HS Orka hf.

Financial Statements
31 December 2009
ISK

HS Orka hf.
Brekkustígur 36
260 Reykjanesbær

ID no. 680475-0169

Contents

Board of Directors and Management Report

The financial statements of HS Orka hf. (the Company) are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 6,226 million (2008: ISK 5,425 million) and the profit for the year amounted to ISK 6,798 million (2008: ISK 11,682 million loss). Total comprehensive income for the year amounted to ISK 8,155 million (2008: ISK 4,744 million loss). According to the statement of financial position, the Company's assets amounted to ISK 42,069 million at year end (2008: ISK 36,479 million). Equity amounted to ISK 14,089 million (2008: ISK 5,934 million) or 33.5% of total capital (2008: ISK 16.3%).

During the year the management has been in a process of negotiations with its banks since the weakening of Icelandic krona in year 2008 which led to an increase of the Company's loans resulting in a breach of covenants. Subsequent to year-end, the banks revised the covenants equity ratio and operating ratio, increased interest and changed repayment schedules. The liquidity ratio at year end was low but will be increased by a sale of bonds classified as non-current and there is also very unlikely that the currency and interest rate swap liability classified as current liability will be paid in full in year 2010. On the basis of new covenants and forecasts management believes that the risk of the new covenants being breached is low and therefore that the Company will continue as a going concern for the foreseeable future.

At end of the year 2009, the Company's operating assets were revalued to fair value, as a result carrying amount of the power plant, Svartsengi, increased by ISK 1,200 million and equity by ISK 984 million. The basis for the valuation is further explained in note 16.

In July 2009, the Company sold land and geothermal heat rights to the Municipality of Reykjanes. The land is 39 hectare on the tip of the Reykjanes peninsula and 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 an 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. In August the Municipality of Reykjanes started negotiations with the Municipality of Grindavik about Grindavik entering into the Svartsengi deal and involved HS Orka hf in those negotiations. Those negotiations are now at an advanced stage and will most likely be concluded in February 2010. Based on that the sale price for the land in Svartsengi is recorded as receivable.

Despite uncertain economic outlook management of the Company believes that there is an increasing demand for electricity in Iceland in coming years and the plan is to increase the Company's capacity in that respect. As access to new funding sources are limited there is uncertainty about the timing of increase of Company's capacity in the future but preperations are ongoing.

The Company's shareholders numbered six at year end compared to eight at the beginning of the year. At year end two shareholders held more than a 10% share in the Company, they are:

	Share
Geysir Green Energy hf.	57.38%
Magma Energy Sweden A.B.	40.94%

The Company's Board of Directors proposes that in the year 2009 no dividends shall be paid to shareholders, and refers to the financial statements for further allocation of profits and changes in the carrying amount of equity during the year.

Board of Directors and Management Report

Statement by the Board of Directors and the Management

According to the Board of Directors' and the Management's best knowledge the 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 financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 31 December 2009 and financial performance, and changes in cash flows during the year 2009.

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

The Board of Directors and the Management of HS Orka hf. have today discussed the Company's financial statements for the year 2009 and hereby confirm them by means of their signatures. The Board of Directors and the Management submit the financial statements for approval at the annual general meeting.

Reykjanesbær, 6 February 2010.

The Board of Directors:

Alexander Guðmundsson
Chairman of the board

Gylfi Árnason

Katrín Friðriksdóttir

Lyle Braaten

Ross Beaty

Managing Director:

Júlíus Jónsson

Assistant Managing Director:

Albert Albertsson

Independent Auditors' Report

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

We have audited the accompanying financial statements of HS Orka hf., which comprise the report by the Board of Directors, statement of financial position as at December 31, 2009, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of HS Orka hf. as at December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjanesbær, 6 February 2010.

KPMG hf.

Kristrún H. Ingólfsdóttir

Statement of Comprehensive Income
for the year ended 31 December

	Notes	2009	2008
Continuing operations			
Operating revenue	8	6,225,965	5,424,774
Production cost and cost of sales		(4,418,975)	(3,066,017)
Gross profit		1,806,990	2,358,757
Other income	10	783,516	0
Other operating expenses	11	(499,044)	(376,456)
Results from operating activities		2,091,462	1,982,301
Finance income		483,230	476,106
Finance costs		(2,405,753)	(11,409,990)
Changes in fair value of derivatives		330,226	(1,895,261)
Changes in fair value of embedded derivatives in sales contracts	21	7,068,540	(2,687,097)
Net finance income (costs)	14	5,476,243	(15,516,242)
Share of profit (loss) of associates	18	227,381	(264,308)
Profit (loss) before income tax		7,795,086	(13,798,249)
Income tax	15	(997,380)	1,954,744
Profit (loss) from continuing operation		6,797,706	(11,843,505)
Discontinued operation			
Profit from discontinued operation (net of income tax)	7	0	161,886
Profit (loss) for the year		6,797,706	(11,681,619)
Other comprehensive income			
Revaluation of operating assets of continuing operation		1,200,000	1,151,544
Income tax effect of revaluation of continuing operation		(216,000)	(172,732)
Translation difference of an associate		407,383	0
Effects of change in tax rate		(34,546)	0
Discontinued operation		0	5,958,588
Other comprehensive income for the period, net of income tax		1,356,837	6,937,400
Total comprehensive income (loss) for the year		8,154,543	(4,744,219)
Earnings (loss) per share			
Basic and diluted earnings (loss) per share	26	1.11	(1.57)
Earnings (loss) per share on continuing operation			
Basic and diluted earnings (loss) per share	26	1.11	(1.59)

Notes on pages 10 to 47 are an integral part of these financial statements.

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Statement of Financial Position as at 31 December

	Notes	2009	2008
Assets			
Operating assets	16	27,714,168	26,178,340
Intangible assets	17	952,899	1,052,956
Investments in associates	18	893,984	217,721
Investments in other companies	19	127,543	177,516
Bonds	20	2,742,040	3,848,480
Embedded derivatives in electric power sales contracts	21	6,623,015	383,746
Deferred income tax asset	22	483,954	1,731,861
Long-term receivable	23	532,081	0
Total non-current assets		40,069,684	33,590,620
Inventories		346,371	266,144
Trade and other receivables	23	802,002	1,799,917
Embedded derivatives in electric power sales contracts	21	699,602	0
Cash and cash equivalents	24	151,782	822,305
Total current assets		1,999,757	2,888,366
Total assets		42,069,441	36,478,986
Equity			
Share capital		6,118,387	6,118,387
Statutory reserve		1,529,597	1,529,597
Translation reserve		407,383	0
Revaluation reserve		1,830,311	929,933
Retained earnings (accumulated deficit)		4,203,116	(2,643,666)
Total equity	25	14,088,794	5,934,251
Liabilities			
Loans and borrowings	27	21,212,751	21,898,433
Pension fund commitment	28	1,375,700	1,248,000
Embedded derivatives in electric power sales contracts	21	0	55,161
Total non-current liabilities		22,588,451	23,201,594
Loans and borrowings	27	2,563,250	2,777,566
Trade and other payables	30	1,263,911	2,595,806
Embedded derivatives in electric power sales contracts	21	0	74,508
Currency and interest rate swap contract	29	1,565,035	1,895,261
Total current liabilities		5,392,196	7,343,141
Total liabilities		27,980,647	30,544,735
Total equity and liabilities		42,069,441	36,478,986

Notes on pages 10 to 47 are an integral part of these financial statements.

