Consolidated Financial Statements 2023

Orkuveitan

Reykjavík Energy

ssn. 551298-3029
Bæjarhálsi 1, 110 Reykjavík, Iceland

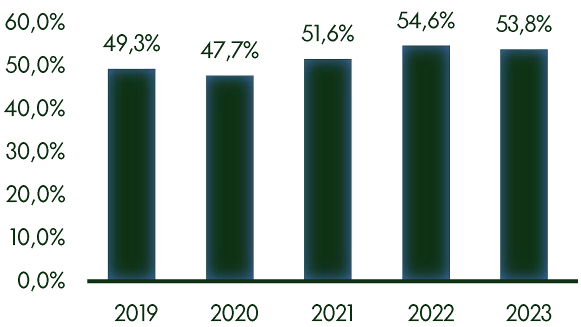
Contents

These Financial statements are translated from the Icelandic original. Should there be discrepancies between the two versions, the Icelandic version will take priority.

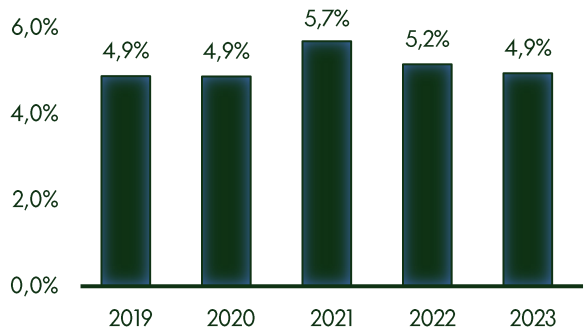
Reykjavik Energy emphasizes these United Nations' Sustainable Development Goals in its operations:

Financial ratios

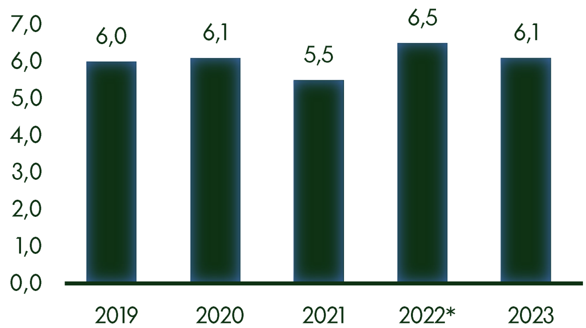
Equity ratio



ROA

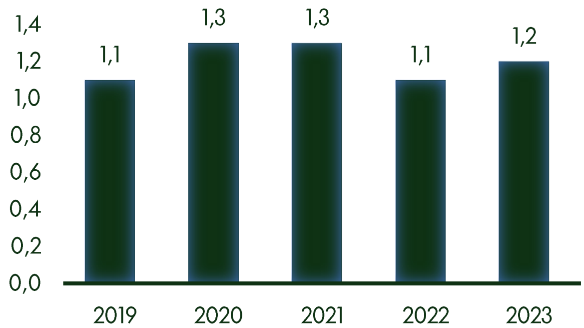


Net debt / Net cash from operation activities

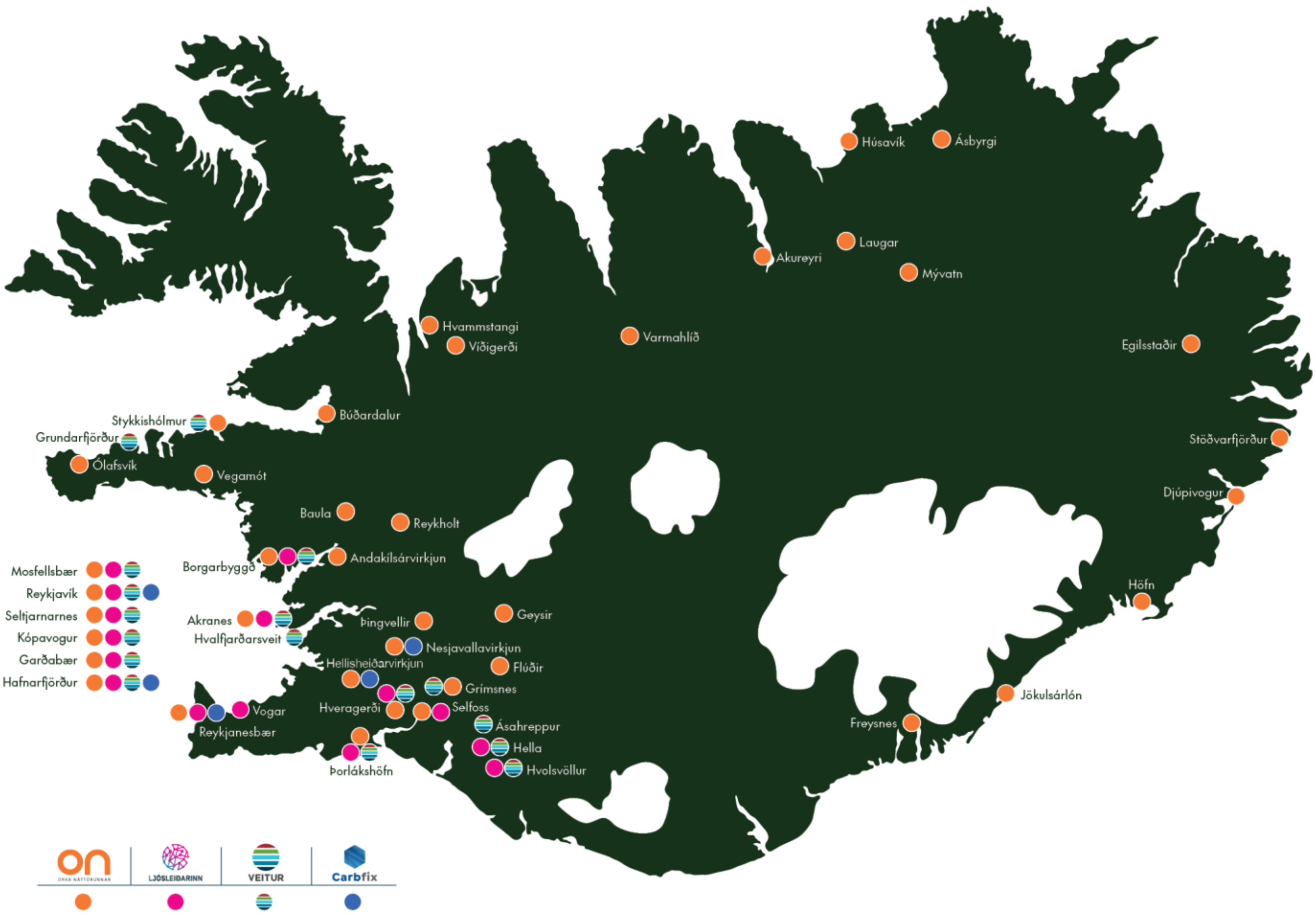


*Corrected for the settlement due to the currency agreement with Glitnir

Current ratio without aluminum derivative



Services



Operating summary

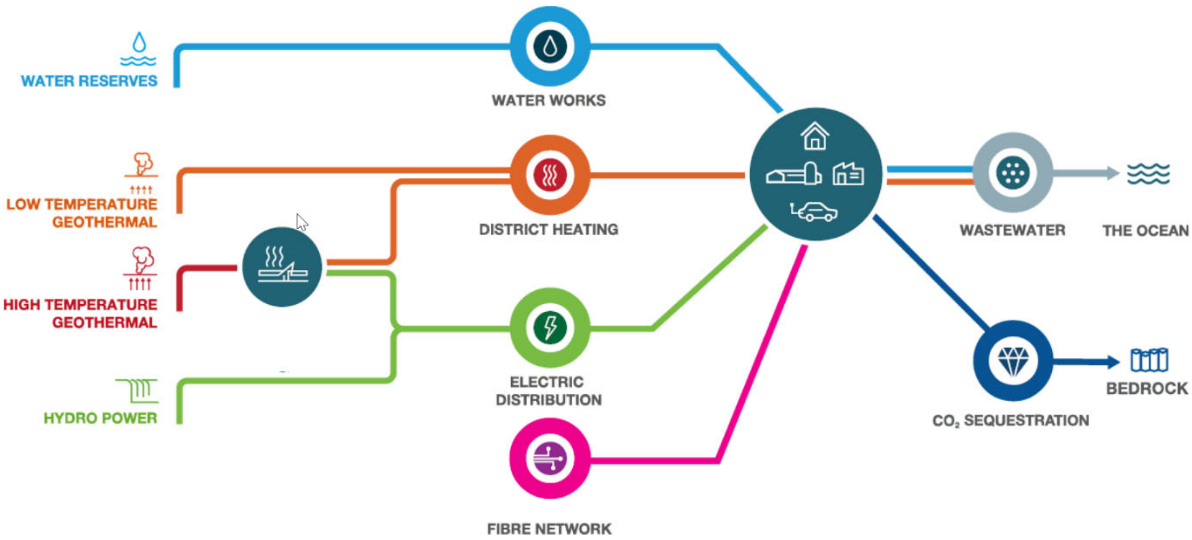
Operating year	**2023**	**2022**	**2021**	**2020**	**2019**
Amounts are at each years price level in ISK millions					
Revenues	61.169	55.644	51.890	48.627	46.570
Expenses	(25.469)	(21.220)	(18.380)	(19.172)	(18.398)
Thereof energy purchase and distribution	(7.264)	(6.718)	(5.872)	(5.793)	(5.659)
EBITDA	**35.701**	**34.424**	**33.510**	**29.454**	**28.172**
Depreciation and amortisation	(15.797)	(14.439)	(13.257)	(13.056)	(12.121)
EBIT	**19.904**	**19.984**	**20.253**	**16.398**	**16.051**
Cash flow statement					
Received interest income	591	313	256	397	337
Paid interest expenses*	(7.040)	(5.061)	(4.398)	(4.940)	(5.373)
Net cash from operating activities*	26.852	26.358	25.582	23.152	22.864
Working capital from operation	27.465	27.587	23.675	22.357	21.684
Liquid funds	**31.12.2023**	**31.12.2022**	**31.12.2021**	**31.12.2020**	**31.12.2019**
Deposits and marketable securities	8.670	11.071	14.657	14.867	9.833
Cash and cash equivalents	10.342	6.651	10.320	15.820	8.657
Undrawn credit lines	14.660	9.100	9.629	11.776	9.600
Liquid funds total	33.672	26.821	34.606	42.463	28.090

*The year 2022 is adjusted for the settlement of the currency agreement with Glitnir (court case).

Report and statement of the Board of Directors and the CEO

Reykjavík Energy (RE) is a joint venture that is governed by Act no. 136/2013 on Reykjavík Energy. RE's statutory role is to engage in the harnessing, production and sale of electricity, hot water, and steam, and the operation of basic infrastructure, such as a distribution system for electricity, heating, water supply, sewerage, and fibre optics system, as well as other similar activities. It also encompasses other operations that can benefit from RE’s research, knowledge, or facilities, as well as industrial development and innovation, as this relates to the company's core operations.

The overview below shows the core operations of the Reykjavík Energy Group. Below are the main business processes in the value chain and, finally, there are specific key stakeholders for each link in the chain.



Value Chain	**RESOURCES** – Searching for and researching resources and acquiring rights to utilize them – Monitoring and control of utilization	**NEW DEVELOPMENTS** – Design and acquisition of permits – Purchase of materials, equipment, and services of contractors – Inspections and tests	**PROCESS AND DISTRIBUTION** – Reception of new construction for operations – Control and monitoring of processing – Inspection, maintenance, and renewal – Purchase of materials, equipment and services	**BUSINESS AND SERVICE** – Acquisition and registration of customers – Connection of homes and companies – Reading meters and issuing invoices – Response to malfunctions	**RESOURCES** – Reception monitoring
Stakeholders	**Public entities** Licensing, organization, and supervision **General public** Reviews on licences, right of appeal **OR owners** Confirmation of plans in new areas	**Public entities** Licensing, organization, and supervision **Contractors and suppliers** Construction, supply of materials, consultancy, financing **General public** Reviews and right of appeal **OR owners** Confirmation of plans in new areas	**Public entities** Monitoring of operations and resource utilization **General public** Tips, information **Customers** Information on service failure **Contractors and suppliers** Construction, supply of materials, consultancy, financing	**Customers** Payment of invoices, reading of meters **Public entities** Monitoring of security of supply, usage measurements and prices	**Public entities** Environmental impact monitoring **General public** Tips, information

Employees, organisations and associations of people and companies, as well as **inspectors of working conditions** in the labour market have an interest in the entire value chain.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as confirmed by the European Union, and the additional requirements set out in Icelandic law and regulations regarding financial statements of companies with listed bonds. It contains the financial statements of Reykjavík Energy and its subsidiaries.

The Reykjavík Energy Group

Reykjavík Energy fulfils its statutory role in the community under four brands, in addition to the brand of the parent company, which plays a leadership role within the group. The owners of RE, at the beginning and end of 2023, were the City of Reykjavík (93.539%), Akranes municipality (5.528%) and Borgarbyggð municipality (0.933%). All subsidiaries within the group are wholly owned by RE, see note 37 in Reykjavik Energy’s consolidated financial statements.

The Reykjavík Energy Group, cont.

<table>
<tr><td>Reykjavik Energy
OR Eignir ohf.</td><td colspan="3">The parent company manages the group's finances and procurement, human resources, information technology and researchers that conduct research and innovation for the Group's companies. The parent company also operates specialist units that provide leadership and services, e.g. in terms of health and safety, environmental and climate issues, legal issues, and communications.
The average number of full-time equivalent positions under the Group was 572.
The Group's permanent employees at year-end 2023 were 558, 30,7% of whom were women and 69,3% men. Genderqueer people did not reach 1%. At year-end, there was an equal number of men and women at managerial level. A third of the Board of Directors is female, while the chair is male.</td></tr>
<tr><td colspan="4">Company</td></tr>
<tr><td>Veitur ohf.
OR vatns- og fráveita sf.</td><td>Orka náttúrunnar ohf.
ON Power ohf.</td><td>Ljósleiðarinn ehf.</td><td>Eignarhaldsfélagið Carbfix ohf.
Carbfix hf.
Coda Terminal hf.</td></tr>
<tr><td colspan="4">Field of work</td></tr>
<tr><td>Veitur operates electric utilities and district heating utilities, almost all of which are licensed in their area of operation. Veitur takes care of the operations of OR Water and sewerage partnership, which performs the statutory obligations of municipalities with regard to water supply and sewerage, especially in those municipalities that own RE.</td><td>Orka náttúrunnar PLC produces hot water and electricity at the Nesjavellir geothermal power plant and electricity at the Andarkílsá hydropower station. The water goes to Veitur‘s district heating in the capital area, while the electricity goes mostly to the wholesale market. ISK is the working currency.

Orka náttúrunnar manages the operations of ON Power PLC which produces hot water and electricity at the Hellisheiði geothermal power plant. The water goes to Veitur‘s district heating in the capital area and the electricity to the wholesale market. USD is the functional currency of ON Power.</td><td>Reykjavík Fibre Network lays and operates an extensive fiber-optic network that is utilized by telecommunications companies in order to provide network services to households and companies.</td><td>Carbfix is a research, innovation, and consulting company in the field of carbon sequestration. It provides services to companies both within and outside the RE Group.
Carbfix hf. was established in 2022.

Eignarhaldsfélagið Carbfix ohf. holds the patents related to Carbfix, and the Coda Terminal is a project company for the carbon storage facility by the same name.
EUR is the functional currency of Carbfix hf. and Coda Terminal hf.</td></tr>
<tr><td colspan="4">Main Acts that apply to the operations
The Act on Reykjavík Energy applies to all operations of the Reykjavík Energy Group</td></tr>
<tr><td>Energy Act
Electricity Act
Act on the construction and operation of sewers
Act on municipal water supply
Water Act
Information Act
Administrative Act (water and sewerage)
Act on Environmental Responsibility.</td><td>Electricity Act
Energy Act
Water Act
Competition Act
Act on Environmental Responsibility.</td><td>Act on telecommunications
Competition Act.</td><td>Act on Hygiene and Pollution Prevention
Act on Environmental Responsibility.</td></tr>
<tr><td colspan="4">Income (See also note 4 in the consolidated financial statements for RE)</td></tr>
<tr><td>Revenue is almost entirely from the sale of utilities with concessions to households and businesses. Tariffs are subject to supervision by the following authorities:
District heating: Ministry of the Environment, Energy and Climate
Electricity supply: National Energy Authority
Water supply: Ministry of Infrastructure
Sewerage: Ministry of Infrastructure</td><td>Revenue is from the sale of electricity in the general market, the sale of electricity in the wholesale market, the sale of hot water wholesale to Veitur's district heating in the capital area, guarantee of origin sales, and rent for the facilities at the Hellisheidi Geothermal Park in Ölfus. The wholesale price of hot water is subject to the supervision of the National Energy Authority, but the electricity market is a competitive market which is monitored by i.a. The Competition Authority and the National Energy Authority.</td><td>Revenues are, on the one hand, from fiber-optic connections to homes and companies that use the services of electronic communications companies via the Reykjavík Fibre Network's systems, and on the other hand from the wholesale of data transmission via fiber-optic cables within the communications companies' systems. The electronic communications market is a competitive market under the supervision of the Electronic Communications Office of Iceland and the Competition Authority.</td><td>Carbfix is a start-up company, based on the technology of the same name for carbon sequestration. The company's main income is through consultation, development, and operations of Carbon sequestration facilities, and grants from international competition funds for research and development.</td></tr>
</table>

The Reykjavík Energy Group, cont.

VEITUR	ON ORKA NÁTTÚRUNNAR	LJÓSLEIÐARINN	Carbfix
Company			
Veitur ohf. OR vatns- og fráveita sf.	Orka náttúrunnar ohf. ON Power ohf.	Ljósleiðarinn ehf.	Eignarhaldsfélagið Carbfix ohf. Carbfix hf. Coda Terminal hf.
Average number of full-time equivalent jobs 2023			
246,9	110,0	47,1	33,3
Percentage of women on boards and in chair positions at year-end 2023			
40%	60%:	40%:	75%

Key financial results for 2023

Profit from the Reykjavík Energy group's operations in 2023 amounted to 6.400 million ISK (2022: profit ISK 8.310 million). The group's total profit in 2023 was ISK 18.434 million (2022: ISK 36.656 million). According to the balance sheet, the group's assets amounted to ISK 481.290 million at the end of the year (31.12.2022: ISK 450.388 million). Equity was ISK 258.984 million at the end of the year (31.12.2022: ISK 246.050 million) and the group's equity ratio was 53,8% (31.12.2022: 54,7%).

