HS Orka hf.

Consolidated Financial Statements
for the year 2017
ISK 000's

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

Contents

Endorsement by the Board of Directors and the CEO

The consolidated financial statements of HS Orka hf. (the "Company" or "HS Orka") for the year 2017 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 consolidated statement of comprehensive income, the Company's operating revenue amounted to ISK 7,531 million for the year 2017 (2016: ISK 7,099 million) and the profit for the year amounted to ISK 4,588 million (2016: Profit ISK 3,104 million). Total comprehensive income amounted to ISK 4,618 million (2016: ISK 2,757 million).

According to the consolidated statements of financial position, the Company's assets amounted to ISK 48,425 million at the end of 2017 (at year end 2016: ISK 46,951 million). Equity amounted to ISK 35,517 million at the end of 2017 (at year end 2016: ISK 31,304 million) or 73.3% of total capital (at year end 2016: 66.7%).

The Company's shareholders numbered three at the end of 2017. 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 440 million (ISK 0.06 pr. share) will be paid to shareholders in the year 2018, and refers to the financial statements for further allocation of profit and changes in equity during the year.

The Board had 11 meetings and the Audit Committee had 5 meetings in 2017. The Board of Directors consitst of 5 members, three male and two female. The company´s management consists of 11 members, 7 male and 4 female and of total emloyees 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 2017.

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 2017, its financial performance, and the changes in cash flows during the year 2017.

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 2017 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 27 March 2018.

Grindavík, 5 March 2018

The Board of Directors

Ross Beaty
Chairman of the board

Gylfi Árnason

Anna Skúladóttir

Paul Rapp

Lynda Freeman

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 Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of HS Orka hf, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of HS Orka as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional disclosure requirements for listed companies in Iceland.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
At year end 2017 Power plants amounted ISK 33,916 million (ref. note 15) and Operating assets under construction amounted to ISK 3,881 million (ref. note 16). The power plants in use are measured at revalued cost less accumulated depreciation and impairment but operating assets under construction are valued at cost (ref. note 3d). The recoverable amount of these assets were assessed at year end and compared to the carrying amount to assess whether there is a need for revaluation or an indication of impairment. We focused on this area due to the size of the carrying amount of the power plants in use and under construction, which represent 78% of total assets and because management's assessment of value in use in the fair value assessment involves significant judgement about the future results of the business and the discount rates applied in the future cash flow forecast.	With the assistance of our in-house valuation specialists we: • Conclude on the appropriateness of management's use of the going concern basis of accounting addressed the appropriateness of the design and implementation of the cash flow model used by management to assess recoverable amount at year end • focused on challenging management's forecasting based on the information we have about possible future utilization and revenues of the power plants, both current power plants and power plants under construction and by comparing actual performance for the year against forecast for the same period in the prior year model • assessed the reasonableness of the discount rate used • performed sensitivity analysis on the assumption used.

Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The Annual report is not available at our reporting date but is expected to be made available to us after that date.

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

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the EU, and for such internal control as they determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide The Board of Directors and audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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 accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partners on the audit resulting in this independent auditor's report is Margret G. Flóvenz and Sigurjón Örn Arnarson.

Reykjavik, 5 March 2018.

KPMG ehf.

Consolidated Statements of Comprehensive Income for the year ended 31 December 2017

	Notes	2017	2016
Operating revenue	5,6	7.531.401	7.099.159
Production cost and cost of sales	7	(6.586.636)	(5.962.238)
Gross profit		944.765	1.136.921
Other income		0	81.192
Other operating expenses	8	(576.151)	(600.614)
Research and development	9, 38	123.278	(282.021)
Profit from operations		491.892	335.478
Finance income		101.227	99.747
Finance costs		(255.297)	(173.224)
Net exchange rate differences		13.577	969.993
Changes in fair value of embedded derivatives	21	3.856.897	1.467.004
Net finance income	13	3.716.404	2.363.520
Share of profit of associates	18	1.221.191	945.125
Profit before income tax		5.429.487	3.644.122
Income Tax Expense	14	(841.659)	(539.799)
Net profit for the period		4.587.828	3.104.323
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	30	(50.784)	(73.573)
Tax on items not reclassified to profit or loss	14	10.157	14.715
		(40.627)	(58.858)
Items that may be reclassified subsequently to profit or loss			
Currency translation difference on associates	18	70.387	(287.980)
Other comprehensive income (loss) for the period		29.760	(346.838)
Total comprehensive income		4.617.588	2.757.484
Profit attributable to:			
Owners of the Parent Company		4.587.828	3.104.323
Comprehensive income attributable to:			
Owners of the Parent Company		4.617.588	2.757.484
Earnings per share:			
Basic and diluted earnings per share	28	0,59	0,40

