

Reykjavíkurborg

(City of Reykjavik)

Financial Statements 2017



Reykjavíkurborg
(City of Reykjavik)
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Reykjavíkurborg

(City of Reykjavik)

Financial Statements 2017

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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 2017 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). Reykjavík Municipal comprises activities which are funded in part or in full through tax revenues. B operation companies are companies in which the City holds at least half of the shares and operate as financially independent units.

According to the Income Statement for Reykjavík Municipal, operating income amounted to ISK 115,811 million in 2017, of which tax revenues accounted for ISK 85,021 million. The municipal income tax rate was 14.52%, which is the statutory maximum. The property tax rate was 0.20% for tax class A, 1.32% for tax class B and 1.65% for tax class C. The maximum statutory rates are 0.625%, 1.32% and 1.65% for tax classes A, B and C, respectively. Total operating revenue for the consolidated Reykjavik Group amounted to ISK 172,920 million in 2017.

The operating result for Reykjavik Municipal (A operation) amounted to a profit of ISK 4,971 million, whereas the budget for the fiscal year projected a profit of ISK 1,789 million. The operating result for Reykjavík Group (A and B operations) amounted to a profit of ISK 28,027 million, whereas the year's budget projected a profit of ISK 14,559 million. The reasons for better operating results for A operation than anticipated in the budget are attributed mainly to higher municipal income tax, and selling of building rights, but on the other hand the payment of pension obligations is much higher than anticipated. The operating result for the Reykjavik Group (A and B operations) was better than expected, which is mainly due to changes in the valuation of properties, and changes in embedded derivatives in electricity sales agreements.

The total assets of Reykjavík Group (consolidated A and B operations) according to the balance sheet at year-end 2017 amounted to ISK 582,734 million, and total liabilities amounted to ISK 297,306 million. Equity amounted to ISK 285,428 million, of which minority interests amounted to ISK 15,304 million.

On 1 December 2017 the population of the City of Reykjavik was 126,109.

Information necessary to assess the development, scope, position and impact of the City of Reykjavík relating to 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.

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

Reykjavík, 26 April 2018.

Mayor

Executive Committee

Endorsement by the City Council

The financial statements of Reykjavíkurborg (the City of Reykjavík) for the year 2017 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, 15 May 2018.

City Council:

Independent auditor's report

To the City Council of Reykjavíkurborg

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Reykjavíkurborg for the year 2017 which comprise the financial statements of A operations and the financial statements of A and B operations. The financial statements comprise income statement, statement of financial position, statement of cash flows, information on significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the municipality's financial performance in the year 2017, its financial position as at 31 December 2017, and of its cash flows for the year then ended in accordance with the Icelandic Financial Statements Act and the Local Government Act.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Valuation of production systems (electricity) Reference is made to Notes 7 and 30 "Property, plant and equipment". At the end of 2017 the carrying value of property, plant and equipment of A and B operations amounted to ISK 503.9 billion. Thereof the carrying value of electricity production systems at Orkuveita Reykjavíkur, which is determined at fair value, amounted to ISK 101.2 billion. Fair value is determined by discounting future cash flow of the cash generating units where the assets belong. On regular basis the carrying amount is compared to the fair value which is recoverable amount that is calculated by performing an impairment test. When impairment tests show that fair value of production systems are considerably above or below carrying amount then the assets are adjusted to fair value taking into consideration the sensitivity of the impairment test, but never exceeding depreciated replacement cost. Valuation of electricity production systems is a key audit matter in our audit of the financial statements of the municipality due to its high ratio of total assets, or 17% of total assets of A and B operations. Also due to inherent uncertainty involved in management forecasting of changes in price level, changes of volume, price changes and other management assumptions used for discounting estimated future cash flow for the production and due to the sensitivity of the impairment tests to changes in assumptions.	 KPMG's valuation specialists were involved in the work and assessed the valuation models and assumptions used by management in their calculation of fair value of production systems. We assessed the management assumptions by comparing them to both internal information from the municipality and external industry information. We assessed if the design and implementation of the impairment tests used by management was appropriate. We assessed the reasonableness of the discount rates and risk free interest applied. We assessed the reasonableness of general assumptions, such as population projections, price level and future growth. Management calculation of the impairment test was compared to KPMG calculations. Current sensitive analysis was reviewed where effects of changes in EBITDA, future growth and/or yield on the results of the impairment test are shown.

Independent auditor's report, contd.

Other information

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

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

Responsibilities of the City Council and Mayor for the Financial Statements

The City Council and Mayor are responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Statements Act and Local Government Act, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Independent auditor's report, contd.

Auditor's Responsibilities for the Audit of the Financial Statements, contd.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Reykjavik, 15 May 2018

KPMG ehf.

Income Statement for the year 2017

Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
	2017 Financial Statements	2017 Budget with Annexes	2016 Financial Statements	2017 Financial Statements	2017 Budget with Annexes	2016 Financial Statements
Operating revenue	3,24					
Tax revenues	85.021.305	83.717.967	76.382.206	84.514.958	83.167.353	75.880.679
Contributions from Municipal Equalisation Fund	7.218.312	6.610.365	6.703.615	7.218.312	6.610.365	6.703.615
Other revenues	23.571.768	17.333.901	17.480.772	81.186.740	73.365.530	72.972.144
Total operating revenues	115.811.385	107.662.233	100.566.592	172.920.010	163.143.248	155.556.437
Operating expenses	4					
Wage cost and wage-related expenses	25 61.084.542	58.278.435	51.608.243	75.219.464	71.962.134	63.474.707
Changes in pension obligations, LsRb*	25,45 7.002.362	6.983.523	5.038.127	7.044.568	7.022.120	5.114.871
Other operating expenses	38.534.112	35.368.649	36.566.003	51.058.233	47.760.850	49.887.068
Total operating expenses	106.621.016	100.630.607	93.212.374	133.322.265	126.745.103	118.476.647
Operating result before depreciation, EBITDA	9.190.369	7.031.626	7.354.218	39.597.745	36.398.145	37.079.791
Depreciation	9,10,32 (4.663.706)	(4.588.602)	(4.493.723)	(15.097.039)	(16.520.943)	(16.256.624)
Operating result before financial items.....	4.526.663	2.443.024	2.860.495	24.500.706	19.877.202	20.823.166
Net financial items	5,26 444.667	(654.372)	(223.530)	2.055.386	(8.723.625)	890.175
Operating result before tax, adjustments and effects of associated companies	4.971.330	1.788.652	2.636.965	26.556.092	11.153.576	21.713.341
Income tax	19,49 0	0	0	(5.462.853)	(1.798.834)	(4.747.785)
Value adjustment of investment properties	7,30 0	0	0	8.497.188	5.204.000	10.942.130
Share in associated companies' operating results	11,28 0	0	0	(25.271)	0	(236.835)
Minority interests	0	0	0	(1.537.979)	0	(982.999)
Operating results.....	44 4.971.330	1.788.652	2.636.965	28.027.176	14.558.742	26.371.753

* 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 2017

Assets	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		2017 Financial Statements	2016 Financial Statements	2017 Financial Statements	2016 Financial Statements
Fixed assets					
Intangible assets	6,29	0	0	1.607.504	1.503.771
Fixed tangible assets:	7,9,10				
Real estate	30	103.868.042	93.676.983	128.456.051	111.058.241
Utilities	30	0	0	269.193.531	262.149.549
Investment properties	30	0	0	77.265.481	65.654.198
Road systems	30	13.463.124	12.255.556	14.029.611	13.186.193
Machinery and equipment	30	4.286.858	4.204.149	8.500.468	8.039.004
Lease properties	31	6.431.580	7.027.579	6.431.580	7.027.579
		<u>128.049.604</u>	<u>117.164.267</u>	<u>503.876.723</u>	<u>467.114.763</u>
Investments and long-term receivables:					
Capital contributions and shares in companies	11,37	8.116.673	7.589.358	6.165.794	5.466.423
Long-term receivables from own companies	13,14,39	10.554.956	11.553.429	0	0
Pre-paid costs	12,46	10.488.717	0	10.658.688	0
Embedded derivatives	38	0	0	1.877.811	0
Derivative contracts	8	0	0	738.800	365.333
Deferred tax assets	19,49	0	0	1.265.410	3.714.879
Other long-term receivables	13,14,39	3.786.423	1.273.551	4.645.913	5.979.984
		<u>32.946.770</u>	<u>20.416.338</u>	<u>25.352.416</u>	<u>15.526.620</u>
Total fixed assets		<u>160.996.374</u>	<u>137.580.604</u>	<u>530.836.643</u>	<u>484.145.153</u>
Current assets					
Inventories	15,41	0	0	1.429.094	975.231
Short-term receivables:	15,17				
Unclaimed revenues and receivables		11.025.289	9.519.839	17.827.309	15.111.784
Next year's paym. of own comp. long-term receivab.	39	1.198.760	880.733	0	0
Next year's payment of other long-term receivables	39	1.496.380	809.749	5.815.224	1.020.637
Receivables from own companies		388.370	251.995	0	0
Pre-paid costs	12,46	388.081	0	388.081	0
Embedded derivatives	38	0	0	346.301	0
Derivative contracts	8	0	0	36.081	393.183
Other receivables	42	1.393.823	2.459.569	2.027.851	3.111.713
Bank deposits and marketable securities	43	0	0	6.124.722	4.132.427
Cash and cash equivalents	17,43	7.219.713	8.678.075	17.902.524	26.588.117
Total current assets		<u>23.110.416</u>	<u>22.599.960</u>	<u>51.897.187</u>	<u>51.333.091</u>
Total assets		<u>184.106.790</u>	<u>160.180.565</u>	<u>582.733.829</u>	<u>535.478.244</u>

