HS Orka hf.

Financial Statements
for the year 2018
ISK 000's

HS Orka hf.
Svartsengi
240 Grindavík
kt. 680475-0169

Contents

Endorsement by the Board of Directors and the CEO

The financial statements of HS Orka hf. (the "Company" or "HS Orka") for the year 2018 are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with additional Icelandic disclosure requirements.

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 8,896 million for the year 2018 (2017: ISK 7,531 million) and the loss for the year amounted to ISK 72 million (2017: Profit ISK 4,588 million). Total comprehensive income amounted to ISK 5,679 million (2017: ISK 4,618 million).

According to the statements of financial position, the Company's assets amounted to ISK 57,738 million at the end of 2018 (at year end 2017: ISK 48,252 million). Equity amounted to ISK 40,627 million at the end of 2018 (at year end 2017: ISK 35,388 million) or 70.4% of total capital (at year end 2017:73.3%).

The power plants at Svartsengi and Reykjanes were revalued to fair value on 31 December 2018 by calculating the fair value of estimated cash flows from the operating assets. The revaluation amounted to ISK 2,000 million for Svartsengi and ISK 5,000 million for Reykjanes and is recognized in other comprehensive income. At 31 December 2018 management reviewed whether there was an indication of impairment of the Company´s other operating assets and concluded that there was no indication of impairment.

The Company's shareholders numbered three at the end of 2018. Magma Energy Sweden A.B. held 53.9% of the shares in HS Orka hf., Jarðvarmi slhf. held 33.4% and Fagfjárfestasjóðurinn Ork held 12.7%.

The Company's Board of Directors proposes that dividends of ISK 610 million (ISK 0.08 pr. share) will be paid to shareholders in the year 2019, and refers to the financial statements for further settlement of loss and changes in equity during the year.

The Board had 20 meetings and the Audit Committee had 6 meetings in 2018. The Board of Directors consist of 5 members, three male and two female. The company´s management consists of 11 members, 7 male and 4 female and of total employees 86% are male and 14% female.

Statement of Corporate Governance:
The Board of Directors of HS Orka hf. emphasizes maintaining good management practices. The Board of Directors is of the opinion that practicing good corporate governance is vital for the existence of the Company and in best interest of the shareholders, employees and other stakeholders and will in the long run produce satisfactory profits on shareholders investments.

The framework on corporate governance is made in accordance with Article 66-c of the Icelandic Financial Statements Act No. 3/2006, as amended. The Board of Directors has prepared a corporate government statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the corporate governance statement in the appendix to the financial statements which were approved by the Board of Directors and is also published in the Company's Annual Report. This statement covers the financial year ended on 31 December 2018.

It is the opinion of the Board of Directors that HS Orka hf. complies with the Icelandic guidelines for Corporate Governance.

Non financial reporting:
In June 2016 the Parliament of Iceland approved extensive changes to the Financial Statements Act. Among those changes is requirements for the content of this endorsement and for further information see the chapter Non financial reporting at the end of the Financial Statements.

Statement of Board of Directors and CEO
To the best knowledge of the Board of Directors and the CEO, the Company's financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements and it is the opinion of the Board of Directors and the CEO that the financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 31 December 2018, its financial performance, and the changes in cash flows during the year 2018.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and endorsement by the Board of Directors and the CEO contain a fair overview of the Company's financial development and performance, its position and describe the main risk factors and uncertainties faced by the Company.

The Board of Directors and the CEO of HS Orka hf. have today discussed the Company's financial statements for the year 2018 and confirmed by means of their signatures. The Board of Directors and the CEO will submit the financial statements for approval at the annual general meeting to be held at 28 March 2019.

Grindavík, 11 February 2019

The Board of Directors

Ross Beaty
Chairman of the board

Gylfi Árnason

Michel Letellier

Anna Skúladóttir

Nathalie Théberge

Chief Executive Officer

Ásgeir Margeirsson

Independent Auditor´s Report

To the Board of Directors and Shareholders of HS Orka hf.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HS Orka hf. (the Company), which comprise the statement of financial position as at 31 December 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirement in accordance with Icelandic financial statement act no. 3/2006.

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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and CEO for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the EU and additional Icelandic disclosure requirement in accordance with Icelandic financial statement act no. 3/2006, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors and CEO are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor´s Report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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

We communicate with The Board of Directors and 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 identify during our audit.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 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 and CEO accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the financial statements.

Reykjavik, 11 February 2019.

KPMG ehf.

Statements of Comprehensive Income
for the year ended 31 December 2018

	Notes	2018	2017
Operating revenue	5,6	8.896.475	7.531.401
Production cost and cost of sales	7	(6.705.190)	(6.586.636)
Gross profit		2.191.285	944.765
Other operating expenses	8	(621.198)	(576.151)
Research and development	9, 36	(152.570)	123.278
Profit from operations		1.417.516	491.893
Finance income		88.713	101.227
Finance costs		(245.583)	(255.297)
Net exchange rate differences		(399.949)	13.577
Changes in fair value of embedded derivatives	20	(2.184.824)	3.856.897
Net finance (expense) income	13	(2.741.644)	3.716.405
Share of profit of associates	18	986.989	1.221.191
(Loss), profit before income tax		(337.139)	5.429.488
Income tax (expense) recovery	14	264.826	(841.659)
Net (loss), profit for the period		(72.313)	4.587.829
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of operating assets	15	7.000.000	0
Remeasurement of defined benefit liability	28	(43.293)	(50.784)
Tax on items not reclassified to profit or loss	14	(1.391.341)	10.157
		5.565.366	(40.627)
Items that may be reclassified subsequently to profit or loss			
Currency translation difference on associates	18	186.005	70.387
Other comprehensive income		5.751.371	29.760
Total comprehensive income		5.679.058	4.617.588
(Loss) Profit attributable to:			
Owners of the Parent Company		(72.313)	4.587.829
Comprehensive income attributable to:			
Owners of the Parent Company		5.679.058	4.617.588
Earnings per share:			
Basic and diluted earnings per share	26	(0,01)	0,59

Notes on pages 12-44 are an integral part of these financial statements

All amounts in thousands of ISK

Statements of Financial Position as at 31 December 2018

Assets	Notes	31.12.2018	31.12.2017
Fixed assets			
Operating assets	15	42.306.092	35.735.798
Operating assets under construction	16	5.346.323	3.880.878
Intangible assets	17	1.404.288	1.212.783
Investments in associates and subsidiaries	18	3.951.555	3.275.236
Investments in other companies	19	27.075	27.075
Embedded derivatives in power sales contracts	20	0	523.877
Prepaid lease and royalty fee	21	543.513	526.563
Long-term receivables	22	833.284	742.561
		54.412.131	45.924.770
Current assets			
Embedded derivatives in power sales contracts	20	0	118.926
Inventories		483.422	443.729
Trade and other receivables	23	1.409.666	1.253.108
Cash restricted to EU grant partners	31	347.499	326.156
Cash and cash equivalents	24	1.085.286	185.402
		3.325.873	2.327.320
Total assets		57.738.004	48.252.091
Equity and liabilities			
Equity	25		
Share capital		7.841.124	7.841.124
Share premium and statutory reserve		7.038.855	7.038.855
Translation reserve		144.453	(41.552)
Revaluation reserve		12.834.337	7.677.549
Other reserves		2.105.909	1.726.695
Retained earnings		10.662.138	11.145.086
Total equity		40.626.816	35.387.756
Liabilities			
Loans and borrowings	27	7.729.154	6.129.956
Pension obligations	28	2.301.331	2.249.369
Deferred tax liability	29	3.196.201	2.311.540
Embedded derivatives in power sales contracts	20	1.213.168	0
		14.439.854	10.690.866
Current liabilities			
Loans and borrowings	27	289.638	281.026
EU grant payable to participants	31	347.499	326.156
Tax payable	29	241.855	90.622
Trade and other payables	30	1.463.489	1.475.665
Embedded derivatives in power sales contracts	20	328.853	0
		2.671.333	2.173.470
Total liabilities		17.111.188	12.864.336
Total liabilities and equity		57.738.004	48.252.091

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All amounts in thousands of ISK

Statements of Changes in Equity for the year ended 31 December 2018

	Share Capital	Share Premium	Translation Reserve	Revaluation Reserve	Other Reserves	Retained Earnings	**Total Equity**
Equity at 1 January 2017	7.841.124	7.038.855	(111.939)	8.120.761	945.125	7.356.242	**31.190.168**
Profit for the period					1.221.191	3.366.637	**4.587.828**
Other comprehensive income			70.387	0		(40.627)	**29.760**
Total comprehensive income			70.387	0	1.221.191	3.326.010	**4.617.589**
Revaluation reserve transferred to Retained earnings				(443.212)		443.212	
Dividends received from associate					(439.622)	439.622	
Dividends declared ISK 0.06 per share						(420.000)	**(420.000)**
Equity at 31 December 2017	7.841.124	7.038.855	(41.552)	7.677.549	1.726.695	11.145.086	**35.387.756**
Equity at 1 January 2018	7.841.124	7.038.855	(41.552)	7.677.549	1.726.695	11.145.086	**35.387.756**
Loss for the period					986.989	(1.059.302)	**(72.313)**
Other comprehensive income, (loss)			186.005	5.600.000		(34.634)	**5.751.371**
Total comprehensive income			186.005	5.600.000	986.989	(1.093.936)	**5.679.058**
Revaluation reserve transferred to Retained earnings				(443.212)		443.212	
Dividends received from associate					(607.775)	607.775	
Dividends declared ISK 0.06 per share						(440.000)	**(440.000)**
Equity at 31 December 2018	7.841.124	7.038.855	144.453	12.834.337	2.105.909	10.662.138	**40.626.816**

