

# Reykjavíkurborg

(City of Reykjavik)

## Financial Statements 2020



Reykjavíkurborg  
(City of Reykjavik)  
Reg. no. 530269-7609  
City hall  
Tjarnargötu 11  
101 Reykjavík

# Reykjavíkurborg

## (City of Reykjavik)

### Financial Statements 2020

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Please note:

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

# Mayor and Executive Committee's report and endorsement

The annual financial statements of Reykjavíkurborg (the City of Reykjavik) for the year 2020 were prepared in accordance with the Local Government Act, the Financial Statements Act and the Government Regulation on Municipal Accounts, Budgets and Financial Statements. Details of accounting policies are provided in the Notes to the financial statements.

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

According to the Income Statement for Reykjavík Municipal, operating income amounted to ISK 128,668 million in 2020, of which tax revenues accounted for ISK 102,775 million. The municipal income tax rate was 14.52%, which is the statutory maximum. The property tax rate was 0.18% for tax class A, 1.32% for tax class B and 1.65% for tax class C. The maximum statutory rates are 0.625%, 1.32% and 1.65% for tax classes A, B and C, respectively. Total operating revenue for the consolidated Reykjavik Group amounted to ISK 190,919 million in 2020.

The operating result for Reykjavik Municipal (A operation) amounted to a loss of ISK 6,047 million, whereas the budget for the fiscal year projected a profit of ISK 1,517 million. The operating result for Reykjavík Group (A and B operations) amounted to a loss of ISK 2,982 million, whereas the year's budget projected a profit of ISK 11,879 million. The poorer A operation result is mainly due to the fact that the forecast increase in income was much affected by the Covid-19 epidemic, with the result that income fell ISK 6,793 million short of the budget. Tax revenues were a total of ISK 2,244 million below the budget. The sale of building rights were ISK 3,145 million below the budget and, in addition, the increase in the write-down of this item due to uncertainty about the economic trend in the next term amounted to ISK 72 million. Salaries and related expenses were ISK 1,747 million over budget. The results of A and B operations fell short of projections by ISK 14,861 million.

The total assets of Reykjavík Group (consolidated A and B operations) according to the balance sheet at year-end 2020 amounted to ISK 730,431 million, and total liabilities amounted to ISK 385,842 million. Equity amounted to ISK 344,588 million, of which minority interests amounted to ISK 19,176 million.

On 1 December 2020 the population of the City of Reykjavik was 133,181.

It is clear that the pandemic caused by the COVID-19 virus will have a significant impact on the economy of Iceland and the world. The spread of the epidemic and global impact are unprecedented and will have an extensive financial impact on the city of Reykjavik. The City of Reykjavik's Economic Action in response to the Covid-19 Epidemic was unanimously approved by the City Council on March 26, 2020. The city of Reykjavik has on a regular basis in the last year revised scenario analysis concerning economic development which is part of the active risk management of the city. The capital position of the City of Reykjavik is strong and the City of Reykjavik has the financial strength to absorb significant shocks from the consequences of the epidemic. Parliament has passed legislation designed to help municipalities deal with the problem over the short and medium term by relaxing the financial rules of the Local Government Act no. 138/2011 until 2025. See further discussion in Note. 55.

Information necessary to assess the development, scope, situation and success of the City of Reykjavík as regards environmental, social and human resource matters etc. is disclosed in the Statement on governance and non-financial information, which is attached to the financial statements.

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, financial status and operating results of Reykjavik Municipal and Reykjavik Group. The report of the Mayor and Executive Committee includes the information required in such reports.

The Mayor and the City Council hereby confirm the 2020 annual financial statement of Reykjavíkurborg (the City of Reykjavik) with their signatures.

Reykjavík, 29 April 2021.

Mayor

City Council

# Endorsement by the City Council

The financial statements of Reykjavíkurborg (the City of Reykjavík) for 2020 have been addressed by the City Council in accordance with Article 61 of the Local Government Act no. 138/2011 and are confirmed and endorsed at the second debate in the City Council.

Reykjavík, 11 May 2021.

City Council:

Pannar Bentzen  
Ragel

Ar-Levi Ben

Dóra Björk Guðjónsdóttir

Ólafur Þorvaldsson

Hinda Björg Hilmisdóttir

Þorsteinn Þorvaldsson

Kristinn  
Hjalmar Sveinsson

Sabina Lodek  
Ólafur Þorvaldsson

Alexandra Bræm

Sanna Magdalena Mörkudóttir

## Endorsement by the City Council, cont.

Endorsement with the following reservation

By all accounts it seems to be the case that instead of consolidated financial statements, these are condensed financial statements. According to Article 61 of the Local Government Act, consolidated accounts shall form a part of the annual accounts of the City of Reykjavík. Where a subsidiary in a group of companies uses valuation methods in its annual financial statement that are different from those of its parent company a new financial statement shall be prepared for the subsidiary, as provided in Article 75 of the Annual Accounts Act, where valuation methods are harmonised with the financial statements of the group.

The City of Reykjavík and companies in the City group own properties that are leased out. Some of the properties are classified as investment properties in the consolidated accounts of the City of Reykjavík, while others are not. This discrepancy creates an overvaluation of properties in the amount of 54 billion ISK and is in conflict with the law. The income trend of the City and the increase in debt is such that if it continues, the City of Reykjavík will not be able to meet its obligations. It is irresponsible not to explain this uncertainty in the financial statements, as there are no indications of any foreseeable turnaround in the operation of the municipal treasury. We therefore sign the financial statement with the above reservations.

  
Marta Guðjónsdóttir  
Keldur  
Vilgordur Sig  
Tóin Sili  
Eyill Þór Jónsson  
Órn Þorðsson  
Jóhann Þorvaldsson

# Endorsement by the City Council, cont.

## Reservation

The City Council member for the People's Party endorses the annual statement for 2019 with a reservation regarding whether there may be material misstatements due to fraud or error that the auditors were unaware of.

The annual financial statement reveals the irresponsibility of the City's financial management and that proper care is not being taken with the citizens' funds. It does not appear that the majority of the City Council has a grip on the City's operations and its companies. If the City's deficit is met with more loans on top of loans for development projects, then the future is not bright.

*Hellurinn Baldursson  
odhvaldi Félags bólkans  
í borgarstjórn Reykjavíkur*

## Reservation

In my opinion there are material errors in the conclusions of the City of Reykjavik's consolidated accounts. These errors have a significant impact on any assessment of the conclusions of the City's consolidated statement, which does not, therefore, give a correct picture of the City's financial situation. In times of uncertainty it is essential that creditors are not given a false view of the City's financial position in the annual financial statement. I sign the annual statement with the above reservation.

*Vigdís Álfurðóttir*

# Independent auditor's report

To the City Council of Reykjavíkurborg

## Opinion

We have audited the accompanying Financial Statements of Reykjavíkurborg for the year 2020 which comprise the financial statements of A operations and the financial statements of A and B operations. The Financial Statements comprise the Statement of the Mayor and the City Council, the Statement of Income, the Statement of Financial Position, the Statement of Cash Flows, a summary of significant accounting policies and other explanatory information.

In our opinion, the Financial Statements present fairly, in all material respects, the municipality's financial performance in the year 2020, its financial position as at December 31, 2020, and its cash flow for the year then ended in accordance with the Icelandic Financial Statement Act and the Local Government Act.

## Emphasis of matter due to COVID-19

Without modifying our opinion, we would like to draw attention to the report of the Statement of the Mayor and the City Council and in note 55 in these Financial Statements of events after the reporting date due to the possible impact of COVID-19 epidemic on the city's operations.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our Report. We are independent of the municipality in accordance with the Code of Ethics for Professional Accountants in Iceland, and we have fulfilled all ethical requirements therein. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the municipality's Financial Statement for the year 2020. These matters were addressed in the context of our audit of the Financial Statement and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In our opinion, the following matters were key audit matters:

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### *Valuation of production and distribution systems Orkuveita Reykjavíkur*

*See note 30 and note 7 on significant accounting policies*

#### Explanation:

We have defined the valuation of production and distribution systems as a key audit matter in our audit. Orkuveita Reykjavíkur's production and distribution systems are carried at revalued amount in accordance with the provisions of IAS 16. An assessment is made of the changes in construction costs of similar types of assets and both cost and accumulated depreciation are revalued accordingly. Orkuveita Reykjavíkur performs impairment tests on the reporting date and recognises impairment loss if value in use is lower than book value of an asset. Revalued amount will also not be higher than value in use.

The assumptions used for revaluation and impairment tests are based on management assessments and are partly subjective. With production and distribution systems being a significant part of the consolidated financial statements of A- and B- operations, any change in assumptions can have significant effect on the income statement and balance sheet. Our work both included estimates of the revaluation assessments and the impairment tests of the production and distribution systems.

#### Audit procedures:

As part of our audit, we reviewed the Orkuveita Reykjavíkur's methodology for valuing the production and distribution systems and its consistency with international financial reporting standards.

We reviewed Orkuveita Reykjavíkur's processes for the revaluation and impairment tests. We also reviewed the functionality of models used in the assessments.

We evaluated management assumptions by comparing to public information where applicable. Where assumptions are not based on public information, we made our own evaluation on management assumptions.

We used the work of a valuation specialist to assist in this evaluation.

# Independent auditor's report, cont.

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## *Valuation of embedded derivatives Orkuveita Reykjavíkur* *See note 38 on embedded derivatives*

### Explanation:

Because prices of specific electricity sales contracts with large counterparties are tied to aluminium prices, Orkuveita Reykjavíkur recognises embedded derivatives on the balance sheet. As electricity and aluminium prices are generally not closely related, financial reporting standards require the risk relating to this relationship to be evaluated specifically.

The valuation of embedded derivatives is dependant on managements assumptions as well as other exterior inputs. Because of the vulnerability of the estimate regarding changes in assumptions we assume the risk is significant regarding embedded derivatives. Furthermore, the extent of the derivative is such that changes in fair value have a material effect on the consolidated Financial Statement of A- and B- operation.

### Audit procedures:

We have reviewed Orkuveita Reykjavíkur's process. We reviewed the methodology of Orkuveita Reykjavíkur and compared the managements assumptions to public information where available. Where assumptions are not based on public information, we made our own evaluation on management assumptions.

We recalculated derivative valuations and reviewed the functionality of models used in the valuation. We used the work of a valuation specialist to assist with this review.

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## *Accuracy and existance of property, plant and equipment* *See note 30 and note 7 on significant accounting policies*

### Explanation:

Property, plant and equipment are the largest single balance sheet component amounting to ISK 628,3bn in 2020 compared to ISK 601,9bn in 2019 for A- and B-operations combined. PPE amounted to ISK 162,6bn in 2020 and ISK 153,9bn in 2019 for A-operation alone. Particular emphasis is placed on the audit of property, plant and equipment of City's Real Estate Fund and Orkuveita Reykjavíkur.

### Audit procedures:

We reviewed the process of capitalization of property, plant and equipemnt, including cost allocations. We have tested selected control activities related to capitalization and we have revieved the City's internal audits on capital expenditures performed by the Internal Audit function. We performed substantive analytical procedures related to the depreciation report as well as recalculate depreciation.

We confirmed the additions of the year with sample testing. We were in direct contact við employees responsible for execution of work, both at Orkuveita Reykjavíkur and the City of Reykjavík, and reviewed the nature and purpose of the work along with approvals for individual work items.

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## *Revenue recognition* *See note 24 and note 3 on significant accounting policies*

### Explanation:

In our audit of the municipality's Financial Statement we have placed a special emphasis on revenue recognition. A- and B- operation income can be roughly divided into three seperate income stream, that is tax revenues, contribution from the local equalization fund and other income. Revenue recognition may depend on management estimate and issues may arise regarding revenue recognition for long-term contracts and sold construction rights or allocated land. As these issues or valuation assumptions can have a significant impact on the Consolidated Financial Statement for A- and B-operations, we have defined the audit of revenues as a key audit matter.

### Audit procedures:

During our audit, we have assessed control activities of each business unit's revenue system. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment of each business unit, including review of how access to finance and accounting related IT system is controlled and incorporated into the financial system and subsystems related to revenue recognition.

We have used substantive testing methods where we have for example received third party confirmation of turnover and outstanding balances at year-end from specific customers or confirmed outstanding balances by other means.

We have also performed analytical procedures where we have compared our expectations to actual revenue recognition based on changes in quantity and price.



# Independent auditor's report, cont.

## Other Information

The City Council and the Mayor are responsible for all information presented by the municipality, both the Financial Statements as well as other information. Our opinion on the Financial Statement does not cover other information issued by the municipality than is discussed above. Other information are for example Statement of the Mayor and the City Council (not in excess of what our opinion states below), the municipal unaudited governance statement and report of the city's finance and risk management department. We do not confirm the information contained therein. In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above when it becomes available, and in doing so, consider whether the other information is materially inconsistent with the Financial Statements

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act no. 3/2006, we confirm that the report of the Mayor and the City Council accompanying the Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Financial Statements.

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

The City Council and the Mayor are responsible for the preparation and fair presentation of the Financial Statements in accordance with the Icelandic Financial Statement Act and the Local Government. The City Council and the Mayor are also responsible for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatements whether due to fraud or error.

In preparing the Financial Statements, the City Council and the Mayor are responsible for assessing the municipality's ability to continue as a going concern. If there are any material uncertainties relating to the going concern assumption, then there should be adequate going concern disclosures in the Financial Statements and the reason why it was decided to apply the assumption of a going concern in the preparation and presentation of the Financial Statements.

The City Council and Reykjavik's Audit Committee are responsible for overseeing the municipality's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements.

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content, of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the municipality to express an opinion on the Financial Statements. We are responsible for the direction, supervision and performance of the municipality's audit. We remain solely responsible for our audit opinion.

## Independent auditor's report, contd.

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

We have delivered an report containing the conclusion of the audit to the City Council and the Audit Committee outlining these issues and it is in accordance with this independent auditor's report.

We have not provided the municipality with any services that are considered unauthorized to provide in parallel with the audit in accordance with Act no 94/2019. We also provided the City Council and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

We were appointed auditors by the City Council following a tender for auditing services in July 2018, and this is the third consecutive financial year in which we are the City's auditors.