Statement of Financial Position 31 December 2017

Equity and liabilities

	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		2017 Financial Statements	2016 Financial Statements	2017 Financial Statements	2016 Financial Statements
Equity					
Equity account	44	85.479.639	76.414.827	270.123.356	231.536.166
Minority interest		0	0	15.304.477	13.476.735
Total equity		85.479.639	76.414.827	285.427.832	245.012.901
Obligations					
Pension obligations	18,45	33.608.700	28.762.464	34.216.961	29.354.369
Deferred tax liabilities	19,49	0	0	11.265.113	8.503.891
Other obligations		0	0	1.047.823	273.167
Total obligations		33.608.700	28.762.464	46.529.897	38.131.426
Long-term liabilities					
Long-term debts	20,47	35.751.814	28.880.222	192.358.160	183.856.557
Current liabilities, own companies	47	139.989	175.280	0	0
Lease liabilities	21,48	11.165.940	11.574.619	11.165.940	11.574.619
Embedded derivatives in electricity contracts	8,38	0	0	0	8.913.368
Derivative contracts	8	0	0	0	2.713.071
Total long-term liabilities		47.057.743	40.630.121	203.524.101	207.057.614
Current liabilities					
Debts to credit institutions		0	0	1.881.321	3.959.984
Accounts payable		4.506.515	3.163.587	7.709.102	6.583.576
Embedded derivatives in electricity contracts	8,38	0	0	0	1.405.741
Next year's payments on long-term debts	47	1.628.043	1.344.401	15.952.483	15.725.361
Next year's payments on current liabilities, own companies	47	64.491	57.677	0	0
Next year's payments on lease liabilities	48	823.811	764.673	823.811	764.673
Next year's payments on pension obligations	45	2.195.000	2.137.200	2.220.000	2.162.200
Accounts payable to own companies		420.848	577.648	0	0
Derivative contracts	8	0	0	2.898.249	2.311.883
Other payables		8.321.999	6.327.966	15.767.033	12.362.884
Total current liabilities		17.960.707	14.373.152	47.251.999	45.276.303
Total liabilities and obligations		98.627.150	83.765.737	297.305.997	290.465.343
Total equity and liabilities		184.106.790	160.180.565	582.733.829	535.478.244

Obligations off the Statement of Financial Position 50-52

Statement of Cash Flows for the year 2017

Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
	2017 Financial statements	2017 Budget with annexes	2016 Financial statements	2017 Financial statements	2017 Budget with annexes	2016 Financial statements
Cash flows from operating activities						
Operating results.....	4.971.330	1.788.652	2.636.965	28.027.176	14.558.742	26.371.753
Adjustments not affecting cash flow:						
Gain on sold assets	(8.067.099)	(4.201.000)	(1.826.496)	(7.225.707)	(4.201.000)	(1.838.068)
Depreciation	32 4.663.706	4.588.602	4.493.723	15.097.039	16.520.943	16.256.624
Indexation, discounts and exch.rate differences	5 636.084	755.385	541.659	5.956.980	314.427	(2.418.510)
Embedded derivatives, change	38 0	0	0	(12.543.221)	3.807.425	(2.873.054)
Value adjustment of investment properties	30 0	0	0	(8.497.188)	(5.204.000)	(10.942.130)
Effect of own companies and minority interests	0	0	0	1.563.251	0	1.535.933
Changes in pension obligations	45 7.002.362	6.983.523	5.038.127	7.044.568	7.022.120	5.114.871
Changes in deferred taxes	49 0	0	0	3.941.315	1.794.734	2.995.024
Other changes	2.000		48.771	30.941	0	49.860
Working capital provided by operating activities	9.208.383	9.915.162	10.932.749	33.395.155	34.613.391	34.252.304
Changes in operating assets and liabilities:						
Inventories decrease (increase)	0	0	0	(457.399)	(30.000)	(12.644)
Unclaimed revenues (increase) decrease	(589.080)	0	(100.471)	(419.811)	(51.209)	(405.915)
Other current receivables (increase) decrease	(41.770)	25.000	(1.381.219)	(1.564.462)	(3.000.575)	(1.445.928)
Current liabilities (decrease) increase	3.389.112	827.830	(885.336)	4.639.148	1.482.623	347.911
Contributions to pension payments	45 (2.098.326)	(2.250.000)	(2.058.491)	(2.124.175)	(2.540.133)	(2.085.991)
Prepaid contribution to Brú pension fund, changes ...	46 (10.876.798)	(5.000.000)	0	(11.046.769)	(5.000.000)	0
Change in operating assets and liabilities	(10.216.861)	(6.397.170)	(4.425.517)	(10.973.469)	(9.139.294)	(3.602.568)
Net cash provided by operating activities	(1.008.478)	3.517.992	6.507.232	22.421.686	25.474.097	30.649.737
Investment activities						
Investments in fixed tangible assets	30 (15.419.796)	(17.521.573)	(9.493.658)	(37.292.340)	(35.642.247)	(24.256.738)
Investment in investment properties	30 0	0	0	(2.304.015)	(2.473.000)	(1.276.405)
Investments in intangible assets	29 0	0	0	(209.816)	0	(207.833)
Road construction fees and building permits	30 9.487.701	6.258.000	4.110.542	9.853.821	6.258.000	4.789.016
Proceeds from sale of fixed tangible assets	2.543.632	1.343.003	825.953	913.963	1.832.716	922.130
Change in shareholdings	(729.315)	(1.005.164)	(144.188)	(401.776)	(1.005.164)	15.063
Short-term investments	0	0	0	(547.287)	0	0
Restricted bank deposits	0	0	0	(1.010.055)	0	(2.078.883)
Long-term receivables, change	(2.300.123)	118.627	1.211.849	(3.134.454)	206.038	4.366.142
Other investment activities	0	841.772	0	29.204	(23.713)	0
Investment activities	(6.417.901)	(9.965.335)	(3.489.502)	(34.102.755)	(30.847.370)	(17.727.509)
Financing activities						
New long-term borrowings	47 8.132.694	8.012.400	2.201.159	22.396.483	19.973.400	15.247.879
New lease liabilities	48 28.798	0	0	28.798	0	0
Repayments of long-term liabilities	47 (1.467.719)	(1.454.833)	(1.327.834)	(15.621.581)	(17.576.479)	(17.114.470)
Payments on lease liabilities	48 (773.575)	(714.333)	(734.317)	(773.575)	(714.333)	(734.317)
Derivative contracts paid	0	0	0	(1.952.609)	0	0
Paid-in capital	0	0	0	0	1.974.850	0
Short-term borrowings, change	0	0	0	(913.060)	(2.990.000)	1.796.329
Dividends paid	0	0	0	(139.148)	0	(75.779)
Other financing activities	47.819	(5.632)	(75.612)	0	0	0
Financing activities	5.968.018	5.837.602	63.396	3.025.310	667.438	(880.358)
(Decrease) Increase in cash and cash equivalents.....	(1.458.362)	(609.741)	3.081.126	(8.655.759)	(4.705.835)	12.041.871
Cash and cash equivalents at beginning of year.....	8.678.075	7.856.226	5.596.949	26.588.117	30.421.501	14.816.609
Effect of currency fluctuations on cash.....	0	0	0	(29.834)	0	(270.363)
Cash and cash equivalents at year-end.....	17 7.219.713	7.246.485	8.678.075	17.902.524	25.715.666	26.588.117
Investment and financing activities without cash flow effect						
Investments in fixed tangible assets	33 0	0	0	649.463	0	(555.151)
Investments in shares in companies	0	0	(96.000)	0	0	0
Short-term borrowings, change	0	0	96.000	(649.463)	0	555.151
New borrowings	0	0	0	3.462.271	0	5.816.713
Repayment of long-term liabilities	0	0	0	(3.462.271)	0	(5.816.713)

Notes

1. Information on the Municipality

Reykjavíkurborg (the City of Reykjavík), the capital city of Iceland, is a municipality with a population of 126,109, as at 1 December 2017. 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). Bílastæðisjóður (Parking Fund) was merged with the City's Operations Fund as of 1 January 2017 and its properties transferred to the 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 Hofdi), Orkuveita Reykjavíkur (Reykjavík Energy), Slökkvilið höfuðborgarsvæðisins bs. (Capital District Fire and Rescue Service), Sorpa bs. (Capital Area Waste Disposal Company) and Strætó bs. (Metropolitan Bus Transportation Company). Jörundur ehf. was dissolved during the year 2017.

The financial statements have been prepared on the historical cost basis and comply with the Local Government Act, the Financial Statements Act No. 3/2006, Regulation No. 696/1996 on the presentation and contents of financial statements and consolidated financial statements, and Regulation No. 1212/2015 on the accounting, budgeting and financial statements of municipalities.

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

- a part of fixed tangible assets has been restated at fair market value;
- embedded derivatives are stated at fair market value;
- shares in companies are stated at fair market value;
- other assets and liabilities are stated at fair market value.

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

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

Accounting methods

3. Income recognition

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

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

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

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

Notes

4. Expense recognition

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

5. Indexation and exchange-rate criteria

Assets and liabilities which are indexed or denominated in foreign currency are recognised in the financial statements at the indexation or exchange rate applying at year-end 2017. 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 Reykjavik A operation under ISK 2.5 million are expensed, with the exception that equipment which is subject to compulsory registration is capitalised.

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

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 Reykjavik Group, which is their fair market value on the restatement date, net of any additional depreciation from that time. Revaluation of these assets is undertaken on a regular basis. All increases in valuation are recognised as equity. Depreciation of the restated value is recognised in the Income Statement.

Investment properties are real estate of Félagsbústaðir hf. owned by the company with the object of raising rent revenue. Investment properties are recognised at fair value in accordance with International Financial Reporting Standards (IFRS). The evaluation of investment properties is based on the official real estate evaluation of the Icelandic National Registry. According to information from the National Registry, the official real estate evaluation is fair value estimated in real estate market transactions. The evaluation is performed in May each year based on pricing in February of the same year. The 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. 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, 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.....	5-50 years
Orkuveita Reykjavíkur, production systems.....	5-50 years
Orkuveita Reykjavíkur, geothermal rights.....	100 years
Vehicles, machinery and equipment.....	3-15 years

10. Depreciation of leased assets

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

Real estate.....	4-26 years
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11. Capital contributions and shares in companies

Capital contributions in accordance with the Act No. 52/2016, act 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.

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

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.

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, statement of cash flow and in the notes. The original budget, approved annexes and budget with annexes is discussed in notes 61 and 62.

