

# Reykjavíkurborg

(City of Reykjavik)

## Financial Statements 2022



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

# Reykjavíkurborg

## (City of Reykjavik)

### Financial Statements 2022

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Please note:

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

# Mayor and Executive Committee's report and endorsement

The audited annual financial report of the City of Reykjavik for the year 2022 was prepared in accordance with the Local Government Act, the Annual Accounts Act and the Government regulation on accounting, budgeting and the annual financial statements of municipalities. Details of accounting policies are provided in the financial statements.

The activities of the City of Reykjavík are divided into Sections A and B. Section A comprises activities which are funded in part or in full through tax revenues, while Section B comprises enterprises where the City holds half of the shares or more and which are operated as financially independent units.

Results for Sections A and B in 2022 were positive by 5,953 million ISK. The total assets of Sections A and B according to the condensed balance sheet at year-end amounted to 870,333 million ISK, while total liabilities amounted to 446,378 million ISK. Equity amounted to 423,955 million ISK, of which minority interests amounted to 16,350 million ISK. The results of Sections A and B fell short of the budget by 3,095 million ISK, primarily as a result of a change in valuation of investment assets of Félagsbústaðir (social housing) in the amount of 14,528 million ISK in excess of the budget, financial expenses which exceeded the budget by 12,687 million ISK, partly due to the increased inflation, which was 9.9% over the year, whereas the budget projected a 3.3% increase. Wage costs were 656 million ISK below the budget, the increase in pension liabilities were 2,844 million ISK in excess of the budget and other operating expenses were 4,113 million ISK above the budget projection. Total operating income for Sections A and B amounted to ISK 223,426 million over the year, 2,342 million ISK above the budget. Investments in current assets amounted to 44,402 million ISK, 959 million below the budget projection.

The result for Section A in 2022 was negative by 15,605 million ISK. The total assets of Sections A according to the balance sheet at year-end amounted to 257,097 million ISK, while total liabilities amounted to 174,487 million ISK. Equity amounted to 82,610 million ISK. The results of the operation of Section A fell short of budget projections by 12,781 million ISK. Of this figure, other operating expenses were 5,455 million ISK above budget allocations, the increase in pension liabilities was 2,767 million ISK in excess of the budget and net financial expenses were 5,896 million ISK above the budget projection. Operating revenue for Section A was 1,916 million ISK above budget projections, contributions from the Local Authorities' Equalisation Fund were 1,386 million ISK above budget projections.

The rate of municipal tax was 14.52%, the statutory maximum. The rate of property tax was 0.18% in Category A, residential properties, 1.32% in Category B, public buildings, and 1.60% in Category C, commercial premises. The maximum statutory rates, respectively, are 0.625%, 1.32% and 1.65% for categories A, B and C.

On 1 December 2022 the population of the City of Reykjavik was 139,610.

The external economic environment of the City of Reykjavik underwent a transformation in 2022. The world pandemic of the virus causing COVID-19, which had lasted from early March of 2020, had waned, but in early 2022 a new strain of the virus swept the country, peaking in January and February. This new wave exerted a temporary pressure on the operation of the City, particularly with regard to school and welfare issues, as well as the metropolitan transport system. The labour market experienced a turnaround, with underemployment receding rapidly to below pre-pandemic levels. The war in Ukraine, which has been ongoing since February 2022, in combination with the Corona pandemic, resulted in a shortage of commodities and persistent problems in the supply chain. The impact on the global economy was extensive, with inflation rising rapidly in all of Iceland's trading partners last year. In response to the rising prices in the property market, high inflation and economic expansion the Central Bank of Iceland raised its policy rate repeatedly in 2022. The policy rate was 6% at the end of the year, up from 4% from the 2% rate at the beginning of the year. This situation had an impact on the City's operation and its financial accounts in 2022.

The City took measures in early September 2022, and the Executive board approved actions to address the deficit in the City's operations and other effects of the difficult conditions in the City's external economic environment. The response was to cut investments and curb borrowing needs. Tariffs were also adjusted in light of the rising inflation rate. In addition, rules were established on hiring for the purpose of cost containment. The budget for 2023-2027, which was approved by the City Council last 6 December, similarly takes account of the difficult situation. Investments were reduced from previous budgets and significant streamlining measures were adopted. The fiscal policy of the City of Reykjavik for 2023-2027, which was approved concurrently with the municipal budget, was prepared in the light of the City's financial situation and the external economic environment. The policy places a clear focus on meeting the City's deficit and difficult international economic environment while continuing the growth of a vigorous municipal community for the long term and targeted actions in the City's operations and reductions in investment from the budget levels of recent years in the short term, without compromising the strong efforts to develop the city in line with its Green Plan and strategies. The policy is focussed on a green and growing city, sustainable operations and preventive measures to minimise risks in the City's operation. Further information on the fiscal policy and its underlying premises is accessible on the City's website.

# Mayor and Executive Committee's report and endorsement

The hikes in the Central Bank's policy rate have continued this year, as inflation has remained persistent, with the current rate at 7.5%. Investments in 2022 were funded on the one hand with a bond issue in the amount of 16 billion ISK and on the other hand a 15-year framework loan programme negotiated with Landsbanki in the amount of 6 billion ISK. The City of Reykjavík now plans to fund its investments in 2023 by means of borrowings up to 21 billion ISK. The assumption is that borrowings will take place through bond issues in the capital market, direct borrowings or by other means to meet the City Treasury's funding needs at any time. Decisions on the arrangement of each bond issue will be made preceding the issues, taking into account borrowing terms and the situation of development plans and funding needs at any time. The City has already secured just short of half of its projected borrowing needs for 2023, on the one hand through a bond issue in the amount of 4.1 billion ISK and on the other hand through an agreement with Íslandsbanki on a 6 billion ISK long term loan, on which ISK 3 billion have already been drawn.

An act of law, Act No. 22/2021, has been passed in Parliament aimed at enabling municipalities to cope with their problems in the short and medium term by relaxing financial regulations in the Local Government Act No. 138/2011 with effect to 2025.

Information necessary to assess the development, scope, position and impact of the City of Reykjavík relating to environmental, social and human resource matters etc. is disclosed in the Statement on Governance and Non-financial Information, which is attached to the Annual Financial Report.

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

The Mayor and City Council hereby confirm the annual accounts of the City of Reykjavík for the year 2022 with their signature

Reykjavík, 27 April 2023.

Mayor

City Council

Einar Þorvaldursson  
Jónína Þorvaldsson  
Ragnhildur Alda M. Vilhjálmsdóttir  
Trausti B. Magnússon  
Hjörtur Björg Hilmisdóttir  
Alexandra Bönn  
Þorvaldur Þorvaldsson

# Endorsement by the City Council

The financial statements of Reykjavíkurborg (the City of Reykjavík) for 2022 have been addressed by the City Council in accordance with Article 61 of the Local Government Act no. 138/2011 and were confirmed and endorsed at the second reading in the City Council.

Reykjavík, 9 May 2023

City Council:

Sannamugdalenu Mörtnúðstútur.

Tráusti B. Magnússon

Boalsteinn Sveinsson

Alexandra Bríem

# Endorsement by the City Council, cont.

## Qualified endorsement

To all appearances this financial statement constitutes a condensed financial statement in place of a consolidated financial statement. According to Article 61 of the Local Government Act a consolidated financial statement shall form a part of the City of Reykjavík's Annual Financial Report. Where a subsidiary in a consolidation uses different valuation methods in its own annual financial statement than the parent company, new accounts shall be prepared for the subsidiary, as provided in Article 75 of the Annual Accounts Act, where valuation methods are consistent with the consolidated financial statement.

The City of Reykjavík and enterprises forming part of the City's consolidation own properties that are used for rental. Some of these properties are categorised as investment properties in the City's consolidated financial statement, while others are not. This inconsistency results in an overvaluation of assets amounting to over 20 billion ISK in 2022, which in turn has the result that a massive loss in the City's operation is transformed into profit in the City's consolidated financial statement. Also, the City's financial results and increased debt are such that if this situation continues the City of Reykjavík will be unable to meet its obligations. It is irresponsible not to account for this uncertainty in the annual financial statement, as there are no signs of any turnaround in the operation of the Municipal Treasury. We therefore sign this annual financial statement with the above reservations.

*Alfur Þorgeirsson*  
*hanna Hrif Ólafsson*  
*T Sí-Gila*

*María Guðjónsdóttir*  
*Helgi Ást Grétarsson*  
*Kjartan Magnússon*

# Endorsement by the City Council, cont.

## Qualified endorsement

The City Council Member for the People's Party endorses this annual financial statement for 2022 with a reservation regarding a discrepancy/error that emerged in the course of auditing, where price level adjustments proved overestimated by over 2 billion ISK and borrowings were underestimated by the same figure. For this reason it is difficult for the representative of the People's Party to trust financial information from the City. Further reasons for the qualified endorsement are that: Funds have been used indiscriminately, e.g. to fund the ongoing digital transformation, and allocations have not been prioritised based on the needs of the citizens.

*Kollun Artanger Baldursson*

# Independent auditor's report

To the City Council of the City of Reykjavik

## Opinion

We have audited the accompanying Financial Statements of Reykjavíkurborg for the year 2022 which comprise the financial statements of A operations and the financial statements of A and B operations. The Financial Statements comprise the Statement of the Mayor and the City Council, the Statement of Income, the Statement of Financial Position, the Statement of Cash Flows, a summary of significant accounting policies and other explanatory information.

In our opinion, the Financial Statements present fairly, in all material respects, the municipality's financial performance in the year 2022, its financial position as at December 31, 2022, and its cash flow for the year then ended in accordance with the Icelandic Financial Statement Act and the Local Government Act.

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the municipality's Financial Statement for the year 2022. These matters were addressed in the context of our audit of the Financial Statement and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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*Valuation of production and distribution systems Orkuveita Reykjavíkur*  
*See note 30 and note 7 on significant accounting policies*

### Explanation:

We have defined the valuation of production and distribution systems as a key audit matter in our audit of the year 2022. Orkuveita Reykjavíkur's production and distribution systems are carried at revalued amount in accordance with the provisions of IAS 16. An assessment is made of the changes in construction costs of similar types of assets and both cost and accumulated depreciation are revalued accordingly. Orkuveita Reykjavíkur performs impairment tests on the reporting date and recognises impairment loss if value in use is lower than book value of an asset. Revalued amount will also not be higher than value in use.

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

### Audit procedures:

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

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

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

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



## Independent auditor's report, cont.

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### *Valuation of embedded derivatives Orkuveita Reykjavíkur*

*See note 38 on embedded derivatives*

#### Explanation:

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

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

#### Audit procedures:

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

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

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### *Revenue recognition*

*See note 24 and note 3 on significant accounting policies*

#### Explanation:

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

#### Audit procedures:

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

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

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

# Independent auditor's report, cont.

## Other Information

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

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

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

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

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

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

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

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

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

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

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

## Independent auditor's report, contd.

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

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

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

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

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

For and on behalf of Grant Thornton endurskoðun ehf.  
Reykjavík, 9 May 2022



**J. Sturla Jónsson**  
löggiltur endurskoðandi



**Davíð A. Einarsson**  
löggiltur endurskoðandi

# Income Statement for the year 2022

Notes	Reykjavik Municipal (Section A)			Reykjavik Group (Sections A and B)		
	2022	2022	2021	2022	2022	2021
	Financial Statements	Budget with Annexes	Financial Statements	Financial Statements	Budget with Annexes	Financial Statements
<b>Operating revenue</b>	3,24					
Tax revenues .....	118.591.219	118.311.604	110.501.161	117.882.991	117.490.381	109.819.197
Contributions from Municipal Equalisation Fund .....	10.608.301	9.222.100	8.761.951	10.608.301	9.222.100	8.761.951
Other revenues .....	27.046.674	26.796.425	23.003.307	94.934.941	94.371.276	84.017.515
<b>Total operating revenues</b>	<b>156.246.194</b>	<b>154.330.130</b>	<b>142.266.419</b>	<b>223.426.232</b>	<b>221.083.757</b>	<b>202.598.663</b>
<b>Operating expenses</b>	4					
Wage cost and wage-related expenses .....	25	91.544.444	91.477.323	84.754.572	106.354.668	98.340.173
Changes in pension obligations, LsRb .....	25,44	5.466.822	2.700.000	( 211.906 )	5.543.616	( 202.906 )
Other operating expenses .....		61.395.933	55.940.556	53.690.028	72.871.458	62.621.742
<b>Total operating expenses</b>		<b>158.407.199</b>	<b>150.117.879</b>	<b>138.232.694</b>	<b>184.769.741</b>	<b>160.759.009</b>
Operating result before depreciation, EBITDA .....		( 2.161.005 )	4.212.252	4.033.725	38.656.490	42.614.849
Depreciation .....	9,10,32	( 7.691.164 )	( 7.227.271 )	( 6.528.867 )	( 23.515.214 )	( 21.052.234 )
Operating result before financial items.....		( 9.852.169 )	( 3.015.020 )	( 2.495.142 )	15.141.276	20.490.839
Net financial items .....	5,26	( 5.705.022 )	191.169	( 1.354.457 )	( 27.627.005 )	( 12.899.248 )
Operating result before tax, adjustments and effects of associated companies		( 15.557.192 )	( 2.823.851 )	( 3.849.599 )	( 12.485.729 )	7.888.172
Income tax .....	19,47	0	0	0	( 1.562.849 )	( 4.168.956 )
Value adjustment of investment properties .....	7,30	0	0	0	20.534.457	20.521.219
Share in associated companies' operating results .....	11,28	( 47.353 )	0	0	( 36.234 )	( 32.254 )
Minority interests .....		0	0	0	( 496.653 )	( 805.786 )
<b>Operating results.....</b>	<b>27</b>	<b>( 15.604.545 )</b>	<b>( 2.823.851 )</b>	<b>( 3.849.599 )</b>	<b>5.952.992</b>	<b>23.402.394</b>

# Statement of Financial Position 31 December 2022

Assets	Notes	Reykjavik Municipal (Section A)		Reykjavik Group (Sections A and B)	
		31.12.2022 Financial Statements	31.12.2021 Financial Statements	31.12.2022 Financial Statements	31.12.2021 Financial Statements
<b>Fixed assets</b>					
Intangible assets .....	6,29	3.776.942	2.044.271	6.883.721	5.010.752
Fixed tangible assets:	7,9,10				
Real estate .....	30	149.614.554	134.340.046	173.917.036	158.788.230
Utilities .....	30	0	0	393.549.252	352.484.348
Investment properties .....	30	0	0	148.620.258	123.732.218
Road systems .....	30	34.372.029	28.973.357	34.823.546	29.420.701
Machinery and equipment .....	30	7.361.892	5.930.242	13.100.228	11.217.087
Lease properties .....	31	5.153.620	5.034.105	6.392.711	6.703.370
		196.502.096	174.277.749	770.403.031	682.345.953
Investments and long-term receivables:					
Capital contributions and shares in companies .....	11,37	14.817.627	13.893.257	5.560.599	5.278.285
Pre-paid costs .....	12	8.474.839	8.859.995	8.896.143	9.300.456
Embedded derivatives .....	38	0	0	1.448.798	0
Derivative contracts .....	8	0	0	78.545	73.264
Deferred tax assets .....	19,47	0	0	3.759.231	3.812.930
Other long-term receivables .....	13,14,39	1.296.581	903.126	1.460.293	1.097.335
		24.589.047	23.656.378	21.203.607	19.562.270
<b>Total fixed assets</b>		<b>224.868.085</b>	<b>199.978.398</b>	<b>798.490.360</b>	<b>706.918.975</b>
<b>Current assets</b>					
Inventories .....	15,40	0	0	2.486.363	1.690.650
Short-term receivables:	16				
Unclaimed revenues and receivables .....		18.048.559	17.634.471	25.249.646	24.034.299
Next year's paym. of own comp. long-term receivab. ....	39	0	0	0	0
Next year's payment of other long-term receivables .....		860.707	686.596	913.452	779.724
Receivables from own companies .....		274.975	340.375	473	25.611
Pre-paid costs .....	12	388.081	388.081	639.974	732.588
Embedded derivatives .....		0	0	110.312	1.548.338
Derivative contracts .....	8	0	0	346.984	17.036
Shares in companies for sale .....	41	0	0	5.632.000	6.095.000
Other receivables .....		2.435.681	2.176.026	3.470.498	3.642.971
Bank deposits and marketable securities .....	42	0	0	11.070.605	14.657.369
Cash and cash equivalents .....	17,42	10.220.904	15.276.111	21.922.047	30.423.739
<b>Total current assets</b>		<b>32.228.906</b>	<b>36.501.660</b>	<b>71.842.355</b>	<b>83.647.325</b>
<b>Total assets</b> .....		<b>257.096.991</b>	<b>236.480.058</b>	<b>870.332.714</b>	<b>790.566.300</b>

