

HS Orka hf.

Condensed Interim Financial Statements
1 January - 31 March 2010
ISK

HS Orka hf.
Brekustigur 36
260 Reykjanesbær

Reg.no. 680475-0169

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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 31 March 2010 are prepared in accordance with the International Accounting Standard, IAS 34.

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 1,812 million in the first quarter of the year 2010 (2009: ISK 1,555 million) and the profit of the period amounted to ISK 1,190 million (2009: ISK 468 million). Comprehensive income amounted to ISK 1,164 million (2009: ISK 802 million). According to the balance sheet, the Company's assets amounted to ISK 44,739 million at the end of March 2010 (at year end 2009: ISK 42,069 million). Equity amounted to ISK 17,524 million at the end of March 2010 (at year end 2009: ISK 14,089 million) or 39.2% of total capital (at year end 2009: 33.5%).

At a board meeting on the 30 March 2010 the board of directors agreed to increase the share capital of the Company by 845 million shares. Geysir Green Energy and Magma Energy Sweden AB subscribed for the whole amount at the rate ISK 3 per share. The total share capital increase amounted to ISK 2,533 million. ISK 633 million was paid on 30 March 2010. On 20 April 2010, 28 April 2010 and 11 May 2010 the remaining amount of ISK 1,920 was paid.

After the increase of share capital of the shareholders holding more than 10% shares were:

	Share
Geysir Green Energy hf.	53,96%
Magma Energy Sweden A.B.	44,52%

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 31 March 2010 and its financial performance and changes in cash flows in the period from 1 January to 31 March 2010.

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 31 March 2010 and confirmed by means of their signatures.

Reykjanesbær, 16 May 2010

The Board of Directors:

Managing Director:

Assistant Managing Director:

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 statement of financial position as at 31 March, 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the three-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 31 March, 2010, and of its financial performance and its cash flows for the three-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjanesbær, 16 May 2010

KPMG hf.

Condensed Statement of Comprehensive Income 1 January to 31 March

	Notes	2010 1.1.-31.3.	2009 1.1.-31.3.
Operating revenue		1.812.280	1.554.696
Production cost and cost of sales .....	(	1.257.949)	(1.144.995)
Gross profit		554.331	409.701
Other operating expenses .....	(	55.716)	(109.549)
Results from operating activities		498.615	300.152
Finance income		83.880	811.953
Finance costs .....	(	316.856)	(305.045)
Changes in fair value of derivatives		46.362	141.193
Changes in fair value of embedded derivatives in sales contracts		1.210.597	(393.096)
Net finance (costs) income	6	1.023.983	255.005
Share of profit (loss) of associates .....	(	58.544)	(3.651)
Profit before income tax		1.464.054	551.506
Income tax expense .....	(	274.068)	(83.274)
Profit for the period		1.189.986	468.232
Other comprehensive income			
Foreign currency translation difference of associate .....	(	26.134)	333.573
Other comprehensive income for the period, net of income tax .....	(	26.134)	333.573
Total comprehensive income for the period		1.163.852	801.805
Earnings per share			
Basic and diluted earnings per share		0,19	0,08

Notes on pages 9 to 11 are an integral part of these financial statements

Condensed Statement of Financial Position as at 31 March

	Notes	31.3.2010	31.12.2009
Assets			
Operating assets		28.126.880	27.714.168
Intangible assets		977.335	952.899
Investments in associates	7	546.669	893.984
Investments in other companies	8	44.575	127.543
Bonds	9	450.451	2.742.040
Embedded derivatives in electric power sales contracts		7.695.755	6.623.015
Deferred tax asset		209.886	483.954
Long term receivable		541.195	532.081
Total non-current assets		<u>38.592.746</u>	<u>40.069.684</u>
Inventories		348.673	346.371
Bonds		1.796.078	0
Trade and other receivables		997.464	802.002
Share capital subscribed	10	1.900.196	0
Embedded derivatives in electric power sales contracts		837.459	699.602
Cash and cash equivalents		266.267	151.782
Total current assets		<u>6.146.137</u>	<u>1.999.757</u>
Total assets		<u><u>44.738.883</u></u>	<u><u>42.069.441</u></u>
Equity			
Share capital		6.962.919	6.118.387
Share premium and statutory reserves		3.218.660	1.529.597
Translation reserve		381.249	407.383
Revaluation reserve		1.805.137	1.830.311
Reserve for shares in associate .....	(	262.638)	0
Retained earnings		5.418.276	4.203.116
Total equity	10	<u>17.523.603</u>	<u>14.088.794</u>
Liabilities			
Loans and borrowings		20.820.232	21.212.751
Pension obligation		1.397.256	1.375.700
Currency and interest rate swap contract	11	1.261.708	0
Total non-current liabilities		<u>23.479.196</u>	<u>22.588.451</u>
Loans and borrowings		2.512.362	2.563.250
Trade and other payables		966.756	1.263.911
Currency and interest rate swap contract	11	256.966	1.565.035
Total current liabilities		<u>3.736.084</u>	<u>5.392.196</u>
Total liabilities		<u>27.215.280</u>	<u>27.980.647</u>
Total equity and liabilities		<u><u>44.738.883</u></u>	<u><u>42.069.441</u></u>