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Statement of Changes in Equity for the Year Ended for the Year Ended 31 December

2008	**Share capital**	**Statutory reserve**	**Translation reserve**	**Revaluation reserve**	**Retained earnings (accumulated deficit)**	**Total**
Equity at 1 January 2008	7,454,816	1,863,704	0	0	10,657,618	19,976,138
Loss for the year					(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 operating assets ...				(900,000)		(900,000)
Income tax effect of impairment .				105,000		105,000
Total comprehensive income				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 31 December 2008	6,118,387	1,529,597	0	929,933	(2,643,666)	5,934,251
2009						
Equity at 1 January 2009	6,118,387	1,529,597	0	929,933	(2,643,666)	5,934,251
Profit for the year					6,797,706	6,797,706
Foreign currency translation difference of associate			407,383			407,383
Revaluation of operating assets ...				1,200,000		1,200,000
Income tax effect of revaluation ..				(216,000)		(216,000)
Effects of change in tax rate				(34,546)		(34,546)
Total comprehensive income			407,383	949,454	6,797,706	8,154,543
Depreciation transferred to retained earnings				(49,076)	49,076	0
Equity at 31 December 2009	6,118,387	1,529,597	407,383	1,830,311	4,203,116	14,088,794

Notes on pages 10 to 47 are an integral part of these financial statements.

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Statement of Cash Flows
for the Year Ended 31 December

	Notes	2009	2008
Cash flows from operating activities			
Profit (loss) for the year		6,797,706	(11,681,619)
Items not affecting working capital:			
Gain on sale of assets		(783,516)	(3,411)
Increase in pension fund obligation	28	127,700	184,827
Depreciation	13	864,873	1,307,841
Impairment losses on developement cost		142,063	0
Share in (profit) loss of associates	18	(227,381)	264,308
Net finance costs		(5,476,243)	15,983,418
Income tax	15	997,380	(1,927,527)
		2,442,582	4,127,837
Inventories, increase		(80,227)	(314,373)
Receivables, decrease (increase)		915,117	(797,201)
Current liabilities, decrease		(370,078)	(60,763)
Deferred income, increase		0	109,029
Net cash from operations before interest and taxes		2,907,394	3,064,529
Interest income received		141,448	46,549
Interest and indexation expenses paid		(864,053)	(877,711)
Income tax paid		0	(178,461)
Net cash from operating activities		2,184,789	2,054,906
Cash flows from investing activities			
Acquisition of operating assets	16	(1,236,490)	(4,849,022)
Acquisition of intangible assets	17	(78,779)	(86,870)
Payments for operating assets acquired in prior year		(959,235)	0
Proceeds from sale of operating assets		1,606	8,506
Acquisition of shares in associates		(41,500)	0
Proceeds from sale of bonds		1,914,089	0
Net cash used in investing activities		(400,309)	(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		(1,712,883)	(510,749)
Short-term loans,(deacrese) increase		(692,120)	731,247
Net cash (used in) provided by financing activities		(2,455,003)	3,670,970
(Decrease) increase in cash and cash equivalents		(670,523)	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 31 December		151,782	822,305

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Statement of Cash Flows , continued

	Notes	2009	2008
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		0	(700,000)
Acquisition of intangible assets		0	(555,248)
Sale of shares in other companies		0	371,467
Investment in bonds		(405,189)	(3,840,000)
Receivables due to sale of land		(449,283)	0
New borrowings		0	3,840,000
Dividends to shareholders		0	(10,000)
Current liabilities		0	481,740

Notes on pages 10 to 47 are an integral part of these financial statements.

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Notes to the Financial Statements

1. Reporting entity

HS Orka hf. (the "Company") is a limited liability company domiciled in Iceland. The Company's registered office is Brekkustígur 36, Reykjanesbær, Iceland. The Company handles production of electric power, hot water and geothermal steam and sale of electric power. The Company became a subsidiary of Geysir Green Energy hf. in the year 2009. The financial statements of the Company are part of the consolidated financial statements of the Parent Company.

The financial statements of the Company comprise the company's financial statements and share in associates.

2. Basis of preparation

a. Statement of compliance

The Company's Financial Statements are prepared according to International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements were authorised for issue by the Board of Directors on 6 February 2010.

b. 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:

- a majority of operating assets are recognised at revalued cost, which is their 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
- available for sale financial instruments are measured at fair value

The methods used to measure fair values are discussed further in note 4.

As explained in note 27, management has been in a process of continuous negotiations with a bank since the Company breached covenants in loan agreements during the year 2008. In November the management concluded an agreement with the lenders where covenants in loan agreements were revised. On the basis of the new covenants and management forecasts, management believes that the risk of the new covenants being breached is low and therefore that the Company will continue as a going concern for the foreseeable future.

c. 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 where otherwise mentioned.

d. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 16 - operating assets
- Note 21 - embedded derivatives in electric power sales contracts
- Note 28 - pension fund commitment
- Note 29 - other derivatives

2. Basis of preparation, continued:

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 16 operating assets
- Note 17 intangible assets
- Note 21 embedded derivatives
- Note 22 deferred taxes
- Note 29 other derivatives

(e) Changes in accounting policies

Starting as of 1 January 2009, the Company has changed its accounting policies in the following areas:

(i) Presentation of the financial statements

The Company applies revised IAS 1 *Presentation of Financial Statements (2007)* , which became effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on 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 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. An operating segment's operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is a vailable.

Segment results that are reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financial income and costs, share of profit of associates and income tax.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a. Basis of consolidation - Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over the 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 (equity accounted investees) and are recognised initially at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the Company's share of the income and expenses and equity movements of associates, 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 associates, the carrying amount of that interest, including any long-term investments, is reduced to nil, 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.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Company's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the Company at exchange rates at the dates of the transactions. 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. 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 recognised 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.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to ISK at exchange rates at the reporting date. The income and expenses of foreign operations are translated to ISK at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Such differences have been recognised in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

c. Financial instruments

(i) Non-derivative financial assets

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

3. Significant accounting policies, continued:

c. Financial instruments, continued:

(i) Non-derivative financial assets, continued:

The Company derecognises 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 recognised 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 realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables and available-forsale financial assets.

Investments at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if 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. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

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 recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-forsale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

3. Significant accounting policies, continued:

c. Financial instruments, continued:

(ii) Non-derivative financial liabilities, continued:

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 realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(ii) Derivative financial instruments

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

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.

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(iii) Share capital

Ordinary shares

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

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

d. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost or revalued cost less accumulated depreciation and accumulated impartment 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 capitalised borrowing costs.

3. Significant accounting policies, continued:

d. Operating assets, continued:

(i) Recognition and measurement, continued:

The Company's power plants, distribution systems and real estates 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 of those assets will be carried out on a regular basis. Any increase in the carrying amount of operating assets as a result of revaluation are recognised in equity under the heading of revaluation reserve net of income tax. Depreciation of the revalued cost is recognised in profit or loss. In case of sale or disposal of an asset the part of the revaluation reserve pertaining to the asset is transferred to retained earnings along with a depreciation of the revaluation cost.

When parts of an item of operating assets have 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 recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing part of an item of operating assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of operating assets are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of operating assets, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

e. Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of surveying geothermal areas where exploitation probability is uncertain, and in order to gain new scientific or technical knowledge, is recognised in profit or loss when incurred.

3. Significant accounting policies, continued:

e. Intangible assets, continued:

(i) Research and development, continued:

Development activities involve surveys of geothermal areas where there is probability of future exploitation and power production or harnessing together with related plans and designs. Development expenditure is capitalised only if future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the power plant. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

When a decision on producing power or harnessing of geothermal areas has been taken and all required licenses have been obtained the preparation cost due to harnessing or production of power is capitalised as operating assets under construction.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Water rights

Water rights are capitalised in the balance sheet at cost as intangible assets with infinite useful lives when purchase of the rights is distinguishable from purchase of land. Water rights are not depreciated.

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(v) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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

Software	5-10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

f. Leased assets

Leases are operating leases and the leased assets are not recognised on the Company's balance sheet.

g. Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

3. Significant accounting policies, continued:

h. Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect 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 judgement 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.

