

Reykjavíkurborg

(City of Reykjavik)

Financial Statements 2018



Reykjavíkurborg
(City of Reykjavik)
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(City of Reykjavik)

Financial Statements 2018

Table of contents

	Page
Mayor and Executive Committee's report and endorsement	2
Endorsement by the City Council	3
Independent Auditor's report	4-7
Income Statement	8
Statement of Financial Position	9-10
Statement of Cash Flows	11
Notes	12-35
Unaudited attachment:	
Statement on governance and non-financial information	36-37

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 2018 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 119,792 million in 2018, of which tax revenues accounted for ISK 92.661 million. The municipal income tax rate was 14.52%, which is the statutory maximum. The property tax rate was 0.18% for tax class A, 1.32% for tax class B and 1.65% for tax class C. The maximum statutory rates are 0.625%, 1.32% and 1.65% for tax classes A, B and C, respectively. Total operating revenue for the consolidated Reykjavik Group amounted to ISK 179,968 million in 2018.

The operating result for Reykjavik Municipal (A operation) amounted to a profit of ISK 4,726 million, whereas the budget for the fiscal year projected a profit of ISK 4,074 million. The operating result for Reykjavík Group (A and B operations) amounted to a profit of ISK 12,342 million, whereas the year's budget projected a profit of ISK 17,797 million. The operating result for Reykjavik Group (A and B operations) fell short of expectations, mainly due to negative changes in derivatives embedded in electricity sales agreements and lesser changes than expected in the valuation of properties owned by Félagsbústaðir hf. (Reykjavik Social Housing).

The total assets of Reykjavík Group (consolidated A and B operations) according to the balance sheet at year-end 2018 amounted to ISK 641,574 million, and total liabilities amounted to ISK 324,387 million. Equity amounted to ISK 317,187 million, of which minority interests amounted to ISK 17,219 million.

On 1 December 2018 the population of the City of Reykjavik was 128,724.

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

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, 30 April 2019.

Mayor

Executive Committee

Endorsement by the City Council

The financial statements of Reykjavíkurborg (the City of Reykjavík) for the year 2018 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, 14 May 2019.

City Council:

Independent auditor's report

To the City Council of Reykjavíkurborg

Opinion

We have audited the accompanying Financial Statements of Reykjavíkurborg for the year 2018 which comprise the financial statements of A operations and the financial statements of A and B operations. The Financial Statements comprise the Statement of the Mayor and the City Council, the Statement of Income, the Statement of Financial Position, the Statement of Cash Flows, a summary of significant accounting policies and other explanatory information.

In our opinion, the Financial Statements present fairly, in all material respects, the municipality's financial performance in the year 2018, its financial position as at December 31, 2018, and its cash flow for the year then ended in accordance with the Icelandic Financial Statement Act and the Local Government Act.

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

Basis for Opinion

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

Other Matters

The Financial Statement of Reykjavíkurborg for the year 2017 was audited by other auditors. Their opinion is dated 15 May 2018 and is unmodified.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the municipality's Financial Statement for the year 2018. These matters were addressed in the context of our audit of the Financial Statement and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

a) Valuation of production and distribution systems

See note 7 on significant accounting policies and note 30 on property, plant and equipment.

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

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

As part of our audit, we reviewed the Orkuveita Reykjavíkur's methodology for valuing the production and distribution systems and its consistency with international financial reporting standards. We reviewed Orkuveita Reykjavíkur's processes for the revaluation and impairment tests. We also reviewed the functionality of models used in the assessments.

We evaluated management assumptions by comparing to public information where applicable. Where assumptions are not based on public information, we made our own evaluation on management assumptions. We used the work of a valuation specialist to assist in this evaluation.

Independent auditor's report, contd.

b) Valuation of embedded derivatives

See note 38 on embedded derivatives

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

The embedded derivatives are considered to be third level financial items, where estimates are based on management assumptions and unobservable inputs. Because of the vulnerability of the estimate, any change in assumptions can have significant effect on the income statement and balance sheet. For these reasons, we assume there is significant risk related to embedded derivatives and have therefore defined them as a key audit matter. Furthermore, the extent of the derivative is such that changes in fair value have a material effect on the consolidated Financial Statement of A- and B- operation.

In our audit, we reviewed the pricing methodology of Orkuveita Reykjavíkur and consistency with international financial reporting standards. We reviewed Orkuveita Reykjavíkur's process for analysing and assessing assumptions used in the valuation, as well as reviewing valuation models used.

We recalculated derivative valuations based on information we collected. We used the work of a valuation specialist to assist with this review.

c) Accuracy and existence of property plant and equipment

See note 7 on significant accounting policies and note 30 on property, plant and equipment.

Property, plant and equipment are the largest single balance sheet component amounting to ISK 553,9bn in 2018 compared to ISK 503,9bn in 2017 for A- and B-operations combined. PPE amounted to ISK 145,3bn in 2018 and ISK 128bn in 2017 for A-operation alone. Particular emphasis is placed on the audit of property, plant and equipment of City's Real Estate Fund and Orkuveita Reykjavíkur.

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

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

d) Revenue recognition

See note 3 on significant accounting policies and note 24 on revenues.

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

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

We have used substantive testing methods where we have for example reviewed reconciliations between accounting systems and subsystems and received third party confirmation of energy usage, turnover and outstanding balances at year-end from specific customers. We have also reviewed deposits after year-end where balance confirmations from customers were not available.

We have also performed substantive tests where we have compared our expectations to actual revenue recognition.

Independent auditor's report, contd.

Other Information

The City Council and the Mayor are responsible for all information presented by the municipality, both the Financial Statements as well as other information. The other information comprises an report from the municipality's finance office. Our opinion on the Financial Statement does not cover other documents issued by the municipality and we do not express any form of assurance on the information in those documents thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above when it becomes available, and in doing so, consider whether the other information is materially inconsistent with the Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we conclude that there are material misstatements or inconsistencies therein, we are required to communicate the matter to the city council and the mayor and take appropriate action depending on the severity of the misstatement.

The city council's and the mayor's Responsibility for the Financial Statements

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

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

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

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

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

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

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

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

Independent auditor's report, contd.

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

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

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

For and on behalf of Grant Thornton endurskoðunar ehf.
Reykjavík, 14 May 2019

J. Sturla Jónsson
State Authorized Public Accountant

Theodór S. Sigurbergsson
State Authorized Public Accountant

Income Statement for the year 2018

	Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
		2018	2018	2017	2018	2018	2017
		Financial Statements	Budget with Annexes	Financial Statements	Financial Statements	Budget with Annexes	Financial Statements
Operating revenue	3,24						
Tax revenues		92.660.626	92.362.175	85.021.305	92.101.779	92.362.175	84.514.958
Contributions from Municipal Equalisation Fund		7.382.951	7.295.758	7.218.312	7.382.951	7.295.758	7.218.312
Other revenues		19.748.062	20.210.735	23.571.768	80.483.040	81.017.146	81.186.740
Total operating revenues		119.791.639	119.868.668	115.811.385	179.967.770	180.675.080	172.920.010
Operating expenses	4						
Wage cost and wage-related expenses	25	63.178.818	63.332.216	61.084.542	77.060.778	77.662.695	75.219.464
Changes in pension obligations, LsRb*	25,44	4.706.002	5.003.919	7.002.362	4.810.578	5.003.919	7.044.568
Other operating expenses		41.802.859	41.971.741	38.534.112	54.326.671	56.526.754	51.058.233
Total operating expenses		109.687.678	110.307.876	106.621.015	136.198.026	139.193.368	133.322.265
Operating result before depreciation, EBITDA		10.103.961	9.560.792	9.190.370	43.769.744	41.481.712	39.597.745
Depreciation	9,10,32	(4.923.351)	(4.889.621)	(4.663.706)	(16.661.737)	(15.970.836)	(15.097.039)
Operating result before financial items.....		5.180.610	4.671.171	4.526.664	27.108.007	25.510.876	24.500.706
Net financial items	5,26	(455.100)	(597.388)	444.667	(18.103.013)	(11.800.550)	2.055.386
Operating result before tax, adjustments and effects of associated companies		4.725.509	4.073.783	4.971.331	9.004.994	13.710.326	26.556.092
Income tax	19,47	0	0	0	1.372.643	(1.516.052)	(5.462.853)
Value adjustment of investment properties	7,30	0	0	0	2.964.778	5.603.000	8.497.188
Share in associated companies' operating results	11,28	0	0	0	(13.999)	0	(25.271)
Minority interests		0	0	0	(986.765)	0	(1.537.979)
Operating results.....	43	4.725.509	4.073.783	4.971.331	12.341.652	17.797.274	28.027.176

* 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 44.