On October 2, 2023, RE issued a financial forecast in the Nasdaq Iceland news system. According to the forecast, revenue for 2023 would be ISK 60,4 billion but turned out to be ISK 60,5 billion. Operating expenses were forecast at ISK 25,7 billion, but was ISK 25,5 billion, or ISK 0,2 billion lower than estimated. ISK 29,2 billion were invested over the course of the year, while the financial forecast had estimated ISK 33,4 billion, as projects that were scheduled to conclude in Q4 of 2023 will not be completed until the next year.

The board of directors of Reykjavík Energy proposes at the annual general meeting that a dividend be paid to the owners in the year 2024, for the operating year 2023, to the amount of ISK 6 billion. In other respects, reference is made to the Financial Statements regarding the allocation of profits and other changes in equity.

Equality and human resources

Although half a decade has passed since the unexplained gender pay gap was eliminated within the RE group, and there is a gender balance in the group's management team, there is still a need to remain vigilant in matters of equality. Despite various initiatives, some jobs are extremely gender-based, especially the jobs of skilled workers. We will continue working on getting more genders interested in those jobs. Reykjavik Energy received international recognition for its work on equality issues in 2023, three companies within the group received the Equality Scale of the Association of Women in Business, and Veitur received the highest rating from Women in Energy, for women’s influence, for companies in the energy and utility sector.

Employee turnover increased somewhat from the previous year, but continued to diminish among women. Job satisfaction increased from the previous year and has measured as strong since 2011.

Sævar Freyr Þráinsson became CEO of Reykjavík Energy, taking over from Bjarni Bjarnason in April 2023.

There were also some changes among managing directors within the group in 2023, Árni Hrannar Haraldsson was hired as CEO of ON Power, Einar Þórarinsson became CEO of Ljósleiðarinn, and recently Snorri Þorkelsson was appointed CEO of Finances for Reykjavík Energy. Some changes were also made in organisation when the RE Service Desk was closed down. The service representatives, who worked at the joint Service Desk, transferred into relevant subsidiaries, the connection and user service transferred to Veitur, and other project became part of the Finance department.

The RE‘s project, Vaxtarsprotar (EN: Growth Spurts), received the Educational Award of SA (SA - Confederation of Icelandic Enterprise) in 2023. The goal of the project is to develop RE's workplaces and change the culture in order to better cope with the ever-changing environment and the increased demands and expectations of customers.

SDGs and ESGs in 2023

The board of directors of Reykjavik Energy has decided to put special emphasis on 6 of the UN Sustainable Development Goals (SDGs) in the group's operations. RE's 2023 Annual Report describes in detail how it performed in relation to the SDGs and their sub-goals. The boards of RE's subsidiaries have also set their own emphases in regard to the SDGs, in relation to their respective fields of work.

Achieve gender equality and empower all women and girls	Ensure availability and sustainable management of water and sanitation for all	Ensure access to affordable, reliable, sustainable, and modern energy for all	Ensure sustainable consumption and production patterns	Take urgent action to combat climate change and its impacts	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Alongside the publication of this financial statements, Reykjavik Engergy will publish a consolidated financial statements of RE for 2023 in a digital format. This is also prepared in accordance with the ESG (Environmental, Social, and Governance) reporting guide of Nasdaq OMX Nordic. The report goes into details regarding governance, environmental and climate issues, personnel and social issues, the group's business model and value chain, main business processes and stakeholders in the operation, RE's human rights policy and how RE defends against fraud and bribery. The report receives an independent external review and approval and is also signed by the board and CEO of RE. The RE 2023 annual report is accessible to all at https://arsskyrsla2023.or.is where it can also be found in pdf format. The table here below refers to respective subsections of the report.

ENVIRONMENT		GOVERNANCE		SOCIAL	
U1. Greenhouse gas emissions [1]	64,0 thousand tn.	F1. CEO's salary ratio	3.1	S1. Gender ratio in the Board	66/33
U2. Emission intensity	1.046 tn./bn. ISK	F2. Gender pay gap	0.1% in favour of women	S2. Independence of the Board	See report
U3. Energy usage	98,2% renewable	F3. Employee turnover	12.8%	S3. Bonuses	No
U4. Energy Intensity	771 MWh/ employee	F4. Gender equality	See report	S4. Collective labour agreements	97.5% union membersh ip
U5. Energy mix	99,9% renewable	F5. Proportion of temporary staff	See report	S5. Supplier code of conduct	Yes
U6. Water usage	82 mn.m3	F6. Anti-discrimination measures	See report	S6. Ethics and anti-corruption measures	See report
U7. Environmental operations	ISO 14001	F7. Ratio of work accidents	4.5/Mn work hours	S7. Data protection	Yes
U8. Climate control/management	Yes	F8. Global health and safety	Sickness 3.0%	S8. Sustainability report	Yes
U9. Climate control/managers	Yes	F9. Child and forced labour	See report	S9. Procedures for providing information	SDGs and ESG
U10. Climate risk mitigation	See report	F10. Human rights	See report	S10. Data extracted / verified by an external party	Yes

[1] For the first time, Reykjavík Energy is publishing updated climate accounting that considers many more factors than have been included in recent years. It is in accordance with the rules of the Science Based Targets initiative, and we are working on independent certification of the accounting according to the international ISO 14064-1 standard.

Governance and internal control

We enable sustainable future is the title of Reykjavik Engergy's new overall strategy, created on behalf of the board of directors and the CEO in 2023, and approved after consultation with the owners in early 2024. The strategy is born out of RE's own history and successes and built on innovation and foresight, with the aim of continuing that course. There are challenges ahead in relation to climate change, energy, and other related issues, but also opportunities. To deal with the massive and urgent projects ahead, strong cooperation between different parties is needed. RE's ambition is to work diligently in collaboration with others in energy, utilities and related innovation, so that the company itself and its customers can support sustainable development.

RE's ambition is to provide excellent service to its diverse customer base, to operate in harmony with nature, with responsible teamwork and efficient governance, and that all operations contribute to prosperity. In this way, the foundation is laid for an increased quality of life for us all.

The strategy is based on four streams, each of which supports the other. Under each stream, the goals that belong to it are then specified. The streams are:

- For the customer
- Increased supply and sustainable solutions
- Innovation and strong collaboration
- Performance-oriented teamwork and responsible operation

Reykjavík Energy's values are *initiative, foresight, economy,* and *honesty*. RE's Code of Ethics is based on Reykjavík Energy's values. The Code of Ethics is documented and public and is intended to help employees ensure that honesty, respect, and equality characterize all communication, whether with customers, colleagues, the board, contractors or other stakeholders.

RE's governance must ensure professionalism, efficiency, discretion, transparency, and responsibility in operations. On the basis of the Act on Reykjavík Energy, the owners entered into a co-ownership agreement, which clarifies responsibility and authority. It is available on RE's website, as is the Owners' Policy, where the owners' focus on operating practices in the RE group is explained. In 2022, the City of Reykjavík established an ownership policy, which states how the City of Reykjavík intends to proceed towards the companies it owns. This policy will lead to changes in RE's Owners' Policy. Changes in focus with RE's new overall strategy may also lead to changes in the Owners' Policy. The boards of the subsidiaries within RE have adopted operating rules as well as Codes of Conduct that can be found on RE's website or the respective company's websites, and all minutes of RE's board meetings are published on the company's website, together with non-confidential meeting documents.

The rules of procedure of RE's board of directors take into account the Code of Ethics, Guidelines on Corporate Governance, published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland ehf. and the Confederation of Icelandic Employers, and a handbook for board members, published by KPMG. Subsidiaries are governed by the articles of association of each company and the rules of procedure of their boards.

According to law, Reykjavik Energy's board consists of six representatives, five elected by the Reykjavík city council and one elected by the Akranes town council. The Reykjavík city council elects the chair and vice-chair of the board from among the city's representatives. At the end of 2023, the board of Reykjavík Energy was as follows:

- Dr. Gylfi Magnússon, chair, Professor of economics and finance at the University of Iceland.
- Vala Valtýsdóttir, vice-chair, chair of the board's Compensation Committee, lawyer and specialist in corporate law.
- Skúli Helgason, city representative from Reykjavík and political scientist.
- Ragnhildur Alda Vilhjálmsdóttir, city representative from Reykjavík, BS in psychology and MA in service management.
- Þórður Gunnarsson, resource economist.
- Valgarður Lyngdal Jónsson, chair of the Akranes city council and secondary school teacher.

Borgarbyggð municipality and RE's employee organisation have observers at board meetings.

The CEO of Reykjavik Energy is Sævar Freyr Þráinsson, Cand Oecon.

The Compensation Committee is a sub-committee of the board of RE.

Governance and internal control, cont.

The Audit Committee for the City of Reykjavík is also the Audit Committee for Reykjavík Energy, and one of its members is nominated by the board of Reykjavík Energy. The provisions regarding this are also stated in Article 9 of the joint ownership agreement for Reykjavík Energy.

The Audit Committee members are:

- Lárus Finnbogason, chair
- Einar Sveinn Hálfdánarson
- Sigrún Guðmundsdóttir
- Sunna Jóhannsdóttir – appointed by the board of RE

Reserve members are:

- Danielle Pamela Neben
- Páll Grétar Steingrímsson
- Ólafur Kristinsson

The Audit Committee is a sub-committee of the board of Reykjavik Energy and works under its aegis. The purpose of having an Audit Committee is to improve governance in matters that have to do with financial surveillance. The work of Audit Committees is defined in chapter IX. A, in the laws on financial statements.

The statutory tasks of audit committees are as follows:

- Monitoring work process for the preparation of financial statements.
- Monitoring the organization and effectiveness of the entity's internal controls, internal audit, if applicable, and risk management.
- Monitoring the audit of the unit's financial statements and consolidated financial statements.
- Assessment of the independence of the auditor or audit firm and supervision of their other duties.
- A proposal to the board of directors regarding the selection of an accountant or auditing firm.

The Audit Committee for RE monitors governance, the effectiveness of risk management and internal control by reviewing and processing the internal audit plan, it is a large part of internal audit's tasks to supervise and examine the effectiveness of risk management and the effectiveness of internal control.

The work report of the Audit Committee was presented at the meeting of the board of directors on December 18, 2023. During the working year, which spanned from August 2022 to June 2023, the committee worked on tendering an external audit. The contract with the company's external auditors, Grant Thornton endurskoðun ehf., was for five years and covered the years 2018-2022, both years included. The committee commenced work on the external audit tender in September 2022 and ended in May 2023, with the committee making a proposal that the lowest bidder, Grant Thornton endurskoðun ehf. would be selected as the company's auditor for at least the next five years, for 2023-2027. The proposal was approved at RE's owners' meeting on May 30, 2023, with reference to the processing of the matter at the annual general meeting, which was held on April 26, 2023.

At the Audit Committee's meeting on December 12, 2022, the committee received the internal audit plan for the period 2023-2024 for discussion and referred it to the board of RE for approval. The internal audit plan for 2023-2024 was approved by RE's board on December 19, 2022, following the previous approvals of the subsidiaries' boards.

The Audit Committee reviews and receives an introduction to the audit plan of the external auditors, but during the preparation of the plan, risk and uncertainty factors in the company's operations are evaluated. Part of the tasks of the external auditors is to assess the internal controls related to the company's financial statements. The Audit Committee monitors the progress of the audit, reviews the results of the external auditors and reports to RE’s board of directors about its opinion on the financial statements. The committee takes into consideration the reports of the internal and external auditor, and the committee particularly follows up on their suggestions regarding internal control.

In connection with the preparation of Ljósleiðarinn’s share capital increase, which had been going on for several months, the boards of Ljósleiðarinn and RE in 2023 requested an Internal Audit review regarding, on the one hand, the handling of confidential information that had been submitted to the board of Ljósleiðarinn, and the consistency of Ljósleiðarinn's activities with RE’s ownership policy on the other. The internal auditor's report, with comments and recommendations, was

Governance and internal control, cont.

submitted to the boards in December 2023. By then, some of the points that appeared in the report had already been corrected, and measures to meet the other suggestions were subsequently announced.

The board of Reykjavík Energy actively monitors the most important uncertainties in the group's operations and receives monthly reports on the state of finances, resources, occupational health and safety issues, and significant environmental factors, including climate issues. Risk management, operational risk and other risks in the group's operations are discussed regularly at board meetings. The Internal Audit of the City of Reykjavík also conducts financial and administrative supervision at RE on behalf of the board. This means that Internal Audit assesses the effectiveness of risk management, control methods and governance with the aim of continuous improvement.

Reykjavik Engergy and its subsidiaries have implemented management systems in accordance with international standards and legal requirements. Independent accredited bodies regularly verify the functionality of these systems:

- ISO 9001 - International Quality Management Standard
- ISO 14001 - International Environmental Management Standard
- ISO 14064-1 - International standard for quantifying and reporting greenhouse gas emissions (in certification process)
- ISO 27001 - International standard for information security management
- ISO 45001- International standard for health and safety management at the workplace
- HACCP/GÁMES - International Food Control System
- ÍST 85 - Icelandic standard for equal pay
- Electrical safety management system
- Internal control system of sales meters

Strategic governance, the active implementation of risk policy, and the policies specified in RE's Owners' Policy and the partnership agreement are conducive to strengthening internal control. Internal control systems are regularly monitored in internal and external audits where their effectiveness is confirmed. If, following an audit, it becomes clear that improvements are needed, they are dealt with.

RE's management, managing directors, and directors are responsible for internal control in their respective fields. Risk & process management is a unit within RE that is responsible for ensuring that RE's internal control systems are active. RE's quality systems are independently certified by external parties.

RE adheres to the standards of the Institute of Internal Auditors on the implementation of internal auditing. The City of Reykjavík's internal audit also serves as RE's internal auditor. RE's Compliance Officer supervises the disclosure of information to the Exchange and the Financial Supervisory Authority.

Reykjavik Energy has a listed procedure for handling cases where there is a suspicion that an employee or manager has violated the company's rules or to have perpetrated fraud at work. The procedure is accessible to all staff. If a breach is suspected, the next supervisor or internal auditor of the company must be notified, who must then report the matter, while maintaining confidentiality regarding the information, including the name of the person who notified the matter. There was no suspicion of possible fraud in 2023.

EU Taxonomy results

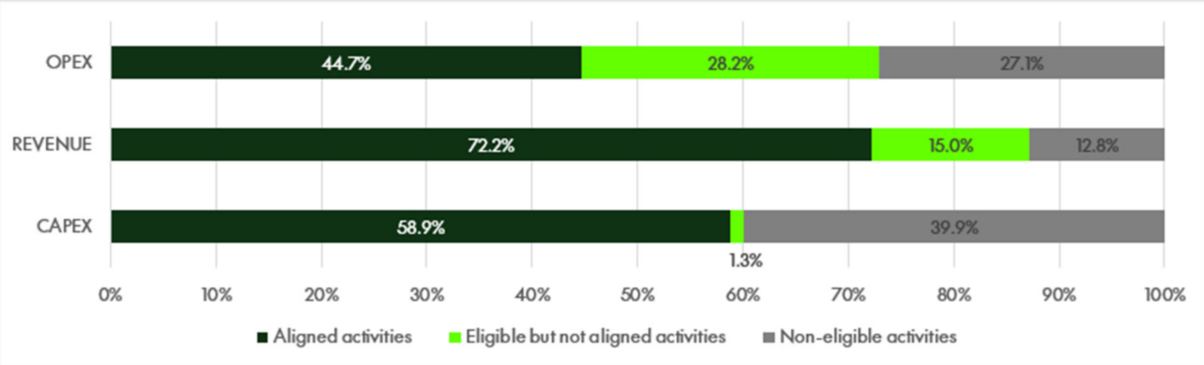
For the first time, RE is publishing information from financial accounting in accordance with the EU Taxonomy classification, which entered into force in Iceland on June 1, 2023, with Act no. 25/2023. The goal of the regulation is to evaluate, through coordinated environmental and climate criteria, what operations can be considered sustainable. To meet the criteria, the operation in question must be considered to provide a significant contribution to one of the following environmental objectives without causing significant damage in terms of the other environmental objectives:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- Pollution prevention and control
- The transition to a circular economy
- The protection and restoration of biodiversity and ecosystems

EU Taxonomy results, cont.

For this first time that the Taxonomy classification is applied to the Reykjavik Energy's operations, its operations are only evaluated in regard to the objective of climate change mitigation. For example, the production of energy from renewable sources is assessed according to whether it would cause harm to other objectives. In the next phase of the implementation, RE will also evaluate activities and operations based on the other environmental objectives.

From the specified activities in the Taxonomy regulation, ten operational aspects were identified that are practiced within the Reykjavík Energy Group, i.e. are classifiers. The figure below gives a complete overview of the percentage of investment, operational expenditure and operating income of the RE group in relation to whether it is aligned with the taxonomy, eligible but not aligned, or is non-eligible.



In the table below is a corresponding breakdown of the financial metrics according to the ten operational areas identified within RE´s operations.

	Investment		Operational expenditure		Operating income	
Environmentally sustainable operations	Amount in thousand ISK	Percentage	Amount in thousand ISK	Percentage	Amount in thousand ISK	Percentage
4.15 Distribution of district heating/cooling	5.792.340	20%	4.354.789	10%	18.386.841	30%
4.18 Integrated production of heat/cooling and electricity from geothermal energy	2.882.523	10%	5.879.940	13%	6.921.423	11%
4.9 Transmission and distribution of electricity	2.376.400	8%	5.652.706	13%	8.786.365	14%
5.1 Construction, expansion and operation of water collection, water purification and water supply systems	1.843.149	6%	1.457.120	3%	3.209.894	5%
5.12 Permanent storage of carbon dioxide underground	1.742.575	6%	216.242	0%	64.740	0%
5.3 Construction, expansion and operation of sewage collection and treatment systems	2.267.874	8%	1.952.840	4%	6.939.534	11%
6.15 Infrastructure that enables low-carbon road transport and public transport	272.286	1%	251.737	1%	341.014	1%
6.5 Transportation by motorcycles, passenger cars and light commercial vehicles	40.214	0%	221.943	0%	0	0%
	Investment		Operational expenditure		Operating income	
Classifiable activities that do not meet the assessment criteria	Amount in thousand ISK	Percent-age	Amount in thousand ISK	Percent-age	Amount in thousand ISK	Percentage
4.5 Electricity production from hydropower	34.879	0%	35.445	0%	-	-
8.2 Data-driven solutions to reduce greenhouse gas emissions	338.001	1%	338.941	0%	448.133	1%
	Investment		Operational expenditure		Operating income	
Activities outside classification regulation	Amount in thousand ISK	Percentage	Amount in thousand ISK	Percentage	Amount in thousand ISK	Percentage
	11.659.751	40%	5.106.882	54%	16.071.415	27%

EU Taxonomy results, cont.