For and on behalf of Grant Thornton endurskoðun ehf.  
Reykjavík, 11 May 2021

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**J. Sturla Jónsson**  
State Authorized Public Accountant

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**Theodór S. Sigurbergsson**  
State Authorized Public Accountant

# Income Statement for the year 2020

	Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
		2020	2020	2019	2020	2020	2019
		Financial Statements	Budget with Annexes	Financial Statements	Financial Statements	Budget with Annexes	Financial Statements
<b>Operating revenue</b>	3,24						
Tax revenues .....		102,775,287	105,502,531	99,313,039	102,061,543	104,796,860	98,642,200
Contributions from Municipal Equalisation Fund .....		8,031,222	8,079,679	7,493,931	8,031,222	8,079,679	7,493,931
Other revenues .....		17,861,446	21,878,336	16,542,605	80,826,665	89,411,646	79,075,328
<b>Total operating revenues</b>		<b>128,667,956</b>	<b>135,460,546</b>	<b>123,349,575</b>	<b>190,919,431</b>	<b>202,288,186</b>	<b>185,211,460</b>
<b>Operating expenses</b>	4						
Wage cost and wage-related expenses .....	25	76,349,060	74,602,100	68,167,388	93,106,458	91,525,191	83,294,290
Changes in pension obligations, LsRb* .....	25,44	3,316,618	3,350,000	3,198,943	3,347,116	3,350,000	3,272,786
Other operating expenses .....		49,065,351	49,862,533	45,724,168	61,322,673	64,183,918	59,241,436
<b>Total operating expenses</b>		<b>128,731,030</b>	<b>127,814,633</b>	<b>117,090,499</b>	<b>157,776,248</b>	<b>159,059,109</b>	<b>145,808,512</b>
Operating result before depreciation, EBITDA .....		( 63,074 )	7,645,913	6,259,076	33,143,183	43,229,077	39,402,948
Depreciation .....	9,10,32	( 5,876,920 )	( 5,628,251 )	( 5,329,221 )	( 20,608,121 )	( 19,366,626 )	( 18,988,531 )
Operating result before financial items.....		( 5,939,994 )	2,017,662	929,855	12,535,063	23,862,450	20,414,417
Net financial items .....	5,26	96,708	( 500,779 )	428,430	( 16,841,934 )	( 11,547,515 )	( 12,857,634 )
Operating result before tax, adjustments and effects of associated companies		( 5,843,286 )	1,516,883	1,358,285	( 4,306,872 )	12,314,935	7,556,783
Income tax .....	19,47	0	0	0	63,173	( 1,921,318 )	( 365,453 )
Value adjustment of investment properties .....	7,3	0	0	0	1,773,543	1,484,391	4,831,584
Share in associated companies' operating results .....	11,28	0	0	0	( 291,974 )	1,000	( 104,874 )
Minority interests .....		0	0	0	( 15,925 )	0	( 718,656 )
<b>Operating results.....</b>	43	<b>( 5,843,286 )</b>	<b>1,516,883</b>	<b>1,358,285</b>	<b>( 2,778,055 )</b>	<b>11,879,008</b>	<b>11,199,384</b>

\* For the evaluation of pension obligations, it is assumed that the national mortality rate will continue to decrease and that life expectancy will increase instead of basing assumptions on the experience of previous years. See note 45.

# Statement of Financial Position 31 December 2020

## Assets

	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		31.12.2020 Financial Statements	31.12.2019 Financial Statements	31.12.2020 Financial Statements	31.12.2019 Financial Statements
<b>Fixed assets</b>					
Intangible assets .....	6,29	0	0	2,837,134	2,498,099
<b>Fixed tangible assets:</b>	<b>7,9,10</b>				
Real estate .....	30	126,229,613	122,802,005	156,161,716	151,198,694
Utilities .....	30	0	0	327,722,589	319,444,939
Investment properties .....	30	0	0	99,050,188	92,103,198
Road systems .....	30	24,829,305	20,197,587	25,445,294	20,793,439
Machinery and equipment .....	30	5,975,225	5,652,043	12,721,769	11,486,601
Lease properties .....	31	5,534,792	5,234,104	7,199,429	6,833,511
		<u>162,568,935</u>	<u>153,885,739</u>	<u>628,300,985</u>	<u>601,860,382</u>
<b>Investments and long-term receivables:</b>					
Capital contributions and shares in companies .....	11,37	12,636,016	11,275,007	10,934,534	9,940,200
Long-term receivables from own companies .....	13,14,39	0	8,433,646	0	0
Pre-paid costs .....	12	9,233,481	9,617,925	10,048,284	10,466,641
Derivative contracts .....	8	0	0	509,904	229,072
Deferred tax assets .....	21,47	0	0	6,675,003	4,879,759
Other long-term receivables .....	13,14,39	1,895,218	2,778,644	2,198,612	3,038,257
		<u>23,764,715</u>	<u>32,105,222</u>	<u>30,366,337</u>	<u>28,553,929</u>
<b>Total fixed assets</b>		<u>186,333,650</u>	<u>185,990,961</u>	<u>661,504,456</u>	<u>632,912,411</u>
<b>Current assets</b>					
Inventories .....	15,4	0	0	1,702,604	1,623,232
<b>Short-term receivables:</b>	<b>16,41</b>				
Unclaimed revenues and receivables .....	41	13,229,684	10,880,301	20,116,385	17,823,931
Next year's paym. of own comp. long-term receivab. ....	39	3,321,522	1,377,777	0	( 0 )
Next year's payment of other long-term receivables .....	39	302,076	556,891	435,351	918,856
Receivables from own companies .....		294,580	441,819	0	0
Pre-paid costs .....	12	388,081	388,081	643,670	1,411,554
Derivative contracts .....	8	0	0	45,399	388,451
Other receivables .....	41	3,599,651	1,391,611	4,354,409	2,056,818
Bank deposits and marketable securities .....	42	0	0	14,866,902	9,833,014
Cash and cash equivalents .....	17,42	8,110,912	8,840,324	26,761,339	21,946,655
<b>Total current assets</b>		<u>29,246,505</u>	<u>23,876,804</u>	<u>68,926,058</u>	<u>56,002,512</u>
<b>Total assets .....</b>		<u>215,580,155</u>	<u>209,867,765</u>	<u>730,430,514</u>	<u>688,914,922</u>

# Statement of Financial Position 31 December 2020

## Equity and liabilities

	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		31.12.2020	31.12.2019	31.12.2020	31.12.2019
		Financial Statements	Financial Statements	Financial Statements	Financial Statements
<b>Equity</b>					
Equity account .....	43	91,823,088	97,666,374	325,411,632	325,173,678
Minority interest .....		0	0	19,176,408	18,883,544
<b>Total equity</b>		<b>91,823,088</b>	<b>97,666,374</b>	<b>344,588,040</b>	<b>344,057,222</b>
<b>Obligations</b>					
Pension obligations .....	18,44	36,934,152	36,312,318	37,593,179	37,035,402
Deferred tax liabilities .....	19,47	0	0	14,943,963	14,909,556
Capital contributions from state .....		0	0	1,960,151	1,078,670
Other obligations .....		0	0	249,752	225,345
<b>Total obligations</b>		<b>36,934,152</b>	<b>36,312,318</b>	<b>54,747,044</b>	<b>53,248,974</b>
<b>Long-term liabilities</b>					
Long-term debts .....	20,45	53,675,949	45,254,273	258,341,042	225,009,419
Current liabilities, own companies .....	45	3,189	11,669	0	0
Lease liabilities .....	21,46	10,330,342	10,159,461	11,892,725	11,625,604
Embedded derivatives in electricity contracts .....	8,38	0	0	4,907,730	5,307,027
Derivative contracts .....	8	0	0	571,981	613,778
<b>Total long-term liabilities</b>		<b>64,009,479</b>	<b>55,425,402</b>	<b>275,713,478</b>	<b>242,555,828</b>
<b>Current liabilities</b>					
Debts to credit institutions .....		535,606	190,928	1,277,820	219,871
Accounts payable .....		5,637,810	4,472,789	10,781,017	10,501,422
Embedded derivatives in electricity contracts .....	8,38	0	0	1,048,651	1,372,302
Next year's payments on long-term debts .....	45	2,124,277	1,510,317	19,541,893	16,475,728
Next year's payments on current liabilities, own companies .....	45	8,887	68,366	0	0
Next year's payments on lease liabilities .....	46	1,023,612	914,300	1,157,053	1,059,075
Pension obligations, short-term .....	44	2,250,000	2,463,000	2,283,000	2,493,000
Accounts payable to own companies .....		727,835	1,092,454	0	( 0 )
Prepayments .....		114,972	390,063	656,260	539,799
Derivative contracts .....	8	0	0	846,690	317,233
Other payables .....		10,390,437	9,361,452	17,789,568	16,074,468
<b>Total current liabilities</b>		<b>22,813,436</b>	<b>20,463,670</b>	<b>55,381,952</b>	<b>49,052,897</b>
<b>Total liabilities and obligations</b>		<b>123,757,067</b>	<b>112,201,390</b>	<b>385,842,475</b>	<b>344,857,699</b>
<b>Total equity and liabilities</b> .....		<b>215,580,155</b>	<b>209,867,765</b>	<b>730,430,515</b>	<b>688,914,922</b>
<b>Obligations off the Statement of Financial Position</b> .....	50				

# Statement of Cash Flows for the year 2020

Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
	2020 Financial statements	2020 Budget with annexes	2019 Financial statements	2020 Financial statements	2020 Budget with annexes	2019 Financial statements
<b>Cash flows from operating activities</b>						
Operating results.....	( 5,843,286 )	1,516,883	1,358,285	( 2,778,055 )	11,879,008	11,199,384
Adjustments not affecting cash flow:						
Gain on sold assets .....	( 1,237,112 )	( 4,995,423 )	( 43,104 )	( 1,651,483 )	( 4,995,423 )	( 49,786 )
Depreciation .....	32 5,876,920	5,628,251	5,329,221	20,608,121	19,366,626	18,988,532
Indexation, discounts and exch.rate differences .....	5 1,422,833	1,185,595	1,038,093	8,197,608	4,858,084	3,542,784
Embedded derivatives, change .....	38 0	0	0	( 722,948 )	( 513,834 )	1,362,460
Value adjustment of investment properties .....	30 0	0	0	( 1,773,543 )	( 1,484,391 )	( 4,831,584 )
Effect of own companies and minority interests .....	0	0	0	307,899	( 1,000 )	823,530
Changes in pension obligations .....	44 3,316,618	3,350,000	3,198,943	3,289,044	3,383,044	3,272,786
Changes in deferred taxes .....	47 0	0	0	( 62,293 )	263,619	338,516
Write-down, long-term assets .....	1,556,186	0	1,522,250	1,556,186	0	1,522,250
Write-down, government capital contribution .....	0	0	0	( 5,861 )	0	( 1,213 )
<b>Working capital provided by operating activities</b>	<b>5,092,159</b>	<b>6,685,306</b>	<b>12,403,689</b>	<b>26,964,676</b>	<b>32,755,734</b>	<b>36,167,658</b>
Changes in operating assets and liabilities:						
Inventories decrease (increase) .....	0	0	0	( 79,372 )	( 20,000 )	( 15,130 )
Current receivables (increase) decrease .....	( 3,303,233 )	0	( 892,138 )	( 3,425,879 )	( 120,140 )	( 261,202 )
Current liabilities (decrease) increase .....	1,832,165	50,000	1,664,532	1,973,737	21,183	2,473,534
Contributions to pension payments .....	44 ( 2,907,784 )	( 2,600,000 )	( 2,572,794 )	( 2,941,267 )	( 2,600,000 )	( 2,603,657 )
Prepaid contribution to Brú pension fund, changes ....	384,445	384,445	384,445	418,357	390,474	418,357
<b>Change in operating assets and liabilities</b>	<b>( 3,994,408 )</b>	<b>( 2,165,555 )</b>	<b>( 1,415,955 )</b>	<b>( 4,054,424 )</b>	<b>( 2,328,483 )</b>	<b>11,902</b>
<b>Net cash provided by operating activities</b>	<b>1,097,751</b>	<b>4,519,751</b>	<b>10,987,734</b>	<b>22,910,251</b>	<b>30,427,251</b>	<b>36,179,560</b>
<b>Investment activities</b>	<b>23</b>					
Investments in fixed tangible assets .....	30 ( 15,631,735 )	( 21,580,730 )	( 16,024,127 )	( 34,760,571 )	( 42,480,518 )	( 43,522,747 )
Investment in investment properties .....	30 0	0	0	( 4,993,383 )	( 5,186,134 )	( 4,044,066 )
Investments in intangible assets .....	29 0	0	0	( 699,222 )	( 800,000 )	( 772,281 )
Paid road construction fees .....	30 804,337	3,343,500	1,812,954	804,337	3,343,500	1,812,954
Sales of building rights .....	1,182,896	4,399,596	25,754	1,347,087	4,399,596	25,754
Proceeds from sale of fixed tangible assets .....	321,498	595,827	296,371	787,240	783,727	540,054
Change in shareholdings .....	( 1,361,009 )	( 1,976,000 )	( 988,270 )	( 572,520 )	( 1,080,300 )	( 832,150 )
Short-term investments .....	( 1,401,743 )	( 995,000 )	( 1,259,596 )	( 5,247,418 )	( 995,000 )	( 3,045,612 )
Restricted bank deposits .....	0	0	0	( 66,904 )	0	0
Long-term receivables, change .....	6,324,891	3,231,752	2,222,370	( 287,434 )	2,096,971	1,026,852
<b>Investment activities</b>	<b>( 9,760,866 )</b>	<b>( 12,981,055 )</b>	<b>( 13,914,544 )</b>	<b>( 43,688,788 )</b>	<b>( 39,918,158 )</b>	<b>( 48,811,242 )</b>
<b>Financing activities</b>						
Capital contributions from state .....	0	0	0	774,963	198,876	559,093
New long-term borrowings .....	45 9,421,367	10,000,000	4,209,957	42,824,793	28,028,648	29,100,898
New lease liabilities .....	46 941,326	0	57,548	994,780	0	1,730,731
Repayments of long-term liabilities .....	45 ( 1,826,451 )	( 1,667,410 )	( 1,673,148 )	( 19,243,969 )	( 17,594,991 )	( 20,581,728 )
Payments on lease liabilities .....	46 ( 964,139 )	( 915,892 )	( 883,234 )	( 1,022,839 )	( 915,892 )	( 994,985 )
Derivative contracts paid .....	0	0	0	( 37,743 )	( 115,245 )	( 484,429 )
Paid-in capital .....	0	0	0	223,932	0	200,500
Short-term borrowings, change .....	344,678	0	( 19,559 )	1,153,659	95,763	( 888,084 )
Dividends paid .....	0	0	0	( 299,419 )	( 207,180 )	( 266,693 )
Other financing activities .....	16,922	0	35,238	( 2,778 )	0	35,087
<b>Financing activities</b>	<b>7,933,703</b>	<b>7,416,698</b>	<b>1,726,801</b>	<b>25,365,378</b>	<b>9,489,979</b>	<b>8,410,389</b>
<b>(Decrease) Increase in cash and cash equivalents.....</b>	<b>( 729,412 )</b>	<b>( 1,044,606 )</b>	<b>( 1,200,010 )</b>	<b>4,586,841</b>	<b>( 929 )</b>	<b>( 4,221,293 )</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>8,840,324</b>	<b>7,922,463</b>	<b>10,040,334</b>	<b>21,946,655</b>	<b>21,994,780</b>	<b>25,976,122</b>
<b>Effect of currency fluctuations on cash.....</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>227,842</b>	<b>0</b>	<b>191,826</b>
<b>Cash and cash equivalents at year-end.....</b>	<b>17 8,110,912</b>	<b>6,877,857</b>	<b>8,840,324</b>	<b>26,761,339</b>	<b>21,993,851</b>	<b>21,946,655</b>
<b>Investment and financing activities without cash flow effect</b>						
Investments in fixed tangible assets .....	30 0	0	0	( 909,899 )	0	( 65,139 )
Short-term investments, change .....	0	0	0	811,126	0	0
Short-term borrowings, change .....	0	0	0	98,773	0	65,139
New borrowings .....	45 0	0	0	0	0	0

# Notes

## 1. Information on the Municipality

Reykjavíkurborg (the City of Reykjavík), the capital city of Iceland, is a municipality with a population of 133,181 as at 1 December 2020. The municipality's offices are located in Reykjavík City Hall.