Notes on pages 9 to 11 are an integral part of these financial statements

Condensed Statement of Changes in Equity for the period ended 31 March

	Share capital	Share premium and statutory reserve	Translation reserve	Revaluation reserve	Reserve for shares in associate	Retained earnings	Total
1 January to 31 March 2009							
Equity at 1 January 2009	6.118.387	1.529.597	0	929.933	0	(2.643.666)	5.934.251
Profit for the period						468.232	468.232
Foreign currency translation difference of associate			333.573				333.573
Total comprehensive income			333.573	0	0	468.232	468.232
Depreciation transferred to retained earnings				(12.220)		12.220	0
Equity at 31 March 2009	6.118.387	1.529.597	333.573	917.713	0	(2.163.214)	6.736.056
1 January to 31 March 2010							
Equity at 1 January 2010	6.118.387	1.529.597	407.383	1.830.311	0	4.203.116	14.088.794
Profit for the period						1.189.986	1.189.986
Foreign currency translation difference of associate			(26.134)				(26.134)
Total comprehensive income			(26.134)	0	0	1.189.986	1.163.852
Depreciation transferred to retained earnings				(25.174)		25.174	0
Share capital increase	844.532	1.689.063					2.533.595
Effects of put option on own shares of an associate					(277.354)		(277.354)
Expired put options on own shares of an associate					14.716		14.716
Equity at 31 March 2010	6.962.919	3.218.660	381.249	1.805.137	(262.638)	5.418.276	17.523.603

Notes on pages 9 to 11 are an integral part of these financial statements

Condensed Statement of Cash Flows

1 January to 31 March

	Notes	2010 1.1.- 31.3.	2009 1.1.- 31.3.	
Cash flows from operating activities				
Profit for the period		1.189.986	468.232	
Items not affecting working capital:				
Increase in pension fund obligation		21.556	133.350	
Depreciation and amortization		228.637	214.956	
Share of (profit) loss of associates		58.544	3.651	
Finance income and costs	(1.023.983)	(255.005)
Income tax expense		274.068	83.274	
		748.808	648.458	
Inventories, increase	(2.302)	(14.930)
Receivables, (increase) decrease .....	(	204.576)	363.027
Current liabilities, increase (decrease)		77.214	(179.368)
Net cash from operations before interest and taxes		619.144	817.187	
Interest income received		0	19.039	
Interest and indexation costs paid	(174.481)	(190.343)
Net cash from operating activities		444.663	645.883	
Cash flows from investing activities				
Acquisition of operating assets during the period	(633.830)	(376.891)
Payments for operating assets acquired in 2008		0	(956.556)
Acquisition of intangible assets	(31.955)	(25.329)
Acquisition of shares in other companies		0	(500)
Repayment of loan to HS Veitur		0	697.244	
Proceeds from sale of bonds		560.868	290.803	
Net cash used in investing activities	(104.917)	(371.229)
Cash flows from financing activities				
Share capital increase		633.399	0	
Paid with-holding tax of dividend		0	(50.000)
Repayment of borrowings	(430.831)	(148.258)
Repayment of loan from HS Veitur .....	(	378.816)	0
Short-term loans, decrease	(49.013)	(627.473)
Net cash provided by (used in) financing activities	(225.261)	(825.731)
Increase (decrease) in cash and cash equivalents		114.485	(551.077)
Cash and cash equivalents at 1 January		151.782	822.305	
Cash and cash equivalents at 31 March		266.267	271.228	
Investing and financing activities not affecting cash flows				
Share capital increase		1.900.196	0	
Share capital subscribed .....	(	1.900.196)	0

Notes on pages 9 to 11 are an integral part of these financial statements

Notes to the Condensed Interim Financial Statements

1. Reporting entity

HS Orka hf. (the "Company") is a limited liability company domiciled in Iceland. The Company's registered office is Brekkustigur 36, Reykjanesbær, Iceland. The Company handles production of electric power, hot water and geothermal steam and sale of electric power. The Company is a subsidiary of Geysir Green Energy hf..

