HS Orka hf.

Condensed Interim Financial Statements
1 January - 30 September 2009
ISK

HS Orka hf.
Brekkustigur 36
260 Reykjanesbær

Reg.no. 680475-0169

Contents

Endorsement by the Board of Directors and the Management

The condensed interim financial statements of HS Orka hf. for the period from 1 January to 30 September 2009 are prepared in accordance with the International Accounting Standard, IAS 34 with certain exemption regarding comparative amounts as described in the notes to the financial statements.

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 4,357 million in the first nine months of the year 2009 and the profit of the period amounted to ISK 2,226 million. Comprehensive income amounted to ISK 2,641 million. According to the balance sheet, the Company's assets amounted to ISK 37,350 million at the end of September 2009 (at year end 2008: ISK 36,479 million). Equity amounted to ISK 8,576 million at the end of September 2009 (at year end 2008: ISK 5,934 million) or 23,0% of total capital (at year end 2008: 16.3%).

Statement by the Board of Directors and the Management

According to the best knowledge of the Board of Directors and the Management, the Company's condensed interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the Management that the interim financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 September 2009 and its financial performance and changes in cash flows in the period from 1 January to 30 September 2009.

Furthermore, it is the opinion of the Board of Directors and the Management that the interim financial statements give a fair view of the Company's financial development, financial position and performance and describe the main risk factors and uncertainty faced by the Company.

The Board of Directors and the Management of HS Orka hf. have today discussed the Company's interim financial statements for the period from 1 January to 30 September 2009 and confirmed by means of their signatures.

Reykjanesbær, 16 November 2009

The Board of Directors:

Ásgeir Margeirsson, stjórnarformaður
Alexander Guðmundsson
Sigurgestur Guðlaugsson
Magnea Guðmundsdóttir
Ólafur Thordersen

Managing Director:

Júlíus Jónsson

Assistant Managing Director:

Albert Albertsson

Independent Auditor's Review Report

To the Board of Directors of HS Orka hf.

We have reviewed the accompanying condensed interim financial statements of HS Orka hf., which comprise the balance sheet as at 30 September 2009 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the company as at 30 September 2009, and of its financial performance and its cash flows for the nine-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter

Without qualifying our conclusion we would like to draw the attention to note 9 to the interim financial statements, which discusses on the fact that the Company does not yet meet with covenants of loan agreements on minimum equity ratio and operating ratios and therefore creditors may claim settlement of their loans. Despite thereof, the loans are classified among long term liabilities as the Company's management is negotiating on refinancing of the Company and negotiations are at the final stage. If negotiations on the refinancing of the Company is not concluded an uncertainty will prevail over the Company's ability to continue as a going concern. Presentation of assets and liabilities in the balance sheet is based on the assumption that the company is a going concern.

We also would like to draw attention to note 2 where it is stated that the Interim Financial Statements are prepared in accordance with the International Accounting Standard on interim financial statements ,IAS 34, with the exemption that comparative amounts in the Statement of Comprehensive Income, Statement of changes in equity, Cash flow statement and related notes are for the whole year 2008. As a result comparatives are not fully comparable. This results in a non-compliance with IFRS regarding the presentation and information provided in the Interim Financial Statements.

Reykjanesbær, 16 November 2009

KPMG hf.

Kristrún Helga Ingólfsdóttir

Condensed Interim Statement of Comprehensive Income 1 January to 30 September 2009

	Notes	2009 1.1.-30.9. 9 months	2008 1.1.-31.12 12 months
Operating revenue		4.357.006	5.424.774
Production cost and cost of sales		(3.023.991)	(3.066.017)
Gross profit		1.333.015	2.358.757
Gain on sale of operating assets	7	783.516	0
Other operating expenses	8	(382.369)	(376.456)
Results from operating activities		1.734.162	1.982.301
Finance income		410.529	476.106
Finance costs		(2.107.224)	(11.409.990)
Change in fair value of other derivatives		155.040	(1.895.261)
Changes in fair value of embedded derivatives		2.156.883	(2.687.097)
Net finance (costs) income	6	615.228	(15.516.242)
Share of profit (loss) of associates		228.745	(264.308)
Profit (loss) before income tax		2.578.135	(13.798.249)
Income tax		(352.429)	1.954.744
Profit (loss) for the period from continuing operation		2.225.706	(11.843.505)
Discontinued operation			
Profit from discontinued operation net of income tax		0	161.886
Profit (loss) for the period		2.225.706	(11.681.619)
Other comprehensive income			
Revaluation of operating assets		0	1.151.544
Revaluation of operating assets of discontinued operation		0	7.793.456
Income tax effect of revaluation		0	(1.212.600)
Impairment on revaluation		0	(900.000)
Income tax effect of impairment		0	105.000
Translation difference of an associate		415.789	0
Other comprehensive income for the period, net of income tax		415.789	6.937.400
Total comprehensive income (loss) for the period		2.641.495	(4.744.219)