The most extensive economic activities by Reykjavik Energy that still do not fulfil the screening criteria of the EU Taxonomy are the installation of smart meters by Veitur Utilities and development of optical fibre networks by Reykjavik Fibre Network. There is a lack of life cycle analysis of equipment to assess the environmental contribution and environmental impact of the operation. Such an assessment is being prepared.

Success and uncertainties 2023

RE operates in accordance with a Risk Policy, which is reviewed regularly by the board. The main objective of the Risk Policy is to ensure that RE and its subsidiaries can perform their basic functions in a safe and cost-effective manner with minimal risk. This is done by:

- Reducing fluctuations in the RE group's performance at any given time regarding the underlying risk in the operation and that risk factors are always within defined limits set by the board and listed in the risk manual.
- Ensuring that RE has sufficient funds to support the development of services and regular operations.
- Analysing, assessing, and managing risks to RE’s operations, policies and defined boundaries.

In 2023, RE presented ideas for building wind farms in the vicinity of Hellisheiði in collaboration with ON Power (ON). In RE’s new overall strategy, there is an emphasis on increasing energy production, both electricity and heat for homes or businesses. The strategy is based on the increased need for energy, aligning with the government's strategy for a carbon-neutral future and increased energy production. At the same time, work is being done to improve energy efficiency, among other things by increasing the circulation of energy flows, as is being done in ON's Geopark by the Hellisheiði geothermal powerplant.

In 2023, Veitur took part in connecting visiting cruise ships to electricity in Reykjavík harbour for the first time, as well as significantly increasing the number of charging stations for electric vehicles, referred to as neighbourhood charging stations. For the fifth year running, ON was on top of the Ánægjuvog, a standardized measurement of customer satisfaction and loyalty. Among other recognitions that the RE group received during the year were the *European Broadband Awards*, which the Council of Europe awarded to Ljósleiðarinn, Carbfix received the Nordic Blaze Award for work on sustainability issues with a focus on diversity, and Carbfix's managing director, Edda Sif Pind Aradóttir, was listed in TIME magazine as one of the 100 most influential people in the world in the climate field.

In early 2019, RE set numerical targets for the group in key areas, aimed to be achieved by year-end 2023. The progress was communicated on the company's website. Following are the goals and status of each measure at the year-endf 2023:

Goal	Increase in EVs	Smaller carbon footprint	Make it home in one piece	Employee satisfaction	Good citizen
Measurement	Total number of connected EVs	Size of carbon footprint compared with 2016	Employee absence due to illness or accident	Analysis of employee satisfaction	Public attitude towards OR brands
Numerical Goal	40.000	-40%	< 3,6%	4,5	6,3
Final result	48.226👍	+5%	3,0%👍	4,4	6,1

The development of key metrics for the group is ongoing in connection with the implementation of a new overall strategy.

Reykjavik Energy‘s carbon accounting made great progress in 2023. Climate targets were recognized and certified by the Science Based Targets initiative and the company's climate accounting is in the final stages of independent certification. Although a big step towards reducing the carbon footprint will be taken with the expansion of the capture plant at the Hellisheiði geothermal powerplant in 2025, the group's carbon footprint increased in 2023. This can be attributed to problems in the operation of the capture plant at the Hellisheiði powerplant. On the plus side, capture and storage of carbon dioxide and hydrogen sulphide from the steam from the Nesjavellir geothermal powerplant began in 2023. This is a trial operation that will be scaled up to the year 2030, when it is planned that almost all geothermal gas from the steam will be captured and stored. Hydrogen sulphide did not exceed regulatory limits in the group's operating area in 2023.

Climate risk affects all aspects of RE's operations, 14 situations related to climate change have been defined that can affect the operations. Among the most serious, according to initial estimates, are the risk of flooding due to heavy rainfall, increased frequency of lightning with effects on electrical equipment, wildfires in water conservation areas, and increased algal blooms in water sources due to rising temperatures. Work is being done simultaneously on countermeasures, i.e. to reduce the emission of greenhouse gases, and adaptation measures by increasing the resistance of the operation to the changes.

Success and uncertainties 2023, cont.

Reykjavík Energy began issuing Green Bonds in 2019, within the Green Bond framework. As a result, more bids were received for issued bonds than before. In 2021, RE introduced a new framework, a framework for Green Financing, which also covers different financing formats than those of issuing bonds. The change means that the Group’s green assets are now being financed, and not specific projects of individual subsidiaries. All the group's financing in 2023 fell under the new Green Financing framework.

In 2021, RE issued a Code of Conduct for the group's suppliers. They are based on the 10 pillars of the UN’s Global Compact and the purpose of the Code is to achieve a better grasp of the sustainability of the group‘s entire value chain. By signing the Code of Conduct, the supplier agrees to comply with requirements to respect human rights, labour market rules, the environment, and to counteract corruption. Corresponding requirements have been included in RE's tender documents for years, but now they also apply to smaller procurements than those that go into formal tenders. By the end of 2023, 121 domestic and foreign suppliers had confirmed that they abide by the Code of Conduct, and all those who participate in the group's tenders must also confirm the code of conduct.

During the year, the owners of Reykjavík Energy authorized the increase of share capital in Ljósleiðarinn, as well as the sale of the new share capital. It is the second subsidiary where such authorization of the owners exists, but work is also being done to find co-owners for Carbfix hf. In October 2023, the Competition Authority approved the acquisition of Ljósleiðarinn of Sýn's network. Ljósleiðarinn needs new funding to support the growth that is expected following the acquisition. Ljósleiðarinn is in the process of attracting new shareholders, but if the approved capital increase does not go ahead or prolong, the board of directors of Reykjavik Energy has stated that the company will increase its share capital in Ljósleiðarinn at market value to ensure continued operations and to protect its interests.

Uncertainty entails the seismic and volcanic activities that have been occurring in and around Grindavík, where an end is not in sight. These have neither affected the operations of ON Power‘s geothermal power plants by Hengill nor Veitur Utilities‘ systems or operations. The risk of volcanic activity in the respective areas is not increased. Reykjavík Fibre Network (Ljósleiðarinn) has partially connected Grindavík to its system and has backhaul cables in the Reykjanes Peninsula. The principal uncertainty now is whether it will continue to be viable to live in Grindavík and thus what the revenue stream from the investment will be in the coming years. Reykjavík Energy does not operate other utilities in the area.

The company's financial position is strong, amounting to ISK 19 billion by the end of the year. In addition, the group has access to credit lines in the amount of ISK 14,7 billion by end of the 2023.

Expectations for the sale of RE's 6,8% holding in Landsnet did not materialize during the year.

There is also a formal process ongoing on the part of RE, as a dispute regarding the terms of the electricity sales agreement with Norðurál, which ON is in charge of implementing, was referred to international arbitration. See also note 39 in these consolidated financial statements.

In notes 29 to 33 with the financial statements, you can find further discussion of RE's main risks.

The company is operational and may absorb unexpected shocks in the future.

Statement by the board of directors and the CEO

To the best of Reykjavík Energy's board of directors and its CEO's knowledge, the Consolidated Financial Statements are in accordance with International Financial Reporting Standards, as confirmed by the European Union, and additional requirements set out in Icelandic legislation and regulation on the financial statements of listed companies. In the opinion of the board of directors and the CEO, the Financial Statements give a true and fair view of the group's assets, liabilities, and financial position as of 31 December 2023, together with its operating results and changes in cash during the year, as well as describing major risks and uncertainties facing the group.

Reykjavík, March 7, 2024

Board of Reykjavik Energy:

Gylfi Magnússon
Vala Valtýsdóttir
Ragnhildur Alda Vilhjálmsdóttir
Þórður Gunnarsson
Skúli Helgason
Valgarður Lyngdal Jónsson

CEO:

Sævar Freyr Þráinsson

Independent Auditor's Report

To the Board of Directors and Owners of Reykjavik Energy.

Opinion on the Consolidated Financial Statement

Opinion

We have audited the accompanying Consolidated Financial Statements of Reykjavik Energy (hereafter the Group) for the year 2023. The Consolidated Financial Statements comprise the Statement by the Board of Directors and CEO, the Statement of Income, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Changes in Equity, a summary of significant accounting policies and other explanatory information.

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated results of operations of the Group. for the year 2023, its consolidated financial position as at December 31, 2023, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements for the year 2023. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, 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:

Explanation of Key Audit Matter	Responses to Key Audit Matter
Valuation of production and distribution systems See note 41 (d) pages 65-66 on significant accounting policies and note 13 page 35-37: on property, plant and equipment. We have defined the valuation of production and distribution systems as a key audit matter in our audit. The Group‘s production and distribution systems are carried at revalued amount. An assessment is made of the changes in construction costs of similar types of assets and both cost and accumulated depreciation are revalued accordingly. The Group 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, any change in assumptions can have significant effect on the income statement and balance sheet of the Group. 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 Group‘s methodology for valuing the production and distribution systems and its consistency with international financial reporting standards. We reviewed the Group‘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.

Key Audit Matters, contd.

Revenue recognition

See note 41 (j) page 68 on significant accounting policies and note 4 pages 27-28 on operation and revenue recognition of Group's components.

Revenue from sale and distribution of electricity and hot water is recognised based on measurements into the systems, taking into account energy losses occurring in the distribution systems. Differences between the actual amounts that go into the systems, minus losses and invoiced usage, leads to a period correction.

Due to the fact that income recognition at the end of the year is based on management estimates, there is uncertainty regarding revenue recognition relating to revenue cut-off and existence. For that reason, we focus specifically on revenue cutoff in our audit, as well as performing other audit procedures relating to revenue recognition.

In our audit of revenues, we have assessed controls relating to revenues in the Group. We have also tested certain controls relating to revenue recognition. We have reviewed and evaluated the IT control environment in the Group, including review of how access to finance and accounting related IT systems is controlled.

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 in the Group.

Valuation of embedded derivatives

See note 41 (c) pages 63-65 on significant accounting policies, note 19 page 41 on embedded derivatives in electricity sales contracts and note 34 pages 57-58 on fair value hierarchy.

Because prices of specific electricity sales contracts with large counterparties are tied to aluminium prices, the Group 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 of the Group. For these reasons, we assume there is significant risk related to embedded derivatives and have therefore defined them as a key audit matter.

In our audit, we reviewed the Group's pricing methodology and consistency with international financial reporting standards.

We reviewed the Group'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.

Other Information

The Board of Directors and the CEO are responsible for all information presented by the Group, both the Consolidated Financial Statements as well as other information. Our opinion does not cover other information other than we specificly discuss in our opinion here above. The other information comprises for example endorsment of the Board of directors and the CEO and unaudited report on governance report of the information included in the Annual Report, but does not include the Consolidated Financial Statements and our Auditor's Report thereon. Our opinion on the Consolidated Financial Statements does not cover other information issued by the Group, and we do not express any form of assurance on the information in those documents thereon. In connection with our audit of the Consolidated 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 Consolidated Financial Statements, our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Other Information, contd.

In accordance with the provisions of Article 104, paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that the Statement by the Board of Directors and CEO accompanying the Consolidated Financial Statements includes at least the information required by the Financial Statements Act if not disclosed elsewhere in the Consolidated Financial Statements.

The Board of Directors and CEO’s Responsibilities for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and the Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and CEO are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and CEO either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and the Audit Committee are responsible for overseeing the Group’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 Consolidated 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 Consolidated 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 Consolidated 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 Group´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 Group’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 Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor’s Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated 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 Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We communicated with the Board of Directors 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. Our Audit Report, which has been provided to the Board of Directors and the Audit Committee, reports these matters and is in accordance with this report.

We have not provided the Group with any services that are prohibited according to laws on auditors. We have provided the Board of Directors 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 Board of Directors and the Audit Committee, we determined those matters that were of most significance in the audit of the Consolidated 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.

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Orkuveita Reykjavíkur we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of the Group for the year 2023 with the file name 5493004ARP9VPUIX5B73-2023-12-31-is.zip are prepared, in all material respects, in compliance with laws no. 20/2021 *disclosure obligation of issuers of securities and the obligation to flag* relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

The Board of Directors and CEO are responsible for preparing the consolidated financial statements in compliance with laws no. 20/2021 *disclosure obligation of issuers of securities and the obligation to flag*. This responsibility includes preparing the consolidated financial statements in a XHTML format in accordance to EU regulation 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the Consolidated Financial Statements of Reykjavik Energy for the year 2023 with the file name 5493004ARP9VPUIX5B73-2023-12-31-is.zip prepared, in all material respects, in compliance with the ESEF Regulation.

We were elected auditors for the Group in the Group's annual general meeting on 26 April 2023 and this is therefore the 6th continuous fiscal year where we are the Group's auditors.

On behalf of Grant Thornton endurskoðun ehf.

Reykjavik, 7 March 2024

Davíð Arnar Einarsson,
State Authorized Public Accountant

Theodór Sigurbergsson,
State Authorized Public Accountant

Income Statement 2023

	Notes	2023	2022*
Operating revenue	5	60.510.641	56.760.804
Redemption of aluminium derivatives		632.381	(1.162.556)
Profit from sale of assets		26.337	45.455
Operating revenues, total		61.169.358	55.643.703
Energy purchase and distribution		(7.264.400)	(6.717.534)
Salaries and salary related expenses	8	(9.799.488)	(7.939.019)
Other operating expenses		(8.404.698)	(6.563.422)
Operating expenses, total		(25.468.586)	(21.219.976)
EBITDA		35.700.772	34.423.727
Depreciation and amortisation	10	(15.797.262)	(14.439.275)
Results from operating activities, EBIT		19.903.510	19.984.452
Interest income		573.409	314.071
Interest expenses		(14.606.144)	(12.965.835)
Other income on financial assets and liabilities		909.225	2.530.842
Total financial income and expenses	11	(13.123.511)	(10.120.922)
Share in loss of associated companies	17	(36)	(3.159)
Profit before income tax		6.779.964	9.860.371
Income tax	12	(380.010)	(1.549.979)
Profit for the year		6.399.954	8.310.392
Attributable to:			
Equity holders of the Company		6.399.997	8.310.455
Minority interest in subsidiaries		(43)	(63)
Profit for the year		6.399.954	8.310.392

* Comparative figures have been changed. See note 3.
The notes on pages 25 to 73 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Reykjavik Energy 2023 20 Amounts are in ISK thousand

Statement of Comprehensive Income 2023

	Notes	2023	2022*
Profit for the year		6.399.954	8.310.392
Other comprehensive income			
Items moved to equity that will not be moved later to the income statement			
Revaluation reserve, increase	13	16.933.584	27.367.756
Income tax effect of revaluation	21	(2.710.069)	(3.795.162)
Changes in fair value for financial assets at fair value through OCI	18	575.000	(463.000)
		14.798.515	23.109.594
Items moved to equity that could be moved later to the income statement			
Translation difference	24	(2.764.695)	5.235.764
Other comprehensive income, after taxes		12.033.819	28.345.358
Total comprehensive income for the year		18.433.773	36.655.750

* Comparative figures have been changed. See note 3.

The notes on pages 25 to 73 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Reykjavik Energy 2023 21 Amounts are in ISK thousand

Statement of Financial Position
31 December 2023

	Notes	31.12.2023	31.12.2022*
Assets			
Property, plant and equipment	13	430.014.366	406.760.917
Intangible assets	14	5.683.128	3.106.779
Right-of-use assets	16	2.293.737	2.180.951
Investments in associated companies	17	81.228	81.264
Investments in other companies	18	55.680	55.680
Embedded derivatives in electricity sales contracts	19	1.914.127	1.448.798
Hedge contracts	20	50.239	78.545
Deferred tax assets	21	4.792.026	3.759.231
Total non-current assets		444.884.531	417.472.164
Inventories	22	1.653.315	1.881.036
Work in progress		1.248.785	416.817
Trade receivables	23	6.580.535	5.877.993
Embedded derivatives in electricity sales contracts	19	15.306	110.312
Investments in other companies	18	6.207.000	5.632.000
Hedge contracts	20	218.901	346.984
Other receivables	23	1.086.871	692.873
Prepaid expenses		382.182	236.167
Marketable securities		8.670.016	11.070.605
Cash and cash equivalents		10.342.367	6.650.749
Total current assets		36.405.278	32.915.536
Total assets		481.289.810	450.387.700
Equity			
Revaluation reserve		130.534.225	121.092.491
Equity reserve		82.377.266	74.657.104
Development reserve		137.330	111.277
Fair value reserve		5.807.000	5.232.000
Translation reserve		8.778.883	11.543.578
Retained earnings		31.348.927	33.413.364
Equity attributable to equity holders of the Company		258.983.631	246.049.815
Minority interest		290	337
Total equity	24	258.983.922	246.050.152
Liabilities			
Loans and borrowings	25	165.248.925	151.000.804
Lease liabilities	16	2.227.221	2.076.354
Pension liability	26	721.527	668.460
Hedge contracts	20	110.834	40.275
Deferred revenue		1.709.737	0
Deferred tax liabilities	21	23.064.598	21.042.540
Total non-current liabilities		193.082.843	174.828.434
Accounts payables		3.957.445	3.673.238
Loans and borrowings	25	16.928.649	19.805.390
Lease liabilities	16	176.490	190.640
Hedge contracts	20	82.057	150.384
Deferred revenue		491.938	596.681
Current tax liability	12	1.887.042	1.464.093
Other current liabilities	27	5.699.424	3.628.688
Total current liabilities		29.223.045	29.509.114
Total liabilities		222.305.888	204.337.548
Total equity and liabilities		481.289.810	450.387.700

* Comparative figures have been changed. See note 3.