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	
	2017 Financial Statements	2017 Budget with Annexes	2017 Financial Statements	2017 Budget with Annexes
Tax revenues				
Municipal income tax:				
Paid municipal income tax	75.594.265	74.472.223	75.594.265	74.472.223
Share of Municipal Equalisation Fund in income tax	(4.008.787)	(3.949.285)	(4.008.787)	(3.949.285)
Share of Mun.Eq.Fund in tax relating to the disabled	(5.154.154)	(5.077.652)	(5.154.154)	(5.077.652)
	<u>66.431.324</u>	<u>65.445.287</u>	<u>66.431.324</u>	<u>65.445.287</u>
Postpaid municipal income tax	3.494.313	1.864.994	3.494.313	1.864.994
Tax changes	(616.450)	0	(616.450)	0
Amortisation of tax revenues	(1.002.439)	0	(1.002.439)	0
Changes in provision for lost revenue	400.000	0	400.000	0
	<u>68.706.748</u>	<u>67.310.281</u>	<u>68.706.748</u>	<u>67.310.281</u>
Property tax				
Property tax	15.016.157	15.057.450	14.551.811	14.552.510
Plot rent	1.358.254	1.350.236	1.316.253	1.304.562
Write-off/depreciation of property tax revenues, change	(59.855)	0	(59.855)	0
	<u>16.314.556</u>	<u>16.407.686</u>	<u>15.808.209</u>	<u>15.857.072</u>
Total tax revenues.....	<u>85.021.305</u>	<u>83.717.967</u>	<u>84.514.958</u>	<u>83.167.353</u>
Contributions from Municipal Equalisation Fund				
Contribution for the disabled	5.448.319	4.987.000	5.448.319	4.987.000
Municipal Equalisation Fund, other contributions	1.769.993	1.623.365	1.769.993	1.623.365
	<u>7.218.312</u>	<u>6.610.365</u>	<u>7.218.312</u>	<u>6.610.365</u>
Other income				
Fees for services provided	9.735.259	9.420.127	25.241.897	
Income from assets	18.635.587	18.770.306	19.803.085	
Other repayments	3.724.993	2.758.342	3.724.993	
Other income	6.867.425	5.941.359	58.140.107	
Sales of building rights	6.925.095	2.859.700	6.925.095	
Gain from sale of assets	1.142.004	1.343.000	1.152.878	
Inter-unit transactions eliminated	(23.458.594)	(23.758.933)	(33.801.314)	
	<u>23.571.768</u>	<u>17.333.901</u>	<u>81.186.740</u>	<u>73.365.530</u>
Total operating revenue	<u>115.811.385</u>	<u>107.662.233</u>	<u>172.920.010</u>	<u>163.143.248</u>

Notes

25. Wage cost and wage-related expenses

	A operations		A and B operations	
	2017 Financial Statements	2017 Budget with Annexes	2017 Financial Statements	2017 Budget with Annexes
Operating revenue is itemised as follows:				
Wages	46.093.482		57.040.843	
Wage-related expenses	10.936.904		13.246.772	
	57.030.387	58.278.435	70.287.615	71.962.134
Changes in accrued vacation obligations	366.661	0	377.903	0
Transfer/capitalisation of salaries	(84.270)	0	(1.005.666)	0
Wages and wage related exp. less charged pens. contrib.	57.312.778	58.278.435	69.659.852	71.962.134
Charged pension contribution to Brú Pension Fund	3.771.764	0	5.559.613	0
Total wage-related expenses with pension contributions	61.084.542	58.278.435	75.219.464	71.962.134
Changes in pension obligations LsRb	7.002.362	6.983.523	7.044.568	7.022.120
Total wage cost and wage-related expenses	68.086.903	65.261.958	82.264.032	78.984.254

Faxaflóahafnir sf, Félagbústaðir hf. and Orkuveita Reykjavíkur charged their contribution to the Brú Pension Fund in full to a Supplementary Pension Fund and Prudential Fund in 2017.

Average full-time equivalent positions	6.928	8.112
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Salaries and salary related expenses relating to the City's Executive Committee and City Council amounted to ISK 197 million for the year 2017.

26. Financial income and financial expenses

Financial income and (expenses) are specified as follows:

	A operations	A and B operativos
Dividends on equity shares	1.077.894	95.485
Risk charge for guarantees	708.164	(50.542)
Interest income and indexation	1.996.661	2.190.899
Interest expenses and indexation	(3.122.096)	(8.800.222)
Financial income tax	(216.735)	(242.770)
Hedge contracts	0	(1.326.008)
Adjustment of principal amounts of loans	0	263.452
Exchange rate difference	780	(2.645.662)
Changes in fair value	0	12.570.755
Total financial income and (expenses)	444.667	2.055.386

Notes

27. Statement of operations

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

Municipal Fund	2017 Financial statements			2017 Budget with Annexes
	Expenses	Revenues	Balance	Net
Tax revenue	0	93.801.586	(93.801.560)	(91.944.932)
Contribution to B operation companies	2.895.547	0	2.895.547	2.881.198
Department of Sports and Leisure	9.047.240	1.720.110	7.327.130	7.423.954
Department of Culture and Tourism	5.066.847	506.338	4.560.509	4.611.266
Department of Education and Recreation	50.731.846	4.458.306	46.273.540	46.358.428
Central administration offices	4.814.727	1.648.602	3.166.124	3.296.172
Department of Environment and Planning	9.605.608	3.793.425	5.812.183	6.294.282
Department of Welfare	26.743.712	4.778.771	21.964.941	22.325.886
Joint expenses	13.783.928	86.245	13.697.683	9.605.633
Operation of Municipal Fund sectors	122.689.482	110.793.384	11.896.098	10.851.887
Financial income and financial expenses	198.828	5.389.206	(5.190.377)	(4.051.426)
Municipal Fund total	122.888.311	116.182.589	6.705.721	6.800.460
Reykjavík Municipal (A operations) organisations				
Real Estate Fund	18.361.513	30.038.565	(11.677.052)	(8.589.112)
Internal transactions in A operation	(25.020.564)	(25.020.564)	0	0
A operations total	116.229.260	121.200.591	(4.971.331)	(1.788.652)
B operations companies				
Aflvaki hf.	186	96	90	117
Faxaflóahafnir sf.	3.095.117	3.748.532	(653.415)	(543.335)
Félagsbústaðir hf.	3.737.153	11.281.826	(7.544.673)	(4.550.070)
Íþróttta- og sýningahöllin hf.	408.833	386.853	21.980	90.163
Jörundur ehf.	0	47.549	(47.549)	0
Malbikunarstöðin Höfði hf.	1.564.957	1.842.108	(277.150)	(15.216)
Orkuveita Reykjavíkur	31.744.917	48.082.296	(16.337.379)	(8.442.447)
Slökkvilið höfuðborgarsvæðisins bs.	2.730.343	3.065.814	(335.470)	(65.816)
Sorpa bs.	3.331.545	3.758.165	(426.619)	(324.343)
Strætó bs.	7.752.461	7.762.848	(10.387)	(41.992)
	54.365.513	79.976.086	(25.610.573)	(13.892.939)
Share in associated companies' results	0	(25.271)	25.271	0
Minority interest	0	(1.537.979)	1.537.979	0
B operations total	54.365.513	78.412.835	(24.047.322)	(13.892.939)
Internal transactions in B operations	(11.840.544)	(10.849.067)	991.477	1.122.849
Reykjavík Group (A and B operations) total	158.754.228	188.764.358	(28.027.176)	(14.558.742)

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

Notes

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.	(21.860)
Situs ehf.	(6.354)
Orkuveita Reykjavíkur - associated companies	1.926
Sorpa - associated company	1.016
	<u>(25.271)</u>

29. Intangible assets

Intangible assets are itemised as follows:

	A and B operations
Total value 1.1.2017	2.919.531
Depreciations 1.1.2017	(1.415.759)
Book value 1.1.2017	1.503.771
Additions	209.816
Depreciations	(106.083)
Book value 31.12.2017	<u>1.607.504</u>

30. Fixed tangible assets

A operations are itemised as follows:

	A operations			
	Real estate	Road systems	Machinery and equipment	Total
Total value 1.1.2017	145.916.845	16.443.685	7.963.084	170.323.614
Depreciations 1.1.2017	(52.239.862)	(4.188.129)	(3.758.935)	(60.186.926)
Book value 1.1.2017	93.676.983	12.255.556	4.204.149	110.136.688
Re-classification	(8.040)		8.040	(0)
Revaluation of plots and lands 31.12.2017	4.093.481	0	0	4.093.481
Additions	10.014.215	4.435.813	940.970	15.390.998
Road construction fees	0	(2.562.606)	0	(2.562.606)
Sold or disposed of	(1.355.008)	0	(46.620)	(1.401.628)
Depreciation	(2.553.590)	(665.639)	(819.680)	(4.038.910)
Book value 31.12.2017	<u>103.868.042</u>	<u>13.463.124</u>	<u>4.286.858</u>	<u>121.618.024</u>
Depreciation rate	2 - 10%	4%	10 - 25%	

A and B operations are specified as follows:

	A and B operations			
	Real estate	Utilities	Road system mach. & equipm.	Total
Total value 1.1.2017	181.125.872	496.389.475	35.107.560	712.622.908
Depreciations 1.1.2017	(70.067.631)	(234.239.927)	(13.882.364)	(318.189.922)
Book value 1.1.2017	111.058.241	262.149.549	21.225.197	394.432.986
Re-classification	(125.309)	117.270	8.040	(0)
Translation difference	(550)	(7.924.514)	(7.575)	(7.932.640)
Revaluation of plots and land	4.093.481	0	0	4.093.481
Revaluation	111.489	11.586.336	0	11.697.825
Additions	18.151.433	11.915.298	6.565.892	36.632.623
Road construction fees	0	0	(2.562.606)	(2.562.606)
Sold or disposed of during the year	(1.355.008)	(11.465)	(434.541)	(1.801.014)
Depreciation	(3.477.725)	(8.638.943)	(2.264.327)	(14.380.995)
Book value 31.12.2017	<u>128.456.051</u>	<u>269.193.531</u>	<u>22.530.078</u>	<u>420.179.660</u>
Depreciation rate	2 - 4%	2 - 20%	4 - 33,3%	

Notes

30. Fixed tangible assets, continued:

Mortgages:

The properties of Félagsbústaðir hf. are mortgaged to secure the balance of debts amounting to ISK 28,696 million at year-end. In addition, the company has signed two bonds with its commercial bank in the aggregate amount of ISK 2,077 million, which are also secured by a mortgage on the company's properties. The debts of Íþróttta- og sýningarhöllin hf. in the amount of ISK 2,059 million are secured by a mortgage on the company's property and a lease contract with the City of Reykjavík. The City of Reykjavík has granted to Municipality Credit Iceland a lien on withholding tax revenues as security for a debt balance of ISK 266 million at year-end.