Statement of Financial Position 31 December 2018

Assets	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		2018 Financial Statements	2017 Financial Statements	2018 Financial Statements	2017 Financial Statements
Fixed assets					
Intangible assets	6,29	0	0	1.999.523	1.607.504
Fixed tangible assets:	7,9,10				
Real estate	30	118.626.457	103.868.042	143.857.185	128.456.052
Utilities	30	0	0	294.237.974	269.193.531
Investment properties	30	0	0	83.202.731	77.265.481
Road systems	30	15.975.143	13.463.124	16.583.805	14.029.611
Machinery and equipment	30	4.890.248	4.286.858	10.188.154	8.500.468
Lease properties	31	5.790.960	6.431.580	5.790.960	6.431.580
		<u>145.282.808</u>	<u>128.049.604</u>	<u>553.860.808</u>	<u>503.876.723</u>
Investments and long-term receivables:					
Capital contributions and shares in companies	11,37	10.286.737	8.116.673	8.064.362	6.165.794
Long-term receivables from own companies	13,14,39	9.556.177	10.554.956	0	0
Pre-paid costs	12	10.002.370	10.488.717	10.884.997	10.658.688
Embedded derivatives	38	0	0	0	1.877.811
Derivative contracts	8	0	0	295.670	738.800
Deferred tax assets	19,47	0	0	3.819.233	1.265.410
Other long-term receivables	13,14,39	4.677.361	3.786.423	5.245.617	4.645.913
		<u>34.522.645</u>	<u>32.946.770</u>	<u>28.309.880</u>	<u>25.352.416</u>
Total fixed assets		<u>179.805.453</u>	<u>160.996.374</u>	<u>584.170.211</u>	<u>530.836.643</u>
Current assets					
Inventories	15,40	0	0	1.608.102	1.429.094
Short-term receivables:	16				
Unclaimed revenues and receivables	41	9.517.650	11.025.289	16.911.457	17.827.309
Next year's paym. of own comp. long-term receivab.	39	1.341.934	1.198.760	0	0
Next year's payment of other long-term receivables	39	1.195.928	1.496.380	1.548.167	5.815.224
Receivables from own companies		344.158	388.370	0	0
Pre-paid costs	12	388.081	388.081	723.903	388.081
Embedded derivatives	38	0	0	0	346.301
Derivative contracts	8	0	0	946.717	36.081
Other receivables		1.822.092	2.593.823	2.466.346	3.227.851
Bank deposits and marketable securities	42	0	0	7.223.231	6.124.722
Cash and cash equivalents	17,42	10.040.334	7.219.713	25.976.122	17.902.524
Total current assets		<u>24.650.178</u>	<u>24.310.416</u>	<u>57.404.045</u>	<u>53.097.186</u>
Total assets		<u>204.455.631</u>	<u>185.306.790</u>	<u>641.574.255</u>	<u>583.933.830</u>

Statement of Financial Position 31 December 2018

Equity and liabilities

	Notes	Reykjavik Municipal (A operation)		Reykjavik Group (A and B operations)	
		2018 Financial Statements	2017 Financial Statements	2018 Financial Statements	2017 Financial Statements
Equity					
Equity account	43	96.308.090	85.479.639	299.968.020	270.123.356
Minority interest		0	0	17.219.445	15.304.477
Total equity		96.308.090	85.479.639	317.187.465	285.427.832
Obligations					
Pension obligations	18,44	35.642.169	33.608.700	36.324.573	34.216.961
Deferred tax liabilities	19,47	0	0	13.013.289	11.265.113
Capital contributions from state		0	0	629.786	114.808
Other obligations		0	0	348.905	310.817
Total obligations		35.642.169	33.608.700	50.316.553	45.907.700
Long-term liabilities					
Long-term debts	20,45	41.612.271	35.751.814	207.267.653	192.243.352
Current liabilities, own companies	45	77.952	139.989	0	0
Lease liabilities	21,46	10.706.000	11.165.940	10.706.000	11.165.940
Embedded derivatives in electricity contracts	8,38	0	0	4.270.604	0
Derivative contracts	8	0	0	777.053	737.006
Total long-term liabilities		52.396.224	47.057.743	223.021.310	204.146.298
Current liabilities					
Debts to credit institutions		210.487	0	1.169.079	1.881.321
Accounts payable		4.638.706	4.506.515	10.181.531	7.709.102
Embedded derivatives in electricity contracts	8,38	0	0	1.046.265	0
Next year's payments on long-term debts	45	1.554.896	1.628.043	18.824.173	15.952.483
Next year's payments on current liabilities, own companies	45	66.587	64.491	0	0
Next year's payments on lease liabilities	46	856.597	823.811	856.597	823.811
Pension obligations, short-term	44	2.507.000	2.195.000	2.534.700	2.220.000
Accounts payable to own companies		551.394	420.848	0	0
Prepayments		1.649.659	1.200.000	1.834.105	1.200.000
Derivative contracts	8	0	0	548.022	2.898.249
Other payables		8.073.821	8.321.999	14.054.454	15.767.033
Total current liabilities		20.109.149	19.160.707	51.048.927	48.451.999
Total liabilities and obligations		108.147.541	99.827.150	324.386.790	298.505.997
Total equity and liabilities		204.455.631	185.306.790	641.574.255	583.933.830
Obligations off the Statement of Financial Position	48-50				

Statement of Cash Flows for the year 2018

Notes	Reykjavik Municipal (A operation)			Reykjavik Group (A and B operations)		
	2018	2018	2017	2018	2018	2017
	Financial statements	Budget with annexes	Financial statements	Financial statements	Budget with annexes	Financial statements
Cash flows from operating activities						
Operating results.....	4.725.509	4.073.783	4.971.331	12.341.652	17.797.274	28.027.176
Adjustments not affecting cash flow:						
Gain on sold assets	(3.602.567)	(4.934.224)	(8.067.099)	(3.964.388)	(4.934.224)	(7.225.707)
Depreciation	32 4.923.351	4.889.621	4.663.706	16.661.737	15.970.836	15.097.039
Indexation, discounts and exch.rate differences	5 1.063.351	858.184	636.084	5.892.860	2.661.414	5.986.815
Embedded derivatives, change	38 0	0	0	8.587.246	1.277.748	(12.543.221)
Value adjustment of investment properties	30 0	0	0	(2.964.778)	(5.603.000)	(8.497.188)
Effect of own companies and minority interests	0	0	0	1.000.764	0	1.563.251
Changes in pension obligations	44 4.706.002	5.000.000	7.002.362	4.810.578	5.041.988	7.044.568
Changes in deferred taxes	47 0	0	0	(2.774.688)	(1.960.180)	3.941.315
Other changes	12.000	0	2.000	12.000	0	1.107
Working capital provided by operating activities	11.827.646	9.887.364	9.208.383	39.602.982	30.251.856	33.395.156
Changes in operating assets and liabilities:						
Inventories decrease (increase)	0	0	0	(177.726)	(10.000)	(457.398)
Current receivables (increase) decrease	2.274.269	(641.135)	(1.823.969)	820.732	(645.920)	(3.046.188)
Current liabilities (decrease) increase	99.601	893.864	4.582.231	(2.844.632)	1.068.230	5.701.063
Contributions to pension payments	44 (2.360.533)	(2.535.000)	(2.098.326)	(2.642.663)	(2.535.000)	(2.124.175)
Prepaid contribution to Brú pension fund, changes	486.347	0	(10.876.798)	(226.309)	0	(11.046.769)
Change in operating assets and liabilities	499.684	(2.282.271)	(10.216.862)	(5.070.597)	(2.122.690)	(10.973.468)
Net cash provided by operating activities	12.327.330	7.605.093	(1.008.478)	34.532.385	28.129.165	22.421.688
Investment activities						
Investments in fixed tangible assets	23 30 (19.368.267)	(20.302.400)	(15.419.796)	(37.289.842)	(45.843.517)	(37.292.341)
Investment in investment properties	30 0	0	0	(2.972.472)	(5.639.000)	(2.304.015)
Investments in intangible assets	29 0	0	0	(545.692)	(318.000)	(209.816)
Paid road construction fees	30 3.293.966	3.634.100	2.562.606	3.293.966	3.634.100	2.562.606
Sales of building rights	3.548.460	4.102.500	6.925.095	3.578.798	4.102.500	7.291.215
Proceeds from sale of fixed tangible assets	55.039	831.724	2.543.632	513.766	1.116.223	913.963
Change in shareholdings	(2.170.065)	(1.103.182)	(729.315)	(1.659.460)	(166.501)	(401.776)
Short-term investments	449.659	0	0	(297.964)	0	(547.287)
Restricted bank deposits	0	0	0	(14.209)	0	(1.000.000)
Long-term receivables, change	633.711	1.364.328	(2.300.123)	3.539.802	4.542.022	(3.115.305)
Investment activities	(13.557.497)	(11.472.930)	(6.417.901)	(31.853.306)	(38.572.174)	(34.102.756)
Financing activities						
Capital contributions from state	0	0	0	386.518	1.107.000	114.808
New long-term borrowings	45 6.592.601	6.611.000	8.132.694	31.196.103	26.355.000	22.281.675
New lease liabilities	46 0	0	28.798	0	0	28.798
Repayments of long-term liabilities	45 (1.882.565)	(1.847.823)	(1.467.719)	(23.591.215)	(14.550.695)	(15.621.581)
Payments on lease liabilities	46 (834.006)	(830.056)	(773.575)	(834.006)	(830.056)	(773.575)
Derivative contracts paid	0	0	0	(1.657.785)	(1.265.295)	(1.952.609)
Paid-in capital	0	0	0	151.319	400.000	0
Short-term borrowings, change	0	0	0	(656.309)	658.130	(913.060)
Dividends paid	0	0	0	(155.808)	(206.788)	(139.148)
Other financing activities	174.758	(658)	47.819	174.758	0	0
Financing activities	4.050.788	3.932.464	5.968.018	5.013.574	11.667.296	3.025.310
(Decrease) Increase in cash and cash equivalents.....	2.820.621	64.626	(1.458.362)	7.692.653	1.224.288	(8.655.759)
Cash and cash equivalents at beginning of year.....	7.219.713	2.764.088	8.678.075	17.902.524	18.280.460	26.588.117
Effect of currency fluctuations on cash.....	0	0	0	380.945	(2.707)	(29.834)
Cash and cash equivalents at year-end.....	17 10.040.334	2.828.714	7.219.713	25.976.122	19.502.041	17.902.524
Investment and financing activities without cash flow effect						
Investments in fixed tangible assets	30 0	0	0	(448.539)	0	649.463
Short-term borrowings, change	0	0	0	448.539	0	(649.463)
New borrowings	45 0	0	0	27.763	0	3.462.271
Repayment of long-term liabilities	0	0	0	0	0	(3.462.271)

Notes

1. Information on the Municipality

Reykjavíkurborg (the City of Reykjavík), the capital city of Iceland, is a municipality with a population of 128,724, as at 1 December 2018. The municipality's offices are located in Reykjavík City Hall.