The notes on pages 25 to 73 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Reykjavik Energy 2023 22 Amounts are in ISK thousand

Statement of Changes in Equity 2023

	Revaluation reserve	Equity reserve	Develop-ment reserve	Fair value reserve	Translation reserve	Retained earnings	Attributable to equity holders of the Company	Minority interest	Total equity
The year 2023									
Equity at 1 January 2023	121.092.491	74.657.104	111.277	5.232.000	11.543.578	33.413.364	246.049.815	337	246.050.152
Revaluation, increase	16.933.584						16.933.584		16.933.584
Income tax effect of revaluation	(2.710.069)						(2.710.069)		(2.710.069)
Changes in fair value for financial assets at fair value through OCI				575.000			575.000		575.000
Translation difference					(2.764.695)		(2.764.695)		(2.764.695)
Profit for the year						6.399.997	6.399.997	(43)	6.399.954
Total comprehensive income	14.223.515	0	0	575.000	(2.764.695)	6.399.997	18.433.817	(43)	18.433.773
Depreciation transferred to retained earnings	(4.781.781)					4.781.781	0		0
Share in profit of subsidiaries and associates transferred to equity reserve		7.720.162				(7.720.162)	0		0
Other changes								(4)	(4)
Transfer to development reserve			26.053			(26.053)	0		0
Dividends paid						(5.500.000)	(5.500.000)		(5.500.000)
Equity at 31 December 2023	130.534.225	82.377.266	137.330	5.807.000	8.778.883	31.348.927	258.983.631	290	258.983.922
The year 2022*									
Equity at 1 January 2022	101.733.552	66.451.877	123.873	5.695.000	6.307.814	33.081.886	213.394.002	0	213.394.002
Revaluation, increase	27.367.756						27.367.756		27.367.756
Income tax effect of revaluation	(3.795.162)						(3.795.162)		(3.795.162)
Changes in fair value for financial assets at fair value through OCI				(463.000)			(463.000)		(463.000)
Translation difference					5.235.764		5.235.764		5.235.764
Profit for the year						8.310.455	8.310.455	(63)	8.310.392
Total comprehensive income	23.572.594	0	0	(463.000)	5.235.764	8.310.455	36.655.813	(63)	36.655.750
Depreciation transferred to retained earnings	(4.213.655)					4.213.655	0		0
Share in profit of subsidiaries and associates transferred to equity reserve		8.205.227				(8.205.227)	0		0
Other changes								400	400
Transfer to development reserve			(12.596)			12.596	0		0
Divident paid						(4.000.000)	(4.000.000)		(4.000.000)
Equity at 31 December 2022	121.092.491	74.657.104	111.277	5.232.000	11.543.578	33.413.364	246.049.815	337	246.050.152

* Comparative figures have been changed. See note 3.

The notes on pages 25 to 73 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Reykjavik Energy 2023 23 Amounts are in ISK thousand

Statement of Cash Flows 2023

	Notes	2023	2022*
Cash flows from operating activities			
Profit for the year		6.399.954	8.310.392
Adjusted for:			
Financial income and expenses	11	13.123.511	10.120.922
Share in P/L of associates	17	35	3.159
Income tax	12	380.010	1.549.979
Depreciation and amortisation	10	15.797.262	14.439.275
Profit from sale of property, plants and equipment		(26.337)	(45.455)
Pension liability, change		58.067	39.581
Working capital from operation before interest and taxes		35.732.502	34.417.853
Inventories, decrease (increase)		1.048.369	(543.531)
Work in process, increase		(820.648)	(416.817)
Current assets, increase		(887.857)	(362.342)
Current liabilities, increase		(486.660)	(205.163)
Cash generated from operations before interests and taxes		34.585.707	32.890.000
Received interest income		590.870	312.766
Paid interest expenses		(7.039.761)	(5.061.235)
Interest on settlement of currency agreements (court case)		0	(2.578.937)
Dividend received		191.155	164.861
Payments due to other financial income and expenses		0	(173.354)
Paid taxes		(1.476.383)	(1.774.668)
Net cash from operating activities		26.851.587	23.779.432
Cash flows from investing activities			
Acquisition of property, plant and equipment	13	(26.672.429)	(20.409.489)
Acquisition of intangible assets	14	(1.335.824)	(607.822)
Proceeds from sale of property, plant and equipment		137.893	119.934
Acquisition of associated companies		0	(3.500)
Change in marketable securities		3.008.322	2.934.876
Net cash used in investing activities		(24.862.037)	(17.966.001)
Cash flows from financing activities			
Proceeds from new borrowings	25	30.120.839	11.137.877
Repayment of borrowings	25	(24.580.559)	(16.477.427)
Deferred revenue		1.896.603	0
Dividends paid	24	(5.500.000)	(4.000.000)
Repayment of lease liability	16	(149.522)	(95.075)
Net cash used in financing activities		1.787.361	(9.434.625)
Increase (decrease) in cash and cash equivalents		3.776.911	(3.621.193)
Cash and cash equivalents at year beginning		6.650.749	10.319.874
Effect of currency fluctuations on cash and cash equivalents		(85.293)	(47.931)
Cash and cash equivalents at year end		10.342.367	6.650.749
Other information			
Working capital from operation	38	27.464.676	27.586.789

* Comparative figures have been changed. See note 3.

The notes on pages 25 to 73 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Reykjavik Energy 2023 24 Amounts are in ISK thousand

Notes

1. Reporting entity

Reykjavik Engergy (RE) is a partnership that complies with the Icelandic law no. 136/2013 on Reykjavik Energy. RE's headquarters are at Bæjarháls 1 in Reykjavik. RE's consolidated financial statements include the financial statements of the parent company and its subsidiaries, (together referred to as "the Group") and a share in associated companies. The consolidated financial statments of Reykjavik Engergy is a part of the consolidated financial statements of Reykjavík city.

The Group provides services through its subsidiaries that operate power plants, distribute electricity, hot water and cold water, operates the sewage systems in its service area as well as a fiber optic system in its service area.

2. Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements set out in the local rules and regulations regarding financial statements of companies with listed bonds.

The consolidated financial statements were approved by the Board of Directors on 7 March 2024.

Significant accounting policies for the Group are described in note 41.

b. *Change in presentation*

The presentation of the income statement has been changed from the same period last year. The change consists in the redeemed aluminum which is now included in the operating income, but was previously included in financial income and expenses. It is the opinion of the company's management that the changed classification gives a clearer picture of the company's operating income. The presentation of comparative amounts in the income statement have been changed accordingly.

c. *Functional and presentation currency*

The consolidated financial statements are presented in Icelandic kronas, which is RE’s functional currency. All financial information has been rounded to the nearest thousand unless otherwise stated.

d. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for a part of property, plant and equipment have been revalued at fair value, derivative agreement, embedded derivatives in electricity sales contracts, assets held for sale and other financial assets and liabilities are stated at fair value. The methods used to measure fair values are discussed further in note 41.

e. *Use of estimates and judgements*

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 13 - Property, plant and equipment (revaluation of the distribution- and production system and valuation of impairment)
- note 18 - Investments in other companies (presumptions made when calculating fair value of assets classified as Financial assets at fair value through OCI)
- note 41a i) og ii) - Investments in subsidiaries and associated companies (Management uses professional judgment in determining whether definitions of control indicate that the group controls an investment)
- note 19 - Embedded derivatives in electricity sales contracts (presumptions when calculating fair value)
- note 20 - Hedge contracts (presumptions when calculating fair value)
- note 21 - Deferred tax assets and liabilities (valuation of future taxable profits against carry forward tax losses)
- note 29 - Market risk

3. Change of comparative figures and presentation

In calculation of Veitur's projecting operating income for the distribution of electricity an error in previous calculations was reveald. The error ment the income for the years 2020-2022 was overstated. In accordance with IAS 8, comparative figures for 2022 have been adjusted. Adjustments for previous periods are shown as adjustments to equity in comparative figures.

The presentation of aluminium derivatives has been changed, see note 2b.

Statement of comprenensive income (condensed)	Prev. stated 2022	Change in Presentation	Adjustments	Adjusted 2022
Operating revenue	56.919.366		(158.562)	56.760.804
Redemption of aluminium derivatives	0	(1.162.556)		(1.162.556)
Operating revenues, total	56.964.822	(1.162.556)	(158.562)	55.643.703
Results from operating activities, EBIT	21.305.571	(1.162.556)	(158.562)	19.984.452
Other income on financial assets and liabilities	1.368.286	1.162.556		2.530.842
Total financial income and expenses	(11.283.478)	1.162.556		(10.120.922)
Profit before income tax	10.018.933		(158.562)	9.860.371
Income tax	(1.581.692)		31.712	(1.549.979)
Profit for the year	8.437.242	0	(126.850)	8.310.392
Total comprehensive income for the year	36.782.600	0	(126.850)	36.655.750

Statement of financial position (condensed)	Prev. stated 31.12.2022	Change in Presentation	Adjustments	Adjusted 31.12.2022
Trade receivables	6.360.401		(482.408)	5.877.993
Total current assets	33.397.944		(482.408)	32.915.536
Total assets	450.870.108		(482.408)	450.387.700
Retained earnings	33.799.290		(385.926)	33.413.364
Total equity	246.436.078		(385.926)	246.050.152
Deferred tax liabilities	21.047.364		(4.824)	21.042.540
Total non-current liabilities	174.833.258		(4.824)	174.828.434
Current tax liability	1.490.981		(26.888)	1.464.093
Other current liabilities	3.693.458		(64.769)	3.628.688
Total current liabilities	29.600.771		(91.657)	29.509.114
Total liabilities	204.434.030		(96.482)	204.337.548
Total equity and liabilities	450.870.108		(482.408)	450.387.700

Statement of Cash Flows (condensed)	Prev. stated 2022	Change in Presentation	Adjustments	Adjusted 2022
Profit for the year	8.437.242		(126.850)	8.310.392
Total financial income and expenses	11.283.478	(1.162.556)		10.120.922
Income tax	1.581.692		(31.712)	1.549.979
WC from operation before interest and taxes	35.738.972	(1.162.556)	(158.562)	34.417.853
Current assets decrease	(520.904)		158.562	(362.342)
Cash from operations before interests and	34.052.556	(1.162.556)		32.890.000
Payments due to other financial income and expenses	(1.433.124)	1.259.770		(173.354)
Net cash from operating activities	23.682.219	97.214		23.779.432
Decrease in cash and cash equivalents	(3.718.407)	97.214		(3.621.193)
Effect of currency fluctuations on cash and cash equivalents	49.283	(97.214)		(47.931)
Working capital from operation	27.713.639		(126.850)	27.586.789

Consolidated Financial Statements of Reykjavik Energy 2023 26 Amounts are in ISK thousand

4. Operation and revenue recognition of Group's components

The following provides information about the operation of Group's components. Breakdown of revenue for different operations is given in note 5 and income by segment in note 6.

	Products and services	Nature, timing of revenue recognition and payments terms
a.	Electricity	ON Power ohf. and Orka náttúrunnar ohf. generate electricity and sell electricity and Utilities distribute electricity according to law no. 65/2003. Revenue from the sale and distribution of electricity is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. Upon connection of new users to distribution systems of electricity and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of electricity generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
b.	Hot water	ON Power, Orka náttúrunnar and Utilities generate harness hot water and Utilities distribute harness hot water. Revenue from the sale and distribution of harness hot water is recognised in the income statement according to measured delivery to customer over the period plus a fixed fee. Upon connection of new users to distribution systems of harness hot water or upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale and distribution of harness hot water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception.
c.	Cold water	OR - vatns- og fráveita collects and distributes cold water from reservoirs. Revenue from the sale of cold water is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate value. In addition revenue is stated for cold water according to measurement from specific industries. Upon connection of new users to distribution systems of cold water and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new distribution systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sale of cold water generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.

4. **Operation and revenue recognition of Group's components, contd.**

	Products and services	**Nature, timing of revenue recognition and payments terms**
d.	Sewer system	OR - vatns- og fráveita runs the sewer system. Revenue is based on the size of properties plus a fixed fee which is recorded over the period in the income statement. The legal limitation on the upper limit of the rate is 0,5% of the real estate rateable value. Upon connection of new users to sewage system and upon renewal of connection an initial fee is charged. The initial fee is intended to cover cost of new sewer systems and their renewal. Connection fee is recognised in the income statement upon delivery of the service. Trade receivables from the sewer system generally have a 30 day grace period. Some contracts with certain customers may have different payment arrangements but that is an exception. Billing for cold water and sewage is done in the first 9 months of the year but income is distributed evenly over the year.
e.	Other revenues	Ljósleiðarinn operates fiber optics data system. Revenue from fiber optics data system is recognised in the income statement upon delivery of the goods and service. This is a competitive practice that is supervised by The Electronic Communications Office of Iceland. Reykjavík Energy the parent company operates rental of housing and equipment, incidental sale of specialist consultancy services and more. The income of the Carbfix companies is due to consulting, construction and operation of disposal sites. Rental income is recorded as income in the income statement linearly over the lease term and other revenue is recognised upon delivery of goods or services. Trade receivables from other revenues generally have a 30 day grace period.

5. **Revenues from sales of goods and services**

The Group's income from sales of goods and services is specified as follows:

	2023	**2022**
Electricity	23.979.310	23.903.794
Hot water	17.739.370	15.705.724
Cold water	3.703.242	3.663.319
Sewer system	6.624.847	6.513.702
Other revenues	8.463.871	6.974.265
Revenues from sales of goods and services total	60.510.641	56.760.804

Consolidated Financial Statements of Reykjavik Energy 2023 28 Amounts are in ISK thousand

6. Segment reporting

Business divisions and sectors

The Group's service area is mainly in the Reykjavík city area, but it also extends to the southern and western parts of Iceland. The Group is divided into three separate divisions: Energy sale and production, Utilities and Other Operation.

Energy sale and production generate electricity and harness hot water from the power plants, sells electricity to wholesale and retail customers.

Utilities distribute electricity, harnessing hot water from low-temperature fields and the geothermal plants and distribute it for space heating. It also collects and distributes cold water from reservoirs and runs a sewerage system.

Other operations cover the fiber optic system, rental of housing and equipment, incidental sale of specialist consultancy services and more. Also development and distribution of the Carbfix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change.

The Group is income taxed and collects value added tax, except for operations regarding cold water and sewer but they are regulated by law no. 32/2004 concerning cold water suppliers of municipalities and law no. 9/2009 concerning the operations of sewer. The provision of hot water supply is subject to law no. 58/1967, concerning earnings from hot water. The distribution of electricity is subject to law no. 65/2003, which stipulates revenue caps that are decided by the National Energy Authority.

Sector	**Official obligations**
Hot water	Minister approves utility rates not subject to the open market. These take effect upon publication in the Ministerial Gazette.
Electricity, distribution	Price rates are subject to authorisation from The National Energy Authority. Rates are officially published.
Electricity, production	Energy sales are subject to the open market, electricity rate changes are therefore not subject to government approval.
Cold water	The legal limitation on the upper limit of the rate is 0,5% of the real estate value. Rates are officially published in the Ministerial Gazette.
Sewer system	The Rates for the sewer system shall cover all costs. Rates are officially published in the Ministerial Gazette.
Fiber-optic data system	This is a competitive practice that is supervised by The Electronic Communications Office of Iceland.

Customers that have significant effect on the Group's revenues

One customer of Energy sale and production has significant effect on the Group's revenues in the year 2023 due to the purchase of electricity for heavy industry. The Group´s revenues from this customer represents approximately ISK 8.461 million or 13,8% of total revenues. (2022: ISK 9.653 million, or 17,3% of total revenue).

Consolidated Financial Statements of Reykjavik Energy 2023 29 Amounts are in ISK thousand

6. Segment reporting

Segment information is presented by the Group's internal reporting. Business segments presented are Utilities, that represent licensed operations in hot and cold water, distribution of electricity and sewage, Energy sale and production, representing the competitive operations in producing and sale of electricity and hot water and Other Operation, that represents the activities of the parent company, the fiber optic operations and the Carbfix companies. The parent company's main activities is providing service to subsidiaries, rental of housing and equipment, incidental sale of specialist consultancy services and more. Ljósleiðarinn represents the fiber optic operations and the Carbfix companies are working on development and distibution the of the Carbfix carbon storage method, with the aim of reducing greenhouse gas emissions and combating climate change. Segment reporting is conducted by using the same accounting principle as the group uses and is described in note 41.

Business segments - divisions						
The year 2023	**Utilities**	**Energy sale and production**	**Other Operation**	**Adjust-ments**	**IFRS 16***	**Total**
External revenue	37.876.204	18.241.946	5.051.208	0		61.169.358
Inter-segment revenue	5.897.878	7.190.259	11.414.838	(24.502.975)		(0)
Total segment revenue	43.774.082	25.432.205	16.466.047	(24.502.975)		61.169.358
Segment operation expenses	(24.545.796)	(11.563.011)	(13.982.051)	24.406.470	215.802	(25.468.586)
Segment profit EBITDA	19.228.286	13.869.194	2.483.996	(96.506)	215.802	35.700.772
Depreciation and amortisation	(7.115.782)	(5.843.621)	(2.745.778)	77.818	(169.899)	(15.797.262)
Segment results, EBIT	12.112.504	8.025.573	(261.783)	(18.688)	45.904	19.903.510
Financial income and expenses	(6.875.888)	(3.038.480)	(3.543.468)	404.160	(69.835)	(13.123.511)
Share in loss of associated companies	0	0	(36)	0		(36)
Income tax	(555.736)	(1.000.360)	1.362.151	(195.063)	8.998	(380.010)
Profit (loss) for the year	4.680.880	3.986.733	(2.443.135)	190.409	(14.933)	6.399.954
The year 2022						
External revenue	34.398.516	16.939.281	4.305.906	0		55.643.703
Inter-segment revenue	5.413.669	6.855.516	9.980.125	(22.249.310)		(0)
Total segment revenue	39.812.185	23.794.797	14.286.032	(22.249.310)		55.643.703
Segment operation expenses	(21.473.476)	(10.799.847)	(11.294.645)	22.176.525	171.467	(21.219.976)
Segment profit EBITDA	18.338.709	12.994.949	2.991.387	(72.785)	171.467	34.423.727
Depreciation and amortisation	(6.697.930)	(5.344.154)	(2.335.724)	54.662	(116.129)	(14.439.275)
Segment results, EBIT	11.640.779	7.650.795	655.663	(18.123)	55.338	19.984.452
Financial income and expenses	(8.039.429)	(1.546.916)	(1.441.863)	969.481	(62.195)	(10.120.922)
Share in loss of associated companies	0	0	(3.159)	0		(3.159)
Income tax	(291.830)	(1.188.925)	282.450	(354.252)	2.579	(1.549.979)
Profit (loss) for the year	3.309.520	4.914.955	(506.909)	597.106	(4.279)	8.310.392

* Segment reporting as used by management does not take into account the guidance of IFRS 16.

Consolidated Financial Statements of Reykjavik Energy 2023 30 Amounts are in ISK thousand

6. Segment reporting, contd.

Business segments - divisions, contd.

