

Reykjavíkurborg

(City of Reykjavik)

FINANCIAL STATEMENTS

2015



Reykjavíkurborg
(City of Reykjavik)
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Reykjavíkurborg

(City of Reykjavik)

FINANCIAL STATEMENTS

2015

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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 Reykjavík) for the year 2015 were prepared in accordance with the Local Government Act, the Act on Financial Statements 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 Reykjavík, are divided into A and B operations, i.e. Reykjavík Municipal (A operations) and Reykjavík 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 91,035 million in 2015, of which tax revenues accounted for ISK 69,285 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 Reykjavík Group amounted to ISK 143,927 million over the year.

The operating result for Reykjavík Municipal (A operations) amounted to a loss of ISK 13,636 million, whereas the budget for the fiscal year projected a loss of ISK 622 million. The operating result for Reykjavík Group (A and B operations) amounted to a loss of ISK 4,980 million, whereas the year's budget projected a profit of ISK 7,392 million. The reasons that operating results were worse than anticipated are attributed mainly to changes in pension obligations amounting to ISK 14,667 million, while the budget estimate was ISK 2,399 million, see note 25.

The total assets of Reykjavík Group (consolidated A and B operations) according to the balance sheet at year-end 2015 amounted to ISK 525,560 million, and total liabilities amounted to ISK 301,553 million. Equity amounted to ISK 224,007 million, of which minority interests amounted to ISK 12,700 million.

On 1 December 2015 the population of the City of Reykjavík was 122,452.

For the evaluation of pension obligations of A operations, 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. The effect of these changes in assumptions is estimated at ISK 6,509 million, which is recognized in the income statement. It is the assessment of management that these assumptions provide a clearer view of the pension obligations of A operations at year-end 2015 and that the City of Reykjavík is required to take them into consideration according to the Act on Financial Statements, see notes 25 and 44.

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 Reykjavík Municipal and Reykjavík Group. Furthermore, the report of the Mayor and Executive Committee contains the required information.

The Executive Committee agreed at its meeting on 14 April 2016 that the financial statements of the City of Reykjavík for the year 2015 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, 28 April 2016.

Mayor

Executive Committee

Endorsement by the City Council

The financial statements of Reykjavíkurborg (the City of Reykjavík) for the year 2015 have been discussed by the City Council in accordance with Article 61 of the Local Government Act No. 138/2011 and is confirmed and endorsed at the second debate in the City Council.

Reykjavík, 10 May 2016.

City Council:

Independent Auditor's Report

To the City Council of Reykjavíkurborg

We have audited the accompanying financial statements of Reykjavíkurborg for the year 2015 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 for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the municipality's financial performance in the year 2015, its financial position as at 31 December 2015, and of its cash flows for the year then ended in accordance with the Icelandic Financial Statements Act.

Report on the Mayor and Executive Committee's report

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

Reykjavík, 10 May 2016.

KPMG ehf.

Income Statement for the year 2015

	Notes	Reykjavik Municipal			Reykjavik Group		
		(A operation)			(A and B operations)		
		2015 Financial Statements	2015 Budget with annexes	2014 Financial Statements	2015 Financial Statements	2015 Budget with annexes	2014 Financial Statements
OPERATING REVENUE	3,24						
Tax revenues		69,284,591	68,688,954	64,729,790	68,861,055	67,933,966	64,324,272
Contributions from Municipal Equalisation Fund		6,193,805	5,979,720	5,368,182	6,193,805	5,979,720	5,368,182
Other revenues		15,556,321	14,870,464	13,662,579	68,872,375	68,288,468	63,365,734
Total operating revenues		91,034,718	89,539,137	83,760,551	143,927,235	142,202,153	133,058,188
OPERATING EXPENSES	4						
Wage cost and wage-related expenses	25	49,151,203	48,094,075	44,861,747	59,851,032	58,268,665	54,115,665
Changes in pension obligations *	25,44	8,114,463	2,311,000	3,322,301	8,157,715	2,399,068	3,370,742
Changes in pension obligations **	25,44	6,508,573	0	0	6,508,573	0	0
Other operating expenses		35,970,773	34,852,435	34,630,258	48,559,418	49,428,923	45,704,585
Total operating expenses		99,745,013	85,257,510	82,814,306	123,076,739	110,096,656	103,190,992
Operating result before depreciation, EBITDA.....		(8,710,295)	4,281,628	946,245	20,850,496	32,105,498	29,867,196
Depreciation	9,10,32	4,150,801	4,099,822	3,842,786	16,250,941	14,822,239	14,298,655
Operating result before financial items.....		(12,861,096)	181,806	(2,896,541)	4,599,556	17,283,259	15,568,542
Net financial items	5,26	(774,540)	(804,113)	65,668	(13,221,055)	(10,876,143)	(6,278,505)
Operating result before tax, adjustments and effects of associated companies		(13,635,637)	(622,307)	(2,830,873)	(8,621,499)	6,407,116	9,290,037
Income tax	19,49	0	0	0	582,946	(1,536,971)	(2,036,775)
Value adjustment of investment properties	7,30	0	0	0	4,079,899	2,521,357	4,460,534
Share in associated companies' operating results	11,28	0	0	0	(255,538)	0	395,539
Minority interests		0	0	0	(765,364)	0	(1,003,342)
Operating results.....	43	(13,635,637)	(622,307)	(2,830,873)	(4,979,556)	7,391,502	11,105,993

* Changes in pension obligations according to Reykjavik employees' pension fund (LsRb) actuarial valuation, including all collective agreements for the year 2015. See notes 25 and 44.

** For the evaluation of pension obligations, it is now assumed that the national mortality rate will continue to decrease and that life expectancy will increase instead of using the experience of previous years. The effect of this change in assumptions is estimated at ISK 6,509 million, which is entered separately in the income statement, see notes 25 and 44.

Balance Sheet as at 31 December 2015

Assets	Notes	Reykjavik Municipal		Reykjavik Group	
		(A operation) 2015 Financial Statements	2014 Financial Statements	(A and B operations) 2015 Financial Statements	2014 Financial Statements
FIXED ASSETS					
Intangible assets:					
Intangible assets	6,29	0	0	1,366,036	1,333,728
Fixed tangible assets:	7,9,10				
Real estate	30	90,746,308	88,873,468	107,080,231	107,087,171
Utilities	30	0	0	276,088,982	264,015,379
Investment properties	30	0	0	53,494,476	46,964,975
Road systems	30	12,811,060	12,448,152	13,812,143	13,338,596
Machinery and equipment	30	4,070,189	3,369,138	7,865,634	6,785,109
Lease properties	31	7,653,336	7,647,709	7,653,336	7,647,709
		115,280,893	112,338,467	465,994,803	445,838,940
Investments and long-term receivables:					
Shares in companies	11,37	7,342,608	7,364,280	5,333,244	4,915,913
Long-term receivables from own companies	12,13,39	12,178,896	13,738,262	0	0
Derivative contracts	8	0	0	443,324	656,173
Deferred tax assets	19,49	0	0	5,499,678	2,727,075
Other long-term receivables	12,13,39	2,036,253	1,288,426	2,488,280	9,744,830
		21,557,757	22,390,968	13,764,526	18,043,991
Total fixed assets		136,838,650	134,729,436	481,125,365	465,216,658
CURRENT ASSETS					
Inventories	14, 40	0	0	962,988	760,558
Short-term receivables:	13,15				
Unclaimed revenues and receivables	41	8,145,401	6,710,088	13,539,374	11,960,298
Next year's paym. of own comp. long-term receivab. .	39	646,992	0	0	0
Next year's payment of other long-term receivables	39	646,350	228,434	9,512,263	591,344
Receivables from own companies		274,746	358,562	0	0
Pre-paid costs		0	0	39,419	7,819
Derivative contracts	8	0	0	805,795	237,282
Restricted bank deposits	42	0	0	554,381	3,000,144
Other short-term receivables		2,330,834	2,186,432	2,849,778	2,745,074
Cash	16,42	5,596,949	8,004,670	16,170,503	19,877,287
Total current assets		17,641,272	17,488,186	44,434,501	39,179,807
TOTAL ASSETS		154,479,922	152,217,622	525,559,866	504,396,465
<i>Assets off the Balance Sheet</i>	17				