Notes on pages 11-44 are an integral part of these financial statements

All amounts in thousands of ISK

Statements of Cash Flows
for the year ended 31 December 2018

Cash flows from operating activities	Notes	2018	2017
(Loss for the period), profit for the period		(72.313)	4.587.829
Gain on sale of operating assets		(1.985)	(1.214)
Increase in pension obligations	28	8.669	20.285
Depreciation and amortization	15	1.797.246	1.736.340
Net finance expense (income)	13	2.741.644	(3.716.405)
Share of profit of associates	18	(986.989)	(1.221.191)
Income tax expense	14	(264.826)	841.659
Cash generated by operations		3.221.446	2.247.303
Inventories (increase), decrease		(39.693)	43.716
Receivables (increase), decrease		(193.060)	6.360
Current liabilities, decrease		(6.331)	(62.672)
Net cash from operations before interest and taxes		2.982.363	2.234.706
Interest received		16.616	7.855
Interest paid		(243.927)	(222.849)
Income taxes paid		(90.622)	0
Net cash provided by operating activities		2.664.430	2.019.712
Cash flows from investing activities			
Acquisition of operating assets		(1.370.183)	(1.254.517)
Acquisition of operating assets under construction		(1.464.444)	(395.221)
Proceeds from sale of operating assets		13.615	1.855
Acquisition of intangible assets		(200.491)	(118.885)
Acquisition of shares in associates and subsidiaries		(110.900)	0
Dividends received from associates		607.775	439.623
Proceeds from repayment of bonds		0	90.027
		(2.524.630)	(1.237.119)
Cash flows from financing activities			
Paid dividends		(440.000)	(780.000)
Repayment of short-term borrowings		0	(89.873)
New long-term borrowing		1.390.427	6.341.403
Repayment of borrowings		(280.737)	(6.535.279)
Restricted cash moved to disposable funds		0	508.500
		669.691	(555.249)
Increase in cash and cash equivalents		808.490	227.344
Cash and cash equivalents at 1 January		185.402	21.017
Effect of exchange rate fluctuations on cash held		91.393	(62.959)
Cash and cash equivalents at 31 December		1.085.286	185.402

Notes on pages 12-44 are an integral part of these financial statements

All amounts in thousands of ISK

Notes to the Financial Statements

1. Reporting entity

HS Orka hf. is a limited liability company domiciled in Iceland. The Company's registered office address is Orkubraut 3, Grindavík, Iceland. The Company generates and sells electricity as well as hot water for heating. The Company is a subsidiary of Magma Energy Sweden AB. The financial statements of the Company are part of the consolidated financial statements of the ultimate parent company, at 31 December 2018, Innergex renewable energy Inc., headquartered in Canada.

The financial statements of the Company include share of associates and subsidiaries.

2. Statement of compliance

The Company´s financial statements are prepared according to IFRS as adopted by the EU and additional Icelandic disclosure requirement in accordance with Icelandic financial statement act no. 3/2006.

These financial statements were authorized for issue by the Board of Directors on 11 February 2019.

3. Basis of preparation

a. Basis of measurement

The financial statements have been prepared on the historical cost, except for the following material items in the statement of financial position:
- the majority of operating assets are recognized at revalued cost, which is their fair value at the revaluation date
- embedded derivatives in power sales contracts are measured at fair value
- defined benefit pension obligations measured at the present value of the pension obligation
- financial instruments at fair value through profit or loss are measured at fair value (shares)

b. Functional and presentation currency

These financial statements are presented in Icelandic kronas (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand except when otherwise indicated.

c. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual future outcomes may differ from present estimates and assumptions potentially having a material future effect on the Company´s historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

Actual future outcomes could differ from present estimates and assumptions, potentially having a material future effect on the Company´s historical experience and other facts and circumstances.

Information about critical judgments in applying accounting policies and assumptions and estimates that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:
- Note 14 - Income tax
- Note 15 - Despreciation of operating assets and Revaluation of operating assets
- Notes 16 and 17 - Impairment of assets under construction and intangibles
- Note 28 - Pension obligations
- Note 29 - Deferred taxes
- Note 32 - Fair value of embedded derivatives in power sales agreements

3. Basis of preparation, continued;

d. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes staff members from the finance department, led by the CFO, that have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The finance department regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the finance department staff assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Company's Audit Committee.

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

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

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

Further information about the assumptions made in measuring fair values and accoutning policies is included in the following notes:
- Note 15 - Operating Assets
- Note 20 - Embedded derivatives in power sales contract
- Note 31 - Financial instruments

4. Significant accounting policies

The Company has consistently applied the accounting policies set out in this note to all periods presented in these financial statements.

Changes in accounting policies

The Company has adopted all new standards and amendments to standards with a date of initial application prior to or on 1 January 2018 that have been approved by the EU. No new standards apdopted during the year effected these financial statements.

IFRS 15 revenues from contracts with customers

In May 2014, IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"). This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue-Barter Transactions Involving Advertising Services.

IFRS 15 applies to all contracts with customers except those that are within the scope of other IFRSs. IFRS 15 is effective for annual periods commencing on or after 1 January 2018. The application of this standard had no material impact on the financial statements.

4. Significant accounting policies, continued;

IFRS 9 Financial instruments

The new financial instruments standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and replaces IAS 39.

The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income, and fair value through profit and loss. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The new standard also requires a single impairment method to be used, adds guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard. The effective date is January 1 2018. The application of this standard had no material impact on the financial statements.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are accounted for using the equity method and are recognized initially at cost. The cost of investment includes transaction costs.

4. Significant accounting policies, continued;

(ii) Associates

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

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Company's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

b. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

c. Financial instruments

(i) Non-derivative financial assets

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and financial assets measured at amortised cost.

Financial assets at fair value through profit or loss comprise investment in other companies.

4. Significant accounting policies, continued;

(ii) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets measured at amortised cost comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(iii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities other than derivatives comprise loans and borrowings and trade and other payables.

(iv) Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives (including embedded derivatives) are measured at fair value in the statement of financial position and changes in fair value are recognized in profit or loss as part of financial income or cost.

Separable embedded derivatives

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

HS Orka has two long-term power sales agreements which contain embedded derivatives. Income from these agreements is directly correlated to changes in the future price of aluminum. Changes in the fair value of derivatives not designated as a hedge and separable embedded derivatives are recognized immediately in profit or loss.

(v) Share capital

Ordinary shares

Incremental costs directly attributable to issuance of ordinary shares are recognized as a deduction from equity, net of any tax effects.

4. Significant accounting policies, continued;

d. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost or revalued cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The Company's power plants and real estate holdings are measured at revalued cost in the statement of financial position. The revalued cost is the fair value at the revaluation date less accumulated depreciation. Revaluation is carried out on a regular basis. Any increase in the carrying amount of operating assets as a result of a revaluation is recognized in equity under the heading of revaluation reserve net of income tax. Depreciation of the revalued cost is recognized in profit or loss and an adjustment reflecting this amount is transferred quarterly from the revaluation reserve to retained earnings. Revaluations are expected to occur every three to four years or when market factors indicate a significant change in value. The latest valuation of Svartsengi Power plant and the Reykjanes Power plant took place on 31 December 2018. Other assets were revalued in 2008.

When parts of an item of operating assets has different useful lives, they are accounted for as separate items of operating assets.

Gains and losses on disposal of an item of operating assets are determined by comparing the proceeds from disposal with the carrying amount of operating assets, and are recognized on a net basis within other income or other expenses in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is based on the cost or revalued cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of operating assets. Land is not depreciated.

Operating assets are depreciated from the date they are installed and are ready for use, or in respect of internally constructed assets, from the date the asset is completed and ready for use.

The estimated useful lives for the current and comparative year are as follows:

Power plants	40 years
Boreholes	20 years
Electrical systems	50 years
Hot water and cold water distribution systems	50 years
Real estate	50 years
Other operating assets	5-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4. Significant accounting policies, continued;

e. Intangible assets

(i) Research and development

Expenditure on research or activities, undertaken with the prospect of surveying geothermal areas, where geothermal resource is uncertain, and surveying other areas suitable for power production by other sources, and in order to gain new scientific or technical knowledge, is recognized in profit or loss when incurred.

Development activities involve surveys of geothermal areas and other areas suitable for power production by other sources where there is probability of future development and power production. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

When a decision on producing power or harnessing of geothermal areas has been made, and all required licenses have been obtained, the preparation cost due to harnessing or production of power is transferred to operating assets under

Capitalized development expenditure is measured at cost less accumulated impairment losses. Development assets are tested annually for impairment. Due to uncertainty surrounding the companies' deep drilling project and the research nature of the project the associated cost have not been capitalized, but expensed. (note 36)

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, including software, which have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

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

(iv) Amortization

Amortization is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of depreciable intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

Software	5-10 years

Amortization methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

f. Leased assets

Leases are operating leases and the leased assets are not recognized on the Company's statement of financial position.

g. Inventories

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

4. Significant accounting policies, continued;

h. Impairment

(i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Company considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

Impairment is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve up to the value of the reserve, after which they are recognized in profit or loss. Impairment losses of other assets are recognized in profit or loss.

