reykjavíkur - associated companies .....	( 2,309 )
Sorpa bs. (Capital Area Waste Disposal Company) - associated companies .....	( 2,484 )
	<u>50</u>

### Intangible assets

29. Intangible assets are as follows:

	<b>Intangible assets</b>
Total value 1.1.2013 .....	4,438,857
Depreciations 1.1.2013 .....	( 3,236,016 )
Book value 1.1.2013 .....	1,202,842
Capitalized during the year .....	70,795
Reclassification of assets .....	16,138
Disposals during the year .....	( 16,138 )
Depreciations .....	( 30,829 )
Book value 31.12.2013 .....	<u>1,242,808</u>

### Fixed tangible assets

*Reykjavik Municipal (A operations)*

30. Fixed tangible assets are as follows:

	<b>Real estate</b>	<b>Road systems</b>	<b>Machinery and equipment</b>	<b>Total</b>
Total value 1.1. 2013 .....	123,316,569	12,687,393	3,379,547	139,383,509
Depreciations 1.1. 2013 .....	( 41,662,991 )	( 2,037,512 )	( 1,677,261 )	( 45,377,764 )
Book value 1.1.2013 .....	81,653,578	10,649,881	1,702,286	94,005,744
Additions during the year .....	3,561,828	2,975,882	631,028	7,168,737
Road construction fees/Equalisation Fund .....	0	( 1,330,434 )	0	( 1,330,434 )
Sold or disposed of during the year .....	( 7,325 )	0	( 2,467 )	( 9,792 )
Depreciation .....	( 2,212,169 )	( 519,525 )	( 316,400 )	( 3,048,094 )
Book value 31.12.2013 .....	<u>82,995,912</u>	<u>11,775,804</u>	<u>2,014,446</u>	<u>96,786,162</u>
Depreciation rate .....	2 - 4 %	4%	10 - 25%	

## Notes, continued

### Reykjavik Group (A and B operations)

#### 31. Fixed tangible assets are itemised as follows:

	Real estate	Utilities	Road system Mach. & equipm.	Total
Total value 1.1. 2013 .....	162,265,670	422,006,197	25,038,333	609,310,200
Depreciations 1.1. 2013 .....	( 60,393,096 )	( 177,534,815 )	( 9,260,270 )	( 247,188,182 )
Book value 1.1.2013 .....	101,872,574	244,471,382	15,778,062	362,122,019
Revaluation .....	4,286,544	0	0	4,286,544
Additions during the year .....	164,095	10,686,360	91,697	10,942,152
Road construction fees/Equalisation Fund .....	3,678,568	3,252,891	4,709,343	11,640,802
Depreciation .....	0	0	( 1,330,434 )	( 1,330,434 )
Classified as assets available for sale .....	( 4,293,900 )	( 3,477 )	( 103,958 )	( 4,401,335 )
Sold or disposed during the year .....	( 3,170,505 )	( 8,746,970 )	( 1,439,458 )	( 13,356,933 )
Book value 31.12.2013 .....	<u>102,537,376</u>	<u>249,660,185</u>	<u>17,705,253</u>	<u>369,902,815</u>
Depreciation rate .....	2 - 4 %	2 - 20 %	4 - 33,3 %	

#### 32. Fixed assets are categorised as follows continued:

Investment assets are categorised as follows:

Book value 1.1.2013 .....	21,480,394
Investment assets revalued 01.01 due to changes in accounting method .....	<u>18,102,851</u>
Restated book value 1.1.2013 .....	39,583,245
Revaluation .....	1,890,883
Addition during the year .....	487,064
Sold during the year .....	<u>( 144,550 )</u>
Book value 31.12.2013 .....	<u>41,816,642</u>

The presentation of Félagsbústaðir in the city's consolidated accounts for the year 2013 is based on fair value accounting. In fair value accounting, changes in evaluation are recorded through the income statement.

Orkuveita Reykjavíkur prepares a special re-evaluation of its production systems which covers assets used for the production of electricity, hot water and cold water. The fair value of production assets is determined on the basis of depreciated replacement value. This entails that changes in the building cost of similar assets are evaluated and both the cost price and accumulated depreciation are re-evaluated in accordance with those changes. The same method is used to determine the fair value of Orkuveita Reykjavíkur distribution systems that have been subject to a special re-evaluation. Re-evaluated distribution systems are used for operations that are subject to special permits and income benchmarks are primarily based on changes to the building cost index. This is taken into account when determining fair value.

#### 33. Assets available for sale:

In October 2013 Orkuveita Reykjavíkur sold the head offices of the company at Bæjarháls and Réttarháls in Reykjavík for ISK 5,100 million. The profits from the sale amounted to ISK 614 million and were entered in the income statement. Orkuveita Reykjavíkur rents the head offices from the same point in time from the new owner and sub-leases a part of the facilities to a third-party lessee. At the end of the year there are no permanent assets that are categorised as assets intended for sale.