Notes on pages 12-45 are an integral part of these financial statements

All amounts in thousands of ISK

Consolidated Statements of Financial Position
as at 31 December 2017

Assets	Notes	31.12.2017	31.12.2016
Fixed assets			
Operating assets	15	35.739.725	36.213.477
Operating assets under construction	16	3.880.878	3.399.732
Intangible assets	17	1.685.552	1.643.747
Investments in associates	18	2.965.752	2.113.797
Investments in other companies	19	27.075	27.075
Bonds	20	0	59.269
Embedded derivatives in power sales contracts	21	523.876	0
Prepaid lease and royalty fee	22	526.563	517.736
Long-term receivables	23	742.561	640.561
		46.091.982	44.615.394
Current assets			
Embedded derivatives in power sales contracts	21	118.926	0
Inventories		443.729	487.444
Bonds	20	0	0
Trade and other receivables	24	1.255.568	1.310.279
Short-term investments		0	0
Cash restricted to EU grant partners		326.156	0
Restricted cash and cash equivalents	25	0	508.500
Cash and cash equivalents	26	188.916	29.233
		2.333.295	2.335.456
Total assets		48.425.277	46.950.850
Equity and liabilities			
Equity	27		
Share capital		7.841.124	7.841.124
Share premium and statutory reserve		7.038.855	7.038.855
Translation reserve		(41.552)	(111.939)
Other reserves		1.726.694	945.125
Revaluation reserve		7.677.549	8.120.761
Retained earnings		11.145.086	7.356.242
Total equity attributable to owners of the parent company		35.387.756	31.190.168
Non-controlling interest		128.922	113.519
Total equity		35.516.678	31.303.687
Liabilities			
Loans and borrowings	29	6.129.956	4.950.857
Pension obligations	30	2.249.369	2.178.300
Deferred tax liability	31	2.346.696	1.605.903
Embedded derivatives in power sales contracts	21	0	2.802.385
		10.726.021	11.537.445
Current liabilities			
Loans and borrowings	29	281.026	1.798.361
EU grant payable to participants		326.156	0
Tax payable	31	90.622	0
Trade and other payables	32	1.484.774	1.899.647
Embedded derivatives in power sales contracts	21	0	411.710
		2.182.578	4.109.718
Total liabilities		12.908.599	15.647.163
Total liabilities and equity		48.425.277	46.950.849

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All amounts in thousands of ISK

Statements of Changes in Equity for the year ended 31 December 2017

	Share Capital	Share Premium	Translation Reserve	Revaluation Reserve	Other Reserves	Retained Earnings	**Attributable to Parent**	Non- controlling Interest	**Total Equity**
Equity at 1 January 2016	7.841.124	7.038.855	176.041	8.601.406	0	5.135.258	**28.792.684**	108.618	**28.901.302**
Profit for the period					945.125	2.159.198	**3.104.323**		**3.104.323**
Other comprehensive loss			(287.980)	0		(58.858)	**(346.838)**		**(346.838)**
Total comprehensive income (loss)			(287.980)	0	945.125	2.100.340	**2.757.486**	0	**2.757.485**
Share capital increase in subsidiary								4.901	**4.901**
Revaluation reserve transferred to Retained earnings				(480.645)		480.645	**0**		**0**
Dividends paid ISK 0.05 per share						(360.000)	**(360.000)**		**(360.000)**
Equity at 31 December 2016	7.841.124	7.038.855	(111.939)	8.120.761	945.125	7.356.242	**31.190.168**	113.519	**31.303.687**
Equity at 1 January 2017	7.841.124	7.038.855	(111.939)	8.120.761	945.125	7.356.242	**31.190.168**	113.519	**31.303.687**
Profit for the period					1.221.191	4.208.297	**5.429.487**		**5.429.487**
Other comprehensive income, (loss)			70.387			(40.627)	**29.760**		**29.760**
Total comprehensive income			70.387	0	1.221.191	4.167.670	**5.459.247**	0	**5.459.247**
Share capital increase in subsidiary								15.403	**15.403**
Revaluation reserve transferred to Retained earnings				(443.212)		443.212			**0**
Dividends received from associate					(439.622)	439.622			**0**
Dividends declared ISK 0.06 per share						(420.000)	**(420.000)**		**(420.000)**
Equity at 31 December 2017	7.841.124	7.038.855	(41.552)	7.677.549	1.726.694	11.986.744	**36.229.415**	128.922	**36.358.338**

Notes on pages 12-45 are an integral part of these financial statements

All amounts in thousands of ISK

Consolidated Statements of Cash Flows for the year ended 31 December 2017

Cash flows from operating activities	Notes	2017	2016
Profit for the period		5.429.487	3.644.122
Gain on sale of operating assets		(1.214)	(81.192)
Increase in pension obligations	30	20.285	52.327
Depreciation and amortization	15	1.736.340	1.698.669
Net finance income	13	(3.716.404)	(2.363.520)
Share of profit of associates	18	(1.221.191)	(945.125)
Income tax expense	14	0	0
Cash generated by operations		2.247.303	2.005.281
Inventories, decrease, (increase)		43.716	(4.076)
Receivables, decrease, (increase)		6.499	(26.844)
Current liabilities, decrease		(65.362)	(324.030)
Net cash from operations before interest and taxes		2.232.156	1.650.331
Interest received		7.855	30.257
Interest paid		(222.849)	(188.402)
Net cash provided by operating activities		2.017.162	1.492.186
Cash flows from investing activities			
Acquisition of operating assets		(1.254.517)	(1.596.865)
Acquisition of operating assets under construction		(395.221)	(248.462)
Proceeds from sale of operating assets		1.855	367.581
Sale of intangible assets		0	925
Acquisition of intangible assets		(136.441)	(208.718)
Acquisition of shares in associates		0	(4.000)
Dividends received from associates		439.623	421.517
Acquisition of subsidiary, net of cash acquired		0	0
Investment in short-term investments		0	0
Proceeds from sale of short-term investments		0	922.408
Proceeds from repayment of bonds		90.027	203.069
		(1.254.674)	(142.546)
Cash flows from financing activities			
Paid dividends		(780.000)	0
Repayment of short-term borrowings		(89.873)	89.873
New long-term borrowing		6.341.403	0
Repayment of borrowings		(6.535.279)	(2.196.439)
Restricted cash moved to disposable funds		508.500	0
Miniority payment of share capital increase in subsidiary		15.403	4.900
		(539.846)	(2.101.666)
Increase, (decrease) in cash and cash equivalents		222.642	(752.026)
Cash and cash equivalents at 1 January		29.233	841.069
Effect of exchange rate fluctuations on cash held		(62.959)	(59.811)
Cash and cash equivalents at 31 December		188.916	29.233
Investing and financing activities not affecting cash flows			
Unpaid dividends		0	360.000
Current liabilities		0	360.000

Notes on pages 12-45 are an integral part of these financial statements

All amounts in thousands of ISK

Notes to the Condensed Consolidated 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 2017, Alterra Power Corp., headquartered in Canada.