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

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

i. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans or pension fund commitment is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The calculation is performed annually by qualified actuaries using a method based on earned benefits. Remeasurements of the net defined liabilities related to actuarial gains and losses are recognised in OCI, other expenses related to the defined benefit plans are recognized as incurred in profit or loss.

j. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

4. Significant accounting policies, continued;

k. Revenue

Revenue from the sale of electricity and hot water along with power transmission are recognized in profit or loss based on recorded measurement of delivery during the period. Between measurements, usage is estimated based on prior period usage.

Other revenues are recognized when the goods or services are delivered.

Revenues are usually invoiced monthly with 30 day payment terms.

l. Lease payments

Payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

m. Net finance income (expense)

Finance income is comprised of interest income on funds invested, dividend income from investments in other companies, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains and gains on derivatives that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized on the date that the Company's right to receive payment is established.

Finance costs are comprised of interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, losses on derivatives that are recognized in profit or loss, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

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

n. Income tax

Income tax recovery (expense) is comprised of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o. Government grants (including European Union (EU)

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

4. Significant accounting policies, continued;

p. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS equals to basic EPS as the Company has not issued convertible notes nor granted share options.

q. Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results, for which discrete financial information is available, are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

r. New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. Those new accounting standards which may be relevant to the Company's financial statements are set out below.

IFRS 16, Leases

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

– the Company has not finalised the testing and assessment of controls over its new IT systems; and

– the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of ISK 17 million as at 1 January 2019. The Company does not expect the adoption of IFRS 16 to impact its ability to comply with the revised maximum leverage threshold loan covenant described in Note 27.

Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Notes to the Financial Statements

5. Segment reporting

The company has three operating segments that are described below:

Power production

Includes production and sale of electricity, heating water and fresh water from subterranean steam.

Electricity sale

Includes purchases and sale of electricity to users other than mass users and power companies.

Other

Includes sale of service, rental of facilities and equipment, and other sales.

2018	Power production	Electricity sale	Other	Total
External revenue	3.034.398	5.752.024	110.053	8.896.475
Inter-segment revenue	2.383.739	0	0	2.383.739
Total segment revenue	5.418.137	5.752.024	110.053	11.280.214
Segment operating results	1.321.279	854.604	15.402	2.191.285

Unallocated items

Other operating expenses	(621.198)
Research and development	(152.570)
Net finance expense	(2.741.644)
Share of profit of associates	986.989
Income tax recovery	264.826
Net loss for the period	(72.313)

	Power production	Electricity sale	Other	Total
Segment assets	47.564.592	5.634	0	47.570.227
Unallocated assets				10.167.777
Total assets				57.738.004
Unallocated liabilities				17.111.188
Capital expenditures	2.991.437	0	0	2.991.437
Unallocated capital expenditures				43.681
Depreciation and amortization	1.734.940	1.401	0	1.736.340
Unallocated depreciation and amortization				43.888

All amounts in thousands of ISK

5. Segment reporting (continued)

2017	Power production	Electricity sale	Other	Total
External revenue	2.771.554	4.610.091	149.756	7.531.401
Inter-segment revenue	1.400.200	0	0	1.400.200
Total segment revenue	4.171.754	4.610.091	149.756	8.931.601
Segment operating results	140.215	766.832	37.718	944.765
Unallocated items				
Other operating expenses				(576.151)
Research and development				123.278
Net finance expense				3.716.404
Share of profit of associates				1.221.191
Income tax expense				(841.659)
Net profit for the period				4.587.829
Segment assets	39.440.032	700	0	39.334.306
Unallocated assets				8.917.785
Total assets				48.252.091
Unallocated liabilities				12.864.336
Capital expenditures	1.566.668	7.782	0	1.574.450
Unallocated capital expenditures				194.173
Depreciation and amortization	1.697.093	747	0	1.697.840
Unallocated depreciation and amortization				38.500

6. Major customers (customers with more than 10% of total revenue)

Revenues from one customer of the Company's power production segment amounted to ISK 1,742 million (2017: ISK 1,568 million).

Revenues from HS Veitur hf. were as follows:

	Power production	Electricity sale	Other	Total
Revenues 2018	841.988	416.750	1.229	1.259.968
Revenues 2017	793.493	334.851	5.587	1.133.931

All amounts in thousands of ISK

Notes to the Financial Statements

7. Production cost and cost of sales

	2018	2017
Production cost	4.096.859	4.031.540
Cost of sales	2.513.682	2.443.058
Cost of service	94.651	112.038
	6.705.190	6.586.636

Production costs and cost of sales are specified as follows based on nature of cost:

	2018	2017
Salaries and related expenses	644.205	588.327
Depreciation	1.736.340	1.697.840
Power purchases	2.403.446	2.352.381
Transmission	456.096	438.310
Maintenance and other production cost	1.465.102	1.509.778
	6.705.190	6.586.636

8. Other operating expenses

	2018	2017
Salaries and related expenses	325.284	290.725
Increase in pension fund obligation	19.410	20.233
Administrative expenses	234.738	228.288
Depreciation and amortization	41.766	36.905
	621.198	576.151

9. Research and development

	2018	2017
Salaries and related expenses	72.751	115.709
R&D projects	129.473	370.700
EU grants	(51.775)	(519.169)
Other grants	0	(92.113)
Depreciation and amortization	2.121	1.595
	152.570	(123.278)

Research grants are discussed further in note 36.

All amounts in thousands of ISK

Notes to the Financial Statements

10. Salaries and related expenses

	2018	2017
Salaries	878.636	822.684
Contribution to defined contribution fund	116.737	104.293
Increase in pension obligation	62.703	71.017
Other salary related expenses	96.624	89.887
	1.154.700	1.087.880
Average number of employees equivalent	63	59

Salaries and salary related expenses including changes in pension obligations are allocated as follows:

	2018	2017
Capitalized on projects	49.758	22.103
Production cost and cost of sale	644.205	588.327
Research and development	72.751	115.709
Other operating expenses	344.694	310.958
Recognized in other comprehensive income	43.293	50.784
	1.154.700	1.087.881

Salaries paid to the Board of Directors and Management amounted to ISK 58 million in 2018 (2017: ISK 56 million).

11. Auditor´s fee

Fee´s paid to the companies auditors in the year 2018 were ISK 17.2 million (2017: 17.5 million) thereof ISK 12.8 million (2017: 10.0 million) reflects fees for the audit of the Annual Financial Statement and review of quarterly financials statements.. Other services bought from KPMG amounted to ISK 4.4 million in 2018 (2017: ISK 5.5 million).

12. Depreciation, amortization and impairment

Depreciation, amortization and impairment is specified as follows:	2018	2017
Depreciation of operating assets, see note 15	1.788.260	1.727.628
Amotization of intangible assets, see note 17	8.987	8.712
	1.797.246	1.736.340
Depreciation and amortization is allocated as follows:		
Production cost and cost of sales	1.736.340	1.697.840
Other operating expenses	41.766	36.905
Reasearch and developement	2.121	1.595
	1.780.228	1.736.340

All amounts in thousands of ISK

13. Finance income and expense

Finance income and expenses are specified as follows:

Finance income:

	2018	2017
Interest income on cash, loans and receivables	88.713	70.469
Fair value changes through profit or loss	0	30.758
	88.713	101.227
Finance cost		
Interest expense	(245.583)	(195.406)
Prepayment fee of retirement of long term debt	0	(58.774)
Indexation	0	(1.117)
	(245.583)	(255.297)
Net exchange rate differences	(399.949)	13.577
Changes in fair value of embedded derivatives	(2.184.824)	3.856.897
	(2.741.644)	3.716.405
Capitalized interest amounted to (3.6%)	27.656	0

14. Income tax

Effective tax rate is specified as follows:

	2018	2017
Origination and reversal of temporary difference	506.681	(751.037)
Current tax	(241.855)	(90.622)
	264.826	(841.659)

Effective tax rate is specified as follows:	2018	2017
(Loss) profit for the year	(72.313)	4.587.829
Income tax (recovery) expense	(264.826)	841.659
Profit (loss) before tax	(337.139)	5.429.488

	2018		2017	
Income tax according to current tax rate	67.428	20,0%	(1.085.898)	20,0%
Effect of associates	197.398	58,6%	244.238	-4,5%
Effective income tax rate	264.826	78,6%	(841.659)	15,5%

Income tax recognized in OCI is specified as follows:	2018	2017
Income tax on revaluation on operating assets	1.400.000	0
Tax on other item that will not be reclassified to proft or loss	(8.659)	10.157
Total income tax in OCI	1.391.341	10.157

All amounts in thousands of ISK

15. Operating assets

Revaluation of operating assets

The Company's power plants were revalued to fair value on 31 December 2018. In order to calculate the present value of the operating assets, an interest rate which reflects the WACC of the Company is used. The discount rate was 10.47% for Svartsengi and 9.03% for Reykjanes. Unlevered beta used for Svartsengi was 0.59 and 0.64 for Reykjanes. Both estimates are built on an assumption about future growth of 2% per annum. The Cash flow was estimated using estimates for the next nineteen years and expected future value calculated for the years thereafter. The calculations were performed by the HS Orka finance department.