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

2. Basis of preparation

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

Reykjavík Municipal comprises activities which are partly or entirely funded by tax revenues. These include Aðalsjóður (the City's Operations Fund) and Eignasjóður (Real Estate Fund). B operations comprise financially independent companies where the City holds 50% of the shares or more. These companies are largely funded by income generated by the services they provide. The companies in B operations are Aflvaki hf. (development/investment agency), Faxaflóahafnir sf. (Associated Icelandic Ports), Félagsbústaðir hf. (Reykjavík Social Housing), Íþrótt- og sýningahöllin hf. (Sport and Exhibition Centre), Malbikunarstöðin Höfði hf. (Asphalt Station Hofdi), Orkuveita Reykjavíkur (Reykjavík Energy), Slökkvilið höfuðborgarsvæðisins bs. (Capital District Fire and Rescue Service), Sorpa bs. (Capital Area Waste Disposal Company) and Strætó bs. (Metropolitan Bus Transportation Company).

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

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

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

The 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 sales of goods and services are generally recognised in the Income Statement at the time that ownership and the right to claim have been transferred to the buyer. The same applies to grants.

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

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

Notes

4. Expense recognition

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

5. Indexation and exchange-rate criteria

Assets and liabilities which are indexed or denominated in foreign currency are recognised in the financial statements at the indexation or exchange rate applying at year-end 2018. 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 Íþróttá- 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 properties owned by Félagsbústaðir hf. with the object of generating rent revenue. Investment properties are recognised at fair value in accordance with International Financial Reporting Standards (IFRS). The evaluation of investment properties is based on the official real estate evaluation of the Icelandic National Registry. According to information from the National Registry, the official real estate evaluation is fair value estimated in real estate market transactions. The evaluation is performed in May each year based on pricing in February of the same year. The new evaluation comes into effect at the end of the year. The real estate evaluation covers both the buildings and the plots and is divided into building evaluation and plot evaluation. The real estate evaluation is extrapolated based on the building cost index until the end of the year. Changes in the evaluation of investment properties are recognised under the item value adjustment of investment properties in the Income Statement. Investment properties are not amortised.

8. Financial instruments

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

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

Notes

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

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

General purpose buildings, offices and schools.....	25-50 years
Other buildings.....	25-50 years
Plots and land for planning.....	25 years
Road system.....	25 years
Orkuveita Reykjavíkur, distribution systems.....	5-50 years
Orkuveita Reykjavíkur, production systems.....	5-50 years
Orkuveita Reykjavíkur, geothermal rights.....	100 years
Vehicles, machinery and equipment.....	3-16 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.....	4-25 years
------------------	------------

11. Capital contributions and shares in companies

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

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

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

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 44.

19. Deferred income tax liability and assets

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

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

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

20. Long-term liabilities

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

21. Lease debts

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

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

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

22. Budget

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

23. Statement of Cash Flows

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

Notes

24. Operating revenue

Operating revenue is specified as follows:

	A operations		A and B operations	
	2018 Financial Statements	2018 Budget with Annexes	2018 Financial Statements	2018 Budget with Annexes
Tax revenues				
Municipal income tax:				
Paid municipal income tax	81.301.066	81.199.840	81.301.066	81.199.840
Share of Municipal Equalisation Fund in income tax	(4.311.420)	(4.306.052)	(4.311.420)	(4.306.052)
Share of Mun.Eq.Fund in tax relating to the disabled	(5.543.255)	(5.536.353)	(5.543.255)	(5.536.353)
	<u>71.446.392</u>	<u>71.357.435</u>	<u>71.446.392</u>	<u>71.357.435</u>
Postpaid municipal income tax	4.229.110	2.444.153	4.229.110	2.444.153
Tax changes	(572.671)	0	(572.671)	0
Amortisation of tax revenues	(826.403)	0	(826.403)	0
	<u>74.276.428</u>	<u>73.801.589</u>	<u>74.276.428</u>	<u>73.801.589</u>
Property tax				
Property tax	16.799.110	17.068.268	16.290.025	17.068.268
Plot rent	1.526.188	1.492.319	1.476.425	1.492.319
Write-off/depreciation of property tax revenues, change	58.900	0	58.900	0
	<u>18.384.197</u>	<u>18.560.586</u>	<u>17.825.350</u>	<u>18.560.586</u>
Total tax revenues.....	<u>92.660.626</u>	<u>92.362.175</u>	<u>92.101.779</u>	<u>92.362.175</u>
Contributions from Municipal Equalisation Fund				
Contribution for the disabled	5.747.834	5.610.458	5.747.834	5.610.458
Municipal Equalisation Fund, other contributions	1.635.118	1.685.300	1.635.118	1.685.300
	<u>7.382.951</u>	<u>7.295.758</u>	<u>7.382.951</u>	<u>7.295.758</u>
Other income				
Fees for services provided	10.612.317	9.936.148	27.505.890	23.829.729
Income from assets	19.581.877	19.477.192	20.844.098	19.898.192
Other repayments	4.169.571	3.149.880	4.169.571	7.045.849
Other income	6.740.888	5.927.137	59.962.967	56.489.050
Sales of building rights	3.548.460	4.102.500	3.578.798	4.102.500
Gain from sale of assets	54.108	831.724	386.734	831.724
Inter-unit transactions eliminated	(24.959.159)	(23.213.846)	(35.965.018)	(31.179.898)
	<u>19.748.062</u>	<u>20.210.735</u>	<u>80.483.040</u>	<u>81.017.146</u>
Total operating revenue	<u>119.791.639</u>	<u>119.868.668</u>	<u>179.967.770</u>	<u>180.675.080</u>

Notes

25. Wage cost and wage-related expenses

	A operations		A and B operations	
	2018 Financial Statements	2018 Budget with Annexes	2018 Financial Statements	2018 Budget with Annexes
Operating revenue is itemised as follows:				
Wages	50.107.109	51.381.492	62.194.935	64.945.470
Wage-related expenses	12.239.221	11.268.263	15.129.068	12.034.764
	62.346.330	62.649.755	77.324.003	76.980.233
Changes in accrued vacation obligations	925.393	180.000	965.405	180.000
Transfer/capitalisation of salaries	(92.905)	502.461	(1.228.630)	502.461
Wages and wage related exp. less charged pens. contrib.	63.178.818	63.332.216	77.060.778	77.662.695
Changes in pension obligations LsRb	4.706.002	5.003.919	4.810.578	5.003.919
Total wage cost and wage-related expenses	67.884.819	68.336.135	81.871.356	82.666.614
Average full-time equivalent positions	7.148		8.402	

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

26. Financial income and financial expenses

	A operations	A and B operatinos
Financial income and (expenses) are specified as follows:		
Dividends on equity shares	1.483.093	110.121
Risk charge for guarantees	664.926	(51.408)
Interest income and indexation	1.398.249	1.142.517
Interest expenses and indexation	(3.721.950)	(11.774.404)
Financial income tax	(282.640)	(306.115)
Hedge contracts	0	(2.318.375)
Exchange rate difference	3.222	44.715
Changes in fair value	0	(4.950.064)
Total financial income and (expenses)	(455.100)	(18.103.013)

27. Statement of operations

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

	Financial statements			2018
	2018			Budget with Annexes
	Expenses	Revenues	Balance	Net
Municipal Fund				
Tax revenue	686	101.790.059	(101.789.372)	(101.336.238)
Contribution to B operation companies	3.107.123	0	3.107.123	3.105.941
Department of Sports and Leisure	9.526.035	1.853.779	7.672.256	7.846.845
Department of Culture and Tourism	5.350.391	502.835	4.847.556	4.878.618
Department of Education and Recreation	53.896.379	4.441.409	49.454.970	49.628.074
Central administration offices	5.481.121	1.838.539	3.642.582	3.793.614
Department of Environment and Planning	10.823.556	3.968.702	6.854.855	7.307.506
Department of Welfare	29.567.621	5.200.036	24.367.585	24.437.494
Joint expenses	8.207.928	2.066	8.205.862	8.981.257
	125.960.842	119.597.424	6.363.418	8.643.110
Financial income and financial expenses	484.774	5.800.648	(5.315.875)	(4.905.029)
Municipal Fund total	126.445.615	125.398.072	1.047.543	3.738.081