The principles of administration and operation of local governments are provided for in the Local Government Act No. 138/2011.

## 2. Basis of preparation

The financial statements of Reykjavíkurborg (the City of Reykjavík) include annual accounts for the operating units pertaining to Reykjavík Municipal (A operations) and a consolidated statement for the City's entire operations, Reykjavík Group (i.e. consolidated A and B operations), as stipulated in Article 60 of the Local Government Act No. 138/2011.

Reykjavík Municipal comprises activities which are partly or entirely funded by tax revenues. These include Aðalsjóður (the City's Operations Fund) and Eignasjóður (Real Estate Fund). B operations comprise financially independent companies where the City holds 50% of the shares or more. These companies are largely funded by income generated by the services they provide. The companies in B operations are Aflvaki hf. (development/investment agency), Faxaflóahafnir sf. (Associated Icelandic Ports), Félagsbústaðir hf. (Reykjavík Social Housing), Íþrótt- og sýningahöllin hf. (Sport and Exhibition Centre), 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) and Thjodarleikvangur ehf. (National stadium).

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. 696/2019 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 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 operating entities and inter-unit transactions are eliminated in the consolidated financial statements. Balances between operating entities and inter-unit transactions include real estate tax levies, rent collected by the Real Estate Fund and other inter-unit transactions relating to purchases of goods and services. They also include interest calculated on balances and long-term liabilities resulting from transfers of assets and investments.

## Accounting methods

## 3. Income recognition

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

Capital expenditure and collection of construction fees are recognised in the Income Statement as decrease in construction costs and are recognised as a deduction from depreciation over the assets' anticipated useful life. Proceeds from sales of goods and services are generally recognised in the Income Statement at the time that ownership and the right to claim have been transferred to the buyer. The same applies to grants.

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

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

# Notes

## 4. Expense recognition

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

## 5. Indexation and exchange-rate criteria

Assets and liabilities which are indexed or denominated in foreign currency are recognised in the financial statements at the indexation or exchange rate applying at year-end 2020. Accrued indexation and exchange-rate differences are recognised in the Income Statement.

## 6. Intangible assets

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

## 7. Capitalisation of fixed tangible assets

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

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

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

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

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

Investment properties are properties owned by Félagsbústaðir hf. with the object of generating 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 new 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. However, real estate valuation is adjusted take account of encumbrances on the assets. Changes in the evaluation of investment properties are recognised under the item value adjustment of investment properties in the Income Statement. Investment properties are not amortised.

## 8. Financial instruments

A financial instrument is categorised as a 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 Statement of Financial Position. 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, or if 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 Statement of Financial Position, and changes in fair value are recognised in the Income Statement.



# Notes

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

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

General purpose buildings, offices and schools.....	25-50 years
Other buildings.....	25-50 years
Plots and land for planning.....	25 years
Road system.....	25 years
Orkuveita Reykjavíkur, distribution systems.....	9-90 years
Orkuveita Reykjavíkur, production systems.....	7-60 years
Orkuveita Reykjavíkur, geothermal rights.....	100 years
Vehicles, machinery and equipment.....	3-25 years

## 10. Depreciation of leased assets

The depreciation of leased assets is calculated as a fixed percentage based on lease period or estimated useful life, if shorter. If it is known that the municipality will acquire the leased asset at the end of the lease period, the useful life of the asset in question is used. The estimated useful life of leased assets is as follows:

Real estate.....	2-26 years
Land.....	10-99 years

## 11. Capital contributions and shares in companies

Capital contributions in accordance with Act No. 52/2016 on general apartments, which municipalities are permitted to allocate for the construction and purchase of general apartments in order to encourage the supply of affordable rental apartments, are capitalised at cost, if reimbursement has been required. If reimbursement is not required, they are expensed at payment date.

In the financial statements of Reykjavík Municipal, shares in companies, jointly 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 focus 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 jointly 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.

The write-down of shares in companies that have suffered impairment is calculated and entered in the annual financial statement following assessment.

## 12. Pre-paid cost

Pre-paid cost due to settlement with Brú Pension Fund, cf. Act No. 127/2016, is divided into supplementary pension fund, which is expensed over 30 years, and contribution to prudential fund, which is expensed over 20 years, from the 1st of July 2017.

## 13. Long-term receivables

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

## 14. Provision for losses

Long-term receivables, outstanding tax revenue and other short-term receivables have been evaluated with regard 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

## 15. Inventories

Inventories are valued at cost price or day trade price, if lower.

## 16. Short-term receivables

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

## 17. Cash and cash equivalents

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

## 18. Obligations

Pension obligations for the benefit of the City's employees are recognised as a long-term liability in the Balance Sheet based on actuarial assessment. Changes in the liability during the year are recognised in the Income Statement. Projected next year's payments due to pension obligations are recognised among short term liabilities. See further note 45.

## 19. Deferred income tax liability and assets

The deferred income tax liability and assets of entities in B operations which are subject to income tax have been calculated and recognised in the financial statements. The calculation is based on the temporary difference between the tax return on the one hand, and the financial statements, on the other hand. This difference is due to the fact that tax assessments are based on rules which differ from those governing financial statements.

Calculation of deferred tax assets and liabilities is based on the expected tax rate in effect when temporary differences are to be reversed, based on the legislation in effect at the reporting date.

According to the current tax legislation, transferable tax losses can be used against taxable revenues 10 years from their formation. The application of transferable tax loss has been assessed and calculations have been made regarding taxable revenues for the next few years. The income tax balance for transferable loss is recognised to the extent that it is believed to be of use.

## 20. Long-term liabilities

Long-term liabilities are recognised in the Statement of Financial Position at year-end in accordance with the applicable credit terms. Next year's instalments are recognised as short-term liabilities.

## 21. Lease debts

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

Minimum lease payments are the payments that a lessee is required to pay during the contract term, excluding conditional rent, as well as maintenance, service costs, insurance and taxes, which are paid by the lessor.

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

## 22. Budget

The budget with annexes is a part of the financial statements and is included in the Income Statement, the Statement of Cash Flows and the Notes.

## 23. Statement of Cash Flows

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

# Notes

## 24. Operating revenue

Operating revenue is specified as follows:

	A operations		A and B operations	
	2020 Financial Statements	2020 Budget with Annexes	2020 Financial Statements	2020 Financial Statements
<b>Tax revenues</b>				
<b>Municipal income tax:</b>				
Paid municipal income tax .....	88,635,181	91,266,023	88,635,181	91,266,023
Share of Municipal Equalisation Fund in income tax .....	( 4,647,162 )	( 4,839,865 )	( 4,647,162 )	( 4,839,865 )
Share of Mun.Eq.Fund in tax relating to the disabled .....	( 5,974,922 )	( 6,222,683 )	( 5,974,922 )	( 6,222,683 )
	78,013,097	80,203,475	78,013,097	80,203,475
Postpaid municipal income tax .....	4,560,601	2,800,000	4,560,601	2,800,000
Tax changes .....	( 558,049 )	0	( 558,049 )	0
Amortisation of tax revenues .....	( 655,925 )	0	( 655,925 )	0
Changes to write-offs .....	( 600,000 )	0	( 600,000 )	0
	80,759,723	83,003,475	80,759,723	83,003,475
<b>Property tax</b>				
Property tax .....	20,268,469	20,673,502	19,617,394	20,029,999
Plot rent .....	1,758,931	1,825,554	1,696,262	1,763,387
Write-off/depreciation of property tax revenues, change .....	( 11,836 )	0	( 11,836 )	0
	22,015,564	22,499,056	21,301,820	21,793,385
Total tax revenues.....	102,775,287	105,502,531	102,061,543	104,796,860
<b>Contributions from Municipal Equalisation Fund</b>				
Contribution for the disabled .....	6,240,937	6,196,900	6,240,937	6,196,900
Municipal Equalisation Fund, other contributions .....	1,790,285	1,882,779	1,790,285	1,882,779
	8,031,222	8,079,679	8,031,222	8,079,679
<b>Other income</b>				
Fees for services provided .....	9,637,366	10,154,114	21,902,808	21,609,454
Income from assets .....	23,506,705	22,823,553	24,514,233	24,150,129
Other repayments .....	5,266,427	4,507,490	11,314,913	11,196,573
Other income .....	3,572,585	2,456,395	57,864,862	60,167,487
Sales of building rights .....	1,182,896	4,399,596	1,247,864	4,399,596
Gain from sale of assets .....	54,216	595,827	403,619	595,827
Inter-unit transactions eliminated .....	( 25,358,749 )	( 23,058,639 )	( 36,421,634 )	( 32,707,421 )
	17,861,446	21,878,336	80,826,665	89,411,646
<b>Total operating revenue .....</b>	<b>128,667,956</b>	<b>135,460,546</b>	<b>190,919,431</b>	<b>202,288,186</b>

# Notes

## 25. Wage cost and wage-related expenses

Operating revenue is itemised as follows:

	A operations		A and B operations	
	2020	2020	2020	2020
	Statements	Budget with Annexes	Statements	Financial Annexes
Wages .....	61,798,620	61,367,207	76,213,316	76,791,748
Wage-related expenses .....	14,629,700	13,018,901	17,737,848	14,511,779
	76,428,320	74,386,108	93,951,164	91,303,527
Changes in accrued vacation obligations .....	935,782	337,000	1,270,628	342,672
Estimated impact of retroactive provisions in collective agreements from 2019 reversed .....	( 676,000 )	0	( 676,000 )	0
Transfer/capitalisation of salaries .....	( 339,042 )	( 121,008 )	( 1,439,334 )	( 121,008 )
Wages and wage related exp. less charged pens. contrib. ....	76,349,060	74,602,100	93,106,458	91,525,191
Changes in pension obligations LsRb .....	3,316,618	3,350,000	3,347,116	3,350,000
Total wage cost and wage-related expenses .....	79,665,678	77,952,100	96,453,574	94,875,191
Average full-time equivalent positions .....	7,783		9,095	

The salaries of the City of Reykjavik's senior management are itemised in note 57.

## 26. Financial income and financial expenses

Financial income and (expenses) are specified as follows:

	A operations	A and B operations
Dividends on equity shares .....	3,142,024	89,371
Risk charge for guarantees .....	601,912	( 44,976 )
Interest income and indexation .....	1,201,996	1,097,683
Interest expenses and indexation .....	( 4,217,821 )	( 13,734,972 )
Financial income tax .....	( 632,081 )	( 640,574 )
Hedge contracts .....	0	( 43,742 )
Exchange rate difference .....	678	( 4,617,356 )
Changes in fair value .....	0	1,052,632
Total financial income and (expenses) .....	96,708	( 16,841,934 )

## 27. Municipal Fund

	Finanacial Statements			2020
	2020			Budget with Annexes
	Expenses	Revenues	Balance	Net
Tax revenue .....		112,882,738	( 112,882,738)	( 115,683,488)
Department of Finance and Risk Managment .....	1,262,785	48,313	1,214,473	1,339,322
Contribution to B operation companies .....	3,501,178	0	3,501,178	3,541,453
Department of Sports and Leisure .....	10,777,483	1,504,510	9,272,973	9,191,719
Department of Culture and Tourism .....	5,951,611	248,958	5,702,653	5,677,985
Department of Human Resources .....	317,292	27,445	289,847	309,574
Department of Education and Recreation .....	62,432,864	4,004,765	58,428,099	56,981,121
Central administration offices .....	1,626,516	89,063	1,537,453	1,609,368
Department of Environment and Planning .....	13,286,957	3,644,214	9,642,743	8,652,507
Department of Welfare .....	38,614,002	7,364,351	31,249,651	31,267,252
Department of Service and Innovation .....	3,547,240	1,285,953	2,261,287	2,261,165
Joint expenses .....	6,623,548	109,534	6,514,014	6,757,009
	147,941,475	131,209,843	16,731,632	11,904,986
Financial income and financial expenses .....	369,189	7,266,944	( 6,897,755)	( 5,538,533 )
<b>Municipal Fund total</b>	<b>148,310,664</b>	<b>138,476,787</b>	<b>9,833,877</b>	<b>6,366,453</b>

# Notes

## 27. Municipal Fund, continued:

	Financial Statements			2020
	2020			Budget with Annexes
	Expenses	Revenues	Balance	Net
<b>Reykjavík Municipal (A operations) organisations</b>				
Real Estate Fund .....	20,926,060	24,916,651	( 3,990,590)	( 7,883,336)
Internal transactions in A operation .....	( 30,410,954)	( 30,410,954)	0	
<b>A operations total</b>	<b>138,825,771</b>	<b>132,982,484</b>	<b>5,843,286</b>	<b>( 1,516,883)</b>
<b>B operations companies</b>				
Aflvaki hf. ....	506	87	419	0
Faxaflóahafnir sf. ....	3,295,494	3,686,834	( 391,340 )	( 681,766 )
Félagsbústaðir hf. ....	5,162,053	6,604,768	( 1,442,715 )	( 1,158,370 )
Íþrótt- og sýningahöllin hf. ....	509,192	340,230	168,962	34,307
Malbikunarstöðin Höfði hf. ....	1,447,278	1,433,521	13,757	( 27,920 )
Orkuveita Reykjavíkur .....	43,404,105	49,028,059	( 5,623,953 )	( 10,168,857 )
Slökkvilið höfuðborgarsvæðisins bs. ....	3,445,487	3,235,814	209,673	( 9,575 )
Sorpa bs. ....	3,951,009	3,810,085	140,924	( 289,909 )
Strætó bs. ....	8,544,958	8,091,044	453,914	( 1,815 )
Þjóðarleikvangur ehf. ....	46,930	33,457	13,474	0
	69,807,013	76,263,897	( 6,456,884 )	( 12,303,905 )
Share in associated companies' results .....	0	( 291,974)	291,974	0
Minority interest .....	0	( 15,925)	15,925	0
<b>B operations total</b>	<b>69,807,013</b>	<b>75,955,998</b>	<b>( 6,148,985)</b>	<b>( 12,303,905)</b>
Internal transactions in B operations .....	( 12,312,122)	( 15,395,875)	3,083,754	1,941,780
<b>Reykjavík Group (A and B operations) total</b>	<b>196,320,662</b>	<b>193,542,607</b>	<b>2,778,055</b>	<b>( 11,879,008)</b>