## Notes, continued

### 34. Leased properties

Total value 1.1. 2013 .....	10,299,174
Additions during the year .....	35,920
Book value 31.12.2013 .....	<u>10,335,094</u>
Depreciation 01.01.2013 .....	( 2,137,856 )
Depreciation during the year .....	( 525,231 )
Depreciation 31.12.2013 .....	<u>( 2,663,086 )</u>
Book value 31.12.2013 .....	<u>7,672,008</u>
Depreciation rate .....	4 - 25%

### 35. Depreciation in the Income Statement for Consolidated A and B operations is as follows:

	(A operation)	(A and B operation)
Depreciation of fixed tangible assets, notes 30 - 31 .....	3,048,094	13,356,933
Depreciation of intangible assets, note 29 .....	0	30,829
Depreciation of leased properties, note 34 .....	525,231	525,231
Entered in income statement .....	<u>3,573,325</u>	<u>13,912,993</u>

### 36. Investments of Reykjavik Municipal in fixed tangible assets are as follows:

	2013 Financial Statement	2013 Budget
<i>Property, machinery and equipment:</i>		
Culture .....	172,514	264,000
Education .....	986,492	1,145,000
Sports and leisure .....	957,519	905,000
Social Services .....	277,758	524,000
Building plots and land .....	206,992	164,000
Other properties .....	15,923	0
Software, machinery and equipment .....	439,342	543,000
Renovation and major maintenance of buildings .....	133,074	150,000
Purchased property .....	1,003,240	1,080,000
Leased property .....	35,920	0
Total property, machinery and equipment	<u>4,228,774</u>	<u>4,775,000</u>
<i>Road system</i>		
Road construction .....	2,530,781	3,331,000
Road construction fees, special projects .....	445,103	350,000
Road construction fees over the year .....	( 1,330,434 )	( 347,000 )
Road system total	<u>1,645,450</u>	<u>3,334,000</u>
Total capitalized investment	<u>5,874,224</u>	<u>8,109,000</u>

## Notes, continued

37. The selling price of properties, plants and equipment under Reykjavik Municipal is as follows:

	<b>2013 Financial Statement</b>	<b>2013 Budget</b>
Building permits .....	706,867	650,000
Property .....	29,959	0
Total sale value	<u>736,826</u>	<u>650,000</u>

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

38. The official fire insurance valuation, the Icelandic Property Registry valuation and book value of real estate were itemised as follows at year-end 2013:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	(A operations)	(A and B operations)
Property Registry valuation of buildings .....	74,818,762	143,559,383
Property Registry valuation of sites .....	27,354,530	56,329,095
Fire insurance valuation .....	129,412,801	174,040,652
Book value .....	82,995,912	102,537,376

### *Machinery and equipment insurance value*

39. According to the City Council's decision, machinery and equipment in Reykjavik Municipal are not insured specifically, except in the case of statutory third-party liability insurance.

## Shares in companies

40. Shares in companies are as follows:

			<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
			(A operations)	(A and B operations)
	Share		Book value	Book value
<b>B operations companies</b>				
		(A operation)	(A and B operations)	
Aflvaki hf. ....	54.5%	95.7%	4,363	
Félagshústaðir, Reykjavik Social Housing hf. ....	100%	100%	2,490,000	
Sport and Exhibition Centre hf. ....	50%	50%	50,000	
Jörundur ehf. ....	100%	100%	231,820	
Asphalt Station Hofdi hf., Malbikunarstöðin Höfði .....	99%	100%	190,575	
Capital Area Skiing Resort .....	60.0%	60.1%	522,304	
Capital District Fire and Rescue Services .....	61.3%	61.3%	882,192	
Sorpa, Capital Area Waste Disposal Company .....	65.3%	65.3%	486,019	
Strætó, Metropolitan Bus Transportation Company .....	60.3%	60.3%	514,504	
Orkuveita Reykjavíkur .....	93.5%	93.5%	0	
Faxaflóahafnir, Associated Icelandic Ports .....	75.6%	75.6%	59,111	
Reykjavik Parking Service, Bílastæðasjóður .....	100%	100%	0	
Total .....			<u>5,430,888</u>	

## Notes, continued

40. Shares in companies are as follows:

			<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
			(A operations)	(A and B operations)
	Share		Book value	Book value
<i>Other companies</i>				
Harpa tónlistar- og ráðstefnuhús ohf. ....	46.0%	46.0%	555,370	365,068
Eignarhaldsfélagið Spölur ehf. ....		23.5%	300	49,238
HS veitur hf .....		16.6%	0	1,499,248
Galantatem .....		3.80%		13,082
Keilir .....		11.3%		18,500
Landskerfi bókasafna hf. ....	20.6%	20.6%	29,524	29,524
Landsnet .....		6.8%		2,160,000
Lánasjóður sveitarfélaga ohf. ....	17.47%	17.47%	1,547,831	1,547,831
Mínjavernd hf. ....	38.3%	38.3%	107,839	238,136
Neyðarlínan hf. ....	12.5%	20.4%	2,000	9,394
Orkuskólinn REYST hf. ....		45.0%		6,320
Tæknigarður hf. ....	12.5%	31.3%	2,000	5,000
DMM lausnir ehf .....		11.1%		23,898
Íslensk Nýorka .....		27.6%		29,341
Metan hf. ....		100.0%		21,575
Netorka hf. ....		23.5%		21,856
Nevada Geothermal Power Inc .....		0.0%		4,389
Prókatín .....		24.7%		8,000
Príhnúkar ehf .....	16.13%	16.13%	10,000	10,000
Other companies .....			40	127,332
Other companies total .....			2,254,903	6,187,732
Total shares .....			7,685,791	6,187,732

### Embedded derivatives

41. Orkuveita Reykjavíkur has entered into four power sale agreements for an initial period of 20 years, one with Landsvirkjun concerning Norðurál and three with Norðurál concerning the aluminium smelter at Grundartangi, as well as agreements with Landsnet hf. concerning power transmission. Orkuveita Reykjavíkur and Norðurál have also entered into a power sale agreement concerning power sales to the planned aluminium smelter in Helguvík and delivery pursuant to that agreement has begun; the agreement has a term of 25 years. These power sale agreements are made in USD and the power price is linked to the world market price of aluminium. Revenues from power sale agreements linked to aluminium prices amounted to 18.3% of the total group revenues of Orkuveita Reykjavíkur in 2013.