	Utilities	Energy sale and production	Other Operation	Adjust- ments	IFRS 16*	Total
Balance sheet (31.12.2023)						
Property, plant and equipment and intangible assets	230.353.938	152.358.342	53.246.454	(261.239)		435.697.494
Right-of-use assets					2.293.737	2.293.737
Other assets	25.611.049	10.055.838	180.173.062	(172.541.371)		43.298.578
						481.289.810
Loans and borrowings	82.731.886	55.536.810	184.377.574	(140.468.696)		182.177.574
Lease liabilities					2.403.711	2.403.711
Other liabilities	18.802.222	13.418.382	38.804.246	(33.300.248)		37.724.603
						222.305.888
Investments (2023)						
Property, plant and equipment and intangible assets	14.479.775	6.095.801	9.659.361	(984.944)		29.249.992
Balance sheet (31.12.2022)						
Property, plant and equipment and intangible assets	212.808.689	149.985.284	47.073.723	0		409.867.696
Right-of-use assets					2.180.951	2.180.951
Other assets	22.699.185	11.637.831	189.044.494	(185.042.458)		38.339.053
						450.387.700
Loans and borrowings	75.471.782	59.629.752	170.806.194	(135.101.533)		170.806.194
Lease liabilities					2.266.994	2.266.994
Other liabilities	16.837.580	11.334.039	53.926.153	(50.833.411)		31.264.360
						204.337.548
Investments (2022)						
Property, plant and equipment and intangible assets	11.849.074	3.200.457	6.117.078	0		21.166.608

* Segment reporting as used by management does not take into account the guidance of IFRS 16.

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Notes

7. Analysis of geothermal power plant operation

Return analysis of production of electricity and hot water, cf. Article 41, paragraph 5 of law no. 65/2003:

	Electricity 2023	Hot water 2023	Electricity 2022	Hot water 2022
Geothermal power plant				
Revenue	13.188.023	5.523.888	13.427.092	4.837.520
Operating expenses	(2.858.400)	(1.679.752)	(2.504.779)	(1.362.312)
Depreciation and amortisation	(4.104.342)	(1.335.121)	(3.923.068)	(1.335.121)
Profit before financial expenses	6.225.280	2.509.015	6.999.244	2.140.087
Return on investment	5,6%	6,1%	5,9%	5,6%

The power plants at Hellisheiði and Nesjavellir are mixed production plants, where both hot water and energy are produced.

The cost allocation is based on Orka náttúrunnar and ON Power´s methods, that the National Energy Authority "NEA" has not approved. NEA is obligated to set new cost allocation rules after having disapproved the companies proposal, NEA has not yet carried this out. Until NEA sets new rules for cost allocation, the return of the sectors are reported using Orka náttúrunnar and ON Power's methods.

8. Salaries and salary related expenses

	2023	2022
Salaries and salary related expenses are specified as follows:		
Salaries	9.126.856	7.461.098
Defined contribution pension expenses	1.204.726	1.007.547
Defined benefit pension expenses, changes	100.057	76.794
Other salary related expenses	809.326	672.567
Total salaries and salary related expenses	11.240.966	9.218.005
Salaries and salary related expenses are stated in the financial statements as follows:		
Expensed in the income statement	9.799.488	7.939.019
Capitalised on projects	1.441.478	1.278.986
Total salaries and salary related expenses	11.240.966	9.218.005
Number of employees:		
Number of annual working units	637,0	577,0
Management's salaries and benefits for the parent company and subsidiaries are specified as follows:		
Salaries to the Board of Directors of the Parent Company	25.704	24.537
Salaries of the CEO of the Parent Company	48.226	48.510
Salaries of Managing Directors of the Parent Company*	114.924	120.457
Salaries to the Board of Directors of subsidiaries**	23.108	17.964
Salaries of four Managing Directors of subsidiaries	156.169	153.680
Termination expenses	91.147	32.846
	459.278	397.994

* For the first two months of 2023 there were four Managing Directors, from 1 March 2023 there were three.

** Four board of Directors until 31 May 2023, five from 1 June 2023.

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9. Auditors fee

	2023	2022
Audit of financial statements and review of interim financial statements	27.831	33.609
Other services	3.342	3.941
Total auditors fee	31.173	37.549

10. Depreciation, amortisation and impairment

	2023	2022
Depreciation, amortisation and impairment is specified as follows:		
Depreciation of property, plant and equipment cf. note 13	15.042.464	13.855.622
Amortisation of intangible assets, cf. note 14	584.899	467.523
Depreciation of Right-of-use assets, cf. Note 16	169.899	116.129
Depreciation, amortisation and impairment expensed in income statement	15.797.262	14.439.275

11. Financial income and expenses

	2023	2022
Financial income and expenses are specified as follows:		
Interest income	573.409	314.071
Interest expenses and paid indexation	(6.775.310)	(4.960.939)
Indexation	(7.392.363)	(7.513.412)
Guarantee fee to owners 1)	(438.471)	(491.483)
Total interest expenses	(14.606.144)	(12.965.835)
Fair value changes of embedded derivatives in electricity sales contracts	370.324	942.160
Fair value changes of financial assets and financial liabilities through P/L	607.734	(651.888)
Unredeemed fair value changes of hedge contracts	(167.008)	2.061.035
Redemption of interest rate swaps	0	(173.354)
Foreign exchange difference	(146.649)	141.812
Dividends	244.825	211.077
Total of other income (expenses) on financial assets and liabilities	909.225	2.530.842
Total financial income and expenses	(13.123.511)	(10.120.922)

1) The Group paid a guarantee fee to the owners of the company for guarantees they have made on the Groups loans and borrowings according to a decision made on the annual meeting of Reykjavik Engergy in 2005. The fee on yearly basis for its licensed operations is 0,81% (2022: 0,82%) and 0,65% (2022: 0,63%) regarding loans due for operations in the open market. The guarantee fee is calculated on total loans quarterly. The guarantee fee amounted to ISK 438 million in the year 2023 (2022: ISK 491 million) and is accounted for among interest expenses.

Fair value changes through P/L

Generally accepted valuation methods are used to determine the fair value of certain financial assets and financial liabilities, further discussed in note 41. Change in fair value that is recognized in the income statement amounts to ISK 811 million revenue in the year 2023 (2022: revenue ISK 2.351 million). Fair value changes on financial assets and liabilities defined at level 3 amounts to ISK 945 million revenue in the year 2023 (2022: revenue ISK 479 million).

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12. Income tax

The Group's companies are tax liable according with Article 2 of law no. 90/2003 on income tax. The part of the Group's operation concerning operation of cold water supply and sewer is though exempt from income tax.

The parent Company´s tax rate is 37,6%, other taxable subsidiaries have a 20% tax rate.

Income tax recognised in the income statement is specified as follows:

	2023	2022
Current income tax	1.887.042	1.464.093
Change in deferred income tax	(1.507.032)	85.886
Income tax recognised through P/L	380.010	1.549.979

Reconciliation of effective tax rate:

		2023		2022
Profit before income tax		6.779.964		9.860.371
##	37,60%	2.549.267	37,60%	3.707.499
Effect of tax rates of subsidiaries	(16,34%)	(1.107.967)	(12,93%)	(1.274.517)
Non-taxable operation of water supply and sewer	(13,63%)	(924.192)	(8,17%)	(805.474)
Effect of different functional currencies in the Group	0,17%	11.745	(0,32%)	(31.858)
Other items	(2,20%)	(148.843)	(0,46%)	(45.670)
Effective income tax	5,60%	380.010	15,72%	1.549.979

Income tax recognised in other comprehensive income

Deferred tax

Due to income and expenses moved direct to equity	2023	2022
Tax effect of revaluation	2.710.069	3.795.162
Deferred tax, total	2.710.069	3.795.162

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13. Property, plant and equipment

The year 2023	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	355.699.819	432.329.044	12.220.189	4.215.137	804.464.189
Additions during the year	10.181.679	13.905.247	1.262.575	681.309	26.030.809
Translation difference	(6.107.551)	0	0	85	(6.107.467)
Sold or disposed of	22.753	0	(51.727)	(246.233)	(275.207)
Revaluation, increase	16.098.048	19.379.744	0	0	35.477.792
Balance at year end	375.894.748	465.614.035	13.431.037	4.650.297	859.590.117
Depreciation					
Balance at year beginning	161.908.071	232.571.539	978.205	2.245.457	397.703.273
Depreciated during the year	7.544.640	6.823.342	231.830	442.652	15.042.464
Translation difference	(1.492.108)	0	0	5	(1.492.103)
Sold or disposed of	(27.983)	0	0	(194.108)	(222.091)
Revaluation, increase	7.150.133	11.394.075	0	0	18.544.208
Balance at year end	175.082.753	250.788.956	1.210.036	2.494.006	429.575.751
Carrying amounts					
At 1.1. 2023	193.791.748	199.757.504	11.241.984	1.969.680	406.760.916
At 31.12. 2023	200.811.995	214.825.078	12.221.001	2.156.291	430.014.368

The year 2022	Production system	Utility system	Other real estates	Other equipment	Total
Cost or deemed cost					
Balance at year beginning	317.329.727	381.612.662	10.263.261	3.794.059	712.999.709
Additions during the year	5.598.798	12.375.382	1.965.103	619.303	20.558.586
Translation difference	11.719.890	0	0	0	11.719.890
Sold or disposed of	(864.542)	(1.660.687)	(8.175)	(198.224)	(2.731.629)
Revaluation, increase	21.915.947	40.001.687	0	0	61.917.634
Balance at year end	355.699.819	432.329.044	12.220.189	4.215.137	804.464.189
Depreciation					
Balance at year beginning	140.653.075	205.804.966	781.623	2.046.786	349.286.450
Depreciated during the year	7.102.980	6.225.233	198.394	329.015	13.855.622
Translation difference	2.668.674	0	0	0	2.668.674
Sold or disposed of	(864.542)	(1.660.654)	(1.811)	(130.344)	(2.657.351)
Revaluation, increase	12.347.884	22.201.994	0	0	34.549.878
Balance at year end	161.908.071	232.571.539	978.205	2.245.457	397.703.273
Carrying amounts					
At 1.1. 2022	176.676.652	175.807.696	9.481.638	1.747.273	363.713.260
At 31.12. 2022	193.791.748	199.757.504	11.241.984	1.969.680	406.760.917

Investments during the year without payment effect amounted to ISK 3.983,1 million at year-end 2023. (2022: ISK 1.938,2 million). The year's change in investments without payment effect amounts to ISK 2.044,3 million.

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13. Property, plant and equipment, contd.

Revaluation

When revaluating, the relevant asset groups are measured at fair value. The aforementioned revaluation is recognised in a revaluation reserve among equity taken into account effects of deferred income tax as further explained in note 41 d. The revaluation is carried out by experts within the Group.

Revaluation was last conducted according to the following table:

	Date of Revaluation
Production systems	
Hot water	30.9.2023
Cold water	30.9.2022
Electricity	30.9.2023
Distribution systems	
Hot water	30.9.2023
Cold water	30.9.2023
Sewage	30.9.2023
Electricity	30.9.2023
Fiber-optic cable system	30.9.2022

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Group's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within the Group. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the construction cost index. This is taken into consideration when revaluating these systems. Revaluation is classified as level 3 of the hierarchy of fair value, further explained in note 34.

Information on revalued assets at year end

31.12.2023	Production system	Distribution system	Total
Revalued carrying amount	200.811.995	214.825.078	415.637.074
Thereof effect of revaluation	(68.302.794)	(81.760.155)	(150.062.949)
Carrying amount before effect of revaluation	132.509.201	133.064.924	265.574.125
31.12.2022			
Revalued carrying amount	193.791.748	199.757.504	393.549.253
Thereof effect of revaluation	(63.239.182)	(76.482.941)	(139.722.124)
Carrying amount before effect of revaluation	130.552.566	123.274.563	253.827.129

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13. Property, plant and equipment, contd.

Impairment tests

Impairment tests were performed at the end of December 2023 for distribution systems, production systems and power plants. The tests were performed using the balance at the end of September 2023 in order to confirm if both carrying amounts of assets and main assets under construction would meet estimated future cash flows of these assets. The impairment tests are carried out for every sector in the distribution and production systems.

The recoverable amount of each sector was evaluated based on value in use. The value in use was determined by discounting the expected future cash flows at the continued use in each sector. Cash flows were based on the future cash flow of the next five years. In assessing value in use, management make the plan for business development, based on both internal and external information.

The following criteria was used in assessing the value in use:

	Year 2023				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2024-2028	2,6%	3,3%	3,4%	2,4%	3,9%
CAGR w.r.t. to price changes	0,0%	0,0%	0,4%	0,4%	0,0%-5,3%
EBITDA CARG 2024-2028	4,2%	4,9%	2,8%	2,4%	6,1%
WACC	6,1%	6,2%	5,7%	5,8%	6,13%-9,97%

	Year 2022				
	Distribution system				Prod. systems
	Hot water	Electricity	Cold water	Sewage	Power plants
Revenue CAGR 2023-2027	2,4%	3,7%	0,6%	1,3%	2,1%
CAGR w.r.t. to price changes	0,0%	0,0%	0,4%	0,4%	0,0%-7,8%
EBITDA CARG 2023-2027	3,7%	6,5%	-0,2%	0,7%	1,7%
WACC	5,1%	5,0%	5,0%	5,0%	3,13%-9,72%

Impairment for distribution system for Utilities or Power plants is unlikely because of additional value. However the test for electricity in power plants is sensitive to changes in key assumptions. If the required rate of ROCE increased by 0,1 percentage points, and other criteria are kept unchanged the calculated impairment of additional value in electricity for power plants would be ISK 2,2 billion. If the projected EBITDA is 1% lower during the planning period and other terms are unchanged, calculated impairment would be ISK 1,6 billion. However in neither case is there an impairment.

Rateable value and insurance value

The rateable value of the Group's assets measured in the rateable value assessment amounted to ISK 42.446 million at year end 2023 (2022: ISK 45.610 million). The fire insurance value of the company's assets amounted to ISK 63.577 million at the same time (2022: ISK 60.951 million). Among those assets are real estates capitalised among production and distribution systems. The insurance value of the Group's assets amounted to ISK 591.728 million at year end 2023 (2022: ISK 487.634 million).

Obligations

The Group has entered into contracts and placed purchase orders with suppliers and developers concerning work on production and distribution systems. The balance of these contracts and purchase orders at year end is estimated at ISK 13.689 million (2022: ISK 4.476 million).

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14. Intangible assets

Intangible assets are specified as follows:

2023	Heating rights	Software	Development cost	Business relations	Total
Cost					
Balance at year beginning	1.427.031	4.484.555	182.982	0	6.094.568
Reclassification of assets	51.727	0	0	0	51.727
Additions during the year	0	1.259.477	51.527	1.908.000	3.219.004
Sold or disposed of	0	(222.568)	(56.039)	0	(278.607)
Translation difference	0	0	714	0	714
Balance at year end	1.478.758	5.521.463	179.185	1.908.000	9.087.406
Amortisation					
Balance at year beginning	457.768	2.516.135	13.885	0	2.987.789
Amortisation during the year	0	540.731	6.321	37.847	584.899
Sold or disposed of	0	(168.413)	0	0	(168.413)
Balance at year end	457.768	2.888.453	20.206	37.847	3.404.275
Carrying amounts					
At 1.1. 2023	969.263	1.968.420	169.097	0	3.106.779
At 31.12. 2023	1.020.990	2.633.011	158.978	1.870.153	5.683.128
2022					
Cost					
Balance at year beginning	1.427.031	3.867.437	192.278	0	5.486.747
Additions during the year	0	617.118	(9.296)	0	607.822
Balance at year end ..	1.427.031	4.484.555	182.982	0	6.094.569
Amortisation					
Balance at year beginning	457.768	2.055.060	7.437	0	2.520.265
Amortisation during the year	0	461.075	6.448	0	467.523
Balance at year end	457.768	2.516.135	13.885	0	2.987.789
Carrying amounts					
At 1.1. 2022	969.263	1.812.377	184.841	0	2.966.481
At 31.12. 2022	969.263	1.968.420	169.097	0	3.106.779

15. Investment in Sýn's network

During the year, Ljósleiðarinn purchased assets connected to Sýn's network in parallel with the signing of a service agreement. The total purchase price amounted to ISK 2.869 million. Under International Financial Reporting Standards (IFRS 3), the acquisition price was allocated to identifiable assets and liabilities. A provisionally guaranteed distribution has been carried out, but if new information becomes available on the status of assets at the acquisition date less than one year from the acquisition date, then the results of the purchase price allocation may change.

The effects of acquisitions of business units are identified as follows:	**31.12.2023**
Plant and equipment	310.456
Business relations	1.907.334
IP addresses	651.245
Total net identifiable assets	2.869.035
Paid on delivery	1.000.000
Unpaid acquisition price	1.869.035
Total acquisition price	2.869.035

The purchase price shall be paid in installments in accordance with the terms and conditions of the purchase agreement, but in full no later than 12 months after the purchase agreement takes effect. The total payments to Sýn will amount to ISK 3.000 million but the present value of the purchase price at the time of delivery of the network was ISK 2.869 million.

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15. Investment in Sýn's network, contd.

The fair value of assets acquired is calculated using the following methods:

Fixed assets

According to the fair value measurement at the acquisition date of 4 October 2023, the fair value of the fixed assets of Sýn network is ISK 310 million. The fixed assets are backhaul network equipment divided into equipment and point of presence. When estimating the value of purchased equipment and point of presence, a cost approach was used.

Business relations

The business relationships evaluated are divided into agreements on home connections, corporate connections and primary networks. According to the acquisition-date fair value measurement, the fair value of home connections is ISK 928 million, corporate connections ISK 61 million and primary network ISK 918 million. The fair value measurement of all business relations was therefore ISK 1.907 million. The corporate connections were evaluated using the Excess earnings method.

IP addresses

According to the acquisition-date fair value measurement, the fair value of IP addresses is ISK 651 million. When estimating the value of purchased IP addresses, a market approach was used.

16. Lease agreements

Significant accounting policies are described in note 41t.

The Group rents office space and land. These leases are for varying lengths of time, but usually with the possibility of renewal at the end of the lease. Some leases include additional lease payments that are based on a change in certain indices. The Group may not enter into sublease agreements for certain leases.

The Group has elected not to recognise right-of-use assets and lease liabilities for some short-term leases and leases of low-value assets. The Group charges lease payments for these leases on a straight-line basis during the lease term.