# Statement of Financial Position 31 December 2022

## Equity and liabilities

	Notes	Reykjavik Municipal (Section A)		Reykjavik Group (Sections A and B)	
		31.12.2022 Financial Statements	31.12.2021 Financial Statements	31.12.2022 Financial Statements	31.12.2021 Financial Statements
<b>Equity</b>					
Equity account .....	43	82.610.418	91.894.777	407.605.383	369.004.546
Minority interest .....		0	0	16.349.745	14.259.431
<b>Total equity</b>		<b>82.610.418</b>	<b>91.894.777</b>	<b>423.955.128</b>	<b>383.263.977</b>
<b>Obligations</b>					
Pension obligations .....	18,44	36.939.280	34.394.045	37.607.740	35.024.924
Deferred tax liabilities .....	19,47	0	0	21.362.811	17.256.418
Capital contributions from state .....	48	0	0	5.377.478	3.697.625
Other obligations .....		0	0	77.783	69.047
<b>Total obligations</b>		<b>36.939.280</b>	<b>34.394.045</b>	<b>64.425.813</b>	<b>56.048.014</b>
<b>Long-term liabilities</b>					
Long-term debts .....	20,45	96.829.378	75.120.045	307.006.732	280.562.920
Lease liabilities .....	21,46	10.492.407	9.961.099	11.625.348	11.536.136
Embedded derivatives in electricity contracts .....	8,38	0	0	0	931.389
Derivative contracts .....	8	0	0	40.275	332.279
<b>Total long-term liabilities</b>		<b>107.321.784</b>	<b>85.081.144</b>	<b>318.672.356</b>	<b>293.362.724</b>
<b>Current liabilities</b>					
Debts to credit institutions .....		27.060	40.128	47.176	40.433
Accounts payable .....		6.150.087	5.326.413	11.322.029	10.082.642
Next year's payments on long-term debts .....	45	4.913.967	3.125.701	26.392.854	19.778.861
Next year's payments on current liabilities, own companies .....	45	0	3.343	0	817
Next year's payments on lease liabilities .....	46	1.352.812	1.121.881	1.506.743	1.266.769
Pension obligations, short-term .....	44	2.664.000	2.309.000	2.701.000	2.344.000
Accounts payable to own companies .....		1.631.315	554.575	301.292	101.800
Prepayments .....		80.409	87.060	2.137.331	1.950.979
Derivative contracts .....	8	0	0	150.384	1.584.188
Other payables .....		13.405.858	12.541.992	18.720.608	20.741.094
<b>Total current liabilities</b>		<b>30.225.509</b>	<b>25.110.092</b>	<b>63.279.417</b>	<b>57.891.584</b>
<b>Total liabilities and obligations</b>		<b>174.486.573</b>	<b>144.585.281</b>	<b>446.377.586</b>	<b>407.302.323</b>
<b>Total equity and liabilities</b> .....		<b>257.096.991</b>	<b>236.480.058</b>	<b>870.332.714</b>	<b>790.566.300</b>
<b>Obligations off the Statement of Financial Position</b> .....	49				

# Statement of Cash Flows for the year 2022

Notes	Reykjavik Municipal (Section A)			Reykjavik Group (Sections A and B)		
	2022	2022	2021	2022	2022	2021
	Financial statements	Budget with annexes	Financial statements	Financial statements	Budget with annexes	Financial statements
<b>Cash flows from operating activities</b>						
Operating results.....	( 15.604.545 )	( 2.823.851 )	( 3.849.599 )	5.952.992	9.048.282	23.402.394
Adjustments not affecting cash flow:						
Gain on sold assets .....	( 5.509.227 )	( 5.400.000 )	( 4.321.419 )	( 5.584.933 )	( 5.400.000 )	( 4.115.959 )
Depreciation .....	32 7.691.164	7.227.271	6.528.867	23.515.214	22.124.010	21.052.234
Indexation, discounts and exch.rate differences .....	5 6.640.918	1.425.711	2.690.664	17.445.958	4.922.916	7.858.058
Embedded derivatives, change .....	38 0	0	0	( 587.908 )	1.097.031	( 4.101.758 )
Value adjustment of investment properties .....	30 0	0	0	( 20.534.501 )	( 6.006.614 )	( 20.521.219 )
Effect of own companies and minority interests .....	47.353	0	0	532.887	715.375	838.040
Changes in pension obligations .....	44 5.466.822	2.700.000	( 211.906 )	5.543.616	2.700.000	( 202.739 )
Changes in deferred taxes .....	47 0	0	0	( 260.888 )	( 1.585.642 )	( 42.106 )
Write-down, long-term assets .....	( 782.223 )	( 600.000 )	( 712.297 )	( 782.223 )	( 600.000 )	( 712.297 )
Write-down, government capital contribution .....	0	0	0	( 7.914 )	0	17.252
<b>Working capital provided by operating activities</b>	<b>( 2.049.736 )</b>	<b>2.529.131</b>	<b>124.311</b>	<b>25.232.301</b>	<b>27.015.360</b>	<b>23.471.901</b>
Changes in operating assets and liabilities:						
Inventories decrease (increase) .....	0	0	0	( 795.717 )	24.894	( 32.075 )
Current receivables (increase) decrease .....	( 526.839 )	200.000	( 3.960.144 )	( 229.859 )	426.481	( 4.360.146 )
Current liabilities (decrease) increase .....	1.779.481	1.008.464	1.492.206	( 1.234.871 )	895.487	4.192.049
Contributions to pension payments .....	44 ( 2.566.587 )	( 2.450.000 )	( 2.269.201 )	( 2.603.800 )	( 2.450.000 )	( 2.304.516 )
Prepaid contribution to Brú pension fund, changes ....	385.156	385.156	373.486	404.282	404.284	392.614
<b>Change in operating assets and liabilities</b>	<b>( 928.789 )</b>	<b>( 856.380 )</b>	<b>( 4.363.653 )</b>	<b>( 4.459.965 )</b>	<b>( 698.855 )</b>	<b>( 2.112.075 )</b>
<b>Net cash provided by operating activities</b>	<b>( 2.978.525 )</b>	<b>1.672.751</b>	<b>( 4.239.342 )</b>	<b>20.772.336</b>	<b>26.316.505</b>	<b>21.359.826</b>
<b>Investment activities</b>						
Investments in fixed tangible assets .....	30 ( 23.989.312 )	( 22.746.200 )	( 17.105.648 )	( 44.402.259 )	( 45.360.783 )	( 35.830.050 )
Investment in investment properties .....	30 0	0	0	( 3.552.513 )	( 3.988.014 )	( 2.952.453 )
Investments in intangible assets .....	29 ( 2.286.449 )	( 2.239.000 )	( 1.194.947 )	( 2.894.271 )	( 2.879.216 )	( 1.714.813 )
Paid road construction fees .....	30 1.686.962	3.600.000	1.964.804	1.686.962	3.600.000	1.964.804
Sales of building rights .....	4.843.708	5.000.000	3.926.031	4.843.708	5.000.000	3.926.031
Proceeds from sale of fixed tangible assets .....	265.675	400.000	1.613.975	713.667	400.000	791.816
Change in shareholdings .....	( 971.723 )	( 1.917.023 )	( 1.257.240 )	( 318.549 )	4.344.111	( 271.339 )
Short-term investments .....	984.408	0	44.388	3.024.108	0	1.001.280
Long-term receivables, change .....	610.228	1.070.000	4.531.256	693.477	1.149.990	1.252.309
<b>Investment activities</b>	<b>( 18.856.504 )</b>	<b>( 16.832.223 )</b>	<b>( 7.477.381 )</b>	<b>( 40.205.669 )</b>	<b>( 37.733.913 )</b>	<b>( 31.832.414 )</b>
<b>Financing activities</b>						
Capital contributions from state .....	0	0	0	1.017.353	591.201	823.771
New long-term borrowings .....	45 21.895.069	25.000.000	23.117.701	33.258.550	39.743.975	41.369.061
Repayments of long-term liabilities .....	45 ( 3.878.653 )	( 3.590.908 )	( 2.750.660 )	( 21.946.075 )	( 24.842.563 )	( 25.027.190 )
Payments on lease liabilities .....	46 ( 1.223.527 )	( 1.110.960 )	( 1.052.709 )	( 1.282.033 )	( 1.110.960 )	( 1.116.383 )
Derivative contracts paid .....	0	0	0	0	( 122.246 )	0
Paid-in capital .....	0	0	0	400	0	325
Short-term borrowings, change .....	( 13.068 )	0	( 495.479 )	92.669	( 69.144 )	( 1.265.517 )
Dividends paid .....	0	0	0	( 258.439 )	( 362.684 )	( 258.440 )
Other financing activities .....	0	0	63.069	0	0	63.069
<b>Financing activities</b>	<b>16.779.822</b>	<b>20.298.132</b>	<b>18.881.923</b>	<b>10.882.424</b>	<b>13.827.579</b>	<b>14.588.695</b>
<b>(Decrease) Increase in cash and cash equivalents.....</b>	<b>( 5.055.208 )</b>	<b>5.138.660</b>	<b>7.165.199</b>	<b>( 8.550.909 )</b>	<b>2.410.171</b>	<b>4.116.107</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>15.276.111</b>	<b>14.546.655</b>	<b>8.110.912</b>	<b>30.423.739</b>	<b>25.833.077</b>	<b>26.318.982</b>
<b>Effect of changes in proportion of holdings on cash.....</b>	<b>( 66 )</b>	<b>0</b>	<b>459</b>	<b>( 66 )</b>	<b>0</b>	<b>459</b>
<b>Effect of currency fluctuations on cash.....</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49.283</b>	<b>( 6.792 )</b>	<b>( 11.809 )</b>
<b>Cash and cash equivalents at year-end.....</b>	<b>17 10.220.904</b>	<b>19.685.315</b>	<b>15.276.111</b>	<b>21.922.047</b>	<b>28.236.457</b>	<b>30.423.739</b>
<b>Investment and financing activities without cash flow effect</b>						
New lease assets .....	31 ( 814.363 )	0	( 143.944 )	( 1.072.829 )	0	( 211.781 )
New lease liabilities .....	46 814.363	0	143.944	1.072.829	0	211.781
Proceeds from sale of fixed tangible assets .....	475.010	0	0	475.010	0	0
Long-term receivables, change .....	( 475.010 )	0	0	( 475.010 )	0	0
Investments in fixed tangible assets .....	0	0	0	( 149.491 )	0	0
Current liabilities (decrease) increase .....	0	0	0	149.491	0	0

# Notes

## 1. Information on the Municipality

Reykjavíkurborg (the City of Reykjavík), the capital city of Iceland, is a municipality with a population of 139,610 as at 1 December 2022. The municipality's offices are located in Reykjavík City Hall.

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

## 2. Basis of preparation

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

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

The financial statements have been prepared on the historical cost basis and comply with the Local Government Act, the Financial Statements Act No. 3/2006, Regulation No. 696/2019 on the presentation and contents of financial statements and consolidated financial statements, and Regulation No. 1212/2015 on the accounting, budgeting and financial statements of municipalities.

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

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

The financial reporting of jointly owned municipal entities and partnership companies where the City of Reykjavík is a majority holder is in this annual financial statement included in the condensed accounts of the City of Reykjavík based on the proportional liability of the City according to Regulation 1212/2015, as amended by Regulation 230/2021. The amendments took effect as of 1 January 2021. Previously, the accounts of these jointly owned municipal entities and partnerships were included fully in the condensed financial statements of the City of Reykjavík.

The financial statements are largely based on the same accounting policies as the previous year.

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

## Accounting policies

### 3. Income recognition

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

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

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

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



# Notes

## 4. Expense recognition

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

## 5. Indexation and exchange-rate criteria

Assets and liabilities which are indexed or denominated in foreign currency are recognised in the financial statements at the indexation or exchange rate applying at year-end 2022. Accrued indexation and exchange-rate differences are recognised in the Income Statement.

## 6. Intangible assets

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

Software.....	5-7 years
Orkuveita Reykjavíkur, geothermal rights.....	100 years

## 7. Capitalisation of fixed tangible assets

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

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

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

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

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

Investment properties are properties owned by Félagsbústaðir hf. with the object of generating rent revenue. Investment properties are recognised at fair value in accordance with International Financial Reporting Standards (IFRS). The evaluation of investment properties is based on the official real estate evaluation of the Icelandic National Registry. According to information from the National Registry, the official real estate evaluation is fair value estimated in real estate market transactions. The evaluation is performed in May each year based on pricing in February of the same year. The new evaluation comes into effect at the end of the year. The real estate evaluation covers both the buildings and the plots and is divided into building evaluation and plot evaluation. The real estate evaluation is extrapolated based on the building cost index until the end of the year. However, real estate valuation is adjusted take account of encumbrances on the assets. Changes in the evaluation of investment properties are recognised under the item value adjustment of investment properties in the Income Statement. Investment properties are not amortised.

## 8. Financial instruments

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

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

# Notes

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

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

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

## 10. Depreciation of leased assets

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

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

## 11. Capital contributions and shares in companies

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

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

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

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

## 12. Pre-paid cost

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

## 13. Long-term receivables

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

# Notes

## 14. Provision for losses

Long-term receivables, outstanding tax revenue and other short-term receivables have been evaluated with regard to risk of loss and a provision is made in the financial statements with an indirect depreciation. This provision does not represent a final write-off but a reserve is created to meet possible losses. Changes in the provision based on actual losses during the year are recognised in the Income Statement.

## 15. Inventories

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

## 16. Short-term receivables

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

## 17. Cash and cash equivalents

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

## 18. Obligations

Pension obligations for the benefit of the City's employees are recognised as a long-term liability in the Balance Sheet based on actuarial assessment. Changes in the liability during the year are recognised in the Income Statement. Projected next year's payments due to pension obligations are recognised among short term liabilities. See further note 44.

## 19. Deferred income tax liability and assets

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

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

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

## 20. Long-term liabilities

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

## 21. Lease debts

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

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

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

# Notes

## 22. Budget

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

## 23. Statement of Cash Flows

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

# Notes

## 24. Operating revenue

Operating revenue is itemised as follows:

	Section A		Section A and B	
	2022 Financial Statements	2022 Budget with Annexes	2022 Financial Statements	2022 Financial Statements
<b>Tax revenues</b>				
<b>Municipal income tax:</b>				
Paid municipal income tax .....	106.058.911	104.515.308	106.058.911	104.515.308
Share of Municipal Equalisation Fund in income tax .....	( 5.624.336 )	( 5.542.478 )	( 5.624.336 )	( 5.542.478 )
Share of Mun.Eq.Fund in tax relating to the disabled .....	( 7.231.289 )	( 7.126.044 )	( 7.231.289 )	( 7.126.044 )
	93.203.285	91.846.786	93.203.285	91.846.786
Postpaid municipal income tax .....	3.490.021	2.556.187	3.490.021	2.556.187
Tax changes .....	( 733.407 )	0	( 733.407 )	0
Amortisation of tax revenues .....	( 580.766 )	0	( 580.766 )	0
Changes to write-offs .....	( 750.000 )	0	( 750.000 )	0
	94.629.134	94.402.973	94.629.134	94.402.973
<b>Property tax</b>				
Property tax .....	21.946.575	21.951.663	21.305.002	21.201.403
Plot rent .....	2.013.327	1.956.969	1.946.672	1.886.004
Write-off/depreciation of property tax revenues, change	2.183	0	2.183	0
	23.962.085	23.908.631	23.253.857	23.087.408
<b>Total tax revenues</b>	<b>118.591.219</b>	<b>118.311.604</b>	<b>117.882.991</b>	<b>117.490.381</b>
<b>Contributions from Municipal Equalisation Fund</b>				
Contribution for the disabled .....	7.970.512	6.758.708	7.970.512	6.758.708
Municipal Equalisation Fund, other contributions .....	2.637.788	2.463.392	2.637.788	2.463.392
	10.608.301	9.222.100	10.608.301	9.222.100
<b>Other income</b>				
Fees for services provided .....	12.773.793	11.920.281	24.267.602	17.050.841
Income from assets .....	29.872.835	29.647.877	31.348.066	35.968.536
Other repayments .....	8.703.005	5.612.216	12.707.090	9.228.725
Other income .....	2.980.654	5.819.985	65.641.496	66.453.165
Sales of building rights .....	4.843.708	5.000.000	4.843.708	5.000.000
Gain from sale of assets .....	665.518	400.000	742.109	400.000
Inter-unit transactions eliminated .....	( 32.792.839 )	( 31.603.933 )	( 44.615.130 )	( 39.729.991 )
	27.046.674	26.796.425	94.934.941	94.371.276
<b>Total operating revenue</b>	<b>156.246.194</b>	<b>154.330.130</b>	<b>223.426.232</b>	<b>221.083.757</b>

## 25. Wage cost and wage-related expenses

Operating revenue is itemised as follows:

	Section A		Section A and B	
	2022 Statements	2022 Budget with Annexes	2022 Statements	2022 Financial Annexes
Wages .....	75.642.827	74.951.950	88.580.206	89.064.551
Wage-related expenses .....	17.905.847	15.932.297	21.002.484	17.344.548
	93.548.674	90.884.246	109.582.691	106.409.099
Changes in accrued vacation obligations .....	216.614	1.008.464	271.806	1.016.512
Capitalised and refunded wages .....	( 2.220.844 )	( 415.387 )	( 3.499.830 )	( 415.387 )
Wages and payroll exp. less charged pens. contrib. ....	91.544.444	91.477.323	106.354.668	107.010.223
Changes in pension obligations LsRb .....	5.466.822	2.700.000	5.543.616	2.700.000
<b>Total wage cost and wage-related expenses</b>	<b>97.011.266</b>	<b>94.177.323</b>	<b>111.898.284</b>	<b>109.710.223</b>

Average full-time equivalent positions ..... 8.520

9.926

The salaries of the City of Reykjavik's senior management are itemised in note 58.