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.

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. 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 2009.

These condensed interim financial statements were approved by the Board of Directors on 16 May 2010.

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 as at and for the year ended 31. December 2009.

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 recognized at revalued cost, which was the fair value at the revaluation date
- derivative financial instruments are measured at fair value
- embedded derivatives in electric power sales contracts are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- financial assets available for sale are measured at fair value.

4. Use of estimates and judgments

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.

Notes, continued

5. Segment reporting

The segment reporting comprise the industries, which form the basis for managerial decision taking.

1 January - 31 March 2010	Power Production	Electricity sale	Other	Total
External revenue	1.057.478	533.902	220.900	1.812.280
Inter-segment revenue	211.315			211.315
Total segment revenue	1.268.793	533.902	220.900	2.023.595
Segment operating results	542.271	(55.334)	11.678	498.615
Unallocated items				
Net finance income and costs				1.023.983
Share of profit of associates				(58.544)
Income tax expense				(274.068)
Profit for the period				1.189.986
Segment assets	28.383.197	53.236	667.782	29.104.215
Unallocated assets				15.634.668
Total assets				44.738.883
Unallocated liabilities				27.215.280
Capital expenditures	657.935	7.748	102	665.785
Depreciation and amortization	216.797	1.620	10.220	228.637
1 January - 31 March 2009				
	Production	Electricity sale	Other	Total
External revenue	680.916	568.323	305.457	1.554.696
Inter-segment revenue	250.145			250.145
Total segment revenue	931.061	568.323	305.457	1.804.841
Segment operating results	274.041	9.902	16.209	300.152
Unallocated items				
Net finance income and costs				255.005
Share of profit of associates				(3.651)
Income tax expense				(83.274)
Profit for the period				468.232
Segment assets	26.704.282	47.852	666.424	27.418.558
Unallocated assets				7.410.615
Total assets				34.829.173
Unallocated liabilities				28.191.052
Capital expenditures	399.914	2.306		402.220
Depreciation and amortization	204.743	1.267	8.946	214.956

Notes, continued

6. Finance income and costs

Finance income and costs specifies as follows:

	2010	2009
	1.1.-31.3	1.1.-31.3.
Interest income on loans and receivables	0	19.145
Interest income on available for sale securities	65.385	98.647
Net foreign exchange indifference	18.495	694.161
Total finance income	<u>83.880</u>	<u>811.953</u>
Interest expenses	(187.150)	(214.937)
Indexation	(46.738)	(90.108)
Fair value changes on financial assets through profit and loss	(82.968)	0
Total finance costs	<u>(316.856)</u>	<u>(305.045)</u>
Currency and interest rate swap, fair value change	46.362	141.193
Fair value changes of embedded derivatives	<u>1.210.597</u>	<u>(393.096)</u>
Net finance income and costs	1.023.983	255.005

7. Investment in associates

Share in Bláa Lónið hf. ("Blue lagoon") was decreased by ISK 277 million due to put option on own shares in the Blue lagoon. In June 2011 the Blue lagoon is obligated to acquire outstanding shares from one of its shareholders. HS Orka has recognizes its share in the put option in the reserve for shares in associate within equity. The reserve is decreased by HS Orka share in expired put option.

8. Investment in other companies

During the period shares in Eignarhaldsfélagið Farice ehf. were written down in the amount of ISK 83 million.

9. Bonds

Bonds receivable from HS Veitur is now classified as current as it is management intention to sell them within next 12 months.

10. Equity

Issued capital

At a board meeting on the 30 March 2010 the board of directors agreed to increase the share capital of the Company by 845 million shares. Geysir Green Energy and Magma Energy Sweden AB subscribed for the whole amount at the rate ISK 3 per share. The total share capital increase amounted to ISK 2,533 million. ISK 633 million was paid on 30 March 2010. On 20 April 2010, 28 April 2010 and 11 May 2010 the remaining amount of ISK 1,920 was paid.

Reserve for shares in associate

The reserve for shares in associate comprises HS Orka share in put option on own shares in associate.

11. Currency and interest rate swap contract

The long term portion of currency and interest rate swap contract was classified as current in year 2009 due to an uncertainty of a settlement. The long term portion of the agreement has now been classified as long term liability as the resolution committee of Glitnir Banki has stated that it will collect the contract on its maturity. The contract is at end of March 31 2010 classified according to the contracts term.

12. Restricted cash

According to amendmends to loan agreements concluded in November 2009 to secure loan repayments received cash during next months up to USD 4.5 million will be restricted for use .