	Power plants	Other operating assets	Total
Historical cost			
Balance at 1 January 2017	38.505.244	1.866.188	40.371.433
Additions during the year	1.097.455	157.062	1.254.517
Eliminated on disposal	0	(1.855)	(1.855)
Balance at 31 December 2017	39.602.699	2.021.396	41.624.094
Additions during the year	1.284.666	85.517	1.370.183
Revaluation at 31 December 2018	7.000.000	0	7.000.000
Depreciation adjustments	(7.394.246)	0	(7.394.246)
Eliminated on disposal	0	(51.635)	(51.635)
Balance at 31 December 2018	40.493.119	2.055.278	42.548.397
Depreciation			
Balance at 1 January 2017	4.026.283	135.599	4.161.882
Depreciation for the year	1.660.730	66.898	1.727.628
Eliminated on disposal	0	(1.214)	(1.214)
Balance at 31 December 2017	5.687.013	201.284	5.888.296
Depreciation for the year	1.707.233	81.027	1.788.260
Eliminated on disposal	0	(40.005)	(40.005)
Depreciation adjustments	(7.394.246)	0	(7.394.246)
Balance at 31 December 2018	0	242.305	242.305
Net book value			
Book value at 1 January 2017	34.478.961	1.730.589	36.209.551
Book value at 31 December 2017	33.915.687	1.820.112	35.735.798
Book value at 31 December 2018	40.493.119	1.812.974	42.306.092
Net book value without revaluation			
1 January 2017	24.401.557	1.611.812	26.013.369
31 December 2017	24.384.190	1.754.672	26.138.862
31 December 2018	24.513.482	1.749.689	26.263.171
Depreciation rates	2-5%	5-20%	

Other operating assets include capitalized land and buildings with the carrying amount of ISK 1,284 million (2017: ISK 1,290 million).

Rateable value and insurance value

Rateable value of the Company's buildings amounted to ISK 3,600 million at year-end 2018 (2017: ISK 2,764 million) and land measured at rateable value amounted to ISK 1,714 million (2017: ISK 1,588 million). Insurance value of the Company's assets amounted to ISK 44,851 million (2017: ISK 44,328 million).

Pledge of assets

The Company's power plants at Reykjanes and Svartsengi are pledged to secure bank loans in the amount of ISK 7,928 million (2017: ISK 6,410 million).

All amounts in thousands of ISK

16. Operating assets under construction

Operating assets under construction are specified as follows:

Net book value at 1 January 2017	3.399.732
Additions during the year	395.223
Brúarvirkjun preparations transferred from intangible assets	85.923
Net book value at 31 December 2017	3.880.878
Additions during the year	1.465.444
Net book value at 31 December 2018	5.346.322

Operating assets under construction represents capitalized cost related to an expansion to the power plant at Reykjanes and Brúarvirkjun hydro project.

Indication of impairment

The operating assets under construction relating to the expansion at Reykjanes was tested for impairment at 31 December 2018 by estimating their recoverable amount. No impairment was identified. The impairment test was based on several assumptions including the future timing of the project (Reykjanes expansion), assumptions of price and market conditions, what WACC is relevant and the form of financing for the project, which could affect the recoverability of the assets.

17. Intangible assets

	Software	Development costs	Total
Historical cost			
Balance at 1 January 2017	365.936	1.250.918	1.616.854
Transferred to assets under construction	0	(85.923)	(85.923)
Additions during the year	7.299	111.587	118.886
Balance at 31 December 2017	373.235	1.276.582	1.649.817
Additions during the year	4.965	195.526	200.491
Balance at 31 December 2018	378.199	1.472.108	1.850.309
Amortization			
Balance at 1 January 2017	282.081	146.241	428.322
Amortization for the year	8.712	0	8.712
Balance at 31 December 2017	290.793	146.241	437.034
Amortization for the year	8.987	0	8.987
Balance at 31 December 2018	299.780	146.241	446.021
Net book value			
Net book value at 31 December 2017	82.442	1.130.341	1.212.783
Net book value at 31 December 2018	78.420	1.325.867	1.404.288
Amortization rates	10-25%		

All amounts in thousands of ISK

Notes to the Financial Statements

17. Intangible assets, continued;

Impairment test

Development cost includes the costs for experimental drilling at Trölladyngja, Krýsuvík, Eldvörp and preparation of power plant at Hvalá. Relevant costs are capitalized to the extent that it is probable that future benefits are generated in order to recover the investment. HS Orka hf. holds research permits in these areas and according to management results from analysis to date are positive. If it becomes evident that the development cost will not be utilized by the Company to generate revenue it must be expensed as an impairment cost. Management has confirmed that the above projects are feasible and it is likely that they will generate revenues in the future. Review for indication of impairment was performed at the end of 2018 and results are in excess of capitalized cost.

Trölladyngja

In 2012 The Icelandic parliament accepted “Rammaáætlun II” a national Energy development plan, which categorized existing hydro and geothermal power sites into three groups: protected sites, pending sites and power developing sites. The Trölladyngja area is categorized as a pending site meaning more information, research and data is required. The carrying amount of Trölladyngja was at year end 2018 ISK 683 million (2017 year end ISK 683 million).

18. Investments in associates and subidiaries

Investments in associates and subsidraries are as follo

Shares in associates and subsidiaries	Share	Carrying amount 31.12.2018	Share	Carrying amount 31.12.2017
Bláa Lónið hf. (the Blue Lagoon), Iceland	30,00%	3.272.476	30,00%	2.705.231
DMM lausnir ehf., Iceland	27,20%	18.359	27,20%	20.383
Suðurorka ehf., Iceland	50,00%	239.638	50,00%	239.638
Heimsþing 2020 ehf. Iceland	33,00%	200	0,00%	0
HS Orkurannsóknir ehf., Iceland	100,00%	500	100,00%	500
Vesturverk	70,59%	420.384	70,59%	309.482
		3.951.555		3.275.236

	2018	2017
Balance at beginning of year	3.275.237	2.340.104
Additions during the year	111.100	83.176
Dividends	(607.775)	(439.623)
Translation differences	186.005	70.387
Share of profits	986.989	1.221.191
Balance at year end	3.951.556	3.275.236

Results from HS Orkurannsóknir ehf. are not included in the share of profit of associates as the Company had no operations during the year.

All amounts in thousands of ISK

19. Investments in other companies

	Share	Carrying amount 31.12.2018	Share	Carrying amount 31.12.2017
Keilir ehf., Iceland	10,20%	17.500	10,20%	17.500
Íslensk nýorka ehf., Iceland	8,10%	9.575	8,10%	9.575
		27.075		27.075

20. Embedded derivatives in power sales contracts

In 2004 The Company signed power sales agreements with Norðurál on power supply until the year 2026. In 1999 the Company also signed an agreement with Landsvirkjun for the sale of power until the year 2019. Payments under the agreements are made in USD and are linked to the price of aluminum.

These long-term power sales agreements feature embedded derivatives, the value of which is adjusted upon changes in the future price of aluminum.

In evaluating the value of embedded derivatives, generally accepted valuation methods are applied, as the market value is not available. The fair value of the power purchase agreements is calculated on the basis of the forward price of aluminum. The expected present value of cash flows based on the reporting date is calculated on the basis of the registered forward price of aluminum on the London Metal Exchange (LME) over the remaining lifetime of the contracts. The expected present value of cash flows, from the agreements, on the agreement date is deducted from this value based on aluminum price assumptions used for the conclusion of the agreements. The difference is a fair value change of the derivative, which is recognized in profit or loss. Embedded derivatives in power purchase agreements are expected to have no value at the beginning of the agreements.

When calculating the present value the discount rate the Company uses is based on the current government yield curve for US sovereign strips plus applicable counterparty risk spread which is calculated based on the credit rating of the counterparty.

Fair value of embedded derivatives is as follows:	2018	2017
Fair value of embedded derivatives at 1 January	642.802	(3.214.095)
Changes in fair value	(2.184.824)	3.856.897
Fair value of embedded derivatives at 31 December	(1.542.021)	642.802
Interest rates used for determining fair value of embedded derivatives:	3.68%-4.51%	2.42%-3.77%

For sensitivity of aluminum prices and interest rates a reference is made to note 31.

All amounts in thousands of ISK

Notes to the Financial Statements

21. Prepaid lease and royalty fee

The Board of the Company exercised the right to convert the long term receivable with Grindavíkurbær, following the sale of land, into prepaid royalty fee and land lease. The prepaid royalty fee and land lease is classified as a long term receivable and will be expensed over the remaining life of the long-term receivable (Orginally 60 years).

22. Long-term receivables

Changes in long-term receivables from HS Veitur hf. are as follows:	31.12.2018	31.12.2017
Long-term receivable from HS veitur due to pension liability 1.1.	742.561	640.561
HS Veitur share of increase in pension obligation	94.953	106.525
Collected from HS Veitur	(4.230)	(4.525)
	833.284	742.561

Long-term receivable from HS Veitur due to pension liability is discussed further in note 37.

23. Trade and other receivables

Trade and other receivables are specified as follows:

	31.12.2018	31.12.2017
Trade receivables	1.299.180	1.189.819
Allowance for bad debt	(26.830)	(26.830)
Total trade receivables	1.272.351	1.162.989
Other receivables	137.316	90.119
	1.409.666	1.253.108

24. Cash and cash equivalents

Cash and cash equivalents are as follows:

	31.12.2018	31.12.2017
Bank balances	1.085.286	185.402

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 31.