# Notes

## 26. Financial income and financial expenses

Financial income and (expenses) are itemised as follows:

	Section A	Section A and B
Dividends on equity shares .....	4.321.070	211.835
Profit from sale of holdings in companies .....	0	0
Risk charge for guarantees .....	457.422	( 34.061 )
Interest income and indexation .....	103.894	583.020
Interest expenses and indexation .....	( 10.392.780 )	( 29.333.453 )
Financial income tax .....	( 190.604 )	( 212.334 )
Hedge contracts .....	0	( 1.335.910 )
Exchange rate difference .....	( 4.024 )	142.592
Changes in fair value .....	0	2.351.307
<b>Total financial income and (expenses)</b>	<b>( 5.705.022 )</b>	<b>( 27.627.005 )</b>

## 27. Municipal Fund

	Financial Statements			2022
	2022			Budget with Annexes
	<i>Expenses</i>	<i>Revenues</i>	<i>Balance</i>	<i>Net</i>
Tax revenue .....		131.382.128	( 131.382.128 )	( 129.755.592 )
Department of Finance and Risk Management .....	1.522.748	61.165	1.461.583	1.445.217
Contribution to B operation companies .....	4.382.124	0	4.382.124	4.354.823
Department of Sports and Leisure .....	12.576.568	2.184.316	10.392.252	10.344.071
Department of Culture and Tourism .....	6.847.366	599.160	6.248.206	6.200.741
Department of Human Resources .....	415.585	40.278	375.307	375.038
Department of Education and Recreation .....	74.866.700	5.383.271	69.483.430	67.602.804
Central administration offices .....	1.980.936	120.561	1.860.375	1.942.847
Department of Environment and Planning .....	17.900.516	4.833.255	13.067.261	12.395.961
Department of Welfare .....	49.250.862	9.231.394	40.019.467	38.823.019
Department of Service and Innovation .....	4.804.031	1.752.260	3.051.771	3.049.877
Joint expenses .....	9.523.268	792	9.522.477	5.217.483
	184.070.704	155.588.580	28.482.124	21.996.288
Financial income and financial expenses .....	653.546	10.292.875	( 9.639.329 )	( 8.498.560 )
<b>Municipal Fund total</b>	<b>184.724.250</b>	<b>165.881.455</b>	<b>18.842.795</b>	<b>13.497.728</b>

# Notes

## 27. Municipal Fund, continued:

	Financial Statements			2022
	2022			Budget with Annexes
	Expenses	Revenues	Balance	Net
<b>Reykjavík Municipal (Section A) organisations</b>				
Real Estate Fund .....	32.443.363	35.681.614	( 3.238.251)	( 10.673.878 )
Internal transactions in A operation .....	( 40.629.117 )	( 40.629.117 )	0	0
<b>Section A total</b>	<b>176.538.495</b>	<b>160.933.952</b>	<b>15.604.544</b>	<b>2.823.851</b>
<b>Section B companies</b>				
Aflvaki hf. ....	1.106	0	1.106	535
Faxaflóahafnir sf. ....	3.000.792	5.549.485	( 2.548.693 )	( 256.805 )
Félagsbústaðir hf. ....	9.268.608	25.724.745	( 16.456.137 )	( 5.934.898 )
Íþrótt- og sýningahöllin hf. ....	743.187	622.741	120.446	15.557
Jafnlaunastofa sf. ....	42.590	41.557	1.034	0
Malbikunarstöðin Höfði hf. ....	1.338.616	1.348.792	( 10.175 )	112.319
Orkuveita Reykjavíkur .....	49.049.569	57.489.969	( 8.440.401 )	( 11.131.408 )
Slökkvilið höfuðborgarsvæðisins bs. ....	2.399.186	2.453.959	( 54.773 )	24.649
Sorpa bs. ....	2.872.313	3.260.659	( 388.346 )	( 260.412 )
Strætó bs. ....	5.871.206	5.400.937	470.268	136.792
Þjóðarleikvangur ehf. ....	9.965	33.662	( 23.697 )	0
	74.597.136	101.926.505	( 27.329.369 )	( 17.293.671 )
Share in associated companies' results .....	0	( 3.832 )	3.832	0
Minority interest .....	0	( 496.653 )	496.653	715.375
<b>Section B total</b>	<b>74.597.136</b>	<b>101.426.020</b>	<b>( 26.828.883 )</b>	<b>( 16.578.296 )</b>
Internal transactions in section B .....	( 12.555.840 )	( 17.827.186 )	5.271.346	4.706.163
<b>Reykjavík Group (Section A and B) total</b>	<b>238.579.792</b>	<b>244.532.785</b>	<b>( 5.952.993 )</b>	<b>( 9.048.282 )</b>

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

## 28. Share in the results of associated companies

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

	Section A and B
Minjavernd hf. ....	32.402
Orkuveita Reykjavíkur - associated companies .....	3.159
Sorpa - associated company .....	673
	<b>36.234</b>

## 29. Intangible assets

Intangible assets are itemised as follows:

	Section A	Section A and B		Total
	Software	Software	Geothermal rights and Development assets	
<b>Total value</b>				
Balance at the beginning of the year .....	3.424.781	8.911.528	0	8.911.528
Re-categorisation of assets .....	0	( 1.619.309 )	1.619.309	0
Additions during the year .....	2.286.449	2.903.567	( 9.296 )	2.894.271
Sold or disposed of during the year .....	( 596.873 )	( 596.873 )	0	( 596.873 )
	5.114.357	9.598.913	1.610.013	11.208.926
<b>Depreciations</b>				
Opening balance .....	1.380.510	3.900.776	0	3.900.776
Re-categorisation of assets .....	0	( 465.206 )	465.206	0
Depreciations during the year .....	553.778	1.014.853	6.448	1.021.301
Sold or disposed of during the year .....	( 596.873 )	( 596.873 )	0	( 596.873 )
	1.337.415	3.853.549	471.655	4.325.204
Book value at year-end .....	3.776.942	5.745.363	1.138.359	6.883.722

The estimated useful life of software is 5-7 years. Geothermal rights have an undetermined useful life and are entered at cost price, net of impairment. Geothermal rights are separated from land on acquisition.

# Notes

## 30. Fixed tangible assets

### Section A are itemised as follows:

	Section A			
	Real estate	Road system	Machinery and equipment	Total
<b>Total value</b>				
Balance at the beginning of the year	198.838.411	38.002.017	13.408.180	250.248.608
Re-classification of assets	( 417.004 )	417.004	( 1.729.508 )	( 1.729.508 )
Revaluation of plots and land at year-end	6.320.186	0	0	6.320.186
Additions during the year	13.162.070	8.202.852	2.624.391	23.989.312
Road construction fees	0	( 1.686.962 )	0	( 1.686.962 )
Sold or disposed of during the year	( 523.408 )	0	( 12.225 )	( 535.633 )
<b>Balance at year-end</b>	<b>217.380.254</b>	<b>44.934.910</b>	<b>14.290.839</b>	<b>276.606.004</b>
<b>Depreciations</b>				
Balance at the beginning of the year	64.498.366	9.028.660	7.477.939	81.004.964
Re-classification	0	0	( 1.729.508 )	( 1.729.508 )
Depreciations during the year	3.716.799	1.534.221	1.191.519	6.442.539
Sold or disposed of during the year	( 449.465 )	0	( 11.002 )	( 460.467 )
Balance at year-end	67.765.700	10.562.881	6.928.947	85.257.529
<b>Book value at year-end</b>	<b>149.614.554</b>	<b>34.372.029</b>	<b>7.361.892</b>	<b>191.348.475</b>
Depreciation rate	2% - 13%	4%	5% - 25%	

	Section A and B			
	Real estate	Utilities	Road system, mach. & equipm.	Total
<b>Section A and B are itemised as follows:</b>				
<b>Total value</b>				
Balance at the beginning of the year	240.747.695	698.942.389	63.492.044	1.003.182.127
Effect of holding changes in jointly owned entities	( 427 )	0	( 326 )	( 753 )
Re-classification of assets	( 416.971 )	( 2.525.459 )	( 526.313 )	( 3.468.743 )
Revaluation	6.164.664	61.917.634	0	68.082.298
Additions during the year	14.413.933	17.974.374	12.163.444	44.551.750
Translation difference	0	11.719.890	0	11.719.890
Road construction fees	0	0	( 1.686.962 )	( 1.686.962 )
Sold or disposed of during the year	( 1.265.456 )	36	( 289.456 )	( 1.554.876 )
<b>Balance at year-end</b>	<b>259.643.438</b>	<b>788.028.863</b>	<b>73.152.430</b>	<b>1.120.824.731</b>
<b>Depreciations</b>				
Balance at the beginning of the year	81.959.465	346.458.041	22.854.257	451.271.762
Effect of holding changes in jointly owned entities	( 93 )	0	( 200 )	( 293 )
Re-categorisation of assets	0	( 2.525.232 )	( 1.121.949 )	( 3.647.181 )
Revaluation	0	34.549.878	0	34.549.878
Depreciations during the year	4.675.206	13.328.213	3.700.081	21.703.500
Depreciation re. recycling facility commitments	11.079			11.079
Translation difference	0	2.668.674	0	2.668.674
Sold or disposed of during the year	( 919.255 )	36	( 203.532 )	( 1.122.751 )
<b>Balance at year-end</b>	<b>85.726.402</b>	<b>394.479.610</b>	<b>25.228.656</b>	<b>505.434.668</b>
<b>Book value at year-end</b>	<b>173.917.036</b>	<b>393.549.252</b>	<b>47.923.774</b>	<b>615.390.063</b>
Depreciation rate	2% - 20%	1% - 14%	4% - 33%	

### Mortgages:

The properties of Félagsbústaðir hf. are mortgaged to secure the balance of debts amounting to ISK 23,565 million at year-end. In addition, the company has signed two bonds with its commercial bank in the aggregate amount of ISK 3,725 million, which are also secured by a mortgage on the company's properties. A long-term loan to Félagsbústaðir hf. guaranteed by Reykjavíkurborg amounted to ISK 31,785 million at the end of the year. The debts of Íþrótt- og sýningarhöllin hf. (Sports and Exhibition Hall ) in the amount of ISK 2,361 million are secured by a mortgage on the company's property and a lease contract with the City of Reykjavík.



# Notes

## 30. Fixed tangible assets, continued:

Investment properties are itemised as follows:

	Section A	Section A and B
<b>Total amount</b>		
Balance at the beginning of the year .....	0	123.732.218
Revaluation during the year .....	0	21.580.921
Additions during the year .....	0	3.552.513
Sold during the year .....	0	( 245.394 )
<b>Balance at year-end</b>	<u>0</u>	<u>148.620.258</u>

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

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

The permanent fixed assets of Íþróttta- og sýningahöllin hf. are recognised at the re-evaluated cost price, net of depreciation.

## 31. Leased properties

Leased properties are itemised as follows:

	Section A	Section A and B
Balance at the beginning of the year .....	12.304.907	14.331.797
Additions during the year .....	814.363	1.072.829
Written off over the year .....	( 102.068 )	( 102.068 )
Indexation .....	0	( 593.074 )
	<u>13.017.202</u>	<u>14.709.484</u>
Depreciation at the beginning of the year .....	7.270.802	7.628.427
Depreciation during the year .....	694.847	790.413
Written off over the year .....	( 102.068 )	( 102.068 )
	<u>7.863.582</u>	<u>8.316.772</u>
<b>Book value at year-end</b>	<u>5.153.620</u>	<u>6.392.711</u>
Depreciation rate .....	4% - 17%	1% - 50%

## 32. Depreciation and impairment

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

	Section A	Section A and B
Depreciation of fixed tangible assets, see note 30 .....	6.442.539	21.703.500
Depreciation re. recycling facility, see note 30 .....	0	11.079
Depreciation of intangible assets, see note 29 .....	553.778	1.021.301
Depreciation of leased properties, see note 31 .....	694.847	790.413
Depreciation during the year .....	<u>7.691.164</u>	<u>23.526.294</u>
Recognised in the income statement .....	7.691.164	23.515.214
Recognised as a reduction of obligations .....	0	11.079
	<u>7.691.164</u>	<u>23.526.294</u>

# Notes

## 33. Investments in fixed tangible assets and intangible assets

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

	2022 Financial Statements	2022 Budget with annexes
<b>Intangible assets:</b>		
Software .....	2.286.449	2.239.000
<b>Intangible assets total</b>	<b>2.286.449</b>	<b>2.239.000</b>
<b>Property, machinery and equipment:</b>		
Culture .....	2.598.384	1.706.000
Education .....	6.746.831	6.649.000
Sports and leisure .....	4.155.652	4.094.000
Social Services .....	238.672	242.000
Bílastæðasjóður (Reykjavík Parking Services) .....	243.762	252.000
Machinery and equipment .....	1.337.377	1.269.000
Building plots, land and planning properties .....	457.720	446.000
Renovation and major maintenance of buildings .....	8.063	9.000
<b>Total property, machinery and equipment</b>	<b>15.786.461</b>	<b>14.667.000</b>
<b>Road system</b>		
Road construction .....	7.436.427	7.312.200
Improvements and major maintenance of roads .....	766.425	767.000
Road construction fees over the year .....	( 1.686.962 )	( 3.600.000 )
<b>Road system total</b>	<b>6.515.889</b>	<b>4.479.200</b>
Total capitalised investment	24.588.799	21.385.200
Road construction fees over the year .....	1.686.962	3.600.000
<b>Gross investment section A</b>	<b>26.275.761</b>	<b>24.985.200</b>

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

Faxaflóahafnir sf. ....	762.111	1.427.990
Félagsbústaðir hf. ....	3.566.393	3.988.014
Orkuveita Reykjavíkur .....	21.166.802	20.584.657
Slökkvilið höfuðborgarsvæðisins bs. ....	51.218	225.620
Strætó bs .....	54.302	293.306
Sorpa bs .....	307.746	559.227
Other section B companies .....	366.140	164.000
<b>Investments of section B</b>	<b>26.274.712</b>	<b>27.242.813</b>
Inter-unit transactions eliminated .....	( 1.551.940 )	0
<b>Total investment of Reykjavík Group in fixed tangible assets during the year</b>	<b>50.998.533</b>	<b>52.228.013</b>

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

	2022 Financial Statements	2022 Budget with annexes
Selling price of fixed assets:		
Road construction fees section A .....	1.686.962	3.600.000
Sold building rights section A .....	4.843.708	5.000.000
	<b>6.530.671</b>	<b>8.600.000</b>

# Notes

## 34. Selling price of building rights, plots and road construction fees continued:

Selling price of fixed assets:

	2022 Financial Statements	2022 Budget with annexes
Selling price of fixed assets of section A .....	265.675	400.000
Selling price of fixed assets of section B .....	1.999.932	0
Inter-unit transactions eliminated .....	( 1.551.940 )	0
	<u>713.667</u>	<u>400.000</u>

## 35. Official value and insurance value of buildings

Fire insurance valuation, the official property valuation and book value of real estate are itemised as follows at year-end 2022:

	Section A	Section A and B
Official property valuation of buildings .....	136.613.602	193.999.114
Official property valuation of plots .....	36.399.965	70.619.499
Fire insurance valuation .....	244.803	74.444.571
Book value .....	149.614.554	173.917.036
Book value of investment property .....	0	148.620.258

Fire insurance valuation, official property value and book value of properties owned by jointly owned companies are based on the liability share of the City of Reykjavik at year-end 2021.

## 36. Insurance value of liquid assets

According to a resolution of the City Council, liquid assets of section A are not specifically insured, except in the case of statutory liability insurance. The insurance value of liquid assets of Section B amounted to ISK 496,609 million at year end 2022 based on the liability share of the City of Reykjavik in jointly owned entities.

## 37. Shares in companies

Shares in companies are itemised as follows:

	Share in		Section A	Section A and B
	A-op.	A&B op.	Book value	Book value
<b>Subsidiaries</b>				
Aflvaki hf. ....	54.5%	95.7%	4.363	
Félagsbústaðir hf. ....	100.0%	100.0%	3.240.267	
Íþrótt- og sýningahöllin hf. ....	50.0%	50.0%	50.000	
Jafnlaunastofa sf. ....	50.0%	50.0%	500	
Malbikunarstöðin Höfði hf. ....	99.0%	100.0%	190.575	
Slökkvilið höfuðborgarsvæðisins bs. ....	60.8%	60.8%	1.027.526	
Sorpa bs. ....	58,3%	58,3%	1.361.109	
Strætó bs. ....	60.3%	60.3%	514.504	
Orkuveita Reykjavíkur .....	93.5%	93.5%	0	
Faxaflóahafnir sf. ....	75.6%	75.6%	59.111	
Þjóðarleikvangur ehf. ....	50.0%	50.0%	5.882	
<b>Subsidiaries total</b>			<u>6.453.837</u>	
<b>Associated companies</b>				
Harpa tónlistar- og ráðstefnuhúshús ohf. ....	46.0%	46.0%	788.085	0
Situs ehf. ....	46.0%	46.0%	1.885	1.885
Minjavernd hf. ....	38.3%	38.3%	60.486	60.486
Metan hf. ....		58.3%		11.307
Íslensk Nýorka .....		27.6%		31.212
Netorka hf. ....		38.4%		46.657
Orkuskipti REYST hf. ....		45.0%		3.395
<b>Associated companies total</b>			<u>850.456</u>	<u>154.941</u>
<b>Other companies</b>				
Betri samgöngur ohf. ....	14.1%	14.1%	563	563
Lánasjóður sveitarfélaga ohf. ....	17.47%	17.47%	1.547.831	1.547.831
Galanterem .....		3.8%		13.082
Keilir .....		12.1%		18.500
Landskerfi bókasafna hf. ....	20.60%	20.60%	29.524	29.524
Rekstrarfélagið Stæði ehf. ....	22.97%	22.97%	919	919
DMM lausnir ehf. ....		13.41%		23.898
Vísindagarðar Háskóla Íslands ehf. ....	5.44%	5.44%	11.688	11.688
Halakot ehf. ....		75.60%		1.511
Vatnsveita Hvalfjarðarsveitar sf. ....		38,00%		57.030
Þróunarfélag Grundatanga ehf. ....	16.67%	25.2%	750	1.317
Other companies .....			40	537
<b>Other companies total</b>			<u>1.591.314</u>	<u>1.706.399</u>

# Notes

## 37. Shares in companies continued:

	Section A Book value	Section A and B Book value
<b>Capital contributions</b>		
Bjarg íbúðafélag hses. ....	2.647.339	2.647.339
Félagsbústaðir hf. ....	2.222.762	0
Stakkahlíð hses. ....	343.912	343.912
Brynja, hússjóður Öryrkjabandalags Íslands ....	248.580	248.580
Leigufélag aldraðra hses. ....	203.714	203.714
Byggingarfélag námsmanna ses ....	177.511	177.511
Arnrún íbúðarfélag hses ....	50.210	50.210
Andrastaðir hses ....	27.992	27.992
<b>Capital Contributions total</b>	<u>5.922.020</u>	<u>3.699.258</u>
<b>Total shares</b>	<u>14.817.627</u>	<u>5.560.598</u>

## 38 Embedded derivatives

Power contracts linked to the price of aluminium contain embedded derivatives, as the income deriving from them is subject to future fluctuations in the world market price of aluminium. In accordance with the provisions of International Financial Reporting Standards regarding financial instruments, the fair value of embedded derivatives relating to Grundartangi, and partly to Helguvík, has been assessed and entered in the financial statement. Embedded derivatives of power contracts included in the financial statement are entered as assets or liabilities in the Balance Sheet at the fair value of the reporting date and the change in fair value is entered in the Income Statement as income and expenses on financial assets and financial liabilities.

