Norðurorka hf.

Consolidated Financial Statements 2010

Norðurorka hf.
Rangárvöllum
603 Akureyri

Reg. no. 550978-0169

Contents

Endorsement by the Board of Directors and the CEO

The Company is an energy company that produces and distributes geothermal water for heating, electricity and cold water at Akureyri and its neighbourhood. The financial statements of Norðurorka hf. contain the consolidated financial statements of the Group and its subsidiary, Fallorka ehf. During the year the average number of employees was 53, salaries amounted to ISK 238.1 million and salary-related expenses ISK 67.0 million.

According to the income statement, net profit for the year 2010 amounted to ISK 1,254.6 million. According to the balance sheet, equity amounted to ISK 4,829.8 million at the end of 2010.

The Company's Board of Directors proposes that dividends of 15% shall be paid to shareholders in the year 2011 and refers to the financial statements for further allocation of profit and changes in equity during the year.

The Company's share capital at year end amounted to ISK 846.7 million. At the end of the year the number of shareholders was six and remained unchanged from previous year. One shareholder held more than 10% of outstanding shares; Akureyri Municipality (Akureyrarbær), with 98.3% share at the end of the year 2010.

The Company's Board of Directors emphasizes on maintaining good management practice. The Board of Directors has laid down comprehensive guidelines wherein the competence of the Board is defined and its scope of work vis-à-vis the CEO. These rules include i.e. rules regarding order at meetings, comprehensive rules on the competence of Directors to participate in the discussion and decision of issues presented to the Board, rules on secrecy, rules on information disclosure by the CEO to the Board and other issues.

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of Norðurorka hf. for the year 2010 and confirm them by means of their signature. The Board of Directors and the CEO recommend that the consolidated financial statements will be confirmed at the annual general meeting of Norðurorka hf.

Akureyri, 7 March 2011.

Board of Directors:

Geir Kristinn Aðalsteinsson
Halla Björk Reynisdóttir
Ásdís Elva Rögnvaldsdóttir
Bjarni Jónasson
Edward H. Huijbens

CEO:

Franz Árnason

Independent Auditor's Report

To the Board of Directors and Shareholders of Norðurorka hf.

We have audited the accompanying consolidated financial statements of Norðurorka hf., which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statement of income and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Icelandic Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Norðurorka hf. as at December 31, 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Icelandic Financial Statements Act.

Report on the Board of Directors report
Pursuant to the legal requirement under Article 106, Paragraph 1, Item 5 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Akureyri, 7 March 2011.

KPMG ehf.

Arnar Árnason
Þorsteinn G. Þorsteinsson

Income Statement for the year 2010

	Notes	2010	2009
Operating revenue:			
Sales	3	2.291.536	2.199.238
Gain on sale of assets		807	146
		2.292.343	2.199.384
Operating expenses:			
Energy purchase		582.094	523.330
Salaries and related expenses	4	277.386	260.329
General and administrative expenses		312.393	321.439
Depreciation	8,9	340.116	334.813
		1.511.989	1.439.911
Operating profit		780.354	759.473
Financial income and expenses	5	589.560	648.374
Share of results in associated companies	11	9.892	(30.209)
Profit before income tax		1.379.806	1.377.638
Income tax	6	(125.219)	(179.043)
Profit for the year	16	1.254.587	1.198.595
Earnings per share	7	1,48	1,42

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Balance Sheet 31 December 2010