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

## 28. Share in the results of associated companies

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

	A and B operations
Minjavernd hf. ....	( 45,437)
Harpa tónlistar- og ráðstefnuhús ohf. ....	( 241,975)
Situs ehf. ....	( 5,490)
Orkuveita Reykjavíkur - associated companies .....	4,137
Sorpa - associated company .....	( 3,209)
	<b>( 291,974 )</b>

## 29. Intangible assets

Intangible assets are itemised as follows:

	A and B operations
<b>Total value</b>	
Balance at the beginning of the year .....	4,447,319
Additions during the year .....	699,222
	<b>5,146,541</b>
<b>Depreciations</b>	
Opening balance .....	1,949,220
Depreciations during the year .....	360,188
	<b>2,309,408</b>
Book value at year-end .....	<b>2,837,134</b>

# Notes

## 30. Fixed tangible assets

### A operations are itemised as follows:

	A operations			
	Real estate	Road system	Machinery and equipment	Total
<b>Total value</b>				
Balance at the beginning of the year	181,270,766	26,725,430	12,114,310	220,110,506
Re-classification of assets	219,284	0	( 219,284 )	0
Additions during the year	6,384,511	6,576,671	1,729,227	14,690,409
Road construction fees	0	( 804,337 )	0	( 804,337 )
Sold or disposed of during the year	( 272,803 )	0	( 82,549 )	( 355,352 )
Balance at year-end	187,601,758	32,497,764	13,541,704	233,641,226
<b>Depreciations</b>				
Balance at the beginning of the year	58,468,761	6,527,843	6,462,268	71,458,871
Re-classification	232	0	( 232 )	0
Depreciations during the year	2,920,069	1,140,616	1,175,597	5,236,282
Sold or disposed of during the year	( 16,916 )	0	( 71,154 )	( 88,070 )
Balance at year-end	61,372,145	7,668,458	7,566,479	76,607,082
Book value at year-end	126,229,613	24,829,305	5,975,225	157,034,143
Depreciation rate	2% - 4%	4%	5% - 25%	

	A and B operations			
	Real estate	Utilities	Road system, mach. & equipm.	Total
<b>A and B operations are specified as follows:</b>				
<b>Total value</b>	230,502,976	620,761,052	53,806,143	905,070,171
Re-classification of assets	100,396	( 2,345,742 )	( 832,685 )	( 3,078,032 )
Revaluation	176,488	0	0	176,488
Additions during the year	8,927,328	15,279,377	10,468,984	34,675,689
Translation difference	0	5,829,966	0	5,829,966
Road construction fees	0	0	( 804,337 )	( 804,337 )
Sold or disposed of during the year	( 356,849 )	0	( 267,540 )	( 624,389 )
Balance at year-end	239,350,339	639,524,652	62,370,565	941,245,556
<b>Depreciations</b>				
Balance at the beginning of the year	79,304,282	301,316,113	21,526,103	402,146,498
Re-classification of assets	( 120,562 )	( 2,343,837 )	( 613,633 )	( 3,078,032 )
Revaluation	0	0	0	0
Depreciations during the year	4,025,536	12,038,066	3,459,460	19,523,062
Translation difference	0	791,721	0	791,721
Sold or disposed of during the year	( 20,634 )	0	( 168,428 )	( 189,062 )
Balance at year-end	83,188,623	311,802,064	24,203,502	419,194,188
Book value at year-end	156,161,716	327,722,589	38,167,064	522,051,369
Depreciation rate	2% - 4%	1% - 14%	4% - 33,3%	

### Mortgages:

The properties of Félagsbústaðir hf. are mortgaged to secure the balance of debts amounting to ISK 25,395 million at year-end. In addition, the company has signed two bonds with its commercial bank in the aggregate amount of ISK 2,620 million, which are also secured by a mortgage on the company's properties. A long-term loan to Félagsbústaðir hf. guaranteed by Reykjavíkurborg amounted to ISK 21,707 million at the end of the year. The debts of Íþrótt- og sýningarhöllin hf. (Sports and Exhibition Hall) in the amount of ISK 2,136 million are secured by a mortgage on the company's property and a lease contract with the City of Reykjavík. At the end of the year one financial condition had been violated, so the lender is authorised to call the loan in its entirety. The Board of Directors of the Sports and Exhibition Hall does not consider it likely that the loan will be called.

# Notes

## 30. Fixed tangible assets, continued:

Investment properties are itemised as follows:

	A operations	A and B operations
<b>Total amount</b>		
Balance at the beginning of the year .....	0	92,103,198
Revaluation during the year .....	0	1,953,607
Additions during the year .....	0	4,993,383
Balance at year-end .....	0	99,050,188

The presentation of Félagsbústaðir hf. in the consolidated financial statements 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 permanent fixed assets of Íþróttá- og sýningahöllin hf. are recognised at the re-evaluated cost price, net of depreciation.

## 31. Leased properties

Leased properties are specified as follows:

	A operations	A and B operations
Balance at the beginning of the year .....	11,320,450	13,030,662
Additions during the year .....	941,326	994,780
Written off over the year .....	( 100,814 )	( 100,814 )
Indexation .....	0	112,294
	<u>12,160,962</u>	<u>14,036,922</u>
Depreciation at the beginning of the year .....	6,086,346	6,197,151
Depreciation during the year .....	640,638	741,157
Written off over the year .....	( 100,814 )	( 100,814 )
	<u>6,626,170</u>	<u>6,837,494</u>
Book value at year-end .....	<u>5,534,792</u>	<u>7,199,429</u>
Depreciation rate .....	4% - 17%	1% - 50%

## 32. Depreciation and impairment

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

	A operations	A and B operations
Depreciation of fixed tangible assets, see note 30 .....	5,236,282	19,523,062
Depreciation of intangible assets, see note 29 .....	0	360,188
Depreciation of leased properties, see note 31 .....	640,638	741,157
Depreciation during the year .....	<u>5,876,920</u>	<u>20,624,407</u>
Recognised in the income statement .....	5,876,920	20,608,121
Recognised as a reduction of obligations .....	<u>0</u>	<u>16,286</u>
	<u>5,876,920</u>	<u>20,624,407</u>

# Notes

## 33. Investments in fixed tangible assets

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

	2020 Financial Statements	2020 Budget with annexes
<b>Property, machinery and equipment:</b>		
Culture .....	540,960	738,700
Education .....	3,049,272	5,378,530
Sports and leisure .....	2,713,604	3,525,000
Social Services .....	351,324	485,500
Bílastæðasjóður (Reykjavík Parking Services) .....	3,937	50,000
Other properties .....	116,792	375,000
Software, machinery and equipment .....	1,321,386	1,524,000
Building plots, land and planning properties .....	13,269	175,000
Renovation and major maintenance of buildings .....	503,546	680,000
Entered in income statement .....	( 7,913 )	0
<b>Total property, machinery and equipment</b>	<b>8,606,176</b>	<b>12,931,730</b>
Road construction .....	6,084,233	8,649,000
Road construction fees over the year .....	( 804,337 )	( 3,343,500 )
<b>Road system total</b>	<b>5,279,897</b>	<b>5,305,500</b>
<b>Total capitalised investment</b>	<b>13,886,072</b>	<b>18,237,230</b>
Road construction fees over the year .....	804,337	3,343,500
<b>Gross investment A operations</b>	<b>14,690,409</b>	<b>21,580,730</b>

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

Faxaflóahafnir sf. ....	1,340,283	1,850,000
Félagsbústaðir hf. ....	5,068,271	5,186,134
Orkuveita Reykjavíkur .....	16,738,909	17,662,788
Slökkvilið höfuðborgarsvæðisins bs. ....	61,718	110,000
Strætó bs .....	163,542	850,000
Sorpa bs .....	1,315,477	1,012,000
Other B operation companies .....	162,807	215,000
<b>Investments of B operations</b>	<b>24,851,006</b>	<b>26,885,922</b>
Inter-unit transactions eliminated .....	( 29,566 )	
<b>Total investment of Reykjavík Group in fixed tangible assets during the year</b>	<b>39,511,849</b>	<b>48,466,652</b>

## 34. Selling price of building rights, plots and road construction fees are itemised as follows:

	2020 Financial Statements	2020 Budget with annexes
<b>Selling price of fixed assets:</b>		
Road construction fees A operations .....	804,337	3,343,500
Sold building rights A operations .....	1,182,896	4,399,596
	<b>1,987,233</b>	<b>7,743,096</b>
<b>Selling price of fixed assets:</b>		
Selling price of fixed assets of A operations .....	321,498	595,827
Selling price of fixed assets of B operations .....	465,742	187,900
	<b>787,240</b>	<b>783,727</b>



# Notes

## 35. Official value and insurance value of buildings

Fire insurance valuation, the official property valuation and book value of real estate are itemised as follows at year-end 2019:

	A operations	A and B operations
Official property valuation of buildings .....	120,469,944	166,110,246
Official property valuation of plots .....	31,442,805	70,383,174
Fire insurance valuation .....	190,745,968	254,941,176
Book value .....	126,229,613	156,161,716
Book value of investment property .....	0	99,050,188

## 36. Insurance value of liquid assets

According to a resolution of the City Council, liquid assets of A operations are not specifically insured, except in the case of statutory liability insurances. The insurance value of liquid assets of B operations amounted to ISK 413,141 million at year end 2020.

## 37. Shares in companies

Shares in companies are itemised as follows:

	Share in		A operations	A and B operations
	A-op.	A&B op.	Book value	Book value
<b>Subsidiaries</b>				
Aflvaki hf. ....	54.5%	95.7%	4,363	
Félagsbústaðir hf. ....	100.0%	100.0%	3,240,267	
Íþrótt- og sýningahöllin hf. ....	50.0%	50.0%	50,000	
Malbikunarstöðin Höfði hf. ....	99.0%	100.0%	190,575	
Slökkvilið höfuðborgarsvæðisins bs. ....	60.8%	60.8%	1,027,526	
Sorpa bs. ....	59.0%	59.0%	1,079,409	
Strætó bs. ....	60.3%	60.3%	514,504	
Orkuveita Reykjavíkur ....	93.5%	93.5%	0	
Faxaflóahafnir sf. ....	75.6%	75.6%	59,111	
Þjóðarleikvangur ehf. ....	50.0%	50.0%	5,882	
Samtals dótturfélög .....			6,171,637	
<b>Associated companies</b>				
Betri samgöngur ohf. ....	14.1%	14.1%	563	563
Harpa tónlistar- og ráðstefnuhús ohf. ....	46.0%	46.0%	788,085	0
Situs ehf. ....	46.0%	46.0%	1,885	1,885
Minjavernd hf. ....	38.3%	38.3%	107,839	121,239
Metan hf. ....		100.0%		21,128
Íslensk Nýorka ....		29.5%		33,235
Netorka hf. ....		38.4%		42,138
Orkuskólinn REYST hf. ....		45.0%		6,017
Associated companies total .....			898,372	226,205
<b>Other companies</b>				
Landsnet hf. ....		6.78%		5,867,000
Lánasjóður sveitarfélaga ohf. ....	17.47%	17.47%	1,547,831	1,547,831
Galantaterrm .....		3.80%		13,082
Keilir .....		12.10%		18,500
Landskerfi bókasafna hf. ....	20.60%	20.60%	29,524	29,524
Neyðarlínan hf. ....	20.39%	20.39%	14,472	9,394
Rekstrarfélagið Stæði ehf. ....	22.97%	22.97%	919	919
DMM lausnir ehf. ....		13.41%		23,898
Vísindagarðar Háskóla Íslands ehf. ....	5.44%	5.44%	11,688	11,688
Halakot ehf. ....		100.00%		2,000
Vatnsveita Hvalfjarðarsveitar sf. ....		50.00%		75,481
Þróunarfélag Grundatanga ehf. ....	16.67%	33.33%	750	1,500
Other companies .....			40	537
Other companies total .....			1,605,223	7,601,354
<b>Capital contributions</b>				
Þjarg íbúðafélag hses. ....			2,332,290	2,332,290
Brynja, hússjóður Öryrkjabandalags Íslands .....			213,260	213,260
Arnrún íbúðarfélag hses .....			40,003	40,003
Félagsbústaðir hf. ....			853,808	0
Stakkahlíð hses. ....			343,912	343,912
Byggingarfélag námsmanna ses .....			177,511	177,511
			3,960,784	3,106,976
Total shares .....			12,636,016	10,934,535

Changes in fair value of Landsnet hf. amounted to ISK 706 million during the year and the increase is recognised as equity.

# Notes

## 38. Embedded derivatives

At the accounting date Orkuveita Reykjavíkur had two aluminum-linked electricity sales contracts in effect: one with Norðurál relating to the aluminium smelter at Grundartangi and a second with Norðurál relating to Helguvík. As regards the agreement with Norðurál Helguvík, delivery has begun in part through delivery to Grundartangi. These power sale agreements are made in USD, with the power price linked to the world market price of aluminium. Revenue from power sales agreements linked to aluminum prices accounted for 12.7% of Orkuveita Reykjavíkur total revenue in 2020.

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 finance and risk management department of Orkuveita Reykjavíkur is authorised to hedge the aluminium price risk and minimum/maximum defense ratios have been approved for the next 5 financial years. At the accounting date the hedging amounted to 60% 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 regarding financial instruments, the fair value of embedded derivatives concerning Grundartangi, and partially concerning Helguvík, has been evaluated and recognised in the financial statements.