In order to reduce the aluminium price risk, Orkuveita Reykjavíkur has entered into derivative agreements to reduce fluctuations of revenues linked to aluminium prices. The treasury department and the risk management department have the authority to spend up to 100% of the aluminium price risk 1 year ahead of time and proportionally less for the following 2 years. On the settlement date the hedging amounted to 44% of the estimated aluminium price linked sales to the end of the year 2014.

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

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

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

## Notes, continued

### Embedded derivatives

41. The fair value of embedded derivatives in electricity sales contracts is itemised as follows:	<b>2013</b>	<b>2012</b>
Fair value of embedded derivatives at the beginning of the year .....	14,738,660	17,682,970
Fair value changes during the period .....	<u>( 14,320,920 )</u>	<u>( 2,944,310 )</u>
Fair value of embedded derivatives at the end of the period .....	<u>417,740</u>	<u>14,738,660</u>
The allocation of embedded derivatives in electricity sales contracts is specified as follows:		
Non-current embedded derivatives .....	965,916	14,150,678
Current embedded derivatives .....	<u>( 548,176 )</u>	<u>587,982</u>
Total embedded derivatives at the end of the period .....	<u>417,740</u>	<u>14,738,660</u>

Among the embedded derivatives of power contracts is a contract with Norðurál Helgúvík ehf. ("NH") in the amount of ISK 0.1 billion. Construction work relating to an aluminium smelter at Helgúvík has been significantly delayed and there is some uncertainty regarding the future of that project. The plan was to deliver power to the aluminium smelter on 1 September 2011 and NH's payment obligation started on that date. NH has used provisions of the contract to divert the power to another aluminium smelter at Grundartangi. The directors of Orkuveita Reykjavíkur believe that there is significant counterparty risk in this agreement and this is reflected in the value of the derivative. If the contract is terminated or an agreement is made on other grounds, then that will result in a debit entry of the embedded derivative.

### Long-term receivables

42. Long-term receivables are as follows:

	<b>Reykjavík Municipal</b>	<b>Reykjavík Group</b>
	<b>(A operations) (A and B operations)</b>	
Receivables on B operations companies .....	2,010,863	0
Receivables on B operations companies, subordinated loan to Orkuveita Reykjavíkur .....	12,446,548	0
Receivables on other companies .....	<u>3,299,442</u>	<u>11,032,806</u>
	17,756,853	11,032,806
Provision for losses .....	<u>( 1,790,800 )</u>	<u>( 1,793,887 )</u>
	15,966,053	9,238,919
Next year's payments on long-term receivables .....	<u>( 221,855 )</u>	<u>( 230,583 )</u>
	<u>15,744,198</u>	<u>9,008,336</u>

Annual maturities are as follows:

2014 .....	221,855	230,583
2015 .....	336,808	322,864
2016 .....	762,908	7,602,642
2017 .....	1,034,973	66,392
2018 .....	1,320,449	52,919
Later .....	<u>14,079,860</u>	<u>2,757,406</u>
Total long-term receivables .....	<u>17,756,853</u>	<u>11,032,806</u>

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

## Notes, continued

### Current receivables and securities

44. Provisions on current receivables and securities are itemised as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Provision for receivables other than tax revenue at the beginning of the year .....	157,600	911,227
Actual losses during the year .....	( 31,897 )	( 343,818 )
Provision for losses during the year .....	82,344	313,200
Provision at year-end .....	<u>208,047</u>	<u>880,609</u>

Outstanding tax revenue, excluding default interest, was ISK 11,462 million at year-end. A provision is entered as a reduction in tax revenue and the figure of ISK 1,115 million is written off in the Financial Statements. The total provision for tax revenue at year-end amounted to ISK 6,341 million.

### Equity

45. Changes in equity:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Equity 1.1.2013 .....	82,308,298	139,733,195
For the effects of changes in accounting methods, see note no. 2 .....	0	18,102,851
Equity 1.1.2013 after changes .....	82,308,298	157,836,046
Special revaluation of fixed tangible assets .....	0	8,015,853
Changes in the market value of equity shares .....	0	507,213
Impact of split-up of Orkuveita Reykjavíkur on income tax assessment .....	0	7,421,632
Other changes .....	0	14,087
Operating result for the year .....	3,007,722	8,386,607
Equity 31.12.2013 .....	<u>85,316,019</u>	<u>182,181,438</u>

### Pension obligations

46. According to an actuarial evaluation, the net present value of the pension obligations of Reykjavik Municipal amounted to ISK 13,111 million at year-end 2013, and for Reykjavik Group the pension obligation amounted to ISK 13,846 million at year-end 2013. These figures are adjusted based on 2% interest, taking into consideration the share in the pension fund's net assets.

The obligations are itemised as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Pension obligations 1.1.2013 .....	14,361,100	15,091,068
Contributions to pension payments during the year .....	( 1,408,680 )	( 1,439,771 )
Change in the pension obligations during the year .....	159,008	195,085
Pension obligations 31.12.2013 .....	<u>13,111,428</u>	<u>13,846,382</u>
Pension obligations, short-term .....	1,474,000	1,510,880
Pension obligations, long-term .....	11,637,428	12,335,502
	<u>13,111,428</u>	<u>13,846,382</u>

Estimated payments in 2014 due to the pension obligations are entered among current liabilities in the Balance Sheet.