	Notes	2010	2009
Assets			
Operating assets	8	7.366.880	7.466.751
Intangible assets	9	218.638	247.298
Investments in associates	11	95.137	53.717
Investments in other companies	12	10.777	11.725
Long-term notes receivable	13	631.290	685.300
Prepayments		5.823	6.508
Deferred income tax asset	14	142.505	290.157
Total non-current assets		8.471.050	8.761.457
Inventories		85.324	76.182
Trade receivables		241.659	196.340
Receivables, related companies	22	59.012	19.561
Other receivables		7.971	565.319
Cash and cash equivalents		347.316	111.585
Total current assets		741.282	968.986
Total assets		9.212.332	9.730.443
Equity			
Share capital		846.662	846.662
Share premium		268.225	268.225
Revaluation reserve		2.000.840	2.126.189
Translation reserve		3.330	11.026
Retained earnings		1.710.786	353.283
Total equity	16	4.829.843	3.605.385
Liabilities			
Loans and borrowings	17	3.713.076	5.065.391
Total non-current liabilities		3.713.076	5.065.391
Accounts payable		131.496	76.265
Payables, related parties	22	2.114	0
Current maturities of long-term debt	17	410.132	671.612
Other current liabilities		125.670	311.790
Total current liabilities		669.413	1.059.667
Total liabilities		4.382.489	6.125.058
Total equity and liabilities		9.212.332	9.730.443
Obligations not included in the Balance Sheet	20		

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Cash Flow Statement for the year 2010

	Notes	2010	2009
Cash flows from operating activities:			
Profit for the year	16	1.254.587	1.198.595
Difference between net earnings and cash from operations:			
Gain on sale of assets		(807)	(146)
Gain on sale of shares		0	(1.164.475)
Provision of shares in other companies, change		(298)	2.697
Depreciation	8,9	340.116	334.813
Remission of long term debt		(321.334)	0
Indexation and currency fluctuation on non-current notes and liabilities		(341.991)	343.129
Effects of associates	11	(9.892)	30.209
Deferred tax asset, change	14	125.219	179.043
Working capital from operations		1.045.600	923.865
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(9.142)	11.940
Receivables, increase		(45.986)	(4.205)
Current liabilities, decrease		(130.889)	(79.583)
Changes in operating assets and liabilities		(186.016)	(71.848)
Net cash provided by operating activities		859.584	852.017
Cash flows from investing activities:			
Acquisition of operating assets	8	(211.843)	(165.790)
Proceeds from sale of operating assets		1.067	250
Acquisition of subsidiaries and associates		(39.225)	(82.485)
Proceeds from sale of shares in associated companies		0	1.254.000
Acquisition of other companies		0	(1.000)
Proceeds from sale of shares in other companies		1.246	910
Non-current notes receivable, change		0	(689.672)
Receivables, change		558.700	(557.746)
Net cash used in investing activities		309.944	(241.534)
Cash from financing activities:			
Proceeds from long-term borrowings		120.000	220.000
Repayment of long-term borrowings		(1.016.459)	(606.874)
Liabilities to related companies, change		(37.338)	3.070
Other liabilities, change		0	(122.105)
Net cash used in financing activities		(933.796)	(505.909)
Increase in cash and cash equivalents		235.731	104.575
Cash and cash equivalents at beginning of year		111.585	7.011
Cash and cash equivalents at end of year		347.316	111.585

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Notes

1. Basis of preparation

The financial statements of Norðurorka hf. contain the consolidated financial statements of the Company and its subsidiary, Fallorka ehf. The financial statements are prepared in accordance with the Financial Statements Act and the Regulation on the Presentation and Content of Financial Statements and Consolidated Financial Statements. They are based on cost accounting except that a part of the operating assets have been restated at fair value at the revaluation day less revalued depreciation from the date of acquisition of the assets. The financial statements are prepared in Icelandic krona (ISK) and all amounts are presented in thousands of ISK.

A subsidiary is a company in which the Company holds controlling interest, directly or indirectly. A controlling interest exists when the Company has significant influence over the financial and operational policies of a subsidiary. The financial statements of the subsidiary are included in the Group's consolidated financial statements from the acquisition of the controlling interest until the interest is no longer held.

All material balances between the Group entities, transactions and profits created in transactions between Group entities are eliminated in the consolidated financial statements.

Associated company is a company in which the Group has significant influence over the financial and operational policies but not controlling interest. The Consolidated Financial Statements include the Group's share in the net profit or loss of an associated company. Should the Group's share of loss be higher than the book value of an associated company the book value is recorded at zero and further share of loss is not recorded unless the Company has granted guarantees for the associated company or financed it.