Notes

27. Statement of operations, continued:

	Financial statements			2018
	2018			Budget with
	Expenses	Revenues	Balance	Annexes
Reykjavík Municipal (A operations) organisations				Net
Real Estate Fund	21.126.803	26.899.855	(5.773.052)	(7.811.864)
Internal transactions in A operation	(29.316.775)	(29.316.775)	0	0
A operations total	118.255.643	122.981.152	(4.725.509)	(4.073.783)
B operations companies				
Aflvaki hf.	17	135	(118)	95
Faxaflóahafnir sf.	2.865.792	4.590.998	(1.725.206)	(726.915)
Félagsbústaðir hf.	4.586.384	6.970.656	(2.384.272)	(5.236.000)
Íþróttta- og sýningahöllin hf.	467.107	388.455	78.652	57.149
Malbikunarstöðin Höfði hf.	1.890.679	1.987.176	(96.497)	(116.000)
Orkuveita Reykjavíkur	27.570.444	33.542.804	(5.972.361)	(8.650.562)
Slökkvilið höfuðborgarsvæðisins bs.	2.858.917	2.944.043	(85.126)	(49.902)
Sorpa bs.	3.642.821	4.184.124	(541.304)	(184.557)
Strætó bs.	8.393.034	8.270.113	122.921	(39.635)
	52.275.194	62.878.504	(10.603.311)	(14.946.328)
Share in associated companies' results	0	(13.999)	13.999	0
Minority interest	0	(986.765)	986.765	0
B operations total	52.275.194	61.877.741	(9.602.547)	(14.946.328)
Internal transactions in B operations	(12.350.950)	(14.337.354)	1.986.404	1.222.837
Reykjavík Group (A and B operations) total	158.179.887	170.521.539	(12.341.652)	(17.797.274)

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

28. Share in the results of associated companies

Shares in the results of associated companies are itemised as follows:	A and B operations
Minjavernd hf.	(26.429)
Situs ehf.	5.546
Orkuveita Reykjavíkur - associated companies	6.033
Sorpa - associated company	851
	<u>(13.999)</u>

29. Intangible assets

Intangible assets are itemised as follows:	A and B operations
Total value	
Balance at the beginning of the year	3.129.347
Additions during the year	545.692
	<u>3.675.039</u>
Depreciations	
Opening balance	1.521.843
Depreciations during the year	153.673
	<u>1.675.516</u>
Book value at year-end	<u>1.999.523</u>

Notes

30. Fixed tangible assets

A operations are itemised as follows:	A operations			
	Real estate	Road systems	Machinery and equipment	Total
Total value				
Balance at the beginning of the year	156.979.151	18.316.892	8.828.435	184.124.479
Re-classification of assets	(1.102)	0	1.102	0
Revaluation of plots and land at year-end	6.102.941	0	0	6.102.941
Additions during the year	11.312.338	6.560.252	1.495.678	19.368.267
Road construction fees	0	(3.293.966)		(3.293.966)
Sold or disposed of during the year	0	0	(6.685)	(6.685)
Balance at year-end	174.393.328	21.583.178	10.318.530	206.295.036
Depreciations				
Balance at the beginning of the year	53.111.110	4.853.768	4.541.577	62.506.455
Depreciations during the year	2.655.761	754.266	892.459	4.302.486
Sold or disposed of during the year	0	0	(5.753)	(5.753)
Balance at year-end	55.766.871	5.608.035	5.428.282	66.803.188
Book value at year-end	118.626.457	15.975.143	4.890.248	139.491.848
Depreciation rate	2 - 4%	4%	6 - 25%	

A and B operations are specified as follows:	A and B operations			
	Real estate	Utilities	Road system mach. & equipm.	Total
Total value				
Balance at the beginning of the year	200.314.799	522.446.775	38.580.505	761.342.078
Re-classification of assets	(7.029)	5.927	1.102	0
Revaluation	6.234.648	12.218.466	0	18.453.114
Additions during the year	12.859.310	14.820.756	10.099.095	37.779.162
Translation difference	1.237	17.169.416	38.578	17.209.231
Road construction fees	0	0	(3.293.966)	(3.293.966)
Sold or disposed of during the year	(1.500)	(677.946)	(115.173)	(794.619)
Balance at year-end	219.401.464	565.983.395	45.310.142	830.695.001
Depreciations				
Balance at the beginning of the year	71.858.747	253.253.243	16.050.426	341.162.416
Re-classification of assets	(121)	121	0	0
Revaluation	0	3.829.329	0	3.829.329
Depreciations during the year	3.685.171	9.662.647	2.555.539	15.903.357
Translation difference	483	5.586.849	3.125	5.590.456
Sold or disposed of during the year	0	(586.769)	(70.907)	(657.676)
Balance at year-end	75.544.279	271.745.421	18.538.183	365.827.883
Book value at year-end	143.857.185	294.237.974	26.771.959	464.867.118
Depreciation rate	2 - 4%	2 - 20%	4 - 33,3%	

Mortgages:

The properties of Félagsbústaðir hf. are mortgaged to secure the balance of debts amounting to ISK 31,338 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 Íþróttá- og sýningarhöllin hf. in the amount of ISK 2,089 million are secured by a mortgage on the company's property and a lease contract with the City of Reykjavík.

Notes

30. Fixed tangible assets, continued:

Investment properties are itemised as follows:

	A operations	A and B operations
Total value		
Balance at the beginning of the year	0	77.265.481
Revaluation during the year	0	2.964.778
Additions during the year	0	2.972.472
Balance at year-end	0	83.202.731

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

Orkuveita Reykjavíkur performs a special re-evaluation of its production systems and the re-evaluation extends to assets used for the production of electricity, hot water and cold water. The fair value of production assets is determined by the depreciated and restated cost price. This entails that changes in the building cost of similar assets are assessed and both the cost price and accumulated depreciation are re-assessed in accordance with those changes. The same method is applied in determining the fair value of Orkuveita Reykjavíkur's distribution systems, which have been subject to a special re-evaluation. Re-evaluated distribution systems are used for operations that require special permits, and the income limit is primarily based on changes in the building cost index. This is taken into consideration when determining fair value.

The permanent fixed assets of Íþróttá- og sýningahöllin hf. are recognised at the re-evaluated cost price, net of depreciation. The revaluation of the year amounted to ISK 132 million.

31. Leased properties

Leased properties are specified as follows:

	A operations	A and B operations
Balance at the beginning of the year	11.487.935	11.487.935
Additions during the year	0	0
Written off over the year	(35.920)	(35.920)
	11.452.015	11.452.015
Depreciation at the beginning of the year	5.056.355	5.056.355
Depreciation during the year	620.865	620.865
Written off over the year	(16.164)	(16.164)
	5.661.056	5.661.056
Book value at year-end	5.790.960	5.790.960
Depreciation rate	4 - 25%	4 - 25%

32. Depreciation and impairment

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

	A operations	A and B operations
Depreciation of fixed tangible assets, see note 30	4.302.486	15.903.357
Depreciation of intangible assets, see note 29	0	153.673
Depreciation of leased properties, see note 31	620.865	620.865
Depreciation during the year	4.923.351	16.677.895
Recognised in the income statement	4.923.351	16.661.737
Recognised as a reduction of obligations	0	16.158
	4.923.351	16.677.895

Notes

33. Investments in fixed tangible assets

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

	2018	2018
	Financial	Budget with
	Statements	annexes
Property, machinery and equipment:		
Culture	418.561	521.700
Education	4.868.470	4.702.500
Sports and leisure	1.660.520	1.911.100
Social Services	280.346	395.800
Other properties	1.323.685	1.389.500
Software, machinery and equipment	1.111.581	1.279.000
Building plots, land and planning properties	2.494.933	2.394.200
Renovation and major maintenance of buildings	1.222.273	1.090.000
Total property, machinery and equipment	<u>13.380.370</u>	<u>13.683.800</u>
Road system		
Road construction	5.987.897	6.618.600
Road construction fees over the year	(3.293.966)	(3.634.100)
Road system total	<u>2.693.931</u>	<u>2.984.500</u>
Total capitalised investment	16.074.302	16.668.300
Road construction fees over the year	3.293.966	3.634.100
Gross investment A operations	<u>19.368.267</u>	<u>20.302.400</u>

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

Faxaflóahafnir sf.	1.454.614	1.845.000
Félagsbústaðir hf.	2.998.158	5.639.000
Orkuveita Reykjavíkur	15.870.787	20.169.117
Slökkvilið höfuðborgarsvæðisins bs.	85.603	411.000
Strætó bs	825.402	700.000
Sorpa bs	1.163.177	2.681.000
Other B operation companies	140.098	53.000
Total investment of B operations	<u>22.537.838</u>	<u>31.498.117</u>
Inter-unit transactions eliminated	(1.098.100)	0
Total investment of Reykjavík Group in fixed tangible assets during the year	<u>40.808.005</u>	<u>51.800.517</u>

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

	2018	2018
	Financial	Budget with
	Statements	annexes
Selling price of building rights, plots and road construction fees are specified as follows:		
Road construction fees A operations	3.293.966	3.634.100
Sold building rights A operations	5.488.983	4.102.500
	8.782.949	7.736.600
Sale of B operations' plots	30.338	117.000
	<u>8.813.287</u>	<u>7.853.600</u>
Selling price of fixed assets:		
Selling price of fixed assets of A operations	55.039	831.724
Selling price of fixed assets of B operations	1.556.827	284.499
Inter-unit transactions eliminated	(1.098.100)	0
	<u>513.766</u>	<u>1.116.223</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 2018:

	A operations	A and B operations
Official property valuation of buildings	92.004.608	477.828.063
Official property valuation of plots	25.643.080	61.211.671
Fire insurance valuation	164.060.910	474.427.015
Book value	118.626.457	228.167.621

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 385,782 million at year end 2018.