Balance Sheet as at 31 December 2015

Equity and liabilities	Notes	Reykjavik Municipal		Reykjavik Group	
		(A operation) 2015 Financial Statements	2014 Financial Statements	(A and B operations) 2015 Financial Statements	2014 Financial Statements
EQUITY					
Equity account	43	73,777,863	87,644,054	211,307,443	205,978,100
Minority interest		0	0	12,699,686	11,273,819
Total equity		73,777,863	87,644,054	224,007,129	217,251,919
OBLIGATIONS					
Pension obligations	18,44	25,851,628	13,446,896	26,394,289	13,967,160
Deferred tax liabilities	19,49	0	0	7,773,713	4,698,962
Other obligations		0	0	238,412	209,574
Total obligations		25,851,628	13,446,896	34,406,414	18,875,696
LONG-TERM LIABILITIES					
Long-term debts	20,46	27,735,826	26,057,138	194,179,918	210,310,407
Lease liabilities	21,47	12,119,302	11,755,749	12,119,302	11,755,749
Embedded derivatives in electricity contracts	8,38	0	0	11,095,112	2,377,756
Derivative contracts	8	0	0	2,320,623	1,842,134
Total long-term liabilities		39,855,128	37,812,887	219,714,954	226,286,045
CURRENT LIABILITIES					
Debts to credit institutions		0	0	1,114,211	1,826,501
Accounts payable		2,574,819	2,712,204	6,878,008	5,381,403
Embedded derivatives in electricity contracts	8,38	0	0	2,097,051	649,933
Next year's payments on long-term debts	46	1,266,270	1,175,691	20,717,068	20,161,374
Next year's payments on lease liabilities	47	725,216	637,787	725,216	637,787
Next year's payments on pension obligations	44	2,068,400	1,634,200	2,093,400	1,659,200
Accounts payable to own companies		615,030	623,408	0	0
Derivative contracts	8	0	0	1,755,978	1,194,980
Other payables	48	7,745,570	6,530,495	12,050,437	10,471,626
Total current liabilities		14,995,304	13,313,785	47,431,368	41,982,805
Total liabilities and obligations		80,702,060	64,573,568	301,552,737	287,144,546
TOTAL EQUITY AND LIABILITIES		154,479,922	152,217,622	525,559,866	504,396,465
<i>Obligations off the Balance Sheet</i>	50-52				

Statement of Cash Flows for the year 2015

	Notes	Reykjavik Municipal			Reykjavik Group		
		(A operation)			(A and B operations)		
		2015 Financial Statements	2015 Budget with annexes	2014 Financial Statements	2015 Financial Statements	2015 Budget with annexes	2014 Financial Statements
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating result according to Income Statement.....		(13,635,637)	(622,307)	(2,830,873)	(4,979,556)	7,391,502	11,105,993
Adjustments not affecting cash flow:							
Gain on sold assets		(957,842)	(1,510,000)	(70,098)	(1,050,003)	(1,510,000)	(102,789)
Depreciation	32	4,150,801	4,099,822	3,842,786	16,250,941	14,822,239	14,298,655
Indexation, discounts and exch.rate differences	5	788,327	899,903	232,560	(491,826)	5,588,976	(3,517,479)
Provisions for investments and long-term receivables		243,020	0	4,900	243,020	0	4,900
Embedded derivatives, change	38	0	0	0	10,164,474	1,229,614	3,445,428
Value adjustment of investment properties	30	0	0	0	(4,079,899)	(2,521,357)	(4,460,534)
Effect of own companies and minority interests		0	0	0	1,020,902		607,803
Changes in pension obligations	44	14,623,036	2,311,000	3,322,301	14,666,288	2,341,000	3,370,742
Changes in deferred taxes	49	0	0	0	(582,946)	1,536,971	2,036,775
Other changes		0	0	0	(23,613)	0	(553,929)
Working capital provided by operating activities		5,211,706	5,178,418	4,501,576	31,137,782	28,878,945	26,235,565
Changes in operating assets and liabilities:							
Inventories decrease (increase)		0	0	0	(202,429)	(30,000)	99,063
Unclaimed revenues (increase) decrease		(972,452)	0	290,712	(911,459)	(234,606)	134,876
Other current receivables (increase) decrease		(602,538)	0	208,056	(1,147,282)	(2,946,106)	1,282,545
Current liabilities (decrease) increase		849,165	0	1,041,192	678,165	130,617	3,604,706
Contributions to pension payments	44	(1,784,104)	(1,750,000)	(1,569,662)	(1,804,960)	(1,750,000)	(1,590,764)
Change in operating assets and liabilities		(2,509,930)	(1,750,000)	(29,702)	(3,387,965)	(4,830,095)	3,530,426
Net cash provided by operating activities		2,701,776	3,428,418	4,471,874	27,749,817	24,048,850	29,765,990
INVESTMENT ACTIVITIES							
Investments in fixed tangible assets	33	(9,454,763)	(9,749,000)	(8,172,453)	(21,007,175)	(23,693,583)	(16,993,219)
Investment in investment properties	33	0	0	0	(2,413,576)	(2,467,180)	0
Investments in intangible assets	33	0	0	0	(109,212)	0	(167,012)
Road construction fees and building permits	34	3,090,468	3,330,000	1,611,577	3,589,005	3,330,000	1,881,752
Proceeds from sale of fixed tangible assets	34	228,911	220,000	430,982	1,725,243	670,000	732,268
Change in share holdings		(50,148)	(290,110)	(197,346)	5,171	(290,110)	1,675,428
Restricted bank deposits		0	0	0	2,438,816	0	(3,000,144)
Long-term receivables, change		15,554	273,583	899,753	(1,149,793)	290,922	(70,504)
Other investment activities		0	0	0	91,226	0	(1,837)
Net cash provided by investment activities		(6,169,978)	(6,215,527)	(5,427,488)	(16,830,295)	(22,159,951)	(15,943,269)
FINANCING ACTIVITIES							
New long-term borrowings		2,453,014	2,186,910	2,249,979	2,392,216	14,487,719	8,711,490
New lease liabilities		609,907	0	535,776	609,907	0	535,776
Repayments of long-term liabilities		(1,237,014)	(1,266,656)	(2,928,803)	(17,222,205)	(20,268,101)	(23,941,864)
Payments on lease liabilities		(674,108)	(682,046)	(584,339)	(674,108)	(682,046)	(584,339)
Paid-in capital		0	0	0	0	1,659,977	104,666
Short-term borrowings, change		0	0	0	435,493	400,000	201,582
Dividends paid		0	0	0	(42,294)	0	(42,290)
Other financing activities		(91,318)	16,045	(84,652)	0	0	0
Net cash provided by financing activities		1,060,481	254,253	(812,038)	(14,500,991)	(4,402,451)	(15,014,978)
INCREASE (DECREASE) IN CASH AND CASH EQUIV.....		(2,407,721)	(2,532,856)	(1,767,652)	(3,581,469)	(2,513,552)	(1,192,256)
CASH AND CASH EQUIV. AT BEGINNING OF YEAR.....		8,004,670	7,226,472	9,772,323	19,877,287	20,074,808	21,141,608
EFFECT OF CURRENCY FLUCTUATIONS ON CASH.....		0	0	0	(125,315)	0	(72,065)
CASH AND CASH EQUIVALENT AT YEAR-END.....	16	5,596,949	4,693,616	8,004,670	16,170,503	17,561,256	19,877,287
INVESTMENT AND FINANCING ACTIVITIES							
Investments in fixed tangible assets	33	0	0	(522,304)	(379,066)	0	(714,765)
Investments in shares in companies		(160,000)	0	522,304	0	0	522,304
Short-term borrowings, change		160,000			379,066	0	192,461
New borrowings		0	0	0	0	0	2,040,000
Repayment of long-term liabilities		0	0	0	0	0	(2,040,000)

Notes

Information

1. Reykjavíkurborg (the City of Reykjavík), the capital of Iceland, is a municipality with a population of 122,452, as at 1 December 2015. The municipality's offices are located in Reykjavík City Hall.
The principles of administration and operation of local governments are provided for in the Local Government Act No. 138/2011.

Basis of preparation

2. 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 Höfði), 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

Income recognition

3. 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, continued

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.

Indexation and exchange-rate criteria

- Assets and liabilities which are indexed or denominated in foreign currency are converted recognised in the financial statements at the indexation or exchange rate applying at year-end 2015. Accrued indexation and exchange-rate differences are recognised in the Income Statement.

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.

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 Reykjavik 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 Íþróttá- og sýningahöllin ehf. are recognised 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 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. Investment properties are not amortised.

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, continued

Depreciation of fixed tangible assets, other than leased assets

9. 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

Depreciation of leased assets

10. 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
------------------	------------

Shares in companies

11. 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.

Long-term receivables

12. 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.

Provision for losses

13. 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.

Notes, continued

Inventories

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

Short term receivables

15. Short term receivables are recognised at nominal value, less exchange rate differences 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 recognised in the balance sheet.

Obligations

18. Pension obligations for the benefit of the City's employees are recognised 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, see note 44.

Deferred income tax liability and assets

19. 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.

Long-term liabilities

20. 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.

Lease debts

21. 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.

Budget

22. The budget with annexes for the year 2015 is a part of the financial statements and is included in the income statement, statement of cash flow and in the notes. The originally approved budget is displayed, as well as the approved annexes and the budget with annexes in notes 61 and 62.