Notes on pages 9 to 13 are an integral part of these interim financial statements

Interim Financial Statements 30 September 2009 of HS Orka hf. 5 All amounts are in thousands of ISK

Condensed Interim Balance Sheet as at 30 September 2009

	Notes	30.9.2009	31.12.2008
Assets			
Operating assets		26.060.482	26.178.340
Intangible assets	8	953.532	1.052.956
Investments in associates		862.255	217.721
Investments in other companies		188.016	177.516
Bonds		4.181.710	3.848.480
Embedded derivatives in electric power sales agreements		2.272.151	383.746
Deferred tax asset		1.379.452	1.731.861
Long term receivable	10	91.076	0
Total non-current assets		35.988.674	33.590.620
Inventories		360.337	266.144
Trade and other receivables		579.035	1.799.917
Embedded derivatives in electric power sales agreements		138.809	0
Cash and cash equivalents		283.374	822.305
Total current assets		1.361.555	2.888.366
Total assets		37.350.229	36.478.986
Equity			
Share capital		6.118.387	6.118.387
Statutory reserves		1.529.597	1.529.597
Translation reserve		415.789	0
Revaluation reserve		929.933	929.933
Accumulated deficit		(417.960)	(2.643.666)
Total equity		8.575.746	5.934.251
Liabilities			
Interest-bearing loans and borrowings	9	21.806.801	21.898.433
Pension obligation	10	1.387.000	1.248.000
Embedded derivatives in electric power sales agreements		0	55.161
Total non-current liabilities		23.193.801	23.201.594
Interest bearing liabilities	9	2.301.886	2.777.566
Trade and other payables		1.538.575	2.595.806
Embedded derivatives in electric power sales agreements		0	74.508
Other derivatives	11	1.740.221	1.895.261
Total current liabilities		5.580.682	7.343.141
Total liabilities		28.774.483	30.544.735
Total equity and liabilities		37.350.229	36.478.986

Notes on pages 9 to 13 are an integral part of these interim financial statements

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Condensed Interim Statement of Changes in Equity for the period ended 30 September 2009

	Share capital	Statutory reserve	Translation reserve	Revaluation reserve	Accumulated deficit	Total
1 January to 31 december 2008						
Equity at 1 January 2008	7.454.816	1.863.704	0	0	10.657.618	19.976.138
Profit for the period					(11.681.619)	(11.681.619)
Revaluation of operating assets .				8.945.000		8.945.000
Income tax effect of revaluation ..				(1.212.600)		(1.212.600)
Impairment of fixed assets				(900.000)		(900.000)
Income tax effect of impairment .				105.000		105.000
Total comprehensive income			0	6.937.400	(11.681.619)	(4.744.219)
Depreciation transferred to retained earnings				(322.108)	322.108	0
Dividends, ISK, 0,067 per share ..					(500.000)	(500.000)
Division of the company	(1.336.429)	(334.107)		(5.685.359)	(1.441.773)	(8.797.668)
Equity at 30 December 2008	6.118.387	1.529.597	0	929.933	(2.643.666)	5.934.251
1 January to 30 September 2009						
Equity at 1 January 2009	6.118.387	1.529.597	0	929.933	(2.643.666)	5.934.251
Profit for the period					2.225.706	2.225.706
Foreign currency translation difference of associate			415.789			415.789
Total comprehensive income			415.789	0	2.225.706	2.641.495
Equity at 30 September 2009	6.118.387	1.529.597	415.789	929.933	(417.960)	8.575.746

Notes on pages 9 to 13 are an integral part of these interim financial statements

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Statement of Cash Flows
1 January to 30 September 2009