Investment properties are itemised as follows:

	A operations	A and B operations
Book value 1.1.2017	0	65.654.198
Revaluation during the year	0	8.497.188
Additions during the year	0	3.114.095
Book value 31.12.2017	0	77.265.481

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 revaluation of the year resulted in an increase in book value of ISK 11,586 million.

The permanent fixed assets of Íþróttta- og sýningarhöllin hf. are recognised at the re-evaluated cost price, net of depreciation. The revaluation of the year amounted to ISK 112 million.

31. Leased properties of A operations

Leased properties of A operations are specified as follows:

	A operations	A and B operations
Total value 1.1.2017	11.459.137	11.459.137
Addition during the year	28.798	28.798
Total value 31.12.2017	11.487.935	11.487.935
Depreciation 1.1.2017	(4.431.558)	(4.431.558)
Depreciation during the year	(624.796)	(624.796)
Total depreciation 31.12.2017	(5.056.355)	(5.056.355)
Book value 31.12.2017	6.431.580	6.431.580
Depreciation rate	4 - 25%	4 - 25%

32. Depreciation and impairment

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

Depreciation of fixed tangible assets, see note 30	4.038.910	14.380.995
Depreciation of intangible assets, see note 29	0	106.083
Depreciation of leased properties, see note 31	624.796	624.796
Depreciation during the year	4.663.706	15.111.875
Recognised in the income statement	4.663.706	15.097.039
Recognised as a reduction of obligations	0	14.835
	4.663.706	15.111.874

Notes

33. Investments in fixed tangible assets

	2017 Financial Statements	2017 Budget with annexes
Investments of A operations during the year are specified as follows:		
Property, machinery and equipment:		
Culture	591.939	656.400
Education	3.123.219	3.462.500
Sports and leisure	1.425.463	1.473.000
Social Services	108.028	143.300
Other properties	1.372.583	907.000
Software, machinery and equipment	722.668	759.300
Building plots, land and planning properties	2.823.115	2.767.373
Renovation and major maintenance of buildings	1.204.297	1.420.000
Total property, machinery and equipment	<u>11.371.312</u>	<u>11.588.873</u>
Road system		
Road construction	4.048.484	5.932.700
Road construction fees over the year	(2.562.606)	(3.430.000)
Road system total	<u>1.485.878</u>	<u>2.502.700</u>
Total capitalised investment	12.857.190	14.091.573
Road construction fees over the year	2.562.606	3.430.000
	<u>15.419.796</u>	<u>17.521.573</u>
Investments of B operations during the year are specified as follows:		
Faxaflóahafnir sf.	1.731.164	1.855.000
Félagsbústaðir hf.	4.021.820	2.473.000
Orkuveita Reykjavíkur	18.708.396	14.076.617
Slökkvilið höfuðborgarsvæðisins bs.	34.221	659.057
Strætó bs	253.359	340.000
Sorpa bs	592.201	1.135.000
Other B operation companies	117.723	55.000
Total investment of B operations	<u>25.458.884</u>	<u>20.593.674</u>
Inter-unit transactions eliminated	(1.703.429)	0
Total investment of Reykjavík Group in fixed tangible assets during the year	<u>39.175.251</u>	<u>38.115.247</u>

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

	2017 Financial Statements	2017 Budget with annexes
Selling price of building rights, plots and road construction fees are specified as follows:		
Road construction fees A operations	2.562.606	3.430.000
Sold building rights A operations	6.925.095	2.859.700
	9.487.701	6.289.700
Sale of B operations' plots	366.120	474.000
	<u>9.853.821</u>	<u>6.763.700</u>
Selling price of fixed assets:		
Selling price of fixed assets of A operations	2.543.632	1.343.003
Selling price of fixed assets of B operations	73.760	15.713
Inter-unit transactions eliminated	(1.703.429)	0
	<u>913.963</u>	<u>1.358.716</u>

Notes

35. Official value and insurance value of buildings

Fire insurance valuation, the official property valuation and book value of real estate are specified as follows at year-end 2017:

	A operations	A and B operations
Official property valuation of buildings	91.531.583	197.032.532
Official property valuation of plots	25.158.849	57.056.226
Fire insurance valuation	163.310.030	260.326.084
Book value	103.868.042	205.721.532

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 359,358 million at year end 2017.

37. Shares in companies

Shares in companies are specified as follows:

	Share in operation:		A operations	A and B operations
	A	A and B	Book value	Book value
Subsidiaries				
Aflvaki hf.	54,5%	95,7%	4.363	
Félagsbústaðir hf.	100,0%	100,0%	3.001.000	
Íþróttá- og sýningahöllin hf.	50,0%	50,0%	50.000	
Malbikunarstöðin Höfði hf.	99,0%	100,0%	190.575	
Slökkvilið höfuðborgarsvæðisins bs.	60,8%	60,8%	1.027.526	
Sorpa bs.	66,7%	66,7%	486.019	
Strætó bs.	60,3%	60,3%	514.504	
Orkuveita Reykjavíkur	93,5%	93,5%	0	
Faxaflóahafnir sf.	75,6%	75,6%	59.111	
Subsidiaries total			<u>5.333.098</u>	
Associated companies				
Harpa tónlistar- og ráðstefnuhús ohf.	46,0%	46,0%	555.370	0
Situs ehf	46,0%	46,0%	0	1.829
Minjavernd hf.	38,3%	38,3%	107.839	296.113
Metan hf.		100,0%		24.807
Íslensk Nýorka		29,0%		24.681
Netorka hf.		38,4%		30.514
Orkuskólinn REYST hf.		45,0%		6.068
Associated companies total			<u>663.209</u>	<u>384.012</u>
Other companies				
Landsnet hf.		6,78%		3.544.133
Lánasjóður sveitarfélaga ohf.	17,47%	17,47%	1.547.831	1.547.831
Eignarhaldsfélagið Spölnur ehf.		23,50%	300	52.679
Galantatem		3,80%		13.082
Keilir		12,10%		18.500
Landskerfi bókasafna hf.	20,60%	20,60%	29.524	29.524
Neyðarlínan hf.	12,50%	20,40%	2.000	9.394
Rekstrarfélagið Stæði ehf	22,97%	22,97%	919	919
DMM lausnir ehf		13,40%		23.898
Vísindagarðar Háskóla Íslands ehf.	5,44%	5,44%	11.688	11.688
Halakot ehf		100,00%		2.000
Vatnsveita Hvalfjarðarsveitar sf.		50,00%		75.481
Próunarfélag Grundatanga ehf	16,67%	33,33%	750	1.500
Other companies			40	376
Other companies total			<u>1.593.051</u>	<u>5.331.005</u>
Capital contributions				
Bjarg íbúðafélag hses.			311.582	311.582
Félagsbústaðir hf.			76.539	0
Stakkahlíð hses.			139.194	139.194
			<u>527.315</u>	<u>450.776</u>
Total shares			<u>8.116.673</u>	<u>6.165.794</u>

Notes

37. Shares in companies, continued:

Capitalised capital contributions in the year 2017 amounted to ISK 527 million. Capital contributions to Nauthólsvegur 83 hses. and Nauthólsvegur 87 hses., in total ISK 674 million, were expensed during the year.

Changes in fair value of Landsnet hf. amounted to ISK 322 million during the year and the increase is recognised as equity. Jörundur ehf. was dissolved during the year 2017.

38. Embedded derivatives

Orkuveita Reykjavíkur has entered into four power sale agreements which are linked to the price of aluminium for an initial period of 20 years, one with Landsvirkjun relating to Norðurál and three with Norðurál relating to the aluminium smelter at Grundartangi, as well as agreements with Landsnet hf. concerning power transmission. Orkuveita Reykjavíkur and Norðurál have also entered into a power sale agreement concerning power sales to the planned aluminium smelter in Helgúvík. Delivery pursuant to that agreement has begun and the agreement has a term of 25 years. These power sale agreements are made in USD and the power price is linked to the world market price of aluminium.

In order to reduce the aluminium price risk, Orkuveita Reykjavíkur has entered into derivative agreements to reduce fluctuations in revenues linked to aluminium prices. The risk management department of Orkuveita Reykjavíkur is authorised to hedge the aluminium price risk for up to 5 years. At the accounting date the hedging amounted to 49% of the estimated sales linked to the price of aluminium for the next 12 months.

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

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

Fair value of embedded derivatives in electricity sales contracts is specified as follows:	2017	2016
Fair value of embedded derivatives in electricity contracts at the beginning of the year	(10.319.109)	(13.192.163)
Fair value changes during the year	12.543.221	2.873.054
Fair value of embedded derivatives in electricity contracts at the end of the year (liability)	2.224.111	(10.319.109)

The allocation of embedded derivatives in electricity sales contracts is specified as follows:		
Non-current embedded derivatives (liability)	1.877.811	(8.913.368)
Current embedded derivatives (liability)	346.301	(1.405.741)
Total embedded derivatives	2.224.111	(10.319.109)

39. Long-term receivables

Long-term receivables are specified as follows:

Long term claims of A operations against B operations' companies	2017	2016
Subordinated loan to Orkuveita Reykjavíkur, indexed, 3.05%-4.25% interest rate	11.753.717	12.434.163
	11.753.717	12.434.163
Current maturities of long term claims	(1.198.760)	(880.733)
Total long-term claims against B operations' companies	10.554.956	11.553.429

Annual maturities are specified as follows:

Year 2017	0	880.733
Year 2018	1.198.760	1.178.401
Year 2019	1.299.680	1.277.623
Year 2020	1.299.680	1.277.623
Year 2021	1.299.680	1.277.623
Year 2022	1.299.680	1.277.623
Later	5.356.237	5.264.535
Total long-term receivables against B-operations' companies	11.753.717	12.434.163

Other long-term receivables	A operations	A and B operations
Receivables from other companies	6.256.775	11.435.109
Provision for losses	(973.972)	(973.972)
	5.282.803	10.461.137
Next year's payments on long-term receivables	(1.496.380)	(5.815.224)
	3.786.424	4.645.913

Notes

39. Long-term receivables, continued:

	A operations	A and B operations
Annual maturities are specified as follows:		
Year 2018	1.496.380	5.815.224
Year 2019	392.732	719.622
Year 2020	398.791	720.445
Year 2021	597.900	670.222
Year 2022	479.746	510.479
Later	2.891.227	2.999.117
Total, other long-term receivables	<u>6.256.775</u>	<u>11.435.109</u>

40. Magma Bond of Orkuveita Reykjavíkur

In September 2016 an agreement was signed between Orkuveita Reykjavíkur and Magma Energy Sweden, the parent company of HS Orka, on adjusted payments on a bond, which originated as a bullet bond with a maturity date in December 2016. According to the agreement, half of the amount of the bond was paid on the execution of the agreement, with the remaining half to be paid in the first half of 2018. Shares in HS Orka remain posted as collateral to secure the payment, and interest was raised from 1.5% to 5%. The bond had an embedded derivative through a link to the price of aluminium. The fair value of the bond is evaluated in its entirety based on the forward price of aluminium and discounted based on the interest rate for the currency in question, in addition to an appropriate margin to cover counterparty risk. Attention is drawn to the discussion of the bond in Note 60.