2. Summary of accounting policies

a. *Foreign currency*

Assets and liabilities in foreign currencies are converted to Icelandic currency at the year-end 2010 exchange rate. Currency fluctuations on assets and liabilities are entered in the income statement.

b. *Hedging*

The Company uses derivatives to hedge against foreign currency fluctuations on long-term debt. The performance of the hedging is entered in the income statement.

c. *Revenue recognition*

Revenue from the sale is recognized when service has been rendered to the buyer.

Initial charges are entered as income in the income statement as they are insignificant part of the total operating revenue.

d. *Operating assets*

Operating assets, other than utilities and real estate, are capitalized at historical cost value less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of fixed assets, until residual value is reached.

Utilities and real estate are entered at revalued value in the balance sheet. All increase in book value from the revaluation is posted to a special revaluation reserve among equity with respect to effects on deferred income tax. Depreciation of the revalued book value is recognised to the income statement. Redemption of revaluation owing to depreciation is entered from the revaluation reserve to equity with respect to influence on income tax. At sale or disposal of the assets the part of the revaluation reserve which belongs to the relevant asset is posted to retained earnings.

The latest revaluation of utilities and real estate was carried out at year end 2009.

e. *Intangible assets*

Intangible assets stem from difference of the acquisition cost of energy distribution companies and the valuation of the fixed assets of these companies. Intangible assets will be expensed over the period of ten to twenty years.

f. *Subsidiary*

Investment in a subsidiary is capitalized at a value corresponding to the Company's share in its equity, including the difference between the purchase price and the Company's share in the equity of the subsidiary at the acquisition date. The premium is entered as other intangible assets and expensed over a period of ten to twenty years.

g. *Associated companies*

Investments in associated companies are capitalized at a value corresponding to the Company's share in the equity of the associated companies taking into account the acquisition cost.

h. *Investment in other companies*

Investments in other companies are entered at purchase price less provision.

i. *Inventories*

Inventories of supplies are valued at purchase price.

j. *Trade receivables*

Allowance has been made for doubtful trade receivables. This entry does not represent a final write-off, but only a reserve to meet possible losses, and is deducted from the appropriate balance sheet items.

k. *Cash and cash equivalents*

Cash and cash equivalents consist of cash and bank deposits.

l. *Impairment*

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

Impairment loss is recognised when the book value of the asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest distinguishable asset group that generates cash, which is mostly independent from other units or unit groups. Impairment loss of cash generating units is first entered as a reduction in the book value of the relevant goodwill. Impairment loss is expensed in the income statement and later proportionally as reduction in the book value of other assets pertaining to the unit.

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

Impairment loss of goodwill is not reversed. Impairment loss of former periods of other assets is reviewed at each reporting date to determine whether there is any indication of a reduction or a cease of the impairment loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

m. *Income tax*

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

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date. Operation of cold water utility is exempt from income tax.

m. ***Income tax, contd.***

Deferred income tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The subsidiary's deferred tax asset is calculated but not entered in the financial statements due to uncertainty of its usefulness in the future. Calculated deferred tax asset of the subsidiary amounts to ISK 81.3 million at year end.

The deferred tax asset of the Parent Company is capitalized in full.

In december 2010 the Icelandic Parliament approved an increase in the income tax rate from 18% to 20% as of 1 January 2011. The change will become effective in the tax assessment of the year 2012. The effect of the increase of the tax rate on the Parent Company's deferred tax asset is an increase by the amount of ISK 14.3 million.

3. Sales

Sales specify as follows:	2010	2009
Hot water utility	927.736	912.944
Cold water system	259.379	250.969
Electric works	1.019.606	961.049
Other operating revenue	84.815	74.276
	2.291.536	2.199.238

4. Salaries and salary related expenses

Salaries and related expenses are specified as follows:

	2010	2009
Salaries	238.111	244.847
Salary-related expenses	66.962	59.885
Cost price of own work	(27.688)	(44.403)
Total salaries and related expenses	277.386	260.329
Number of full time employees at year end	53	51

Salaries and fringe benefits to the Board of Directors and the CEO of the Parent Company amounted to ISK 16.8 million for the year.