Statement of Cash Flows

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

Notes, continued

Operating revenue

24. Operating revenue is specified as follows:

	Reykjavik Municipal		Reykjavik Group	
	(A operation)		(A and B operations)	
	2015 Financial Statements	2015 Budget with annexes	2015 Financial Statements	2015 Budget with annexes
Tax revenues				
<i>Municipal income tax:</i>				
Paid municipal income tax	61,933,435	61,279,154	61,933,435	61,279,154
Share of Municipal Equalisation Fund in income tax	(3,284,349)	(3,249,652)	(3,284,349)	(3,249,652)
Share of Mun.Eq.Fund in tax relating to the disabled	(4,222,734)	(4,178,125)	(4,222,734)	(4,178,125)
	<u>54,426,352</u>	<u>53,851,378</u>	<u>54,426,352</u>	<u>53,851,378</u>
Postpaid municipal income tax	2,611,245	1,532,558	2,611,245	1,532,558
Tax changes	(746,301)	0	(746,301)	0
Amortization of tax revenues	(797,659)	0	(797,659)	0
Changes in provision for lost revenue	400,000	0	400,000	0
	<u>55,893,637</u>	<u>55,383,935</u>	<u>55,893,637</u>	<u>55,383,935</u>
Property tax				
Property tax	12,246,954	12,212,555	11,859,485	11,521,861
Plots lease	1,140,028	1,092,464	1,103,960	1,028,169
Write-off/depreciation of property tax revenues	3,973	0	3,973	0
	<u>13,390,954</u>	<u>13,305,018</u>	<u>12,967,418</u>	<u>12,550,030</u>
Total tax revenues.....	<u>69,284,591</u>	<u>68,688,954</u>	<u>68,861,055</u>	<u>67,933,966</u>
Contributions from Municipal Equalisation Fund				
Contribution for the disabled	4,626,420	4,165,000	4,626,420	4,165,000
Municipal Equalisation Fund, other contributions	1,567,385	1,814,720	1,567,385	1,814,720
	<u>6,193,805</u>	<u>5,979,720</u>	<u>6,193,805</u>	<u>5,979,720</u>
Other income				
Fees for services provided	8,210,283	7,029,686	16,068,014	
Income from assets	17,285,488	17,787,326	18,493,648	
Other repayments	4,818,432	4,384,541	4,818,432	
Other income	6,424,860	6,384,538	58,281,702	
Gain from sale of assets	957,842	1,290,000	1,397,817	
Inter-unit transactions eliminated	(22,140,584)	(22,005,627)	(30,187,238)	
	<u>15,556,321</u>	<u>14,870,464</u>	<u>68,872,375</u>	<u>68,288,468</u>
Total operating revenue	<u>91,034,718</u>	<u>89,539,137</u>	<u>143,927,235</u>	<u>142,202,153</u>

Wage cost and wage-related expenses

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

	Reykjavik Municipal		Reykjavik Group	
	(A operation)		(A and B operations)	
	2015 Financial Statements	2015 Budget with annexes	2015 Financial Statements	2015 Budget with annexes
Wages	39,432,456		48,446,914	
Wage-related expenses	9,504,034		11,664,890	
Total wage cost and wage-related expenses	<u>48,936,490</u>	<u>48,094,075</u>	<u>60,111,804</u>	<u>58,268,665</u>
Changes in accrued vacation obligations	273,936	0	308,066	0
Transfer/capitalisation of salaries	(59,222)	0	(568,837)	0
	<u>49,151,203</u>	<u>48,094,075</u>	<u>59,851,032</u>	<u>58,268,665</u>
Changes in pension obligations	14,623,036	2,311,000	14,666,288	2,399,068
Total wage cost and wage-related expenses	<u>63,774,240</u>	<u>50,405,075</u>	<u>74,517,321</u>	<u>60,667,733</u>
Changes in pension obligations				
According to LsRb actuarial valuation	6,534,858	2,311,000	6,578,110	2,399,068
Changes in assumptions regarding wage rate changes	1,579,605	0	1,579,605	0
	<u>8,114,463</u>	<u>2,311,000</u>	<u>8,157,715</u>	<u>2,399,068</u>
Changes in assumptions regarding mortality rate	6,508,573	0	6,508,573	0
	<u>14,623,036</u>	<u>2,311,000</u>	<u>14,666,288</u>	<u>2,399,068</u>

See note 44 for further information about assumption changes when evaluating pension obligations.

Average full-time equivalent positions 6,860 7,994

Salaries paid to the City's Executive Committee and City Council amounted to ISK 158 million for the year 2015.

Notes, continued

Financial income and financial expenses

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

	Reykjavik Municipal	Reykjavik Group (A and B operations)
Dividends on equity shares	140,885	17,078
Risk charge for guarantees	660,197	(45,124)
Interest income and indexation	1,527,666	1,373,369
Interest expenses and indexation	(2,803,978)	(7,719,401)
Financial income tax	(284,180)	(297,231)
Hedge contracts	0	(1,916,314)
Adjustments of principal amounts of loans	0	246,393
Exchange rate difference	(15,131)	5,059,752
Changes in fair value	0	(9,939,581)
Total financial income and (expenses)	(774,540)	(13,221,059)

Statement of operations

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

	2015 Financial Statements			2015 Budget with annexes
Municipal Fund	Expenses	Revenues	Balance	Net
Tax revenue	0	77,024,519	(77,024,519)	(76,180,774)
Contribution to B operation companies	2,686,419	0	2,686,419	2,682,386
Department of Sports and Leisure	8,044,178	1,577,432	6,466,746	6,551,132
Department of Culture and Tourism	4,385,968	386,216	3,999,751	4,084,159
Department of Education and Recreation	44,305,392	3,862,314	40,443,078	39,920,833
Central administration offices	4,311,530	1,567,449	2,744,081	2,849,851
Department of Environment and Transport	8,442,174	1,979,007	6,463,167	6,365,891
Department of Welfare	25,564,656	5,723,508	19,841,148	20,274,563
Joint expenses	16,946,250	31,859	16,914,391	4,311,729
Operation of Municipal Fund sectors	114,686,567	92,152,304	22,534,263	10,859,769
Financial income and financial expenses	24,203	4,306,341	(4,282,138)	(4,965,967)
Municipal Fund total	114,710,770	96,458,645	18,252,125	5,893,802
Reykjavik Municipal (A operation) organisations				
Public Works and Real Estate Fund	17,170,720	21,549,227	(4,378,508)	(5,177,903)
Reykjavik Parking Services	782,575	1,020,555	(237,981)	(93,592)
Internal transactions in A operation	(25,664,962)	(25,664,962)	0	0
A operations total	106,999,103	93,363,466	13,635,637	622,307
B operation companies				
Aflvaki hf.	153	96	57	56
Faxaflóahafnir sf.	2,550,370	3,514,336	(963,966)	(245,689)
Félagsbústaðir hf.	3,198,232	7,248,761	(4,050,529)	(2,083,657)
Íþróttá- og sýningahöllin hf.	480,200	341,623	138,577	107,746
Jörundur ehf.	96,502	95,495	1,006	49,656
Malbikunarstöðin Höfði hf.	1,609,560	1,716,138	(106,579)	(12,416)
Orkuveita Reykjavíkur	36,184,824	40,356,862	(4,172,038)	(6,167,316)
Slökkvilið höfuðborgarsvæðisins bs.	2,308,895	2,648,769	(339,874)	(56,426)
Sorpa bs.	2,409,832	2,825,441	(415,610)	(351,667)
Strætó bs.	6,928,368	6,951,197	(22,829)	(66,482)
	55,766,935	65,698,720	(9,931,784)	(8,826,195)
Share in associated companies' results	0	(255,538)	255,538	0
Minority interest	0	(765,364)	765,364	0
B operations total	55,766,935	64,677,818	(8,910,883)	(8,826,195)
Internal transactions in B operations	(7,162,656)	(7,417,457)	254,801	812,385
Reykjavik Group (A and B operations total)	155,603,382	150,623,827	4,979,556	(7,391,502)

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

Notes, continued

Share in the result of associated companies

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

	A and B operations
Minjavernd hf	(12,879)
Harpa tónlistar- og ráðstefnuhús ohf	(254,494)
Sítus ehf	7,271
Orkuveitan - associated companies	3,562
Other associated companies	1,003
	<u>(255,538)</u>

Intangible assets

29. Intangible assets are specified as follows:

	Intangible assets
Total value 1.1.2015	2,763,865
Depreciations 1.1.2015	(1,430,137)
Book value 1.1.2015	1,333,728
Capitalised during the year	109,212
Depreciations	(76,903)
Book value 31.12.2015	<u>1,366,036</u>

Fixed tangible assets

Reykjavik Municipal (A operations)

30. Fixed tangible assets are specified as follows:

	Real estate	Road systems	Machinery and equipment	Total
Total value 1.1.2015	135,009,070	15,586,146	5,728,467	156,323,682
Depreciations 1.1.2015	(46,135,601)	(3,137,994)	(2,359,329)	(51,632,924)
Book value 1.1.2015	88,873,468	12,448,152	3,369,138	104,690,758
Internal transactions	542	0	(542)	0
Capitalised during the year	4,403,074	3,199,008	1,242,775	8,844,857
Road construction fees	0	(2,218,766)	0	(2,218,766)
Sold or disposed of	(140,599)	0	(2,171)	(142,771)
Depreciation	(2,390,178)	(617,333)	(539,010)	(3,546,521)
Book value 31.12.2015	<u>90,746,308</u>	<u>12,811,060</u>	<u>4,070,189</u>	<u>107,627,557</u>
Depreciation rate	2 - 10%	4%	10 - 25%	