	Notes	2009 1.1.- 30.9. 9 months	2008 1.1.- 31.12. 12 months
Cash flows from operating activities			
Profit (loss) for the period		2.225.706	(11.681.619)
Items not affecting working capital:			
Gain on sale of operating assets	7	(783.516)	(3.411)
Pension fund obligation		47.924	184.827
Depreciation and amortisation		645.516	1.307.841
Impairment		142.045	0
Share of (profit) loss of associates		(228.745)	264.308
Finance income and costs	6	(615.228)	15.983.418
Income tax expense		352.429	(1.927.527)
Inventories, increase		(94.193)	(314.373)
Receivables, decrease (increase)		1.220.882	(797.201)
Current liabilities, decrease		(92.015)	(60.763)
Prepaid income, decrease		0	109.029
Net cash from operations before interest and taxes		2.820.805	3.064.529
Interest income received		75.035	46.549
Interest costs paid		(595.655)	(877.711)
Income tax paid		0	(178.461)
Net cash from operating activities		2.300.185	2.054.906
Cash flows from investing activities			
Acquisition of operating assets during the period		(586.679)	(4.849.022)
Payments for operating assets acquired in prior years		(959.235)	0
Proceeds from sale of operating assets		1.606	8.506
Acquisition of intangible assets		(56.163)	(86.870)
Acquisition of shares in other companies		(10.500)	0
Proceeds from sale of bonds		790.469	0
Net cash used in investing activities		(820.502)	(4.927.386)
Cash flows from financing activities			
Paid capital gains tax on dividends and dividend		(50.000)	(490.000)
Proceeds from new borrowings		0	3.940.472
Repayment of borrowings		(991.883)	(510.749)
Short-term loans, (decrease) increase		(976.731)	731.247
Net cash (used in) provided by financing activities		(2.018.614)	3.670.970
(Decrease) increase in cash and cash equivalents		(538.931)	798.490
Cash transferred upon division of the company		0	(5.936)
Cash and cash equivalents at 1 January		822.305	29.751
Cash and cash equivalents at 30.9.2009/ 31.12.2008		283.374	822.305
Investing and financing activities not affecting cash flows			
Acquisition of operating assets under construction		0	(843.207)
Sale of operating assets		854.472	1.255.248
Trade and other payables			(700.000)
Acquisition of intangible assets		0	(555.248)
Sale of shares in other companies		0	371.467
Investment in a bond		(854.472)	(3.840.000)
New borrowings		0	3.840.000
Dividends to shareholders		0	(10.000)
Current liabilities		0	481.740

Notes on pages 9 to 13 are an integral part of these interim financial statements

Interim Financial Statements 30 September 2009 of HS Orka hf. 8 All amounts are in thousands of ISK

Notes to the Condensed Interim Financial Statements

1. Reporting entity

HS Orka hf. is an Icelandic limited liability company domiciled in Iceland. The Company's registered office is Brekkustígur 36, Reykjanesbær, Iceland. The Company is engaged in the production of electricity, hot water and geothermal seawater in addition to sale of geothermal heat and electricity.

2. Statement of compliance

The Company's interim financial statements are prepared in accordance with the International Accounting Standard on interim financial statements, IAS 34 with the exemption that comparative amounts in the Statement of Comprehensive Income, Statement of changes in equity, Cash flow statement and related notes are for the whole year 2008. As a result comparatives are not fully comparable. The condensed interim financial statements of HS Orka hf. do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's financial statements for the year 2008.

These condensed interim financial statements were approved by the Board of Directors on 16 November 2009.

3. Significant accounting policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements for the year 2008. The Company's financial statements can be found at its website www.hsorka.is and at the website of the Icelandic Stock Exchange; www.nasdaqomxnordic.com.

The interim financial statements are prepared in Icelandic krona, which is the company's functional currency and all amounts have been rounded to the nearest thousand. They are based on historical cost, except for the following:

- a part of operating assets are recognised at revalued cost, which was the fair value at the revaluation day
- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- financial assets held for sale are measured at fair value.

(i) Presentation of the financial statements

At the beginning of the year 2009, a revised IAS 1,on the presentation of financial statements, took effect. The effect thereof on the interim financial statements is that income and expenses, which previously were recognised either in the income statement or under equity, are now stated in a single statement of comprehensive income. The presentation of comparative figures have been changed according to the new presentation and in accordance with provisions of the standard. The change only affects the presentation and does not affect earnings per share.