(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 recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment loss of revalued operating assets is recognised in equity under revaluation reserve. Impairment losses of other assets are recognised 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 amortisation, if no impairment loss had been recognised.

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 recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised 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. Changes in pension fund commitment are recognised as incurred in profit or loss.

j. Provisions

A provision is recognised 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 recognised as finance cost.

3. Significant accounting policies, continued:

k. Revenue

Revenue on sale of electric power and water along with power transmission and distribution are recognised in the income statement based on recorded measurement of delivery during the period. Between measurements, usage is estimated based on prior period usage. Other revenues are recognised when the goods or services are delivered.

Service revenues are based on service contract.

Lease revenues are ecognised in profit or loss on a straight-line basis over the term of the lease.

l. Lease payments

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

m. Net finance income (costs)

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

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

Foreign currency gains and losses are reported on a net basis.

n. Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income 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 income tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised 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 utilised. 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 realised.

o. Discontinued operation

A discontinued operation is a component of the Company's business that represents a separate major line of business operation. When an operation is classified as a discontinued operation the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

3. Significant accounting policies, continued:

p. Division of the company

Upon division of the Company, assets, liabilities and equity are transferred at carrying amount.

q. 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, adjusted for own shares held. Diluted EPS equals to basic EPS due to the Company has not issued convertible notes nor granted share options.

r. 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 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 (see note 2(e)(ii)).

s. New standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Company.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a. Operating assets

The fair value of operating assets is calculated using the income approach or cash-flow analysis where the estimated future cash-flow of the related business units which operating assets are a part of is calculated at present value.

The fair value of real estates is their market value according to a value assessment carried out by a state authorised real estate agent.

The fair value of operating assets recognised as a result of business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The market value of other operating assets is based on quoted market prices for similar items.

b. Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss is determined by reference to their market price at the reporting date. If a listed market price is not available, then fair value is estimated using accepted valuation techniques.

c. Trade and other receivables

The fair value of trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

4. Determination of fair values, continued:

d. Derivatives

The fair value of derivative contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated using accepted valuation techniques.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments.

The most reliable verification of the fair value of derivative agreements at the beginning is the purchase value, unless the fair value of the instrument can be verified by comparison to other listed and recent market transactions of a comparable instrument or based on an evaluation method where variables are solely based on market documents. When such documents are available the Company recognises profit and loss at the initial registration date of the instruments.

e. Non-derivative financial liabilities

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.

5. Financial risk management

a. Overview

The Company's activities expose to financial risk consisting of market risk, credit risk and liquidity risk. Market risk consist of interest, currency risk and market 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 the management under policies approved by the board of directors. Management identifies, evaluates and managed financial risk in close co-operation with the Board of Directors. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company determines whether to use derivative financial instruments to hedge certain risk exposures. The Company does not hedge its risk exposure exept for part of currency risk where revenue in USD are hedge against loans in USD.

b. 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 each customer. Approximately 65 percent (2008: 63 precent) of the Company's revenue is attributable to sales transactions with the two largest customers. Trade and other receivables are receivables from individuals, companies, mass consumers and power plants.

5. Financial risk management, continued:

b. Credit risk, continued:

The Company has set a credit policy where all new customers are evaluated. Payment history of new customers is checked and credit limits are set.

Most of the Company's customers have been its customers for many years and loss on receivables has been insignificant in proportion to turnover. Credit risk management due to customers mainly takes into account age of receivables and financial standing of each customers. The statistic of development of aging of receivables is reviewed on a regular basis by credit controller which reports to management on the credit risk. Customers that are behind in payments can not make further transactions with the Company unless they pay up their debt or the Company's collection department approves further transactions based on an agreement. As a result of the deteriorating economic circumstances in 2008 and 2009, a shorter time is given from a non-payment from customer to actual closing of delivery to the customer.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect 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 Company's of 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.

c. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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.

The Company has made agreements on loan facilities and unused loan facilities amount to ISK 220 million at year end 2009 (2008: ISK 170 million). The Company has, during construction of new power plants made extensive credit facility with its suppliers.

In an increasingly difficult funding market, where access to new funding sources is limited, the need for active liquidity risk management has increased substantially. Cash flow forcasts are done and monitored by management. The liquidity status of the Company is reviewed on a regular basis. The current liquidity position was low at year end but will be increased by a sale of bonds classified as non-current and there is also unlikely that a currency and interest rate swap contract liability classified as current liability will be paid in full in year 2010.

d. Market risk

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

(i) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than ISK. The currencies in which these transactions primarily are denominated are US Dollar (USD), Swiss Francs (CHF), Euro (EUR), Canadian Dollar (Cad), Swedish Kronas (SEK) and Japanese Yen (JPY).

Due to current market condition in Iceland the Company is not able to hedge against foreign exchange rate risk as there are no forward contracts or other derivatives available in Iceland. The Company does hedge a portion of its revenue in USD borrowings in USD.

5. Financial risk management, continued:

d. Market risk, continued:

(ii) Interest rate risk

All of the Company's borrowings carry variable interest rates. Due to current market conditions in Iceland the Company does not specifically hedge it interest rates risk as it is assessed to expensive.

(iii) Aluminum price risk

The Company has entered into agreements on sale of electric power where the sales value of electric power is based on the world market value of aluminum. The Company does not specifically hedge against aluminum price changes.

(iv) Other market risk

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

e. 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 a sound capital position. Return on equity was positive by 146% in the year 2009 (negative by 40,7% in the year 2008).

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 covenants in loan agreements.

6. Segment reporting

The segment reporting has changed compared to 2008, based on the adoption of IFRS 8. The segments comprise the industries, which form the basis for managerial decision taking.

	Power production	Electricity sale	Other	Total
Year 2009				
External revenues	3,278,118	2,062,257	885,590	6,225,965
Other revenues	783,516			783,516
Inter-segment revenue	742,375			742,375
Total segment revenue	4,804,009	2,062,257	885,590	7,751,856
Segment operating result	1,818,278	216,686	56,498	2,091,462
Unallocated items				
Net finance income				5,476,243
Share of loss of associates				227,381
Income tax				(997,380)
Profit for the year				6,797,706
Segment assets	26,742,058	47,108	677,940	27,467,106
Unallocated assets				14,602,335
Total assets				42,069,441
Unallocated liabilities				27,980,647
Capital expenditures	1,271,126	5,417	38,692	1,315,235
Impairment	142,063			142,063
Depreciation and amortisation	823,868	5,220	35,785	864,873

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.

Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 2,442 million of the Company's total revenues.

Revenues from one customer of the Company's represents approximately ISK 1,496 million of the Company's total revenues and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues	599,978	65,922	829,952	1,495,852

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7. Discontinued operation

In May 2008, the Icelandic Parliament, Althingi, passed law for the resource and power sector. According to the law, the Company was obligated among other things to separate formally in special entities the Company's competitive operation from non-competitive operation. A competitive operation is production and sale of electric power. Therefore, Hitaveita Sudurnesja hf. was divided into two companies, HS Orka hf. and HS Veitur hf., which took over the non-competitive operation of Hitaveita Sudurnesja hf. In a shareholders' meeting on 1 December 2008 the Company's division schedule was approved. Legally, the division of Hitaveita Sudurnesja hf. is based on 1 July 2008. The accounting and administrative division of the Company was however not concluded until 31 December 2008 and the Company's operational division is based on that date.