Reykjavik Group (A and B operations)

	Real estate	Utilities	Road system Mach. & equipm.	Total
Total value 1.1.2015	169,645,128	471,664,467	30,268,424	671,578,019
Depreciations 1.1.2015	(62,557,958)	(207,649,087)	(10,144,718)	(280,351,763)
Book value 1.1.2015	107,087,171	264,015,379	20,123,706	391,226,256
Translation difference	190	2,520,159	(131)	2,520,218
Revaluation	71,204	10,297,800	(542)	10,368,462
Capitalised during the year	5,201,060	9,687,493	5,666,636	20,555,189
Road construction fees	0	0	(2,218,766)	(2,218,766)
Sold or disposed of during the year	(1,983,365)	0	(36,168)	(2,019,532)
Impairment of assets under construction	0	(1,240,000)	0	(1,240,000)
Depreciation	(3,296,030)	(9,191,850)	(1,856,956)	(14,344,836)
Book value 31.12.2015	<u>107,080,230</u>	<u>276,088,982</u>	<u>21,677,779</u>	<u>404,846,990</u>
Depreciation rate	2 - 4%	2 - 20%	4 - 33,3%	

Collateral:

Debts of Íþróttá- og sýningarhöllin hf amounting to ISK 2,048 million are secured by collateral in the company's real estate and in a rental agreement with the City of Reykjavík.

Notes, continued

30. Fixed tangible assets are specified as follows, continued:

	(A operations)	(A and B operations)
Investment properties are specified as follows:		
Book value 1.1.2015	0	46,964,975
Revaluation during the year	0	4,079,899
Capitalised during the year	0	2,413,576
Transferred from fixed tangible assets	0	54,025
Sold during the year	0	(17,999)
Book value 31.12.2015	0	53,494,476

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.

The re-evaluation during the year led to an increase in the recorded price by ISK 10,300 million.

Orkuveita Reykjavíkur depreciated assets under construction by ISK 1,240 million.

The permanent fixed assets of Íþróttá- og sýningahöllin hf. are recognised at the re-evaluated cost price, net of depreciation; re-evaluation for the year amounted to ISK 71 million.

Orkuveita Reykjavíkur has entered into an agreement on the purchase of two 45MW turbine units for power plant construction. According to the agreement, Orkuveita Reykjavíkur must confirm the purchase of the turbine units before 1 June 2016, or the agreement may be terminated. The outstanding amount of the agreement is approximately ISK 6.6 billion. The cost of terminating the agreement would be negligible.

31. Leased properties of A operations are specified as follows:

	(A operations)
Total value 1.1.2015	10,870,870
Capitalised during the year	609,907
Sold or disposed of during the year	(21,640)
Total value 31.12.2015	11,459,137
Depreciation 01.01.2015	(3,223,161)
Depreciation during the year	(604,280)
Sold or disposed of during the year	21,640
Depreciation 31.12.2015	(3,805,801)
Book value 31.12.2015	7,653,336
Depreciation rate	4 - 25%

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

	(A operation)	(A and B operations)
Depreciation of fixed tangible assets, see note 30	3,546,521	14,344,836
Impairment of assets under construction, see note 30	0	1,240,000
Depreciation of intangible assets, see note 29	0	76,903
Depreciation of leased properties, see note 31	604,280	604,280
Depreciation during the year	4,150,801	16,266,019
Recognised in the income statement	4,150,801	16,250,941
Recognised as a reduction of obligations	0	15,078
	4,150,801	16,266,019

Notes, continued

33. Investments in fixed tangible assets are specified as follows:

	2015 Financial Statements	2015 Budget with annexes
Investments of A operations during the year are specified as follows:		
<i>Property, machinery and equipment:</i>		
Culture	336,318	321,000
Education	1,915,146	1,703,350
Sports and leisure	613,780	737,650
Social Services	43,241	95,000
Building plots and land	779,107	432,000
Other properties	196,769	170,000
Software, machinery and equipment	990,330	1,170,000
Renovation and major maintenance of buildings	1,118,136	1,105,000
Leased properties	609,907	0
Parking services	22,728	700,000
Total property, machinery and equipment	<u>6,625,461</u>	<u>6,434,000</u>
<i>Road system</i>		
Road construction	2,829,302	3,315,000
Road construction fees over the year	(2,218,766)	(2,040,000)
Road system total	<u>610,536</u>	<u>1,275,000</u>
Total capitalised investment	7,235,997	7,709,000
Road construction fees over the year	2,218,766	2,040,000
Total investment of A operations	<u>9,454,763</u>	<u>9,749,000</u>
Investments of B operations during the year are specified as follows:		
Faxaflóahafnir sf	931,837	1,200,000
Félagsbústaðir hf.	2,413,847	2,467,180
Orkuveita Reykjavíkur	10,436,440	10,265,399
Slökkvilið höfuðborgarsvæðisins bs	90,775	62,444
Strætó bs	372,632	410,600
Sorpa bs	246,003	1,971,140
Other B operation companies	199,810	35,000
Total investment of B operations	<u>14,691,345</u>	<u>16,411,763</u>
Internal transactions	(346,292)	0
Total investment of Reykjavik Group in fixed tangible assets during the year	<u>23,799,817</u>	<u>26,160,763</u>

34. Selling price of building rights and fixed assets is specified as follows:

	2015 Financial Statements	2015 Budget with annexes
Selling price of building rights, plots and road construction fees:		
Road construction fees A operations	2,218,766	2,040,000
Sold building rights A operations	871,702	1,290,000
Sale of B operations' plots	<u>3,090,468</u>	<u>3,330,000</u>
	498,537	0
	<u>3,589,005</u>	<u>3,330,000</u>
Selling price of fixed assets:		
Selling price of fixed assets of A operations	228,911	220,000
Selling price of fixed assets of B operations	1,842,624	670,000
Internal transactions	(346,292)	0
	<u>1,725,243</u>	<u>890,000</u>

Official value and insurance value of buildings

35. Fire insurance valuation, the official property valuation and book value of real estate are specified as follows at year-end 2015:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Official property valuation of buildings	85,267,898	166,093,502
Official property valuation of plots	24,921,851	54,288,390
Fire insurance valuation	151,304,232	236,926,695
Book value	90,746,308	160,574,707

Notes, continued

Insurance value of liquid assets

36. 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 amounts to ISK 236,192 million.

Shares in companies

37. Shares in companies are specified as follows:

	Share			Reykjavik Municipal	Reykjavik Group
		(A operation)	(A and B operations)	(A operations) Book value	(A and B operations) Book value
Subsidiaries					
Aflvaki hf.	54,5%	95,7%		4,363	
Félagsbústaðir hf.	100,0%	100,0%		2,745,000	
Íprótta- 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 sf.	75,6%	75,6%		59,111	
Subsidiaries total.				5,077,098	
Associated companies					
Harpa tónlistar- og ráðstefnuhús ohf.	46,0%	46,0%		555,370	235,561
Situs ehf.	46,0%	46,0%		0	8,003
Minjavernd hf.	38,3%	38,3%		107,839	316,935
Metan hf.		100,0%			22,869
Íslensk Nýorka.		29%			28,357
Netorka hf.		38,4%			28,204
Orkuskólinn REYST hf.		45%			6,190
Associated companies total.				663,209	646,119
Other companies					
Landsnet hf.		6,78%			2,845,000
Lánasjóður sveitarfélaga ohf.	17,47%	17,47%		1,547,831	1,547,831
Eignarhaldsfélagið Spölur ehf.		23,5%		300	50,730
Galantatem.		3,8%			13,082
Keilir.		11,3%			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.		13,4%			23,898
Vísindagarðar Háskóla Íslands ehf.	5,44%	5,44%		11,688	11,688
Þríhnúkar ehf.	16,13%	16,13%		10,000	10,000
Halakot ehf.		100%			51,000
Vatnsveita Hvalfjarðarsveitar sf.		50%			75,481
Other companies.				40	79
Other companies total.				1,602,301	4,687,126
Total shares.				7,342,608	5,333,244

The share capital of Félagsbústaðir hf was increased by ISK 160 million this year. Shares in Landsnet hf. were re-evaluated at ISK 685 million this year, and shares in Jörundur ehf. were fully written-down this year, or by ISK 232 million.

Notes, continued

Embedded derivatives

38. 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 Helguvík 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 43% 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 Helguvík, has been evaluated and recognised in the financial statements.