37. Shares in companies

Shares in companies are specified as follows:

	Share in operation A	Share in operation A and B	A operations Book value	A and B operations Book value
Subsidiaries				
Aflvaki hf.	54,5%	95,7%	4.363	
Félagsbústaðir hf.	100,0%	100,0%	3.001.000	
Íþróttta- 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%	684.700	
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>5.531.779</u>	
Associated companies				
Harpa tónlistar- og ráðstefnuhús ohf.	46,0%	46,0%	555.370	0
Situs ehf.	46,0%	46,0%	0	7.375
Minjavernd hf.	38,3%	38,3%	107.839	269.684
Metan hf.		100,0%		25.658
Íslensk Nýorka		29,0%		22.968
Netorka hf.		38,4%		38.286
Orkuskólinn REYST hf.		45,0%		6.043
Associated companies total			<u>663.209</u>	<u>370.013</u>
Other companies				
Landsnet hf.		6,8%		3.795.941
Lánasjóður sveitarfélaga ohf.	17,5%	17,5%	1.547.831	1.547.831
Eignarhaldsfélagið Spólur ehf.		23,5%	300	53.818
Galantatem		3,8%		13.082
Keilir		12,1%		18.500
Landskerfi bókasafna hf.	20,6%	20,6%	29.524	29.524
Neyðarlínan hf.	12,5%	20,4%	2.000	9.394
Rekstrarfélagið Stæði ehf.	23,0%	23,0%	919	919
DMM lausnir ehf.		13,4%		23.898
Vísindagarðar Háskóla Íslands ehf.	5,4%	5,4%	11.688	11.688
Halakot ehf.		100,0%		2.000
Vatnsveita Hvalfjarðarsveitar sf.		50,0%		75.481
Próunarfélag Grundatanga ehf.	16,7%	33,3%	750	1.500
Other companies			40	537
Other companies total			<u>1.593.051</u>	<u>5.584.112</u>
Capital contributions				
Bjarg íbúðafélag hses.			1.801.967	1.801.967
Brynja, hússjóður Öryrkjabandalags Íslands			169.075	169.075
Félagsbústaðir hf.			388.463	0
Stakkahlíð hses.			139.194	139.194
			<u>2.498.699</u>	<u>2.110.236</u>
Total shares			<u>10.286.737</u>	<u>8.064.362</u>

Changes in fair value of Landsnet hf. amounted to ISK 252 million during the year and the increase is recognised as equity.

Notes

38. Embedded derivatives

At the accounting date Orkuveita Reykjavíkur had three aluminum-linked power sale agreements in effect: one with Landsvirkjun relating to Norðurál, another with Norðurál relating to the aluminium smelter at Grundartangi and a third with Norðurál relating to Helguvík. As regards the agreement with Norðurál Helguvík, delivery has begun in part through delivery to Grundartangi. These power sale agreements are made in USD, with the power price linked to the world market price of aluminium. Revenue from power sales agreements linked to aluminum prices accounted for 14.4% of Orkuveita Reykjavíkur total revenue in 2018.

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 and minimum/maximum defense ratios have been approved for the next 5 financial years. At the accounting date the hedging amounted to 50% of the estimated sales linked to the price of aluminium for the next 12 months.

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

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

Fair value of embedded derivatives in electricity sales contracts is specified as follows:	2018	2017
Fair value of embedded derivatives in electricity contracts at the beginning of the year	2.224.111	(10.319.109)
Fair value changes during the year	(7.540.981)	12.543.221
Fair value of embedded derivatives in electricity contracts at the end of the year (liability)	<u>(5.316.869)</u>	<u>2.224.111</u>

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

Non-current embedded derivatives (liability)	(4.270.604)	1.877.811
Current embedded derivatives (liability)	(1.046.265)	346.301
Total embedded derivatives	<u>(5.316.869)</u>	<u>2.224.111</u>

39. Long-term receivables

Long-term receivables are specified as follows:

	Indexed	Non-indexed	Total
Long-term receivables from own companies			
Balance at the beginning of the year	11.753.717	0	11.753.717
Payment over the year	(1.212.602)	0	(1.212.602)
Indexation	356.996	0	356.996
	<u>10.898.111</u>	<u>0</u>	<u>10.898.111</u>
Current maturities of long term claims	(1.341.934)	0	(1.341.934)
	<u>9.556.177</u>	<u>0</u>	<u>9.556.177</u>

Annual maturities are specified as follows:

Year 2019	1.341.934
Year 2020	1.341.934
Year 2021	1.341.934
Year 2022	1.341.934
Year 2023	1.341.934
Later	4.188.440
	<u>10.898.111</u>

Notes

39. Long-term receivables, continued:

	Indexed	Non-indexed	Total
Other long-term receivables (A operations)			
Opening balanceBalance at the beginning of the year	842.310	5.414.464	6.256.775
Re-classification	3.873	(3.873)	0
New loans	0	6.244.132	6.244.132
Payments	(55.331)	(3.669.386)	(3.724.717)
Indexation	23.595	0	23.595
	814.448	7.985.337	8.799.785
Provision for losses	0	(2.926.495)	(2.926.495)
	814.448	5.058.842	5.873.289
Next year's payments on long-term receivables	(120.434)	(1.075.494)	(1.195.928)
	694.013	3.983.347	4.677.361
Other long-term receivables (A and B operations)			
Balance at the beginning of the year	6.020.645	5.414.464	11.435.109
New loans	20.723	6.244.132	6.264.855
Payment	(4.166.233)	(3.669.386)	(7.835.620)
Indexation	(144.065)	0	(144.065)
	1.731.070	7.989.210	9.720.280
Provision for losses	0	(2.926.495)	(2.926.495)
	1.731.070	5.062.714	6.793.785
Next year's payments on long-term receivables	(472.673)	(1.075.494)	(1.548.167)
	1.258.397	3.987.220	5.245.617

Annual maturities are specified as follows:

	A operations	A and B operations
Year 2019	1.195.928	1.548.167
Year 2020	2.398.530	2.817.156
Year 2021	461.944	537.683
Year 2022	838.823	870.555
Year 2023	2.092.440	2.095.718
Later	1.812.120	1.851.001
	8.799.785	9.720.280

40. Inventories

Inventories are specified as follows:

	A operations	A and B operations
Inventory of materials	0	1.019.807
Raw material	0	466.088
Supplies in stock	0	101.832
Products ready for use	0	20.375
	0	1.608.102

41. Current receivables

Provisions for current receivables are specified as follows:

	A operations	A and B operations
Provision for receivables other than tax revenue at the beginning of the year	257.100	713.848
Actual losses during the year	(48.021)	(67.351)
Provision for losses during the year	79.021	113.679
Provision for receivables other than tax revenue at year-end	288.100	760.176

Outstanding tax revenue, excluding default interest and provisions, amounted to ISK 5,493 million at year-end. A provision is recognised as a reduction in tax revenue and an amount of ISK 768 million is written off in the financial statements. The total provision for tax revenue at year-end amounted to ISK 4,804 million.

Notes

42. Cash and bank deposits

Cash and bank deposits are specified as follows:	A operations	A and B operations
Bank deposits with three to twelve month maturities	0	3.000.000
Marketable securities	0	4.223.231
	0	7.223.231
Bank deposits and short-term securities, redeemable without notice	10.040.334	25.976.122
	10.040.334	33.199.353

43. Equity

Changes in equity:	A operations	A and B operations
Balance at the beginning of the year	85.479.639	270.123.356
Adjustment of operating results of Orkuveita Reykjavíkur from preceding year	0	(596.700)
Adjusted opening balance	85.479.639	269.526.656
Re-evaluation of plots and land at year-end	6.102.941	6.102.941
Special revaluation of fixed assets	0	6.330.375
Changes in the market value of equity shares	0	235.539
Translation differences of Orkuveita Reykjavíkur	0	5.520.856
Other changes	0	(89.998)
Operating results	4.725.509	12.341.652
	96.308.090	299.968.020

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.

44. Pension obligations due to LsRb

The net present value of the pension obligations of A operations due to LsRb (Reykjavik employees' pension fund) amounted to ISK 38,149 million at the end of 2018, while the net present value of A and B operations amounted to ISK 38,859 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 and that the City is required to take this into consideration in order to comply with the Financial Statements Act, even though this new methodology is not yet effective under current actuarial valuation regulations of pension funds. The managements' assessment is based, among other things, on the fact that LsRb is closed to new members.

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

The obligations are specified as follows:	A operations	A and B operations
Pension obligations 1.1.2018	35.803.700	36.436.961
Contributions to pension payments during the year	4.706.002	4.810.578
Change in pension obligations during the year	(2.360.533)	(2.388.266)
Pension obligations 31.12.2018	38.149.169	38.859.273
Pension obligations, short-term	2.507.000	2.534.700
Pension obligations, long-term	35.642.169	36.324.573
	38.149.169	38.859.273

Estimated payments in 2019 due to pension obligations are recognised among current liabilities in the Statement of Financial Position.

Notes

44. Pension obligations due to LsRb, continued:

Estimated future pension payments for Reykjavik Municipal by period:

Payments 2019-2023	8.888.756
Payments 2024-2028	8.087.624
Payments 2029-2033	6.943.149
Payments 2034 and later	14.229.640
	<u>38.149.169</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.