5. Financial income and financial expenses

Financial income and financial expenses specify as follows:

	2010	2009
Interest income and dividend	57.770	8.752
Interest expenses and indexation	(202.084)	(299.002)
Remission of long term debt	321.334	0
Exchange rate difference	412.242	(223.154)
Gain on sale of shares	0	1.164.475
Provision of shares	298	(2.697)
Net finance income (expense)	589.560	648.374

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6. Effective tax rate

Effective income tax rate is specified as follows:

		2010		2009
Profit before income tax		1.379.806		1.377.638
Income tax according to current tax rate	18,00%	248.365	15,00%	206.646
Effect of change in income tax rate	(1,03%)	(14.251)	(7,57%)	(104.267)
Investment in other companies	(0,00%)	(54)	5,61%	77.218
Effects of subsidiary	(4,84%)	(66.850)	0,47%	6.460
Cold water system, exempt from income tax	(1,42%)	(19.544)	(1,29%)	(17.806)
Other items	(1,63%)	(22.447)	0,78%	10.793
Effective tax rate	9,08%	125.219	13,00%	179.043

7. Earnings per share

Earnings per share is the ratio between profit and weighted average share capital during the year and shows the profit per each ISK 1 of share capital.

	2010	2009
Profit for the year	1.254.587	1.198.595
Weighted average share capital	846.662	846.662
Earnings per share	1,48	1,42

8. Operating assets

Operating assets are specified as follows:

	Hot water utility	Cold water utility	Electric works	Other assets	Total
Total value 1.1.2010	5.282.320	1.947.989	2.545.316	1.103.554	10.879.179
Previously depreciated	(1.158.116)	(849.817)	(970.954)	(433.540)	(3.412.427)
Book value 1.1.2010	4.124.204	1.098.172	1.574.362	670.014	7.466.751
Additions during the year	131.358	17.332	34.715	28.438	211.843
Sales during the year	0	0	0	(259)	(259)
Depreciated during the year	(144.164)	(48.916)	(72.603)	(45.773)	(311.456)
Book value 31.12.2010	4.111.399	1.066.588	1.536.474	652.420	7.366.880
Depreciation ratio	2.5 - 5%	2.5%	1.7 - 6%	2 - 20%	
Estimated useful life	20 - 40 years	40 years	17 - 60 years	5 - 50 years	

Due to construction of geothermal distribution network, the Company is entitled to a reimbursement for a part of the construction cost. Estimated refund of capitalized construction cost at year end is ISK 6.9 million, which will be entered as a reduction of the construction cost when payments will be received.

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8. Operating assets, contd:

Revaluation of operating assets

At year end 2009, a special revaluation was carried out on the production and distribution systems and real estate of the Group.

In the revaluation the relevant asset groups are measured at fair value. The aforementioned increases are recognised in a revaluation reserve among equity taken into account effects of deferred income tax.

The fair value of production and distribution assets and real estate is determined on the basis of depreciated replacement value. This entails that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciation are revalued in accordance with those changes.

Revalued production and distribution systems are used in operations subject to special licence and income limits are primarily based on changes in the building cost index. This is also taken into account when determining the fair value of the assets.

The Company´s management is of the opinion that there is no reason for revaluation at year end 2010.

Revaluation is specified as follows at year-end:	**2010**	**2009**
Revalued book value	7.366.880	7.466.751
Thereof effects of the revaluation	(2.358.747)	(2.461.636)
Book value without revaluation	5.008.133	5.005.116

Rateable value and insurance value

Insurance value, rateable value and book value of the Group's assets at year end are as follows:

Insurance value of production and distribution systems	21.758.201
Book value of production and distribution systems	6.714.460
Insurance value of real estate	1.845.131
Rateable value of real estate	772.054
Rateable value of rented premises	151.853
Book value of real estate	596.554
Insurance value of liquid assets	246.739
Book value of liquid assets	55.866

9. Intangible assets

Book value of intangible assets is specified as follows:

Book value 1.1.2010	247.298
Expensed during the year	(28.661)
Book value 31.12.2010	218.638

10. Subsidiary

At the end of the year the Company had one subsidiary, Fallorka ehf. which is a part of the Company's consolidated financial statements. The book value of the investment is ISK 21.5 million on the balance sheet of the Parent Company at year end.