As the market price for embedded derivatives is not known, their fair value has been estimated using accepted evaluation methods. The expected present value of the cash flow of agreements has been determined based on the forward price of aluminium on the London Metal Exchange at the accounting 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 accounting 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 accounting 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 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:	2015	2014
Fair value of embedded derivatives in electricity contracts at the beginning of the year	(3,027,689)	417,739
Fair value changes during the year	(10,164,474)	(3,445,428)
Fair value of embedded derivatives in electricity contracts at the end of the year (liability)	(13,192,163)	(3,027,689)

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

Non-current embedded derivatives (liability)	(11,095,112)	(2,377,756)
Current embedded derivatives (liability)	(2,097,051)	(649,933)
Total embedded derivatives	(13,192,163)	(3,027,689)

Among the embedded derivatives of power contracts is a contract with Norðurál Helguvík ehf. ("NH") in the amount of minus ISK 2.7 billion. Construction work relating to an aluminium smelter at Helguvík has been significantly delayed and there is some uncertainty regarding the future of the project. The plan was to deliver power to the aluminium smelter on 1 September 2011 and NH's payment obligation started on that date. NH has used provisions of the contract to divert the power to the aluminium smelter at Grundartangi.

Long-term receivables

39. Long-term receivables are specified as follows:

Long term claims of A operations against B operations' companies	2015	2014
Claims against B operations, indexed, 4% interest rate	0	1,163,276
Subordinated loan to Orkuveita Reykjavíkur, indexed, 3.05%-4.25% interest rate	12,825,889	12,574,986
	12,825,889	13,738,262
Current maturities of long term claims	(646,992)	0
Total long-term claims against B operations' companies	12,178,896	13,738,262

Annual maturities are specified as follows:

2016	646,992	0
2017	862,653	627,854
2018	1,154,143	913,898
2019	1,251,306	1,196,767
2020	1,251,306	1,196,767
Later	7,659,488	9,802,975
Total long-term receivables against B-operations' companies	12,825,889	13,738,262

Notes, continued

39. Other long-term receivables are specified as follows, cont.:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Other long-term receivables		
Receivables from other companies	4,477,294	13,795,234
Provision for losses	(1,794,691)	(1,794,691)
	<u>2,682,603</u>	<u>12,000,543</u>
Next year's payments on long-term receivables	(646,350)	(9,512,263)
	<u>2,036,253</u>	<u>2,488,280</u>
 Annual maturities are specified as follows:		
2016	646,350	9,512,263
2017	266,284	384,025
2018	275,156	387,859
2019	244,918	317,904
2020	243,203	310,189
Later	2,801,383	2,882,994
Total, other long-term receivables	<u>4,477,294</u>	<u>13,795,234</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 1.5% interest. The loan is a bullet bond in the amount of ISK 8.7 billion, due in December 2016. 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.

Inventories

40. Inventories are specified as follows:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Inventory of materials	0	610,407
Raw material	0	244,390
Supplies in stock	0	73,870
Products ready for use	0	34,320
	<u>0</u>	<u>962,988</u>

Current receivables

41. Provisions for current receivables are specified as follows:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Provision for receivables other than tax revenue at the beginning of the year	203,000	745,553
Actual losses during the year	(85,270)	(221,657)
Provision for losses during the year	125,270	225,676
Provision for receivables other than tax revenue at year-end	<u>243,000</u>	<u>749,572</u>

Outstanding tax revenue, excluding default interest and provisions, amounted to ISK 11,643 million at year-end. A provision is recognised as a reduction in tax revenue and an amount of ISK 394 million is written off in the financial statements. The total provision for tax revenue at year-end amounted to ISK 5,713 million.

Cash and bank deposits

42.

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Net cash is specified as follows:		
Short-term securities, redeemable without prior notice	4,423,253	5,777,147
Bank balances	1,173,696	10,393,356
	<u>5,596,949</u>	<u>16,170,503</u>
Bank deposits, available from 3-12 months	0	554,381
	<u>5,596,949</u>	<u>16,724,884</u>

Notes, continued

Equity

43. Changes in equity:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Equity 1.1.2015	87,644,054	205,978,100
Adjusted accrued vacation obligations from the previous year	(230,555)	(230,555)
Adjusted from previous year due to split-up of Orkuveita Reykjavíkur	0	315,771
	<u>87,413,499</u>	<u>206,063,316</u>
Changes in the market value of equity shares	0	640,742
Re-evaluation of fixed assets	0	8,549,519
Translation differences of Orkuveita Reykjavíkur	0	985,244
Other changes	0	48,177
Operating result for the year	<u>(13,635,637)</u>	<u>(4,979,556)</u>
Equity 31.12.2015	<u><u>73,777,863</u></u>	<u><u>211,307,443</u></u>

Vacation obligations are for the first time estimated using data from *Vinnustund*, a payroll software which includes information on working time and vacation rights for all employees of the city of Reykjavík. Underreported vacation obligations at the beginning of the year are recognised as equity.

Deferred income tax liability and assets of Orkuveita Reykjavíkur at the beginning of 2014 were adjusted to reflect a redistribution of taxable tangible assets between companies in the OR group. This correction increased equity at the beginning of 2014 by ISK 316 million.

Pension obligations

44. The net present value of the pension obligations of A operations due to LsRb (Reykjavik employees' pension fund) amounted to ISK 27,920 million at the end of 2015, while the net present value of A and B operations amounted to ISK 28,488 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 from the year 2012, which are based on experience from the years 2007-2011. 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 2015 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 management' assessment is based, among other things, on the fact that LsRb is closed to new members.

The effect of this change in the mortality rate assumptions is estimated at ISK 6,509 million for A operations and A and B operations. It is the opinion of management that the obligation would be underestimated by this amount if the mortality rate and the life expectancy figures from the years 2007-2011 were to be used and if increasing life expectancy in the future were not taken into consideration.

The evaluation of the obligation of A operations takes account of the effect of collective bargaining agreements which were approved during the last quarter of 2015, but were not included in the actuarial valuation. The effect of these changes on the obligations of A operations and A and B operations amounted to an increase of ISK 1,580 million. 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.

The obligations are specified as follows:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Pension obligations 1.1.2015	15,081,096	15,626,360
Contributions to pension payments during the year	(1,784,104)	(1,804,960)
Change in pension obligations resulting from modified LsRb actuarial valuation	6,534,858	6,578,110
Change in pension obligations resulting from modified assumptions regarding wage rate changes	1,579,605	1,579,605
	<u>21,411,455</u>	<u>21,979,116</u>
Changes in pension obligations resulting from modified assumptions regarding mortality rate	6,508,573	6,508,573
Pension obligations 31.12.2015	<u><u>27,920,028</u></u>	<u><u>28,487,689</u></u>
Pension obligations, short-term	2,068,400	2,093,400
Pension obligations, long-term	25,851,628	26,394,289
	<u><u>27,920,028</u></u>	<u><u>28,487,689</u></u>

Notes, continued

44. Pension obligations, cont.:

Estimated payments in 2016 due to pension obligations are recognised among current liabilities in the Balance Sheet.

Estimated future pension payments for Reykjavik Municipal by period:

Payments 2016-2020	4,544,060
Payments 2021-2025	5,013,104
Payments 2026-2030	5,253,793
Payments 2031 and later	13,109,071
	27,920,028

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. A new actuarial survey conducted by the actuary of the Local Government Employee Pension Fund (LSS) has been made available for the year 2014, which shows that premiums need to be increased by almost 4.51 percentage points in order to meet pension obligations. The statutes of the pension fund stipulate that the premium for members of the fund should be 4% of wages and the premium (countercontribution) paid by employers should be 12%, but that these numbers should be reviewed annually in accordance with an actuarial survey. If the employers' premium had been increased by the board of the pension fund at the beginning of 2014, the A operations' expenditure would have increased by ISK 785 million in 2014. According to the appraisal the total assets of the fund amounted to ISK 140 billion, and obligations amounted to ISK 160 billion. Obligations in excess of assets thus amount to ISK 20 billion, or 12.5% of the obligations.

Long-term liabilities

46. Long-term liabilities are specified as follows:

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

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Liabilities in USD	0	39,472,704
Liabilities in GBP	0	4,031,464
Liabilities in EUR	0	48,937,246
Liabilities in CHF	0	15,858,990
Liabilities in JPY	0	7,550,385
Liabilities in SEK	0	5,155,106
	0	121,005,894

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

Liabilities in EUR	0	486,769
Domestic loans, indexed	27,344,596	89,899,991
Domestic loans, not indexed	1,657,500	3,504,331
	29,002,096	93,891,091

Total long-term liabilities to foreign and Icelandic credit institutions	29,002,096	214,896,985
Current maturities of long-term liabilities	(1,266,270)	(20,717,068)
Total long-term liabilities	27,735,826	194,179,918

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

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
2016	1,266,270	20,717,068
2017	1,280,764	16,234,556
2018	1,270,215	16,788,764
2019	1,056,895	14,798,777
2020	709,132	14,165,201
Later	23,418,820	132,192,619
	29,002,096	214,896,985

Notes, continued

47. Overview of 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	12,844,518	12,844,518
Next year's payments	(725,216)	(725,216)
Long-term lease liabilities	<u>12,119,302</u>	<u>12,119,302</u>

Annual lease liabilities are specified as follows:

2016	725,216	725,216
2017	750,532	750,532
2018	781,779	781,779
2019	787,771	787,771
2020	807,250	807,250
Later	8,991,970	8,991,970
	<u>12,844,518</u>	<u>12,844,518</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 59.