41. Inventories

	A operations	A and B operations
Inventories are specified as follows:		
Inventory of materials	0	936.045
Raw material	0	364.208
Supplies in stock	0	92.116
Products ready for use	0	36.725
	<u>0</u>	<u>1.429.094</u>

41. Current receivables

	A operations	A and B operations
Provisions for current receivables are specified as follows:		
Provision for receivables other than tax revenue at the beginning of the year	289.100	819.699
Actual losses during the year	(122.926)	(194.598)
Provision for losses during the year	90.926	88.746
Provision for receivables other than tax revenue at year-end	<u>257.100</u>	<u>713.848</u>

Outstanding tax revenue, excluding default interest and provisions, amounted to ISK 6,137 million at year-end. A provision is recognised as a reduction in tax revenue and an amount of ISK 662 million is written off in the financial statements. The total provision for tax revenue at year-end amounted to ISK 4,863 million.

43. Cash and bank deposits

	A operations	A and B operations
Cash and bank deposits are specified as follows:		
Bank deposits with three to twelve month maturities	0	4.000.000
Marketable securities	0	2.124.722
	0	6.124.722
Bank deposits and short-term securities, redeemable without notice	7.219.713	17.902.524
	<u>7.219.713</u>	<u>24.027.246</u>

Notes

44. Equity

Changes in equity:	A operations	A and B operations
Equity 1.1.2017	76.414.827	231.536.166
Re-evaluation of plots and land	4.093.481	4.093.481
Changes in the market value of equity shares	0	301.170
Translation differences of Orkuveita Reykjavíkur	0	(3.343.255)
Other changes	0	55.437
Operating results	4.971.331	28.027.176
Equity 31.12.2017	<u>85.479.639</u>	<u>270.123.356</u>

Plots and land were re-evaluated at the end of the year in accordance with the opinion No. 2/2010 of the Municipal Accounting and Information Committee. 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.

45. 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 35,804 million at the end of 2017, while the net present value of A and B operations amounted to ISK 36,437 million, taking into consideration the share in the pension fund's net assets. The benefit rights largely follow wage changes and are adjusted based on a 2% interest rate, but in other respects a 3.5% interest rate is used for adjustment.

In evaluation of the pension obligations of A operations due to LsRb, assumptions about mortality rate and life expectancy are made in accordance with a proposal from the Icelandic Actuarial Society dating from 1 March 2015. The LsRb actuarial valuation uses existing mortality and life expectancy tables which are based on experience from the years 2010-2014. The amendment of 1 March 2015 proposes a new methodology in estimating mortality rate and life expectancy by assuming that the mortality rate will continue to decrease and that average life expectancy will increase over the next decades instead of using the experience of previous years. It is the assessment of management that this new methodology provides a clearer view of the pension obligations of A operations at year-end 2017 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

The obligations are specified as follows:	A operations	A and B operations
Pension obligations 1.1.2017	30.899.664	31.516.569
Contributions to pension payments during the year	(2.098.326)	(2.124.175)
Change in pension obligations during the year	7.002.362	7.044.558
Pension obligations 31.12.2017	<u>35.803.700</u>	<u>36.436.952</u>
Pension obligations, short-term	2.195.000	2.220.000
Pension obligations, long-term	33.608.700	34.216.961
	<u>35.803.700</u>	<u>36.436.961</u>

Estimated payments in 2018 due to pension obligations are recognised among current liabilities in the Statement of Financial Position.

Estimated future pension payments for Reykjavik Municipal by period:

Payments 2018-2022	8.071.479
Payments 2023-2027	7.464.964
Payments 2028-2032	6.546.349
Payments 2033 and later	13.720.909
	<u>35.803.700</u>

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

Notes

46. Prepaid settlement costs with Brú Pension Fund

With the enactment of Act No. 127/2016, the Act on the Pension Fund for State Employees was amended, and the amendment extends to Brú Pension Fund. The amended articles of association of Brú Pension Fund have the effect that as of 1 June 2017 the accrual of entitlements in Division A of the Fund will change from an equal accrual of rights to an age-linked accrual; the general age for taking a pension will be raised from 65 to 67, and the contribution of employers will be reduced from 12% to 11.5%. The entitlements of persons who have started taking a pension on 1 June 2017 and persons who reach the age of 60 at that time will not be curtailed or increased, even in the event of curtailments or increases for other Fund members. The effects of the amendment are, among others, that the City of Reykjavík is required to pay to Brú Pension Fund all accrued Division A pension liabilities as of 31 May 2017 and estimated contributions to the Supplementary Pension Fund and the Prudential Fund for the same Fund members. By the end of Desember 2017 Brú was paid in full ISK 14,649 million. In the financial statement for 2017 the amount of ISK 3,772 million was charged to A Operations and ISK 10,489 million were capitalised among long-term assets, and ISK 388 million among current assets as prepaid expenses. The total contributions of the A and B operations to the fund amount to ISK 17,388 million. In A and B operations of the Group, ISK 5,560 million were charged in the same manner in 2017 and ISK 10,659 million were capitalised among long-term assets, and ISK 388 million among current assets as prepaid expenses. Capitalised contributions to the supplementary pension fund will be charged over the next 30 years, and contributions to the prudential fund over 20 years. Félagsbústaðir hf. and Orkuveita Reykjavíkur expense their total contribution to Brú, since their financial statements are prepared in accordance with international financial reporting standards.

The settlement of accounts with Brú relating to the operation of nursing homes has not been concluded, but the probability is that the State Treasury will reimburse to the City of Reykjavík the amount of ISK 100 - 200 million, which will be set off against the previously paid contributions to Brú.

47. Long-term liabilities

Long-term liabilities are specified as follows:

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

	A operations	A and B operations
Liabilities in USD	0	24.971.612
Liabilities in GBP	0	2.259.781
Liabilities in EUR	0	34.809.679
Liabilities in CHF	0	10.465.138
Liabilities in JPY	0	4.813.282
Liabilities in SEK	0	3.406.964
	0	80.726.456

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

Liabilities in EUR	0	258.437
Domestic loans, indexed	32.096.105	112.631.905
Domestic loans, not indexed	5.283.752	14.693.845
	37.379.857	127.584.187

Total long-term liabilities to foreign and Icelandic credit institutions	37.379.857	208.310.643
Current maturities of long-term liabilities	(1.628.043)	(15.952.483)
Total long-term liabilities	35.751.814	192.358.160

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

	A operations	A and B operations
Year 2018	1.628.043	15.952.483
Year 2019	1.410.434	14.425.780
Year 2020	1.053.333	14.385.785
Year 2021	1.070.314	13.717.718
Year 2022	828.581	15.933.880
Later	31.389.152	133.971.537
	37.379.857	208.387.182

Long-term liabilities to own companies are specified as follows:

Faxaflóahafnir sf	204.479	0
Current maturities of long-term liabilities to own companies	(64.491)	0
	139.989	0

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

Year 2018	64.491	0
Year 2019	64.491	0
Year 2020	64.491	0
Year 2021	8.100	0
Year 2022	2.907	0
	204.479	0

Notes

48. Lease liabilities

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

	A operations	A and B operations
Lease liabilities	11.989.752	11.989.752
Next year's payments	(823.811)	(823.811)
Long-term lease liabilities	<u>11.165.940</u>	<u>11.165.940</u>

Annual lease liabilities are specified as follows:

Year 2018	823.811	823.811
Year 2019	830.548	830.548
Year 2020	851.315	851.315
Year 2021	887.962	887.962
Year 2022	910.507	910.507
Later	7.685.608	7.685.608
	<u>11.989.752</u>	<u>11.989.752</u>

Other information on lease contracts:

	Lease period	Book value 31.12.2017
Sports facilities	2006 - 2035	4.715.204
Office buildings	2002 - 2032	6.028.530
Other facilities	2007 - 2030	1.246.018
		<u>11.989.752</u>

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

	Sports facilities	Office buildings	Other facilities	Total
Year 2018	843.330	665.002	243.872	1.752.205
Year 2019	843.330	665.002	209.343	1.717.675
Year 2020	843.330	665.002	187.385	1.695.717
Year 2021	843.330	665.002	185.581	1.693.913
Year 2022	843.330	648.347	185.581	1.677.258
Later	5.012.791	6.199.966	865.823	12.078.580
Total	<u>9.229.441</u>	<u>9.508.321</u>	<u>1.877.586</u>	<u>20.615.348</u>

Total payments on lease contracts amounted to ISK 1,723 million in 2017 and are specified as follows in the financial statements:

	A operations	A and B operations
Payments reducing lease liabilities	776.514	776.514
Interest payments	456.091	456.091
	<u>1.232.604</u>	<u>1.232.604</u>
Operating expenses	490.047	490.047
Total lease payments	<u>1.722.651</u>	<u>1.722.651</u>

Notes

49. 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, Íþrótt- og sýningarhöllin hf. and Malbikunarstöðin Höfði hf.