All amounts in thousands of ISK

25. Equity

Issued capital

	Issued shares	Ratio	Total
Outstanding shares at year end	7.841.124	100%	7.841.124

Issued share capital, as stipulated in the Company's Articles of Association, amounted to ISK 7,841 million (2017: ISK 7,841 million). One vote is attached to each share of one ISK in the Company in addition to rights to receive dividends. All issued capital has been paid in full.

Share premium and statutory reserve

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Translation reserve

The translation reserve comprises of all foreign currency differences arising from the translation of the Company's proportional share in certain associates.

Other reserve

Other reseserves include recognized share in profit of subsidiaries and associates from 1 January 2016 in excess of dividend received or declared. This reserve can not be declared for dividend payments.

Revaluation reserve

The revaluation reserve relates to the revaluation of operating assets, net of income tax. The revaluation reserve may not be distributed as dividends to the Company's shareholders.

Dividends

Dividend paid during 2018 was ISK 440 million (2017: ISK 420 million dividend paid). The Board of Directors proposes that dividend in the amount of ISK 610 million (0.08 per Share) will be paid to shareholders in 2019.

26. Earning per share

Basic and diluted earnings per share is as follows:	1.1-31.12.2018	1.1-31.12.2017
(Loss) Profit for the year	(72.313)	4.587.829
Weighted average number of ordinary shares	7.841.124	7.841.124
Basic and diluted earnings per share	(0,01)	0,59

All amounts in thousands of ISK

27. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 31.

	2018	2017
Total interest bearing debt and borrowings 1 January	6.410.981	6.749.219
New long-term loans and borrowing	1.390.427	6.341.403
Repayment of long-term loans and borrowings	(280.737)	(6.535.279)
Changes is short term credit facility	0	(89.873)
Changes related to financing cash flows	1.109.690	(283.749)
Currency exchange difference	498.118	(55.604)
Indexation	0	1.117
Other liability related changes	498.118	(54.487)
Total interest bearing debt and borrowings 31 December	8.018.790	6.410.982

	31.12.2018	31.12.2017
Unsecured bank loans	199.869	215.244
Secured bank loans with covenants	7.818.920	6.195.738
Total interest bearing debt and borrowings	8.018.790	6.410.982
Current debt	289.638	281.026
Non current debt	7.729.154	6.129.956

Annual maturities loans and borrowings are as follows:	31.12.2018	31.12.2017
Year 2019/2018	289.638	281.026
Year 2020/2019	290.869	282.258
Year 2021/2020	390.543	283.489
Year 2022/2021	7.010.603	326.521
Year 2023/2022	15.375	5.099.318
Subsequent	21.763	138.370
	8.018.790	6.410.982

All amounts in thousands of ISK

27. Loans and borrowings; continued

Loans in foreign currency:		2018		2017	
	Final due date	Weighted average interest rate	Carrying amount	Weighted average interest rate	Carrying amount
Loans in EUR.................................	2022	3,60%	7.818.920	3,60%	6.195.738
			7.818.920		6.195.738
Loans in ISK:					
Other loans in ISK..........................	2031	5,75%	199.869	6,54%	215.244
			199.869		215.244
Total interest-bearing loans and borrowings..			8.018.790		6.410.982

Financing

In 2017 HS Orka finalized 112 million Euro financing with Arion bank hf ("Arion"). Primary uses of loan proceeds include construction of the 9.9MW Brúarvirkjun hydro project (€32.5 million, the "Construction Facility"), drilling and other field development activities at Reykjanes (€27.5 million, the "Reykjanes Facility"), and the retirement of then outstanding loans (€52.0 million, the "Refinancing Facility"). The facilities agreement with Arion and related documents were signed on 14 September 2017, and initial termination is after 60 months, but all facilities can be extended up to 18 years, subject to meeting certain requirements. The Refinancing Facility has the first repayment after 3 months and is amortized over 18 years, however both the Reykjanes Facility and the Construction Facility are interest only for the first 4 years and then amortized over 14.25 years. The interest rate on the Arion facilities is EURIBOR plus 3.15%. Funding from the Refinancing Facility of EUR 41.2 million was received in September 2017, and the proceeds used to retire existing debt, unused funds (approximately EUR 10.8 million) from the Refinancing Facility expired in October 2017. The loan is recorded at amortized cost net of transaction fees (ISK 5,050 million) and has an effective interest rate of 3.6%. On 31 December 2018 EUR 16 million had been drawn on the Reykjanes facility and EUR 5 million on the Construction Facility.

Covenants

All effective covenants in the Company´s loan agreements were fulfilled in 2018.

All amounts in thousands of ISK

Notes to the Financial Statements

28. Pension obligations

	2018	2017
Pension commitment at 1 January	2.249.369	2.178.300
Contribution during the year	(133.909)	(136.823)
Current service costs	3.915	7.059
Interest expenses	44.610	43.524
Acturial changes HS Orka part charged to other comprehensive income	43.293	50.784
Actuarial changes HS Veitur part charged to profit or loss	94.054	106.525
Pension commitment at 31 December	2.301.331	2.249.369

Pension obligations are as follows:

	2018	2017
The pension fund for State employees	1.108.831	1.105.452
The pension fund for Municipality of Hafnarfjörður employees	686.300	665.540
The pension fund for Municipality of Westman Islands employees	506.200	478.377
	2.301.331	2.249.369

According to actuaries' assessment, the Company's accrued pension obligations amounted at year end 2018 to ISK 2,301 million (2017: ISK 2,249 million), discounted based on an interest rate of 2.0%, taking into account the net assets of part of the pension funds. Presumptions on life expectancy, mortality rate and discount rate are in accordance with provisions of Regulation no. 391/1998 on obligatory pension right insurance and pension funds' operation. The increase in the obligation in 2018 is based on general salary increase taking into account interests. The Company's pension obligation is uncapitalized.

A part of the pension obligation pertains to the Company's employees previously providing services to HS Veitur and HS Veitur participates in the cost of the increase in these employees' pension obligations. HS Veitur's share in the increase in the pension obligations during the year amounted to ISK 94 million (2017: ISK 107 million) and is recognized as a long-term receivable from HS Veitur. (note 22) Actuarial gains and losses relating to HS Veitur´s share in pension liability are recognized as production cost as they are reimbursed by HS Veitur (note 37).

All amounts in thousands of ISK

29. Deferred tax liability

Movement in deferred tax liability is specified as follows:	2018	2017
Balance at beginning of year	2.311.540	1.570.660
Changes recognized in profit or loss	(264.826)	841.659
Changes recognized in other comprehensive income	1.391.341	(10.157)
Tax payable	(241.855)	(90.622)
Balance at year end	3.196.201	2.311.540

The following are the major deferred tax liabilities and assets recognized:

	31.12.2018	31.12.2017
Operating and intangible assets	3.878.001	2.443.808
Derivatives	(308.404)	128.560
Inventories	288	(109)
Trade and other receivables	7.553	9.270
Long-term receivables	166.657	148.512
Pension obligation	(495.475)	(485.030)
Deferred foreign exchange loss	(52.421)	66.529
	3.196.201	2.311.540

30. Trade and other payables

Trade and other payables are as follows:

	31.12.2018	31.12.2017
Trade payables	1.076.985	851.697
Other payables	386.503	623.967
	1.463.489	1.475.663

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

All amounts in thousands of ISK

31. Financial Instruments

Overview

The Company's activities are exposed to financial risk consisting of credit risk, liquidity risk and market risk. Market risk consists of currency risk and interest rate risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and manages financial risk in close co-operation with the Board of Directors. The Company's risk management program focuses on addressing the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company determines whether or not to use derivative financial instruments to hedge certain risk exposures if such derivatives are available. The Company does not currently hedge its risk exposure except for part of its currency risk where revenues in USD are indirectly hedged against loans in other foreign currencies.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of its customer. Approximately 34% (2017: 36%) of the Company's revenue is attributable to sales transactions with the two largest customers. Trade and other receivables are receivables from retail customers, companies, large consumers and power companies.

The Company has set a credit policy where all new significant customers are evaluated for credit risk. Payment history of those customers is checked.

Most of the Company's customers have been customers for many years and loss on receivables has been insignificant in proportion to turnover. Credit risk management includes taking into account the age of the receivables and financial standing of each customer. The list of aged receivables is reviewed on a regular basis by the credit controller. Customers that are behind in payments are not permitted to make further transactions with the Company until they settle their debt or the Company's collection department approves further transactions based on an agreement.

The Company establishes an allowance for impairment that represents an estimate of expected losses of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies with similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar receivables. A receivable is written off when it becomes clear it will not be collected, that usually happens when the counterparty files for bankruptcy.

31. Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31.12.2018	31.12.2017
Long term receivables	833.284	742.561
Trade and other receivables	1.409.666	1.253.108
Cash restricted to EU grant partners	347.499	326.156
Cash and cash equivalents	1.085.286	185.402
	3.675.736	2.507.226

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

	31.12.2018	31.12.2017
Large users and power companies	557.985	385.105
Receivables from HS Veitur	141.532	112.950
Other customers	599.663	691.764
	1.299.180	1.189.820

Impairment

The aging of trade receivables and impairment at the reporting date was:

	2018		2017	
	Gross value	Impairment	Gross value	Impairment
Not past due	1.248.468	991	1.098.856	872
Past due 0 - 30 days	13.246	862	32.612	354
Past due 31 - 60 days	8.438	845	2.185	118
Past due 61 - 90 days	4.370	823	1.369	502
Past due more than 90 days	24.658	23.310	54.797	24.985
	1.299.180	26.830	1.189.819	26.830

Impairment of trade receivables relates fully to other customers. During the year write off of receivables amounted to ISK 8 million (2017: ISK 4 million).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation. At the year end 2018 the Company held cash and cash equivalent (including restricted cash) in the amount of ISK 1,433 million (2017: 512 million).