The consolidated financial statements of the Company consolidate the financial statements of its subsidiary Vesturverk ehf. (Vesturverk) and the Companys share of associates are accounted for on an equity basis of accounting.

The Company's financial statements can be found at its website www.hsorka.is.

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 5 March 2018.

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 (bonds and 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 16 - Amortization of assets
- Note 14 - Income taxes
- Notes 16 and 17 - Impairment of assets under construction
- Note 31 - Deferred taxes
- Note 33 - Fair value of embedded derivatives in power sales agreements
- Note 30 - Pension obligations

All amounts in thousands of ISK

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 21 - Embedded derivatives in power sales contract
- Note 33 - 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 2017 that have been approved by the EU. No new standards apdopted during the year effected these financial statements.

a. Basis of consolidation

(i) Business combination

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

(ii) 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

4. Significant accounting policies, continued;

(iii) Non-controlling interest

Non controlling interest (NCI) are initially measured at the proportionate share of the acquiree's identifiable net assets at the date of aquisition. Transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. As a result no gain or loss on such changes is recognized in the statement of operations and no change in the carrying amounts of assets (including goodwill) or liabilities is recognized. All changes as a result of acquisitions and disposals of non-controlling interests are recognized directly in the statement of equity.

(iv) Loss of control

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(vi) 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.

4. Significant accounting policies, continued;

c. Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and bank deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, which is the date the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize 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 loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if (a) such financial assets eliminate or significantly reduces accounting mismatch, (b) the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy, and (c) the financial assets contains one or more embedded derivatives. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables 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.

(ii) 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

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

All amounts in thousands of ISK

4. Significant accounting policies, continued;

(iii) 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.

(iv) 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.

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 took place in December 2015, the Reykjanes Power plant was revalued in 2012 and 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.

4. Significant accounting policies, continued;

(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.

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 38)

4. Significant accounting policies, continued;

(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, useful lives and residual values 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.

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.

4. Significant accounting policies, continued;

(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

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

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

l. Lease payments

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

All amounts in thousands of ISK

4. Significant accounting policies, continued;

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

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

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.

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.

4. Significant accounting policies, continued;

r. New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, 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 9, 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 but may be adopted early at the Company's discretion. The Company has assessed the effects of the new standards and has concluded they are insignificant

IFRS 15, Revenue from contracts with customers is a new standard superseding IAS 18 - Revenue, IAS 11 - Construction contracts and related interpretations. The new standard is intended to establish a new control-based revenue recognition model and change the basis for deciding whether revenue is to be recognized over time or at a point in time. The new standard is effective for interim periods within years beginning on or after January 1, 2018. The Company has assessed the effects of the new standards and has concluded they are insignificant. Disclosures in the Financial Statements for the year 2018 relating to revenue will however change in accordance with the new standards.

IFRS 16, Leases specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize leased assets on the balance sheet to reflect their right to use an asset for a period of time and the associated liability to pay rentals unless the lease term is 12 months or less, or the underlying asset has an insignificant value. The effective date is annual periods commencing on or after January 1, 2019. The Company does not expect adoption of this new standard to have any material affect on its 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.

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			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				
Research and development				123.278
Other operating expenses				(576.151)
Net finance income				3.716.404
Share of profit of associates				1.221.191
Income tax expense				0
Net profit for the period				5.429.488
Segment assets	39.326.524	7.782	0	39.334.306
Unallocated assets				9.090.971
Total assets				48.425.277
Unallocated liabilities				12.908.599
Capital expenditures	1.584.225	7.782	0	1.592.007
Unallocated capital expenditures				194.173
Depreciation and amortization	1.697.093	747	0	1.697.840
Unallocated depreciation and amortization				38.500

All amounts in thousands of ISK

5. Segment reporting (continued)

2016	Power production	Electricity sale	Other	Total
External revenue	2.611.206	4.187.455	300.498	7.099.159
Inter-segment revenue	1.417.447			1.417.447
Total segment revenue	4.028.653	4.187.455	300.498	8.516.606
Segment operating results	357.967	736.890	42.064	1.136.921
Unallocated items				
Other income				81.192
Research and development				(282.021)
Other operating expenses				(600.614)
Net finance expense				2.363.520
Share of profit of associates				945.125
Income tax recovery				0
Net profit for the period				3.644.122
Segment assets	39.440.032	700	0	39.440.732
Unallocated assets				7.510.118
Total assets				46.950.850
Unallocated liabilities				15.647.163
Capital expenditures	1.700.742	0	0	1.700.742
Unallocated capital expenditures				244.121
Depreciation and amortization	1.644.691	1.144	31.216	1.677.051
Unallocated depreciation and amortization				21.619

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 1.568 million (2016: ISK 1.423 million).