45. Long-term liabilities

A operations

Long-term liabilities are specified as follows:

	Exchange rate	Indexed	Non-indexed	Total
Balance at the beginning of the year	0	32.096.105	5.283.752	37.379.857
Additions during the year	0	6.592.601	0	6.592.601
Payments over the year	0	(1.525.041)	(292.756)	(1.817.797)
Indexation of the year	0	1.021.679	(9.173)	1.012.506
	0	<u>38.185.344</u>	<u>4.981.823</u>	<u>43.167.167</u>
Next year's payments	0	(1.252.968)	(301.929)	(1.554.896)
	0	<u>36.932.376</u>	<u>4.679.895</u>	<u>41.612.271</u>

A and B operations

Long-term liabilities are specified as follows:

	Exchange rate	Indexed	Non-indexed	Total
Balance at the beginning of the year	80.984.862	113.102.221	14.108.752	208.195.835
Additions during the year	9.840.364	20.361.398	1.000.000	31.201.762
Payments over the year	(17.027.907)	(5.970.553)	(592.756)	(23.591.215)
Indexation of the year	6.434.778	3.859.840	(9.173)	10.285.445
	80.232.097	<u>131.352.906</u>	<u>14.506.823</u>	<u>226.091.826</u>
Next year's payments	(13.165.461)	(5.056.784)	(601.929)	(18.824.173)
	<u>67.066.636</u>	<u>126.296.122</u>	<u>13.904.895</u>	<u>207.267.653</u>

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

	A operations	A and B operations
Year 2019	1.554.896	18.824.173
Year 2020	1.329.761	15.392.526
Year 2021	1.353.485	14.765.020
Year 2022	1.100.430	17.920.284
Year 2023	1.133.715	15.696.687
Later	36.694.880	143.493.136
	<u>43.167.167</u>	<u>226.091.826</u>

Notes

45. Long-term liabilities, continued:

Long-term liabilities A operations with B operations	A operations	A and B operations
Balance at the beginning of the year	204.479	0
Payments over the year	(64.768)	0
Indexation of the year	4.828	0
	<u>144.540</u>	<u>0</u>
Next year's payments	(66.587)	0
	<u>77.952</u>	<u>0</u>
 Estimated annual maturities of long-term liabilities to own companies are specified as follows:	A operations	A and B operations
Year 2019	66.587	0
Year 2020	66.587	0
Year 2021	8.364	0
Year 2022	3.001	0
	<u>144.540</u>	<u>0</u>

46. 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
Balance at the beginning of the year	11.989.752	11.989.752
Payments over the year	(834.006)	(834.006)
Indexation of the year	406.852	406.852
	<u>11.562.597</u>	<u>11.562.597</u>
Next year's payments	(856.597)	(856.597)
	<u>10.706.000</u>	<u>10.706.000</u>

Annual lease liabilities are specified as follows:

	A operations	A and B operations
Year 2019	856.597	856.597
Year 2020	878.093	878.093
Year 2021	915.989	915.989
Year 2022	939.330	939.330
Year 2023	979.441	979.441
Later	6.993.147	6.993.147
	<u>11.562.597</u>	<u>11.562.597</u>

Other information on lease contracts:

	Lease period	Book value at year-end
Sports facilities	2006 - 2035	4.488.053
Office buildings	2002 - 2032	5.964.882
Other facilities	2007 - 2030	1.109.662
		<u>11.562.597</u>

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

	Sports facilities	Office buildings	Other facilities	Total
Year 2019	868.550	691.615	217.515	1.777.680
Year 2020	868.550	691.615	208.478	1.768.643
Year 2021	868.550	691.615	185.895	1.746.060
Year 2022	868.550	691.615	184.040	1.744.205
Year 2023	868.550	674.486	184.040	1.727.076
Later	4.290.487	5.777.812	700.855	10.769.154
Total	<u>8.633.236</u>	<u>9.218.760</u>	<u>1.680.823</u>	<u>19.532.819</u>

Total payments on lease contracts amounted to ISK 1,627 million in 2018 and are specified as follows in the financial statements:

	A operations	A and B operations
Payments reducing lease liabilities	763.937	763.937
Interest payments	402.426	402.426
	<u>1.166.363</u>	<u>1.166.363</u>
Operating expenses	460.512	460.512
Total lease payments	<u>1.626.875</u>	<u>1.626.875</u>

Notes

47. Taxes

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

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

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

	Deferred tax assets	Deferred tax liabilities
Balance at the beginning of the year	1.265.410	11.265.113
Effect of special revaluation of fixed assets	0	1.704.169
Calculated income tax during the year	2.553.822	1.181.976
Other changes	0	378.295
Income tax payable	0	(1.516.265)
Balance at year-end	<u>3.819.233</u>	<u>13.013.289</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	671.767	13.249.457
Embedded derivatives	1.999.143	0
Other items	1.148.323	34.134
Impact of carry-forward loss	0	(734.349)
Provision due to uncertainty regarding utilisation	0	464.047
Balance at year-end	<u>3.819.233</u>	<u>13.013.289</u>

Obligations and guarantees off the Statement of Financial Position

48. Operational contracts and service contracts

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

	Total obligations	Obligations due in 2019
City Executive Committee grants	85.464	54.214
Cultural grants	4.478.580	1.417.420
Grants and service contracts, Sports and Leisure	3.224.000	2.778.000
Grants and service contracts, Social Services	5.469.841	2.656.673
Grants and service contracts, Education and Recreation	105.822	105.822
Concert and Conference Hall	7.774.183	530.913
Operational agreements for Real Estate Fund	714.900	419.400
Operational Investment agreements for Real Estate Fund	3.739.600	3.739.600
Obligations of Reykjavík Parking Services	279.998	62.033
Total	<u>25.872.388</u>	<u>11.764.076</u>

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

Faxaflóahafnir sf.	453.000	401.000
Félagsbústaðir hf.	1.333.285	303.359
Orkuveita Reykjavíkur	4.976.671	3.054.076
Total	<u>6.762.957</u>	<u>3.758.435</u>

Notes

49. Guarantees

Summary of guarantee obligations of Reykjavík Municipal to third parties in respect of bond loans:	A operations
Churches	277.724
Guarantee obligations of A operations against a third party	<u>277.724</u>

50. 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%	557.806
Orkuveita Reykjavíkur	93,5%	88.582.443
Slökkvilið höfuðborgarsvæðisins bs.	56,8%	129.092
Sorpa bs.	56,8%	153.476
Strætó bs.	56,8%	576.430
Félagsbústaðir hf.	100,0%	9.049.955
A-operation liabilities off the Statement of Financial Position relating to B-operation companies		<u>99.049.202</u>

51. 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%	204.455.631	108.147.541	96.308.090
Aflvaki hf.	95,7%	10.574	0	10.574
Faxaflóahafnir sf.	75,6%	12.154.995	1.026.959	11.128.036
Félagsbústaðir hf.	100,0%	83.692.924	41.052.171	42.640.753
Íþróttá og sýningahöllin hf.	50,0%	1.488.469	1.141.199	347.270
Malbikunarstöðin Höfði hf.	100,0%	1.624.223	208.060	1.416.163
Orkuveita Reykjavíkur	93,5%	318.115.732	167.679.547	150.436.185
Slökkvilið höfuðborgarsvæðisins bs.	60,8%	1.674.989	390.226	1.284.762
Sorpa bs.	61,6%	2.855.049	689.665	2.165.384
Strætó bs.	60,3%	2.182.137	1.112.729	1.069.408
Internal transactions		(18.368.858)	(11.530.255)	(6.838.603)
Total		<u>609.885.863</u>	<u>309.917.843</u>	<u>299.968.020</u>
Minority share		31.688.392	14.468.947	17.219.445
Balance according to the financial statements		<u>641.574.255</u>	<u>324.386.790</u>	<u>317.187.465</u>

Other

52. 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.

53. Sales of building rights on a plot in Gufunes

In January 2018, the City Council approved an agreement on the sale of real estate, together with plots and building rights, on the site of a former fertiliser plant in Gufunes. The buyers will eventually pay the total amount of ISK 1,7 billion for building rights and road construction fees. Revenue from the sale of building rights has been deferred until 2019, when the delivery of the site will take place.

Notes

54. 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. 50/1988 on value-added tax. The total value-added tax encumbrance at year-end 2018 amounts to ISK 273 million.

55. 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.

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.

The City of Reykjavik and individual B-Operations enterprises are parties to various legal actions before the courts and disputes other than those referred to above, which could have financial significance for individual enterprises or the consolidated accounts for A and B operations. However, the anticipated financial impact, in the event of unfavourable outcomes, is not considered significant

56. Related parties

Principal and alternate members of the City Council, as well as the Mayor and his deputies, are defined as parties related to the municipality. The spouses of these parties, financially dependent children and other financially dependent parties also fall within this definition. In addition, companies subject to the control of the above parties are also considered related parties.

The municipality has engaged in business with related parties during the year. Business with related parties included normal services provided by the Municipality and public charges levied on related parties. Other business conducted between the Municipality and related parties involves contracts on purchases of goods or services. One such contract was in effect in 2018; the amount in question is not significant. The transactions are carried out on the same basis as in the case of unrelated parties and the terms and conditions of the transactions are similar as in the case of unrelated parties. The determination of business between related parties is subject to the competence rules of Art. 20 of the Local Government Act. Also, related parties are prohibited in accordance with agreed codes of ethics from taking advantage of their positions for the benefit of their own personal interests or those of their related parties.