	2022	2021
Fair value of embedded derivatives in electricity sales contracts is itemised as follows:		
Fair value of embedded derivatives in electricity sales contracts at the beginning of the year	616.949	( 5.956.381 )
Fair value changes during the year .....	<u>942.160</u>	<u>6.573.330</u>
<b>Fair value of embedded derivatives in electricity sales contracts at the end of the year (liability)</b>	<u>1.559.109</u>	<u>616.949</u>

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

Non-current embedded derivatives (liability) .....	1.448.798	( 931.389 )
Current embedded derivatives assets .....	<u>110.312</u>	<u>1.548.338</u>
<b>Total embedded derivatives</b>	<u>1.559.109</u>	<u>616.949</u>

## 39. Long-term receivables

	Indexed	Non-indexed	Total
<b>Other long-term receivables (section A)</b>			
Balance at the beginning of the year .....	133.715	6.748.642	6.882.357
Re-classification of assets .....	0	( 87.763 )	( 87.763 )
New loans .....	0	1.107.141	1.107.141
Payments .....	( 44.572 )	( 1.197.787 )	( 1.242.359 )
Indexation .....	<u>8.324</u>	<u>0</u>	<u>8.324</u>
	97.467	6.570.233	6.667.700
Provision for losses .....	<u>0</u>	<u>( 4.510.412 )</u>	<u>( 4.510.412 )</u>
	97.467	2.059.821	2.157.288
Next year's payments on long-term receivables .....	<u>( 48.734 )</u>	<u>( 811.973 )</u>	<u>( 860.707 )</u>
	<u>48.734</u>	<u>1.247.848</u>	<u>1.296.581</u>

	Indexed	Non-indexed	Total
<b>Other long-term receivables (section A and B)</b>			
Balance at the beginning of the year .....	421.052	6.748.642	7.169.694
Effect of change in holdings in jointly owned entities .....	( 5 )		( 5 )
New loans .....	9.777	1.107.141	1.116.919
Re-classification of assets .....	0	( 87.763 )	( 87.763 )
Payments .....	( 137.613 )	( 1.197.787 )	( 1.335.401 )
Indexation .....	<u>20.713</u>	<u>0</u>	<u>20.713</u>
	313.924	6.570.233	6.884.157
Provision for losses .....	<u>0</u>	<u>( 4.510.412 )</u>	<u>( 4.510.412 )</u>
	313.924	2.059.821	2.373.745
Next year's payments on long-term receivables .....	<u>( 101.479 )</u>	<u>( 811.973 )</u>	<u>( 913.452 )</u>
	<u>212.445</u>	<u>1.247.848</u>	<u>1.460.293</u>

# Notes

## 39. Long-term receivables, continued:

Annual maturities are itemised as follows:	Section A	Section A and B
Year 2023 .....	860.707	913.452
Year 2024 .....	249.741	280.592
Year 2025 .....	457.843	465.883
Year 2026 .....	0	0
Year 2027 .....	0	0
Later .....	588.997	713.818
	<u>2.157.288</u>	<u>2.373.745</u>

## 40. Inventories

Inventories are itemised as follows:	Section A	Section A and B
Inventory of materials .....	0	2.297.853
Raw material .....	0	102.090
Supplies in stock .....	0	68.009
Products ready for use .....	0	18.411
	<u>0</u>	<u>2.486.363</u>

## 41. Current receivables

Investments available for sale are itemised as follows:

Investments available for sale - Landsnet hf. ....	Section A	Section A and B
	<u>0</u>	<u>5.632.000</u>
	0	5.632.000

Provisions for current receivables are itemised as follows:

	Section A	Section A and B
Provision for receivables other than tax revenue at the beginning of the year .....	399.170	601.400
Actual losses during the year .....	9.393	( 2.590 )
Provision for losses during the year .....	58.088	58.087
<b>Provision for receivables other than tax revenue at year-end</b>	<u>466.651</u>	<u>656.897</u>

Outstanding tax revenue, excluding default interest and provisions, amounted to ISK 15,966 million at year-end. Provisions for tax revenues together with the depreciation of tax revenues over the year, totaling 581 million ISK, are entered as a reduction of tax revenue. The total provision for tax revenue at year-end 2022 amounted to ISK 6,900 million.

## 42. Cash and bank deposits

Cash and bank deposits are itemised as follows:	Section A	Section A and B
Bank deposits with three to twelve month maturities .....	0	6.500.000
Marketable securities .....	0	4.570.605
	0	11.070.605
Bank deposits and short-term securities, redeemable without notice .....	10.220.904	21.922.047
	<u>10.220.904</u>	<u>32.992.652</u>

## 43. Equity

Changes in equity:	Section A	Section A and B
Balance at the beginning of the year .....	91.894.777	369.004.546
Effect of change in holdings in jointly owned entities .....		( 324 )
Revaluation of plots and land at year-end .....	6.320.186	28.183.772
Changes in the market value of equity shares .....	0	( 433.086 )
Translation differences of Orkuveita Reykjavíkur .....	0	4.897.482
Operating results .....	( 15.604.545 )	5.952.992
	<u>82.610.418</u>	<u>407.605.383</u>

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

# Notes

## 44. Pension obligations due to LsRb

The net present value of the pension obligations of Sections A relating to LsRb (Reykjavik employees' pension fund) amounted to 39,603 million ISK at the end of 2022, while the net present value of Sections A and B amounted to ISK 40,309 million, taking into consideration the share in the pension fund's net assets. The benefit rights largely follow wage changes and are adjusted based on a 2% real interest rate, but in other respects a 3.5% real interest rate is used for adjustment.

Actuarial surveys of LsRb use the calculation base of the Association of Icelandic Actuaries of 2019, in addition to the 2020 projection of the Association of a reduction in the frequency of age-related mortality as advertised by the Ministry of Finance at year-end 2021 as a part of the standard assumptions used in the accounts of pension funds. The basis for life expectancy is based on pension fund's experience in 2014-2018. The assessment of the pension liability of Section A was done by LsRb's actuary.

The obligations are itemised as follows:

	Section A	Section A and B
Pension obligations at the beginning of the year .....	36.703.045	37.368.924
Contributions to pension payments during the year .....	5.466.822	5.543.616
Change in pension obligations during the year .....	<u>(2.566.587)</u>	<u>(2.603.800)</u>
<b>Pension obligations at year-end</b>	<b>39.603.280</b>	<b>40.308.740</b>
Pension obligations, short-term .....	2.664.000	2.701.000
Pension obligations, long-term .....	<u>36.939.280</u>	<u>37.607.740</u>
	<u>39.603.280</u>	<u>40.308.740</u>

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

Estimated future pension payments for Reykjavik Municipal by period:

Payments 2023-2027 .....	10.430.524
Payments 2028-2032 .....	9.096.782
Payments 2033-2037 .....	7.365.172
Payments 2038 and later .....	<u>12.710.802</u>
	<u>39.603.280</u>

## 45. Long-term liabilities

### Section A

Long-term liabilities are itemised as follows:	Exchange rate	Indexed	Non-indexed	Total
Balance at the beginning of the year .....	0	51.015.156	27.230.590	78.245.746
Additions during the year .....	0	17.266.308	4.628.761	21.895.069
Payments over the year .....	0	(2.397.526)	(1.477.769)	(3.875.295)
Indexation and discounts of the year .....	0	<u>5.482.080</u>	<u>(4.256)</u>	<u>5.477.824</u>
	0	71.366.019	30.377.326	101.743.345
Next year's payments	0	<u>(3.196.694)</u>	<u>(1.717.273)</u>	<u>(4.913.967)</u>
	0	<u>68.169.324</u>	<u>28.660.053</u>	<u>96.829.378</u>

### Section A and B

Long-term liabilities are itemised as follows:	Exchange rate	Indexed	Non-indexed	Total
Balance at the beginning of the year .....	64.686.686	189.448.138	46.206.957	300.341.781
Effect of change in holdings in jointly owned entities .....		(159)		(159)
Additions during the year .....	3.467.040	22.187.552	7.603.958	33.258.550
Payments over the year .....	(7.351.078)	(10.004.328)	(4.589.852)	(21.945.258)
Indexation and discounts of the year .....	3.458.236	<u>18.290.692</u>	<u>(4.256)</u>	<u>21.744.672</u>
	64.260.884	219.921.895	49.216.807	333.399.586
Next year's payments	<u>(10.420.561)</u>	<u>(10.422.716)</u>	<u>(5.549.577)</u>	<u>(26.392.854)</u>
	<u>53.840.323</u>	<u>209.499.179</u>	<u>43.667.231</u>	<u>307.006.732</u>

# Notes

## 45. Long-term liabilities, continued:

Estimated annual maturities of long-term liabilities are itemised as follows:		
	<b>Section A</b>	<b>Section A and B</b>
Year 2023 .....	4.913.967	26.392.854
Year 2024 .....	9.784.236	27.055.239
Year 2025 .....	5.089.775	25.860.729
Year 2026 .....	5.175.138	23.372.348
Year 2027 .....	5.263.096	18.286.436
Later .....	71.517.133	212.431.981
	<u>101.743.345</u>	<u>333.399.586</u>
<b>Long-term liabilities section A with section B</b>		
	<b>Section A</b>	<b>Section A and B</b>
Balance at the beginning of the year .....	3.343	817
Payments over the year .....	( 3.358 )	( 817 )
Indexation of the year .....	15	0
	<u>( 0 )</u>	<u>( 0 )</u>

## 46. Lease liabilities

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

		<b>Section A</b>	<b>Section A and B</b>	
Balance at the beginning of the year .....		11.082.980	12.802.905	
Addition over the year .....		814.363	1.072.829	
Payments over the year .....		( 1.223.527 )	( 1.282.033 )	
Indexation of the year .....		1.171.403	538.390	
		<u>11.845.218</u>	<u>13.132.091</u>	
Next year's payments .....		<u>( 1.352.812 )</u>	<u>( 1.506.743 )</u>	
		<u>10.492.407</u>	<u>11.625.348</u>	
Annual lease liabilities are itemised as follows:				
Year 2023 .....		1.352.812	1.506.743	
Year 2024 .....		1.353.302	1.474.047	
Year 2025 .....		1.367.341	1.434.129	
Year 2026 .....		1.362.168	1.423.809	
Year 2027 .....		999.156	1.055.904	
Later .....		5.410.440	6.237.459	
		<u>11.845.218</u>	<u>13.132.091</u>	
Other informations about lease contracts:				
Book value at year-end:				
	<b>Lease term</b>	<b>Section A</b>	<b>Section A and B</b>	
Sports facilities .....	15 - 25 ár	3.387.795	3.387.795	
Office buildings .....	2 - 22 ár	6.276.535	6.408.105	
Other facilities .....	2 - 26 ár	2.180.889	2.884.793	
Plots .....	10 - 99 ár	0	451.398	
		<u>11.845.218</u>	<u>13.132.091</u>	
Minimum payments on lease contracts are itemised as follows, not at net present value:				
	<b>Sports facilities</b>	<b>Office buildings</b>	<b>Other facilities</b>	<b>Total</b>
Year 2023 .....	1.068.781	951.933	385.881	2.406.595
Year 2024 .....	1.068.781	909.194	358.632	2.336.607
Year 2025 .....	1.068.781	891.426	322.133	2.282.340
Year 2026 .....	1.068.781	891.426	318.284	2.278.490
Year 2027 .....	404.477	891.426	314.895	1.610.798
Later .....	1.764.921	4.498.498	2.853.738	9.117.156
Total .....	<u>6.444.524</u>	<u>9.033.901</u>	<u>4.553.562</u>	<u>20.031.987</u>

# Notes

## 46. Lease liabilities, continued:

Total payments on lease contracts in 2022 are itemised as follows in the financial statements:

	Section A	Section A and B
Payments reducing lease liabilities .....	1.223.527	1.282.033
Interest payments .....	494.339	489.478
	1.717.866	1.771.511
Operating expenses .....	485.096	505.659
<b>Total lease payments</b>	<b>2.202.962</b>	<b>2.277.170</b>

## 47. Taxes

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

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

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

	Deferred tax assets	Deferred tax liabilities
Balance at the beginning of the year .....	3.812.930	17.256.418
Effect of special revaluation of fixed assets .....	0	3.805.316
Calculated income tax during the year .....	( 91.175 )	1.471.674
Other changes .....	( 8.963 )	274.327
Income tax payable .....	46.438	( 1.444.923 )
<b>Balance at year-end</b>	<b>3.759.231</b>	<b>21.362.811</b>

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

	Deferred tax assets	Deferred tax liabilities
Fixed tangible assets .....	897.394	21.169.400
Embedded derivatives .....	( 586.225 )	0
Other items .....	( 214.403 )	303.629
Impact of carry-forward loss .....	3.662.464	( 110.218 )
<b>Balance at year-end</b>	<b>3.759.231</b>	<b>21.362.811</b>

## 48. Initial capital contributions from the State

	A-hluti	A- og B-hluti
Position at beginning of year .....	0	3.697.625
Additions over the year .....	0	641.347
2% deprecation 4% supplement for low income groups .....	0	( 7.914 )
Value adjustment .....	0	1.046.420
<b>Balance at year-end</b>	<b>0</b>	<b>5.377.478</b>

## 49. Obligations and guarantees off the Balance Sheet

Obligations and guarantees off the balance sheet at year-end are estimated based on obligations at year-end 2022

	Section A	Section A and B
Overview of grants, contracts, property lease agreements and operation lease agreements .....	48.114.197	52.759.697
Overview of Section A guarantee obligations against a third party due to long term bonds .....	319.238	319.238
Obligations of Section A of the City of Reykjavik for Section B companies not included in the balance sheet	95.117.706	0
<b>Total</b>	<b>143.551.141</b>	<b>53.078.935</b>



# Notes

## 50. Grants, work contracts, asset and operational lease agreements

	Total obligations	Obligations due in 2023
<b>Section A:</b>		
City Executive Committee grants .....	170.883	128.261
Cultural grants .....	6.404.449	2.205.416
Grants and service contracts, Sports and Leisure .....	3.004.059	1.705.017
Grants and service contracts, Social Services .....	16.580.608	5.590.311
Grants and service contracts, Education and Recreation .....	71.330	71.330
Concert and Conference Hall .....	8.722.592	646.665
Operational agreements for Real Estate Fund .....	1.211.296	579.732
Operational Investment agreements for Real Estate Fund .....	3.372.845	3.372.845
Agreement with Betri Samgöngur ohf. regarding transport pact .....	7.506.045	682.368
Obligations of Reykjavik Parking Services .....	324.826	78.579
Contract for the purchase of a pre-school and 20 apartments under construction at Hallgerðargata	745.263	745.263
<b>Grants, work contracts, asset and operational lease agreements</b>	<u>48.114.197</u>	<u>15.805.787</u>
<b>Section B:</b>		
Faxaflóahafnir sf. ....	169.500	169.500
Orkuveita Reykjavíkur .....	4.476.000	4.476.000
<b>Work contracts and other liabilities of Section A at year-end</b>	<u>4.645.500</u>	<u>4.645.500</u>
<b>Grants, work contracts, asset and operational lease agreements of Sections A&amp;B at year-end</b>	<u>52.759.697</u>	<u>20.451.287</u>

## 51. Guarantees

	Section A
Summary of guarantee obligations of Reykjavík Municipal to third parties in respect of bond loans:	
Churches .....	319.238
Guarantee obligations of A operations against a third party .....	<u>319.238</u>

## 52. Liabilities

Liabilities of Section A off the Balance Sheet are as follows:

	City's share in liabilities	Section A balance
Orkuveita Reykjavíkur .....	93,5%	60.880.808
Slökkvilið höfuðborgarsvæðisins bs. ....	56,4%	122.925
Sorpa bs. ....	56,4%	1.341.057
Strætó bs. ....	56,4%	987.926
Félagsbústaðir hf. ....	100,0%	31.784.990
<b>Liabilities of Section A off the Balance Sheet in respect Section B companies</b>		<u>95.117.706</u>

# Notes

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

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

	Share	Assets	Liabilities	Equity
Reykjavík Municipal (Section A) .....	100,0%	257.096.991	174.486.573	82.610.418
Aflvaki hf. ....	95,7%	9.282	17	9.265
Faxaflóahafnir sf. ....	75,6%	14.226.662	451.529	13.775.133
Félagsbústaðir hf. ....	100,0%	149.370.278	65.603.544	83.766.734
Íþróttta og sýningahöllin hf. ....	50,0%	1.750.880	1.331.444	419.435
Jafnlaunastofa sf. ....	50,0%	5.511	6.301	( 790 )
Malbikunarstöðin Höfði hf. ....	100,0%	1.862.485	348.138	1.514.347
Orkuveita Reykjavíkur .....	93,5%	421.739.389	191.225.546	230.513.528
Slökkvilið höfuðborgarsvæðisins bs. ....	60,8%	1.841.454	430.646	1.410.807
Sorpa bs. ....	58,3%	5.412.278	2.206.603	3.205.675
Strætó bs. ....	60,3%	1.778.569	1.773.066	5.503
Þjóðarleikvangur ehf. ....	50,0%	8.143	1.452	6.691
Internal transactions .....		( 15.660.166 )	( 6.028.804 )	( 9.631.362 )
<b>Total</b>		<b>839.441.754</b>	<b>431.836.056</b>	<b>407.605.383</b>
Minority share .....		<b>30.890.960</b>	<b>14.541.530</b>	<b>16.349.745</b>
<b>Balance according to the financial statements</b>		<b>870.332.714</b>	<b>446.377.586</b>	<b>423.955.128</b>

The financial reporting of jointly owned municipal entities and partnership companies where the City of Reykjavík is a majority holder is in this annual financial statement included in the condensed accounts of the City of Reykjavík based on the proportional liability of the City according to Regulation 1212/2015, as amended by Regulation 230/2021 and not holding.