Changes in right-of-use assets in the year are specified as follows:

	2023	2022
Right-of-use assets		
Right-of-use assets at year beginning	2.180.951	2.576.177
Additions or extended contracts during the year	197.809	258.466
Increase (decrease) due to changes in rent payments or termination of contracts	7.664	(614.027)
Indexation	77.212	76.465
Depreciation of the year	(169.899)	(116.129)
Right-of-use assets at year end	2.293.737	2.180.951

Amounts in Income statement:

	2023	2022
Right-of-use assets, depreciation	169.899	116.129

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16. Lease agreements, contd.

Changes in lease liabilities in the year are specified as follows:

	2023	2022
Lease liabilities		
Lease liabilities at year beginning	2.266.994	2.655.361
New lease liabilities or extended contracts during the year	197.809	258.466
Increase (decrease) due to changes in rent payments or termination of contracts	7.664	(614.027)
Interests	69.835	62.195
Repayment of lease liabilities	(215.802)	(171.467)
Indexation	77.212	76.465
Lease liabilities at year-end	2.403.711	2.266.994

Undiscounted cash flow due to lease payments is as follows:

	Within a year	In 1 to 5 years	After 5 years	Total
Lease payments	176.490	544.368	3.125.518	3.846.376
Interests	(77.605)	(277.892)	(1.087.167)	(1.442.665)
Total	98.885	266.475	2.038.351	2.403.711

Amounts in Income statement:	2023	2022
Interest expenses:	69.835	62.195

Amounts in Statement of Cash Flows:

	2023	2022
Interest rate of rent payments (presented in cash flow statement in line "Paid interest expenses")	66.411	76.392
The installment element of the lease payments (presented in cash flow statement in the line "Payments of lease liabilities")	149.522	95.075

Most of the Group's leasing contracts for real estate include extension permits that the Group may use up to one year before the end of an unenforceable lease period. At the beginning of the lease, the Group assesses whether it is considered likely that it will utilize extensions. If there are significant changes in circumstances that are within the control of the Group, it will reassess whether the extension rights will be used.

17. Investments in associated companies

	2023		2022	
	Share	Carrying amount	Share	Carrying amount
Íslensk Nýorka ehf., Reykjavík	28,81%	24.567	29,11%	31.212
Netorka hf., Hafnarfjörður	38,41%	53.308	38,41%	46.657
Orkuskólinn REYST hf., Reykjavík	45,00%	3.353	45,00%	3.395
Total		81.228		81.264

The Group's share in the loss of its associated companies amounted to ISK 36 thousand in 2023 (2022: loss of ISK 3.159 thousand).

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18. Investments in other companies

	Share	2023	Share	2022
Non-current assets				
Other shares in companies		55.680		55.680
Current assets				
Landsnet hf. 1)	6,8%	6.207.000	6,8%	5.632.000
Investments in other companies, total		6.262.680		5.687.680

Fair value of financial assets classified at fair value through OCI is based on generally accepted valuation methods performed by independent experts and internal experts. Fair value increase of Landsnet hf. amounted to ISK 575 million in 2023 (2022 decrease: ISK 463 million) and the increase was transferred to a fair value reserve among equity. See further discussion in note 34.

1) Legal provisions on the changed ownership of electricity transmission companies came into effect on 1 July 2022, according to Article 19 Act no. 74/2021. The law stipulates a change in Landsnet's ownership in such a way that it becomes directly owned by the state and/or municipalities. RE's share in Landsnet hf. at the end of 2023 is therefore recognized as current assets. See explanation 39 for details.

19. Embedded derivatives in electricity sales contracts

	2023	2022
Fair value of embedded derivatives at the beginning of the year	1.559.109	616.949
Fair value changes during the year	370.324	942.160
Fair value of embedded derivatives at year-end asset/(liability)	1.929.433	1.559.109

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

	2023	2022
Non-current embedded derivatives asset/(liability)	1.914.127	1.448.798
Current embedded derivatives, asset/(liability)	15.306	110.312
Total embedded derivatives at year-end	1.929.433	1.559.109

Further discussion regarding embedded derivatives can be found in note 29 c.

20. Hedge contracts

Financial assets at fair value through profit or loss:	2023	2022
Assets		
Hedge contracts, non-current	50.239	78.545
Hedge contracts, current	218.901	346.984
	269.140	425.530
Liabilities		
Hedge contracts, non-current	(110.834)	(40.275)
Hedge contracts, current	(82.057)	(150.384)
	(192.891)	(190.659)
Net Hedge contracts assets	76.249	234.870

Hedge contracts are measured by discounted future cash flow and market observable data is used in the price determination.

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21. Deferred tax assets and liabilities

Deferred tax assets and liabilities is specified as follows:

2023	Tax assets	Tax liabilities	Net amount
Deferred tax assets/(liabilities) at year beginning	3.759.231	(21.042.540)	(17.283.310)
Calculated income tax for the year	1.030.840	(1.410.851)	(380.010)
Current tax liability	53.670	1.833.372	1.887.042
Tax effect on the revaluation account	0	(2.710.069)	(2.710.069)
Other changes	(51.715)	265.491	213.775
Deferred tax assets/(liabilities) at year end	4.792.026	(23.064.598)	(18.272.572)
2022			
Deferred tax assets/(liabilities) at year beginning	3.812.930	(16.929.779)	(13.116.849)
Calculated income tax for the year	(91.175)	(1.458.805)	(1.549.979)
Current tax liability	46.437	1.417.656	1.464.093
Tax effect on the revaluation account	0	(3.795.162)	(3.795.162)
Other changes	(8.962)	(276.451)	(285.412)
Deferred tax assets/(liabilities) at year end	3.759.231	(21.042.540)	(17.283.310)

Deferred tax assets and liabilities are attributable to the following:

	31.12.2023		31.12.2022	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Property, plant and equipment and intangible assets	993.585	(23.408.063)	897.394	(20.753.226)
Embedded derivatives	(725.467)	0	(586.225)	0
Other items	66.641	144.960	(214.452)	(302.576)
Effect of carry forward taxable loss	4.457.267	198.505	3.662.514	13.262
Deferred tax assets/(liabilities) at year end	4.792.026	(23.064.598)	3.759.231	(21.042.540)

Carry forward taxable loss

Based on current tax law, a carry forwards taxable loss can be used against taxable profit within 10 years from when it was incurred. Carry forward taxable loss at year end can be used as follows:

	2023	2022
Carry forward taxable loss for the year 2018, usable until year 2028	41.429	41.429
Carry forward taxable loss for the year 2019, usable until year 2029	2.059.754	2.059.754
Carry forward taxable loss for the year 2020, usable until year 2030	2.398.725	2.398.725
Carry forward taxable loss for the year 2021, usable until year 2031	2.332.165	2.332.165
Carry forward taxable loss for the year 2022, usable until year 2032	2.833.270	3.099.875
Carry forward taxable loss for the year 2023, usable until year 2033	3.542.730	-
Carry forwards taxable loss at year end	13.208.073	9.931.947

Management has evaluated the utilization of income tax losses and made plans for taxable profit for the next years. Deferred tax assets due to the taxable loss carried forward is recognized to the extent that it is believed to be useful.

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22. Inventories

	2023	2022
Inventory of materials	1.653.315	1.881.036
Work in process	1.248.785	416.817
	2.902.100	2.297.853

The Group's material inventories consist of material for maintenance, renewal and construction of the Group's production and distribution systems. A part of the inventories is defined as safety inventories, i.e. inventories that are necessary to have on hand in case of malfunction or maintenance even though their turnover is low. The value of inventories is estimated regularly. Inventories for renewal and new constructions are accounted for among property, plant and equipment as part of building cost of assets under construction.

Works in progress are projects in areas that are under development and intended for resale.

23. Receivables

Trade receivables is specified as follows at year end:	2023	2022
Trade receivables, industrial consumers	1.027.154	1.151.734
Trade receivables, retail	5.700.398	4.861.881
Trade receivables, total	6.727.553	6.013.615
Allowance for doubtful accounts	(147.018)	(135.622)
	6.580.535	5.877.993
Other current receivables are specified as follows at year end:		
Capital income tax	300.782	222.055
Value added tax	461.656	273.783
Receivables from employees	4.036	3.186
Accrued interest income	13	6.053
Other receivables	320.384	187.795
	1.086.871	692.873

24. Equity

Equity ratio of the Group at year end 2023 is 53,8% (2022: 54,6%). Return on equity was positive by 2,6% in the year 2023 (2022: positive by 3,7%).

Revaluation reserve

Revaluation reserve comprises of increase in the value of properties, plant and equipment after taking tax effects into account. Depreciation of the revaluated price are expensed in the income statement and transferred at the same time from the revaluation reserve account to retained earnings.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of financial statements of operations with other functional currency than ISK.

Fair value reserve

Fair value reserve comprises change of the value of assets categorised at fair value through OCI after taking tax effects into account.

Equity reserve

According to the Financial Statements Act no. 3/2006, share in profit of subsidiaries and associates, which exceeds the dividends received or the dividend decided of retained earnings, is accounted for on a restricted reserve account among equity.

Development reserve

According to the Financial Statement Act no. 3/2006, companies that capitalize development cost should account for the same amount on a restricted reserve account among equity.

Retained earnings

Dividend in the amount of ISK 5.500 million was paid to the owners of the parent Company in the year 2023. (2022: ISK 4.000 million).

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25. Loans and borrowings

Interest bearing loans are recorded using the method of amortised cost. Further information on the Group's exposure to interest rate and foreign currency risk, see note 29. Loans and borrowings are specified as follows:

	31.12.2023	31.12.2022
Bank loans	71.392.731	74.208.461
Bond issuance	110.784.843	96.597.733
	182.177.574	170.806.194
Current portion of loans and borrowings	(16.928.649)	(19.805.390)
	165.248.925	151.000.804

Terms of interest-bearing loans and borrowings

Liabilities in foreign currencies:		31.12.2023		31.12.2022	
	Date of maturity	Average interest rate	Carrying amount	Average interest rate	Carrying amount
Liabilities in CHF	5.10.2027	0,98%	5.436.478	0,20%	6.432.675
Liabilities in EUR	19.12.2027	4,26%	12.399.882	2,59%	16.307.554
Liabilities in USD	26.11.2035	6,01%	38.576.287	5,21%	37.372.874
Liabilities in JPY	5.10.2027	0,03%	1.239.401	0,04%	1.733.353
Liabilities in GBP	26.2.2024	6,20%	396.560	4,12%	782.265
Liabilities in SEK	5.10.2027	4,17%	1.300.074	1,98%	1.632.162
			59.348.681		64.260.884
Liabilities in Icelandic kronas:					
Indexed	18.2.2055	2,87%	111.629.668	2,62%	87.705.830
Non-indexed	18.2.2042	7,68%	11.199.224	6,41%	18.839.481
			122.828.893		106.545.311
Total interest-bearing loans and borrowings			182.177.574		170.806.194

Repayment of loans and borrowings are specified as follows on the next years:

31.12.2023

The year 2024	16.928.649
The year 2025	16.130.075
The year 2026	19.058.074
The year 2027	13.440.172
The year 2028	15.078.408
Later	101.542.195
Total loans and borrowings, including next year's repayment	182.177.573

31.12.2022

The year 2023	19.805.390
The year 2024	15.598.029
The year 2025	19.068.623
The year 2026	16.480.001
The year 2027	11.209.707
Later	88.644.444
Total loans and borrowings, including next year's repayment	170.806.194

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25. Loans and borrowings, contd.

Changes in loans and borrowings in the year are specified as follows:	2023	2022
Movements with payment effects		
Total interest bearing loans and borrowings 1 January	170.806.194	165.047.192
New borrowings	30.120.839	11.137.877
Repayment of borrowings	(24.580.559)	(16.477.427)
Movements without payment effects		
Currency fluctuation	(1.559.400)	3.458.236
Indexation	7.390.499	7.640.317
Total interest bearing loans and borrowings 31 December	182.177.573	170.806.194

Guarantees and pledges

Reykjavik Energy is allowed to make financial obligations for the company's needs and to undertake responsibility for respective payments. Financial obligations that shall be the responsibility of the owners are subject to their approval. If responsibility for financial obligations is accepted by the owners, the internal division of responsibility must be in proportion to their share of ownership in the company. Owners' liability does not cover other obligations of the company and it cannot amount to a higher percentage than 80% of the financial needs of a project for which owner's liability is granted. Owners’ responsibility of financial obligations incurred before the Act no. 144/2010 entered into force, remain valid until the day they are fully fulfilled. At the reporting date the owners were responsible pro rata for 29,0% of the Group's loans and borrowings. The Group has not pledged its assets to secure debts.

Covenants

Loans for the amount of ISK 131.120 million have certain covenants that regard repayment time as a proportion of EBITDA and as interests as a proportion of EBITDA as well as reviewing that budgets are within set limits (31.12.2022: ISK 115.138 million). Management regularly evaluate the covenants and in their view there is not risk of them being breached. At the end of the year the Group measured up to all financial covenants of loan agreements.

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26. Retirement benefit obligation

The Group has retirement benefit obligation due to benefits of current and former employees in pension benefit plans.

The Group's accrued retirement benefit obligation amounted to ISK 763,5 million at year end 2023, discounted based on 2% interests and taken into account the share in the net asset of the pension fund (2022: ISK 705,5 million). The Group updates the obligation according to an assessment from an actuary each year when that assessment is available. Premises for life expectancy are in accordance with provisions of Regulation no. 391/1998 on obligatory insurance of pension benefits and operation of pension funds. The estimated increase in the obligation in the year is based on general increase in salaries taken into account interests. The part of the obligation that is estimated to be payable in the year 2024 is recognised among current liabilities.

	2023	2022
Retirement benefit obligation at year beginning	705.460	665.879
Contribution due to pension payments during the year	(41.990)	(37.213)
Increase in the pension fund obligation during the year	100.057	76.794
Retirement benefit obligation at year end	763.527	705.460
Non-current component of retirement benefit obligation	721.527	668.460
Current component of retirement benefit obligation	42.000	37.000
Retirement benefit obligation at year end	763.527	705.460

27. Current liabilities

Other current liabilities is specified as follows:	2023	2022
Unpaid taxes	365.374	631.552
Unpaid salaries and salary related items	2.117.594	1.785.455
Accrued interest expenses	1.241.953	1.088.810
Current component of retirement benefit obligation	42.000	37.000
Liabilities due to investment in Sýn's network	1.900.294	0
Other liabilities	32.209	85.872
Total current liabilities	5.699.424	3.628.688

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28. Risk management and financial instruments

RE's activities are characterized by prudence in accordance with the obligations of a company owned by municipalities, as a public entity according to Act on Reykjavik Energy and other laws, rules and standards on duties and good governance.

The primary objective of risk management is to ensure that RE can perform its basic function in a safe and cost-effective manner with minimal risk. RE does this by:
• reducing fluctuations in the group's performance at all times with regard to the underlying risks in the operation and that risk factors are always within defined limits set by the board and recorded in a risk manual,
• ensuring that RE has enough funds to support the development of services and regular operations,
• identifying, assessing and managing risks in operations taking into account activities, RE's policies and defined limits.

Risk appetite is based on:
• RE's financial position being solid
• preservation of assets,
• protection of the company's reputation,
• operation in accordance with the law as well as external and internal rules,
• fraud not being tolerated,
• the safety and health of employees and users of the service is guaranteed,
• responsible use of resources,
• information being secured, accessible and available and
• environmental considerations being in forefront of operations.

The villingness to take risk is further defined in RE's specific policies and rules.

Financial risk is divided into:
• Market risk, further discussed in note 29
• Liquidity risk, further discussed in note 30
• Credit risk, further discussed in note 31
• Operational risk, further discussed in note 32
• Project and investment risk, further discussed in note 33

29. Market risk

Market risk is the risk that changes in the exchange rate of foreign currencies, aluminium price, interests and other price changes will affect the Group’s income or the value of its financial instruments. With regards to the current balance sheet, market risk is mainly due to changes in interest, exchange rates, CPI and aluminium price but risk regarding marketable securities such as shares in companies and bonds is minimal. The risk that weighs the most in the Group is divided into:

a. Currency risk due to assets and liabilities in the balance sheet and cash flow in foreign currencies.
b. Interest rate risk due to loans and contracts made by the Group with regards to cashflow and fair value of financial instruments
c. Risk due to changes in the market price of aluminium.

29. Market risk, contd.

a. *Currency risk*

Currency risk is the risk of changes in exchange rates having a negative effect on the Group's income. Currency risk is measured as the difference between assets and liabilities in each currency with regards to all assets, liabilities and derivatives. The finance departments is permitted to use forward contracts and currency swaps to mitigate risk due to currency fluctuations. Limits on the minimum/maximum currency imbalance in cash flows for the next 5 financial years have been approved.

The Group is exposed to currency risk on sales, purchases and borrowings in different currencies. Main currency exposures are in United States dollar (USD), Euro (EUR) and Swiss Francs (CHF).

Approx. 33% of the Group's interest bearing loans are in foreign currencies. The Group has entered into long term electricity sales contracts in foreign currency. The expected future revenues from these contracts on the accounting date amount to approx. ISK 57.210 million (2022: ISK 68.897 million). That amount is based on the forward price of aluminium on the LME (London Metal Exchange), the USD/ISK exchange rate and long term expectations of price development of aluminium according CRU, an independent party, as available on the accounting date. In addition to the above, other smaller sales agreements have been made in foreign currency.

Exchange rates of main currencies:	2023	2022	31.12.2023	31.12.2022
	Average exchange rate		Exchange rate at year end	
CHF	153,490	141,828	162,530	153,850
EUR	149,140	142,329	150,500	151,500
USD	137,980	135,464	136,200	142,040
JPY	0,984	1,033	0,963	1,077
GBP	171,460	166,901	173,180	170,810
SEK	13,004	13,387	13,563	13,622
CAD	102,210	103,953	102,790	104,920
TWI	195,166	190,262	196,860	199,831

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29. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk

The Group's exposure to currency risk is specified as follows:

31.12.2023	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
Loans and borrowings	(5.436.478)	(12.399.882)	(38.576.287)	(1.239.401)	(1.300.074)		(396.560)	(59.348.681)
Trade receivables (accounts payables)	3.804	(183.113)	845.073			(192.436)	(31.128)	442.200
Bank deposits	325	88.239	7.402.183	71	489	3.209	352	7.494.869
Embedded derivatives			1.929.433					1.929.433
Hedge contracts			76.249					76.249
Receivables/(payables) within the Group*			(2.330.441)			(2.147.736)		(4.478.178)
Loans and borrowings to related parties*			41.220.352					41.220.352
Total risk through P/L	(5.432.350)	(12.494.755)	10.566.562	(1.239.330)	(1.299.585)	(2.336.963)	(427.336)	(12.663.757)
Subsidiaries equity in foreign currency**		712.337	70.070.762					70.783.099
Investments in other companies			6.207.000					6.207.000
Total risk through P/L and in equity	(5.432.350)	(11.782.419)	86.844.325	(1.239.330)	(1.299.585)	(2.336.963)	(427.336)	64.326.342

(*) The functional currency of ON Power is in USD and exchange gains/losses from assets and liabilities in ISK are accounted for through P/L. In addition the exchange gains/losses for foreign assets and liabilities of the parent company towards it´s subsidiary, ON Power, are accounted for through P/L.