Other information on lease contracts:

	Lease period	Book value 31.12.2015
Sports facilities	2006 - 2035	5,198,816
Office buildings	2002 - 2032	6,159,095
Other facilities	2007 - 2030	1,486,607
		<u>12,844,518</u>

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

	Sports facilities	Office buildings	Other facilities	Total
2016	787,519	619,344	176,704	1,583,567
2017	787,519	619,344	170,146	1,577,009
2018	787,519	619,344	160,964	1,567,827
2019	787,519	619,344	160,964	1,567,827
2020	787,519	619,344	138,944	1,545,807
Later	7,079,058	7,049,360	581,132	14,709,550
Total	<u>11,016,653</u>	<u>10,146,080</u>	<u>1,388,854</u>	<u>22,551,587</u>

Total payments on lease contracts amounted to ISK 1,600 million in 2015 and are specified as follows in the financial statements:

	Reykjavik Municipal	Reykjavik Group
	(A operations)	(A and B operations)
Payments reducing lease liabilities	674,108	674,108
Interest payments	472,015	472,015
	1,146,123	1,146,123
Operating expenses	454,037	454,037
Total lease payments	<u>1,600,160</u>	<u>1,600,160</u>

Other current liabilities

48. Past due derivative agreements of Orkuveita Reykjavíkur are recognised among other short-term liabilities of Reykjavik Group. The agreements have not been settled as lawsuits are currently in progress and there is significant uncertainty 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 Reykjavíkur. Those provisions do not constitute an admission of the debt on the part of Orkuveita Reykjavíkur, and the figure could increase or decrease when the agreements will be settled.

Notes, continued

Taxes

49. Deferred income tax assets and liabilities:

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, Íþróttá- og sýningarhöllin hf and Malbikunarstöðin Höfði hf.

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

	Deferred tax assets	Deferred tax liabilities
Balance at the beginning of the year	2,727,075	4,698,962
Adjusted split of taxable tangible assets in Orkuveita Reykjavíkur Group	872,044	534,462
Effect of special re-evaluation of fixed assets	(138,332)	1,063,759
Calculated income tax during the year	1,944,920	1,361,974
Other changes	93,971	137,225
Income tax payable during 2016	0	(22,669)
Balance at year-end	<u>5,499,678</u>	<u>7,773,714</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	712,978	10,900,664
Embedded derivatives	4,749,179	0
Other items	(424,305)	105,276
Impact of carry-forward loss	501,131	(3,416,983)
Provision due to uncertainty regarding utilisation	(39,305)	184,757
Balance at year-end	<u>5,499,678</u>	<u>7,773,714</u>

Obligations and guarantees off the Balance Sheet

	Total obligations	Obligations due in 2016
Operational contracts and service contracts		
50. Overview of grants, contracts, asset and operational lease agreements of Reykjavik Municipal:		
City Executive Committee grants	146,627	67,247
Cultural grants	2,745,546	1,508,530
Grants and service contracts, Sports and Leisure	1,934,740	1,175,000
Grants and service contracts, Social Services	7,624,884	2,520,380
Grants and service contracts, Education	33,325	21,604
Concert and Conference Hall	7,461,382	495,058
Operational agreements for Public Works and Real Estate Fund	982,800	545,700
Operational Investment agreements for Public Works and Real Estate Fund	2,527,000	1,227,000
Obligations of Reykjavík Parking Services	850,000	0
	<u>24,306,305</u>	<u>7,560,519</u>

Guarantees

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

	Reykjavik Municipal (A operations)
Churches	271,939
Félagsbústaðir hf	2,692,919
Guarantee obligations of A operations against a third party	<u>2,964,858</u>

Notes, continued

Liabilities

52. The A operations off-Balance Sheet obligations are specified as follows:

	City's share in liabilities	A operations Balance	A and B operations
Faxaflóahafnir sf	75,6%	561,489	
Orkuveita Reykjavíkur	93,5%	142,107,749	
Slökkvilið höfuðborgarsvæðisins bs	57,4%	139,173	
Sorpa bs	57,4%	236,183	
Strætó bs	57,4%	129,981	
A-operation liabilities off the balance sheet relating to B-operation companies		143,174,576	0
Total operating and service agreements, obligations and guarantees off the balance sheet		170,445,738	27,271,163

Statement of financial position at year-end

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

	Share	Assets	Liabilities	Equity
Reykjavik Municipal (A operations)	100,0%	154,479,922	80,702,060	73,777,863
Aflvaki hf.	95,7%	10,664	0	10,664
Faxaflóahafnir sf	75,6%	10,533,841	1,017,705	9,516,136
Félagsbústaðir hf.	100,0%	53,884,874	32,206,421	21,678,453
Íþrótt- og sýningarhöllin hf	50,0%	1,430,834	1,138,350	292,484
Jörundur hf.	100,0%	28,264	68,119	(39,856)
Malbikunarstöðin Höfði hf	100,0%	1,185,706	152,439	1,033,266
Orkuveita Reykjavíkur	93,5%	290,896,488	183,540,670	107,355,818
Slökkvilið höfuðborgarsvæðisins bs	60,8%	1,559,362	560,605	998,757
Sorpa bs	66,7%	1,812,445	628,769	1,183,675
Strætó bs	60,3%	1,608,442	579,517	1,028,926
Internal transactions		(19,772,774)	(14,244,031)	(5,528,743)
Total		497,658,068	286,350,625	211,307,443
Minority share		27,901,798	15,202,112	12,699,686
Balance according to the financial statements		525,559,866	301,552,737	224,007,129

Other

54. Orkuveita Reykjavíkur has followed an action plan referred to as “The Plan”, that was prepared in collaboration with its owners from the spring of 2011. The Plan included a number of very ambitious goals on restraints in operation and a reduction in investments, as well as approved adjustments to the company's tariff, sales of assets and loans from the owners. The action plan has been successful.

55. Electricity sales contracts with Norðurál Helguvík

Orkuveita Reykjavíkur has fully honoured the first part of an agreement on the sale of energy to Norðurál Helguvík, (NH) but there has been a disagreement since 2009 as to whether Orkuveita Reykjavíkur is under obligation to deliver further energy in excess of the energy that has already been delivered. NH has not taken any legal action, but has reserved the rights to make demands on Orkuveita Reykjavíkur regarding the delivery of further energy and/or compensation for an alleged loss that occurred as a result of the energy not being delivered. Orkuveita Reykjavíkur has rejected the validity of any such claims. Nothing is certain regarding potential amounts or the consequences of possible lawsuits, but the risk has decreased according to Orkuveita Reykjavíkur's management. The situation will be reviewed when a conclusion has been reached in arbitration proceedings currently in progress between HS Orka and NH, where a similar contract and issues are being addressed. It is the assessment of the management of Orkuveita Reykjavíkur that there is no reason to enter any obligation in this regard in the financial statements .

56. Property valuation of Harpa

The Supreme Court has voided a ruling of the Appellate Real Property Assessment Committee dating from the year 2012, whereby the Property Register's decision regarding the property valuation of Harpa Concert and Conference Hall from 2011 was confirmed. The Property Register subsequently cancelled the property valuation from 2011 to date and announced that it will re-evaluate Harpa's property valuation for the entire period in question. There is significant uncertainty regarding the prospective new property valuation. Under these conditions it is not possible to estimate whether claims resulting from Harpa's property tax in arrears are under- or overestimated in the municipality's financial statements.

57. 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 payable at year-end 2015 amounts to approximately ISK 197 million.

Notes, continued

58. Litigation.

On 25 October 2013 the Minister of the Interior and the Mayor of Reykjavík signed an agreement which provided for the closure of the NE/SW runway (runway 06/24) at Reykjavík Airport. This was done at the same time that a site plan was advertised for Reykjavík airport. In order to enforce the agreement the City of Reykjavík took legal action against the State of Iceland and Isavia ohf as nominal defendant, by issuing a subpoena on 1 February 2016, as the development of the Hlíðarendi area is dependent on the closure of the runway. On 22 March 2016 the District Court of Reykjavík ruled in favour of the City of Reykjavík and upheld the City's contention that the Minister of the Interior was required to close the NE/SW runway (runway 06/24) at Reykjavík Airport and review the current rules on the organisation of the airport assuming a closure of the runway within 16 weeks from the date of the ruling, subject to payment of daily fines of ISK 1 million. It is impossible to estimate precisely the financial interests at stake in this case, but Reykjavík City's interests, and the interests of other stakeholders, with regard to the area are estimated in billions of ISK. The State of Iceland has appealed the District Court ruling to the Supreme Court. A hearing in the Supreme Court is scheduled for 1 June 2016 and a ruling will be made in that month.