### Other

#### Acquisition of Sýn's telecommunication network

On 2 December 2022 Ljósleiðarinn hf, and Sýn hf. signed a 3 billion ISK contract on the purchase by Ljósleiðarinn of Sýn's telecommunications network and a 12-year service contract between the companies. Financing has been finalised, but the contracts are subject to approval by the Competition Authority; it is anticipated that the Authority's decision will be available in the first quarter of 2023.

#### Power contract with Norðurál referred to an international arbitration tribunal

In 2022 a formal process was initiated by Orkuveira Reykjavíkur (Reykjavík Energy - OR) to refer a dispute regarding the premises of a power contract with Norðurál administered by ON Power to an international arbitration tribunal. The issue concerns a request by OR to review the contracts, as the balance between the interests of the contracting parties has been disrupted as a result of events and premises beyond the control of OR. At this stage of the case the decision of the arbitration tribunal will address only whether the balance between the contracting parties has been disrupted to such an extensive extent as a result of **force majeure** that it is reasonable to initiate discussions on amendments to the contracts and will not address the potential amounts involved.

#### Sale of holding in Landsnet

In recent months there have been plans to sell Orkuveita Reykjavíkur's holdings in Landsnet, as the Electricity Act provides that the transmission company should be directly owned by the State of Iceland and/or municipalities. At year-end 2020 the board of directors of Orkuveita Reykjavíkur agreed to sign a memorandum of understanding regarding a change in the ownership of Landsnet and to enter into negotiations on the sale of its interest. This was followed by discussions with representatives of the Ministry of Finance on the matter. The Ministry concluded at year-end 2022 an agreement with companies owned by the State on the purchase by the State of their holding in Landsnet, as the Ministry wished to conclude those agreements prior to finalising its acquisition of OR's share. The book value of the holding is estimated at 5.6 billion ISK as at 31/12/2022 and entered under current assets. The sale of OR's share is scheduled for finalisation in 2023.

#### Water damage at OR – Water and Wastewater

Reykjavík Energy – Water and Wastewater – was engaged in construction work at Suðurgata which included renewal of pipes. On the eve of 21 January 2021 the water main broke with the consequence that water entered the buildings of the University of Iceland. The entity that suffered damage appointed assessors to assess the extent of the damage and they returned a report in January 2022. In the initial assessment the cost of improvements was projected at a total of 123.6 million ISK. On 4 March 2022 the injured party submitted a petition to the District Court of Reykjavík requesting appointment by the Court of assessors to conduct a reassessment. By a letter dated 16 May 2022 the injured party lodged a claim for damages against Veitur Ohf., the VÍS Insurance Company and other entities, calling for joint liability of the parties for the payment of just short of 224 million ISK with interest and default interest added. The claim was rejected in a joint letter from VÍS and Veitur ohf. dated 27 May 2022. OR – Water and Wastewater – has independent liability insurance that covers the company's liability for damage. The terms of that insurance provide for a 5 million ISK deductible and then 50% of the amount of the damage. The maximum coverage of the insurance is 300 million ISK.

# Notes

## Other, continued,

### Repairs of OR headquarters.

Toward the end of August serious moisture damage was detected in OR's office premises at Bæjarhás 1. The actions taken by management have from the outset been designed to ensure acceptable working conditions for the company's employees, and experts have been consulted with regard to all principal decisions made. Also, the most reasonable means have been sought to rectify the damage and also to discover its causes. In 2017 the building was closed and staff was relocated in other premises. The decision was made to undertake a detailed causal analysis and explore all available alternatives. The conclusion was to remove the building's external walls, realign the building and then rebuild the walls. OR has entered into a contract on upgrading the building with Ístak Contracting. Work was begun in May 2021 and is on schedule, with completion projected in March 2023. The initial estimated time of the work was 22 months, and the amount of the contract was projected at 1,580 million ISK; the accrued cost of the contract currently stands at approximately 1,494 million ISK. Additional cost of the work entered in the City's accounts, consisting in payment of price level adjustments and the cost of the relocation of control stations, currently stands at about 120 million ISK. Preparations for necessary interior improvements have begun and the tendering process for that work is scheduled for launch in March 2023. Work is also in progress on preparatory work on the building's domed area. This is a new project which was approved separately by the board of directors.

## 54. Sales tax

The Property Fund is a stakeholder in the Harpa parking lot. The Parking lot is recorded with a special registration pursuant to Art. 6(4) of Act no. 50/1988 on Value Added Tax. The unpaid VAT at the end of 2022 amounted to ISK 241 million.

## 55. Litigation

### The City of Reykjavik lodges a claim against the State for payment out of the Communal Equalisation Fund in respect of the years 2015-2019

The City of Reykjavik has initiated legal proceedings against the State of Iceland calling principally for the payment of a certain amount out of the Communal Equalisation Fund in respect of the years 2015-2019 or, in the alternative, payment of the sum of 5,418 million ISK, on the one hand relating to the general equalisation contribution relating to the operation of primary schools, and, on the other hand, relating to a contribution for tutoring of children who speak Icelandic as a second language. In the last resort, the plaintiff calls for a declaratory judgment to the effect that the defendant was not permitted to discontinue the said contributions on the basis of regulatory provisions. Gathering of evidence is still in progress and the case awaits procedure before the district court.

### Dispute over payment for extra work on the Sund Secondary School

Jáverk ehf. has taken legal action against the State of Iceland and the City of Reykjavik in respect of payment for extra work on an annex to the Sund Secondary School building. The added-up claim of Jáverk ehf.'s claim is 213.8 million ISK according to a memorandum from the State Accounting Office dated 21 November 2018. The City of Reykjavik is liable for the payment of 40% of any adjudicated claims according to Article 2 of an agreement between the State and Reykjavik dated 7 October 2013. In the event that the courts uphold the claims made by Jáverk ehf., it may be assumed that the share of Reykjavik in the payment could amount to approximately 85.5 million ISK, excluding litigation expenses. It should be noted that the City of Reykjavik and the State of Iceland have taken legal action against Jáverk ehf. calling for damages for defects in the annex to the Sund Secondary School building, but since assessment is still in process the amount of the claim for damages is unclear.

### Dispute on participation in the cost of development of three building sites in Vogabyggð

PG verktakar ehf. have taken legal action against the City of Reykjavik on the grounds of contractual cost sharing in connection with the development of three building sites in Vogabyggð in Reykjavik. More specifically, PG verktakar hf.'s principal claim is for the City of Reykjavik to be ordered to pay to the company the sum of 311.7 million ISK with default interest, on the argument that the fees have not been correctly calculated. The case will be heard in the district court on 29 August 2023. The decision in this case may provide a precedent for other comparable cases, as applicable.

### Claim for pecuniary damages relating to violation of the Media Act

Gagnaveita Reykjavíkur (a data transmission company), a subsidiary of Reykjavik Energy, submitted to Síminn hf. on 5 March 2019 a claim for pecuniary damages for losses suffered by that company as a result of violation of the Media Act; the Electronic Communications Office, at that time the Post Telecom Administration, issued a decision on the matter in 3 July 2018. The claim is in the amount of 1.3 billion ISK for loss of income, cost and interest. A formal response was requested from Síminn. The letter was responded to by a letter from Síminn's lawyers dated 19 March 2019, where Síminn categorically rejected the claim. Síminn hf. took legal action against the Electronic Communications Office, Ljósleiðarinn ehf., Sýn hf. and Mila hf. contesting the Administration's decision regarding the breach of law. The District Court of Reykjavik returned a decision on 1 July 2020 which confirmed the decision of the Electronic Communications Office, but with some modification of the underlying premises. The case was appealed to the Court of Appeal by Síminn hf., the Electronic Communications Office Administration and Sýn hf. and the decision of the Electronic Communications Office was upheld in substance. Síminn petitioned for permission to appeal, and the petition was granted by the Supreme Court and a notice of appeal has now been issued by the Supreme Court. No provision has been made for this matter in the company's annual financial statement nor in the condensed annual financial statement of the City of Reykjavik for 2022.

### Call for a declaration of liability relating to the conduct of a tender of driving services in the metropolitan area

A party that was not awarded a contract following a call for tenders for driving services in the City's metropolitan area took legal action against Strætó bs. (Metropolitan Bus Transportation Company) requesting a declaration of liability of Strætó bs. in respect of alleged unlawful and criminal conduct in the execution of the call for tenders. Judgment was pronounced by the Supreme Court of Iceland on 1 June 2017, where the judgment of the district court was upheld, i.e. the entitlement of the plaintiff to damages from the defendant for loss of profit and cost of participation in a pre-selection process, was upheld. In early May a decision was returned in the district court where Strætó was ordered to pay 205 million ISK in damages. The sum of 322 million ISK has been expensed in respect of the above case, including 247 million ISK in 2022, all entered under other operating expenses.

The City of Reykjavik and separate B-Section entities are parties to various court cases and other disputes apart from those mentioned above which could have financial significance for the entities in question nor the condensed annual financial statement for Sections A and B.

# Notes

## 56. External economic effects

The worldwide COVID-19 pandemic that raged from early March 2020 has now subsided. In early 2022 a new wave arose when a new variant of the virus peaked in January and February, causing a temporary load on the City's operation, particularly in the departments of Education and Youth, Welfare and Strætó (the municipal bus system). The labour market has experienced a turnaround, with underemployment receding to below pre-pandemic levels. The war in Ukraine, which has been ongoing since February 2022, in combination with the Corona pandemic, has resulted in a shortage of commodities and persistent problems in the supply chain. The impact on the global economy has been extensive, with inflation rising fast in all of Iceland's trading partners last year. As a result of the rising prices in the housing market, the high inflation rate and economic expansion the Central Bank raised its policy rate repeatedly, up to 6%, up by 4% from the beginning of the year, when they stood at 2%. The rise in the policy rate has continued this year, as inflation has remained persistent; the current rate is 7.5%. This situation is reflected in the City's financial statement, both in operating items and financial items. The City of Reykjavik has responded to this difficult situation by cutting investments from the budget and curbing its borrowing needs. The long-term budget for 2023-2027 provides for reductions in expenses compared to previous projections and streamlining measures to achieve an operating balance and strengthen the City's working capital. Also, the City's financial policy has been reviewed in light of its financial situation and the external economic environment; the policy was presented along with the financial budget for 2023-2027. An act of law, Act No. 22/2021, has been passed in Parliament aimed at enabling municipalities to cope with their problems in the short and medium term by relaxing financial regulations in the Local Government Act No. 138/2011 with effect to 2025.

## 57. Related parties

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

The municipality has engaged in business with related parties during the year. Business with related parties included normal services provided by the Municipality and public charges levied on related parties. Other business conducted between the Municipality and related parties involves contracts on purchases of goods or services. The transactions are carried out on the same basis as in the case of unrelated parties and the terms and conditions of the transactions are similar as in the case of unrelated parties. The determination of business between related parties is subject to the competence rules of Art. 20 of the Local Government Act. Also, related parties are prohibited in accordance with agreed codes of ethics from taking advantage of their positions for the benefit of their own personal interests or those of their related parties.

It is noted that 11 municipal representatives failed to submit disclosures of financially connected parties within the set deadline.

## 58. Top management salaries

These wages are the total wages paid by the City of Reykjavik to the persons in question.

	Year 2022	
	Wages	Contribution
<b>Mayor and deputies</b>		
Mayor .....	26.975	1.595
Mayor's First Deputy, Chief Executive Officer .....	23.995	0
Mayor's Second Deputy, Chief Legal Counsel .....	23.138	0
<b>Salaries of elected representatives</b>		
Executive Committee Chairman .....	10.929	475
City Council President .....	18.880	798
Elected representatives .....	415.303	21.088
Elected deputy councillors .....	54.667	3.254
Committee members .....	97.953	0
<b>Top management salaries, total</b>	<b>671.840</b>	<b>27.210</b>

# Notes

## 59. Comparison of operating budgets

The overview below explains the operating budget for 2022 pursuant to the originally approved budget of the municipality, approved annexes and original budget with annexes. The budget with annexes is shown in the Income Statement and other notes to the financial statements for comparison with the year's actual figures.

	Reykjavík Municipal Section A			Reykjavík Group Section A and B		
	2022 Original Budget	2022 Annexes to Budget	2022 Original Budget with annexes	2022 Original Budget	2022 Annexes to Budget	2022 Original Budget with annexes
<b>Operating revenue</b>						
Tax revenues.....	115.598.166	2.713.438	118.311.604	114.776.942	2.713.438	117.490.381
Contributions to Municipal Equalisation Fund.....	8.785.118	436.982	9.222.100	8.785.118	436.982	9.222.100
Other revenues.....	26.803.131	(6.705)	26.796.425	94.377.981	(6.705)	94.371.276
	<u>151.186.415</u>	<u>3.143.715</u>	<u>154.330.130</u>	<u>217.940.042</u>	<u>3.143.715</u>	<u>221.083.757</u>
<b>Operating expenses</b>						
Wage cost and wage-related expenses.....	88.207.093	3.270.230	91.477.323	103.739.993	3.270.230	107.010.223
Changes in pension obligations.....	2.700.000	0	2.700.000	2.700.000	0	2.700.000
Other operating expenses.....	56.067.071	(126.515)	55.940.556	68.885.199	(126.515)	68.758.684
Depreciation.....	7.227.271	0	7.227.271	22.124.010	0	22.124.010
	<u>154.201.435</u>	<u>3.143.715</u>	<u>157.345.150</u>	<u>197.449.203</u>	<u>3.143.715</u>	<u>200.592.918</u>
Operating result before financial items.....	(3.015.020)	0	(3.015.020)	20.490.839	0	20.490.839
Financial income and (financial expenses).....	191.169	0	191.169	(14.939.515)	0	(14.939.515)
Operating result before tax .....	(2.823.851)	0	(2.823.851)	5.551.324	0	5.551.324
Income tax.....	0	0	0	(1.794.280)	0	(1.794.280)
Changes in valuation of investment properties.....	0	0	0	6.006.614	0	6.006.614
Share in associated companies' operating results.....	0	0	0	(715.375)	0	(715.375)
<b>Operating result.....</b>	<u>(2.823.851)</u>	<u>0</u>	<u>(2.823.851)</u>	<u>9.048.282</u>	<u>0</u>	<u>9.048.282</u>

# Notes

## 60. Comparison of cash flow budgets

The overview below shows the cash flow budget for 2022 pursuant to the originally approved budget of the municipality, approved annexes and original budget with annexes. The budget with annexes is shown in the cash flow statement and other notes to the financial statements for comparison with the year's actual figures.