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

	Deferred tax assets	Deferred tax liabilities
Balance at the beginning of the year	3.714.879	8.503.891
Calculated income tax during the year	(3.714.879)	1.747.974
Other changes	(0)	(287.010)
Income tax payable during 2018	1.265.410	(249.913)
Balance at year-end	<u>1.265.410</u>	<u>11.265.113</u>

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

	Deferred tax assets	Deferred tax liabilities
Fixed tangible assets	813.770	11.354.399
Embedded derivatives	0	836.266
Other items	451.641	(450.350)
Impact of carry-forward loss	0	(891.091)
Provision due to uncertainty regarding utilisation	0	415.889
Balance at year-end	<u>1.265.410</u>	<u>11.265.113</u>

Obligations and guarantees off the Statement of Financial Position

50. Operational contracts and service contracts

	Total obligations	Obligations due in 2018
Overview of grants, contracts, asset and operational lease agreements of A operations:		
City Executive Committee grants	103.088	48.924
Cultural grants	2.897.186	1.164.308
Grants and service contracts, Sports and Leisure	2.839.000	1.128.100
Grants and service contracts, Social Services	9.079.279	2.929.294
Grants and service contracts, Education and Recreation	28.152	28.152
Concert and Conference Hall	7.660.562	514.196
Operational agreements for Real Estate Fund	835.025	516.850
Operational Investment agreements for Real Estate Fund	3.234.900	2.834.900
Obligations of Reykjavík Parking Services	273.825	64.523
Total	<u>26.951.017</u>	<u>9.229.247</u>

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

Faxaflóahafnir sf.	1.108.000	1.108.000
Félagsbústaðir hf.	1.650.000	825.000
Orkuveita Reykjavíkur	3.944.988	3.944.988
Sorpa bs.	46.100	46.100
Strætó bs	729.000	729.000
Total	<u>7.478.088</u>	<u>6.653.088</u>

Notes

51. Guarantees

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

	A operations
Churches	270.967
Guarantee obligations of A operations against a third party	<u>270.967</u>

52. Liabilities

The A operation's obligations off the Statement of Financial Position are specified as follows:

	City's share in liabilities	A operations balance
Faxaflóahafnir sf.	75,6%	610.943
Orkuveita Reykjavíkur	93,5%	90.974.478
Slökkvilið höfuðborgarsvæðisins bs.	56,9%	131.469
Sorpa bs.	56,9%	203.279
Strætó bs.	56,9%	12.845
Félagsbústaðir hf	100,0%	5.408.189
A-operation liabilities off the Statement of Financial Position relating to B-operation companies		<u>97.341.204</u>

53. Statement of financial position at year-end

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

	Share	Assets	Liabilities	Equity
Reykjavík Municipal (A operations)	100,0%	184.106.790	98.627.150	85.479.639
Aflvaki hf.	95,7%	10.461	0	10.461
Faxaflóahafnir sf.	75,6%	11.221.284	1.164.776	10.056.508
Félagsbústaðir hf.	100,0%	77.665.726	37.409.245	40.256.481
Íþrótt og sýningahöllin hf.	50,0%	1.453.789	1.119.876	333.913
Malbikunarstöðin Höfði hf.	100,0%	1.602.631	269.455	1.333.176
Orkuveita Reykjavíkur	93,5%	291.147.847	156.571.941	134.575.906
Slökkvilið höfuðborgarsvæðisins bs.	60,8%	1.657.402	424.411	1.232.991
Sorpa bs.	66,7%	2.574.303	826.251	1.748.052
Strætó bs.	60,3%	1.782.143	638.614	1.143.529
Internal transactions		(19.211.283)	(13.163.982)	(6.047.301)
Total		<u>554.011.092</u>	<u>283.887.736</u>	<u>270.123.356</u>
Minority share		28.722.738	13.418.261	15.304.477
Balance according to the financial statements		<u>582.733.829</u>	<u>297.305.997</u>	<u>285.427.832</u>

Notes

Other

54. Orkuveita Reykjavíkur housing affairs

In 2013, Orkuveita Reykjavíkur's real estate at Bæjarháls 1 was sold to Foss fasteignafélag slhf. for ISK 5,100 million. At the end of August 2015 serious moisture damage was detected at Bæjarháls 1. There was uncertainty as to who was liable for the defect, but at the end of November 2017 Orkuveita Reykjavíkur decided to take over the assets. Various options are being considered for renovations of the building, which are estimated to cost approximately ISK 1,500-2,380 million. No decision has been made regarding the renovations.

55. Property valuation of Harpa

On 28 October 2017 the Icelandic National Register revised its real estate assessment of the Harpa Concert Hall and Conference Centre at Austurbakki 2 in Reykjavík; the new assessment is based, among other things, on a judgment rendered by the Supreme Court of Iceland on 25 February 2016, where the ruling of the State Appeals Committee on Property Valuation of May 2012 was overturned. A reassessment of the real estate tax on the property for the years 2011 - 2016 has now been completed with a resulting reduction in the tax by ISK 737 million; the real estate tax entry for the year 2016 has been reduced by a corresponding amount. Harpa ohf. has appealed the National Register's reassessment of 28 October 2017 to the Appeals Committee on Property Valuation.

56. Value-added tax encumbrance.

The Real Estate Fund owns a share in Harpa's parking garage. The parking garage is recorded in a special provision pursuant to Art. 6(4) of Act no. 50/1998 on value-added tax. The total value-added tax encumbrance at year-end 2017 amounts to ISK 315 million.

57. Litigation

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

Strætó bs. (Metropolitan Bus Transportation Company) was sued by two parties that were not awarded a contract following a tender procedure for transportation in the capital area in 2010. In the first suit the plaintiff called for an admission of liability on the part of Strætó for alleged unlawful and criminal conduct in the tender procedure. Judgment was rendered on 1 June 2017 in Supreme Court, where the judgment of the District Court was upheld, i.e. the entitlement of the plaintiff to damages from the respondent for lost profit and cost of participation in the pre-selection process was confirmed. A precautionary entry was made in the course of the year in respect of the above matter. In the second case, judgment was rendered on 21 September 2017 in the Supreme Court, where the judgment of the District Court of 16 June 2016 was confirmed. The District Court held that the conditions for liability for damages were met in the case, but assessed the financial damage of the plaintiff for lost profit at ISK 100 million. The fine as well as interests has been paid.

Several holders of framework contracts for transportation services for the disabled and handicapped school children reported Strætó bs. to the Public Procurement Complaints Commission. The applicants called on the Commission to express an opinion regarding Strætó's liability for damages for violations of the terms of a framework agreement on the performance of the transportation services. The Public Procurement Complaints concluded on 21 June 2016 that Strætó had violated its obligations under the framework contract in its ranking of framework contract holders in the performance of the transportation services and purchases of transportation services from parties external to the framework contract. The Commission returned the opinion that Strætó was liable for damages to the applicants, but no position was taken regarding the extent of the potential financial loss of the applicants. The conclusion of the Commission is being reviewed, but no position has been taken.

In April 2017 the Supreme Court of Iceland ordered Íslandsbanki to pay to Slökkvilið höfuðborgarsvæðisins bs. the sum of ISK 263 million and cost in respect of a currency-linked loan that was paid up in 2011. The reimbursement has been collected and capitalised under financial items in the Income Statement.

Legal action has been taken against Faxaflóahafnir sf. for alleged default on a work contract, and the amount claimed is ISK 174 million. The company has rejected the plaintiff's claims, but there is uncertainty regarding the final conclusion of the matter.

Notes

58. 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. 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.

Wages of related parties are specified as follows in ISK thousand:

Mayor and deputies	Wages	Contribution	Total
Mayor	20.968	4.207	25.174
2 Mayor's deputies	34.406	8.004	42.411
Wages of elected representatives			
Elected principal and alternate member of City Council	211.106	43.500	254.606
Committee representatives	36.965	5.886	42.851
Total wages related parties	<u>303.444</u>	<u>61.597</u>	<u>365.041</u>

Events after 31.12.2017

59. Fire at Hellisheiði Power Plant

In January 2018 a fire occurred in the Orkuveita Reykjavíkur's Hellisheiði power plant. No one was injured in the fire and there was minimal disturbance in the operations. The damage caused by the fire is being estimated, and under the terms of the insurance it is assumed that the financial loss will be in accordance with the amount of Orkuveita Reykjavíkur's insurance deductible of USD 1 million.

60. Orkuveita Reykjavíkur's Magma bond paid

A bond held by Orkuveita Reykjavíkur issued in 2009 in connection with the sale of a 31.23% share in HS Orka hf. has now been paid in full. The final maturity of the bond was April 2018, but on 6 February 2018 Orkuveita Reykjavíkur received a prepayment from the new owners of the parent company of Magma Energy Sweden of the total outstanding amount of the principal and accrued interest in the total amount of USD 38.7 million. The fair value of the bond in the financial statements is ISK 4,090 million, or USD 39.1 million.