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

Fair value of embedded derivatives in electricity sales contracts is itemised as follows:	2020	2019
Fair value of embedded derivatives in electricity sales contracts at the beginning of the year .....	( 6,679,329 )	( 5,316,869 )
Fair value changes during the year .....	722,948	( 1,362,460 )
Fair value of embedded derivatives in electricity sales contracts at the end of the year (liability) .....	( 5,956,381 )	( 6,679,329 )

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

Non-current embedded derivatives (liability) .....	( 4,907,730 )	( 5,307,027 )
Current embedded derivatives (liability) .....	( 1,048,651 )	( 1,372,302 )
Total embedded derivatives .....	( 5,956,381 )	( 6,679,329 )

## 39. Long-term receivables

Long-term receivables are itemised as follows:

	Indexed	Non-indexed	Total
<b>Long-term receivables from own companies</b>			
Balance at the beginning of the year .....	9,811,423	0	9,811,423
Payment over the year .....	( 6,726,507 )	0	( 6,726,507 )
Indexation .....	236,606	0	236,606
	3,321,522	0	3,321,522
Current maturities of long term receivables .....	( 3,321,522 )	0	( 3,321,522 )
	0	0	0

Annual maturities are specified as follows:

Year 2021 .....	3,321,522
	3,321,522

### Other long-term receivables (A operations)

Balance at the beginning of the year .....	703,332	7,080,949	7,784,281
New loans .....	141,338	1,190,302	1,331,640
Payments .....	( 539,598 )	( 390,426 )	( 930,024 )
Indexation .....	16,329	0	16,329
	321,400	7,880,826	8,202,226
Provision for losses .....	0	( 6,004,932 )	( 6,004,932 )
	321,400	1,875,894	2,197,294
Next year's payments on long-term receivables .....	( 69,406 )	( 232,670 )	( 302,076 )
	251,994	1,643,223	1,895,218

# Notes

## 39. Long-term receivables, continued:

	Indexed	Non-indexed	Total
<b>Other long-term receivables (A and B operations)</b>			
Balance at the beginning of the year .....	1,324,910	7,080,949	8,405,859
New loans .....	306,990	1,190,302	1,497,292
Payments .....	( 903,302 )	( 390,426 )	( 1,293,727 )
Indexation .....	29,471	0	29,471
	758,069	7,880,826	8,638,895
Provision for losses .....	0	( 6,004,932 )	( 6,004,932 )
	758,069	1,875,894	2,633,963
Next year's payments on long-term receivables .....	( 202,681 )	( 232,670 )	( 435,351 )
	555,389	1,643,223	2,198,612

Annual maturities are itemised as follows:

	A operations	A and B operations
Year 2020 .....	302,076	435,351
Year 2021 .....	643,044	721,824
Year 2022 .....	467,445	510,711
Year 2023 .....	80,513	157,477
Year 2024 .....	0	63,071
Later .....	704,216	745,529
	2,197,294	2,633,963

## 40. Inventories

Inventories are itemised as follows:

	A operations	A and B operations
Inventory of materials .....	0	1,249,674
Raw material .....	0	272,253
Supplies in stock .....	0	100,996
Products ready for use .....	0	79,681
	0	1,702,604

## 41. Current receivables

Other current receivables are itemised as follows:

	A operations	A and B operations
Receivables due to transports contract .....	1,126,651	1,126,651
Other receivables .....	2,473,000	3,227,757
	3,599,651	4,354,408

In 2020, the City of Reykjavik made a payment of ISK 1,127 million to Betri samgöngur ohf. in accordance with an agreement between the Icelandic government, the City of Reykjavik and the municipalities of Kopavogur, Hafnarfjörður, Gardabaer, Mosfellsbaer and Seltjarnarnes concerning public transportations in the metropolitan area. An insignificant part of that amount was paid in as share capital, see note 37, but a total of ISK 1,127 million is entered as current receivables among assets at the end of the year. It has been estimated that the receivables will become a part of the capitalised transport infrastructure among fixed assets in 2021.

Provisions for current receivables are itemised as follows:

	A operations	A and B operations
Provision for receivables other than tax revenue at the beginning of the year .....	793,185	1,084,999
Actual losses during the year .....	( 581,196 )	( 592,483 )
Provision for losses during the year .....	122,453	122,453
Provision for receivables other than tax revenue at year-end .....	334,442	614,969

Outstanding tax revenue, excluding default interest and provisions, amounted to ISK 12,628 million at year-end. The total provision for tax revenue at year-end amounted to ISK 5,600 million.

# Notes

## 42. Cash and bank deposits

Cash and bank deposits are itemised as follows:

	A operations	A and B operations
Bank deposits with three to twelve month maturities .....	0	6,500,000
Marketable securities .....	0	8,366,902
	0	14,866,902
Bank deposits and short-term securities, redeemable without notice .....	8,110,912	26,761,339
	<u>8,110,912</u>	<u>41,628,241</u>

## 43. Equity

Changes in equity:

	A operations	A and B operations
Balance at the beginning of the year .....	97,666,374	325,008,983
Reykjavik's share in SORPA recycling station assets .....	0	164,695
Corrected opening balance .....	97,666,374	325,173,678
Revaluation of plots and land at year-end .....	0	70,595
Paid-in capital .....	0	223,937
Dividends paid .....	0	( 299,338 )
Changes in the market value of equity shares .....	0	660,772
Translation differences of Orkuveita Reykjavíkur .....	0	2,331,009
Other changes .....	0	29,033
Operating results .....	( 5,843,286 )	( 2,778,055 )
	<u>91,823,088</u>	<u>325,411,632</u>

Changes in fair value of the share in Landsnet hf. is recognised among equity. Translation difference is the exchange rate difference resulting from the conversion of financial statements in operations that use a functional currency other than the Icelandic króna.

## 44. Pension obligations due to LsRb

The net present value of the pension obligations of A operations due to LsRb (Reykjavik employees' pension fund) amounted to ISK 39,184 million at the end of 2020, while the net present value of A and B operations amounted to ISK 39,876 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 9 December 2020. The LsRb actuarial valuation uses existing mortality and life expectancy tables which are based on experience from the years 2014-2018. The amendment of 9 December 2020 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 and that the City is required to take this into consideration in order to comply with the Financial Statements Act, even though this new methodology is not yet effective under current actuarial valuation regulations of pension funds. The managements' assessment is based, among other things, on the fact that LsRb is closed to new members.

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

The obligations are itemised as follows:

	A operations	A and B operations
Pension obligations 1.1.2020 .....	38,775,318	39,528,402
Contributions to pension payments during the year .....	3,316,618	3,289,044
Change in pension obligations during the year .....	( 2,907,784 )	( 2,941,267 )
Pension obligations 31.12.2020 .....	<u>39,184,152</u>	<u>39,876,179</u>
Pension obligations, short-term .....	2,250,000	2,283,000
Pension obligations, long-term .....	36,934,152	37,593,179
	<u>39,184,152</u>	<u>39,876,179</u>

Estimated participation in the payment of pensions next year is recognised among current liabilities in the balance sheet.

# Notes

## 44. Pension obligations due to LsRb, continued:

Estimated future pension payments for Reykjavik Municipal by period:

Payments 2021-2025 .....	9,798,381
Payments 2026-2030 .....	8,756,412
Payments 2031-2035 .....	7,316,213
Payments 2036 and later .....	13,313,146
	<u>39,184,152</u>

## 45. Long-term liabilities

A operations	Exchange rate	Indexed	Non-indexed	Total
Balance at the beginning of the year .....	0	40,787,414	5,977,176	46,764,589
Additions during the year .....	0	856,511	8,564,856	9,421,367
Payments over the year .....	0	( 1,202,140 )	( 555,750 )	( 1,757,890 )
Indexation and discounts of the year .....	0	1,432,149	( 59,989 )	1,372,160
	0	41,873,933	13,926,293	55,800,226
Next year's payments	0	( 1,236,307 )	( 887,971 )	( 2,124,277 )
	0	40,637,626	13,038,323	53,675,949

### A and B operations

Long-term liabilities are itemised as follows:

	Exchange rate	Indexed	Non-indexed	Total
Balance at the beginning of the year .....	69,535,591	152,977,380	18,972,176	241,485,147
Additions during the year .....	4,084,800	25,745,136	12,994,856	42,824,793
Payments over the year .....	( 10,067,917 )	( 7,559,867 )	( 1,616,185 )	( 19,243,969 )
Indexation and discounts of the year .....	7,235,627	5,641,326	( 59,989 )	12,816,964
	70,788,101	176,803,976	30,290,858	277,882,935
Next year's payments	( 8,567,773 )	( 7,403,493 )	( 3,570,628 )	( 19,541,893 )
	62,220,329	169,400,483	26,720,231	258,341,042

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

	A operations	A and B operations
Year 2021 .....	2,124,277	19,541,893
Year 2022 .....	1,868,419	18,213,469
Year 2023 .....	1,896,023	22,367,257
Year 2024 .....	1,926,902	18,335,528
Year 2025 .....	1,958,903	18,677,038
Later .....	46,025,702	180,747,752
	<u>55,800,226</u>	<u>277,882,935</u>

### Long-term liabilities A operations with B operations

	A operations	A and B operations
Balance at the beginning of the year .....	80,035	0
Payments over the year .....	( 68,561 )	0
Indexation of the year .....	602	0
	12,076	0
Next year's payments	( 8,887 )	0
	<u>3,189</u>	<u>0</u>

Estimated annual maturities of long-term liabilities to own companies are itemised as follows:

	A operations	A and B operations
Year 2021 .....	8,887	0
Year 2022 .....	3,189	0
	<u>12,076</u>	<u>0</u>

# Notes

## 46. Lease liabilities

The Real Estate Fund has made lease contracts for real estate which are recognised as liabilities, see note 22. Lease contracts are indexed.

	A operations	A and B operations
Balance at the beginning of the year	11,073,761	12,684,679
Addition over the year	941,326	994,780
Payments over the year	( 964,139 )	( 1,022,839 )
Indexation of the year	303,005	393,157
	<u>11,353,953</u>	<u>13,049,778</u>
Next year's payments	( 1,023,612 )	( 1,157,053 )
	<u>10,330,342</u>	<u>11,892,725</u>

Annual lease liabilities are specified as follows:

	A operations	A and B operations
Year 2021	1,023,612	1,157,053
Year 2022	1,049,100	1,178,689
Year 2023	1,092,414	1,191,065
Year 2024	1,089,970	1,158,972
Year 2025	1,088,124	1,155,001
Later	6,010,734	7,208,999
	<u>11,353,953</u>	<u>13,049,778</u>

Other informations about lease contracts:

	Lease term	Book value at year-end	
		A operations	A and B operations
Sports facilities	15 - 25 ár	3,894,309	3,894,309
Office buildings	2 - 22 ár	5,604,214	5,740,550
Other facilities	2 - 26 ár	1,855,431	2,794,193
Plots	10 - 99 ár	0	620,726
		<u>11,353,953</u>	<u>13,049,778</u>

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

	Sports facilities	Office buildings	Other facilities	Total
Year 2021	931,068	792,685	339,492	2,063,245
Year 2022	931,068	773,007	337,081	2,041,156
Year 2023	931,068	743,669	333,824	2,008,560
Year 2024	931,068	705,917	280,926	1,917,911
Year 2025	931,068	702,171	239,076	1,872,314
Later	2,727,670	4,681,139	2,541,952	9,950,760
Total	<u>7,383,009</u>	<u>8,398,587</u>	<u>4,072,350</u>	<u>19,853,946</u>

Total payments on lease contracts in 2020 are itemised as follows in the financial statements:

	A operations	A and B operations
Payments reducing lease liabilities	964,139	1,022,839
Interest payments	403,225	451,865
	<u>1,367,365</u>	<u>1,474,704</u>
Operating expenses	526,508	526,508
Total lease payments	<u>1,893,872</u>	<u>2,001,212</u>

# Notes

## 47. Taxes

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

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

Changes in the calculated deferred income tax assets are itemised as follows:

	Deferred tax assets	Deferred tax liabilities
Balance at the beginning of the year	4,879,759	14,909,556
Effect of special revaluation of fixed assets	0	35,298
Calculated income tax during the year	1,795,244	1,713,243
Other changes	0	114,050
Income tax payable	0	( 1,828,184 )
Balance at year-end	6,675,003	14,943,963

Deferred income tax assets and liabilities are itemised as follows in separate items in the Statement on Financial Position:

	Deferred tax assets	Deferred tax liabilities
Fixed tangible assets	788,958	15,238,120
Embedded derivatives	2,239,599	0
Other items	0	( 121,566 )
Impact of carry-forward loss	1,954,481	( 172,591 )
Provision due to uncertainty regarding utilisation	1,691,965	0
Balance at year-end	6,675,003	14,943,963

## Obligations and guarantees off the Statement of Financial Position

## 48. Operational contracts and service contracts

	Total obligations	Obligations due in 2021
--	----------------------	----------------------------

Overview of grants, contracts, asset and operational lease agreements of A operations:

City Executive Committee grants	114,410	56,910
Cultural grants	4,875,548	2,227,483
Grants and service contracts, Sports and Leisure	1,969,400	1,584,400
Grants and service contracts, Social Services	11,395,252	4,546,528
Grants and service contracts, Education and Recreation	242,387	130,111
Concert and Conference Hall	7,950,636	564,117
Operational agreements for Real Estate Fund	301,815	301,515
Operational Investment agreements for Real Estate Fund	7,416,000	5,288,000
Obligations of Reykjavik Parking Services	294,523	65,264
Contract for the purchase of a pre-school and 20 apartments under construction at Hallgerðargata	699,939	699,939
Total	35,259,910	15,464,267

Overview of contracts and other obligations of B operations off the Statement of Financial Position:

Faxaflóahafnir sf.	51,100	51,100
Félagsbústaðir hf.	1,220,000	1,220,000
Orkuveita Reykjavíkur	1,903,000	1,903,000
Total	3,174,100	3,174,100

	A operations	A and B operations
Overview of grants, contracts, property lease agreements and operation lease agreements	35,259,910	38,434,010
Overview of A operation guarantee obligations against a third party due to long term bonds	287,431	287,431
Obligations of A operation of the City of Reykjavik for B operation companies not included in the balan	98,840,926	0
	134,388,268	38,721,442

# Notes

## 49. Guarantees

Summary of guarantee obligations of Reykjavik Municipal to third parties in respect of bond loans:	<b>A operations</b>
Churches .....	287,431
Guarantee obligations of A operations against a third party .....	287,431

## 50. Liabilities

	<b>City's share in liabilities</b>	<b>A operations balance</b>
Orkuveita Reykjavíkur .....	93.5%	74,527,437
Slökkvilið höfuðborgarsvæðisins bs. ....	56.4%	122,227
Sorpa bs. ....	56.4%	1,899,772
Strætó bs. ....	56.4%	584,601
Félagsbústaðir hf. ....	100.0%	21,706,890
A-operation liabilities off the Statement of Financial Position relating to B-operation companies		98,840,926
	<b>A operations</b>	<b>A and B operations</b>
Operating- and service agreements, obligations and guarantees not included in the balance sheet, total .....	134,388,268	38,721,442

## 51. Statement of financial position at year-end

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

	<b>Share</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
Reykjavik Municipal (A operations) .....	100.0%	215,580,155	123,757,067	91,823,088
Aflvaki hf. ....	95.7%	10,808	467	10,340
Faxaflóahafnir sf. ....	75.6%	11,666,658	426,748	11,239,910
Félagsbústaðir hf. ....	100.0%	100,461,241	51,641,695	48,819,546
Íþrótt og sýningahöllin hf. ....	50.0%	1,572,049	1,199,476	372,573
Malbikunarstöðin Höfði hf. ....	100.0%	1,692,823	202,702	1,490,121
Orkuveita Reykjavíkur .....	93.5%	368,697,440	192,726,273	175,971,168
Slökkvilið höfuðborgarsvæðisins bs. ....	60.8%	1,655,892	419,978	1,235,914
Sorpa bs. ....	59.0%	5,050,519	2,593,498	2,457,020
Strætó bs. ....	60.3%	1,939,736	1,166,276	773,460
Þjóðarleikvangur ehf. ....	50.0%	549	3,074	( 2,525 )
Internal transactions .....		( 14,568,365 )	( 5,789,381 )	( 8,778,984 )
Total .....		693,759,506	368,347,874	325,411,632
Minority share .....		36,671,009	17,494,600	19,176,408
Balance according to the financial statements .....		730,430,514	385,842,475	344,588,040

## Other

## 52. Sales tax

The Property Fund is a stakeholder in the Harpa parking lot. The Parking lot is recorded with a special registration pursuant to Art. 6(4) of Act no. 50/1988 on Value Added Tax. The unpaid VAT at the end of 2020 amounted to ISK 231 million.