	Reykjavík Municipal Section A			Reykjavík Group Section A and B		
	2022 Original Budget	2022 Annexes to Budget	2022 Original Budget with annexes	2022 Original Budget	2022 Annexes to Budget	2022 Original Budget with annexes
<b>Cash flows from operating activities</b>						
Operating result .....	(2.823.851)	0	(2.823.851)	9.048.282	0	9.048.282
Adjustments not affecting cash flow:						
Profit from sales of assets .....	(5.400.000)	(0)	(5.400.000)	(5.400.000)	(0)	(5.400.000)
Depreciation.....	7.227.271	0	7.227.271	22.124.010	0	22.124.010
Indexation, discounts and translation diff. ....	1.425.711	(0)	1.425.711	4.922.916	(0)	4.922.916
Embedded derivatives, change .....	0	0	0	1.097.031	0	1.097.031
Value adjustment of investment properties.....	0	0	0	(6.006.614)	0	(6.006.614)
Impact of subsidiaries and minority interests .....	0	0	0	715.375	0	715.375
Changes in pension obligations.....	2.700.000	0	2.700.000	2.700.000	0	2.700.000
Changes in deferred income tax liability.....	0	0	0	(1.585.642)	0	(1.585.642)
Write-down, long-term assets.....	(600.000)	0	(600.000)	(600.000)	0	(600.000)
<b>Working capital provided by operating activities</b>	<b>2.529.131</b>	<b>0</b>	<b>2.529.131</b>	<b>27.015.360</b>	<b>0</b>	<b>27.015.360</b>
<b>Changes in operating assets and liabilities:</b>						
Inventories, decrease (increase).....	0	0	0	24.894	0	24.894
Unrecovered revenues, decrease (increase) .....	200.000	0	200.000	426.481	0	426.481
Current receivables, decrease (increase) .....	1.008.464	(0)	1.008.464	895.487	(0)	895.487
Current liabilities, increase (decrease).....	(2.450.000)	(0)	(2.450.000)	(2.450.000)	(0)	(2.450.000)
Contribution to pension obligations.....	385.156	0	385.156	404.284	0	404.284
<b>Changes in operating assets and liabilities</b>	<b>(856.380)</b>	<b>(0)</b>	<b>(856.380)</b>	<b>(698.855)</b>	<b>(0)</b>	<b>(698.855)</b>
<b>Net cash provided by operating activities</b>	<b>1.672.751</b>	<b>0</b>	<b>1.672.751</b>	<b>26.316.505</b>	<b>0</b>	<b>26.316.505</b>
<b>Investment activities</b>						
Investments in fixed tangible assets.....	(29.801.000)	7.054.800	(22.746.200)	(52.415.583)	7.054.800	(45.360.783)
Investments in investment assets .....	0	0	0	(3.988.014)	0	(3.988.014)
Investments in intangible assets .....	(2.634.000)	395.000	(2.239.000)	(3.274.216)	395.000	(2.879.216)
Paid road construction fees .....	3.600.000	0	3.600.000	3.600.000	0	3.600.000
Sales of building rights.....	5.000.000	0	5.000.000	5.000.000	0	5.000.000
Proceeds from sale of fixed tangible assets.....	400.000	0	400.000	400.000	0	400.000
Share holdings, change .....	(1.917.023)	0	(1.917.023)	4.344.111	0	4.344.111
Short-term financing, change .....	0	0	0	0	0	0
Long-term receivables, change.....	1.070.000	(0)	1.070.000	1.149.990	(0)	1.149.990
<b>Investment activities</b>	<b>(24.282.023)</b>	<b>7.449.800</b>	<b>(16.832.223)</b>	<b>(45.183.713)</b>	<b>7.449.800</b>	<b>(37.733.913)</b>
<b>Financing activities</b>						
Capital contributions from state .....	0	0	0	591.201	0	591.201
New long-term borrowings.....	25.000.000	0	25.000.000	39.743.975	0	39.743.975
Repayment of long-term borrowings.....	(3.590.908)	0	(3.590.908)	(24.842.563)	0	(24.842.563)
Payments on lease liabilities .....	(1.110.960)	(0)	(1.110.960)	(1.110.960)	(0)	(1.110.960)
Derivative contracts paid .....	0	0	0	(122.246)	0	(122.246)
Paid-in capital .....	0	0	0	0	0	0
Short-term borrowings, change .....	0	0	0	(69.144)	0	(69.144)
Dividends paid .....	0	0	0	(362.684)	0	(362.684)
<b>Financing activities</b>	<b>20.298.132</b>	<b>(0)</b>	<b>20.298.132</b>	<b>13.827.579</b>	<b>(0)</b>	<b>13.827.579</b>
<b>Increase (decrease) in cash and cash equivalents.....</b>	<b>(2.311.140)</b>	<b>7.449.800</b>	<b>5.138.660</b>	<b>(5.039.629)</b>	<b>7.449.800</b>	<b>2.410.171</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>14.546.655</b>	<b>0</b>	<b>14.546.655</b>	<b>25.833.077</b>	<b>0</b>	<b>25.833.077</b>
<b>Effect of currency fluctuations on cash.....</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(6.792)</b>	<b>0</b>	<b>(6.792)</b>
<b>Cash and cash equivalents at year-end.....</b>	<b>12.235.515</b>	<b>7.449.800</b>	<b>19.685.315</b>	<b>20.786.657</b>	<b>7.449.800</b>	<b>28.236.457</b>

# Notes

## 61. Financial ratios

Overview of financial ratios:

### Ratio of operating income:

	Reykjavík Municipal Section A		Reykjavík Group Section A and B	
	2022 Financial Statements	2022 Budget with annexes	2022 Financial Statements	2022 Budget with annexes
Municipal income tax .....	60,6%	61,2%	42,4%	42,7%
Property taxes .....	15,3%	15,5%	10,4%	10,4%
Total tax revenues .....	75,9%	76,7%	52,8%	53,1%
Contribution from Municipal Equalisation Fund .....	6,8%	6,0%	4,7%	4,2%
Other revenues .....	17,3%	17,4%	42,5%	42,7%
Total operating revenues .....	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses .....	58,6%	59,3%	47,6%	48,4%
Increase in pension obligations .....	3,5%	1,7%	2,5%	1,2%
Other operating expenses .....	39,3%	36,2%	32,6%	31,1%
Total operating expenses .....	101,4%	97,3%	82,7%	80,7%
Contribution margin (EBITDA) .....	( 1,4%)	2,7%	17,3%	19,3%
Depreciation .....	4,9%	4,7%	10,5%	10,0%
Operating result before financial income (expenses) .....	( 6,3%)	( 2,0%)	6,8%	9,3%
Financial income and (expenses) .....	( 3,7%)	0,1%	( 12,4%)	( 6,8%)
Income tax .....	0,0%	0,0%	( 0,7%)	( 0,8%)
Value adjustment of investment properties .....	0,0%	0,0%	9,2%	2,7%
Effects of minority interest and subsidiaries .....	0,0%	0,0%	( 0,0%)	0,0%
Operating results .....	( 10,0%)	( 1,8%)	2,9%	4,4%
Working capital provided by operations .....	( 1,3%)	1,6%	11,3%	12,2%
Investments in fixed tangible assets .....	( 16,8%)	( 16,2%)	( 22,8%)	( 23,6%)
Total liabilities and obligations .....	111,7%	-	199,8%	-

### In ISK thousand per inhabitant:

#### Operations:

Tax revenue .....	849	847	844	842
Contributions from Municipal Equalisation Fund .....	76	66	76	66
Other revenue .....	194	192	680	676
Total operating revenue .....	1.119	1.105	1.600	1.584
Wage cost and wage-related expenses .....	( 656 )	( 655 )	( 762 )	( 766 )
Changes in pension obligations .....	( 39 )	( 19 )	( 40 )	( 19 )
Other operating expenses and depreciation .....	( 495 )	( 452 )	( 690 )	( 651 )
Financial income and (expenses) .....	( 41 )	1	( 198 )	( 107 )
Other .....	0	0	136	30
Operating result .....	( 112 )	( 20 )	46	70

#### Cash flow:

Working capital provided by operating activities .....	( 15 )	18	181	194
Cash and cash equiv. provided by operating activities .....	( 21 )	12	149	189

	Section A		Section A and B	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
<b>Other ratios:</b>				
Current ratio - curr. assets/curr. liabilities	1,07	1,45	1,14	1,44
Equity ratio - equity/total assets .....	0,32	0,39	0,49	0,48
<b>Population (source: Statistics Iceland):</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Population on 1 December .....	139.610	135.681	133.181	131.146
Change from previous year .....	3.929	2.500	2.035	2.422

# Notes

## 62. Reykjavík Municipal financial ratios

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

	2022 Budget with annexes	Financial Statements				
		2022	2021	2020	2019	2018
Operating result for the last three years in ISK million .....	-	( 25.297 )	( 8.335 )	241	11.055	12.334
Liabilities thresholds.....	-	77%	61%	56%	52%	49%
Total liabilities and obligations - debt ratio .....	-	112%	100%	96%	91%	90%
Long-term liabilities and obligations in proportion to working capital provided by operations (in years) .....	57,15	( 70,38 )	961,10	19,82	7,40	6,39
Equity ratio - equity/total assets .....	32%	32%	39%	43%	47%	47%
Working capital provided by operations in proportion to payment of liabilities .....	0,54	( 0,40 )	0,03	1,82	4,85	5,07
Current asset ratio - current assets/current liabilities	1,28	1,07	1,45	1,28	1,17	1,23
<b>As a ratio of operating revenue:</b>						
Tax revenue .....	76,7%	75,9%	77,7%	79,9%	80,5%	77,4%
Contributions from Municipal Equalisation Fund .....	6,0%	6,8%	6,2%	6,2%	6,1%	6,2%
Other revenue .....	17,4%	17,3%	16,2%	13,9%	13,4%	16,5%
Total operating revenue .....	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses .....	59,3%	58,6%	59,6%	59,3%	55,3%	52,7%
Increase in pension obligations .....	1,7%	3,5%	( 0,1%)	2,6%	2,6%	3,9%
Other operating expenses .....	36,2%	39,3%	37,7%	38,1%	37,1%	34,9%
Depreciation .....	4,7%	4,9%	4,6%	4,6%	4,3%	4,1%
Total operating expenses .....	102,0%	106,3%	101,8%	104,6%	99,2%	95,7%
Operating result before financial items .....	( 2,0%)	( 6,3%)	( 1,8%)	( 4,6%)	0,8%	4,3%
Financial income and (expenses) .....	0,1%	( 3,7%)	( 1,0%)	0,1%	0,3%	( 0,4%)
Operating result (negative) .....	( 1,8%)	( 10,0%)	( 2,7%)	( 4,5%)	1,1%	3,9%
Contribution margin (EBITDA) .....	2,7%	-1,4%	2,8%	0,0%	5,1%	8,4%
Working capital provided by operations .....	1,6%	( 1,3%)	0,1%	4,0%	10,1%	11,5%
Investments in fixed tangible assets .....	( 16,2%)	( 16,8%)	( 12,9%)	( 11,4%)	( 13,0%)	( 16,2%)
<b>In ISK thousand per inhabitant</b>						
<b>Operation:</b>						
Tax revenue .....	847	849	814	772	757	720
Contributions from Municipal Equalisation Fund .....	66	76	65	60	57	57
Other revenue .....	192	194	170	134	126	153
Total operating revenue .....	1.105	1.119	1.049	966	941	931
Wage cost and wage-related expenses .....	( 655 )	( 656 )	( 625 )	( 573 )	( 520 )	( 491 )
Increase in pension obligations .....	( 19 )	( 39 )	2	( 25 )	( 24 )	( 37 )
Other operating expenses and depreciation .....	( 452 )	( 495 )	( 444 )	( 413 )	( 389 )	( 363 )
Financial income and (expenses) .....	1	( 41 )	( 10 )	1	3	( 4 )
Operating result (negative) .....	( 20 )	( 111 )	( 28 )	( 44 )	10	37
<b>Cash flow:</b>						
Working capital provided by operations .....	18	( 15 )	1	38	95	107
Cash and cash equivalents provided by operations .....	12	( 21 )	( 31 )	8	84	96
Investments in fixed tangible assets .....	( 179 )	( 188 )	( 135 )	( 110 )	( 122 )	( 150 )
<b>Balance Sheet:</b>						
Assets .....	1.830	1.842	1.743	1.619	1.600	1.588
Equity .....	592	592	677	689	745	748
Liabilities .....	1.238	1.250	1.066	929	856	840
<b>Tax rates:</b>						
Municipal income tax .....	14,52%	14,52%	14,52%	14,52%	14,52%	14,52%
Property tax, class A .....	0,18%	0,18%	0,18%	0,18%	0,18%	0,20%
Property tax, class B .....	1,32%	1,32%	1,32%	1,32%	1,32%	1,32%
Property tax, class C .....	1,60%	1,60%	1,65%	1,65%	1,65%	1,65%
<b>Population (source: Statistics Iceland):</b>						
Population on 1 December .....	139.610	139.610	135.681	133.181	131.146	128.724
Change from previous year .....		3.929	2.500	2.035	2.422	2.615
Change from previous year (ratio) .....		2,9%	1,9%	1,6%	1,9%	2,1%



# Notes

## 63. Reykjavík Group financial ratios

Summary of Reykjavík Group

financial ratios over the past 5 years:

### Financial thresholds according to Local Government Act\*\*

	2022 Budget with annexes	Financial Statements					
		2022	2021	2020	2019	2018	
Operating result for the last three years in ISK million .....	*	-	26.562	16.726	8.778	27.493	35.246
Liabilities thresholds (less Orkuveita Reykjavíkur (OR) 2021-2018).....	*	-	158%	93%	89%	79%	73%
Total liabilities and obligations. - debt ratio (less OR 2021-2018).....		-	200%	136%	129%	119%	114%

### Other ratios:

Long-term liabilities and obligations in proportion to working capital provided by operations (years) .....		13,54	15,18	14,89	12,30	8,18	6,58
Equity ratio - equity/total assets .....		46%	48,7%	48,5%	47%	50%	49%
Working capital provided by operations in proportion to payment of liabilities .....		1,04	1,09	0,90	1,34	1,68	1,70
Current asset ratio - current assets/current liabilities .....		1,21	1,14	1,44	1,26	1,14	1,12

### As a ratio of operating revenue:

Tax revenue .....		53,1%	52,8%	54,2%	54,9%	53,3%	51,2%
Contributions from Municipal Equalisation Fund .....		4,2%	4,7%	4,3%	4,3%	4,0%	4,1%
Other revenue .....		42,7%	42,5%	41,5%	40,8%	42,7%	44,7%
Total operating revenue .....		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Wage cost and wage-related expenses .....		48,4%	47,6%	48,5%	48,2%	45,0%	42,8%
Increase in pension obligations .....		1,2%	2,5%	( 0,1%)	1,8%	1,8%	2,7%
Other operating expenses .....		31,1%	32,6%	30,9%	32,3%	32,0%	30,2%
Depreciation .....		10,0%	10,5%	10,4%	10,8%	10,3%	9,3%
Total operating expenses .....		90,7%	93,2%	89,7%	93,2%	89,0%	84,9%
Operating result before financial items .....		9,3%	6,8%	10,3%	6,8%	11,0%	15,1%
Financial income and (expenses) .....		( 6,8%)	( 12,4%)	( 6,4%)	( 9,0%)	( 6,9%)	( 10,1%)
Other .....		1,9%	8,5%	8,1%	0,8%	2,4%	2,4%
Operating result (negative) .....		4,4%	2,9%	11,9%	( 1,4%)	6,4%	7,4%
Contribution margin (EBITDA) .....		19,3%	17,3%	20,7%	17,6%	21,3%	24,3%
Working capital provided by operations .....		12,2%	11,3%	11,6%	14,4%	19,5%	23,1%
Investments in fixed tangible assets .....		( 23,6%)	( 22,8%)	( 20,0%)	( 20,7%)	( 26,1%)	( 22,7%)

### In ISK thousand per inhabitant

#### Operation:

Tax revenue .....		842	844	809	767	752	715
Contributions from Municipal Equalisation Fund .....		66	76	65	60	57	57
Other revenue .....		676	680	619	571	603	625
Total operating revenue .....		1.584	1.600	1.493	1.398	1.412	1.398
Wage cost and wage-related expenses .....		( 766)	( 762)	( 725)	( 674)	( 635)	( 599)
Increase in pension obligations .....		( 19)	( 40)	1	( 25)	( 25)	( 37)
Other operating expenses and depreciation .....		( 651)	( 690)	( 617)	( 603)	( 597)	( 551)
Financial income and (expenses) .....		( 107)	( 198)	( 95)	( 126)	( 98)	( 141)
Other .....		30	136	120	12	33	34
Operating result (negative) .....		70	46	178	( 19)	91	104

#### Cash flow:

Working capital provided by operations .....		194	181	173	201	276	323
Cash and cash equivalents provided by operations .....		189	149	157	169	276	268
Investments in fixed tangible assets .....		( 374)	( 364)	( 298)	( 289)	( 369)	( 317)

#### Balance Sheet:

Assets .....		5.663	6.234	5.827	5.412	5.253	4.984
Equity .....		2.633	3.037	2.825	2.536	2.622	2.464
Liabilities .....		3.030	3.197	3.002	2.876	2.631	2.520

#### Tax rates:

Municipal income tax .....		14,52%	14,52%	14,52%	14,52%	14,52%	14,52%
Property tax, class A .....		0,18%	0,18%	0,18%	0,18%	0,18%	0,18%
Property tax, class B .....		1,32%	1,32%	1,32%	1,32%	1,32%	1,32%
Property tax, class C .....		1,60%	1,60%	1,60%	1,65%	1,65%	1,65%

#### Population (source: Statistics Iceland):

Population on 1 December .....		139.610	139.610	135.681	133.181	131.146	128.724
Change from previous year .....			3.929	2.500	2.035	2.422	2.615
Change from previous year (ratio) .....			2,9%	1,9%	1,6%	1,9%	2,1%

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

\*\* Comparison figures from 2018-2019 as regards financial criteria are unchanged and based on Regulation 1212 prior to its amendment, which took effect in 2021.

# Statement on governance and non-financial information

## Statement on governance and non-financial information

The City council of Reykjavik places great emphasis on maintaining good governance. The governance of the municipality is subject to the provisions of the Local Government Act no. 138/2011, as amended, and resolution no. 1020/2019 on the governance of Reykjavik and the City's standing orders, with amendments and annexes. The City of Reykjavik has listed bonds in a stock exchange and is therefore subject to the Rules for issuers of financial instruments published by the Iceland Stock Exchange.

The presentation of the Statement on governance 2022 takes into consideration the Guidelines for corporate governance issued by the Icelandic Chamber of Commerce, Nasdaq Iceland hf. and the Confederation of Icelandic Enterprises in May 2015. However, the City of Reykjavik deviates partially from the guidelines, in particular where the contents of the guidelines do not apply to municipalities.