## Notes, continued

### 46. Estimated pension payments for Reykjavik Municipal for the following years:

Payments 2014 - 2018 .....	2,447,835
Payments 2019 - 2023 .....	2,411,232
Payments 2024 - 2028 .....	2,271,843
Payments 2029 and later .....	5,980,518
	<u>13,111,428</u>

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

47. A new actuarial survey conducted by the actuary of the Local Government Employee Pension Fund has been made available, which shows that premiums need to be increased by almost 4,3 percentage points. The statutes of the pension fund stipulate that the premium for members of the fund shall be 4% of wages and the premium (countercontribution) of the employer shall be 12%, but that these amounts should be reviewed annually in accordance with an actuarial survey. If the employers' premium had been increased by the board of the pension fund at the beginning of 2013 the City's expenditure would have increased by ISK 529 million in 2013. Based on year-end 2012 the obligation of division A of the pension fund was underestimated by ISK 18.1 billion according to the actuarial survey.

### Long-term liabilities

#### 48. Liabilities in foreign currencies are as follows:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Long-term liabilities to foreign credit institutions listed by currency:		
Liabilities in USD .....	0	44,580,565
Liabilities in GBP .....	0	4,573,439
Liabilities in EUR .....	0	63,655,053
Liabilities in CHF .....	0	21,201,702
Liabilities in JPY .....	182,384	10,839,973
Liabilities in SEK .....	0	7,343,913
	<u>182,384</u>	<u>152,194,646</u>
Long-term liabilities to Icelandic credit institutions are itemised as follows		
by currency:		
Liabilities in EUR .....	0	988,436
Other domestic loans .....	27,463,126	88,291,239
	<u>27,463,126</u>	<u>89,279,675</u>
Total long-term liabilities to foreign and Icelandic credit institutions .....	27,645,510	241,474,320
Next year's payments of long-term liabilities .....	<u>(2,851,020)</u>	<u>(21,701,091)</u>
Long-term liabilities, total .....	<u>24,794,490</u>	<u>219,773,229</u>
Estimated annual maturities of long-term liabilities are itemised as follows:		
	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
2014 .....	2,851,020	21,701,091
2015 .....	1,132,073	19,984,292
2016 .....	1,057,590	19,717,271
2017 .....	1,074,839	15,346,285
2018 .....	1,062,314	14,926,483
Later .....	20,467,673	149,798,898
Total .....	<u>27,645,510</u>	<u>241,474,320</u>

## Notes, continued

### 49. Overview of lease liabilities

The Public Works and Real Estate Fund has made 9 lease contracts for real estate which are liabilities on the balance sheet, see note 21. Lease contracts are index-linked:

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Leased liabilities .....	12,281,959	12,281,959
Next year's payments .....	( 551,143 )	( 551,143 )
Long-term leased liabilities .....	<u>11,730,816</u>	<u>11,730,816</u>

	<b>Reykjavik Municipal</b>	<b>Reykjavik Group</b>
	<b>(A operations)</b>	<b>(A and B operations)</b>
Annual leasing liabilities are itemised as follows:		
2014 .....	551,143	551,143
2015 .....	575,990	575,990
2016 .....	597,964	597,964
2017 .....	619,039	619,039
2018 .....	645,750	645,750
Later .....	9,292,074	9,292,074
	<u>12,281,959</u>	<u>12,281,959</u>

	<b>Lease period</b>	<b>Book value 12/31/2013</b>
Other information on lease contracts		
Sports and athletic facilities .....	2006 - 2035	5,616,141
Office buildings .....	2002 - 2032	6,157,340
Other facilities .....	2007 - 2030	508,478
		<u>12,281,959</u>

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

	<b>Sports and athletic facilities</b>	<b>Office buildings</b>	<b>Other facilities</b>	<b>Total</b>
2014 .....	757,377	577,328	90,294	1,425,000
2015 .....	757,377	577,328	90,294	1,425,000
2016 .....	757,377	577,328	83,975	1,418,681
2017 .....	757,377	577,328	75,128	1,409,834
2018 .....	757,377	577,328	72,926	1,407,632
Later .....	7,581,798	7,768,370	456,005	15,806,173
	<u>11,368,683</u>	<u>10,655,012</u>	<u>868,624</u>	<u>22,892,319</u>

Total payments for lease contracts amounted 1,403 million ISK in 2013 and are itemised as follows:

Payments in reduction of lease liabilities .....	523,671
Interest debt .....	475,155
Operating expense .....	404,488
Total lease payments .....	<u>1,403,314</u>

## Notes, continued

### Other current liabilities

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

The City of Reykjavik was of the opinion that its debt to Kaupthing bank hf. in respect of the rescission, with interest, was just over ISK 251 million, and this debt was paid to the bank on 3 April 2009. The Resolution Committee of Kaupthing bank hf. protested the rescission and filed a lawsuit against the City of Reykjavik by means of a summons issued on 7 October 2012. The principal claim of Kaupthing Bank hf. against the City of Reykjavik is ISK 1,819 million, with default interest from 18 November 2008, until the day of payment net of the instalment paid by the City of Reykjavik on April 3, 2009. The main hearing of the case was held before the District Court of Reykjavik on October 7, 2013. On November 22, 2013, the District Court of Reykjavik issued a ruling in the case. The conclusion of the court was that the City of Reykjavik was acquitted of all of Kaupthing Bank hf.'s claims. Kaupthing Bank hf. has appealed the verdict of the District Court and the case was arraigned before the Supreme Court on April 9, 2014. It is expected that the case will be concluded by next winter.