Revenues from HS Veitur hf. were as follows:

	Power production	Electricity sale	Other	Total
Revenues 2017	793.493	334.851	5.587	1.133.931
Revenues 2016	811.244	376.559	123.826	1.311.629

All amounts in thousands of ISK

7. Production cost and cost of sales

	2017	2016
Production cost	4.031.540	3.670.686
Cost of sales	2.443.058	2.033.118
Cost of service	112.038	258.434
	6.586.636	5.962.238

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

	2017	2016
Salaries and related expenses	588.327	530.500
Depreciation	1.697.840	1.677.051
Power purchases	2.352.381	1.939.561
Transmission	438.310	494.857
Maintenance and other production cost	1.509.778	1.320.269
	6.586.636	5.962.238

8. Other operating expenses

	2017	2016
Salaries and related expenses	290.725	242.660
Increase in pension fund obligation	20.233	20.014
Administrative expenses	228.288	317.617
Depreciation and amortization	36.905	20.323
	576.151	600.614

9. Research and development

	2017	2016
Salaries and related expenses	115.709	141.336
R&D projects	(602.118)	(1.463.669)
EU grants	519.169	237.656
Other grants	92.113	803.952
Depreciation and amortization	(1.595)	(1.297)
	123.278	(282.022)

Research grants are discussed further in note 38

All amounts in thousands of ISK

10. Salaries and related expenses

	2017	2016
Salaries	822.684	765.894
Contribution to defined contribution fund	104.293	87.885
Increase in pension obligation	71.017	93.588
Other salary related expenses	89.887	92.286
	1.087.881	1.039.653
Average number of employees equivalent	59	63

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

	2017	2016
Capitalized on projects	22.103	31.570
Production cost and cost of sale	588.327	530.500
Research and development	115.709	141.336
Other operating expenses	310.958	262.674
Recognized in other comprehensive income	50.784	73.573
	1.087.881	1.039.653

Salaries paid to the Board of Directors and Management amounted to ISK 56 million in 2017 (2016: ISK 50 million).

11. Auditor´s fee

Fee´s paid to the companies auditors in the year 2017 were ISK 17,5 million (2016: 18 million) thereof ISK 10 million (2016: 8 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 5,5 million in 2017 (2016: ISK 3 million).

12. Depreciation, amortization and impairment

Depreciation, amortization and impairment is specified as follows:	2017	2016
Depreciation of operating assets, see note 15	1.727.628	1.663.418
Depreciation of intangible assets, see note 17	8.712	35.251
	1.736.340	1.698.669
Depreciation and amortization is allocated as follows:		
Production cost and cost of sales	1.697.840	1.677.050
Other operating expenses	36.905	20.323
Reasearch and developement	1.595	1.297
	1.736.340	1.698.669

All amounts in thousands of ISK

13. Finance income and expense

Finance income and expenses are specified as follows:

Finance income:

	2017	2016
Interest income on cash, loans and receivables	70.469	93.617
Fair value changes through profit or loss	30.758	6.131
	101.227	99.748
Finance cost		
Interest expense	(195.406)	(157.181)
Prepayment fee of retirement of long term debt	(58.774)	0
Indexation	(1.117)	(16.043)
	(255.297)	(173.224)
Net exchange rate differences	13.577	969.993
Changes in fair value of embedded derivatives	3.856.897	1.467.004
	3.716.404	2.363.520

14. Income tax

Effective tax rate is specified as follows:

	2017	2016
Origination and reversal of temporary difference	90.622	(539.799)
Current tax	(90.622)	0
	0	(539.799)

Effective tax rate is specified as follows:	2017	2016
Profit (loss) for the year	5.429.487	3.644.122
Income tax expense (recovery)	0	0
Profit (loss) before tax	5.429.487	3.644.122

	2017		2016	
Income tax according to current tax rate	(1.085.897)	20,0%	(728.824)	20,0%
Effect of associates	244.238	4,5%	189.025	-5,2%
Effective income tax rate	(841.659)	15,5%	(539.799)	14,8%

Income tax recognized in OCI is specified as follows:	2017	2016
Income tax on revaluation on operating assets	0	0
Tax on other item that will not be reclassified to proft or loss	10.157	14.715
Total income tax in OCI	10.157	14.715

All amounts in thousands of ISK

Notes to the Condensed Consolidated Financial Statements

15. Operating assets

	Power plants	Other operating assets	Total
Historical cost			
Balance at 1 January 2016	37.491.152	1.736.006	39.227.158
Additions during the year	1.349.779	245.654	1.595.433
Transferred to other operating assets	(335.687)	337.118	1.431
Eliminated on disposal	0	(448.664)	(448.664)
Balance at 31 December 2016	38.505.244	1.870.114	40.375.358
Additions during the year	1.097.455	157.062	1.254.517
Eliminated on disposal	0	(6.406)	(6.406)
Balance at 31 December 2017	39.602.699	2.020.770	41.623.469
Depreciation			
Balance at 1 January 2016	2.487.997	172.448	2.660.445
Transferred to other operating assets	(63.990)	63.990	0
Depreciation for the year	1.602.276	61.142	1.663.418
Eliminated on disposal	0	(161.981)	(161.981)
Balance at 31 December 2016	4.026.283	135.599	4.161.882
Depreciation for the year	1.660.730	66.898	1.727.628
Eliminated on disposal	0	(5.766)	(5.766)
Balance at 31 December 2017	5.687.013	196.731	5.883.744
Net book value			
Book value at 1 January 2016	35.003.155	1.563.558	36.566.712
Book value at 1 January 2017	34.478.961	1.734.515	36.213.476
Book value at 31 December 2017	33.915.686	1.824.039	35.739.726
Net book value without revaluation			
1 January 2016	24.318.441	1.496.515	25.814.956
1 January 2017	24.401.557	1.611.812	26.013.369
31 December 2017	24.384.190	1.754.672	26.138.862
Depreciation rates	2-5%	5-20%	

Other operating assets include capitalized land and buildings with the carrying amount of ISK 1,290 million (2016: ISK 1,268 million).

Revaluation of operating assets

The Svartsengi power plant was revalued to fair value on 31 December 2015. The revaluation amounted to ISK 3,800 million. The calculations were performed by the HS Orka financial department. The Reykjanes power plant was revalued on 31 December 2012. Other property´s were revalued to fair value at 1 January 2008.