(**) The translation differences in the Group's equity is due to translation of subsidiaries' equity with a foreign functional currency.

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29. Market risk, contd.

a. *Currency risk, contd.*

Balance sheet currency risk, contd.

31.12.2022	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
Loans and borrowings	(6.432.675)	(16.307.554)	(37.372.874)	(1.733.353)	(1.632.162)		(782.265)	(64.260.884)
Trade receivables (accounts payables)		(107.770)	916.007		(3.955)	(144.408)	(19.470)	640.404
Bank deposits	10.502	383.115	2.432.032	112	603	2.177	152	2.828.693
Embedded derivatives			1.559.109					1.559.109
Hedge contracts			234.869					234.869
Receivables/(payables) within the group*			(4.365.683)			(1.476.624)		(5.842.307)
Loans and borrowings to related parties*			45.711.616					45.711.616
Total risk through P/L	(6.422.173)	(16.032.209)	9.115.076	(1.733.241)	(1.635.514)	(1.618.855)	(801.583)	(19.128.499)
Subsidiaries equity in foreign currency**		7.538	67.154.748					67.162.286
Investments in other companies			5.632.000					5.632.000
Total risk through P/L and in equity	(6.422.173)	(16.024.671)	81.901.824	(1.733.241)	(1.635.514)	(1.618.855)	(801.583)	53.665.788

(*) The functional currency of ON Power is in USD and exchange gains/losses from assets and liabilities in ISK are accounted for through P/L. In addition the exchange gains/losses for foreign assets and liabilities of the parent company towards it´s subsidiary, ON Power, are accounted for through P/L.

(**) The translation differences in the Group's equity is due to translation of subsidiaries' equity with a foreign functional currency.

Sensitivity analysis

Appreciation by 10% of the Icelandic krona against the following currencies at year-end would have increased (decreased) equity and profit or (loss) by the amounts shown below, taking into account tax effects. Depreciation by 10% of the Icelandic krona against the following currencies would have had the equivalent, but opposite effect. This analysis assumes that all other variables, in particular interest rates and aluminium prices, remain constant.

	CHF	EUR	USD	JPY	SEK	ISK	Other currencies	Total
				Profit or (loss)				
The year 2023	543.235	1.249.476	(1.056.656)	123.933	129.958	233.696	42.734	1.266.376
The year 2022	642.217	1.603.221	(911.508)	173.324	163.551	161.885	80.158	1.912.850
				Equity				
The year 2023	543.235	1.178.242	(8.684.432)	123.933	129.958	233.696	42.734	(6.432.634)
The year 2022	642.217	1.602.467	(8.190.182)	173.324	163.551	161.885	80.158	(5.366.579)

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29. Market risk, contd.

b. *Interest rate risk*

Interest rate risk is the risk of changes in interest rates having a negative effect on the Group's income. The Group is exposed to interest rate risk due to interest bearing assets, liabilities and financial instruments measured at fair value. The Group´s liabilities both have fixed and variable interest rates, majority being subject to fixed interest rates. It is especially monitored that the interest rate risk is within defined limits and approvals are in place to manage the interest rate risk with hedging contracts for the next 5 financial years with regards to the minimum/maximum hedge percentage in cash flow. On the accounting date 85% of interest payments 1 year ahead have been fixed.

Interest-bearing financial assets and liabilities are specified as follows:

Fixed rate instruments	**31.12.2023**	**31.12.2022**
Financial liabilities	(126.200.867)	(109.144.384)
Variable rate instruments		
Financial liabilities	(55.976.706)	(61.661.810)
Financial instruments at fair value		
Marketable securities	8.670.016	11.070.605
Hedge contracts	76.249	234.870
	8.746.265	11.305.475

The following table shows the calculated effect of changes in interest on one year cash flows and on the value of financial instruments measured at fair value, taken into account the effect of taxes. The analysis was done in the same way for the year 2022.

Sensitivity analysis on interest	**Cash flow sensitivity analysis**		**Fair value sensitivity analysis**	
31.12.2023	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(62.517)	66.899
Investments in other companies	0	0	(724.971)	765.738
Hedge contracts	0	0	62	(68)
Interest bearing liabilities	(165.988)	165.988	0	0
	(165.988)	165.988	(787.425)	832.568
31.12.2022	**100 p increase**	**100 p decrease**	**100 p increase**	**100 p decrease**
Embedded derivatives	0	0	(43.987)	47.097
Investments in other companies	0	0	(641.271)	723.013
Hedge contracts	0	0	(603)	605
Interest bearing liabilities	(189.395)	189.395	0	0
	(189.395)	189.395	(685.861)	770.714

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29. Market risk, contd.

c. *Aluminium risk*

Aluminium risk is the risk that changes in the price of aluminium has a negative impact on the income of the Group.
The group has entered into electricity sales contracts in dollars that are linked to the development of world market prices for aluminum. Income from electricity sales contracts linked to aluminum prices amounted to 13,8% of the group's total income in 2023 (2022:17,3%)

To reduce risk due to aluminium prices the Group has entered into derivative contracts to reduce the fluctuation of income affected by aluminium prices. The finance department has approvals to hedge this risk within approved limits for the next 5 financial years. At the accounting date hedges amounted to 51% of expected income affected by aluminium price for the next 12 months (31.12 2022: 69%).

Embedded derivatives in electricity sales contracts

The aluminium linked electricity sales contracts include embedded derivatives as income is subject to changes in the future market price of aluminium. In accordance with provisions of International standards on financial instruments, the fair value of embedded derivatives for Grundartangi has been measured and recognised in the financial statements and partly for the contracts with Helguvík.

As the market value of the embedded derivatives is not available their fair value has been measured with generally accepted evaluation methods. The expected net present value of the cash flow of a contract on the accounting date has been measured, based on the future price of aluminium on LME (London Metal Exchange) on the accounting date and long term expectations of price development of aluminium according to the assessment of CRU, an independent evaluation party, as available on the accounting date. From the expected net present value of cash flow of the contract on the accounting date the expected net present value based on premises on aluminium price on the initial date of the contract is deducted. The difference is the fair value of the derivative. The valuation is based on the premises that the derivative has no value at the initial date of the contract.

Embedded derivatives of the electricity sales contracts recognised in the financial statements are capitalised in the balance sheet at fair value at the accounting date and fair value changes during the year are recognised in the income statement among income on financial assets and liabilities.

29. Market risk, contd.

c. *Aluminium risk, contd.*

The following table shows the calculated effect on financial instruments measured at fair value due to change in aluminium price, taking tax effect into account.

Sensitivity analysis on the price of aluminium

31.12.2023	**Sensitivity of Fair value**	
	10% decrease	**10% increase**
Embedded derivatives	(3.452.220)	3.452.220
Aluminium hedges	390.697	(390.697)
Total	(3.061.523)	3.061.523

31.12.2022	**Sensitivity of Fair value**	
	10% decrease	**10% increase**
Embedded derivatives	(3.580.885)	3.580.885
Aluminium hedges	582.767	(582.767)
Total	(2.998.117)	2.998.117

d. *Other market risk*

Other market risk such as interest spread risk and risk due to shares in other companies is limited as investments in such securities is an insubstantial part of the Group's operation with the exception of liquity management. The value of the financial assets tied up in funds or in asset management is subject to changes in the market, e.g. due to price changes in the bond- and equity markets. For further information, see note 30.

30. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Group's cash and cash equivalents at year end amounted to ISK 10.342 million as well as marketable securities amounting to ISK 8.670 million. Therefore the Group owned ISK 19.012 million in bank deposits at year end 2023. Furthermore, the Group had unused loan authorisations and a open credit line to the total amount of approx. ISK 14.660 million. The Group had thus in total ensured capital at year end to the amount of approx. ISK 33.672 million. The corresponding amount at year end 2022 amounted to ISK 26.821 million.

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30. Liquidity risk, contd.

Contractual payments due to financial instruments, including estimated interest payments, are specified as follows:

31.12.2023	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Trade receivables	6.580.535	6.580.535	6.580.535	0	0	0
Other receivables	1.086.871	1.086.871	1.086.871	0	0	0
Marketable securities	8.670.016	8.670.016	8.670.016	0	0	0
Cash and cash equivalents	10.342.367	10.342.367	10.342.367	0	0	0
Interest-bearing liabilities	(182.177.574)	(232.494.962)	(23.416.425)	(21.849.310)	(59.987.100)	(127.242.126)
Accounts payable	(3.957.445)	(3.957.445)	(3.957.445)	0	0	0
Other liabilities	(5.699.424)	(5.699.424)	(5.699.424)	0	0	0
	(165.154.654)	(215.472.042)	(6.393.505)	(21.849.310)	(59.987.100)	(127.242.126)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivatives	1.929.433	57.210.011	9.324.007	9.821.444	20.904.545	17.160.014
Hedge contracts	76.249	115.017	159.109	(36.737)	(7.355)	0
	2.005.682	57.325.028	9.483.116	9.784.708	20.897.190	17.160.014

31.12.2022	Carrying amount	Contractual cash flows	Less than 1 year	After 1 - 2 years	After 2 - 5 years	More than 5 years
Non-derivative financial instruments						
Trade receivables	5.877.993	5.877.993	5.877.993	0	0	0
Other receivables	692.873	692.873	692.873	0	0	0
Marketable securities	11.070.605	11.070.605	11.070.605	0	0	0
Cash and cash equivalents	6.650.749	6.650.749	6.650.749	0	0	0
Interest-bearing liabilities	(170.806.194)	(213.536.972)	(25.484.696)	(20.628.843)	(57.241.559)	(110.181.873)
Accounts payable	(3.673.238)	(3.673.238)	(3.673.238)	0	0	0
Other liabilities	(3.628.688)	(3.628.688)	(3.628.688)	0	0	0
	(153.815.901)	(196.546.679)	(8.494.403)	(20.628.843)	(57.241.559)	(110.181.873)
Derivative financial instruments, net financial assets and financial liabilities						
Embedded derivatives	1.559.109	68.896.568	9.604.769	10.027.842	26.927.060	22.336.898
Hedge contracts	234.870	302.012	283.519	55.168	(36.675)	0
	1.793.979	69.198.581	9.888.288	10.083.011	26.890.385	22.336.898

If non-current loans are refinanced in order to prolong the loan terms, it can be assumed that the distribution of the repayments will be different from the above.

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31. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly due to wholesale electricity contracts and derivatives that the Group has entered into for hedging purposes. There is also credit risk due to retail sales, but possible losses due to unpaid receivables are insubstantial and have limited effect on the Group's return. The Group disregards the financing factors of receivables that are expected to be collected within a year according to authorization in IFRS 15.

When entering into contracts it shall be insured, as possible, that the counterparty is trustworthy and settlement with large counterparties shall be looked into regularly as well as their credit rating.

The carrying amount of financial assets represents the maximum credit exposure, which is specified as follows:

	31.12.2023	31.12.2022
Trade receivables	6.580.535	5.877.993
Other current receivables	1.086.871	692.873
Hedge contracts	269.140	425.530
Marketable securities	8.670.016	11.070.605
Cash and cash equivalents	10.342.367	6.650.749
Total	26.948.929	24.717.750

Financial assets as stated above are categorised at amortised cost or at fair value through P/L. Their categorisation can be seen in note 35.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

Trade receivables, industrial consumers	1.027.154	1.151.734
Trade receivable, retail	5.553.381	4.726.259
Total	6.580.535	5.877.993

Impairment of trade receivables

The year 2023	Gross balance	Impairment	Book value
Not past due receivables	6.143.902	77.795	6.066.107
Past due, 1 to 30 days	283.891	16.172	267.719
Past due, 31 to 90 days	178.407	11.962	166.445
Past due, 91 days and older	121.353	41.089	80.264
Total	6.727.553	147.018	6.580.535

The year 2022	Gross balance	Impairment	Book value
Not past due receivables	5.161.942	66.215	5.095.727
Past due, 1 to 30 days	359.302	4.626	354.676
Past due, 31 to 90 days	349.291	8.675	340.615
Past due, 91 days and older	143.080	56.105	86.975
Total	6.013.615	135.622	5.877.993

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31. Credit risk, contd.

Changes in impairment of Trade receivables is specified as follows:	2023	2022
Balance at year beginning	135.622	147.214
Receivables written off	36.682	11.503
Impairment	(25.287)	(23.095)
Balance at year end	147.018	135.622

Allowance due to receivables is valuated at each reporting date by management. Collectability is valuated both in general using historic evidence and economic conditions and also specifically for receivables that are in default. Allowance is only deemed necessary for trade receivables.

Receivables due to sewage and cold water have statutory lien in properties and therefore allowance is not considered for those claims.

The Customer Services department governs the collection of receivables and supplies customers with information regarding claims. Collection is done in a well defined process where among other things, consistency in procedures is maintained as much as possible.

Impairment of trade receivables is among other operating expenses in P/L.

32. Operational risk

Operational risk is defined as the risk of loss or damage that may occur due to inadequate internal processes or systems, equipment failure, personnel behavior or due to external factors in the operating environment. RE's Risk Council monitors risks in the group, changes that occur in them as well as key measures regarding the effectiveness of risk management within all units of the group.

33. Project and investment risk

Profitability assessment is carried out in accordance with the procurement process of each company. It should be considered that the expected profit or expected profitability meets the objectives of the profitability policy and supports other policies of the company. Projects are evaluated in accordance with the overall strategy and aim for the expected profit or expected profitability to meet the objectives of the profitability strategy and support other policies of the company.

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34. Fair value

Fair value measurement

A part of the Group´s financial assets and financial liabilities are measured at fair value. Fair value of these assets and liabilities are determined by market data or price in recent transactions if that is available. Otherwise, accepted valuation methods are used. Further information on fair value calculations can be found in the discussion of the relevant assets and liabilities in notes 18, 19 and 20.

Comparison of fair value versus carrying amounts

The carrying amounts of financial assets and financial liabilities is equal to their fair value with the exception that interest bearing loans are stated at amortised cost. The fair values of interest bearing liabilities, together with the carrying amounts are specified as follows:

	31.12.2023		31.12.2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	182.177.574	192.855.767	170.806.194	177.796.952

The fair value of interest bearing liabilities is calculated based on present value of future principal and interest cash flows, discounted at the interest rate plus appropriate interest rate risk premium at the reporting date. The fair value of interest bearing liabilities is defined at Level 2.

Interest rates used for determining fair value

Where applicable, the interest yield curve at the reporting date is used in discounting estimated cash flow. The interests are specified as follows:

	31.12.2023	31.12.2022
Embedded derivatives in electr. sales contr.	7,32% to 9,24%	11,11% to 12,44%
Hedge contracts	4,3% to 5,6%	4,3% to 5,4%
Interest bearing liabilities	2,31% to 10,06%	0,49% to 12,72%

Fair value hierarchy

The table below analysis financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). Valuation of shares in other companies is prepared by specialists within the company and other specialists and based on the results and official data on future earnings and investments in underlying assets.

31.12.2023	Level 1	Level 2	Level 3	Total
Shares in other companies	0	0	6.262.680	6.262.680
Embedded derivatives in sales contracts	0	0	1.929.433	1.929.433
Hedge contracts	0	76.249	0	76.249
Marketable securities	8.670.016	0	0	8.670.016
	8.670.016	76.249	8.192.113	16.938.379
31.12.2022				
Shares in other companies	0	0	5.687.680	5.687.680
Embedded derivatives in sales contracts	0	0	1.559.109	1.559.109
Hedge contracts	0	234.870	0	234.870
Marketable securities	11.070.605	0	0	11.070.605
	11.070.605	234.870	7.246.789	18.552.264

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34. Fair value, contd.

Changes in assets and liabilities defined at level 3 is specified as follows:	**2023**	**2022**
Balance at year beginning	7.246.789	6.767.629
Valuation changes	945.324	479.160
Balance at year end	8.192.113	7.246.789

Embedded derivatives in electricity sales contracts that have more than ten years duration is classified under level 3 due to the fact that the forward market for aluminium only reaches maximum of ten years.

35. Overview of financial instruments

Financial assets and financial liabilities are specified in the following financial groups:

	31.12.2023			**31.12.2022**		
	Amortised cost	**Financial asset/ financial liability at fair value through P/L**	**Financial asset/ financial liability at fair value through OCI**	**Amortised cost**	**Financial asset/ financial liability at fair value through P/L**	**Financial asset/ financial liability at fair value through OCI**
Shares in other companies		55.680			55.680	
Shares in other companies			6.207.000			5.632.000
Embedd. contr.		1.929.433			1.559.109	
Hedge contr.		269.140			425.530	
Trade receivabl.	6.580.535			5.877.993		
Other receivabl.	1.086.871			692.873		
Marketable securities		8.670.016			11.070.605	
Cash	10.342.367			6.650.749		
Interest-bearing liabilities	(182.177.574)			(170.806.194)		
Hedge contr.		(192.891)			(190.659)	
Account payabl.	(3.957.445)			(3.673.238)		
Other liabilities	(5.699.424)			(3.628.688)		
Total	(173.824.670)	10.731.379	6.207.000	(164.886.506)	12.920.264	5.632.000

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36. Related parties

Definition of related parties

Reykjavik city, institutions and companies ruled by the city, associated companies, Board members, Directors and key management are considered as the Group's related parties. Spouses of the before mentioned and financially dependent children are also considered as related parties as well as companies owned by or directed by those in question.

Transactions with related parties

The parties mentioned here above have had transactions with the Group within the year.

The following gives an overview of the transactions with related parties during the year as well as a statement of receivables and payables at year end. Transactions and positions with subsidiaries are eliminated in the consolidated financial statement, therefore that information is not provided. This information does not include sale of conventional household supplies to the related parties.