All amounts in thousands of ISK

31. Financial instruments (continued)

Liquidity risk (continued)

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31. December 2018	Contractual cash flows			
	Less than 1 year	1-5 years	5+ years	Total
Loans and borrowings	518.846	8.192.611	153.991	8.865.448
EU grant	347.499	0	0	347.499
Trade and other payables	1.463.489	0	0	1.463.489
	2.329.834	8.192.611	153.991	10.676.436

Exposure to liquidity risk

31. December 2017	Contractual cash flows			
	Less than 1 year	1-5 years	5+ years	Total
Loans and borrowings	467.809	6.633.871	177.288	7.278.968
EU grant	326.156	0	0	326.156
Trade and other payables	1.475.665	0	0	1.475.665
	2.269.630	6.633.871	177.288	9.080.789

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, aluminum prices and interest rates will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Market risk for the Company consists of currency risk, interest rate risk and aluminum price risk.

Interest rate risk

The majority of the Company's long-term borrowings are subject to variable interest rates. The Company does not currently hedge its interest rate risk.

Interest-bearing financial assets and liabilities are as follows at the year end:

Financial instruments with floating interest rates

Financial assets	1.432.785	511.558
Financial liabilities	(8.018.790)	(6.410.982)
	(6.586.005)	(5.899.423)

Derivatives

Embedded derivatives	(1.542.021)	642.803
	(1.542.021)	642.803

All amounts in thousands of ISK

Notes to the Financial Statements

31. Financial instruments (continued)

Fair value sensitivity analysis for fixed rate instruments

At year end 2018 the Company held no fixed rate financial instruments that were recognised at fair value. As a result changes in interest rates would have had no effect on carrying amount of financial instruments. At year end 2017 the Company held no fixed rate financial instruments that were recognised at fair value. As a result changes in interest rates would have had no effect on carrying amount of financial instruments.

Cash flow sensitivity analysis for floating interest rate instruments

An increase or decrease in interest rates of 100 basis points at the reporting date would have increased (decreased) the return after tax by the following amounts. This analysis is based on the assumption that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2017.

	Profit or loss	
	100 bp increase	100 bp decrease
1.1-31.12.2018		
Financial instruments with floating interest rates	(52.688)	52.688
Cash flow sensitivity analysis, net	(52.688)	52.688
1.1-31.12.2017		
Financial instruments with floating interest rates	(47.195)	47.195
Cash flow sensitivity analysis, net	(47.195)	47.195

Fair value sensitivity analysis for derivatives

An increase or decrease in interest rates of 100 basis points at the reporting date would have increased (decreased) the return after tax by the following amounts. This analysis is based on that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2017.

	Profit or loss	
	100 bp increase	100 bp decrease
1.1-31.12.2018		
Embedded derivatives in power sales contracts	37.104	(39.191)
Fair value sensitivity analysis, net	37.104	(39.191)
1.1-31.12.2017		
Embedded derivatives in power sales contracts	(16.741)	18.142
Fair value sensitivity analysis, net	(16.741)	18.142

All amounts in thousands of ISK

31. Financial instruments (continued)

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than ISK. The currencies in which these transactions primarily are denominated are US Dollar (USD) and Euro (EUR). Exposure to other currencies is insignificant.

The Company does not use forward contracts or other derivatives to hedge against foreign exchange rate risk. The Company does indirectly hedge against fluctuation in the ISK towards other currencies with a portion of its revenue in USD with borrowings in foreign currency.

Exposure to currency risk

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
EUR	8.166.419	6.521.895	377.010	351.799
USD	23.824	22.460	889.279	919.818
	8.190.701	6.545.786	1.266.709	1.271.994

	Average exchange rate		Year end exchange rate	
	2018	2017	2018	2017
The following exchange rates were used during the year:				
EUR	128,09	120,54	133,60	125,40
USD	108,64	106,78	116,61	104,67

Sensitivity analysis

A 10 percent strengthening of the ISK against the following currencies at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2017.

	2018	2017
EUR	623.153	493.608
USD	(69.236)	(71.789)

A 10 percent weakening of the ISK against the above currencies at 31 December would have had the equal but opposite effect on profit or loss after tax to the amounts shown above, on the basis that all other variables remain constant.

All amounts in thousands of ISK

31. Financial instruments (continued)

Aluminium price risk

The Company has entered into power purchase agreements with Norðurál on power supply until the year 2026. The Company has also entered into an agreement with Landsvirkjun on the sale of power until the year 2019. The agreements are in USD and the contract price of power is based on the world market value of aluminum. The Company does not currently hedge against aluminum price change.

Sensitivity analysis

A 10 percent increase or decrease of aluminium prices at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. The analysis was performed on the same basis for 2017.

	Profit or loss	
	2018	2017
Increase of 10%	986.136	1.182.509
Decrease of 10%	(986.136)	(1.182.509)

Other market risk

Other market value risk is related to investments in bonds and shares and is considered insignificant.

Classification of financial instruments

Financial assets and liabilities are classified as follows:

Financial assets	31.12.2018	31.12.2017
Financial assets recongnised at amortised cost	3.328.237	2.181.071
Financial assets at fair value through profit or loss	27.075	669.877
	3.355.312	2.850.948

Financial liabilities	31.12.2018	31.12.2017
Financial liabilities at fair value through profit or loss	1.542.021	0
Financial liabilities measured at amortized cost	10.071.634	10.015.003
	11.613.656	10.015.004

All amounts in thousands of ISK

Notes to the Financial Statements

32. Fair value

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	31.12.2018		31.12.2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Interest-bearing long-term debts	8.018.792	8.007.678	6.410.982	6.401.960

Interest rates used for determining fair value for disclosure purposes

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

For foreign denominated debt the discount rates are based on interbank rates. All discount rates include an adequate credit spread, and were as follows:

Interest rates used for determining fair value:

	1.1-31.12.2018	1.1-31.12.2017
Interest-bearing long-term debts (level 3)	Libor + 315 bp	Libor + 315 bp

Fair value of other financial assets and liabilities is equal to their carrying amount.

The table below analyses assets and liabilities carried at fair value, sorted by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2018				
Operating assets	0	0	42.306.092	42.306.092
Investments in other companies	0	0	27.075	27.075
Embedded derivatives	0	(1.542.021)	0	(1.542.021)
Total	0	(1.542.021)	42.333.167	40.791.146
31 December 2017				
Operating assets	0	0	35.735.798	35.735.798
Embedded derivatives	0	642.802	0	642.802
Investments in other companies	0	0	27.075	27.075
Total	0	642.802	35.762.873	36.405.675

All amounts in thousands of ISK

33. Subsidiary

At end of 2018 the Company held a 74.44% the shares and voting interests in Vesturverk. The main asset of Vesturverk are development costs and the assets were recognized at fair value, which was considered equal to the consideration paid on the date of the acquisition.

34. Capital management

The Board's policy is to maintain a strong capital base to sustain future development of the business.

The Company's Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by lower levels of borrowings. The equity ratio was 70.4% at year end 2018 (2017: 73.3%).

There were no changes in the Company's approach to capital management during the year and the Company is not obliged to comply with external rules on minimum equity other than those required pursuant to covenants in its loan agreements.

35. Related parties

Identity of related parties

The Company has a related party relationship with its shareholders, subsidiaries, associates, fellow subsidiaries, its directors and executive officers and other companies owned by them.

The Company did not make any sales to shareholders in the years 2018 and 2017. The Company bought services from shareholders for the amount of ISK 1 million (2017: ISK 6 million).

The Company purchased goods and services from associate companies in the amount of ISK 14 million in the year 2018 (2017: ISK 40 million).

The Company sold goods to associate companies in the amount of ISK 115 million (2017: ISK 99 million).

36. Research grants

In 2000 a consortium of three Icelandic energy companies including HS Orka's predecessor Hitaveita Sudurnesja, Landsvirkjun and Orkuveita Reykjavíkur and the National Energy Authority of Iceland founded the Iceland Deep Drilling Program (IDDP). During 2015, the IDDP partners participated in the DEEPEGS proposal to the European Union research program called Horizon 2020. HS Orka was granted a share in the Research Grant for participation in the IDDP-2 well at Reykjanes. The consortium began by preparing the drilling of a 4-5 km deep drill hole into one of its high-temperature hydrothermal systems in order to plan to reach 400-600°C hot supercritical hydrous fluid at a rifted plate margin on a mid-ocean ridge. Drilling was completed in mid-January 2017 at 4,650 meter depth. All of the initial targets were reached. These targets were to drill deep, extract drilling cores, measure the temperature and search for permeability. Temperature at the bottom of the well has already been measured at 427 degrees Celsius, the pressure at 340 bars.

The DEEPEGS project is a four year project, ending in November 2019, administered by HS Orka, in cooperation with other partners from Iceland, France, Germany, Italy and Norway. HS Orka is compensated for administering the grant, and is responsible for distributing funds to partners responsible for their own projects and reporting performance to the EU. HS Orka has no responsibility for the results of the partners, only the results of its own drilling program. Flow testing and pilot study is expected to begin in April 2019, cost with flow testing and pilot study will be paid by IDDP Consortium. No further EU funding is expected.