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11. Associates

Investment in associated companies is specified as follows:

	Share	Book value	Entered in the income statement
Norak ehf., Akureyri	33,33%	65.033	3.480
Tengir hf., Akureyri	38,41%	30.105	6.412
Book value 31.12.2010		95.137	9.892

12. Investment in other companies

Investment in other companies specifies as follows:

	Share	Book value
Hrafnabjargavirkjun hf., Laugar	18,75%	1.875
Íslensk orka ehf., Akureyri	29,23%	55.944
NetOrka hf., Hafnarfjörður	4,48%	5.299
Orkey ehf., Akureyri	5,88%	1.919
Orkuvörður ehf., Akureyri	7,37%	20.000
		85.037
Provision for shares in other companies		(74.260)
Investment in other companies total		10.777

13. Long-term notes receivable

At the end of the year 2009, Norðurorka hf. sold its share in Þeistareykir ehf. The part of the selling price which will be paid in the year 2019 to 2034 amounts to ISK 631.3 million and is posted among long-term notes receivable. Additional payment is contingent on power production having started within twenty five years from the signing of the contract and it is not recognised in the financial statements due to uncertainty of the payment.

14. Deferred tax asset

The deferred tax asset of the Parent Company is specified as follows:

	2010	2009
Deferred tax asset at beginning of year	290.157	804.647
Revaluation change	(22.432)	(335.447)
Income tax for the year	(125.219)	(179.043)
Deferred tax asset at year end	142.505	290.157

The deferred tax asset of the Parent Company is attributable to the following:

	2010	2009
Intangible assets	(21.486)	(15.470)
Operating assets	104.554	136.970
Deferred gain on sale of shares	(204.008)	(214.209)
Inventories	(717)	(589)
Trade receivables	(167)	(84)
Tax loss carry-forward of the Parent Company	296.796	361.861
Deferred exchange rate difference	(32.466)	21.678
Deferred tax asset at year end	142.505	290.157

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15. Trade receivables

Provision for doubtful trade receivables specify as follows:

	2010	2009
Provision at beginning of year	13.000	10.000
Bad debts during the year	(9.744)	(15.285)
Increase in provision recorded as expense	11.744	18.285
Provision at end of year	15.000	13.000

16. Equity

Total share capital at year end amounted to ISK 846.7 million according to the Company's Articles of Association. Each share of one ISK in the Company carries one vote.

Changes in equity are as follows:

	Share capital	Share premium	Revaluation reserve	Translation reserve	Retained earnings	Total
Equity 1.1.2010	846.662	268.225	2.126.189	11.026	353.283	3.605.385
Income tax of revaluation	0	0	(22.432)	0	0	(22.432)
Depreciation of revaluation	0	0	(102.917)	0	102.917	0
Translation reserve	0	0	0	(7.696)	0	(7.696)
Profit for the year	0	0	0	0	1.254.587	1.254.587
Equity 31.12.2010	846.662	268.225	2.000.840	3.330	1.710.786	4.829.843

17. Loans and borrowings

Non-current liabilties:

Loans in foreign currencies:	
Loans in EUR	1.710.088
Loans in JPY	208.588
Loans in USD	34.651
	1.953.327
Loans in domestic currency	2.169.881
Total non-current loans and borrowings including current maturities	4.123.209
Current maturities	(410.132)
Total non-current loans and borrowings	3.713.076

Annual maturities of non-current loans are as follows:

Year 2011	410.132
Year 2012	392.777
Year 2013	395.583
Year 2014	398.562
Year 2015	401.723
Subsequent years	2.124.431
Total non-current loans and borrowings including current maturities	4.123.209

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17. Loans and borrowings, contd:

Subordinated loan

Among non-current loans are bonds payable by the amount of ISK 20.0 million by a subordinated title. The bonds have a maturity date in the year 2011 and are only to be paid if the profitability of Reykjaveita is at least 6.5%. The bonds are unindexed and carry no interest.