## 53. Transportation agreement

In October 2020 a shareholders' agreement was signed by the municipalities in the metropolitan area and the Icelandic state concerning the ownership and organisational structure of Betri samgöngur ohf. The share capital is ISK 4 million and the City of Reykjavik holds a share of 14.1%. Betri samgöngur ohf. expects to invest about ISK 52,000 million in the main roads, ISK 50,000 million in the City Line, ISK 8,000 million in thoroughfares for pedestrians and cyclists, and ISK 7,000 million in traffic control and safety. According to the agreement, it is assumed that the annual contribution of Reykjavik City will amount to approximately ISK 564 million, or a total of ISK 8,461 million over the term of the agreement.



# Notes

## 54. Litigation

The construction company Sérverk ehf. has sued the City of Reykjavik claiming a payment of ISK 120 million with accrued interest. The plaintiff's ground for action pertains to the legitimacy of a contractual fee for construction plans. The City of Reykjavik is primarily sued for repayment of overcharging the said fee but in the alternate the plaintiff requests recognition of the aforementioned fee as illegal. The district court of Reykjavik passed a sentence on 26 June in 2020 that made the City of Reykjavik acquitted of all judicial claims. Sérverk ehf appealed the sentence to the Court of Appeal, and the sentence is still pending. It can be assumed that claims against the City of Reykjavik for reimbursement of this fee may rise to significant amounts, or up to hundreds of millions ISK, which is the amount that the City of Reykjavik has made contracts for and collected since 2014.

Among other current liabilities of A and B operations are overdue derivative agreements of Reykjavik Energy with a total of ISK 740 million. The agreements have not been settled as they are the subject of ongoing litigation. In July 2020, the district court of Reykjavik passed a sentence to make Orkuveita Reykjavíkur pay the bankrupt estate of Glitnir a total of ISK 747 million in addition to paying penalty interest due to settlement of the previous derivative contracts. Based on the situation on 31.12.2020, the amount including default interest is ISK 3,238 million. The administrative staff of Orkuveita Reykjavíkur evaluated that there isn't a reason to change the precautionary reduction. The premise is that the litigation results are not available. This valuation will be revised if there is a reason to do so. The sentence doesn't agree with OR point of view in the case so the company will appeal the sentence to the Court of Appeal. The amount of money for the court in this case will not be paid until the final verdict has been made, whether it will be in the Court of Appeal or Supreme Court.

Gagnaveita Reykjavíkur (GR), a subsidiary of Reykjavik Energy, sent a claim for damages to Siminn hf. in March 2019, where the company claims to have suffered damage due to a violation of the Media Act, regarding which the Post and Telecom Administration of Iceland issued a decision on July 3, 2018. The claim amounts to ISK 1.3 billion for lost revenues, cost and interest. A formal response from Siminn was requested. The lawyers acting for Siminn replied to the aforementioned letter by a letter dated March 19, 2019, where Siminn hf. rejected the claim in its entirety. Siminn hf. filed a suit against the Post and Telecom Administration of Iceland, Gagnaveita Reykjavíkur ehf., Sýn hf. and Mila ehf. in respect of the decision of the Post and Telecom Administration of Iceland concerning the violation. Sentence was made by the district court on 1 July 2020, where the decision by the Post and Telecom Administration of Iceland was confirmed with some changes to the premise. The case was appealed to the Court of Appeal by Síminn hf., Post and Telecom Administration of Iceland and Sýn hf. and is currently pending to be handled. No entries are made in connection with this matter in the company's financial statement for 2020.

The City of Reykjavik and various B operation companies are parties to several court cases and other disputes, other than those mentioned above, which may have a financial impact for certain companies or the consolidated accounts of A and B operations.

## 55. COVID-19 Epidemic

The COVID-19 virus epidemic has had a significant impact on the economy of Iceland and of the world. The spread of the epidemic and global impact are unprecedented and have had extensive financial impact on the City of Reykjavik.

At the end of January 2020 the Emergency Board of Reykjavik was activated in order to tackle the effects of the pandemic on the operation of the City of Reykjavik. The effects are felt extensively in the fields of welfare, schools, sports, culture and environment, where operations have been either severely curtailed or shut down. Emphasis has been placed on services that are intended to continue uninterrupted pursuant to the Emergency Plan and on ensuring the health and safety of service recipients and city employees. The operation has been under considerable strain as it tries to handle a difficult situation, but on the whole the Emergency Board believes that the tasks relating to the pandemic have been well handled.

In the beginning of the pandemic the City of Reykjavik established a work group on measures to be taken in economic and financial matters due to the COVID-19 pandemic. The work group has the task of advising the Mayor, the City Council and the Emergency Board concerning measures against the economic consequences of the COVID-19 pandemic and of presenting proposals for an action plan in this regard.

Since the beginning of the pandemic the work group has been working on, and setting up, scenarios on the potential financial and economic effects of the pandemic on the City of Reykjavik and on presenting them to the City Board. The scenario analysis is part of the City's active risk management and will be submitted in preparation for the city's response to the financial risks in its operation. Special focus has been placed on the years 2020 and 2021 and on assessing the impact on operation and cash flow for the short and long term. The City of Reykjavik's first economic action for the Covid-19 Epidemic was presented and unanimously approved by the City Council on March 26, 2020.

The Covid-19 epidemic has been longer than initial projections indicated. A new Covid-19 wave began in October 2020 and continued into the year 2021. In the beginning of December 2020, news of vaccines began to travel in Iceland which increased the optimism of ending the epidemic in the second part of the year 2021. The economic effect will still rely on how quick we'll be able to vaccinate everybody domestically and overseas. In preparing the budget for the years 2021 to 2025, the scenario analysis was revised with the long-term evolution of the Covid-19 epidemic taken into consideration. At that time it wasn't clear what the effects of the Icelandic government's actions would have on the 2020 settlement or the effects from the positive vaccination news. The financial development of the city A-operation was slightly better than it was expected to be. The reason for that can be traced to the government's actions towards the employment with the reduced employment ratio, labour market measures and with family and welfare issue measures.

The recession because of Covid-19 and the negative evolution of the economic circumstances, had a impact on Reykjavik's City operations. The ISK has weakened by 11% so far this year, and has led to a charge total of ISK 4.6 billion because of the exchange rate difference at OR. The income of Strætó, Faxaflói harbour, Sorpa and A-operation of Reykjavíkurborg, decreased considerably. Reykjavik City expenses were way more than budget predicted because of the Covid-19 actions.

The capital position of the City of Reykjavik is strong, and the City of Reykjavik has the financial strength to absorb significant shocks resulting from the consequences of the pandemic. The Icelandic Parliament has passed an Act enabling the municipalities to tackle the problem in the short and medium term by providing a slack in the financial rules laid down in the Act on Local Authorities no. 138/2011 until the year 2025.

# Notes

## 56. Related parties

Principal and alternate members of the City Council, as well as the Mayor and his deputies, 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. In addition, companies subject to the control of the above parties are also considered related parties.

The municipality has engaged in business with related parties during the year. Business with related parties included normal services provided by the Municipality and public charges levied on related parties. Other business conducted between the Municipality and related parties involves contracts on purchases of goods or services. 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. Also, related parties are prohibited in accordance with agreed codes of ethics from taking advantage of their positions for the benefit of their own personal interests or those of their related parties.

## 57. Top management salaries

Mayor and deputies	Wages	Contribution
Mayor .....	24,677	1,375
Mayor's First Deputy, Chief Executive Officer .....	24,186	0
Mayor's Second Deputy, Chief Legal Counsel .....	22,113	0
<b>Salaries of elected representatives</b>		
Executive Committee Chairman .....	15,538	687
City Council President .....	16,394	687
Elected representatives .....	262,715	13,118
Elected deputy councillors .....	87,580	6,414
Committee members .....	73,134	4,876
Top management salaries, total .....	526,337	27,158

## 58. Events after the day of reporting

Reykjavik Energy is responsible for the construction by Suðurgata which includes the renewal of pipelines. On the eve of January 21st, the main water pipe fell apart and the water flowed into the buildings of University of Iceland. The damage has been reported to the insurance company of Reykjavik Energy, consultants and contractors. The damage valuation has not taken place nor the valuation of liability. Reykjavik Energy has a free liability insurance which covers liability risk which falls on the company. The terms of the insurance recommend about ISK 5 million deductible and after that a 50% of damage's cost. The limit of the insurance is ISK 300 million.

# Notes

## 59. Comparison of operating budgets

The overview below explains the operating budget for 2020 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.

	Reykjavík Municipal A operations			Reykjavík Group A and B operations		
	2020 Original Budget	2020 Annexes to Budget	2020 Original Budget with annexes	2020 Original Budget	2020 Annexes to Budget	2020 Original Budget with annexes
<b>Operating revenue</b>						
Tax revenues.....	105,502,531	0	105,502,531	104,796,860	0	104,796,860
Contributions to Municipal Equalisation Fund.....	8,079,679	0	8,079,679	8,079,679	0	8,079,679
Other revenues.....	21,583,995	294,341	21,878,336	89,117,305	294,341	89,411,646
	<u>135,166,205</u>	<u>294,341</u>	<u>135,460,546</u>	<u>201,993,845</u>	<u>294,341</u>	<u>202,288,186</u>
<b>Operating expenses</b>						
Wage cost and wage-related expenses.....	74,673,960	(71,861)	74,602,100	91,597,052	(71,861)	91,525,191
Changes in pension obligations.....	2,958,000	392,000	3,350,000	2,958,000	392,000	3,350,000
Other operating expenses.....	48,874,938	987,595	49,862,533	63,196,323	987,595	64,183,918
Depreciation.....	5,628,251	0	5,628,251	19,366,626	0	19,366,626
	<u>132,135,149</u>	<u>1,307,734</u>	<u>133,442,884</u>	<u>177,118,001</u>	<u>1,307,734</u>	<u>178,425,735</u>
Operating result before financial items.....	3,031,055	(1,013,393)	2,017,662	24,875,844	(1,013,393)	23,862,450
Financial income and (financial expenses).....	(500,779)	0	(500,779)	(11,547,515)	0	(11,547,515)
Operating result before tax .....	2,530,277	(1,013,393)	1,516,883	13,328,328	(1,013,393)	12,314,935
Income tax.....	0	0	0	(1,921,318)	0	(1,921,318)
Changes in valuation of investment properties.....	0	0	0	1,484,391	0	1,484,391
Share in associated companies' operating results.....	0	0	0	1,000	0	1,000
<b>Operating result.....</b>	<u>2,530,277</u>	<u>(1,013,393)</u>	<u>1,516,883</u>	<u>12,892,402</u>	<u>(1,013,393)</u>	<u>11,879,008</u>

# Notes

## 60. Comparison of cash flow budgets

The overview below shows the cash flow budget for 2020 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.

	Reykjavík Municipal A operations			Reykjavík Group A and B operations		
	2020 Original Budget	2020 Annexes to Budget	2020 Original Budget with annexes	2020 Original Budget	2020 Annexes to Budget	2020 Original Budget with annexes
<b>Cash flows from operating activities</b>						
Operating result .....	2,530,277	(1,013,393)	1,516,883	12,892,402	(1,013,393)	11,879,008
Adjustments not affecting cash flow:						
Profit from sales of assets .....	(4,995,423)	0	(4,995,423)	(4,995,423)	0	(4,995,423)
Depreciation.....	5,628,251	0	5,628,251	19,366,626	0	19,366,626
Indexation, discounts and translation diff. ....	1,185,595	0	1,185,595	4,858,084	0	4,858,084
Embedded derivatives, change .....	0	0	0	(513,834)	0	(513,834)
Value adjustment of investment properties.....	0	0	0	(1,484,391)	0	(1,484,391)
Impact of subsidiaries and minority interests .....	0	0	0	(1,000)	0	(1,000)
Changes in pension obligations.....	3,350,000	0	3,350,000	3,383,044	0	3,383,044
Changes in deferred income tax liability.....	0	0	0	263,619	0	263,619
<b>Working capital provided by operating activities</b>	<b>7,698,699</b>	<b>(1,013,393)</b>	<b>6,685,306</b>	<b>33,769,126</b>	<b>(1,013,393)</b>	<b>32,755,734</b>
Changes in operating assets and liabilities:						
Inventories, decrease (increase).....	0	0	0	(20,000)	0	(20,000)
Unrecovered revenues, decrease (increase) .....	(0)	0	0	(120,140)	0	(120,140)
Current receivables, decrease (increase) .....	50,000	0	50,000	21,183	0	21,183
Current liabilities, increase (decrease).....	(2,600,000)	(0)	(2,600,000)	(2,600,000)	(0)	(2,600,000)
Contribution to pension obligations.....	384,445	0	384,445	390,474	0	390,474
<b>Changes in operating assets and liabilities</b>	<b>(2,165,556)</b>	<b>0</b>	<b>(2,165,555)</b>	<b>(2,328,483)</b>	<b>0</b>	<b>(2,328,483)</b>
<b>Net cash provided by operating activities</b>	<b>5,533,144</b>	<b>(1,013,392)</b>	<b>4,519,751</b>	<b>31,440,643</b>	<b>(1,013,392)</b>	<b>30,427,251</b>
<b>Investment activities</b>						
Investments in fixed tangible assets.....	(19,550,730)	(2,030,000)	(21,580,730)	(40,450,518)	(2,030,000)	(42,480,518)
Investments in investment assets .....	0	0	0	(5,186,134)	0	(5,186,134)
Investments in intangible assets .....	0	0	0	(800,000)	0	(800,000)
Paid road construction fees .....	3,343,500	0	3,343,500	3,343,500	0	3,343,500
Sales of building rights.....	4,399,596	0	4,399,596	4,399,596	0	4,399,596
Proceeds from sale of fixed tangible assets.....	595,827	0	595,827	783,727	0	783,727
Share holdings, change .....	(1,694,300)	(281,700)	(1,976,000)	(1,080,300)	(0)	(1,080,300)
Short-term financing, change .....	0	(995,000)	(995,000)	0	(995,000)	(995,000)
Long-term receivables, change.....	3,231,752	0	3,231,752	2,096,971	0	2,096,971
<b>Investment activities</b>	<b>(9,674,355)</b>	<b>(3,306,700)</b>	<b>(12,981,055)</b>	<b>(36,893,158)</b>	<b>(3,025,000)</b>	<b>(39,918,158)</b>
<b>Financing activities</b>						
Capital contributions from state .....	0	0	0	198,876	0	198,876
New long-term borrowings.....	6,000,000	4,000,000	10,000,000	24,028,648	4,000,000	28,028,648
Repayment of long-term borrowings.....	(1,667,410)	(0)	(1,667,410)	(17,594,991)	(0)	(17,594,991)
Payments on lease liabilities .....	(915,892)	0	(915,892)	(915,892)	0	(915,892)
Derivative contracts paid .....	0	0	0	(115,245)	0	(115,245)
Paid-in capital .....	0	0	0	0	0	0
Short-term borrowings, change .....	0	0	0	95,763	0	95,763
Dividends paid .....	0	0	0	(207,180)	0	(207,180)
Other activities.....	0	(0)	0	0	(0)	0
<b>Financing activities</b>	<b>3,416,699</b>	<b>3,999,999</b>	<b>7,416,698</b>	<b>5,489,979</b>	<b>3,999,999</b>	<b>9,489,979</b>
<b>Increase (decrease) in cash and cash equivalents.....</b>	<b>(724,513)</b>	<b>(320,093)</b>	<b>(1,044,606)</b>	<b>37,464</b>	<b>(38,393)</b>	<b>(929)</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>7,922,463</b>	<b>0</b>	<b>7,922,463</b>	<b>25,976,122</b>	<b>(3,981,342)</b>	<b>21,994,780</b>
<b>Effect of currency fluctuations on cash.....</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at year-end.....</b>	<b>7,197,950</b>	<b>(320,093)</b>	<b>6,877,857</b>	<b>26,013,586</b>	<b>(4,019,735)</b>	<b>21,993,851</b>