Strætó bs. has been summoned to appear before the District Court by two parties that were not awarded a contract following a tender for transportation in the capital area in 2010. In one of the lawsuits the plaintiff claims damages for alleged loss of profit, while in the other lawsuit the plaintiff calls for an admission of liability. Strætó has rejected the claims. At the end of March 2016, the District Court ruled in the latter case and acknowledged the claims for loss of profit and the cost of participating in the pre-selection process. No decision has been made as to whether to appeal the case to the Supreme Court. It is anticipated that a court ruling in the first case will be made in the first half of 2016. It is the assessment of the management of Strætó that there is no reason to enter an obligation in the financial statements relating to these lawsuits

59. Operating lease of Orkuveita Reykjavíkur's facilities

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 Groups headquarters at Bæjarháls 1 and Réttarháls 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	2015	2014
Rent entered as expenses.....	257,040	262,565
Conditional lease	6,084	2,795
Forward lease entered as income.....	(48,048)	(47,203)
	<u>215,076</u>	<u>218,157</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.....	3,370,505	3,597,158
	<u>4,655,705</u>	<u>4,882,358</u>
Expected future revenues from sub-leasing.....	<u>197,442</u>	<u>172,522</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.....	48,437	48,048
In 1 to 5 years.....	140,535	124,474
After 5 years.....	8,470	0
	<u>197,442</u>	<u>172,522</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 2015 approximately ISK 1,551 million, and the value of the leased property was ISK 1,439 million. Interest expense and indexation during the year would have amounted to approximately ISK 99 million and depreciation of the leased property would have amounted to ISK 184 million.

Notes, continued

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.

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, continued

61. Comparison of operating budgets.

The overview below explains the operating budget for 2015 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			Reykjavik Group		
	2015 Original Budget	2015 Annexes to Budget	2015 Original Budget with annexes	2015 Original Budget	2015 Annexes to Budget	2015 Original Budget with annexes
OPERATING REVENUE						
Tax revenues.....	67,788,954	900,000	68,688,954	67,033,966	900,000	67,933,966
Contributions to Municipal Equalisation Fund.....	5,979,720	0	5,979,720	5,979,720	0	5,979,720
Other revenues.....	15,145,096	(274,633)	14,870,463	68,563,100	(274,633)	68,288,467
	<u>88,913,770</u>	<u>625,367</u>	<u>89,539,137</u>	<u>141,576,786</u>	<u>625,367</u>	<u>142,202,153</u>
OPERATING EXPENSES						
Wage cost and wage-related expenses.....	48,725,837	1,679,240	50,405,077	58,988,495	1,679,240	60,667,735
Other operating expenses.....	34,850,061	2,372	34,852,432	49,426,549	2,372	49,428,921
Depreciation.....	4,099,822	0	4,099,822	14,822,239	0	14,822,239
	<u>87,675,720</u>	<u>1,681,612</u>	<u>89,357,331</u>	<u>123,237,283</u>	<u>1,681,612</u>	<u>124,918,894</u>
Operating result before financial items.....	1,238,050	(1,056,245)	181,804	18,339,503	(1,056,244)	17,283,259
Financial income and (financial expenses).....	(804,112)	0	(804,112)	(10,876,143) *	0	(10,876,143)
Operating result before tax	433,936	(1,056,245)	(622,307)	7,463,360	(1,056,244)	6,407,116
Income tax.....	0	0	0	(1,536,971)	0	(1,536,971)
Changes in valuation of investment properties.....	0	0	0	2,521,357 *	0	2,521,357
Operating result.....	<u>433,936</u>	<u>(1,056,245)</u>	<u>(622,307)</u>	<u>8,447,746</u>	<u>(1,056,244)</u>	<u>7,391,502</u>

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

Notes, continued

62. Comparison of cash flow budgets.

The overview below shows the cash flow budget for 2015 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			Reykjavik Group			
	(A operation)			(A and B operations)			
	2015 Original Budget	2015 Annexes to Budget	2015 Original Budget with annexes	2015 Original Budget	2015 Annexes to Budget	2015 Original Budget with annexes	
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating result	433,936	(1,056,245)	(622,307)	8,447,746	(1,056,244)	7,391,502	
Adjustments not affecting cash flow:							
Depreciation.....	4,099,822	0	4,099,822	14,822,239	0	14,822,239	
Indexation, discounts and exch.rate differences.....	899,903	0	899,903	6,760,522	0	6,760,522	
Gain on sold assets.....	(1,940,000)	430,000	(1,510,000)	(1,940,000)	430,000	(1,510,000)	
Value adjustment of investment properties.....	0	0	0	(2,521,357)	0	(2,521,357)	
Changes in deferred income tax liability.....	0	0	0	1,536,971	0	1,536,971	
Changes in pension obligations.....	2,311,000	0	2,311,000	2,399,068	0	2,399,068	
Working capital provided by operating activities (to op. activities).....	5,804,661	(626,245)	5,178,418	29,505,189	(626,244)	28,878,945	
Changes in operating assets and liabilities:							
Inventories, decrease (increase).....	0	0	0	(30,000)	0	(30,000)	
Unrecovered revenues, decrease (increase)	0	0	0	(234,606)	0	(234,606)	
Other current receivables, decrease (increase)	0	0	0	(2,946,106)	0	(2,946,106)	
Current liabilities, increase (decrease).....	0	0	0	130,617	0	130,617	
Contribution to pension obligations	(1,750,000)	0	(1,750,000)	(1,750,000)	0	(1,750,000)	
Changes in operating assets and liabilities.....	(1,750,000)	0	(1,750,000)	(4,830,095)	0	(4,830,095)	
Net cash provided by operating activities (to operating activities).....	4,054,661	(626,245)	3,428,418	24,675,094	(626,244)	24,048,850	
INVESTMENT ACTIVITIES							
Investments in fixed tangible assets.....	(9,437,000)	(312,000)	(9,749,000)	(23,381,583)	(312,000)	(23,693,583)	
Proceeds from sale of fixed tangible assets.....	220,000	0	220,000	670,000	0	670,000	
Road construction fees and building permits.....	3,760,000	(430,000)	3,330,000	3,760,000	(430,000)	3,330,000	
Share holdings, change.....	(290,110)	0	(290,110)	(290,110)	0	(290,110)	
Long-term receivables, change.....	273,583	0	273,583	(2,176,258)	0	(2,176,258)	
Other investment activities.....	0	0	0	0	0	0	
Investment activities.....	(5,473,527)	(742,000)	(6,215,527)	(21,417,951)	(742,000)	(22,159,951)	
FINANCING ACTIVITIES							
New long-term borrowings.....	2,186,910	0	2,186,910	14,487,719	0	14,487,719	
Repayment of long-term borrowings.....	(1,948,702)	0	(1,948,702)	(20,950,147)	0	(20,950,147)	
Paid in capital / other changes in equity	0	0	0	1,659,977	0	1,659,977	
Short-term borrowings, change.....	0	0	0	400,000	0	400,000	
Other activities.....	16,045	0	16,045	0	0	0	
Financing activities.....	254,253	0	254,253	(4,402,451)	0	(4,402,451)	
INCREASE (DECREASE) IN CASH AND CASH EQUIV.....	(1,164,612)	(1,368,244)	(2,532,856)	(1,145,308)	(1,368,245)	(2,513,552)	
CASH AND CASH EQUIV. AT BEGINNING OF YEAR.....	7,226,472	0	7,226,472	20,074,808	0	20,074,808	
CASH AND CASH EQUIV. AT YEAR-END.....	6,061,860	(1,368,244)	4,693,616	18,929,500	(1,368,245)	17,561,256	