Rateable value and insurance value

Rateable value of the Company's buildings amounted to ISK 2,764 million at year-end 2017 (2016: ISK 2,856 million) and land measured at rateable value amounted to ISK 1,588 million (2016: ISK 1,903 million). Insurance value of the Company's assets amounted to ISK 44,328 million (2016: ISK 46,784 million).

Pledge of assets

The Company's power plants at Reykjanes and Svartsengi are pledged to secure bank loans in the amount of ISK 6,410 million (2016: ISK 6,117 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 2016	3.151.270
Additions during the year	248.462
Net book value at 31 December 2016	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

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 2017 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 2016	321.151	1.545.923	1.867.074
Eliminated on disposal	(3.737)	0	(3.737)
Additions during the year	48.522	160.209	208.731
Balance at 31 December 2016	365.936	1.706.132	2.072.068
Transferred to assets under construction	0	(85.923)	(85.923)
Additions during the year	7.299	129.142	136.441
Balance at 31 December 2017	373.234	1.749.351	2.122.586
Amortization			
Balance at 1 January 2016	249.935	146.241	396.176
Amortization for the year	35.251	0	35.251
Eliminated on disposal	(3.105)	0	(3.105)
Balance at 31 December 2016	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
Net book value			
Net book value at 1 January 2017	83.855	1.559.891	1.643.746
Net book value at 31 December 2017	82.442	1.603.110	1.685.552
Depreciation rates	10-25%		

All amounts in thousands of ISK

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 2017 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 2017 ISK 683 million (2016 year end ISK 683 million).

18. Investments in associates

Investments in associates are as follows:

	Share	Carrying amount 31.12.2017	Share	Carrying amount 31.12.2016
Shares in associates				
Bláa Lónið hf. (the Blue Lagoon), Iceland	30,00%	2.705.231	30,00%	1.853.066
DMM lausnir ehf., Iceland	27,20%	20.383	27,20%	20.593
Suðurorka ehf., Iceland	50,00%	239.638	50,00%	239.638
HS Orkurannsóknir ehf., Iceland	100,00%	500	100,00%	500
		2.965.752		2.113.797

	2017	2016
Balance at beginning of year	2.113.797	1.874.168
Additions during the year	0	4.000
Dividends	(439.623)	(421.516)
Translation differences	70.387	(287.980)
Share of profits	1.221.191	945.125
Balance at year end	2.965.752	2.113.797

The Company's share in profit of its associates for the year 2017 was ISK 1,221 million (2016: ISK 945 million). The share in associates profit or loss is based on un-audited financial information. Currency translation difference for the year was positive in the amount of ISK 70 million (2016: negative ISK 288 million).

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 31.12.2017	Share	Carrying amount 31.12.2016
Keilir ehf., Iceland	10,20%	17.500	10,20%	17.500
Íslensk nýorka hf., Iceland	8,10%	9.575	8,10%	9.575
		27.075		27.075

20. Bonds

	1.1-31.12.2017	1.1-31.12.2016
Balance at beginning of year	59.269	271.440
Installments	(90.027)	(203.069)
Changes in fair value	30.758	(9.102)
Balance at year end	0	59.269

21. 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. In addition, the Company has concluded that other power sale agreements that the Company holds with Landsvirkjun where the power price is based on Landsvirkjun's price list, with indexation in ISK, do not include embedded derivatives.

Fair value of embedded derivatives is as follows:	2017	2016
Fair value of embedded derivatives at 1 January	(3.214.095)	(4.681.099)
Changes in fair value	3.856.897	1.467.004
Fair value of embedded derivatives at 31 December	642.802	(3.214.095)
Interest rates used for determining fair value of embedded derivatives:	1.53-2.74%	1.92-4.04%

For sensitivity of aluminum prices and interest rates a reference is made to note 33.

All amounts in thousands of ISK

22. 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 (60 years).

23. Long-term receivables

Changes in long-term receivables from HS Veitur hf. are as follows:	31.12.2017	31.12.2016
Long-term receivable from HS veitur due to pension liability 1.1.	640.561	504.018
HS Veitur share of increase in pension obligation	106.525	140.382
Collected from HS Veitur	(4.525)	(3.839)
	742.561	640.561

Long-term receivable from HS Veitur due to pension liability is discussed further in note 39.

24. Trade and other receivables

Trade and other receivables are specified as follows:

	31.12.2017	31.12.2016
Trade receivables	1.192.279	1.243.652
Allowance for bad debt	(26.830)	(26.830)
Total trade receivables	1.165.449	1.216.822
Other receivables	90.119	93.458
	1.255.568	1.310.280

25. Restricted cash

Restricted cash at year end 2016: ISK 509 million (USD 4.5 million)) was dedicated to secure loan payments in accordance with a collateral agreement concluded in March 2010 with the Company's prior lenders. During the year 2017 the relevant loans were fully repaid and as a result the collateral agreement terminated.

26. Cash and cash equivalents

Cash and cash equivalents are as follows:

	31.12.2017	31.12.2016
Bank balances	188.916	29.233

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 33.

All amounts in thousands of ISK

27. 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 (2016: 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.

Non-controlling interest

Non-controlling interests represent ownership interests by third parties in businesses consolidated by HS Orka.

Dividends

Dividend declared during 2017 was ISK 420 million (2016: ISK 360 million dividend paid). The Board of Directors proposes that dividend in the amount of ISK 440 million (0.05 per Share) will be paid to shareholders in 2018.