# Notes

## 61. Financial ratios

Overview of financial ratios:

### Ratio of operating income:

	Reykjavík Municipal A operations		Reykjavík Group A and B operations	
	2020 Financial Statements	2020 Budget with annexes	2020 Financial Statements	2020 Budget with annexes
Municipal income tax .....	62.8%	61.3%	42.3%	41.0%
Property taxes .....	17.1%	16.6%	11.2%	10.8%
Total tax revenues .....	79.9%	77.9%	53.5%	51.8%
Contribution from Municipal Equalisation Fund .....	6.2%	6.0%	4.2%	4.0%
Other revenues .....	13.9%	16.2%	42.3%	44.2%
Total operating revenues .....	100.0%	100.0%	100.0%	100.0%
Wage cost and wage-related expenses .....	59.3%	55.1%	48.8%	45.2%
Increase in pension obligations .....	2.6%	2.5%	1.8%	1.7%
Other operating expenses .....	38.1%	36.8%	32.1%	31.7%
Total operating expenses .....	100.0%	94.4%	82.6%	78.6%
Contribution margin (EBITDA) .....	( 0.0%)	5.6%	17.4%	21.4%
Depreciation .....	4.6%	4.2%	10.8%	9.6%
Operating result before financial income (expenses) .....	( 4.6%)	1.5%	6.6%	11.8%
Financial income and (expenses) .....	0.1%	( 0.4%)	( 8.8%)	( 5.7%)
Income tax .....	0.0%	0.0%	0.0%	( 0.9%)
Value adjustment of investment properties .....	0.0%	0.0%	0.9%	0.7%
Effects of minority interest and subsidiaries .....	0.0%	0.0%	( 0.2%)	0.0%
Operating results .....	( 4.5%)	1.1%	( 1.4%)	5.9%
Working capital provided by operations .....	4.0%	4.9%	14.1%	16.2%
Investments in fixed tangible assets .....	( 12.1%)	( 15.9%)	( 21.2%)	( 24.0%)
Total liabilities and obligations .....	96.2%	-	202.1%	-

### In ISK thousand per inhabitant:

#### Operations:

Tax revenue .....	755	775	749	770
Contributions from Municipal Equalisation Fund .....	59	59	59	59
Other revenue .....	131	161	594	657
Total operating revenue .....	945	995	1,402	1,485
Wage cost and wage-related expenses .....	( 585 )	( 572 )	( 708 )	( 697 )
Other operating expenses and depreciation .....	( 403 )	( 407 )	( 602 )	( 614 )
Financial income and (expenses) .....	1	( 4 )	( 124 )	( 85 )
Other .....	0	0	11	( 3 )
Operating result .....	( 43 )	11	( 20 )	91

#### Cash flow:

Working capital provided by operating activities .....	37	49	198	241
Cash and cash equiv. provided by operating activities .....	8	33	168	223

	A operation		A and B operations	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
<b>Other ratios:</b>				
Current ratio - curr. assets/curr. liabilities	1.28	1.17	1.24	1.14
Equity ratio - equity/total assets .....	0.43	0.47	0.47	0.50
<b>Population (source: Statistics Iceland):</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Population on 1 December .....	136,181	131,146	128,724	126,109
Change from previous year .....	5,035	2,422	2,615	1,484

# Notes

## 62. Reykjavík Municipal financial ratios

Summary of Reykjavík Municipal financial ratios over the past 5 years:

5 years:	2020 Budget with annexes	Financial Statements				
		2020	2019	2018	2017	2016
<b>Financial thresholds according to Local Government Act</b>						
Operating result for the last three years in ISK million .....	-	241	11,055	12,334	( 6,027 )	( 13,830 )
Liabilities thresholds.....	-	56%	52%	49%	44%	49%
Total liabilities and obligations - debt ratio .....	-	95%	91%	90%	85%	83%
<b>Other ratios:</b>						
Long-term liabilities and obligations in proportion to working capital provided by operations (in years) .....	13.01	19.82	7.40	6.39	8.76	6.35
Equity ratio - equity/total assets .....	42%	43%	47%	47%	46%	48%
Working capital provided by operations in proportion to payment of liabilities .....	2.59	1.82	4.85	5.07	4.11	5.30
Current asset ratio - current assets/current liabilities .....	0.86	1.28	1.17	1.23	1.29	1.57
<b>As a ratio of operating revenue:</b>						
Tax revenue .....	77.9%	79.9%	80.5%	77.4%	73.4%	76.0%
Contributions from Municipal Equalisation Fund .....	6.0%	6.2%	6.1%	6.2%	6.2%	6.7%
Other revenue .....	16.2%	13.9%	13.4%	16.5%	20.4%	17.4%
Total operating revenue .....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Wage cost and wage-related expenses .....	55.1%	59.3%	55.3%	52.7%	52.7%	51.3%
Increase in pension obligations .....	2.5%	2.6%	2.6%	3.9%	6.0%	5.0%
Other operating expenses .....	36.8%	38.1%	37.1%	34.9%	33.3%	36.4%
Depreciation .....	4.2%	4.6%	4.3%	4.1%	4.0%	4.5%
Total operating expenses .....	98.5%	104.6%	99.2%	95.7%	96.1%	97.2%
Operating result before financial items .....	1.5%	( 4.6%)	0.8%	4.3%	3.9%	2.8%
Financial income and (expenses) .....		0.0%	0.0%	0.0%	0.0%	0.0%
Operating result (negative) .....	1.1%	( 4.5%)	1.1%	3.9%	4.3%	2.6%
Contribution margin (EBITDA) .....	5.6%	0.0%	5.1%	8.4%	7.9%	7.3%
Working capital provided by operations .....	4.9%	4.0%	10.1%	11.5%	8.0%	10.9%
Investments in fixed tangible assets .....	( 15.9%)	( 12.1%)	( 13.0%)	( 16.2%)	( 13.3%)	( 9.4%)
<b>In ISK thousand per inhabitant</b>						
<b>Operation:</b>						
Tax revenue .....	792	772	757	720	674	620
Contributions from Municipal Equalisation Fund .....	61	60	57	57	57	54
Other revenue .....	164	134	126	153	187	142
Total operating revenue .....	1,017	966	941	931	918	817
Wage cost and wage-related expenses .....	( 560 )	( 573 )	( 520 )	( 491 )	( 484 )	( 419 )
Increase in pension obligations .....	( 25 )	( 25 )	( 24 )	( 37 )	( 56 )	( 41 )
Other operating expenses and depreciation .....	( 417 )	( 413 )	( 389 )	( 363 )	( 343 )	( 333 )
Financial income and (expenses) .....	( 4 )	1	3	( 4 )	4	( 2 )
Operating result (negative) .....	11	( 44 )	10	37	39	21
<b>Cash flow:</b>						
Working capital provided by operations .....	50	38	95	107	73	89
Cash and cash equivalents provided by operations .....	34	8	84	96	( 8 )	53
Investments in fixed tangible assets .....	( 162 )	( 117 )	( 122 )	( 150 )	( 122 )	( 77 )
<b>Balance Sheet:</b>						
Assets .....	1,403	1,619	1,600	1,588	1,460	1,301
Equity .....	595	689	745	748	678	621
Liabilities .....	808	929	856	840	782	680
<b>Tax rates:</b>						
Municipal income tax .....	14.52%	14.52%	14.52%	14.52%	14.52%	14.52%
Property tax, class A .....	0.18%	0.18%	0.18%	0.18%	0.20%	0.20%
Property tax, class B .....	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%
Property tax, class C .....	1.65%	1.65%	1.65%	1.65%	1.65%	1.65%
<b>Population (source: Statistics Iceland):</b>						
Population on 1 December .....	133,181	133,181	131,146	128,724	126,109	123,133
Change from previous year .....		2,035	2,422	2,615	2,976	681
Change from previous year (ratio) .....		1.6%	1.9%	2.1%	2.4%	0.6%

# Notes

## 63. Reykjavík Group financial ratios

Summary of Reykjavík Group  
financial ratios over the past 5 years:

Summary of Reykjavík Group financial ratios over the past 5 years:		2020 Budget with annexes	Financial Statements				
			2020	2019	2018	2017	2016
<b>Financial thresholds according to Local Government Act</b>							
Operating result for the last three years in ISK million .....	*	-	8,778	27,493	35,246	18,442	7,806
Liabilities thresholds less Orkuveita Reykjavíkur (OR).....	*	-	88%	79%	73%	67%	71%
Total liabilities and obligations. - debt ratio less OR .....	-	-	126%	119%	114%	108%	107%
<b>Other ratios:</b>							
Long-term liabilities and obligations in proportion to working capital provided by operations (years) .....		10.42	12.26	8.18	6.58	7.49	7.16
Equity ratio - equity/total assets .....		49%	47%	50%	49%	49%	46%
Working capital provided by operations in proportion to payment of liabilities .....		1.55	1.33	1.68	1.70	2.04	1.92
Current asset ratio - current assets/current liabilities .....		1.00	1.24	1.14	1.12	1.10	1.13
<b>As a ratio of operating revenue:</b>							
Tax revenue .....		51.8%	53.5%	53.3%	51.2%	48.9%	48.8%
Contributions from Municipal Equalisation Fund .....		4.0%	4.2%	4.0%	4.1%	4.2%	4.3%
Other revenue .....		44.2%	42.3%	42.7%	44.7%	47.0%	46.9%
Total operating revenue .....		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Wage cost and wage-related expenses .....		45.2%	48.8%	45.0%	42.8%	43.5%	40.8%
Increase in pension obligations .....		1.7%	1.8%	1.8%	2.7%	4.1%	3.3%
Other operating expenses .....		31.7%	32.1%	32.0%	30.2%	29.5%	32.1%
Depreciation .....		9.6%	10.8%	10.3%	9.3%	8.7%	10.5%
Total operating expenses .....		88.2%	93.4%	89.0%	84.9%	85.8%	86.6%
Operating result before financial items .....		11.8%	6.6%	11.0%	15.1%	14.2%	13.4%
Financial income and (expenses) .....		( 5.7%)	( 8.8%)	( 6.9%)	( 10.1%)	1.2%	0.6%
Other .....		( 0.2%)	0.8%	2.4%	2.4%	1.7%	3.8%
Operating result (negative) .....		5.9%	( 1.4%)	6.4%	7.4%	16.2%	17.0%
Contribution margin (EBITDA) .....		21.4%	17.4%	21.3%	24.3%	22.9%	23.8%
Working capital provided by operations .....		12.1%	14.1%	19.5%	23.1%	19.3%	22.0%
Investments in fixed tangible assets .....		( 19.6%)	( 18.2%)	( 23.5%)	( 20.7%)	( 21.6%)	( 15.6%)
<b>In ISK thousand per inhabitant</b>							
<b>Operation:</b>							
Tax revenue .....		787	766	752	715	670	616
Contributions from Municipal Equalisation Fund .....		61	60	57	57	57	54
Other revenue .....		671	607	603	625	644	593
Total operating revenue .....		1,519	1,434	1,412	1,398	1,371	1,263
Wage cost and wage-related expenses .....		( 687 )	( 699 )	( 635 )	( 599 )	( 596 )	( 515 )
Increase in pension obligations .....		( 25 )	( 25 )	( 25 )	( 37 )	( 56 )	( 42 )
Other operating expenses and depreciation .....		( 627 )	( 615 )	( 597 )	( 551 )	( 525 )	( 537 )
Financial income and (expenses) .....		( 87 )	( 126 )	( 98 )	( 141 )	16	7
Other .....		( 3 )	12	33	34	24	48
Operating result (negative) .....		89	( 21 )	91	104	234	225
<b>Cash flow:</b>							
Working capital provided by operations .....		184	202	276	323	265	278
Cash and cash equivalents provided by operations .....		170	172	276	268	178	249
Investments in fixed tangible assets .....		( 298 )	( 261 )	( 332 )	( 290 )	( 296 )	( 197 )
<b>Balance Sheet:</b>							
Assets .....		4,371	5,484	5,253	4,984	4,621	4,349
Equity .....		2,123	2,587	2,622	2,464	2,263	1,990
Liabilities .....		2,248	2,897	2,631	2,520	2,358	2,359
<b>Tax rates:</b>							
Municipal income tax .....		14.52%	14.52%	14.52%	14.52%	14.52%	14.52%
Property tax, class A .....		0.18%	0.18%	0.18%	0.18%	0.20%	0.20%
Property tax, class B .....		1.32%	1.32%	1.32%	1.32%	1.32%	1.32%
Property tax, class C .....		1.65%	1.65%	1.65%	1.65%	1.65%	1.65%
<b>Population (source: Statistics Iceland):</b>							
Population on 1 December .....		133,181	133,181	131,146	128,724	126,109	123,133
Change from previous year .....			2,035	2,422	2,615	2,976	698
Change from previous year (ratio) .....			1.6%	1.9%	2.1%	2.4%	0.6%

\* With article 13 of act no. 25/2020 and article 2 of act no. 22/2021, the parliament has set aside the financial rules of the local governments in the provision of the article no. 64 of the local government act until the end of the year 2025.

# Statement on governance and non-financial information

## Statement on governance and non-financial information

The City council of Reykjavik places great emphasis on maintaining good governance. The governance of the municipality is subject to the provisions of the Act on Local Authorities no. 138/2011 with amendments and resolution no. 1020/2019 on the governance of Reykjavik and points of order, with amendments. The city of Reykjavik has registered bonds in the Iceland Stock Exchange and is therefore subject to rules on issuers of financial instruments, issued by the Iceland Stock Exchange.