Sale to related parties:	**2023**	**2022**
Reykjavik City	1.712.275	2.157.024
Institutions and companies controlled by Reykjavik City	658.213	636.048
	2.370.488	2.793.072
Purchases from related parties:		
Reykjavik City	106.256	148.617
Institutions and companies controlled by Reykjavik City	36.588	24.806
Associates	118.176	114.608
Board members and key employees	0	71.414
	261.020	359.445

	31.12.2023	**31.12.2022**
Receivables for related parties:		
Reykjavik City	320.908	464.740
Institutions and companies controlled by Reykjavik City	37.299	38.505
	358.207	503.245
Payables for related parties:		
Reykjavik City	197.221	238.416
Institutions and companies controlled by Reykjavik City	1.879	975
Associates	14	0
	199.114	239.391

	2023	**2022**
Interest expense on loans from owners of the parent Company:		
Reykjavik City	408.104	457.422
Akranes town	28.189	31.559
Borgarbyggð, municipality	2.178	2.502
	438.471	491.483

Orkuveita Reykjavíkur paid a guarantee fee to Reykjavík City and other owners of the company for guarantees they have granted on the Groups loans and borrowings. For further information regarding amounts and the guarantee fee, see note 11. Management´s salaries and benefits are listed in note 8.

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37. Group entities

Subsidiaries	Main operation	Share 31.12.2023	Share 31.12.2022
Ljósleiðarinn ehf.	Data transfer	100,0%	100,0%
OR Eignir ohf.	Holding company	100,0%	100,0%
Veitur ohf.	Distribution of electricity and hot water	100,0%	100,0%
Orka náttúrunnar ohf.	Production and sale of electricity	100,0%	100,0%
ON Power ohf.	Production and sale of electricity	100,0%	100,0%
OR vatns- og fráveita sf.	Cold water and sewage	100,0%	100,0%
Eignarhaldsfélagið Carbfix ohf.	Consulting, researches and innovation	99,9%	99,9%
Carbfix hf.	Consulting, researches and innovation	100,0%	100,0%
Coda Terminal hf.	Construction of a carbon disposal plant	100,0%	100,0%

38. Statement of cash flows

Working capital from operation is specified as follows:	2023	2022
Profit for the year	6.399.954	8.310.392
Operating items that do not affect cash flow:		
Depreciation and amortisation	15.797.262	14.439.275
Profit from sale of assets	(26.337)	(45.455)
Share in loss of associated companies	36	3.159
Pension liability change	58.067	39.581
Currency fluctuation and indexation on loans and borrowings	7.605.073	7.262.977
Embedded derivatives in electricity sales contracts	(231.082)	(587.908)
Fair value changes of hedge contracts	150.907	(2.112.934)
Deferred tax liability	(1.695.264)	(239.921)
Fair value changes of financial assets and liabilities through P/L	(607.734)	651.888
Effects of currency fluctuation on cash and cash equivalents	95.256	(70.907)
Other items	(81.462)	(63.358)
Working capital from operation	27.464.676	27.586.789

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39. Other matters

Electricity contract with Norðurál referred to international arbitration
In 2022, a formal process was initiated by RE, where a dispute over the terms of the electricity sales agreement with Norðurál, which ON Power is responsible for implementing, was referred to international arbitration. The case pertains to RE's demand for a review of contracts, where the balance between the interests of the contracting parties has been disturbed due to events and assumptions over which RE has no control. In this phase of the case, will result of the arbitration only refer to whether the balance between the contracting parties has been disturbed due to unforeseeable incidents, resulting in a discussion of changes in contracts, but not to take a position on possible amounts.

Sale of shares in Landsnet
Over the past months, plans have been in place to sell RE’s shares in Landsnet, as the Electricity Act stipulates that the transmission company must be directly owned by the Icelandic state and/or municipalities. At the end of 2020, RE's board agreed that a declaration of intent regarding a change in Landsnet's ownership would be signed, and to begin negotiations regarding the sale of the shares. As a result, negotiations began with representatives of the Ministry of Finance on the matter. At the end of 2022, the ministry negotiated with state-owned companies to purchase their shares in Landsnet, but the ministry wanted to finalise those agreements before its purchase of RE's shares was completed. The sale of RE's shares in Landsnet was not finalised in the year 2023 as had been planned. The book value of the shares in Landsnet is estimated at ISK 6,2 billion on 31.12.2023 and is included among current assets, for further details see note 18.

Repair at headquarters
In 2015, severe water damage occurred at the company's headquarters on Bæjarháls 1. The renovation of the exterior walls of the building has been completed and the construction of the interior has begun. RE has entered into a construction contracts for the internal work, and the total liability for these contracts are ISK 2.204,1 million. plus VAT. According to the construction contract the completion of all construction works is 31 December 2024.

Water damage at Vatns- og fráveita
A water main was rubted on 21 January 2021 during Orkuveita Reykavíkur - Vatns- og fráveita's (OR - Vatns- og fráveita) repair by Suðurgata in Reykjavík. The rubtion resulted in a great flood of water streaming into the buildings of the University of Iceland. The University of Iceland (HÍ) requested court-appointed assessors to assess the extent of the damage and they submitted an assessment report in January 2022. In that assessment, the cost of renovations was estimated at a total of ISK 123,6 million. The claimant requested an overassessment of the costs which was received in December 2023. Accordingly, direct damage amounts to ISK 141 million. A sub-assessment was also received for indirect damage amounting to ISK 44,9 million. It should be noted that the insurance does not cover indirect damage. Furthermore, the expenses incurred by the claimant were estimated at ISK 60,6 million, which is either direct or indirect damage. The claimant will send a summons to all assessees. OR - Vatns- og fráveita has a free liability insurance that covers liability that falls on the company. The terms of that insurance prescribe about ISK 5 million deductible and 50% of the amount of damage thereafter. The ceiling of the insurance is ISK 300 million.

39. Other matters, contd.

Litigation and claims

Siminn hf. filed a lawsuit against Post and Electronic Communications office of Iceland (ECOI), Ljósleiðarinn ehf., Sýn hf. and Mila ehf. due to ECOI 's decision from July 3, 2018 regarding the offense of Siminn. The ruling of the District Court was announced on July 1st, 2020, where the ECOI decision was upheld, although with some changes in the criteria. The case was appealed to the National Court by Siminn hf., ECOI and Sýn hf. which confirmed the material result of the ECOI. Siminn requested a leave to appeal with the Supreme Court wich was approved by the Supreme Court and the proceedings began on May 3, 2023. The Supreme Court referred the case back to the District Court and ruled out previous ruling. It is estimated that the main trial will take place in the case at the beginning of the year 2024 and that the district court's decision will then possibly be available in the spring of 2024. In the case, Ljósleiðarinn requests that the ECOI's decision from 2018 be confirmed, i.e. it will be recognized that Siminn has violated Art. 45, paragraph 5 of the Media Act by making the non-linear video transmission of Siminn's TV content only possible by connecting to Siminn's IPTV system and also only via the telecommunications network of Mila hf., then a subsidiary of Siminn. No entries have been made regarding this in the company's Financial Statemenst for the year 2023.

40. Events after the reporting period

Management is not aware of events that have occurred after the reporting period and affected the financial statements or need to be disclosed.

41. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a. Basis of consolidation

i) Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Associates are entered in the Group's financial statements by using the equity method.
Associated companies are reported at original cost, including business cost. After the original transaction the share of the Company is reported until significant influence ceases or joint control is concluded.

iii) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

i) Trade in foreign currencies
Trade in foreign currencies is reported into each consolidation company at the rate of the business day. Monetary assets and debts in foreign currencies are reported in the rate of the reporting date. Other assets and debts reported at fair value in foreign currency are reported at the rate of the day the fair value was set. Exchange difference due to foreign trade is reported through P/L.

ii) Subsidiaries with other currencies than the Icelandic krona
Assets and debts in the operations of companies of the consolidated financial statements that have USD and EUR as its functional currencies are calculated into Icelandic kronas at the rate of the reporting date. Income and expenses of this companies operation is calculated into Icelandic kronas at the average exchange rate of the year. The exchange difference due to this is reported in a special account in the statement of comprehensive income. When operations with another functional currency than the Icelandic krona are sold, partly or in full, the accommodating exchange difference is recognised in P/L.

c. Financial instruments

i) Non-derivative financial assets
Loans, receivables and cash in bank are recognised when received. All other financial instruments are recognised in the financial statements when the Company becomes a party of contractual provisions of the relevant financial instruments.

41. Significant accounting policies, contd.

c. Financial instruments, contd.

i) Non-derivative financial assets, contd.

Financial assets are eliminated from the financial statements if the Company's contractual right to cash flow due to the financial asset expires or if the Group transfers the assets to another party without retaining control or nearly all risk and gain inherent with their ownership. Any interest in transferred financial assets that is created or retained by the group is recognized as a separate asset or liability.

Non-derivative financial instruments comprise of; financial assets at fair value throught OCI, financial assets at fair value through P/L and financial assets at amortised cost.

Financial assets at fair value through OCI

The Group’s investments in equity securities are classified as financial assets at fair value throught OCI. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss is transferred to retained earnings. Dividends are recognised af income in profit or loss.

Financial assets at fair value through profit or loss

A Financial asset is classified at fair value through profit or loss if it is current asset or if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if purchase and sale decisions are based on their fair value in accordance with the Company´s risk policy or investment plan. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Direct transaction cost is recognised in the income statement as it is incurred.

Financial assets af amortised cost

Financial assets at amortised cost are financial assets with certain or determinable payments and are not listed in active markets. Such assets are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial assets at amortised cost are measured at amortised cost using the effective interest method, less any impairment losses.

Financial assets at amortised cost comprise of receivables and other current assets.

Cash and cash equivalents comprise cash balances and deposits available within three months.

ii) Non-derivative financial liabilities

Financial liabilities are eliminated from the financial statements when the contractual agreements of the instrument are no longer valid.

The Group classifies non-derivative financial liabilities as financial liabilities at amortised cost. Such liabilities are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial liabilities are measured at amortised cost using the effective interest method.

Other non-derivative financial liabilities comprise of borrowings, accounts payable and other current liabilities.

iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value in the balance sheet and fair value changes are recognised in the income statement. Fair value changes from hedging instruments are entered among financial income and expenses in the income statement apart from redemption of aluminium derivatives that are separately identified among operating revenues. More information can be found in notes 28a, 28b and 28c.

41. Significant accounting policies, contd.

c. Financial instruments, contd.

iv) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. More information can be found in note 28c.

d. Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment, except distribution and production systems, are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Interest expenses on loans used to finance cost of buildings in construction are capitalised over the construction period. Interest is not calculated on preparation cost. After the assets have been taken into use interest expenses are expensed in the income statement.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated over their useful lives.

The Group's distribution- and production systems, are stated at revalued carrying amount in the balance sheet, which is their fair value at the revaluation date less additional depreciation from that date. Revaluation of those assets is made on a regular basis. Value surplus due to the revaluation is recognised in a revaluation reserve among equity after taking the effect on deferred tax liability into consideration. Depreciation on the revalued carrying amount is recognised in the income statement. Upon sale or discontinuance of the asset the part of the revaluation reserve belonging to the asset is transferred from the revaluation reserve to retained earnings after taking tax effect into consideration. No recognition takes place from the revaluation reserve to retained earning unless the relevant asset is sold or discontinued.

The fair value of these assets is determined on the basis of the depreciated replacement cost. This consists in that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciations are revaluated in accordance with those changes. The calculation is based on official information and actual statistics from the Company's books on value changes of cost of items and takes into account an estimate on the weight of each cost item in the total cost of construction of comparable assets. Cost items and their proportional weight were determined by experts within and outside of the Company. The impairment test of assets is also taken into consideration and revaluation is not recognised beyond the expected future cash flow of the assets. Distribution systems for hot water, cold water, sewage and electricity are licensed operations and subject to official revenue targets that are based mostly on changes in the Construction cost index. This is taken into consideration when revaluating these systems.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. All other cost is expensed in the income statement when incurred.

41. Significant accounting policies, contd.

d. Property, plant and equipment, contd.

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Estimated useful lives are specified as follows:

Production system	7-60 years
Electricity distribution systems	15-50 years
Heating distribution systems	10-60 years
Cold water distribution systems	30-90 years
Sewer distribution system	15-60 years
Fiber-optic distribution system	9-46 years
Other real estate	25-50 years
Other equipment	3-25 years

Depreciation methods, useful lives and scrap value are reviewed on the accounting date.

e. Intangible assets

i) Heating rights

Heating rights have indefinite useful life. They are recognised in the balance sheet at cost. Heating rights are separated from land up on purchase.

ii) Other intangible assets

Other intangible assets are measured at cost less accumulated depreciation and impairment losses.

iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives is determined as follows:

Software	5-7 years
Development cost	10 years
Business relations	10-12 years

f. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

41. Significant accounting policies, contd.

g. Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value at each time. The Group defines decrease in fair value below cost as a subjective indication of impairment of available-for-sale financial assets when:

- decrease is 15% below cost or
- fair value decrease lasts for at least six months.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment is recognized if the carrying amount of an asset or a cash generating unit exceeds its estimated recoverable amount. A cash generating unit is the smallest separable group of assets that form a cash flow that is mostly independent of other units or groups of units. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset´s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

h. Employee benefits

i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the income statement when they are due.

ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method. Changes in the obligation are recognised in the income statement as incurred.

41. Significant accounting policies, contd.

i. Obligations

An obligation is recognised in the balance sheet when the Group has the legal right or has entered into an obligation due to previous events and it is likely that it will incur cost upon settling the obligation. The obligation is measured on the basis of the estimated future cash flow, discounted based on interests reflecting market interests, and the risk inherent with the obligation.

j. Revenue

i) Revenues from sale and distribution of electricity and hot water
Revenue from the sale and distribution of electricity and hot water is recognised in the income statement according to measured delivery to purchasers during the year plus a fixed fee.

The rate for the distribution of electricity has a revenue cap set by the National Energy Authority in accordance with laws on energy number 65/2003. The revenue cap is based on actual figures from prior years from the operation of distribution utilities, the depreciation of assets, real losses in the distribution system and return on equity. When setting the revenue cap financial income and expenses are not taken into account. The rate is decided from the revenue cap and projections of sale of electricity in the Group´s utilities area.

ii) Revenues from sale of cold water and sewage
Revenue from the sale of cold water and sewage are based on the size of properties plus a fixed fee and are set forth linearly in the income statement. In addition revenue is stated for cold water according to measurement from specific industries.

iii) Connection revenues
Upon connection of new users to distribution systems of electricity, water and sewage or upon renewal of connection an initial fee is charged. The initial fee meets cost due to new distribution systems or their renewal. Income on connection fees is recognised in the income statement upon delivery of the service.

iv) Rental income
Rental income is recorded as income in the income statement linearly over the lease term.

v) Other revenues
Other revenue is recognised when generated or upon delivery of goods or services.

41. Significant accounting policies, contd.

k. Financial income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign exchange gain and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign exchange losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement. Borrowing cost is recognised in the income statement based on effective interests.

Effective interest is the required rate of return used when discounting estimated cash flow over the estimated useful life of a financial instrument or a shorter period when applicable, so that it equals to the book value of the financial asset or liability in the balance sheet.

Currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

l. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The income tax ratio for the parent company is 37,6% and the tax ratio for the subsidiaries is 20,0%. Cold water supply and sewage is exempt from tax.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax was measured in accordance with the current tax rate, which is 37,6% for the parent company that is a partnership and 20,0% for the subsidiaries that are companies with limited liability.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m. Segment reporting

A segment is a distinguishable component of the Group that is engaged in business and is capable to earn revenues and accept cost, both within and outside of the Group. The return of all segments is overviewed by management to value their performance.

Segment results and their assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment investments are investments in property, plant and equipment and intangible assets.

41. Significant accounting policies, contd.

n. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.
The Group´s CFO is responsible for overseeing all significant fair value measurements, including Level 3 fair values. Risk management, led by the CFO, regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then that information is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.
When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarch, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values can be found in relevant notes and in note 34 regarding fair value.

o. Property, plant and equipment

The fair value of production- and fiber-optic systems that have undergone a revaluation is determined on the basis of the depreciated replacement cost, which consists in the assessment of changes in construction cost of comparable assets and both cost and accumulated depreciation are revalued in accordance with those changes. The results of the impairment tests are also taken into consideration and revaluation is not recognised beyond the expected future cash flow of those assets.

p. Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss is determined on the basis of their market value at the reporting date. If the market value is not known the valuation is based on generally accepted valuation methods. Valuation methods can be based on known recent financial transactions between unrelated parties. In applying these valuation methods factors are considered which would be used in the respective market concerning calculation of fair value and the methods are in accordance with generally accepted methods concerning valuation of financial assets.

41. Significant accounting policies, contd.

q. Derivatives

The fair value of derivatives is based on their market value, if available. If the market value is not available the fair value is determined on the basis of generally accepted valuation methods.

Valuation methods may be based on prices in recent transactions between unrelated parties. The measurement is based on the value of other financial instruments comparable to the instrument in question, methods in order to evaluate the present value of cash flow or other valuation methods, which may be applied in order to reliably assess the real market value. When valuation methods are applied all factors are used, which market parties would use in price evaluations, and the methods are in accordance with generally accepted methods for the price evaluation of financial instruments. The Group verifies on a regular basis its valuation methods and tests them by using a price obtained in a transaction on an active market with the same instrument, without adjustments and changes, or are based on information from an active market.

The fair value of derivative agreements not listed in active markets is determined by use of valuation methods, which are regularly reviewed by qualified employees. All valuation models used must be approved and tested in order to ensure that the results reflect the data used.

The most reliable indication of the fair value of derivative agreements at the beginning is the purchase value, unless the fair value of the instruments is verifiable in comparison with other listed and recent market transactions with the same financial instrument or based on a valuation method where variables are only based on market data. When such data is available the Group recognises profit or loss at the initial registration date of the instruments.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

r. Trade and other receivables

The fair value of trade and other receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date if applicable. This fair value is determined for disclosure purposes.

s. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

t. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

41. Significant accounting policies, contd.

t. Leases, contd.

i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

– fixed payments, including in-substance fixed payments;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets and lease liabilities are listed in the balance sheet.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

41. Significant accounting policies, contd.

t. Leases, contd.

ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other revenue’.

42. New accounting standards not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements.

Undirritunarsíða

Chairman of the Board Reykjavík Energy
Gylfi Magnússon

Undirritað af:
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1107665139
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