28. Earning per share

Basic and diluted earnings per share is as follows:	1.1-31.12.2017	1.1-31.12.2016
Profit for the year	5.429.487	3.644.122
Weighted average number of ordinary shares	7.841.124	7.841.124
Basic and diluted earnings per share	0,69	0,46

All amounts in thousands of ISK

29. 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 33.

	2017	2016
Total interest bearing debt and borrowings 1 January	6.749.219	9.945.657
New long-term loans and borrowing	6.341.403	0
Repayment of long-term loans and borrowings	(6.535.279)	(2.196.439)
Changes is short term credit facility	(89.873)	89.873
Changes related to financing cash flows	(283.749)	(2.106.566)
Currency exchange difference	(55.604)	(1.105.915)
Indexation	1.117	16.043
Other liability related changes	(54.487)	(1.089.872)
Total interest bearing debt and borrowings 31 December	6.410.982	6.749.219

	31.12.2017	31.12.2016
Unsecured bank loans	215.244	320.491
Secured bank loans with covenants	6.195.737	6.117.492
Unsecured bond issue	0	311.235
Total interest bearing debt and borrowings	6.410.982	6.749.218
Current maturities	281.026	1.708.488
Short-term credit facility	0	89.873
Current debt	281.026	1.798.361
Non current debt	6.129.956	4.950.857

Annual maturities loans and borrowings are as follows:	31.12.2017	31.12.2016
Year 2018/2017	281.026	1.798.361
Year 2019/2018	282.258	1.397.123
Year 2020/2019	283.489	1.397.123
Year 2021/2020	326.521	928.790
Year 2022/2021	5.099.318	685.478
Subsequent	138.370	542.344
	6.410.982	6.749.219

All amounts in thousands of ISK

29. Loans and borrowings; continued

Loans in foreign currency:		1.1-31.12.2017		1.1-31.12.2016	
	Final due date	Weighted average interest rate	Carrying amount	Weighted average interest rate	Carrying amount
Loans in USD	2019-2023		0	2,41%	1.383.639
Loans in CHF	2021-2022		0	1,39%	2.032.215
Loans in EUR	2019-2022	3,60%	6.195.737	1,99%	1.032.131
Loans in JPY	2021-2023		0	0,81%	668.904
Loans in CAD	2021-2023		0	1,41%	551.617
Loans in SEK	2021		0	1,85%	292.283
Loans in GBP	2021		0	0,71%	156.703
			6.195.737		6.117.492
Loans in ISK:					
Indexed loans in ISK	2017		0	3,80%	311.235
Short-term credit facility	2017		0	8,20%	89.873
Other loans in ISK	2031	6,54%	215.244	6,80%	230.617
			215.244		631.726
Total interest-bearing loans and borrowings			6.410.982		6.749.218

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. Funding of the remaining facilities is subject to fulfillment of certain conditions precedent which were satisfied a few weeks after signing for the Reykjanes Facility and the first EUR 9,5 million have been drawn on the facility. The loan is recorded at amortized cost net of transaction fees (ISK 5,050 million) and has an effective interest rate of 3,6%.

Covenants

All effective covenants in the Company´s loan agreements were fulfilled in 2017.

All amounts in thousands of ISK

30. Pension obligations

	1.1-31.12.2017	1.1-31.12.2016
Pension commitment at 1 January	2.178.300	2.052.400
Contribution during the year	(136.823)	(138.077)
Current service costs	7.059	8.677
Interest expenses	43.524	41.356
Acturial changes HS Orka part charged to other comprehensive income	50.784	73.573
Actuarial changes HS Veitur part charged to profit or loss	106.525	140.369
Pension commitment at 31 December	2.249.369	2.178.300

Pension obligations are as follows:

The pension fund for State employees	1.105.452	1.087.800
The pension fund for Municipality of Hafnarfjörður employees	665.540	641.600
The pension fund for Municipality of Westman Islands employees	478.377	448.900
	2.249.369	2.178.300

According to actuaries' assessment, the Company's accrued pension obligations amounted at year end 2017 to ISK 2.249 million (2016: ISK 2,178 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 2017 is based on general salary increase taking into account interests. The Company's pension obligation is

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 106 million (2016: ISK 140 million) and is recognized as a long-term receivable from HS Veitur. (note 23) 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 39).

All amounts in thousands of ISK

31. Deferred tax liability

Movement in deferred tax liability is specified as follows:	2017	2016
Balance at beginning of year	(1.605.903)	(1.080.815)
Vesturverk deferred tax liability	87	1
Changes recognized in profit or loss	0	(539.799)
Changes recognized in other comprehensive income	10.157	14.712
Tax payable	90.622	0
Balance at year end	(1.505.036)	(1.605.903)

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

	31.12.2017	31.12.2016
Operating and intangible assets	(2.443.808)	(2.426.496)
Derivatives	(128.560)	642.819
Inventories	109	4.786
Trade and other receivables	(9.270)	5.366
Long-term receivables	(148.512)	(128.112)
Pension obligation	449.874	435.660
Deferred foreign exchange loss	(66.529)	(142.588)
Tax losses carried forward	0	2.662
	(2.346.696)	(1.605.903)

32. Trade and other payables

Trade and other payables are as follows:

	31.12.2017	31.12.2016
Trade payables	860.807	1.357.066
Other payables	623.967	536.367
	1.484.774	1.893.433

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 33.

All amounts in thousands of ISK

33. 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 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 36% (2016: 39%) 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.