Notes

61. Comparison of operating budgets

The overview below explains the operating budget for 2017 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		
	2017 Original Budget	2017 Annexes to Budget	2017 Original Budget with annexes	2017 Original Budget	2017 Annexes to Budget	2017 Original Budget with annexes
Operating revenue						
Tax revenues.....	82.300.176	1.417.791	83.717.967	81.749.562	1.417.791	83.167.353
Contributions to Municipal Equalisation Fund.....	6.604.318	6.047	6.610.365	6.604.318	6.047	6.610.365
Other revenues.....	17.530.888	(196.987)	17.333.901	73.562.517	(196.987)	73.365.530
	<u>106.435.382</u>	<u>1.226.851</u>	<u>107.662.233</u>	<u>161.916.397</u>	<u>1.226.851</u>	<u>163.143.248</u>
Operating expenses						
Wage cost and wage-related expenses.....	64.122.233	1.139.725	65.261.958	77.844.529	1.139.725	78.984.254
Other operating expenses.....	35.257.698	110.952	35.368.649	47.649.898	110.952	47.760.850
Depreciation.....	4.582.427	6.175	4.588.602	16.514.769	6.175	16.520.944
	<u>103.962.358</u>	<u>1.256.851</u>	<u>105.219.209</u>	<u>142.009.196</u>	<u>1.256.851</u>	<u>143.266.047</u>
Operating result before financial items.....	2.473.024	(30.000)	2.443.024	19.907.201	(30.000)	19.877.201
Financial income and (financial expenses).....	(654.372)	0	(654.372)	(8.723.625)	0	(8.723.625)
Operating result before tax	1.818.651	(30.000)	1.788.652	11.183.576	(30.000)	11.153.576
Income tax.....	0	0	0	(1.798.834)	0	(1.798.834)
Changes in valuation of investment properties.....	0	0	0	5.204.000	0	5.204.000
Operating result.....	<u>1.818.651</u>	<u>(30.000)</u>	<u>1.788.652</u>	<u>14.588.742</u>	<u>(30.000)</u>	<u>14.558.742</u>

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

Notes

62. Comparison of cash flow budgets

The overview below shows the cash flow budget for 2017 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		
	2017 Original Budget	2017 Annexes to Budget	2017 Original Budget with annexes	2017 Original Budget	2017 Annexes to Budget	2017 Original Budget with annexes
Cash flows from operating activities						
Operating result	1.818.651	(30.000)	1.788.652	14.588.742	(30.000)	14.558.742
Adjustments not affecting cash flow:						
Depreciation.....	4.582.427	6.175	4.588.602	16.514.768	6.175	16.520.943
Indexation, discounts and exch.rate differences.....	755.385	0	755.385	4.121.852	0	4.121.852
Gain on sold assets.....	(4.201.000)	0	(4.201.000)	(4.201.000)	0	(4.201.000)
Value adjustment of investment properties.....	0	0	0	(5.204.000)	0	(5.204.000)
Changes in deferred income tax liability.....	0	0	0	1.794.734	0	1.794.734
Changes in pension obligations.....	5.861.000	1.122.523	6.983.523	5.899.597	1.122.523	7.022.120
Working capital provided by						
operating activities (to op. activities).....	8.816.463	1.098.698	9.915.162	33.514.692	1.098.698	34.613.391
Changes in operating assets and liabilities:						
Inventories, decrease (increase).....	0	0	0	(30.000)	0	(30.000)
Unrecovered revenues, decrease (increase)	0	0	0	(51.209)	0	(51.209)
Other current receivables, decrease (increase)	25.000	0	25.000	(3.000.575)	0	(3.000.575)
Current liabilities, increase (decrease).....	0	827.830	827.830	654.793	827.830	1.482.623
Contribution to pension obligations.....	(2.250.000)	(5.000.000)	(7.250.000)	(2.540.133)	(5.000.000)	(7.540.133)
Changes in operating assets and liabilities.....	(2.225.000)	(4.172.170)	(6.397.170)	(4.967.124)	(4.172.170)	(9.139.294)
Net cash provided by						
operating activities (to operating activities).....	6.591.463	(3.073.472)	3.517.992	28.547.568	(3.073.472)	25.474.097
Investment activities						
Investments in fixed tangible assets.....	(15.127.573)	(2.394.000)	(17.521.573)	(35.721.248)	(2.394.000)	(38.115.248)
Road construction fees.....	3.400.000	0	3.400.000	3.400.000	0	3.400.000
Sales of building rights.....	2.858.000	0	2.858.000	2.858.000	0	2.858.000
Proceeds from sale of fixed tangible assets.....	1.343.003	0	1.343.003	1.832.716	0	1.832.716
Share holdings, change.....	(1.005.164)	0	(1.005.164)	(1.005.164)	0	(1.005.163)
Long-term receivables, change.....	118.627	0	118.627	206.038	0	206.038
Other investment activities.....	841.772	0	841.772	(23.713)	0	(23.713)
Investment activities.....	(7.571.335)	(2.394.000)	(9.965.335)	(28.453.371)	(2.394.000)	(30.847.370)
Financing activities						
New long-term borrowings.....	3.012.400	5.000.000	8.012.400	14.973.400	5.000.000	19.973.400
Repayment of long-term borrowings.....	(1.454.833)	0	(1.454.833)	(17.576.479)	0	(17.576.479)
Payments on lease liabilities	(714.333)	0	(714.333)	(714.333)	0	(714.333)
Paid in capital / other changes in equity.....	0	0	0	1.974.850	0	1.974.850
Other activities.....	(5.632)	0	(5.632)	(2.990.000)	0	(2.990.000)
Financing activities.....	837.602	5.000.000	5.837.602	(4.332.562)	5.000.000	667.438
Increase (decrease) in cash and cash equivalents..	(142.269)	(467.472)	(609.741)	(4.238.364)	(467.471)	(4.705.835)
Cash and cash equivalents at beginning of year....	7.856.226	0	7.856.226	30.421.501	0	30.421.501
Cash and cash equivalents at year-end.....	7.713.956	(467.472)	7.246.485	26.183.137	(467.471)	25.715.666

Notes

63. Financial ratios

Overview of financial ratios:

Ratio of operating income:

	Reykjavík Municipal A operations		Reykjavík Group A and B operations	
	2017	2017	2017	2017
	Financial Statements	Budget with annexes	Financial Statements	Budget with annexes
Municipal income tax	59,3%	62,5%	39,7%	41,3%
Property taxes	14,1%	15,2%	9,1%	9,7%
Total tax revenues	73,4%	77,8%	48,9%	51,0%
Contribution from Municipal Equalisation Fund	6,2%	6,1%	4,2%	4,1%
Other revenues	20,4%	16,1%	47,0%	45,0%
Total operating revenues	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	52,7%	54,1%	43,5%	44,1%
Increase in pension obligations	6,0%	6,5%	4,1%	4,3%
Other operating expenses	33,3%	32,9%	29,5%	29,3%
Total operating expenses	92,1%	93,5%	77,1%	77,7%
Contribution margin (EBITDA)	7,9%	6,5%	22,9%	22,3%
Depreciation	4,0%	4,3%	8,7%	10,1%
Operating result before financial income (expenses)	3,9%	2,3%	14,2%	12,2%
Financial income and (expenses)	0,4%	(0,6%)	1,2%	(5,3%)
Income tax	0,0%	0,0%	(3,2%)	(1,1%)
Effects of minority interest and subsidiaries	0,0%	0,0%	(0,9%)	0,0%
Operating results	4,3%	1,7%	16,2%	8,9%
Working capital provided by operations	8,0%	9,2%	19,3%	21,2%
Investments in fixed tangible assets	(13,3%)	(16,3%)	(23,0%)	(23,4%)
Total liabilities and obligations	85,2%	-	171,9%	-

In ISK thousand per inhabitant:

Operations:

Tax revenue	674	664	670	659
Contributions from Municipal Equalisation Fund	57	52	57	52
Other revenue	187	137	644	582
Total operating revenue	918	854	1.371	1.294
Wage cost and wage-related expenses	(540)	(518)	(652)	(626)
Other operating expenses and depreciation	(343)	(317)	(525)	(510)
Financial income and (expenses)	4	(5)	16	(69)
Other	0	0	12	27
Operating result	39	14	222	115

Cash flow:

Working capital provided by operating activities	73	79	265	274
Cash and cash equiv. provided by operating activities	(8)	28	178	202

	A operation		A and B operations	
	2017	2016	2017	2016
Other ratios:				
Current ratio - curr. assets/curr. liabilities	1,29	1,57	1,10	1,13
Equity ratio - equity/total assets	0,46	0,48	0,49	0,46
Population (source: Statistics Iceland):	2017	2016	2015	2014
Population on 1 December	126.109	123.133	122.452	121.814
Change from previous year	2.976	681	638	1.484

Notes

64. Reykjavík Municipal financial ratios

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

	2017 Budget with annexes	Financial Statements				
		2017	2016	2015	2014	2013
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	-	(6.027)	(13.830)	(13.297)	493	515
Liabilities thresholds.....	-	60%	63%	71%	65%	63%
Total liabilities and obligations - debt ratio	-	85%	83%	89%	77%	78%
Other ratios:						
Long-term liabilities and obligations in proportion to working capital provided by operations (in years)	7,70	8,76	6,35	12,61	11,39	7,04
Equity ratio - equity/total assets	45%	46%	48%	48%	58%	58%
Working capital provided by operations in proportion to payment of liabilities	4,57	4,11	5,30	2,73	1,28	3,76
Current asset ratio - current assets/current liabilities	1,38	1,29	1,57	1,18	1,31	1,40
As a ratio of operating revenue:						
Tax revenue	77,8%	73,4%	76,0%	76,1%	77,3%	76,0%
Contributions from Municipal Equalisation Fund	6,1%	6,2%	6,7%	6,8%	6,4%	6,6%
Other revenue	16,1%	20,4%	17,4%	17,1%	16,3%	17,3%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	54,1%	52,7%	51,3%	54,0%	53,6%	50,3%
Increase in pension obligations	6,5%	6,0%	5,0%	16,1%	4,0%	0,2%
Other operating expenses	32,9%	33,3%	36,4%	39,5%	41,3%	40,4%
Depreciation	4,3%	4,0%	4,5%	4,6%	4,6%	4,5%
Total operating expenses	97,7%	96,1%	97,2%	114,1%	103,5%	95,4%
Operating result before financial items	2,3%	3,9%	2,8%	(14,1%)	(3,5%)	4,6%
Financial income and (expenses)	(0,6%)	0,4%	(0,2%)	(0,9%)	0,1%	(0,8%)
Operating result (negative)	1,7%	4,3%	2,6%	(15,0%)	(3,4%)	3,8%
Contribution margin (EBITDA)	6,5%	7,9%	7,3%	-9,6%	1,1%	9,1%
Working capital provided by operations	9,2%	8,0%	10,9%	5,7%	5,4%	8,6%
Investments in fixed tangible assets	(16,3%)	(13,3%)	(9,4%)	(10,4%)	(9,8%)	(9,0%)
In ISK thousand per inhabitant						
Operation:						
Tax revenue	664	674	620	566	531	501
Contributions from Municipal Equalisation Fund	52	57	54	51	44	44
Other revenue	137	187	142	127	112	114
Total operating revenue	854	918	817	743	688	659
Wage cost and wage-related expenses	(462)	(484)	(419)	(401)	(368)	(331)
Increase in pension obligations	(55)	(56)	(41)	(119)	(27)	(1)
Other operating expenses and depreciation	(317)	(343)	(333)	(328)	(316)	(296)
Financial income and (expenses)	(5)	4	(2)	(6)	1	(5)
Operating result (negative)	14	39	21	(111)	(23)	25
Cash flow:						
Working capital provided by operations	79	73	89	43	37	56
Cash and cash equivalents provided by operations	28	(8)	53	22	37	56
Investments in fixed tangible assets	(139)	(122)	(77)	(77)	(67)	(59)
Balance Sheet:						
Assets	1.328	1.460	1.301	1.262	1.250	1.218
Equity	603	678	621	603	719	704
Liabilities	725	782	680	659	530	514
Tax rates:						
Municipal income tax	14,52%	14,52%	14,52%	14,52%	14,52%	14,48%
Property tax, class A	0,20%	0,20%	0,20%	0,20%	0,20%	0,20%
Property tax, class B	1,32%	1,32%	1,32%	1,32%	1,32%	1,32%
Property tax, class C	1,65%	1,65%	1,65%	1,65%	1,65%	1,65%
Population (source: Statistics Iceland):						
Population on 1 December	126.109	126.109	123.133	122.452	121.814	121.116
Change from previous year		2.976	681	698	1.484	847
Change from previous year (ratio)		2,4%	0,6%	0,6%	1,2%	0,7%