Result of discontinued operation is specified as follows:

	2009	2008
Result of discontinued operation		
Operating revenue	0	3,474,922
Production cost and cost of sales	0	(2,386,124)
Gross profit	0	1,088,799
Other income	0	3,411
Operating expenses	0	(435,831)
Results from operating activities	0	656,379
Net finance costs	0	(467,276)
Income tax	0	(27,217)
Profit for the year	0	161,886
Other comprehensive income		
Revaluation of operating assets of discontinued operation	0	7,793,456
Income tax effect of revaluation of discontinued operation	0	(1,039,868)
Impairment on revaluation of discontinued operation	0	(900,000)
Income tax effect of impairment of discontinued operation	0	105,000
Other comprehensive income for the period, net of income tax	0	5,958,588
Total comprehensive income (loss) for the year	0	6,120,474
Statement of cash flows from discontinued operation		
Net cash from operating activities	0	96,658
Net cash used in investing activities	0	(2,169,262)
Net cash provided by financing activities	0	2,078,540
Net cash from discontinued operation	0	5,936

	2008
Effect of the division on the financial position of the Company	
Operating assets	14,732,764
Intangible assets	692,385
Investments in associates	15,552
Inventories	409,028
Trade and other receivables	1,080,342
Cash and cash equivalents	5,936
Total assets	16,936,007
Interest-bearing loans and borrowings	6,141,856
Income tax liability	568,130
Deferred income	676,052
Trade and other payables	752,301
Total liabilities	8,138,339
Equity	8,797,668

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Notes, continued:

8. Operating revenues

Operating revenues are specified as follows:

	2009	2008
Production revenues	3,278,118	3,471,239
Retail revenues	2,062,257	1,953,535
Service revenues, lease income and other revenues	885,590	0
Total operating revenues	6,225,965	5,424,774

9. Production cost and cost of sales

Production cost and cost of sales of are specified as follows:

Production cost	2,640,809	2,161,684
Cost of sales	1,031,872	904,333
Cost of service	746,294	0
Total production cost and cost of sales of	4,418,975	3,066,017

10. Other income

Other income specifies as follows:

Gain on sale of operating assets	783,516	0
Total other income	783,516	0

11. Other operating expenses

Operating expenses specifies as follows:

Salaries and related expenses	116,241	286,323
Increase in pension fund commitment	127,700	196,303
Administrative expenses	97,005	253,970
Depreciation and amortization	16,035	75,691
Impairment on intangible assets	142,063	0
Attributable to discontinued operation	0	(435,831)
Total operating expenses	499,044	376,456

12. Salaries and related expenses

Salaries and salary related expenses are as follows:

Salaries	827,149	805,308
Contribution to defined benefit fund	79,308	76,485
Increase in pension fund commitment	194,390	241,442
Other salary related expenses	140,751	141,101
Total salaries and salary related expenses	1,241,599	1,264,336
Average number of full time employees	132	131

Salaries and salary related expenses are allocated as follows:

	2009	2008
Capitalised on projects	49,700	118,495
Production cost and cost of sale	947,958	306,810
Other operating expenses	243,941	234,990
Discontinued operation	0	604,041
Total salaries and salary related expenses	1,241,599	1,264,336

Salaries paid to the Board of Directors and Management amounted to ISK 44 million in 2009 (ISK 48 million in 2008).

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13. Depreciation, amortisation and impairment

Depreciation, amortisation and impairment is specified as follows:

	2009	2008
Depreciation of operating assets, see note 16	846,592	1,288,433
Amortisation of intangible assets, see note 17	18,281	19,408
Impairment of intangible assets, see note 17	142,063	0
Depreciation and amortisation recognised in the income statement	1,006,936	1,307,841

Depreciation and amortisation is allocated as follows:

Production cost and cost of sales	848,838	782,472
Other operating expenses	16,035	17,857
Discontinued operation	0	507,512
Depreciation and amortisation recognised in the income statement	864,873	1,307,841

Impairment loss is allocated as follows to operating items:

Operating expenses	142,063	0

14. Finance income and expenses

Finance income and expenses specifies as follows:

Interest income on loans and receivables	43,471	467,626
Interest income on available for sale securities	439,759	8,480
Total finance income	483,230	476,106
Interest expenses	(764,153)	(632,167)
Indexation	(284,607)	(404,637)
Net foreign exchange loss	(1,245,095)	(10,407,611)
Changes in fair value of financial assets through profit and loss	(49,927)	0
Other financial expenses	(61,971)	0
Capitalised financial expenses	0	34,425
Total finance expenses	(2,405,753)	(11,409,990)
Currency and interest rate swap, fair value change	330,226	(1,895,261)
Fair value changes of embedded derivatives in electric power sale contracts	7,068,540	(2,687,097)
Net finance income (costs)	5,476,243	(15,516,242)

15. Income tax

Income tax is specified as follows:

Increase (decrease) of deferred income tax assets	(997,380)	1,927,527
Income tax	(997,380)	1,927,527

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15. Income tax, continued:

Deferred income tax is specified as follows:

	2009	2008
Origination and reversal of temporary difference	(1,148,585)	1,961,063
Change in tax rate	151,205	51,703
Effect of changes in tax assessment of investment in shares	0	(85,239)
	(997,380)	1,927,527
Income tax on continuing operations	(997,380)	1,954,744
Income tax on discontinued operation	0	(27,217)
	(997,380)	1,927,527

Effective tax rate is specified as follows:

		2009		2008
Profit (loss) for the year		6,797,706		(11,681,619)
Income tax		997,380		(1,927,527)
Profit (loss) before income tax		7,795,086		(13,609,146)
Income tax according to current tax rate	15.0%	1,169,263	15.0%	(2,041,372)
Change in tax rate	(1.9%)	(151,205)	0.4%	(51,703)
Effect of changes in tax assessment of shares	0.0%	0	(0.6%)	85,239
Non-taxable water supply operation	0.0%	0	0.1%	(14,757)
Taxable gain on sale of shares	0.0%	0	(0.4%)	48,181
Effect of associates	(0.4%)	(34,107)	(0.3%)	39,646
Other items	0.2%	13,429	(0.1%)	7,239
Effective income tax rate	12.8%	997,380	14.2%	(1,927,527)

Deferred income tax recognised in other comprehensive income is specified as follows:

	2009	2008
Income tax on revaluation of operating assets in continuing operations	216,000	172,732
Income tax on revaluation of operating assets in discontinued operation	0	934,868
Effects of change in tax rate	34,546	0
	250,546	1,107,600

16. Operating assets

Revaluation of operating assets 2008

The Company's operating assets were revalued at fair value on 1 January 2008. In calculating present value an interest rate that reflect WACC (weigthed average cost of capital) of the Company, that is the cost of capital and interest-bearing loans, net of income tax is used. The discount rate was between 9.6% and 10.4%. The cash-flow was estimated using the operating budget for the next five years and future value calculated for the years thereafter. In the cash-flow, it is expected that the increase in revenue for the first five years will be between 4% to 8% and that future increase in revenue will be between 3% and 4.3%. The calculations were performed by independent experts. Revaluation value of operating assets amounted to ISK 8,945 million.

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16. Operating assets, continued:

Revaluation of operating assets 2009

The Company's powerplants were revalued at fair value on 31 December 2009. In calculating present value an interest rate that reflect WACC of the Company, that is the cost of capital and interest-bearing loans, net of income tax is used. The discount rate was 10.98% for Svartsengi and 8.28% for Reykjanes. The cash-flow was estimated using the operating budget for the next five years and future value calculated for the years thereafter. In the cash-flow, it is expected that the increase in revenue for the first year 14.9% for Svartengi and 39.2% for Reykjanes due to increase in aluminum prices compared to 2009 and for year two to five between 2,4% to 4,4% and that future increase in revenue will be between 2,9%. The calculations were performed by independent experts. Revaluation value of the Company's Power Plants amounted to ISK 1,200 million. A change in one variable can have significant effects on revaluation.