No obligations relating to this lawsuit are recorded in the annual statement.

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

### Taxes

52. Deferred income tax assets and liabilities:

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

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

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

	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>
Balance at the beginning of the year .....	3,542,324	145,416
Income tax effect of the amended income tax percentage due to re-organisation .....	7,934,264	0
Impact of special revaluation of fixed assets .....	( 2,183,524 )	32,819
Calculated income tax for revenues and expenses during the year .....	( 7,584,401 )	( 39,101 )
Income tax payable during 2014 .....	0	( 3,688 )
Balance at year-end .....	<u>1,708,664</u>	<u>135,446</u>

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

	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>
Fixed tangible assets .....	( 8,907,233 )	363,675
Embedded derivatives .....	( 83,548 )	0
Other items .....	( 1,496,487 )	( 20,115 )
Impact of carry-forward loss .....	12,195,932	( 208,114 )
Balance at year-end .....	<u>1,708,664</u>	<u>135,446</u>

## Notes, continued

### Obligations and guarantees off the Balance Sheet

	<b>Total</b>	<b>Obligations</b>
	<b>obligations</b>	<b>due in 2013</b>

#### *Operational contracts and service contracts*

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

City Executive Board grants .....	106,479	45,339
Cultural grants .....	2,035,963	925,622
Grants to Sports and Leisure .....	2,160,471	996,145
Grants and service contracts, Social Services .....	2,970,639	2,095,354
Concert and conference hall - Harpa .....	7,591,861	480,416
Project agreements for Public Works and Real Estate Fund .....	890,947	631,990
Operational agreements for Public Works and Real Estate Fund .....	185,415	185,415
	<u>15,941,775</u>	<u>5,360,281</u>

Summary of obligations and guarantees for B operations:

Obligations of Reykjavik Parking Services .....	915,260	0
Operational and service contracts .....	<u>16,857,035</u>	<u>5,360,281</u>

#### *Guarantees*

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

	<b>Balance</b>
	<b>12/31/2013</b>
Churches .....	312,342
Reykjavik Social Housing hf. ....	2,811,521
	<u>3,123,863</u>

#### *Liabilities*

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

	<b>City's share in</b>	<b>Reykjavik</b>
	<b>liabilities</b>	<b>Municipal</b>
		<b>(A operations)</b>
		<b>Balance</b>
Faxaflóahafnir, Associated Icelandic Ports .....	75.6%	1,114,184
Orkuveita Reykjavíkur .....	93.5%	169,898,101
Capital District Fire and Rescue Services .....	58.3%	407,775
Sorpa, Capital Area Waste Disposal Company .....	58.3%	224,549
Strætó, Metropolitan Bus Transportation Company .....	58.3%	243,594
		<u>171,888,202</u>

## Notes, continued

### Statement of financial position at year-end

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

	Share	Assets	Liabilities	Equity
Reykjavik Municipal (A operations) .....	100.0%	147,520,212	62,204,193	85,316,019
Aflvaki hf. ....	95.7%	6,824	0	6,824
Bílastæðasjóður, Reykjavik Parking Services hf. ....	100.0%	1,876,280	256,258	1,620,022
Faxaflóahafnir, Associated Icelandic Ports .....	75.6%	9,910,279	1,347,949	8,562,330
Félagsbústaðir, Reykjavik Social Housing hf. ....	100.0%	42,124,763	29,465,084	12,659,679
Sport and Exhibition Centre hf. ....	50.0%	1,311,136	1,058,907	252,229
Jörundur hf. ....	100.0%	1,243,758	1,248,486	( 4,728 )
Asphalt Station Hofdi hf. ....	100.0%	1,219,305	300,639	918,665
Orkuveitan Reykjavik .....	93.5%	264,815,828	189,078,146	75,737,683
Capital Area Skiing Resort .....	60.1%	282,925	43,797	239,128
Capital District Fire and Rescue Services .....	61.3%	1,400,075	756,870	643,205
Sorpa, Capital Area Waste Disposal Company .....	65.2%	1,356,457	424,536	931,921
Strætó, Metropolitan Bus Transportation Company .....	60.3%	1,320,960	528,963	791,997
Internal transactions .....		( 21,512,208 )	( 16,018,671 )	( 5,493,537 )
Total .....		452,876,594	270,695,157	182,181,438
Minority share .....		25,473,473	15,636,512	9,836,961
Balance according to Financial Statements .....		478,350,067	286,331,668	192,018,399

### Other

57. In April 2011 the municipal governments of the owners of Orkuveita Reykjavik agreed to grant to Orkuveita Reykjavik a subordinated loan in the amount of ISK 12,000 million on the basis of a revised 5-year plan and an agreement made by the owners and directors of Orkuveita Reykjavik on an action plan for the period 2011-2016. In 2011 the City of Reykjavik paid to Orkuveita Reykjavik the first part of its promised loan in the amount of ISK 7,483 million, and the second part, ISK 3,742 million, was paid on 8 March 2013.