Notes

65. Reykjavík Group financial ratios

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

	2017 Budget with annexes	Financial Statements				
		2017	2016	2015	2014	2013
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	-	18.442	7.806	(824)	8.061	-
Liabilities thresholds less Orkuveita Reykjavíkur (OR).....	-	85%	85%	97%	92%	92%
Total liabilities and obligations. - debt ratio less OR	-	108%	107%	112%	104%	106%
Other ratios:						
Long-term liabilities and obligations in proportion to working capital provided by operations (years)	7,09	7,49	7,16	8,16	9,34	8,29
Equity ratio - equity/total assets	48%	49%	46%	43%	43%	40%
Working capital provided by operations in proportion to payment of liabilities	1,89	2,04	1,92	1,74	1,07	1,03
Current asset ratio - current assets/current liabilities	1,34	1,10	1,13	0,94	0,93	0,92
As a ratio of operating revenue:						
Tax revenue	51,0%	48,9%	48,8%	47,8%	48,3%	46,4%
Contributions from Municipal Equalisation Fund	4,1%	4,2%	4,3%	4,3%	4,0%	4,1%
Other revenue	45,0%	47,0%	46,9%	47,9%	47,6%	49,5%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	44,1%	43,5%	40,8%	41,6%	40,7%	37,8%
Increase in pension obligations	4,3%	4,1%	3,3%	10,2%	2,5%	0,2%
Other operating expenses	29,3%	29,5%	32,1%	33,7%	34,3%	33,1%
Depreciation	10,1%	8,7%	10,5%	11,3%	10,7%	10,7%
Total operating expenses	87,8%	85,8%	86,6%	96,8%	88,3%	81,8%
Operating result before financial items	12,2%	14,2%	13,4%	3,2%	11,7%	18,2%
Financial income and (expenses)	(5,3%)	1,2%	0,6%	(9,2%)	(4,7%)	(7,0%)
Other	2,1%	0,9%	3,0%	2,5%	1,4%	(4,8%)
Operating result (negative)	8,9%	16,2%	17,0%	(3,5%)	8,3%	6,5%
Contribution margin (EBITDA)	22,3%	22,9%	23,8%	14,5%	22,4%	28,9%
Working capital provided by operations	21,2%	19,3%	22,0%	21,6%	19,7%	22,7%
Investments in fixed tangible assets	(21,8%)	(21,6%)	(15,6%)	(16,3%)	(12,9%)	(9,4%)
In ISK thousand per inhabitant						
Operation:						
Tax revenue	659	670	616	562	528	497
Contributions from Municipal Equalisation Fund	52	57	54	51	44	44
Other revenue	582	644	593	562	520	529
Total operating revenue	1.294	1.371	1.263	1.175	1.092	1.070
Wage cost and wage-related expenses	(571)	(596)	(515)	(489)	(444)	(405)
Increase in pension obligations	(56)	(56)	(42)	(120)	(28)	(2)
Other operating expenses and depreciation	(510)	(525)	(537)	(529)	(493)	(469)
Financial income and (expenses)	(69)	16	7	(108)	(52)	(74)
Other	27	12	38	30	15	(51)
Operating result (negative)	115	222	214	(41)	91	69
Cash flow:						
Working capital provided by operations	274	265	278	254	215	243
Cash and cash equivalents provided by operations	202	178	249	227	244	246
Investments in fixed tangible assets	(283)	(296)	(197)	(191)	(141)	(101)
Balance Sheet:						
Assets	4.339	4.621	4.349	4.292	4.141	3.950
Equity	2.067	2.263	1.990	1.829	1.783	1.585
Liabilities	2.272	2.358	2.359	2.463	2.357	2.364
Tax rates:						
Municipal income tax	14,52%	14,52%	14,52%	14,52%	14,52%	14,48%
Property tax, class A	0,20%	0,20%	0,20%	0,20%	0,20%	0,20%
Property tax, class B	1,32%	1,32%	1,32%	1,32%	1,32%	1,32%
Property tax, class C	1,65%	1,65%	1,65%	1,65%	1,65%	1,65%
Population (source: Statistics Iceland):						
Population on 1 December	126.109	126.109	123.133	122.452	121.814	121.116
Change from previous year		2.976	681	698	1.484	847
Change from previous year (ratio)		2,4%	0,6%	0,6%	1,2%	0,7%

Statement on governance and non-financial information

Statement on governance

The City Council emphasises the importance of maintaining good governance. The governance of municipalities is subject to the Local Government Act No. 138/2011, as amended, and Standing Orders No. 715 of 8 July 2013 on the government of the City of Reykjavík. The City of Reykjavík has listed bonds in a stock exchange and is therefore subject to the Rules for issuers of financial instruments published by the Iceland Stock Exchange.

The City Council is composed of fifteen members and an equal number of alternate members elected in a democratic election by the residents of the municipality in accordance with the Act on elections to local government. The City Council elects the president of the Council and two deputy presidents from the ranks of municipal representatives for a term of one year. The City Council elects from the ranks of municipal representatives seven principal members of the Municipal Executive Committee for a term of one year and an equal number of alternate members. The City Council elects a chairman and a deputy chairman of the Executive Committee from the ranks of elected Executive Committee members. Information on the elected representatives serving in the Council can be accessed on the City of Reykjavík website, reykjavik.is.

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

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

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

The City of Reykjavík's Audit Committee works under the auspice of the City Council in accordance with Chapter IX of the Financial Statements Act No. 3/2006 and in accordance with the Standing Orders No. 715/2013 on the government of the City and in accordance with law. The Audit Committee is composed of four members, three appointed by the City Council and one appointed on the recommendation of Orkuveita Reykjavíkur. The members of the Audit Committee are Ólafur B. Kristinsson, certified public accountant, chairman, Inga Björg Hjaltadóttir, attorney at law, Ingvar Garðarsson, certified public accountant, and Sunna Jóhannsdóttir, business economist. The City Council has approved working procedures for the Audit Committee which are accessible on the City's website.

The Internal Audit Function handles monitoring of the City's financial and administrative matters under the auspice of the Executive Committee. This entails that the Internal Audit Function evaluates and improves the functionality of risk management, control methods and governance at institutions and companies in which the City of Reykjavík owns a majority. Working procedures for the Internal Audit Function, which have been approved by the Executive Committee, are accessible on the City's website. The City of Reykjavík's internal auditor is Hallur Símonarson.

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

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

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

Statement on governance and non-financial information

Non-financial information

According to the Local Government Act No. 138/2011, municipalities are independent public entities governed by democratically elected municipal governments representing the residents of the municipality. The Municipality carries out the tasks assigned to it by law, *inter alia* regarding education and youth, social services, sport and leisure, culture, sanitation matters, city planning and environmental affairs. Furthermore, the Municipality observes the requirements relating to its activities under other acts of law, including the Administrative Procedure Act, the Act on the equal rights and equal position of men and women and the Act on public procurement.

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

Human resources

The object of the City of Reykjavík's human resources policy is that the City should always have at its disposal qualified and dedicated employees who are capable of providing the required initiative in their work and good services and responding to the constantly changing needs of the City. The human resources policy is to ensure for employees quality working conditions and potential for growth and advancement in their work. Efforts shall be made to create conditions for employees to harmonise their work and family life.

Environmental and resources policy

The quality of life of current and future generations of citizens is assured by assessing the value inherent in service to nature and a clean environment. Servicing nature will be strengthened and negative environmental impact minimised. The policy will be implemented in nine policy areas: Resources, communications, planning, environmental quality, climate, education for sustainability, nature and outdoors activities, consumption and waste and the operation of the City of Reykjavík.

Human rights policy

The City of Reykjavík's human rights policy is based on the principle of non-discrimination and designed to ensure that all citizens are guaranteed human rights, regardless of origin, nationality, class, language, race, religion, beliefs and political views, atheism, gender, sexual orientation, sexual awareness, sexual characteristics, age, disability, physique, physical stature, health, capacity or other status.

Procurement rules

Procurement rules are designed to promote professional, efficient and environmentally sound procurement by the City of Reykjavík and ensure the quality of goods, services and work paid for by the City. Furthermore ensure that the City of Reykjavík will arrange its procurement in line with good business practices, ensure that the administration of the City of Reykjavík in its procurement activities complies with principles of good governance and promote observance of general requirements regarding sound administration and predictable execution, transparency, non-discrimination and rights of recourse. Also, the City will promote active competition between businesses in the marketplace and strengthen innovation and development in Reykjavík's procurement of goods, works and services.

Treasury rules

A policy and rules regarding financial risk management have been approved, which are reflected in the role of the risk management group and policy and rules on treasury. Treasury rules are intended to ensure that the City of Reykjavík will always maintain access to sufficient cash in order to meet the Municipality's obligations, including guarantees due to company's owned by the City. In addition, Treasury shall minimise financial costs and maximise return of liquid assets in accordance with investment authorisations at each time with an effective borrowing and liquid asset management.