Impairment of operating assets 2008

The Company's operating assets were tested for impairment on 31 December 2008, by dividing the operational assets between cash generating units. In calculating present value an interest rate that reflects WACC of the Company, that is the cost of capital and interest-bearing loans, net of income tax. The discount rate was between 9.4% to 11.00%. The cash-flow was estimated using the operating budget for the next five years for power plants and 10 years for distribution systems and future value calculated for the years thereafter. In the cash-flow for power plants, it is expected that the increase in revenue for the first five years will be between -2% to 7% and that future increase in revenue will be between 2.7% and 2.9%. In the cash-flow of distribution systems, it is expected that the increase in revenue for the first ten years will be between -0.6% to 18.4% and future increase in revenue will be 2.5%. The calculations were performed by independent experts.

As a result of impairment testing, carrying amount of electric power distribution systems was decreased by ISK 700 million and fresh water systems by ISK 200 million. The decrease was recognised directly in equity in revaluation reserve as impairment loss.

Operating assets are specified as follows:

	Power plants	Electrical systems	Hot and cold water distribution systems	Other operating assets	Total
Cost or deemed cost					
Balance at 1.1.2008	23,969,537	5,835,475	3,451,352	1,072,268	34,328,632
Revaluation 1.1.2008	1,013,253	4,686,074	2,870,413	356,570	8,926,310
Additions during the year	1,296,016	862,539	1,289,920	836,310	4,284,785
Transferred from					0
operating assets under					0
constructions	544,277	0	0	0	544,277
Depreciation adjustment	(2,799,830)	(1,133,307)	(789,528)	(92,039)	(4,814,704)
Disposals	0	(2,104)	(1,255,248)	(2,837)	(1,260,189)
Division	(91,197)	(9,926,249)	(5,431,019)	(716,885)	(16,165,350)
Balance at 31.12.2008	23,932,056	322,428	135,890	1,453,387	25,843,761
Balance at 1.1.2009	23,932,056	322,428	135,890	1,453,387	25,843,761
Tranferred to					
power plants and					
other operating assets	135,890	(322,428)	(135,890)	322,428	0
Transferred from					
intangible assets	18,492				18,492
Additions during the year	290,558			9,990	300,548
Disposals	(72,562)				(72,562)
Revaluation 31.12.2009	1,200,000				1,200,000
Depreciation adjustment	(587,494)				(587,494)
Balance at 31.12.2009	24,916,940	0	0	1,785,805	26,702,745

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16. Operating assets, continued:

Operating assets are specified as follows, continued:

	Power plants	Electrical systems	Hot and cold water distribution systems	Other operating assets	Total
Depreciation and impairment losses					
Balance at 1.1.2008	2,791,154	1,141,983	789,528	287,474	5,010,139
Depreciation adjustment	(2,799,830)	(1,133,307)	(789,528)	(92,039)	(4,814,704)
Depreciation for the year	776,272	272,352	157,790	82,019	1,288,433
Disposals	0	0	0	(340)	(340)
Impairment loss	0	700,000	200,000	0	900,000
Division	(4,061)	(965,774)	(355,098)	(107,653)	(1,432,586)
Balance at 31.12.2008	763,535	15,254	2,692	169,461	950,942
Balance at 1.1.2009	763,535	15,254	2,692	169,461	950,942
Tranferred to power plants and other operating assets	2,692	(15,254)	(2,692)	15,254	0
Depreciation for the year	802,576	0	0	44,016	846,592
Depreciation adjustment	(587,494)				(587,494)
Balance at 31.12.2009	981,309	0	0	228,731	1,210,040
Net book value					
1.1.2008	21,178,383	4,693,492	2,661,824	784,794	29,318,493
31.12.2008 and 1.1.2009	23,168,521	307,174	133,198	1,283,926	24,892,819
31.12.2009	23,935,631	0	0	1,557,074	25,492,705
Net book value without revaluation					
31.12.2008	22,216,362	295,596	118,150	1,179,181	23,809,289
31.12.2009	21,792,931	0	0	1,449,939	23,242,870

Operating assets under constructions

Operating assets under constructions are specified as follows:	2009	2008
Net book value 1.1.	1,285,521	544,277
Additions	935,942	1,285,521
Transferred to power plants	0	(544,277)
Net book value 31.12.	2,221,463	1,285,521
Total value 31.12.	2,221,463	1,285,521
Total operating assets and operating assets under constructions	27,714,168	26,178,340

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16. Operating assets, continued:

Disposals of operating assets

In July 2009, the Company sold land and geothermal heat rights to the Municipality of Reykjanes. The land is 39 hectare on the tip of the Reykjanes peninsula and 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 an 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. In August the Municipality of Reykjanes started negotiations with the Municipality of Grindavik about Grindavik entering into the Svartsengi deal and involved HS Orka hf in those negotiations. Those negotiations are now at an advanced stage and will most likely be concluded in February 2010. Based on that the sale price for the land in Svartsengi is recorded as receivable.

Plegde of assets

The Company's Power Plants at Reykjanes and Svartsengi are pledged to secure bank loans in the amount of ISK 19,237 millions.

Rateable value and insurance value

Rateable value of the Company's assets measured at rateable value amounted to approximately ISK 2,748 million at year-end 2009 (2008: ISK 2,865 million). Insurance value of the Company's assets amounted to approximately ISK 20,684 million (2008: ISK 16,500 million).

17. Intangible assets

Intangible assets are specified as follows:

	Utilisation right	Software	Development cost	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)	0	(137,136)	(692,384)
Balance 31.12.2008 and 1.1.2009	0	285,344	935,659	1,221,003
Transfered to operating assets	0	0	(18,492)	(18,492)
Additions during the year	0	51,059	27,720	78,779
Balance at 31.12.2009	0	336,403	944,887	1,281,290
Amortisation and impairment losses				
Balance at 1.1.2008	0	144,461	4,178	148,639
Amortisation for the year	0	19,408	0	19,408
Balance at 31.12.2008 and 1.1.2009	0	163,869	4,178	168,047
Amortisation for the year	0	18,281	0	18,281
Impairment losses	0	0	142,063	142,063
Balance at 31.12.2009	0	182,150	146,241	328,391
Book value				
1.1.2008	0	115,057	867,438	982,495
31.12.2008 and 1.1.2009	0	121,475	931,481	1,052,956
31.12.2009	0	154,253	798,646	952,899

Impairment of developement cost

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 not impaired.

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18. Investments in associates

The Company's share in profit of its associates for the year was ISK 228 million (loss ISK 264 million in the year 2008). Currency translation difference for the year amounted to ISK 407 million.

Associates are as follows:

	2009		2008	
	Share	Carrying amount	Share	Carrying amount
Bláa lónið hf. (The Blue Lagoon), Iceland	24.4%	845,881	29.3%	217,721
DMM-lausnir ehf., Iceland	25.3%	6,603	25.3%	0
Suðurorka ehf.	31.2%	41,500		
Total		893,984		217,721

Share in Bláa Lónið hf. is calculated on the basis of the company's interim financial statements for the nine months period ended 30 September 2009 as annual financial statements for the year 2009 have not been issued. The management of Bláa Lónið hf. has determined that the functional currency of the Company is EUR instead of ISK as before.

19. Investments in other companies

Investments in other companies are as follows:

	2009		2008	
	Share	Carrying amount	Share	Carrying amount
Eignarhaldsfélag Farice ehf., Iceland	4.2%	82,968	4.2%	123,833
Keilir ehf., Iceland	11.3%	35,000	11.3%	35,000
Íslensk nýsköpun ehf., Iceland		0	6.6%	2,436
Vistorka hf., Iceland	11.3%	9,575	11.3%	16,247
Total		127,543		177,516

Shares in Eignarhaldsfélagið Farice ehf. have been written down by the amount of ISK 41 million. The Company is negotiating with creditors about converting debt into equity. The main reason for the uncertainty regarding the Company relates to a delay in big customers coming online (data centers).