## The mission of Reykjavik

The mission of the City of Reykjavik is to provide quality services for the people of Reykjavik in the most efficient manner possible and lay the foundation for improved quality of life for the people of the City for the long and short term. According to the Local Government Act no. 138/2011, municipalities are independent public entities governed by democratically elected municipal governments representing the residents of the municipality. The municipality carries out the tasks assigned to it by law, *inter alia* regarding education and youth, social services, sport and leisure, culture, sanitation matters, city planning and environmental affairs. Furthermore, the municipality observes the requirements relating to its activities under other acts of law, including the Administrative Procedure Act, the Act on the equal rights and equal position of men and women and the Act on public procurement.

Section B of the City of Reykjavik provides services to enterprises and the public, *inter alia* in the field of utilities, harbours, social housing, waste disposal, fire prevention, and public transport.

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

## Laws, regulations and guidelines

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

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

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

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

- The Green Plan – Comprehensive strategy of the City of Reykjavik to 2030
- Municipal Zoning Plan for Reykjavik to 2040
- Fiscal Policy 2023-2027
- Risk policy
- Housing policy
- Employment and innovation policy

# Statement on governance and non-financial information

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

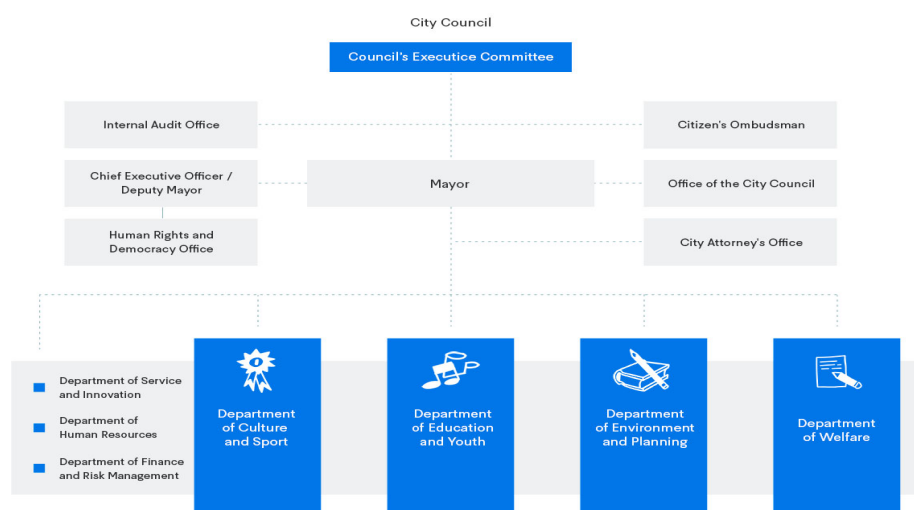
The City of Reykjavik has moreover implanted policies in various fields, also to be found on the City's website. The main policies are:

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

The City of Reykjavik has adopted a comprehensive owner policy of the City of Reykjavik detailing the role, authority and accountability attached to the ownership role of the City with regard to the City's interests in its enterprises, The City has moreover established owner policies for section B companies, *inter alia* with regard to Félagsbústaðir hf., Harpa – Tónlistar- og ráðstefnuhús ohf., SORPA bs., Strætó bs., and Reykjavik Energy.

## City of Reykjavik's organisation chart

The current organization chart for Section A of the City of Reykjavik is as follows:



The City Council resolved on 21 July 2022 to merge the Culture and Tourist Division and the Sports and Recreation Division into a single Culture and Sports Division. The change took effect on 1 January 2023.

## City Council

The City Council operates in accordance with chapter II of the Local Government Act no. 138/2011 and the Resolution on governance of the City of Reykjavik and the standing orders of the City Council no. 1020/2019, cf. Art. 9 of the Act. The mission and sphere of activity of the City Council according to Art. 8 of the Local Government Act is to govern the City of Reykjavik in accordance with the provisions of the Local Government Act and other acts of law.

The City Council has the power of decision in regards to the utilisation of the city's sources of income and the execution of the tasks entrusted to the municipality. The Council shall ensure that all provisions of the Local Government Act and regulations and resolutions of the city are observed. The City Council can moreover adopt resolutions on any issue it deems to concern the City of Reykjavik.

The Municipal Council is composed of twenty-three members and an equal number of alternate members, all elected in a democratic election by the residents of the municipality in accordance with the Act on municipal elections. The City Council elects the President of the Council and four deputy presidents from the ranks of councillors for a term of one year. The City Council elects from the ranks of its members seven principal members to the City's Executive Board for a term of one year and an equal number of alternate members. The City Council elects a chairman and a deputy chairman to the City Board from the ranks of elected board members. Information on elected members of the City Council, their positions of trust for the Council and financial interests is available on the [City's website](#).

# Statement on governance and non-financial information

The number of City Council members and members of committees, councils and boards on behalf of the City is determined by the provisions of the Local Government Act, by a Resolution on the administration of the City of Reykjavik and the standing orders of the City Council, published in the Government Gazette and available there and on the City's website. The City's website also contains information on the members of individual committees, councils and boards.

Article 44(2) of the Local Government Act lays down a rule on gender ratios in committees appointed by the City Council. The Municipality observes these rules in appointing committees. With regard to the City Council the composition of council members is decided by order of names on the ballots and election results. The City Council currently comprises members of eight political parties, 14 women and 9 men, with diverse backgrounds and educations.

In 2022 there were 22 City Council sessions, including one session with the Youth Reykjavik Council.

## City Board

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

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

In 2022 there were 38 sessions of the City Board.

## Mayor

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

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

## Internal control, risk management and auditing

The City Council is responsible for the functioning of effective internal control, which should be formal, documented and regularly verified. Internal control has the purpose of providing assurance that the Municipality achieves results and efficiency in its work in accordance with the targets set by the Municipality, that financial information provided to external parties is reliable and valid and that its activities comply with the laws and regulations that apply to its activities. The structure of Reykjavik's internal control is based on the COSO framework, an internationally recognized framework for internal control.

## Risk management

The City of Reykjavik faces a variety of risks arising out of its day-to-day operation. Risk management is therefore a fundamental feature of the City's work. Active risk management rests on a foundation of analysis of significant risks, measurements of risk, actions to mitigate risk and continual monitoring of risk factors. The risk management process and the City's ability to control and value risk factors is an integral feature of ensuring the efficient use of funds and ensuring that risk is kept within acceptable limits.

The principal aim of risk management is to promote data-driven and risk-based decision-making across the entire municipal system and to assist divisions and functional units in achieving their goals, financial and non-financial.

Risk management analyses, assesses and monitors the trends of financial and non-financial risk factors and their potential implications for the City. The methods used are of various kinds, the principal methods being value-at-risk (VaR), Monte Carlo simulations, stress tests, scenario analysis and sensitivity analyses. Also, tools such as optimiser, bow-tie analysis and tornado charts are used to deepen understanding of the issues in question.

Risk management has defined key risk indicators to monitor, *inter alia*, the financial sustainability of the City, emphasising the long-term trends of indicators rather than spot positions. Work is in progress on setting up a live dashboard with these indicators.

# Statement on governance and non-financial information

Risk management also has the role of implementing a comprehensive risk management system in the City's operations. To this end risk management concentrates its efforts on analysing what the principal tasks of the City are and identifying and assessing the risks that may prevent the City's achievement of its principal goals. The risks that are analysed in the course of this work are valued using statistical simulation, i.e. the consequences that the risks may entail, if they materialise, are run through simulation and 95% VaR used as the price tag. This process reveals the extent of investment required to eliminate risks and bottlenecks and contributes to the efficient use of funds. The implementation of a comprehensive system of risk management inevitably calls for streamlining of working procedures where both risks and bottlenecks are eliminated through changed procedures.

The principal risk factors that can affect the City's ability to achieve its aims in the short term and in the coming years are market risk, liquidity and financing risk and operational risk.

\* Market risk is the risk of price changes in markets, such as changes in interest rates, currency rates, share prices and inflation, having a negative impact on the City's performance and equity. The City's definition of market risk includes interest rate risk, currency risk, inflation risk in addition to counterparty risk and liquidity risk. To give an example, the City's treasury management works with defined criteria relating to counterparty risk and precautionary thresholds regarding the restricted equity and liquidity coverage ratios of the banks. As regards the inflation risk, it is closely monitored each month what the impact of a 1% increase in inflation would have on the operation of the City; targeted efforts have been made to reduce the ratio of indexed borrowings against the ratio of unindexed borrowings from the spring of 2015, when the City of Reykjavík became the first municipality to issue a class of unindexed bonds. The ratio of unindexed debts at year-end 2022 was about 30%, see further the report of the Finance and Risk Management Division, which accompanies the annual financial statement.

\* Liquidity and financing risk is defined as the risk that the City will experience difficulty meeting its obligations as they fall due, or is only able to ensure their payments at unreasonable cost. The key benchmarks in assessing liquidity risk are liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The City's treasury management also works with clear criteria regarding maximum holdings in individual liquidity funds, and liquidity risk is managed by means of active daily liquidity management where liquidity trends are analysed for each day many months into the future. In the assessment of major decisions on liquidity and credit management a separate risk assessment is prepared for submission to the City's treasury management team together with a report containing recommendations.

\* Operational risk is the risk of direct or indirect loss resulting from inadequate internal work processes, human error, system failures or external events. The City's definition of operational risk includes IT risk, conduct risk, outsourcing risk and misconduct risk. The treasury and risk management division has in recent years led work on analyses and risk assessment of some of the principal processes of the city, such as the payroll process, housing development process and processes relating to damage from dampness in premises.

In 2022, the treasury and risk management division submitted risk reports to the City Board along with interim financial statements that included assessments of the trends of principal economic indicators and assumptions in the budget. In the preparation of the fiscal budget for 2023-2027 the division assessed all the principal risks in the operation and development of the main indicators in the economy and their impact on the operation of the City. This preparation laid the foundation for the assumptions underlying the 2023-2027 budget and the fiscal policy of the City of Reykjavík, which was approved by the City Council in December 2022.

The Treasury and Risk Management Division has in the past two years involved itself actively in consultancy for the City Council regarding major issues relating to the analysis and assessment of, on the one hand, a proposal from Reykjavík Energy for the establishment of the limited company Carbfix hf. and a venture company on the Coda Terminal project of CarbFix ohf. and, on the other hand, a proposal from Ljósleiðarinn ehf., a subsidiary of Reykjavík Energy, on authorisation to increase the share capital of the Company by selling a part of the company to external entities. A detailed risk assessment was conducted for the owners based on the principles that holders of official powers are required to observe, e.g. as regards relations with, and disclosure obligations to, the public, as well as principles regarding the use of public assets. The inquiries were reviewed in the light of Act No. 136/2013 on Orkuveita Reykjavíkur (Reykjavík Energy), the City of Reykjavík's ownership policy and the partnership agreement with Orkuveita Reykjavíkur. Also, the inquiries were reviewed in the light of the opinion of the Althing Ombudsman of 12 April 2021 in case no. 5117/2007, which addresses the exercise of ownership powers and supervision by municipalities of companies in their ownership, in particular assets and operations that they have entrusted to civil law enterprises.

## Audit committee

The City of Reykjavík has appointed an audit committee in accordance with Article 108 of the Annual Accounts Act no. 3/2006. The role of the audit committee is defined in its statutes and it plays a corresponding role with regard to the City's consolidation and individual B-Section enterprises within the consolidation. The committee works in accordance with Chapter IX of the Annual Accounts Act No. 3/2006 and its statutes of 10 July 2014. Among its other functions the audit committee shall carry out the following tasks:

- Supervision of work processes in the preparation of financial accounts;
- Supervision of the arrangements and efficiency of internal control, internal auditing and risk management;

# Statement on governance and non-financial information

- Audit of the annual financial statements of Section A and the consolidated accounts of Sections A and B;
- Assessment of the impartiality of external auditors and supervision of their other tasks for the City of Reykjavík;
- Submission to the City Council of proposals for the selection of external auditors and the appointment of an internal auditor.

Further details of the work of the committee are included in the committee's working procedures, which are updated annually. The audit board is composed of four members, three appointed by the City of Reykjavík Municipal Council and one appointed on the recommendation of Reykjavík Energy. The members of the committee are: Lárus Finnbogason, certified public accountant, chairman, Einar S. Hálfánarson, attorney at law and certified public accountant (certification inactive), Sigrún Guðmundsdóttir, certified public accountant, and Sunna Jóhannsdóttir, business economist. The statutes approved for the audit committee are available on the City's website.

## Internal Auditing and Consultancy

An internal audit and consultancy (IAC) department has functioned in accordance with a resolution of the City Council from 15 June 2021. The internal auditor of the City of Reykjavík is Hallur Símonarson, who is in charge of the office of internal audit and consultancy. Three policy divisions operate within the IAC in accordance with terms of reference approved by the audit committee; the terms of reference for internal audit were approved at a meeting of the committee on 1 June 2022. Internal audit and consultancy is responsible of fiscal and administrative supervision in the City of Reykjavík under the aegis of the City Council. In its work, the IAC assesses and improves the effectiveness of the risk management, control strategies and governance of agencies and companies in which the City of Reykjavík has a majority holding.

Functions in the policy area of internal audit are classified on the one hand into confirmatory work and on the other hand consultancy. Among other things, the tasks encompass financial auditing, administrative auditing and IT auditing. The IAC provides expert advice to management and is responsible for the internal audit process, which forms a part of the City's management controls.

Functions of the consultancy section is to take delivery of communications from citizens and provide advice and guidance in their dealings with the City, including their means of seeking redress, if they need assistance. Also, consultancy has the role of educating the City's employees, e.g., on the principles of administrative law.

A Data Protection Officer (DPO) monitors compliance with data protection rules and advises the City's employees on providing assurance that the processing of personal data is conducted in compliance with law and the City's data protection policy. For this purpose, the Data Protection Officer needs to call for information in order to analyse the City's processing activities and provide information and advice, in addition to submitting proposals within the administration concerning the processing of personal data, including in the area of data security. The Data Protection Officer also plays an educational role for the benefit of the City's employees. The IAC takes delivery of documents and information regarding potential infringements or other reprehensible conduct, both from anonymous sources and whistle blowers, and deals with issues in compliance with the Act on the protection of whistleblowers No. 40/2020. The functions of the IAC extends to the City of Reykjavík's A Section as delimited in Section 60.1(1) of the Local Government Act no. 138/2011. To the extent that the A Section is responsible for the B Section, as delimited in point (2) of the same Section, the functions extend also to the City's entire consolidation. The IAC has entered into contracts on internal audit services for Faxaflóahafnir sf. (the Associated Icelandic Ports), Malbikunarstöðin Höfði hf. (asphalt plant), Orkuveita Reykjavíkur (Reykjavík Energy) and Slökkvilið höfuðborgarsvæðisins bs. (fire brigade); in the case of Sorpa bs. (waste collection) and Strætó bs. (public transport) internal audit is outsourced.

## Social responsibilities and code of ethics

Codes of conduct and good governance practices are provided for in Article 29 of the Local Government Act. The code of ethics for elected officials was approved on 18 June 2019 and is accessible on the City's website The code of ethics for employees was approved on 22 October 2009.

Social responsibilities are addressed in the policies of the City of Reykjavík, *inter alia* in its environment and resource policy and climate policy. The focus is on ensuring the quality of life of current and future generations of citizens by assessing the value inherent in the benefits of nature and a clean environment. The City of Reykjavík emphasises the sustainable use of resources, and the policy will be enforced in the following nine fields: Resources, communications, planning, environmental quality, climate, education for sustainability, nature and outdoors activities, consumption and waste and the operation of the City of Reykjavík.

In 2018 a Green Framework was approved for the City of Reykjavík, which is presented in accordance with the international standards of the ICMA, the International Capital Market Association, known as the Green Bond Principle, with reference to the sustainability benchmarks of the United Nations.

The Green Framework rests on four pillars: (i) definition of green task categories; (ii) selection process of green projects, (iii) use of funds and (iv) reporting to investors. In an assessment conducted by CICERO (Center for International Climate Research), which has returned an independent assessment of the framework, Reykjavík's Green Framework received the top score of "dark green", and all sub-categories and projects also received the "dark green" score. Special attention was focused on administrative organisation, which also received the highest grade of "excellent".

# Statement on governance and non-financial information

In 2019 a green framework was moreover approved for Reykjavik Energy and the first green bonds were issued in June 2019. CICERO has given an independent assessment of the framework and gives it the top score, “dark green”, for the positive environmental impact of the projects and “excellent” for the framework of the Company’s bonds. In 2021 Reykjavik Energy issued a new framework, a Green Financing Framework. Under the amended framework, green assets of the group are financed, but not specific projects of individual companies within the group. All financing by the group in 2021-2022 fell within the scope of the new Green Financing Framework.

Félagbústaðir (social housing) has issued a framework for social bonds in accordance with international standards of the ICMA, the Social Bond Principle. The framework has received certification from Sustainalytics, an independent certification body. The certificate states, among other things, that the framework of Félagbústaðir is solid, trustworthy and effective, and that it conforms to all four main criteria of international standards for social bonds. The first social bonds were issued in November 2019.

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

In accordance with the Annual Accounts Act no. 3/2003 and procedural rule FMS-VLR-150 on the supervision of trading between related parties, which was approved by the City Board on 22 March 2018, the Treasury and Risk Management Division is required to report transactions with related parties, including the nature of the relationships, the amounts of the trades and other information necessary to enable assessment of the City’s financial situation. The City gathers information on trades between related parties prior to the issue of its annual financial statement each year and principal and alternate Council members are required to submit a disclosure of persons falling under the category of related parties. In international Financial Reporting Standards related parties include persons with close family ties to the person in question, e.g. children, spouse, co-habitant, children of spouse/co-habitant, dependents of the person or of a spouse/co-habitant etc. Also, legal entities to which the person himself/herself or spouse/co-habitant or dependent children have ties, are defined as related parties and registered separately. Following the submission of disclosures the City obtains information from Registers Iceland regarding family numbers and ID numbers and merges those numbers with the City’s financial system to ascertain whether any trading has occurred that needs specific review. If any improper trading has taken place information to such effect is submitted to the City’s auditors for further review. The Act on measures against money laundering and terrorist financing no. 140/2018 also includes conditions regarding identification of trading partners by verifying the reliability of information regarding the persons in question. All Council members and the division manager of Treasury and Risk Management have identified themselves to the financial institutions with which the City does business and Municipality Credit Iceland, thereby complying with their statutory obligations.