33. 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:

	1.1-31.12.2017	1.1-31.12.2016
Bonds	0	59.269
Long term receivables	742.561	640.561
Trade and other receivables	1.255.568	1.310.279
Cash restricted to EU grant partners	326.156	0
Cash and cash equivalents	188.916	29.233
	2.513.201	2.039.342

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

	1.1-31.12.2017	1.1-31.12.2016
Large users and power companies	385.105	256.364
Receivables from HS Veitur	112.950	182.983
Other customers	694.224	870.933
	1.192.279	1.310.279

Impairment

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

	2017		2016	
	Gross value	Impairment	Gross value	Impairment
Not past due	1.101.316	872	1.167.478	924
Past due 0 - 30 days	32.612	354	45.580	494
Past due 31 - 60 days	2.185	118	5.829	315
Past due 61 - 90 days	1.369	502	8.130	2.978
Past due more than 90 days	54.797	24.985	83.262	22.119
	1.192.279	26.831	1.310.279	26.830

Impairment of trade receivables relates fully to other customers.

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 2017 the Company held cash and cash equivalent (including restricted cash) in the amount of ISK 515 million (2016: 538 million).

All amounts in thousands of ISK

33. 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 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	1.484.774	0	0	1.484.774
	2.278.739	6.633.871	177.288	9.089.898

Exposure to liquidity risk

31. December 2016	**Contractual cash flows**			
	Less than 1 year	1-5 years	5+ years	Total
Loans and borrowings	1.940.220	4.649.574	600.249	7.190.043
Trade and other payables	1.899.647	0	0	1.899.647
	3.839.867	4.649.574	600.249	9.089.690

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 fixed interest rates	1.1-31.12.2017	1.1-31.12.2016
Financial assets	0	59.269
Financial liabilities	0	(311.235)
	0	(251.966)
Financial instruments with floating interest rates		
Financial assets	188.916	537.733
Financial liabilities	(6.410.982)	(6.437.983)
	(6.222.066)	(5.900.250)
Derivatives		
Embedded derivatives	642.802	(3.214.095)
	642.802	(3.214.095)

All amounts in thousands of ISK

33. Financial instruments (continued)

Fair value sensitivity analysis for fixed rate 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. At year end 2016 100 bp change in interests rate would have had insignificant effects on profit or loss and equity after tax.

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 2016.

	Profit or loss	
	100 bp increase	100 bp decrease
1.1-31.12.2017		
Financial instruments with floating interest rates	(49.777)	49.777
Cash flow sensitivity analysis, net	(49.777)	49.777
1.1-31.12.2016		
Financial instruments with floating interest rates	(47.202)	47.202
Cash flow sensitivity analysis, net	(47.202)	47.202

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 2016.

	Profit or loss	
	100 bp increase	100 bp decrease
1.1-31.12.2017		
Embedded derivatives in power sales contracts	(16.741)	18.142
Fair value sensitivity analysis, net	(16.741)	18.142
1.1-31.12.2016		
Embedded derivatives in power sales contracts	104.780	(112.153)
Fair value sensitivity analysis, net	104.780	(112.153)

All amounts in thousands of ISK

33. 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).

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
CHF	0	2.032.214	72	74
EUR	6.521.895	1.032.213	351.799	13.799
USD	22.460	4.660.523	919.818	732.296
JPY	0	671.098	4	4
CAD	1.410	553.703	3	3
GBP	6	156.828	297	291
SEK	14	292.283	1	1
	6.545.785	9.398.862	1.271.993	746.468

	Average exchange rate		Year end exchange rate	
	1.1-31.12.2017	1.1-31.12.2016	1.1-31.12.2017	1.1-31.12.2016
The following exchange rates were used during the year:				
CHF	108,43	122,50	107,37	110,81
EUR	120,54	133,59	125,40	119,13
USD	106,78	120,67	104,67	112,82
JPY	0,95	1,11	0,93	0,97
CAD	82,36	91,08	83,56	83,72
GBP	137,45	163,80	141,32	138,91
SEK	12,52	14,13	12,75	12,43

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 2016.

	1.1-31.12.2017	1.1-31.12.2016
CHF	(6)	162.571
EUR	493.608	81.473
USD	(71.789)	314.258
JPY	(0)	53.688
CAD	113	44.296
GBP	(23)	12.523
SEK	1	23.383

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

33. 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 2016.

	Profit or loss	
	1.1-31.12.2017	1.1-31.12.2016
Increase of 10%	1.182.509	1.081.777
Decrease of 10%	(1.182.509)	(1.081.777)

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	31.12.2017	31.12.2016
Loans and receivables	2.187.045	2.488.574
Financial assets designated held for trading at fair value through profit or loss	669.877	86.344
	2.856.922	2.574.918

Financial liabilities	31.12.2017	31.12.2016
Financial liabilities designated at fair value through profit or loss	0	0
Financial liabilities measured at amortized cost	8.312.534	8.648.866
	8.312.534	8.648.866

All amounts in thousands of ISK

34. 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:

	31.12.2017		31.12.2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Interest-bearing long-term debts	6.410.982	6.401.960	6.749.218	6.631.885

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:

	1.1-31.12.2017	1.1-31.12.2016
Interest-bearing long-term debts	Libor + 315 bp	Libor + 300 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 2017				
Operating assets			35.739.725	35.739.725
Embedded derivatives		642.802		642.802
Investments in other companies			27.075	27.075
Total	0	642.802	35.766.800	36.409.602
31 December 2016				
Operating assets			36.213.477	36.213.477
Embedded derivatives		(3.214.095)		(3.214.095)
Bonds		59.269		59.269
Investments in other companies			27.075	27.075
Total	0	(3.154.826)	36.240.552	33.085.726

All amounts in thousands of ISK

35. Subsidiary

At end of 2016 the Company held a 66.6% the shares and voting interests in Vesturverk. During 2017 the Company increased its share and holds a 70.59% share at year end. The main asset of Vesturverk are development costs and the assets were recognized at fair value, which was considered to the consideration paid on the date of the acquisition.