20. Bonds

Bonds, with a carrying amount of ISK 2,304 million at 31 December 2009 (2008: ISK 3,848 million) have stated interest rates of 5.3 percent plus indexation (2008: 5.3 percent) and mature in the year 2018.

Bonds, with a carrying amount of ISK 438 million at 31 December 2009 have stated interest rates of 5.0 percent plus indexation and mature in the year 2019.

Bonds with a value in the amount of ISK 1,400 million have been pledged to secure repayment of loans.

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21. Embedded derivatives in electric power sales contracts

The Company has concluded electric power sales agreements with Norðurál on power supply until the years 2011 and 2026. The Company has also concluded an agreement with Landsvirkjun on the sale of power until the year 2019. The agreements are concluded in USD and are partly related to the price of aluminum.

The long-term power sale agreements feature embedded derivatives, on which income is contingent upon changes in the price of aluminum in the future.

In evaluating the value of embedded derivatives, generally accepted evaluation methods are applied, as the market value is not available. The fair value of the agreements is calculated on the basis of the forward price of aluminum and experts' projections. The expected present value of cash flow on the reporting date is calculated on the basis of registered forward price of aluminum with the LME (London Metal Exchange) over the next 10 years after the reporting date and expectations of price trends of aluminum when a forward market ends. Future growth for calculation was 1.89% (2008: 1.5%) based on the average aluminum growth for the last 5 years of active aluminum market. The expected present value of cash flows, from the agreements, on the agreement date is deducted from this value based on aluminum price presumptions used as the basis for the conclusion of the agreements. The difference is a fair value change of the derivative, which is recognised in profit or loss. Embedded derivatives in electric power sales agreements are expected to have no value at the beginning of the agreements.

In addition, the Company has concluded electric power sales agreements with Landsvirkjun where the power price is based on Landsvirkjun's price list, which is based on indexation in ISK. There are no specified embedded derivatives in those agreements.

Fair value of embedded derivatives are as follows:	**2009**	**2008**
Fair value of embedded derivatives at 1.1.	254,077	2,941,174
Changes in fair value	7,068,540	(2,687,097)
Fair value of embedded derivatives at 31.12.	7,322,617	254,077

Embedded derivatives are as follows:	**2009**		**2008**	
	Asset	**Debt**	**Asset**	**Debt**
Long-term embedded derivatives	6,623,015	0	571,370	55,161
Short-term embedded derivatives	699,602	0	(187,624)	74,508
Total embedded derivatives	7,322,617	0	383,746	129,669

A negative short term portion of the derivative, which in total is an asset, is classified as non-current asset in the balance sheet.

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22. Deferred tax asset

In December 2009 the Icelandic Parliament, Althingi, approved an increase in the income tax rate from 15% to 18% as of 1 January 2010. The change will become effective in the tax assessment of the year 2011. Due to this, the deferred tax asset has increased by ISK 117 million. An increase is recognised in the income statement for the year 2009 in the amount of ISK 151 million and decrease in other comprehensive income on the amount of ISK 34 million.

Deferred tax asset is as follows:	2009	2008
Deferred tax asset on 1.1.	1,731,861	459,734
Effect of changes in tax rate	116,659	51,703
Effect of changes in the tax assessment of shares	0	(85,239)
Calculated income tax for the year	(1,148,566)	1,961,063
Effect of deferment of foreign exchange gain of the year 2007	0	(115,930)
Income tax on revaluation	(216,000)	(1,107,600)
Income tax transferred upon division	0	568,130
Deferred tax asset on 31.12.	483,954	1,731,861

Tax asset is as follows at the year end:

Operating assets	(20,381)	37,221
Derivatives	(1,036,365)	252,197
Long term receivables	(14,904)	0
Inventories	3,059	2,549
Trade and other receivables	5,040	3,206
Pension fund commitment	247,626	187,200
Deferred foreign exchange loss (gain)	149,411	(46,112)
Tax losses carried forward	1,150,468	1,295,600
Deferred tax asset on 31 December	483,954	1,731,861

Tax loss carry-forward can be utilised over 10 years from the date that the loss is incurred. Tax loss carry -forward at year end amounted to ISK 6,391 million and is useable to the year 2018 (2008: ISK 8,637 million). Management has concluded based on their projections that there will be sufficient taxable profit in the future to use the tax loss carried forward.

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23. Reiceivables

Long-term reiceivables

Long term receivables are specified as follows:

	2009	2008
Receivables due to sale on land	449,283	0
Long term receivable from HS veitur hf. due to pension liability	82,798	0
Total long term receivables	532,081	0

Trade and other receivables

Trade and other receivables are specified as follows:

	2009	2008
Trade receivables	803,013	1,123,818
Receivable from HS veitur hf.	0	697,154
Other receivables	26,989	320
Allowance for bad debt	(28,000)	(21,375)
Total trade and other receivables	802,002	1,799,917

Trade receivables are as follows:

	2009	2008
Mass users and power companies	468,985	382,318
Other users	334,028	741,500
Total trade receivables	803,013	1,123,818

The Companys exposure to credit and currency risks and impaiment losses related to trade and other receivable is disclosed in note 31.

24. Cash and cash equivalents

Cash and cash equivalents are as follows:

	2009	2008
Cash	0	90
Bank balances	151,782	822,215
Cash and cash equivalents	151,782	822,305

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

25. Equity

Issued capital

Issued share capital, as stipulated in the Company's Articles of Association, numbered to ISK 6,118 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 for.

Outstanding number of ordinary shares

	2009	2008
Outstanding shares on 1 January	6,118,387	7,454,816
Effect of division	0	(1,336,429)
Outstanding shares on 31 December	6,118,387	6,118,387

Statutory reserve

Statutory reserve may be used to settle losses, which can not be settled by using other reserves. When the statutory reserve amounts to one fourth of share capital the amount, which is in excess, may be used to increase share capital or for other needs.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of share in associate.

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25. Equity, continued:

Revaluation reserve

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

Dividends

The following dividends were declared and paid by the Company:

Dividends paid is as follows:	2009	2008
No dividend was paid during the year 2009 (ISK 0,067 per share 2008)	0	500,000

The Board of Directors proposes that no dividends shall be paid to shareholders in the year 2010.

26. Earnings (loss) per share

Basic and diluted earnings (loss) per share	2009	2008
Profit (loss) for the year	6,797,706	(11,681,619)
Profit (loss) from continuing operations	6,797,706	(11,843,505)
Weighted average number of ordinary shares		
Shares on 1 January	6,118,387	7,454,816
Effect of division	0	0
Weighted average number of ordinary shares	6,118,387	7,454,816
Basic and diluted earnings per share	1.11	(1.57)
Basic and diluted earnings per share from continuing operations	1.11	(1.59)

27. Loans and borrowings

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

	31.12.2009	31.12.2008
Non-current debt		
Unsecured bank loans	674,427	774,155
Secured Bank loans with covenants	19,236,884	19,267,142
Unsecured bond issue	3,315,677	3,393,569
Total non-current debt including current maturities	23,226,988	23,434,866
Current maturities	(2,014,237)	(1,536,433)
Non-current debt	21,212,751	21,898,433
Current debt		
Current maturities	2,014,237	1,536,433
Short-term loan	0	1,241,133
Promissary note	549,013	0
Current loans and borrowings	2,563,250	2,777,566
Total loans and borrowings	23,776,001	24,675,999

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27. Loans and borrowings, continued:
Terms of Loans and borrowings