## Non-financial information

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

## The Green Plan

The Green Plan is Reykjavik’s comprehensive strategy for the City’s future to 2030, linking key policies and plans to its vision. Emphasising **economy, environment and community**, the Green Plan forms a framework around fifteen key points of focus under the dimensions of **growing city, green city and city for people**, serving as a joint guiding light across all of the City’s divisions. Detailed information on targets, actions and their progress is available on the City’s website.

## GROWING CITY

Growing City represents the City’s future economic vision based on the concept that “[i] Reykjavik is a vibrant, competitive urban community and a fertile soil for creative ideas that attract people as residents, visitors and entrepreneurs. A city that prioritises green growth.”

The economic goals are the following:

<p><b>1. Responsible fiscal management</b></p> <p>The City’s fiscal management is based on sustainability, discipline, foreseeability and transparency.</p>	<p><b>2. Dense and mixed habitation</b></p> <p>A more dense and mixed habitation, based on a vision of self-sustaining neighbourhoods.</p>	<p><b>3. New employment opportunities for the future</b></p> <p>The development of employment opportunities will be based on knowledge, innovation and sustainability for the future.</p>	<p><b>4. Favourable environment for the industries and innovation</b></p> <p>Good use of land, diverse industries and commercial areas for all types of enterprises of all sizes.</p>
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# Statement on governance and non-financial information

## Fiscal policy

The fiscal policy of the City of Reykjavík for 2023-2027, which was approved concurrently with the municipal budget, was prepared in the light of the City's financial situation and external economic environment. The strategy places a clear focus on meeting the City's deficit and difficult international economic environment by the growth of a vigorous municipal community for the long term and targeted actions in the City's operations and reductions in investment from the budget levels of recent years in the short term without compromising the strong efforts to develop the city in line with the Green Plan and its policies. The policy is focussed on a green and growing city, sustainable operations and preventive measures to minimise risks in the City's operation.

The policy sets targets for the administration and development of the City's finances in the long and short term, together with benchmarks for both the A and B Sections of the municipality. The benchmarks are the following:

### Section A

Financial results to be positive as of the year 2025 ;

Wage costs to amount to a maximum of 80% of the combined income from municipal tax and the Communal Equalisation Fund as of 2026;

Working capital provided by operating activities to exceed 7.5% of income from 2025;

Working capital provided by operating activities to cover payments on loans and commitments as of 2025;

Borrowings to amount to a maximum of 70% of annual investment as of 2025;

Debt criteria of Section A not to exceed 100% of income.

No.	Benchmark	Goal	2023	2024	2025	2026	2027
1	Operating results positive (amounts in ISK million)	> 0	✗ -5.991	⚠ 2.166	✓ 6.035	✓ 7.067	✓ 9.631
2	Wage cost ratio	< 80%	✗ 86%	✗ 82%	⚠ 81%	✓ 80%	✓ 80%
3	Working capital as a ratio of income	> 7.5%	✗ 2,2%	✗ 5,9%	✓ 7,6%	✓ 7,8%	✓ 8,5%
4	Working capital v. payments on loans and commitments	> 1.0	✗ 0,4	✗ 0,7	✓ 1,1	✓ 1,1	✓ 1,1
5	Maximum borrowings 70% of investment	< 70%	⚠ 83%	⚠ 80%	✓ 65%	✓ 64%	✓ 54%
6	Debt criteria not to exceed 100% of income	< 100%	✓ 85%	✓ 85%	✓ 86%	✓ 84%	✓ 79%

### Consolidated A and B Sections

Positive consolidated equilibrium indicators ;

Debt criteria on a consolidated basis not to exceed 150% as of 2027.

No.	Benchmark	Goal	2023	2024	2025	2026	2027
1	Three-year equilibrium indicators	> 0	✓ 39.325	✓ 44.040	✓ 57.583	✓ 69.745	✓ 49.628
2	Debt criteria not to exceed 150% of income	< 150%	✓ 141%	✓ 146%	⚠ 152%	✗ 151%	✓ 141%

The fiscal policy is based on the City's core values regarding sustainability, prudence, stability, discipline, foreseeability and transparency as milestones on the route to compliance with the financial rules for municipalities. The report of the Treasury and Risk Management Division with the annual financial report for 2022 covers in detail the financial situation in the report for 2022 in comparison with preceding years.

### Reykjavík's housing policy

The population of the City of Reykjavík was 139,928 on 1 January 2023 according to figures from Registers Iceland, up by 4,229 over the year. The increase over 2022 is twice the increase of 2021, which was the fifth consecutive year when the population growth surpassed 2000 people. Over the past five years the population of Reykjavík has therefore grown by 13,887. The construction of 1,034 residences was completed in 2022, of which 408 residences were either affordable housing options or social housing owned by the municipality. This is in excess of the new targets set in the agreement between the City of Reykjavík, the Ministry of Infrastructure and the Housing and Construction Authority (HCA) last 5 January based on a framework contract between the State and municipalities of July last year. The agreement provides that 30% of new housing should be affordable housing and 5% municipally owned social housing. According to the Municipal Buildings Inspector 1,062 fully completed residences were registered in the City, as compared to 1,252 in 2021, 1,572 in 2020 and 1,003 in 2019, which represents a record in a historical context; the total number of residences in Reykjavík is currently around 57 thousand. The agreement between the City, the Ministry of Infrastructure and the HCA for the next 10 years (2023-2032) provides for the construction of 2,000 residences per year over the next five years and an average of 1,200 residences per year thereafter; these targets approach the maximum population growth projection of Statistics Iceland.



# Statement on governance and non-financial information

At the turn of the year 2022-23 there were 2,462 residences under construction. Of these residences 518 were affordable residences or social housing, i.e. approximately 21%. Plans were approved for the construction of 773 new residences over the year, in addition to 105 student apartments in Hotel Saga. In addition, work was begun on 913 new residences – in addition to the 105 student apartments. At the turn of the year there were sites available and prepared for the construction of about 2,000 residences; according to the agreement between the City of Reykjavík, the Ministry of Infrastructure and HCA referred to above the City is committed to have at any time sites available for the construction of 1,500 – 3,000 new residences.

## Employment and innovation policy

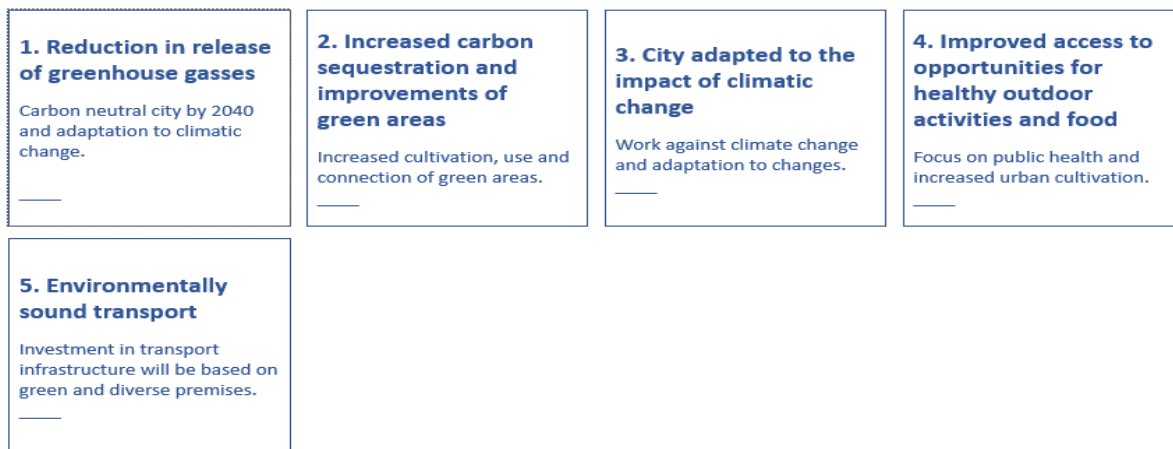
Work has been in progress on placing the implementation of an employment and innovation policy in a proper course. A new action plan for an employment and innovation policy for 2023-2024 includes 26 actions, divided among six points of focus. The action plan is based on the work of the policy steering group and a consultation process that was conducted with some 200 entities in the planning process. Work was continued on six of the core points of emphasis of the policy, which are: 1. Joint understanding between the City and the industries; 2. A favourable environment for industry and innovation; 3. Further pillars of value creation; 4. Stories from the City; 5. Green growth; 6. No one left behind.

Among the key elements used for guidance is the development of new commercial areas in Hólmsheiði, Álfsnes and Esjumelar. Work is also in progress on joint projects with the commercial sector in the City, a science village in Vatnsmýri and a creative industries village in Gufunes. Meetings are also held with growing enterprises featuring presentations of attractive opportunities in the City. The City has worked on creating further pillars for value creation by participating in projects such as Snjallræði, Gulleggið and Hringiða, all entrepreneurial projects under the umbrella of Klak (Icelandic Startups).

## GREEN CITY

Green City encompasses the future vision of the Green Plan in environmental and climate matters. The core element is that *“Reykjavik is a flourishing, enjoyable and healthy city that will be carbon neutral by 2040.”*

The environmental targets are:



# Statement on governance and non-financial information

## Environmental matters

The City of Reykjavík is targeting carbon neutrality by 2040, and the operation of the City itself is one of the major elements supporting the City's action plan on climate matters. **The City of Reykjavík's Action Plan on Climate Matters in 2021 -2025** can be accessed on the City's website. There are 15 principal actions relating, among other things, to a pedestrian-friendly city, energy transition, health promotion in transport, circular economy, environmentally sound structures and carbon sequestration. In support of these actions are actions that extend across the City's operations, adaptation to climate change, raising awareness and innovation.



Walkable  
city



Energy  
exchange



Health-  
promoting  
modes of travel



Circular  
thinking



Green  
structures



Carbon  
sequestration

The City has set a target of carbon neutrality in its operation; the measures taken to reduce emissions include participation by the City in the Climate Declaration of the City of Reykjavík and Festi in 2015 with the participation of all the workplaces in the City's Green Steps, the introduction of a food footprint in the City's cafeterias and carbon offsetting of emissions from operations.

The progress made in the direction of carbon neutrality of the City's operations is reported in the City's Green Accounts, which have been kept since the reference year of 2015 and are now included with the City's annual financial report each year. A comprehensive overview of targets and progress can be accessed at [www.reykjavik.is/loftslagsma](http://www.reykjavik.is/loftslagsma) under the heading *Loftslagstölfræði - Grænt bókhald*.

At the turn of the year 2022/2023, 226 work locations of the City of Reykjavík were registered in the Green Steps programme. Last year, 38 workplaces completed some step of the process (19 completed step 1, 8 completed step 2, 6 completed step 3 and 5 completed step 4). At the end of 2022, a total of 102 work locations were active in the Green Steps programme (had completed some step) from the time that the programme was started, i.e.:

- ✓ 48 locations in total completed step 1
- ✓ 27 locations in total completed step 2
- ✓ 10 locations in total completed step 3
- ✓ 17 locations in total completed step 4

The target was for all registered work locations to complete at least the first step. Approximately 36% had achieved this target. The goal is for this target to be achieved in 2023.

The City of Reykjavík has introduced a standard set of indicators on the sustainability of cities in co-operation with the World Council on City Data (WCCD), where the communal, economic and environmental sustainability are measured on the basis of over 200 international indicators. Each indicator can be linked to an underlying target of the United Nations Sustainable Development Goals. The City of Reykjavík has already been granted certification in respect of all the three standards of the ISO 37120 series and work is currently in progress on comparing the indicators with the policies and functions of the City and disseminating the conclusions reached. The indicators are standardised, which enables the City to compare itself with other cities across the world.

- ISO 37120 measures the provision of services by cities and the quality of life of their citizens. The standard measures the environmental, economic and communal sustainability of cities and enables them to monitor their own progress and compare themselves with other cities.
- ISO 37122 lays down indicators for smart cities. The standard measures the progress and maturation of the City as a smart city. This includes progress on the sharing and cycle economy and progress in innovative solutions.
- ISO 37123 measures the resilience of cities. This refers to how well cities have adapted and recovered after shocks they may suffer from natural disasters and climatic change, pandemics, network attacks etc.

Data have already been collected for 2019 (ISO 37120) and 2020 (ISO 37120, ISO 37122; ISO 37123) and work is in progress on data collection for 2021. It is assumed that the City's conclusions as regards the ISO 37120 indicators will be used, among other things, in situation monitoring and performance measurements in connection with the Green Plan, the City's climate policy etc.

# Statement on governance and non-financial information

## A CITY FOR PEOPLE

City for People represents the future vision of the Green Plan regarding community affairs. Its premise is that “*The community of Reykjavik is based on justice, fairness and participation by children and adults. Citizens enjoy security and can have a positive influence on their own lives and those of others. Listening, disseminating, reviewing and developing contributes to inclusion, with no one left behind. Reykjavik for all of us.*”

<p><b>1. For all of us</b></p> <p>Well-being of citizens and the experience that Reykjavik is for all of us.</p> <hr/>	<p><b>2. Realise our dreams</b></p> <p>Children and young people realise their dreams.</p> <hr/>	<p><b>3. Culture and art interwoven with urban life</b></p> <p>Everyone has equal opportunities to participate in enjoying culture and art.</p> <hr/>	<p><b>4. Sports for all</b></p> <p>Most people to engage regularly in sports or other activities.</p> <hr/>
<p><b>5. Improved public health</b></p> <p>Health-promoting, sustainable and diverse urban community.</p> <hr/>	<p><b>6. Human rights, increased participation and improved dialogue with citizens</b></p> <p>Citizens given opportunities to work with the City on improved quality of life.</p> <hr/>		

### Welfare policy

Reykjavik’s goal is to provide welfare services that promotes the well-being of residents and our experience that Reykjavik belongs to all of us. Reykjavik’s welfare policy is a framework around an ambitious welfare service that has the goal of increasing quality of life and enhancing the opportunity for all the people of Reykjavik to live their lives in dignity.

### Education policy and recreation policy

Reykjavik’s goal is for children and young people to obtain the education and experience needed to realise their dreams and have a positive impact on their surroundings and community.

Reykjavik’s education policy encourages us to develop school and recreational activities in a creative and enlightened community that meets the needs of the 21st century. At the same time, it is intended to meet the challenges posed by continuous environmental, social and technological changes.

The guiding light of the recreational service is to offer diverse and health-promoting recreational services that encourage active participation, creativity and a better society.

### Cultural policy

The goal of the City of Reykjavik is for all citizens to enjoy equal opportunities to participate in and enjoy culture and arts.

### Policy on sports and leisure

The goal of the City of Reykjavik regarding sports is for most citizens of Reykjavik to engage regularly in sports, exercise or physical activities.

### Public health policy

The goal of the City of Reykjavik regarding public health is to create a health-promoting, sustainable and diverse urban community that promotes safety, equality, active participation and well-being for all in the health city of Reykjavik.

### Policy on human rights and democracy

The goal of the City of Reykjavik on human rights and democracy is inclusion and opportunities for citizens to work with the City on improved quality of life in their surroundings.

When working on the approved strategy of the City of Reykjavik, and when important decisions are made, e.g. on the allocation of funds, the City’s human rights policy is used as a reference. Gender-based planning and budgeting is one of the instruments used for this purpose, together with reports that the staff of the Office of human rights and democracy is tasked with preparing regarding various proposals concerning the work of the City. This is a part of the effort to ensure compliance with the City’s policies. The documents with the annual financial statement includes a report on the implementation of gender-based budgeting and planning.

# Statement on governance and non-financial information

## Employment and gender equality

### **The City of Reykjavík's human resource policy**

The City of Reykjavík has used concerted efforts to observe the guidelines and points of focus of the City's human resource policy since the policy was adopted in 2018. Goals and actions falling within the points of focus are reviewed annually. Last year work was in progress on ten goals, all of which were achieved in part or in full. To give an example, a situation assessment was conducted of the shortening of the work week for all employees, the City's security policy was approved and work was begun on the implementation of an electronic education system and a new job application system.

### **The City of Reykjavík's equal wage policy**

An updated equal wage policy of the City of Reykjavík was approved in the City Council in June 2022, with effect to 2030. The policy includes both permanent actions, such as the implementation of an equal wage system and the conduct of annual wage analyses, and five temporary actions that are being targeted in the area of human resources and working environment.

The most recent wage analysis conducted by the University of Iceland Social Science Research Institute in October 2022 shows that the adjusted gender-based wage differential was 0.2%, which is within the margin of error. The wage gap has narrowed since the last analysis, so it is clear that the actions taken are beginning to show results.

### **Research and development**

The digitalisation of the City and related projects, together with the development of its services, play a key role in the progress of the City's administration. The digital transformation and the resulting redefinition and iteration of work and service processes plays an extensive role in achieving efficiency and enables the City to provide services to a steadily growing population in a more effective manner than would otherwise be possible. The development of information technology also plays a significant role in the green administration of the City and its goal of carbon neutrality by 2030. In addition, the development work is the foundation of security in the handling of data and information, as well as the utilisation of information technology in all of Reykjavík's workplaces.

### **Other**

Information on litigation involving the City of Reykjavík is included in the notes on the City's annual financial report.

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