The action plan entailed closing an unfinanced ISK 50.5 billion “gap” at Orkuveita Reykjavik with the following actions, in addition to the loan from the owners:

1. Postpone certain new investments in the amount of ISK 2,900 million for a sewage system in West Iceland and Kjalarnes for three years.
2. Reduce investments in utility mains by ISK 15,000 million.
3. Reduce other investments by ISK 1,250 million.
4. Increase tariffs and link them to price-level trends and thereby increase revenues by ISK 8,013 million.
5. Reduce operating expenses by ISK 5,000 million.
6. Sell assets outside Orkuveita Reykjavikur core operation for ISK 10,000 million.

In addition it was provided that current lines of credit would only be used to respond to market risk and other unforeseeable events.

Orkuveita Reykjavikur action plan has succeeded in all major respect.

58. Postponement of operations.

Considerable delays have occurred in waiving the conditions precedent in the power purchase agreement with Norðurál Helguvík ehf. (NH) for the second and third phase of a prospective aluminium smelter in Helguvík. There is therefore uncertainty whether the construction of the smelter will begin or not. Discussions are ongoing with NH on a revised power purchase agreement. Reykjavik Energy questions the validity of a part of the power purchase agreement and is engaged in a dispute with NH on the matter. As a result, negotiations have been concluded with Mitsubishi Heavy Industries (MHI) and Balcke Durr (BD) on the purchase of turbine units. The remainder of the contract for turbines on hold amounts to approximately ISK 7,000 million. Uncertainty still persists regarding the start of construction of the Hverahlíð power plant, but the agreement with MHI and BD has largely resolved the uncertainty. The management of Orkuveita Reykjavik is of the opinion that there is no reason for any special provision in the financial statement regarding the matter at this point.

## Notes, continued

### 59. Operating lease of facilities

#### Orkuveita Reykjavik as lessee.

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

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

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

	2013	2012
Rent recorded as expenses .....	37,315	0
Forward lease recorded as income .....	( 1,630 )	0
	<u>35,685</u>	<u>0</u>

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

Within the year .....	223,890	0
In 1 to 5 years .....	895,560	0
After 5 years .....	3,984,035	0
	<u>5,103,485</u>	<u>0</u>
Expected future revenues from sub-leasing .....	<u>219,725</u>	<u>0</u>

#### Orkuveita Reykjavikur as lessor.

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

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

Within the year .....	47,203	0
In 1 to 5 years .....	172,522	0
	<u>219,725</u>	<u>0</u>

### 60. 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.

## Notes, continued

### 61. Comparison of operating budgets.

The overview below explains the operating budget for 2013 pursuant to the originally approved Budget of the municipality, approved

	Reykjavik Municipal			Reykjavik Group		
	(A operation)			(A and B operation)		
	2013 Original Budget	2013 Annexes to Budget	2013 Original Budget with annexes	2013 Original Budget	2013 Annexes to Budget	2013 Original Budget with annexes
<b>OPERATING REVENUE</b>						
Tax revenues .....	60,404,450	449,419	60,853,869	59,728,678	449,419	60,178,097
Contributions to Equalisation Fund (net)	5,123,313	0	5,123,313	5,123,313	0	5,123,313
Other revenues .....	10,676,324	225,564	10,901,888	61,636,790	225,564	61,862,354
	<u>76,204,087</u>	<u>674,983</u>	<u>76,879,070</u>	<u>126,488,782</u>	<u>674,983</u>	<u>127,163,764</u>
<b>OPERATING EXPENSES</b>						
Wage cost and wage-related expenses .....	41,955,597	146,457	42,102,054	50,773,780	146,457	50,920,237
Other operating expenses .....	29,835,673	528,527	30,364,200	41,932,146	528,527	42,460,672
Depreciation .....	3,641,048	0	3,641,048	14,270,088	0	14,270,088
	<u>75,432,319</u>	<u>674,983</u>	<u>76,107,302</u>	<u>106,976,014</u>	<u>674,983</u>	<u>107,650,997</u>
Operating result before financial items .....	771,768	0	771,768	19,512,767	0	19,512,767
Net financial items .....	(442,716)	(25,120)	(467,836)	(10,616,132) *	(25,120)	(10,641,252)
Operating result before tax	329,052	(25,120)	303,932	8,896,635	(25,120)	8,871,515
Income tax .....	0	0	0	(2,530,709)	0	(2,530,709)
Changes in evaluation of investment assets.....	0	0	0	1,334,366 *	0	1,334,366
<b>Operating result .....</b>	<u>329,052</u>	<u>(25,120)</u>	<u>303,932</u>	<u>7,700,292</u>	<u>(25,120)</u>	<u>7,675,172</u>

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

## Notes, continued

### 62. Comparison of cash flow budgets.

The overview below explains the operating budget for 2013 pursuant to the originally approved budget of the municipality, approved annexes and budgets attached to annexes. The Budget with annexes is shown in the cash flow overview and other notes to the annual statement for comparison with the year's real figures.