Debt in foreign currency:	Year of maturity	31.12.2009 Weighted average interest rate	31.12.2009 Carrying amount	31.12.2008 Weighted average interest rate	31.12.2008 Carrying amount
Loans in USD	2019-2023	2.5%	4,138,864	3.9%	5,572,709
Loans in CHF	2019-2021	2.5%	5,453,206	3.0%	5,366,453
Loans in EUR	2019-2021	3.3%	5,018,864	5.2%	5,245,851
Loans in JPY	2019-2023	1.9%	2,082,963	1.3%	2,195,736
Loans in CAD	2021-2023	1.0%	1,443,425	3.7%	1,201,867
Loans in SEK	2021	3.4%	1,016,352	5.8%	990,080
Loans in GBP	2017-2019	1.1%	545,805	6.1%	474,963
			19,699,479		21,047,659
Loans in ISK:					
Indexed loans in ISK	2016-2017	3.9%	3,527,509	3.9%	3,628,340
Un-indexed loans in ISK	2010	19.2%	549,013		0
			4,076,522		3,628,340
Total loans and borrowings			23,776,001		24,675,999

Annual maturities of non current loans and borrowings are as follows:	31.12.2009	31.12.2008
Year 2009	-	1,536,433
Year 2010	2,014,237	1,886,041
Year 2011	2,031,097	1,901,586
Year 2012	2,213,279	2,069,500
Year 2013	2,231,526	2,086,324
Year 2014	2,250,508	-
Subsequent	12,486,341	13,954,982
Total loans and borrowings, including current maturities	23,226,988	23,434,866

Covenants
During the year the management has been in a process of negotiations with its banks since the weakening of Icelandic krona in year 2008 which led to an increase of the Company's loans resulting in a breach of covenants. Subsequent to year-end, the banks revised the covenants equity ratio and operating ratio, increased interest and changed repayment schedules.

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28. Pension fund commitment

According to actuaries' assessment, the Company's accrued pension obligation amounted to ISK 1,376 million at year end 2009 (2008: ISK 1,248 million), discounted based on an interest rate of 2%, taken into account share in the net asset of the pension fund. 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 estimated increase in the obligation in the year is based on general salary increase taken into account interests. The Company's pension obligation is unfunded.

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 year amounted to ISK 83 million and is recognised as long term receivable from HS Veitur hf.

Movement in the pension fund commitments:	2009	2008
Pension fund commitment at 1.1.	1,248,000	1,063,173
Contribution during the year	(66,690)	(56,821)
Increase in obligation due to interests, salaries and change in fund's net assets	194,390	241,648
Pension fund commitment at 31.12.	1,375,700	1,248,000

Pension fund commitments are as follows:

The pension fund for State employees	761,100	597,710
The pension fund for Municipality of Hafnarfjörður employees	378,700	413,037
The pension fund for Municipality of Westman Islands employees	235,900	237,253
Pension fund commitment at 31 December	1,375,700	1,248,000

29. Currency and interest rate swap contracts

The Company held long term currency and interest rate swaps contracts with its bank, Glitnir bank hf., which was taken over by the Financial Supervisory Authority (FSA) in October 2008.

Upon the FSA's takeover of the bank, premises for the agreement no longer existed as the bank has not calculated nor collected the due payments on scheduled payment dates. The agreement is recognised as liability in the Company's financial statements based on the exchange rate ruling at year end 2009 plus payments fallen in due, total of ISK 1,565 million (2008: ISK 1,895 million). It is uncertain whether the Company is obliged to settle the agreement or not as it is clear that the counterparty will not meet with its part of the agreement, in which case it will also be unclear which date and exchange rate shall be based upon.

30. Trade and other payables

Trade and other payables are as follows:	2009	2008
Trade payables	687,437	651,519
Payable to HS Veitur hf.	243,796	0
Debt related to construction of power plants	0	1,602,325
Other payables	332,678	341,962
Total trade and other payables	1,263,911	2,595,806

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

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31. Financial instruments

Credit risk

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

	Notes	2009	2008
Bonds		2,742,040	3,848,480
Trade and other receivables	23	802,002	1,799,917
Cash and cash equivalents	24	151,782	822,305
		3,695,824	6,470,702

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

	2009	2008
Mass users and power companies	468,985	382,318
Common users	334,028	741,500
	803,013	1,123,818

Impairment

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

	2009 Gross value	Impairment	2008 Gross value	Impairment
Not past due	732,059		528,116	
Past due 0 - 30 days	24,990		505,765	
Past due 31 - 60 days	12,383		35,360	
Past due 61 - 90 days	5,388	1,400	30,392	1,069
Past due 91 days and older	28,193	26,600	24,185	20,306
	803,013	28,000	1,123,818	21,375

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	2009	2008
Balance at 1 January	21,375	26,500
Impaiment loss recognised	6,625	15,000
Effect of divison	0	(20,125)
Balance at 31 December	28,000	21,375

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31. Financial instruments, continued:

Liquidity risk:

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

	Carrying amount	Contractual cash flows	Less than one year	1 - 2 years	2- 5 years	After 5 years
31 December 2009						
Loans and borrowing	23,776,001	27,393,297	3,135,957	2,523,560	7,861,444	13,872,336
Trade and-payables	1,263,911	1,263,911	1,263,911			
Derivatives	1,565,035	1,526,663	269,667	111,341	558,263	587,392
31 December 2008						
Loans and borrowings	24,675,999	27,908,475	3,503,394	2,182,694	10,262,865	11,959,521
Trade and-payables	2,595,806	2,595,806	2,595,806			
Derivatives	1,895,261	1,556,563	209,479	94,050	491,360	761,674

Cash flows of interest bearing long term loans and borrowings at year end 2008 is presented on the basis of their initial contractual terms. Possible settlement claim of creditor was not taken into account.

Currency and interest rate swap contract described in note 29 is presented on the basis of its initial contractual term.

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31. Financial instruments, continued:

Currency risk

Exposure to currency risk

The Company's exposure to foreign currency risk, based on nominal amounts, was as follows:

	CHF	EUR	USD	JPY	GBP	Other currencies
2009						
Derivatives	(2,092,053)	(779,975)	6,426,626	(793,990)	(368,594)	0
Receivables			307,701			
Loans and borrowings	(5,453,206)	(5,018,864)	(4,138,864)	(2,082,963)	(545,805)	(2,459,777)
Payables		45,095	54,440			21
Gross statement of financial position exposure	(7,545,259)	(5,753,744)	2,649,903	(2,876,953)	(914,399)	(2,459,756)
Estimated sale 2010			3,264,520			
Estimated purchases 2010		(250,600)	(612,500)	(958,750)		
Gross exposure ..	0	(250,600)	2,652,020	(958,750)	0	0
Net exposure	(7,545,259)	(6,004,344)	5,301,923	(3,835,703)	(914,399)	(2,459,756)
2008						
Derivatives	(2,193,473)	(822,485)	(713,219)	(878,473)	(357,836)	0
Receivables			214,574			
Loans and borrowings	(5,366,453)	(5,245,851)	(5,572,709)	(2,195,736)	(474,963)	(2,191,947)
Payables	0	(47)	(63,684)			(5,912)
Gross statement of financial position exposure	(7,559,926)	(6,068,383)	(6,135,038)	(3,074,209)	(832,799)	(2,197,859)
Estimated sale 2009			2,897,864			
Estimated purchases 2009	0	(101,607)	(512,604)	(921)	(2,061)	(281,558)
Gross exposure ..	0	(101,607)	2,385,260	(921)	(2,061)	(281,558)
Net exposure	(7,559,926)	(6,169,990)	(3,749,778)	(3,075,130)	(834,860)	(2,479,417)

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31. Financial instruments, continued:

Currency risk, contd.:

The following significant exchange rates applied during the year:

	Average exchange rate		End of year exchange rate	
	2009	2008	2009	2008
CHF	114.64	80.92	121.60	114.24
EUR	173.15	127.81	180.38	170.44
USD	123.59	88.28	125.20	121.16
JPY	1.33	0.87	1.36	1.34
GBP	193.89	159.73	202.09	175.86

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 based on gross financial statement exposure. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or (loss)	
	2009	2008
CHF	641,347	642,594
EUR	489,068	515,813
USD	(225,242)	521,478
JPY	244,541	261,308
GBP	77,724	70,788
Other	209,079	186,818

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. The analysis is performed on the same basis for 2008.