The form of the declaration of governance 2020 takes into consideration Guidelines for corporate governance issued by the Icelandic Chamber of Commerce, Nasdaq Iceland hf., and the Confederation of Icelandic Enterprise in May 2015. The City of Reykjavik does however deviate partially from the guidelines, especially where the contents of the guidelines do not apply to municipalities.

## The mission of Reykjavík

The mission of Reykjavik is to provide quality services for the people of Reykjavik in the most economical way possible and lay the foundations for increased quality of life for the people of the City for the long and the short term. In accordance with the Act on Local Authorities no. 138/2011 municipalities are independent governments, governed by local councils democratically elected by the residents of the municipality. The municipality handles the tasks assigned to it under the Act, e.g. educational policies, social services, youth and sport affairs, cultural affairs, sanitation, planning affairs and environmental affairs. It moreover abides by the requirements made to its operation under other laws, e.g. the Administrative Procedures Act, the Act on Equal Rights of Women and Men, and the Act on Public Procurement.

Section B of the City of Reykjavik grants services to companies and the public inter alia in the field of utilities, harbors, social housing, waste disposal, fire prevention, and public transport.

No serious deviations have been reported by any supervisory body or public reviewers in regards to the municipality's operation relating to environmental, social and human resource issues, human rights issues, or corruption and bribery issues.

## Laws, regulations and guidelines

The City of Reykjavik operates under the Act on Local Authorities no. 138/2011. The City's obligations are moreover subject to laws and regulations that apply to the City's operations and services in specific fields. An overview of legitimate tasks of municipalities and references to the applicable laws can be found on the website of the Government of Iceland.

The City of Reykjavik has adopted resolutions and general internal rules on the governance of the City and by fields, a list of which can be found on the City's website, [www.reykjavik.is](http://www.reykjavik.is). The main solutions and internal rules are the following:

- Resolution on the governance of the City of Reykjavik and points of order for the City Council with amendments.
- Resolution of the cultural, sports and recreation council
- Resolution of the Council for human rights, innovation and democracy.
- Resolution of the Council for education and leisure issues
- Resolution of the Council for planning and transport issues
- Resolution of the Council for environmental and health issues
- Resolution of the Council for welfare issues
- Resolution on wages and working facilities of elected officials
- Rules on the registration of financial interests of City Council members and confidentiality positions outside the City Council
- Code of ethics for elected officials for the City of Reykjavik
- Code of ethics for employees of the City of Reykjavik
- Rules on grants awarded by the City of Reykjavik
- Procurement rules for the City of Reykjavik
- Rules on the preparation of the City budget
- Rules on City treasury
- Rules on collections
- Working procedure for the Audit board

The City of Reykjavik has implemented a policy across the board which is to be found on the City's website. The main policies are:

- Housing policy
- Equal pay policy
- Human resource policy
- Human rights policy
- Personal data policy
- Information safety policy
- Service policy



# Statement on governance and non-financial information

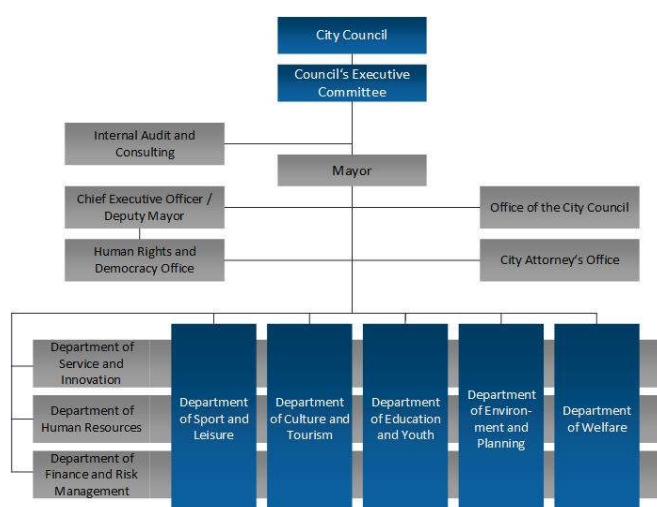
The City of Reykjavik has moreover implanted policies in various fields, also to be found on the City's website. The main policies are:

- Policies in the field of sports and recreation
- Policies in the field of culture and tourism
- Policies in the field of school and recreation
- Policies in the field of environmental and planning affairs
- Policies in the field of welfare

The City of Reykjavik has moreover implemented owner policies for section B companies, inter alia for Félagsbústaðir hf., Harpa – Tónlistar- og ráðstefnuhús ohf., SORPA bs., Strætó bs., and Reykjavik Energy.

## City of Reykjavik's form of government

The form for section A of Reykjavik was changed in 2019 and a new organization chart came into effect on June 1. Three new core fields were established that are responsible for tasks in the field of finance and risk management, human resources and work development, and service and innovation and their coordination across the City's working fields.



## City Council

The City Council operates pursuant to chapter II of the Act on Local Authorities no. 138/2011 and Resolution on the governance of the City of Reykjavik and points of order for the City Council no. 1020/2019, cf. Art. 9 of the Act. The mission and sphere of activity of the City Council according to Art. 8 of the Act on Local Authorities is to govern the City of Reykjavik pursuant to the provisions of the Act on Local Authorities and other Acts.

The City Council has the power of decision in regards to the utilization of the city's sources of income and the execution of the tasks handled by the municipality. It shall ensure that all provisions of the Act on Local Authorities and regulations and resolutions of the city are adhered to. The City Council can moreover make resolutions on any issue it deems to concern the City of Reykjavik.

The City Council has twenty-three City Council members and the same number of reserve members, all of whom are elected democratically by the residents of the municipality in accordance with the Act on Municipal Elections. The City Council elects a president for the City Council and four vice presidents from the group of council members for a duration of one year. The City Council elects from its members seven primary members for the City Board for a duration of one year and the same number of reserve members. The City Council elects a chairman and vice chairman for the City Board from its elected members. Information on elected members of the City Council, confidentiality positions for the City Council and their financial interests are to be found on the City's website.

The number of City Council members and representatives in committees, councils and boards on behalf of the City is determined by the provisions of the Act on Local Authorities and in the Resolution on the governance of the City of Reykjavik and points of order for the City Council, published in the Government Gazette and can be found there and on the City's website. The City's website also contains information on the members of individual committees, councils and boards.

Item 2 of Art. 44 of the Act on Local Authorities states a rule on gender ratio in committees appointed by the City. The Municipality adheres to these rules when appointing committee members. In regards to the City Council the composition of councilmembers is decided by the composition on the ballots and election results. The City Council currently has members of eight political parties, 14 women and 9 men, with diverse backgrounds and educations.

# Statement on governance and non-financial information

In 2020 there were 20 City Council sessions, including one session with the Youth Reykjavik Council.

## City Board

The City Board has, along with the Mayor, the executive power for the City of Reykjavik and the financial management, to the extent that these powers are not delegated to others. The Board handles the administration of the City and its financial management specifically, prepares the City budget and addendums to it and presents it before the City Council. The City Board is responsible for the City's annual statements being prepared in accordance with rules and that they, along with the annual statements of institutions and companies on behalf of the City, are presented before the City Council for processing in accordance with the Act on Local Authorities. The City Board has the power of final decision on issues that do not concern major financial impacts for the city treasury or its institutions, provided that there is no disagreement within the Board or with the Mayor.

The City Board has seven City Council members elected by the council. A political party that has representatives on the City Council, but not on the City Board, may nominate a City Council member to sit in on the Board's sessions with the right to speak and make proposals. There are currently three audience members on the City Board.

In 2020 there were 42 sessions of the City Board.

## Mayor

The Mayor of Reykjavik is the top superior of all employees of the City of Reykjavik. The Mayor is hired by the City Council and may be a member of the City Council. If he is a member of the City Council he is also bound by his obligation as such. The Mayor is the Chief Executive Officer for the City of Reykjavik, the City's official representative and the political leader of the majority. He is the authorized signatory for the City treasury. He signs documents concerning the purchase and sale of City real estate, loans and other obligations as well as any measures that require the approval of the City Council. The Mayor may, with the City Council's approval, grant authorized signatory to other employees of the City. The Mayor manages the City's stake in section B companies.

The Mayor of Reykjavik is Dagur B. Eggertsson, member of the City Council.

## Internal control, risk management and auditing

The City Council is responsible for maintaining an active system of internal control of the City's operation and that it is formal, documented and verified on a regular basis. The internal control shall be suited to confirming that; the municipality achieves success and efficiency in its operation, in accordance with the municipality's goals; reliability and validity of financial information given to external parties and that all laws and regulations that apply to the operation are adhered to. The structure of Reykjavik's internal control is based on the COSO framework, which is an internationally recognized framework for internal control.

## Risk management

Risk management is an integrated process that aims to control and run the operation of a company or a municipality with regards to risk. Risks in the operation of the City of Reykjavik may relate to the environment, processes, internal organization and governance.

Risk management is a networked responsibility of the daily operation of the City and a regular part of individual fields' operations is to supervise certain risk factors and thus ensure a continuance of operation and minimize risk.

With a new organizational chart, that came into effect on June 1, 2019, and the establishment of a new financial- and risk management department, a policy has been formed regarding a comprehensive risk management for the City's operation. This entails that the main risks are identified and assessed in a standardized fashion for all main processes of the City and other factors that are considered important to achieve goals in the field of operation and service. A new office of risk management in the field of finance- and risk management has been strengthened and preparation has begun for forming a risk policy and the adoption of a comprehensive risk management.

In regards to financial risk management references made to the provisions of chapter VII of the Act on Local Authorities, i.e. on the power of financial management, binding decision on the annual budget, responsible management of funds, major investments and obligations and limitations concerning hypothecation and guarantees. The City of Reykjavik acts in accordance with the Act on Local Authorities in this regard.

The financial- and risk management department submitted with the quarter annual statements before the City Council in 2019 risk reports with an assessment of the development of main economic factors and the premises for the budget. The department moreover evaluates the main risks in the operation and presents them in a report attached to the budget, as well as preparing thorough scenarios as required when evaluating the main economic factors and their impact on the City's operation.

In order to ensure that the municipal account statements are in accordance with the Act on Local Authorities and the current accounting rules, the municipality has emphasized well defined areas of responsibility, proper distinction of jobs, regular reporting and clear operating procedures and processes that are maintained in a special operating manual accessible to the City's employees.

# Statement on governance and non-financial information

Monthly reporting, along with scrutinization of the operation of departments and institutions, is an important factor of supervision and adherence with the approved budget. The financial- and risk management department prepares thorough monthly and quarterly statements and presents them before the City Council.

## Audit Board

The Audit Board of the City of Reykjavik operates under the City Council pursuant to chapter IX of Act no. 3/2006 on Annual Statements and works on the basis of the Resolution on the governance of the City of Reykjavik and points of order for the City Council no. 1020/2019 and pursuant to law. The Audit Board has four appointed representatives, three appointed by the City Council and one appointed pursuant to a nomination made by the board of Reykjavik Energy. The members of the board are: Lárus Finnbogason, chartered accountant, chairman, Sigrún Guðmundsdóttir, chartered accountant, Sunna Jóhannsdóttir, business administration, as well as Einar S. Hálfðánarson, District Court Lawyer and chartered accountant. A resolution made by the City Council regarding the Audit Board is to be found on the City's website.

## Internal Auditing

Internal Auditing handles the City's financial and administrative auditing with the authority of the City Council. This entails that Internal Auditing evaluates and improves risk management, supervisory methods and governance of institutions and companies in which the City is a majority shareholder. The operating procedure of Internal Auditing, approved by the City Council, is accessible on the City's website. On February 27, 2020, the City Council approved to merge the operation of Internal Auditing of Reykjavik City, the operation of the City's ombudsman and the job of Data Protection Representative, with the goal of simplifying and simultaneously strengthen the operation and organization of the parties that supervise the operation and administration of the City of Reykjavik. The merger comes into effect on June 1, 2020 and the merged operation will be under the management of the Internal Auditor. Hallur Símonarson is the Internal Auditor for Reykjavik.

## Social responsibilities and code of ethics

Code of ethics and proper procedure is addressed in Art. 29 of the Act on Local Authorities. The code of ethics for elected officials was approved on June 18, 2019 and is accessible on the City's website. The code of ethics for employees was approved on October 22, 2009.

Social responsibilities are addressed in the policies of the City of Reykjavik, inter alia in the environmental- and resource and climate policy. Emphasis is placed on ensuring the quality of life of current and future residents by appreciating the value entailed in service to nature and clean environment. The City of Reykjavik places emphasis on sustainable exploitation of resources and the policy will be enforced in the following nine fields: Resources, transportation, planning, quality of the environment, climate, education for sustainability, nature and outdoor activities, consumption and waste, and the operation of the City of Reykjavik.

In 2018 the green framework of the City of Reykjavik was approved, which is presented in accordance with the international standards of the ICMA, the International Capital Market Association, so called Green Bond Principle, with reference to the sustainability benchmark of the United Nations. The Green framework is based on four pillars; (i) definition of green task groups; (ii) selection process of green projects, (iii) handling of funds and (iv) reporting to investors. According to the assessment of CICERO (Center for International Climate Research) which gives independent opinions of the framework, gave Reykjavik's green framework the top score, "dark green", and all sub-categories and projects are thus given the "dark green" score. Special attention is given to the administrative arrangement, which also gets the top score "excellent".

In 2019 a green framework was moreover approved for Reykjavik Energy and the first green bonds were issued in June 2019. CICERO has given an independent assessment of the framework and gives it the top score, "dark green", for the positive impact of the projects and "excellent" for the casing of the bonds by the company.

Félagsbústaðir has issued a framework for social bonds pursuant to international standards of the ICMA, the so called Social Bond Principle. The framework has received a certification from Sustainalytics, an independent certifier. The certificate states inter alia that the framework of Félagsbústaðir is solid, trustworthy and impressive, and that it conforms to all four main factors of international standards for social bonds. The first social bonds were issued in November 2019.

The City of Reykjavik is a member of Festi, an association for social responsibilities.

# Statement on governance and non-financial information

## Non-financial information

Pursuant to the Act on Local Authorities no. 138/2011 municipalities are independent authorities, governed by local councils democratically elected by the residents of the municipality. The Municipality manages the tasks entailed to it under the Act, inter alia in regards to education affairs, social services, youth and sports affairs, cultural affairs, sanitation affairs, planning affairs, and environmental affairs. It moreover abides by the requirements made to its operation under other laws, e.g. the Administrative Procedures Act, the Act on Equal Rights of Women and Men, and the Act on Public Procurement.

Information on court cases directed against the City of Reykjavik is to be found in the notes of the annual accounts of the City of Reykjavik.

No significant deviations have been reported by any supervisory body or public reviewers in regards to the municipality's operation relating to environmental, social and human resource issues, human rights issues, or corruption and bribery issues.