Notes, continued

Financial ratios

63. Overview of financial ratios:

	Reykjavik Municipal (A operations)		Reykjavik Group (A and B operations)	
	2015 Financial Statements	2015 Budget with annexes	2015 Financial Statements	2015 Budget with annexes
Ratio of operating income:				
Municipal income tax	61,4%	61,9%	38,8%	38,9%
Property taxes	14,7%	14,9%	9,0%	8,8%
Total tax revenues	76,1%	76,7%	47,8%	47,8%
Contribution from Municipal Equalisation Fund	6,8%	6,7%	4,3%	4,2%
Other revenues	17,1%	16,6%	47,9%	48,0%
Total operating revenues	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	54,0%	53,7%	41,6%	41,0%
Increase in pension obligations	16,1%	2,6%	10,2%	1,7%
Other operating expenses	39,5%	38,9%	33,7%	34,8%
Total operating expenses	109,6%	95,2%	85,5%	77,4%
Contribution margin (EBITDA)	(9,6%)	4,8%	14,5%	22,6%
Depreciation	4,6%	4,6%	11,3%	10,4%
Operating result before financial income (expenses)	(9,6%)	4,8%	14,5%	22,6%
Financial income and (expenses)	(0,9%)	(0,9%)	(9,2%)	(7,6%)
Income tax	0,0%	0,0%	0,4%	(1,1%)
Effects of minority interest and subsidiaries	0,0%	0,0%	(0,7%)	0,0%
Operating result (negative)	(15,0%)	(0,7%)	(3,5%)	5,2%
Working capital provided by operations	5,7%	5,8%	21,6%	20,3%
Investments in fixed tangible assets	(10,4%)	(10,9%)	(16,3%)	(18,4%)
Total liabilities and obligations	88,6%	-	209,5%	-
In ISK thousand per inhabitant:				
Operations:				
Tax revenue	566	561	562	555
Contributions from Municipal Equalisation Fund	51	49	51	49
Other revenue	127	121	562	558
Total operating revenue	743	731	1,175	1,161
Wage cost and wage-related expenses	(468)	(412)	(555)	(495)
Other operating expenses and depreciation	(328)	(318)	(529)	(525)
Financial income and (expenses)	(6)	(7)	(108)	(89)
Income tax	0	0	5	(13)
Effects of minority interest and subsidiaries	0	0	(8)	0
Operating result (negative)	(111)	(5)	(41)	60
Cash flow:				
Working capital provided by operating activities	43	42	254	236
Cash and cash equiv. provided by operating activities	22	28	227	196
	Reykjavik Municipal		Reykjavik Group	
	(A operations)		(A and B operations)	
	2015	2014	2015	2014
	Financial	Financial	Financial	Financial
	Statements	Statements	Statements	Statements
Assets	1,262	1,250	4,292	4,141
Equity	603	719	1,829	1,783
Liabilities	659	530	2,463	2,357
Other ratios:				
Current ratio - curr. assets/curr. liabilities	1,18	1,31	0,94	0,93
Equity ratio - equity/total assets	0,48	0,58	0,43	0,43
Population (source: Statistics Iceland):				
	2015	2014	2013	2012
Population on 1 December	122,452	121,814	121,116	119,632
Change from previous year	638	698	1,484	847

Notes, continued

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

	2015 Budget with annexes		Financial Statements			
	2015	2014	2013	2012	2011	
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	-	(13,297)	493	515	(1,182)	1,860
Liabilities thresholds.....	-	71%	65%	63%	60%	-
Other ratios:						
Long-term liabilities and obligations in proportion to						
working capital provided by operations (in years)	10,24	12,61	11,39	7,04	6,88	6,55
Equity ratio - equity/total assets	57%	48%	58%	58%	58%	58%
Working capital provided by operations in proportion to						
to payment of liabilities	2,66	2,73	1,28	3,76	2,06	3,96
Current asset ratio - current assets/current liabilities	1,33	1,18	1,31	1,40	1,86	1,87
As a ratio of operating revenue:						
Tax revenue	76,7%	76,1%	77,3%	76,0%	77,9%	78,5%
Contributions from Municipal Equalisation Fund	6,7%	6,8%	6,4%	6,6%	7,0%	6,1%
Other revenue	16,6%	17,1%	16,3%	17,3%	15,1%	15,4%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	53,7%	54,0%	53,6%	50,3%	51,2%	51,0%
Increase in pension obligations	2,6%	16,1%	4,0%	0,2%	4,0%	6,4%
Other operating expenses	38,9%	39,5%	41,3%	40,4%	40,0%	41,5%
Depreciation	4,6%	4,6%	4,6%	4,5%	4,6%	4,6%
Total operating expenses	99,8%	114,1%	103,5%	95,4%	99,8%	103,5%
Operating result before financial items	0,2%	(14,1%)	(3,5%)	4,6%	0,2%	(3,5%)
Financial income and (expenses)	(0,9%)	(0,9%)	0,1%	(0,8%)	(0,3%)	(0,6%)
Operating result (negative)	(0,7%)	(15,0%)	(3,4%)	3,8%	(0,1%)	(4,1%)
Contribution margin (EBITDA)	4,8%	-9,6%	1,1%	9,1%	4,8%	1,1%
Working capital provided by operations	5,8%	5,7%	5,4%	8,6%	9,8%	10,0%
Investments in fixed tangible assets	(8,3%)	(10,4%)	(9,8%)	(9,0%)	(9,3%)	(8,6%)
Total liabilities and obligations - debt ratio	73%	89%	77%	78%	83%	83%
In ISK thousand per inhabitant						
Operation:						
Tax revenue	561	566	531	501	476	453
Contributions from Municipal Equalisation Fund	49	51	44	44	43	35
Other revenue	121	127	112	114	92	89
Total operating revenue	731	743	688	659	611	577
Wage cost and wage-related expenses	(393)	(401)	(368)	(331)	(313)	(295)
Increase in pension obligations	(19)	(119)	(27)	(1)	(24)	(37)
Other operating expenses and depreciation	(318)	(328)	(316)	(296)	(273)	(266)
Financial income and (expenses)	(7)	(6)	1	(5)	(2)	(3)
Operating result (negative)	(5)	(111)	(23)	25	(0)	(24)
Cash flow:						
Working capital provided by operations	42	43	37	56	60	58
Cash and cash equivalents provided by operations	28	22	37	56	65	60
Investments in fixed tangible assets	(60)	(77)	(67)	(59)	(57)	(50)
Balance Sheet:						
Assets	1,247	1,262	1,250	1,218	1,196	1,152
Equity	712	603	719	704	688	672
Liabilities	535	659	530	514	508	479
Tax rates:						
Municipal income tax	14,52%	14,52%	14,52%	14,48%	14,48%	13,03%
Property tax, class A	0,200%	0,200%	0,200%	0,200%	0,200%	0,225%
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	122,452	122,452	121,814	121,116	119,632	118,785

Notes, continued

65. Summary of Reykjavik Group financial ratios over the past 5 years:

	2015 Budget with annexes	2015	2014	2013	2012	2011
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	-	(824)	8,061	-	-	-
Liabilities thresholds.....	-	97%	92%	92%	93%	-
Other ratios:						
Long-term liabilities and obligations in proportion to						
Working capital provided by operations (years)	8,22	8,16	9,34	8,29	9,33	10,79
Equity ratio - equity/total assets	44%	43%	43%	40%	31%	32%
Working capital provided by operations in proportion to						
payment of liabilities	1,38	1,74	1,07	1,03	1,67	1,99
Current asset ratio - current assets/current liabilities	1,02	0,94	0,93	0,92	0,87	0,91
As a ratio of operating revenue:						
Tax revenue	47,8%	47,8%	48,3%	46,4%	46,9%	49,1%
Contributions from Municipal Equalisation Fund	4,2%	4,3%	4,0%	4,1%	4,3%	3,8%
Other revenue	48,0%	47,9%	47,6%	49,5%	48,8%	47,1%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	41,0%	41,6%	40,7%	37,8%	38,0%	39,5%
Increase in pension obligations	1,7%	10,2%	2,5%	0,2%	2,4%	4,1%
Other operating expenses	34,8%	33,7%	34,3%	33,1%	32,4%	33,1%
Other operating expenses	10,4%	11,3%	10,7%	10,7%	13,0%	12,8%
Total operating expenses	87,8%	96,8%	103,5%	95,4%	99,8%	103,5%
Operating result before financial items	12,2%	3,2%	(3,5%)	4,6%	0,2%	(3,5%)
Financial income and (expenses)	(7,6%)	(9,2%)	(4,7%)	(7,0%)	(17,7%)	(20,8%)
Other	0,7%	2,5%	1,4%	(4,8%)	1,3%	6,0%
Operating result (negative)	5,2%	(3,5%)	8,3%	6,5%	(2,2%)	(4,3%)
Contribution margin (EBITDA)	22,6%	14,5%	22,4%	28,9%	27,1%	23,3%
Working capital provided by operations	20,3%	21,6%	19,7%	22,7%	24,5%	24,1%
Investments in fixed tangible assets	(18,4%)	(16,3%)	(12,9%)	(9,4%)	(10,1%)	(17,9%)
Total liabilities and obligations, - debt ratio	195%	210%	216%	221%	268%	292%
In ISK thousand per inhabitant						
Operation:						
Tax revenue	555	562	525	491	461	436
Contributions from Municipal Equalisation Fund	49	51	44	43	42	34
Other revenue	558	562	517	524	480	419
Total operating revenue	1,161	1,175	1,087	1,058	983	889
Wage cost and wage-related expenses	(476)	(489)	(442)	(400)	(373)	(351)
Increase in pension obligations	(20)	(120)	(28)	(2)	(24)	(36)
Other operating expenses and depreciation	(525)	(529)	(490)	(464)	(446)	(408)
Financial income and (expenses)	(89)	(108)	(51)	(74)	(174)	(185)
Operating result (negative)	52	(74)	54	52	(22)	(37)
Cash flow:						
Working capital provided by operations	236	254	215	243	246	221
Cash and cash equivalents provided by operations	196	227	244	246	242	220
Investments in fixed tangible assets	(214)	(191)	(141)	(101)	(102)	(164)
Balance Sheet:						
Assets	4,037	4,292	4,141	3,950	3,936	3,912
Equity	1,775	1,829	1,783	1,585	1,237	1,234
Liabilities	2,262	2,463	2,357	2,364	2,699	2,679
Population (source: Statistics Iceland):						
Population on 1 December	122,452	122,452	121,814	121,116	119,632	118,785