(ii) Segment reporting

As of 1 January 2009, the Company presents a statement of segments based on internal reporting to key management. This change in the accounting policies is due to the adoption of the IFRS 8 *Operating segments.* Previously, segment reporting was presented in accordance with the IAS 14, *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. The management bases its operating decisions, when appropriate, on available financial information on segments and evaluates the return of individual segments.

The return of operating segments consists both of income and expenses directly related to the relevant segment, in addition to income and expenses, which reasonably and reliably can be divided between segments. Certain items are not distributed to individual segments. This concerns mainly financial income and costs, share of profit of associates and income tax.

4. Use of estimates and judgements

The preparation of interim financial statements in accordance with International Financial Reporting Standards requires management to make decisions, evaluations and assumptions that affect the application of accounting methods and stated amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

5. Segment reporting

Segment information is presented in respect of the

1 January - 30 September 2009	**Production**	**Electricity sale**	**Other**	**Total**
External revenue	3.604.851	1.519.346	559.492	5.683.689
Inter-segment revenue	(543.167)			(543.167)
Total segment revenue	3.061.684	1.519.346	559.492	5.140.522
Segment operating results	1.394.304	304.753	35.105	1.734.162
Unallocated items				
Net finance income and costs				615.228
Share of profit of associates				228.745
Income tax expense				(352.429)
Profit for the period				2.225.706
Segment assets	28.566.626	46.063	673.476	29.286.165
Unallocated assets				8.064.064
Total assets				37.350.229
Investments	614.840	3.053	24.950	642.843
Depreciation and amortisation	614.873	3.804	26.839	645.516
Impairment	142.045			142.045

Segment information for the year 2008 are incomparable due to the demerger of Hitaveita Suðurnesja hf. into HS Orka hf. and HS Veitur hf., and changes in the presentation of segment reporting due to the adoption of IFRS 8. Comparative figures for segments are thus not stated.

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6. Finance income and costs

Finance income and costs specifies as follows:

	2009 1.1.-30.9. 9 months	2008 1.1.-31.12. 12 months
Interest income	410.529	476.106
Total finance income	410.529	476.106
Interest expenses	790.959	1.036.904
Net foreign exchange loss	1.225.395	10.407.511
Capitalised financial expenses	0	(34.425)
Other financial costs	90.870	0
Total finance costs	2.107.224	11.409.990
Change in fair value of other derivatives	155.040	(1.895.261)
Fair value changes of embedded derivatives	2.156.883	(2.687.097)
Net finance income and costs	615.228	(15.516.242)

7. Gain on sale of land

In July 2009, the Company sold a land and geothermal heat rights to the City of Reykjanes. The land is a 39 hectare land on the tip of the Reykjanes peninsula and a 63 hectare land in Svartsengi. The sales value amounted to ISK 854 million and was paid with bond with 10 year maturity. The gain on the sale amounted to ISK 784 million. At the same time, the Company entered into a operating lease agreement on the sold land and geothermal heat rights over the next 65 years with the possibility of renewing the rental term for another 65 years. The agreement assumes that talks about renewal of the agreement will be held when half of the lease time has passed in approximately 32 years. Should there be a change in law and the government and municipalities could sell geothermal rights could Reykjanesbær not sell the geothermal rights without approval from HS Orka hf. and HS Orka hf. should have a preemtive right to buy the land and the geothermal rights.

8. Intangible assets

Intangible assets are specified as follows:

	Utilisation right	Software	Development	Total
Cost price				
Balance at 1.1.2008	0	259.518	871.616	1.131.134
Additions during the year	555.248	25.826	201.179	782.253
Division	(555.248)		(137.136)	(692.384)
Balance at 31.12.2008 and 1.1.2009	0	285.344	935.659	1.221.003
Additions during the period	0	30.550	25.613	56.163
Balance at 30.9.2009	0	315.894	961.272	1.277.166
Amortisation and impairment				
Balance at 1.1.2008	0	144.461	4.178	148.639
Amortisation for the year	0	19.408	0	19.408
Balance 31.12.2008 and 1.1.2009	0	163.869	4.178	168.047
Amortisation for the period	0	13.542	0	13.542
Impairment	0	0	142.045	142.045
Balance at 30.9.2009	0	177.411	146.223	323.634
Book value				
1.1.2008	0	115.057	867.438	982.495
31.12.2008 og 1.1.2009	0	121.475	931.481	1.052.956
30.9.2009	0	138.483	815.049	953.532

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8. Intangible assets, continued

Impairment

Due to the current market condition management expect that future planned projects will be delayed. This has caused the Company to assess the recoverable amount of the development cost. The recoverable amount of the development costs were tested for impairment by estimating the value in use and as a result of that the company fully impaired development cost at Hallkellsholar during the period. Impairment of the asset amounted to ISK 142 million and is recognised in other operating expenses. Other development cost was tested for impairment with a positive result.