57. Top management salaries

The salaries shown are the total salaries paid by the City of Reykjavik to the persons listed:

	Wages	Contribution
Mayor and deputies		
Mayor	20.897	1.236
Mayor's First Deputy, Chief Executive Officer	19.353	0
Mayor's Second Deputy, Chief Legal Counsel	18.657	0
Salaries of elected representatives		
Executive Committee Chairman		
Executive Committee Chairman Jan. - Jun. 2018	13.882	618
Executive Committee Chairman Jul. - Dec. 2018	8.850	351
City Council President		
City Council President, Jan. - Jun. 2018	8.375	303
City Council President, Jul. - Dec. 2018	8.019	351
Elected representatives		
Elected representatives, excl. City Council Pres. and Executive Committee Chair., total	221.991	10.742
Elected deputy councillors		
Elected deputy councillors, total	141.058	4.905
Committee members		
Committee members, total	22.518	0
Top management salaries, total	483.602	18.505

Notes

58. Events after 31.12.2018

Gagnaveita Reykjavíkur, a subsidiary of Orkuveita Reykjavíkur, submitted a claim to Síminn hf. in March 2019 demanding compensation for damage allegedly suffered as a result of a violation of the Media Act, which was the subject of a Decision published by the Post and Telecom Administration on 3 July 2018. The claim amounts to ISK 1.3 billion for loss of income, accrued cost and interest. A formal response was requested from Síminn, but no response has been received. Síminn hf. took legal action against the Post and Telecom Administration in respect of the Decision of the Administration regarding the alleged violation. A conclusion has not been reached, and no entries have been made regarding this claim in the company's annual financial report for 2018.

59. Comparison of operating budgets

The overview below explains the operating budget for 2018 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		
	2018 Original Budget	2018 Annexes to Budget	2018 Original Budget with annexes	2018 Original Budget	2018 Annexes to Budget	2018 Original Budget with annexes
Operating revenue						
Tax revenues.....	90.815.155	1.547.020	92.362.175	90.815.155	1.547.020	92.362.175
Contributions to Municipal Equalisation Fund.....	7.295.758	0	7.295.758	7.295.758	0	7.295.758
Other revenues.....	18.487.508	1.723.227	20.210.735	79.293.919	1.723.227	81.017.146
	<u>116.598.421</u>	<u>3.270.247</u>	<u>119.868.668</u>	<u>177.404.832</u>	<u>3.270.247</u>	<u>180.675.080</u>
Operating expenses						
Wage cost and wage-related expenses.....	62.521.708	810.508	63.332.216	76.852.187	810.508	77.662.695
Changes in pension obligations.....	5.003.919	0	5.003.919	5.003.919	0	5.003.919
Other operating expenses.....	41.430.269	541.472	41.971.741	55.985.281	541.472	56.526.754
Depreciation.....	4.889.621	0	4.889.621	15.970.836	0	15.970.836
	<u>113.845.517</u>	<u>1.351.980</u>	<u>115.197.497</u>	<u>153.812.223</u>	<u>1.351.980</u>	<u>155.164.203</u>
Operating result before financial items.....	2.752.904	1.918.267	4.671.171	23.592.609	1.918.267	25.510.876
Financial income and (financial expenses).....	(441.857)	(155.531)	(597.388)	(11.645.019)	(155.531)	(11.800.550)
Operating result before tax	2.311.047	1.762.736	4.073.783	11.947.590	1.762.736	13.710.326
Income tax.....	0	0	0	(1.516.052)	0	(1.516.052)
Changes in valuation of investment properties.....	0	0	0	5.603.000	0	5.603.000
Operating result.....	<u>2.311.047</u>	<u>1.762.736</u>	<u>4.073.783</u>	<u>16.034.538</u>	<u>1.762.736</u>	<u>17.797.274</u>

Notes

60. Comparison of cash flow budgets

The overview below shows the cash flow budget for 2018 pursuant to the originally approved budget of the municipality, approved annexes and original budget with annexes. The budget with annexes is shown in the cash flow statement and other notes to the financial statements for comparison with the year's actual figures.

	Reykjavik Municipal A operations			Reykjavik Group A and B operations		
	2018 Original Budget	2018 Annexes to Budget	2018 Original Budget with annexes	2018 Original Budget	2018 Annexes to Budget	2018 Original Budget with annexes
Cash flows from operating activities						
Operating result	2.311.047	1.762.736	4.073.783	16.034.538	1.762.736	17.797.274
Adjustments not affecting cash flow:						
Profit from sales of assets	(3.171.724)	(1.762.500)	(4.934.224)	(3.171.724)	(1.762.500)	(4.934.224)
Depreciation.....	4.889.621	0	4.889.621	15.970.836	0	15.970.836
Indexation, discounts and translation diff.	858.184	0	858.184	2.661.414	0	2.661.414
Embedded derivatives, change	0	0	0	1.277.748	0	1.277.748
Value adjustment of investment properties.....	0	0	0	(5.603.000)	0	(5.603.000)
Changes in pension obligations.....	5.000.000	0	5.000.000	5.041.988	0	5.041.988
Changes in deferred income tax liability.....	0	0	0	(1.960.180)	0	(1.960.180)
Working capital provided by operating activities	9.887.128	236	9.887.364	30.251.619	236	30.251.856
Changes in operating assets and liabilities:						
Inventories, decrease (increase).....	0	0	0	(10.000)	0	(10.000)
Unrecovered revenues, decrease (increase)	(641.135)	0	(641.135)	(645.920)	0	(645.920)
Current receivables, decrease (increase)	893.864	0	893.864	1.068.230	0	1.068.230
Current liabilities, increase (decrease).....	(2.535.000)	0	(2.535.000)	(2.535.000)	0	(2.535.000)
Contribution to pension obligations.....	0	0	0	0	0	0
Changes in operating assets and liabilities	(2.282.271)	0	(2.282.271)	(2.122.690)	0	(2.122.690)
Net cash provided by operating activities	7.604.857	236	7.605.093	28.128.929	236	28.129.165
Investment activities						
Investments in fixed tangible assets.....	(18.718.000)	(1.584.400)	(20.302.400)	(44.259.117)	(1.584.400)	(45.843.517)
Investments in investment assets	0	0	0	(5.639.000)	0	(5.639.000)
Investments in intangible assets	0	0	0	(318.000)	0	(318.000)
Paid road construction fees	3.634.101	(1)	3.634.100	3.634.101	(1)	3.634.100
Sales of building rights.....	2.340.000	1.762.500	4.102.500	2.340.000	1.762.500	4.102.500
Proceeds from sale of fixed tangible assets.....	831.724	0	831.724	1.116.223	0	1.116.223
Share holdings, change	(904.501)	(198.681)	(1.103.182)	(166.501)	0	(166.501)
Long-term receivables, change.....	1.364.328	0	1.364.328	4.542.022	0	4.542.022
Investment activities	(11.452.349)	(20.581)	(11.472.930)	(38.750.273)	178.100	(38.572.174)
Financing activities						
Capital contributions from state	0	0	0	1.107.000	0	1.107.000
New long-term borrowings.....	5.714.000	897.000	6.611.000	25.458.000	897.000	26.355.000
Repayment of long-term borrowings.....	(1.847.822)	0	(1.847.823)	(14.550.694)	(1)	(14.550.695)
Payments on lease liabilities	(830.056)	0	(830.056)	(830.056)	0	(830.056)
Derivative contracts paid	0	0	0	(1.265.295)	0	(1.265.295)
Paid-in capital	0	0	0	400.000	0	400.000
Short-term borrowings, change	0	0	0	658.130	0	658.130
Dividends paid	0	0	0	(206.788)	0	(206.788)
Other activities.....	(658)	0	(658)	0	0	0
Financing activities	3.035.465	897.000	3.932.464	10.770.297	896.999	11.667.296
Increase (decrease) in cash and cash equivalents	(812.027)	876.655	64.626	148.953	1.075.335	1.224.288
Cash and cash equivalents at beginning of year..	2.764.088	0	2.764.088	18.280.460	0	18.280.460
Effect of currency fluctuations on cash.....	0	0	0	(2.707)	0	(2.707)
Cash and cash equivalents at year-end.....	1.952.061	876.655	2.828.714	18.426.706	1.075.335	19.502.041

Notes

61. Financial ratios

Overview of financial ratios:

Ratio of operating income:

	Reykjavík Municipal A operations		Reykjavík Group A and B operations	
	2018 Financial Statements	2018 Budget with annexes	2018 Financial Statements	2018 Budget with annexes
Municipal income tax	62,0%	61,6%	41,3%	40,8%
Property taxes	15,3%	15,5%	9,9%	10,3%
Total tax revenues	77,4%	77,1%	51,2%	51,1%
Contribution from Municipal Equalisation Fund	6,2%	6,1%	4,1%	4,0%
Other revenues	16,5%	16,9%	44,7%	44,8%
Total operating revenues	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	52,7%	52,8%	42,8%	43,0%
Increase in pension obligations	3,9%	4,2%	2,7%	2,8%
Other operating expenses	34,9%	35,0%	30,2%	31,3%
Total operating expenses	91,6%	92,0%	75,7%	77,0%
Contribution margin (EBITDA)	8,4%	8,0%	24,3%	23,0%
Depreciation	4,1%	4,1%	9,3%	8,8%
Operating result before financial income (expenses)	4,3%	3,9%	15,1%	14,1%
Financial income and (expenses)	(0,4%)	(0,5%)	(10,1%)	(6,5%)
Income tax	0,0%	0,0%	0,8%	(0,8%)
Value adjustment of investment properties	0,0%	0,0%	1,6%	3,1%
Effects of minority interest and subsidiaries	0,0%	0,0%	(0,6%)	0,0%
Operating results	3,9%	3,4%	6,9%	9,9%
Working capital provided by operations	9,9%	8,2%	22,0%	16,7%
Investments in fixed tangible assets	(16,2%)	(16,9%)	(22,7%)	(28,7%)
Total liabilities and obligations	90,3%	-	180,2%	-

In ISK thousand per inhabitant:

Operations:

Tax revenue	720	718	715	718
Contributions from Municipal Equalisation Fund	57	57	57	57
Other revenue	153	157	625	629
Total operating revenue	931	931	1.398	1.404
Wage cost and wage-related expenses	(527)	(531)	(636)	(642)
Other operating expenses and depreciation	(363)	(364)	(551)	(563)
Financial income and (expenses)	(4)	(5)	(141)	(92)
Other	0	0	26	32
Operating result	37	32	96	141

Cash flow:

Working capital provided by operating activities	92	77	308	235
Cash and cash equiv. provided by operating activities	96	59	268	219

	A operation		A and B operations	
	2018	2017	2018	2017
Other ratios:				
Current ratio - curr. assets/curr. liabilities	1,23	1,27	1,12	1,10
Equity ratio - equity/total assets	0,47	0,46	0,49	0,49
Population (source: Statistics Iceland):	2018	2017	2016	2015
Population on 1 December	128.724	126.109	123.133	122.452
Change from previous year	2.615	2.976	681	1.484

Notes

62. Reykjavík Municipal financial ratios

Summary of Reykjavík Municipal financial ratios over the past 5 years:	2018 Budget with annexes	Financial Statements				
		2018	2017	2016	2015	2014
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	-	12.334	(6.027)	(13.830)	(13.297)	493
Liabilities thresholds.....	-	66%	60%	63%	71%	65%
Total liabilities and obligations - debt ratio	-	90%	85%	83%	89%	77%
Other ratios:						
Long-term liabilities and obligations in proportion to working capital provided by operations (in years)	8,80	7,44	8,76	6,35	12,61	11,39
Equity ratio - equity/total assets	42%	47%	46%	48%	48%	58%
Working capital provided by operations in proportion to payment of liabilities	3,69	4,35	4,11	5,30	2,73	1,28
Current asset ratio - current assets/current liabilities	0,86	1,23	1,29	1,57	1,18	1,31
As a ratio of operating revenue:						
Tax revenue	77,1%	77,4%	73,4%	76,0%	76,1%	77,3%
Contributions from Municipal Equalisation Fund	6,1%	6,2%	6,2%	6,7%	6,8%	6,4%
Other revenue	16,9%	16,5%	20,4%	17,4%	17,1%	16,3%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	52,8%	52,7%	52,7%	51,3%	54,0%	53,6%
Increase in pension obligations	4,2%	3,9%	6,0%	5,0%	16,1%	4,0%
Other operating expenses	35,0%	34,9%	33,3%	36,4%	39,5%	41,3%
Depreciation	4,1%	4,1%	4,0%	4,5%	4,6%	4,6%
Total operating expenses	96,1%	95,7%	96,1%	97,2%	114,1%	103,5%
Operating result before financial items	3,9%	4,3%	3,9%	2,8%	(14,1%)	(3,5%)
Financial income and (expenses)	(0,5%)	(0,4%)	0,4%	(0,2%)	(0,9%)	0,1%
Operating result (negative)	3,4%	3,9%	4,3%	2,6%	(15,0%)	(3,4%)
Contribution margin (EBITDA)	8,0%	8,4%	7,9%	7,3%	-9,6%	1,1%
Working capital provided by operations	8,2%	9,9%	8,0%	10,9%	5,7%	5,4%
Investments in fixed tangible assets	(16,9%)	(16,2%)	(13,3%)	(9,4%)	(10,4%)	(9,8%)
In ISK thousand per inhabitant						
Operation:						
Tax revenue	718	720	660	620	566	531
Contributions from Municipal Equalisation Fund	57	57	56	54	51	44
Other revenue	157	153	183	142	127	112
Total operating revenue	931	931	900	817	743	688
Wage cost and wage-related expenses	(492)	(491)	(475)	(419)	(401)	(368)
Increase in pension obligations	(39)	(37)	(54)	(41)	(119)	(27)
Other operating expenses and depreciation	(364)	(363)	(336)	(333)	(328)	(316)
Financial income and (expenses)	(5)	(4)	3	(2)	(6)	1
Operating result (negative)	32	37	39	21	(111)	(23)
Cash flow:						
Working capital provided by operations	77	92	73	89	43	37
Cash and cash equivalents provided by operations	59	96	(8)	53	22	37
Investments in fixed tangible assets	(158)	(150)	(122)	(77)	(77)	(67)
Balance Sheet:						
Assets	1.452	1.588	1.460	1.301	1.262	1.250
Equity	616	748	678	621	603	719
Liabilities	836	840	782	680	659	530
Tax rates:						
Municipal income tax	14,52%	14,52%	14,52%	14,52%	14,52%	14,52%
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	128.724	128.724	126.109	123.133	122.452	121.814
Change from previous year		2.615	2.976	681	698	1.484
Change from previous year (ratio)		2,1%	2,4%	0,6%	0,6%	1,2%

Notes

63. Reykjavík Group financial ratios

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

	2018 Budget with annexes	Financial Statements				
		2018	2017	2016	2015	2014
Financial thresholds according to Local Government Act						
Operating result for the last three years in ISK million	-	35.246	18.442	7.806	(824)	8.061
Liabilities thresholds less Orkuveita Reykjavíkur (OR)	-	91%	85%	85%	97%	92%
Total liabilities and obligations. - debt ratio less OR	-	114%	108%	107%	112%	104%
Other ratios:						
Long-term liabilities and obligations in proportion to working capital provided by operations (years)	8,43	6,90	7,49	7,16	8,16	9,34
Equity ratio - equity/total assets	49%	49%	49%	46%	43%	43%
Working capital provided by operations in proportion to payment of liabilities	1,97	1,62	2,04	1,92	1,74	1,07
Current asset ratio - current assets/current liabilities	1,00	1,12	1,10	1,13	0,94	0,93
As a ratio of operating revenue:						
Tax revenue	51,1%	51,2%	48,9%	48,8%	47,8%	48,3%
Contributions from Municipal Equalisation Fund	4,0%	4,1%	4,2%	4,3%	4,3%	4,0%
Other revenue	44,8%	44,7%	47,0%	46,9%	47,9%	47,6%
Total operating revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses	43,0%	42,8%	43,5%	40,8%	41,6%	40,7%
Increase in pension obligations	2,8%	2,7%	4,1%	3,3%	10,2%	2,5%
Other operating expenses	31,3%	30,2%	29,5%	32,1%	33,7%	34,3%
Depreciation	8,8%	9,3%	8,7%	10,5%	11,3%	10,7%
Total operating expenses	85,9%	84,9%	85,8%	86,6%	96,8%	88,3%
Operating result before financial items	14,1%	15,1%	14,2%	13,4%	3,2%	11,7%
Financial income and (expenses)	(6,5%)	(10,1%)	1,2%	0,6%	(9,2%)	(4,7%)
Other	2,3%	1,9%	0,9%	3,0%	2,5%	1,4%
Operating result (negative)	9,9%	6,9%	16,2%	17,0%	(3,5%)	8,3%
Contribution margin (EBITDA)	23,0%	24,3%	22,9%	23,8%	14,5%	22,4%
Working capital provided by operations	16,7%	22,0%	19,3%	22,0%	21,6%	19,7%
Investments in fixed tangible assets	(25,4%)	(20,7%)	(21,6%)	(15,6%)	(16,3%)	(12,9%)
In ISK thousand per inhabitant						
Operation:						
Tax revenue	718	715	670	616	562	528
Contributions from Municipal Equalisation Fund	57	57	57	54	51	44
Other revenue	629	625	644	593	562	520
Total operating revenue	1.404	1.398	1.371	1.263	1.175	1.092
Wage cost and wage-related expenses	(603)	(599)	(596)	(515)	(489)	(444)
Increase in pension obligations	(39)	(37)	(56)	(42)	(120)	(28)
Other operating expenses and depreciation	(563)	(551)	(525)	(537)	(529)	(493)
Financial income and (expenses)	(92)	(141)	16	7	(108)	(52)
Other	32	26	12	38	30	15
Operating result (negative)	138	96	222	214	(41)	91
Cash flow:						
Working capital provided by operations	235	308	265	278	254	215
Cash and cash equivalents provided by operations	219	268	178	249	227	244
Investments in fixed tangible assets	(356)	(290)	(296)	(197)	(191)	(141)
Balance Sheet:						
Assets	4.522	4.984	4.621	4.349	4.292	4.141
Equity	2.197	2.464	2.263	1.990	1.829	1.783
Liabilities	2.325	2.520	2.358	2.359	2.463	2.357
Tax rates:						
Municipal income tax	14,52%	14,52%	14,52%	14,52%	14,52%	14,52%
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	128.724	128.724	126.109	123.133	122.452	121.814
Change from previous year		2.615	2.976	681	698	1.484
Change from previous year (ratio)		2,1%	2,4%	0,6%	0,6%	1,2%

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 twenty-three 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, the positions of trust that they hold in the service of the municipal government and their financial interests can be accessed on the City of Reykjavík website, www.reykjavik.is.

The number of members of the City Council and committees and boards working under the auspices of the Municipality are subject to the provisions of the Local Government Act and also is specified in the Standing Orders on the City government, which can be accessed on the City of Reykjavík 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. Representatives of eight political parties currently serve on the City Council, fifteen women and eight men of different 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 Lárus Finnbogason, certified public accountant, chairman, Einar s. Hálfðánarson, attorney at law, Sigrún Guðmundsdóttir, 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. In 2018 a Green Bond Framework was established for the City of Reykjavík in line with international criteria known as the Green Bond Principles, with reference to the United Nations sustainability criteria. With the Green Bond Framework, criteria were established for the issue of Green Bonds, which were well received in the domestic bond market toward the end of 2018.

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.