37. Other matters

Litigation and claims

In February 2016 HS Orka issued a legal letter to HS Veitur hf demanding full payment of the long-term receivable in relation to the shared pension liability. This was following receipt of a termination notice by HS Veitur. of an agreement regarding payments of the pension liability, sent on 31 December 2015. The two companies had reached an agreement in 2011 on HS Veitur's share and HS Orka considers its claim on the basis of that agreement to be fully valid. Negotiations did not settle the matter and it was taken to court to decide the matter. The district court proceedings took place in March 2018 and verdict was given on 17 April 2018 accepting all of HS Orka claims and the agreement to be valid. HS Veitur have appealed the decision and the matter will be taken up be the Icelandic National Court (Landsréttur) and decision is expected in March 2019.

Suðurorka

Suðurorka, a company owned 50% by HS Orka and has in recent years been developing á 150 MW hydro project in Skaftá in Southern Iceland, called Búlandsvirkjun. Until now the project has been in the pending category of the framework masterplan in Iceland. The steering committee for the framework masterplan delivered a proposal to Althingi, the Icelandic parliament suggesting that Búlandsvirkjun falls in the preservation category. HS Orka strongly disagrees with the proposal and intends to protest against it. The final decision on the renewal of the framework masterplan is in the hands of Althingi and HS Orka believes that there will be, more likely than not, changes made to the proposal before its approval by Althingi. Since this proposal has not been approved, HS Orka does not consider it appropriate to write off its investment in Suðurorka. However, that could change should the current proposal be approved by Althingi. HS Orka's total investment in Suðurorka at year end 2018 was ISK 240 million.

Brúarvirkjun

On 1 February 2018 a renewal of the Brúarvirkjun Construction Permit was issued. Construction work officially started on 23 March. On 29 March Landvernd sent a new appeal to the Appellate Committee for Environment and Resources (ACER). The appeal included, firstly, a claim requiring the committee to impose a halt (injunction) to any further construction until the committee has fully resolved the case. Secondly, there is a claim for a voiding of the construction permit.

HS Orka has responded formally to the ACER against the issues and grounds raised by Landvernd. HS Orka requested (i) a dismissal of the appeal or (ii) that all substantial claims be rejected. It is underlined that the claims are unsubstantiated and hence submit a point by point rebuttal of all grounds raised by the claimants as we think that none of these supports terminating the construction permit.

On 17 January 2019 ACER rejected the appeal from Landvernd and the Construction Permit is fully valid and construction of the project is progressing according to schedule with the aim of starting full operation early 2020.

Appendix: Corporate Governance Statement, unaudited

This statutory statement on corporate governance is made in accordance with Article 66-c of the Icelandic Financial Statements Act No. 3/2006, as amended. This statement has been approved by the Board of Directors of HS Orka hf. and is also published in the Company's Annual Report. This statement covers the financial year ended on 31 December 2018

This statement includes information on the following items:

A reference to the corporate governance procedures the Company follows and how the Company adheres to procedures, including any deviations and explanations thereto.

A description of the main aspects of internal controls and risk management systems used in connection with preparation of financial statements.

A description of the Company´s organizational structure and the role and composition of each function.

1. Corporate Governance

The Company complies in all main respect to the laws mentioned above. The Board of Directors of HS Orka hf. emphasizes maintaining good management practices. The articles of association for the Company lay the framework for the governance of the Company.

The Audit Committee consists of two members of the Board of Directors and an independent member. Remuneration committee was established in 2014. It consists of two members from the Board of Directors.

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

2. Main aspects of internal controls and risk management systems in connection with preparation of financial statements

The Company implemented key provisions of the Sarbanes-Oxley Act (SOX) in 2011. The company used an external independent auditing firm to test the internal controls in 2018. This will continue in the year 2019.

The Board of Directors has an ongoing dialogue with the CEO on the identification, description and handling of the business risks to which the Company may be exposed. Material risks and risk management are discussed in the Annual Report.

The Company´s risk management and internal controls, in relation to financial processes, are designed to control the risk of material misstatements. The Company designs its processes to ensure that there are no material weaknesses with internal controls that could lead to a material misstatement in the financial reporting.

The Company goes through a detailed strategic and budget process each year and a budget report is prepared. The Board approves the Company´s budget each year. Deviations from the budget are carefully monitored on a monthly basis. A year over year comparison is also performed on a monthly basis and deviations explained. The Company´s overall business is fairly stable, past budgets have been reliable and therefore deviations become visible quickly.

To ensure quality in the Company's financial reporting systems the following policies, procedures and guidelines for financial reporting and internal control have been adopted:

Continuous analysis of year over year result variations.

Annual tests of operating effectiveness of internal controls.

Continuous analysis of results achieved compared to the approved budget.

Policies for key aspects of the business including (but not limited to) IT, insurance, cash management, segregation of duties, procurement etc.

2. Main aspects of internal controls and risk management systems in connection with preparation of financial statements (continued)

The responsibility for maintaining sufficient and effective internal control and risk management in connection with financial reporting lies with the CEO.

An auditing firm is elected at the Annual General Meeting for a term of one year. The external auditors are not allowed to own shares in the Company. The external auditors shall examine the Company´s annual financial statements in accordance with international standards on auditing, and shall, for this purpose, inspect account records and other material relating to the operation and financial position of the Company. The external auditors have access to all of the Company´s books and documents at all times. The external auditors report any significant findings regarding accounting matters via the Audit Committee to the Board of Directors in the auditor's report.

3. Organizational structure and the role and composition of each function

According to the Company´s Articles of Association the Company is managed by:

Shareholders meetings

The Board of Directors

The Chief Executive Officer

Shareholders' meetings

The ultimate authority in all affairs of the Company, within the limits established by the Company´s Articles of Association and statutory law, is in the hands of lawful shareholders' meetings.

The Company's shareholders numbered three at the end of 2018. Magma Energy Sweden A.B. held 53.9% of the shares in HS Orka hf., Jarðvarmi slhf. held 33.4% and Fagfjárfestasjóðurinn Ork held 12.7%.

The Board of Directors

According to the Company´s Articles of Association the Board of Directors is responsible for the affairs of the Company in between the Shareholders´ Meetings. The Board shall operate in accordance with the Company´s Articles of Association and the Board´s Rules of Procedure. The principal duties of the Board are as follows:

Appoint a CEO and decide the CEO´s salary and terms of employment, establish terms of reference and supervise the CEO´s work.

Supervise continuously and precisely all aspects of the Company´s operations and ensure that the Company´s organization and activities are always in order. In particular, the Board of Directors shall ensure adequate supervision of the financial control and accurate reporting and disposal of the Company´s financial assets, and at least once a year confirm the Company´s operating plan and budget.

Establish the Company´s goals in accordance with the Company´s objectives pursuant to the Articles of Association, and formulate the policy and strategy required to achieve these goals.

All Board Members have consented to the Board´s procedures and considered them to be efficient. The Board Members also found the Board materials and presentations were good and well prepared. They also confirm that the Board has been well informed, and all matters have been discussed in an open and constructive way. When evaluating its size and composition, the Board takes into account the Company´s operations, policies and practices and the knowledge, experience and expertise of each Board member. The Board considers its size and composition to be in line with the Board‘s aim, to discharge its duties in an efficient manner with integrity in the best interest of the Company.

Further information on the Board can be found in the Annual Report and on the Company‘s website.

4. Organizational structure and the role and composition of each function (cont.)

The Audit Committe
The Audit Committee shall operate in accordance with its Rules of Procedure. The principal duty of the Audit Committee is to ensure the quality of the Company´s financial statements and other financial information, and the independence of the Company's auditors.

The Remuneration Committee
The Remuneration Committee shall operate in accordance with its Rules of Procedure. The principal duty of the Remuneration Committee is to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives while complying with the requirements of regulatory and governance bodies, satisfying the expectations of shareholders and remaining consistent with the expectations of the employees.

The Chief Executive Officer
According to the Company´s Articles of Association the Board of Directors appoints a CEO to manage the Company´s daily operations.

The principal duties of the CEO are as follows:

He is responsible for daily operations and is obliged to follow the Boards' policy and instructions in that regard. The daily operations do not include measures that are unusual or extraordinary. The CEO may only take such measures if specially authorized by the Board, unless it is impossible to wait for the Board´s decision without substantial disadvantage to the Company´s operations. In such event the CEO shall inform the Board of any action taken without delay.

He is responsible for the work and results of executive management.

He shall ensure that the financial statements of the Company conform to the law and accepted practices and that the treatment of the Company´s assets is secure. The CEO shall provide any information that may be requested by the Company´s auditors.

Further information on the CEO can be found in the Annual Report and on the Company´s website.

Non financial reporting, unaudited

HS Orka has been a leading company in production of renewable energy for 40 years. The company operates two geothermal power plants – one in Svartsengi and the other at Reykjanes. The mission of HS Orka is to provide both the business community and households with renewable resources that are utilised in a diverse and sustainable manner. The company produces and sells 100% renewable electricity all over the country, hot and cold water in the area of Suðurnes, as well as other products from the geothermal plants that benefit customers, society and the company.