	Reykjavik Municipal			Reykjavik Group		
	(A operation)			(A and B operation)		
	2013 Original Budget	2013 Annexes to Budget	2013 Original Budget with annexes	2013 Original Budget	2013 Annexes to Budget	2013 Original Budget with annexes
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating result .....	329,052	(25,120)	303,932	7,700,292	(25,120)	7,675,172
Adjustments to reconcile net earnings to cash provided by operating activities:						
Depreciation .....	3,641,048	0	3,641,048	14,270,088	0	14,270,088
Indexation, discounts and exch.rate differences .....	958,737	0	958,737	6,456,429	0	6,456,429
Loss (Gain) on sold assets .....	(650,000)	0	(650,000)	(659,366)	0	(659,366)
Other changes .....	0	0	0	(1,334,366)	0	(1,334,366)
Changes in obligations .....	2,600,000	0	2,600,000	5,229,053	0	5,229,053
<b>Working capital</b>	<b>6,878,837</b>	<b>(25,120)</b>	<b>6,853,717</b>	<b>31,662,130</b>	<b>(25,120)</b>	<b>31,637,010</b>
Changes in operating assets and liabilities:						
Inventories decrease (increase) .....	0	0	0	27,000	0	27,000
Unclaimed revenues (increase) decrease .....	0	0	0	406,880	0	406,880
Other current receivables (increase) decrease .....	0	0	0	(2,072,533)	0	(2,072,533)
Current liabilities (decrease) increase .....	0	0	0	(133,332)	0	(133,332)
Changes in operating assets/liabilities.....	0	0	0	(1,771,985)	0	(1,771,985)
Net cash provided by operating activities	6,878,837	(25,120)	6,853,717	29,890,145	(25,120)	29,865,025
<b>INVESTMENT ACTIVITIES</b>						
Investments in fixed tangible assets .....	(7,045,000)	(1,411,000)	(8,456,000)	(14,558,448)	(1,411,000)	(15,969,448)
Proceeds from sale of fixed tangible assets .....	997,000	0	997,000	997,000	0	997,000
Sale of bulding permits .....	0	0	0	4,676,664	0	4,676,664
Change in equity holdings .....	(86,536)	0	(86,536)	(86,536)	0	(86,536)
Change in long-term securities .....	(3,898,502)	0	(3,898,502)	67,526	0	67,526
Change in long-term securities of own companies .....	0	0	0	0	0	0
Other investment activities .....	0	0	0	(72,000)	0	(72,000)
Investment activities	(10,033,039)	(1,411,000)	(11,444,039)	(8,975,794)	(1,411,000)	(10,386,794)
<b>FINANCING ACTIVITIES</b>						
Contributions from own companies .....	0	0	0	(52,625)	0	(52,625)
Changes in equity .....	0	0	0	120,000	0	120,000
Trading balance of own companies, changes.....	210,976	0	210,976	0	0	0
New long-term borrowings .....	3,299,000	0	3,299,000	5,734,789	0	5,734,789
Repayment of long-term liabilities and obligations .....	(1,992,172)	0	(1,992,172)	(27,866,055)	0	(27,866,055)
Repayment of obligations .....	(1,250,000)	0	(1,250,000)	(1,250,000)	0	(1,250,000)
Changes in short-term borrowings .....	0	0	0	(15,000)	0	(15,000)
Financing activities .....	267,804	0	267,804	(23,328,891)	0	(23,328,891)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIV. ....</b>	<b>(2,886,398)</b>	<b>(1,436,120)</b>	<b>(4,322,518)</b>	<b>(2,414,541)</b>	<b>(1,436,119)</b>	<b>(3,850,660)</b>
<b>CASH AND CASH EQUIV. AT BEGINNING OF YEAR .....</b>	<b>10,660,845</b>	<b>0</b>	<b>10,660,845</b>	<b>17,787,674</b>	<b>0</b>	<b>17,787,674</b>
<b>CASH AND CASH EQUIV. AT YEAR-END .....</b>	<b>7,774,447</b>	<b>(1,436,120)</b>	<b>6,338,327</b>	<b>15,373,133</b>	<b>(1,436,119)</b>	<b>13,937,014</b>



## Notes, continued

### Financial ratios

#### 63. Principal financial ratios:

	Reykjavik Municipal (A operations)		Reykjavik Group (A and B operations)	
	2013 Financial Statement	2013 Budget	2013 Financial Statement	2013 Budget
<b>Ratio of operating income</b>				
Municipal income tax .....	61.5%	63.5%	37.8%	38.4%
Property taxes .....	14.6%	15.7%	8.6%	8.9%
Total tax revenues .....	76.0%	79.2%	46.4%	47.3%
Contribution from Equalisation Fund .....	6.6%	6.7%	4.1%	4.0%
Other revenues .....	17.3%	14.2%	49.5%	48.6%
Total operating revenues .....	100.0%	100.0%	100.0%	100.0%
Wage cost and wage-related expenses .....	50.3%	51.4%	37.8%	38.0%
Increase in pension obligations .....	0.2%	3.4%	0.2%	2.1%
Other operating expenses .....	40.4%	39.5%	33.1%	33.4%
Depreciation .....	4.5%	4.7%	10.7%	11.2%
Operating expenses .....	95.4%	99.0%	81.8%	84.7%
Operating result before financial items .....	4.6%	1.0%	18.2%	15.3%
Financial items .....	( 0.8%)	( 0.6%)	( 7.0%)	( 8.4%)
Income tax .....	0.0%	0.0%	( 5.8%)	( 2.0%)
Investment assets revalued .....	0.0%	0.0%	1.5%	1.0%
Effects of own companies/minority interest .....	0.0%	0.0%	( 0.4%)	0.0%
Operating result (negative) .....	3.8%	0.4%	6.5%	6.0%
Working capital provided by operations .....	8.6%	8.9%	22.7%	24.9%
Investments activities .....	( 10.7%)	( 14.9%)	( 3.5%)	( 8.2%)
<b>In ISK thousand per inhabitant:</b>				
<b>Operations</b>				
Tax revenue .....	501	502	497	497
Contributions from Equalisation Fund .....	44	42	44	42
Other revenue .....	114	90	529	511
Total operating revenue .....	659	635	1,070	1,050
Wage cost and wage-related expenses .....	( 333 )	( 348 )	( 406 )	( 420 )
Other operating expenses and depreciation .....	( 296 )	( 281 )	( 469 )	( 468 )
Financial items .....	( 5 )	( 4 )	( 74 )	( 88 )
Income tax .....	0	0	( 62 )	( 21 )
Investment assets revalued .....	0	0	16	11
Effects of own companies/minority interest .....	0	0	( 4 )	0
Operating result (negative) .....	25	3	69	63
<b>Cash flow:</b>				
Working capital provided by operating activities .....	56	57	243	261
Net increase (decrease) in cash and cash equivalents	56	57	246	247
<b>Balance Sheet</b>				
	Reykjavik Municipal (A operations)		Reykjavik Group (A and B operations)	
	2013 Financial Statement	2013 Financial Statement	2013 Financial Statement	2012 Financial Statement
Assets .....	1,218	1,196	3,950	4,087
Equity .....	704	688	1,585	1,388
Liabilities .....	514	508	2,364	2,699
<b>Other ratios</b>				
Current ratio - curr. assets/curr. liabilities	1.40	1.86	0.92	0.87
Equity ratio - equity/total assets .....	0.58	0.58	0.40	0.34
<b>Population (source: Statistics Iceland):</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Population on December 1st. ....	121,116	119,632	118,785	118,908
Increase from previous year .....	1,484	847	( 123 )	481