Other operating expenses

Other operating expenses are specified as follows:

	1.1.-30.9. 9 months	1.1.-31.12. 12 months
Impairment of intangible assets	142.045	0
Other operating expenses	240.324	376.456
Total finance income	382.369	376.456

9. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are specified as follows:

	30.9.2009	31.12.2008
Long-term debt		
Unsecured bank loans	770.891	774.155
Unsecured bank loans with covenants	19.660.718	19.267.142
Unsecured bond issue	3.412.676	3.393.569
Current maturities	(2.037.484)	(1.536.433)
Interest-bearing long-term loans	21.806.801	21.898.433
Short-term loans		
Current maturities of long-term borrowings	2.037.484	1.536.433
Overdraft	193.993	0
Short term borrowing	70.409	1.241.133
Interest-bearing short-term loans	2.301.886	2.777.566
Total interest-bearing loans and borrowing	24.108.687	24.675.999

Terms of interest-bearing loans and borrowings

Debt in foreign currency:

	30.9.2009		31.12.2008	
	Weighted average interest rate	Carrying amount	Weighted Average interest rate	Carrying amount
Loans in CHF	0,8%	5.444.642	3,0%	5.366.453
Loans in EUR	1,9%	5.292.500	5,2%	5.245.851
Loans in USD	5,4%	4.368.147	3,9%	5.572.709
Loans in JPY	1,9%	2.167.326	1,3%	2.195.736
Loans in CAD	1,0%	1.399.418	3,7%	1.201.867
Loans in SEK	3,4%	1.047.033	5,8%	990.080
Loans in GBP	1,1%	540.133	6,1%	474.963
		20.259.199		21.047.659
Loans in ISK:				
Un-indexed loans	19%	193.993		0
Indexed loans	3,9%	3.655.495	3,9%	3.628.340
		3.849.488		3.628.340
Total interest-bearing loans and borrowings		24.108.687		24.675.999

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9. Interest-bearing loans and borrowings, continued

Financing

The Company does not meet with the covenants of loan agreements on minimum equity ratio and operating ratios. The company has now in principle reached an agreement with NIB (Nordic Investment Bank) and CEB (Council of Europe Development Bank) and an agreement with EIB (European Investment Bank) is at a final stage. In accordance with the agreements the banks will issue waiver letters concerning the company's breach of the original covenants for a certain period of time and replace them with new temporary covenants. Loan agreements with covenants in breach are presented in accordance with its original contract terms.

10. Pension obligation

According to an actuaries' assessments the Company's accrued pension obligation amounted to ISK 1,387 million on 30 September 2009 (31 December 2008: ISK 1,248 million), discounted based on 2% interests and taken into account a share in the pension fund's net asset. Presumption of life expectancy and mortality rate is in accordance with provisions of Regulation no. 391/1998 on Mandatory guarantee of Pension Rights and the Operation of Pension Funds. Estimated increase in the pension obligation in the period is based on changes in the fund's assets, and change in the evaluation of employees' age structure at the time pension begins.

A part of the pension fund commitment pertains to the Company's employees providing services to HS Veitur hf. and HS Veitur hf. participates in the cost of the increase in these employees' pension fund commitment. HS Veitur hf.'s share in the increase in pension fund commitment during the period amounted to ISK 91 million and is recognised as long term receivable from HS Veitur hf.

11. Derivatives

Currency and interest rate swaps with the resolution committee of Glitnir bank hf. is recognised as debt in the interim financial statements based on discounted cash flows as at 30 September 2009, to the amount of ISK 1,572 million in addition to accrued instalments fallen in due to the amount of ISK 169 million, or a total of ISK 1,740 million. The agreement term is until the year 2017 with two annual dates of maturity. Uncertainty prevails over the settlement of the agreement as the resolution committee has not kept to its part of the agreement. Information on the final settlement of the agreement is not available.

12. Capital commitments

The Company has entered into a contract to purchase equipments for JPY 1.328 million and EUR 2,2 million. The delivery is expected to be in May 2010 and fully paid before year end 2010.