Interest rate risk

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

	2009	2008
Financial instruments with fixed interest rate		
Financial assets	2,742,040	3,848,480
Financial liabilities	4,076,522	4,869,473
	6,818,562	8,717,953
Financial instruments with floating interest rate		
Interest rate and foreign currency swap contracts	1,565,035	1,895,261
Financial liabilities	19,699,479	19,806,526
	21,264,514	21,701,787

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31. Financial instruments, continued:

Fair value sensitivity analysis for fixed rate instruments:

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Equity	
	100 bp increase	100 bp decrease
2009		
Financial assets with fixed interest rates	(159,515)	174,473
Fair value sensitivity analysis, net	(159,515)	174,473

	Equity	
	100 bp increase	100 bp decrease
2008		
Financial assets with fixed interest rates	(236,078)	260,040
Cash flow sensitivity analysis, net	(236,078)	260,040

Cash flow sensitivity analysis for floating interest rate instruments

A change 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 is performed on the same basis for year 2008.

	Profit or loss	
	100 bp decrease	100 bp increase
2009		
Financial instruments with variable interest rates	(167,446)	167,446
Cash flow sensitivity analysis, net	(167,446)	167,446
2008		
Financial instruments with variable interest rates	(160,249)	160,249
Cash flow sensitivity analysis, net	(160,249)	160,249

Fair value

Fair value versus carrying amounts

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

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing long-term debts	(23,226,988)	(22,354,503)	(23,434,866)	(23,295,942)

The basis for determining fair values is disclosed in note 4.

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31. Financial instruments, continued:

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date in the case of ISK indexed debt, embedded derivatives and bonds. 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:

	2009	2008
Embedded derivatives in electric power sales agreements (USD)	2.04- 6.16%	0.38 - 3.39%
Bonds	5.3-6,3%	5.3%
Interest bearing long term liabilities	Libor +250 -300	Libor + 80 bp

Fair value hierarchy:

The table below analyses financial instruments carried at fair value, 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 (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).

31 December 2009	Level 2	Level 3	Total
Embedded derivatives	907,872	6,414,745	7,322,617
Bonds	2,303,091	438,949	2,742,040
Other Derivatives	(1,347,556)		(1,347,556)
Investment in other companys		127,543	127,543
	1,863,407	6,981,237	8,844,644

31 December 2008	Level 2	Level 3	Total
Embedded derivatives	(105,827)	359,904	254,077
Bonds	3,848,480		3,848,480
Other Derivatives	1,895,000		1,895,000
Investment in other companys		177,516	177,516
	5,637,653	537,420	6,175,073

Embedded derivatives that expire in the year 2026 are classified in level three due to the fact that the forward market for aluminum only reaches maximum of ten years.

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31. Financial instruments, continued:

Aluminum price risk

The Company has concluded electric power sales agreements with Norðurál on power supply until the year 2026. The Company has also concluded an agreement with Landsvirkjun on the sale of power until the year 2019. The agreements are concluded in USD and are partly related to the price of aluminum.

Sensitivity analysis

A 10 percent increase or weakening of aluminum prices at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. The analysis is performed on the same basis for 2008.

	Profit or (loss) 2009	2008
Increase of 10%	2,849,347	1,438,597
Decrease of 10%	(2,849,347)	(1,438,597)

Classification of financial instruments

Financial assets and liabilities are classified as follows:

	Financial liabilities mesurred at amortised cost	Loans and receivables	Financial assets and financial liabilities at fair value through profit and loss	Financial assets and liabilities held for tradings	Financial assets available for sale	Carrying amount
2009						
Shares			127,543			127,543
Bonds					2,742,040	2,742,040
Derivatives				7,322,617		7,322,617
Trade receivables		775,013				775,013
Other receivables		559,070				559,070
Cash		151,782				151,782
Total assets	0	1,485,865	127,543	7,322,617	2,742,040	11,678,065
Loans and borrowings	23,776,001					23,776,001
Derivatives				1,565,035		1,565,035
Trade payables	687,437					687,437
Other payables	576,474					576,474
Total liabilities	25,039,912	0	0	1,565,035	0	26,604,947

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31. Financial instruments, continued:

2008	Financial liabilities mesurred at amortised cost	Loans and receivables	Financial assets and financial liabilities at fair value through profit and loss	Financial assets and liabilities held for tradings	Financial assets available for sale	Carrying amount
Shares			177,516			177,516
Bonds					3,848,480	3,848,480
Derivatives				383,746		383,746
Trade receivables		1,102,443				1,102,443
Receivable from HS veitur hf.		697,154				697,154
Other receivables		320				320
Cash		822,305				822,305
Total assets	0	2,622,222	177,516	383,746	3,848,480	7,031,964
Loans and borrowings	24,675,999					24,675,999
Derivatives				2,024,930		2,024,930
Trade payables	2,253,844					2,253,844
Other payables	341,962					341,962
Total liabilities	27,271,805	0	0	2,024,930	0	29,296,735

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32. Guarantees

Due to the division of the Company into HS Orka hf. and HS Veitur hf. the Company has entered into partial guarantee for the liabilities of HS veitur hf. The Guarantee amounts to a maximum of ISK 300 million.

33. Capital commitments

The Company has entered into a contract to purchase equipments for JPY 959 million and EUR 1.7 million. The delivery is expected to be in May 2010 and fully paid before year end 2010.

34. Other matters

Electricity power sales contracts

The Company concluded in 2007 an electric power sales agreements with Norðurál on power supply for a proposed aluminum smelter in Helguvík. The contract needs however to be revised because of changes in delivery dates and other factors resulting from economical situation and that is ongoing. The power supply is now estimated to begin late in year 2012 or early 2013. The agreement includes provisions stating that the Company is not liable to supply the power unless all specific requirements relating to the results of power stations, licensing and construction of relevant power plants are fulfilled. Due to the provisions, effects of the agreement are not entered in the financial statements.

35. Related parties

Identity of related parties

The Company has a related party relationship with its shareholder with more than 25% share, associates, fellow sudsidiaried, HS Veitur hf., its directors and executive officers and other companies owned by them.

The Company purchased goods and services from shareholders with more than 25% share to the amount of ISK 0 million in the year 2009 (2008: ISK 24 million).

The Company sold to shareholders with more than 25% share goods and services to the amount of ISK 1 million in the year 2009 (2008: ISK 24 million).

The Company purchased goods and services from associated companies to the amount of ISK 25 million in the year 2009 (208: ISK 15 million).

The Company acquired land from an associated company in amount of ISK 700 million in the year 2008.

The Company sold goods and services to associated companies to the amount of ISK 28 million (2008: ISK 38 million).

The Company purchased goods and services from fellow sudsidiaries to the amount of ISK 88 million in the year 2009. At year end trade payables to fellow sudsidiaried amounted to ISK 90 million. In addition there was an outstanding promissary notes in the amount of ISK 549 million to a fellow subsidiary.

Sales to HS Veitur hf. amounted to ISK 1,495 million during the year. Purchases from HS Veitur hf. amounted to ISK 49 million. At year end the Company owed ISK 243 million to HS Veitur.

36. Subsequent events

At 4 February 2010 three month aluminum prices have lowered in a approximately 7.1% from 31 December 2009. The effects of such a decrease in aluminum prices has a significant impact on the Company's financial position. For sensitivity analysis regarding alumnium prices a reference is made to disclosure 31.