36. 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 73.3% at year end 2017 (2016: 66.7%).

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.

37. 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 2017 and 2016. The Company bought services from shareholders for the amount of ISK 6 million (2016: ISK 12 million).

The Company purchased goods and services from associate companies in the amount of ISK 40 million in the year 2017 (2016: ISK 27 million).

The Company sold goods to associate companies in the amount of ISK 99 million (2016: ISK 91 million).

38. 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 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. In 2017 HS Orka´s grant rate was increased, agreed upon in the Grant Agreement with European Comission (EC), with maximum EC grant request remaining unchanged. In 2016 EU grants were estimated on the lower grant rate, therefore some adjustments have been made for work performed in the previous year. In July 2017 HS Orka received payment from EC for Report period 1 (Dec 2015 to May 2017).

39. 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 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 have not settled the matter and it is now up to the court to resolve the matter. Hearing is set to take place on 20 March 2018 and conclusion is expected in the spring of 2018.

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. Now, however the steering committee for the framework masterplan has delivered its 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 at this time. However, that could change should the current proposal be approved by Althingi. HS Orka's total investment in Suðurorka at year end 2017 was ISK 240 million.

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 2017.

This statement includes information on the following items:

A reference to the corporate governance procedures the Company follows and how the Company adhere 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 independing auditing firm on testing the internal controls in 2017. This will continue in the year 2018.

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 and 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 effectives of internal controls
- Continuous analysis of results acheived 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 auditors 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 2017. 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 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 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.

3. 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.

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	2.089.088	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	204.214	47.218	400.794	944.765
Other income	0	0	0	0	0
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	61.663	(71.842)	383.981	491.892
Finance income	16.846	17.888	45.001	21.493	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	904.533	3.716.404
Share of profit of associates	221.675	234.729	387.075	377.712	1.221.191
Profit (loss) before income tax	1.968.100	411.711	1.383.451	1.666.226	5.429.486
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	1.184.176	1.408.523	4.587.826
Other comprehensive income (loss):					
Items that will not be reclassified to proft or loss:					
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	1.483	10.157
	(6.070)	(16.236)	(12.391)	(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):	22.108	(84.527)	89.176	3.003	29.760
Total comprehensive income (loss)	1.640.923	291.788	1.273.352	1.411.525	4.617.587

All amounts in ISK '000

Quarterly statements, unaudited

Summary of the Company's results by quarters

2016	Q1	Q2	Q3	Q4	Total
Operating revenue	1.862.717	1.718.398	1.609.191	1.968.419	7.158.725
Production cost and cost of sales	(1.426.687)	(1.306.352)	(1.436.555)	(1.774.732)	(5.944.325)
Gross profit	436.030	412.046	172.636	193.688	1.214.400
Other income	0	(34)	0	6.296	6.262
Other operating expenses	(135.214)	(216.041)	(72.832)	(92.252)	(516.339)
Research and development	(14.676)	(18.761)	(11.433)	(41.955)	(86.825)
Results from operations	286.139	177.210	88.372	65.776	617.499
Finance income	(38.306)	34.081	22.202	81.772	99.748
Finance costs	(57.457)	(54.921)	(20.657)	(40.189)	(173.224)
Net exchange rate differences	82.643	66.905	447.139	373.306	969.993
Changes in fair value of embedded derivatives	194.730	645.899	812.420	(186.046)	1.467.004
Net finance income (expense)	181.609	691.965	1.261.104	228.843	2.363.521
Share of profit of associates	88.681	201.586	440.058	214.800	945.125
Profit (loss) before income tax	556.429	1.070.761	1.789.534	509.419	3.926.145
Income tax recovery (expense)	(47.547)	(199.309)	(249.011)	(43.932)	(539.799)
Net profit (loss) for the period	508.882	871.451	1.540.523	465.487	3.386.346
Other comprehensive income (loss):					
Items that will not be reclassified to proft or loss:					
Revaluation of operating assets	0	0	0	3.800.000	3.800.000
Remeasurement of defined benefit liability	(10.969)	(21.808)	(7.141)	(40.447)	(80.365)
Tax on items that will not be reclassified to profit or loss	2.194	4.362	1.428	(751.911)	(743.927)
	(8.775)	(17.446)	(5.713)	3.007.642	2.975.708
Items that may be reclassified subsequently to profit or loss					
Foreign currency translations difference on associates	(43.828)	3.254	(44.985)	(10.342)	(95.901)
	(43.828)	3.254	(44.985)	(10.342)	(95.901)
Other comprehensive income (loss):	(52.603)	(14.192)	(50.698)	2.997.300	2.879.807
Total comprehensive income (loss)	456.279	857.259	1.489.825	3.462.788	6.266.151

HS Orka hf. All amounts in ISK '000

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, Svartsengi and Reykjanesvirkjun. The mission of HS Orka is to serve industries and households providing eco-friendly energy through sustainable utilization of natural resources as well as utilizing and providing other resource streams to its customers thereby acting in benefit of 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 respect. The company´s environmental manager oversees compliance with the applicable environmental and other laws and regulations by both with HS Orka own operations and its contractors. HS Orka‘s environmental risks 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 surveilles its progress through annual environmental performance assessments.

Human Resources
The HS Orka Values, Dedication - Vision – Integrity, set 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 up on 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 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 consitst of 5 members, three male and two female. The company´s management consists of 11 members, 7 male and 4 female and of total emloyees 86% are male and 14% female.

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 behaviour 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 violations 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.

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 received certification according to the standard in 2015. Following the ISO 9001 certification, the decision was made to adopt and implement the ISO 14001 environmental management standard and the OHSAS 18001 safety management standard. The work is ongoing.

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 revaluation of process performance.