Environment

HS Orka‘s operation is intertwined with nature. HS Orka respects the environment and is committed to treat the natural resources it has been entrusted with with respect. The company’s environmental manager oversees it’s and contractor’scompliance with the applicable environmental and other laws and regulations. HS Orka‘s environmental risk factors include increased emittance of greenhouse gasses, negative effects on local air quality, soil, vegetation and land. HS Orka has set goals to decrease its carbon footprint by 40% per kWh by 2030 through vegetation reclamation, by decreasing its own energy consumption, finding use for and creating value from CO2 streams, increasing number of eco-friendly vehicles, minimizing waste and increasing recycling to 95% by 2030. The company aims to be carbon neutral by 2040. The company surveils its progress with annual environmental performance assessments.

Human Resources

The HS Orka Values, Dedication - Vision – Integrity, sets the course for HS Orka and its employees. The company’s operations require a great degree of expertise and experience and hence the company’s sustainable growth and successful innovation is highly dependent upon recruiting the right staff and avoiding the risk losing them in a highly competitive market. This is done by creating and maintaining an attractive workplace with clear values paying special attention to the company culture. The other principal risk the company is exposed to relates to safety concerns for its staff.

HS Orka’s aim is to attract and retain excellent employees that are dedicated to working under our values. HS Orka’s Human Resources policy ensures that the workplace combines professional knowledge, know-how, excellent service, positive working spirit and mutual respect. The Human Resources policy was made in cooperation with employees and is revised regularly. Furthermore, HS Orka has a clear gender policy evident it its Equal Opportunities Policy in place as required under laws no. 10/2008. HS Orka Board of Directors consist of 5 members, three males and two females. The company´s management consists of 11 members, 7 males and 4 females and of total employees 86% are male and 14% female.

A new law in Iceland requires companies annually to obtain an Equal Pay Certification from the Centre for Gender Equality. In order to obtain certification, companies and institutions need to implement an equal pay management system following guidelines in the Equal Pay Standard. In 2018 HS Orka underwent a Stage 2 Audit for the Equal Pay Certification. The result was very good, and the Company is now qualified to apply for the Certification. Companies and institutions with more than 250 employees were required to obtain certification by the end of 2018, but HS Okra decided to move for certification right away, even though the Company was not obligated to do so until the end of the year 2021.

The company policies focus on employees’ opportunity to grow and prosper in a good and healthy working environment with great team spirit and ambition. This is further achieved by focusing on carrier development, training, wages and terms of employment and harmonization of family and working life. Also, by having rules and framework regarding safety and health, victimization and on employee behavior and performance of work for the benefit of the employer.
The company has policies for staff health and safety and registers all incidents and keeps records on accidents and absence due to illness. The company has a goal of zero accidents and reducing the number of days of employees absent as a result of accidents and sickness.

Human Rights

Respect for human rights is fundamental to HS Orka. The company is committed to ensuring all that people are treated with dignity and respect. Human rights violation risks include illegal labour conditions and child labour. HS Orka is committed to complying to all laws, rules and regulations in relation to fundamental human rights which covers for example forced labour, workplace abuse, human trafficking and other form of discrimination. HS Orka commitment to doing business with integrity means avoiding corruption in any form, including bribery, and complying with the anti-corruption laws.

Additionally, working environment can be dangerous and the company uses quality standards and strict safety rules to ensure the safety of its employees and contractors providing services to it.
All recently made contracts with contractors, including subcontractors, require compliance to all labour laws, health and safety regulations. In case of calls for tenders, the tender documents contain requirements relating to human rights aimed at making respect for human rights in all aspects of its operations.

UN Global Compact

In 2018 HS Orka became a participant of the ten principles outlined by the UN Global Compact in the areas of Human Rights, Labour, the Environment and Anti-Corruption. UN Global Compact is a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies in their businesses, and to report on their implementation.

In the implementation of the compact HS Orka emphasized that all employees of the company were involved in the projects and supporting it. Workshops were held where the compact was introduced, and employees submitted proposals for projects supporting HS Orka goal of implementing the UN GC. Our first UN Global Compact communication on progress was finished in January 2019. HS Orka will continue support of the ten principles.

Management systems

A great deal of effort has been spent in recent years on the development and adoption of a quality management system that accords with ISO 9001 and HS Orka received certification according to the standard in 2015. In the beginning of 2018, a great deal of work was put into the implementation of ISO 14001 environmental management standard and OHSAS 18001 safety management standard and in June HS Orka received certification for these two standards. Brúarvirkjun run of river hydro plant project then followed up by receiving extension to scope for ISO 9001, ISO 14001 and OHSAS 18001.

Developing, adopting and operating a quality control system according to ISO 9001, ISO 14001 and OHSAS 18001 is a major project involving all aspects of the company. The commitment of management as well as the participation of employees is extremely important. The benefits of the quality control system are becoming ever clearer, as can be seen by the daily work of all employees who make an effort to do better all the time and thereby ensure constant improvements. The quality culture within the company has grown considerably and will continue to do so.

Using certified management systems to manage policies, objectives and procedures, ensuring the reliability of the business, and ensuring that internal and external requirements are met. Continuous improvements are being made with regular reviews and re-evaluation of process performance.

Quarterly statements, unaudited

Summary of the Company's results by quarters

2018	Q1	Q2	Q3	Q4	Total
Operating revenue	2.210.175	2.048.931	2.093.102	2.544.266	8.896.475
Production cost and cost of sales	(1.608.670)	(1.695.230)	(1.629.763)	(1.771.527)	(6.705.190)
Gross profit	601.505	353.702	463.339	772.737	2.191.285
Other operating expenses	(176.958)	(138.280)	(136.339)	(169.621)	(621.198)
Research and development	(52.669)	(84.457)	(27.073)	11.628	(152.570)
Results from operations	371.878	130.966	299.928	614.744	1.417.517
Finance income	17.728	16.414	18.397	36.174	88.713
Finance costs	(59.168)	(62.451)	(68.598)	(55.366)	(245.583)
Net exchange rate differences	173.290	(104.785)	(255.539)	(212.915)	(399.949)
Changes in fair value of embedded derivatives	(1.654.430)	480.744	(63.506)	(947.632)	(2.184.824)
Net finance income (expense)	(1.522.581)	329.922	(369.245)	(1.179.739)	(2.741.644)
Share of profit of associates	277.291	114.464	379.121	216.112	986.989
Profit (loss) before income tax	(873.411)	575.352	309.805	(348.883)	(337.138)
Income tax recovery (expense)	230.140	(92.177)	13.864	112.999	264.826
Net profit (loss) for the period	(643.271)	483.175	323.668	(235.884)	(72.313)
Other comprehensive income (loss):					
Items that will not be reclassified to proft or loss:					
Revaluation of operating assets	0	0	0	7.000.000	7.000.000
Remeasurement of defined benefit liability	884	(15.102)	(21.018)	(8.057)	(43.293)
Tax on items that will not be reclassified to profit or loss	(177)	3.020	4.204	(1.398.389)	(1.391.341)
	707	(12.082)	(16.815)	5.593.555	5.565.366
Items that may be reclassified subsequently to profit or loss					
Foreign currency translations difference on associates	(83.250)	(57.349)	105.363	221.241	186.005
	(83.250)	(57.349)	105.363	221.241	186.005
Other comprehensive income (loss):	(82.542)	(69.431)	88.548	5.814.795	5.751.371
Total comprehensive income (loss)	(725.813)	413.745	412.216	5.578.911	5.679.058

All amounts in ISK '000

Quarterly statements, unaudited

Summary of the Company's results by quarters

2017	Q1	Q2	Q3	Q4	Total
Operating revenue	1.977.362	1.744.405	1.720.546	2.089.089	7.531.401
Production cost and cost of sales	(1.684.822)	(1.540.191)	(1.673.328)	(1.688.294)	(6.586.636)
Gross profit	292.540	204.213	47.217	400.795	944.765
Other operating expenses	(166.661)	(134.966)	(126.825)	(147.699)	(576.151)
Research and development	(7.788)	(7.585)	7.765	130.886	123.278
Results from operations	118.091	61.662	(71.843)	383.982	491.893
Finance income	16.846	17.888	45.001	21.494	101.227
Finance costs	(41.212)	(39.841)	(104.221)	(70.024)	(255.297)
Net exchange rate differences	(91.262)	271.972	(127.709)	(39.424)	13.577
Changes in fair value of embedded derivatives	1.743.962	(134.700)	1.255.148	992.488	3.856.897
Net finance income (expense)	1.628.334	115.319	1.068.219	904.534	3.716.405
Share of profit of associates	221.675	234.729	387.075	377.712	1.221.191
Profit (loss) before income tax	1.968.100	411.710	1.383.450	1.666.229	5.429.488
Income tax recovery (expense)	(349.285)	(35.396)	(199.275)	(257.703)	(841.659)
Net profit (loss) for the period	1.618.815	376.314	1.184.175	1.408.526	4.587.828
Other comprehensive income (loss):					
Items that will not be reclassified to proft or loss:					
Revaluation of operating assets	0	0	0	0	0
Remeasurement of defined benefit liability	(7.587)	(20.295)	(15.488)	(7.414)	(50.784)
Tax on items that will not be reclassified to profit or loss	1.517	4.059	3.098	1.482	10.156
	(6.070)	(16.236)	(12.390)	(5.931)	(40.627)
Items that may be reclassified subsequently to profit or loss					
Foreign currency translations difference on associates	28.177	(68.291)	101.567	8.934	70.387
	28.177	(68.291)	101.567	8.934	70.387
Other comprehensive income (loss):	22.107	(84.527)	89.177	3.002	29.759
Total comprehensive income (loss)	1.640.922	291.787	1.273.352	1.411.528	4.617.590

All amounts in ISK '000