18. Derivatives

The Company entered into derivative contracts with financial institutions to limit its risk regarding currency and interest rates. On April 23, 2010 the Company entered into an agreement of full settlement of these contracts. The effects of the settlement are recognised among financial income and financial expenses in the income statement.

19. Taxes

As of December 31, 2010 the Company has available as an offset against future taxable income net operating tax loss carry-forwards of ISK 1,484.0 million. Tax loss carry-forward can only be utilized to offset taxable income over the next ten years after the loss incurred. Tax loss carry-forward is valid until 2018.

20. Obligations not included in the Balance Sheet

The Company has guaranteed loans towards Þeistareykir ehf. by the amount of ISK 105.5 million at year end 2010. The selling contract of the Company's share in Þeistareykir ehf. from the year 2009 includes that the Company will continue to guarantee the loans until they have been paid in full, but if the loans fall to the guarantor to pay, Landsvirkjun will overtake that guarantee.

21. Uncertainty

On December 20, 2006 a flood in the river Djúpadalsá, as a result of a natural catastrophe, incurred damage to both power plants at Djúpadalsvirkjun which are in the possession of the Company's subsidiary, Fallorka ehf., and roads and assets of a third party were also damaged. Damage to the power plants of Fallorka is estimated as ISK 128.0 million and the damage to the dam is not included in that figure. Uncertainty prevails over the compensation from the insurance company. Accrued damage expenses have been taken into consideration in the financial statements of Fallorka ehf. and the subsidiary´s power plants are now in full operation. The Company does not assume any further expenses due to this damage.

On January 16, 2010 the Decision Committee of Catastrophe Insurance decided against the decision of the Board of Directors of Iceland Catastrophe Insurance, to decline to pay compensation due to the natural catastrophe in Djúpidalur in December 2006. Obligation of the Iceland Catastrophe Insurance to pay the damage claim are on the other hand not provided for in the decision. Main reason for the committee's verdict was that the flood had been caused by natural catastrophe, cf. report from the Icelandic Institute of Natural History, the assets had been insured against natural catastrophe and that Fallorka ehf. had neither on purpose or by gross negligence abolished its rights to compensation.

By a letter dated 4 February 2010 the Board of Directors of the Iceland Catastrophe Insurance announced that it had decided that compensation will not be paid for the time being. The Board of Directors of Fallorka ehf. has requested that the Decision Committee of Catastrophe Insurance discuss this issue again and the result is expected soon.

22. Related parties

Definition of related parties

Shareholders, subsidiary, associates, members of the Board, management and companies controlled by these parites are classified as related parties of the Company.

Transactions with management and key personnel

In addition to contractual salaries, the CEO benefits from a car fringe and from a contribution to a Pension Fund. Reference is made to note no. 4 regarding salaries and fringe to the Board of Directors and the CEO.

Other related party transactions

	2010
Goods and services sold to related parties:	
Akureyri Municipality and the Town's institutions	256.048
Other shareholders	8.965
Associates	10.624
	275.637

Goods and services bought from related parties:	
Akureyri Municipality and the Town's institutions	52.911
Other shareholders	1.661
Associates	2.942
	57.515

Balance

Payables and receivables from related parties at year end specify as follows at year end:

	31.12.2010	
	Receivable	**Payable**
Akureyri Municipality and the Town's institutions	55.453	0
Other shareholders	2.531	(2.114)
Associates	1.028	0
	59.012	(2.114)

In addition to the above mentioned figures the Company received interest income in the amount of ISK 1.7 million from Akureyri Municipality during the year 2010.

22. Ratios

Financial ratios:	2010	2009
EBITDA	1.120.470	1.094.286
Working capital ratio	1,11	0,91
Equity ratio	52,4%	37,1%
Intrinsic value of share capital	5,70	4,26

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