## Notes, continued

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

	2013	2012	2011	2010	2009
<b>As a ratio of operating revenue:</b>					
Tax revenue .....	76.0%	77.9%	78.5%	81.8%	85.0%
Contributions from Equalisation Fund .....	6.6%	7.0%	6.1%	0.0%	0.0%
Other revenue .....	17.3%	15.1%	15.4%	18.1%	15.0%
Total operating revenue .....	100.0%	100.0%	100.0%	100.0%	100.0%
Wage cost and wage related expenses .....	50.3%	51.2%	51.0%	51.4%	51.3%
Increase in pension obligations .....	0.2%	4.0%	6.4%	0.6%	( 2.6%)
Other operating expenses .....	40.4%	40.0%	41.5%	43.4%	42.3%
Depreciation .....	4.5%	4.6%	4.6%	4.9%	3.9%
Total operating expenses .....	95.4%	99.8%	103.5%	100.4%	94.9%
Operating result before financial items .....	4.6%	0.2%	( 3.5%)	( 0.4%)	5.1%
Financial items .....	( 0.8%)	( 0.3%)	( 0.6%)	2.8%	0.4%
Extraordinary income .....	0.0%	0.0%	0.0%	0.0%	0.0%
Operating result (negative) .....	3.8%	( 0.1%)	( 4.1%)	2.4%	5.5%
Working capital provided by operations .....	8.6%	9.8%	10.0%	10.0%	11.0%
Net increase (decrease) in cash and cash equivalents .....	8.5%	10.7%	10.3%	7.0%	6.8%
Net cash from (used in) investing activities .....	( 10.7%)	( 9.8%)	( 19.0%)	( 7.9%)	( 8.1%)
<b>In ISK thousand per inhabitant</b>					
<b>Operation:</b>					
Tax revenue .....	501	476	453	420	431
Contributions from Equalisation Fund .....	44	43	35	0	0
Other revenue .....	114	92	89	93	76
Total operating revenue .....	659	611	577	513	507
Wage cost and wage related expenses .....	( 331 )	( 313 )	( 295 )	( 264 )	( 260 )
Increase in pension obligations .....	( 1 )	( 24 )	( 37 )	( 3 )	13
Other operating expenses and depreciation .....	( 296 )	( 273 )	( 266 )	( 248 )	( 234 )
Financial items .....	( 5 )	( 2 )	( 3 )	14	2
Extraordinary income .....	0	0	0	0	0
Operating result (negative) .....	25	( 0 )	( 24 )	12	28
<b>Cash flows:</b>					
Working capital provided by operations .....	56	60	58	51	56
Net increase (decrease) in cash and cash equivalents .....	56	65	60	36	34
Net cash from (used in) investing activities .....	( 70 )	( 60 )	( 110 )	( 40 )	( 41 )
<b>Balance Sheet:</b>					
Assets .....	1,218	1,196	1,151	1,078	824
Equity .....	704	688	672	675	538
Liabilities .....	514	508	479	402	286
<b>Other ratios</b>					
Current asset ratio - current assets/current liabilities .....	1.40	1.86	1.87	2.42	2.12
Equity ratio - equity/total assets .....	58%	58%	58%	63%	65%
The debt ratio of A operation - debt/income .....	78%	83%	83%	78%	56%
<b>Tax rates:</b>					
Municipal income tax .....	14.48%	14.48%	14.48%	13.03%	13.03%
Real property tax, class A .....	0.200%	0.200%	0.225%	0.214%	0.214%
Real property tax, class B .....	1.32%	1.32%	1.32%	1.32%	1.32%
Real property tax, class C, formerly class B .....	1.65%	1.65%	1.65%	1.65%	1.65%
<b>Population (source: Statistics Iceland):</b>					
Population on December 1st. ....	121,116	119,632	118,785	118,908	118,427
Increase from previous year .....	1,484	847	( 84 )	471	( 1,421 )
Proportional increase from previous year .....	1.2%	0.7%	( 0.1%)	0.4%	( 1.2%)