

# HS Orka hf

Condensed Interim Financial Statements  
1 January - 30 June 2010  
ISK

HS Orka hf  
Brekkestigur 36  
260 Reykjanesbær

Reg.no. 680475-0169

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# Endorsement by the Board of Directors and the Management

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The condensed interim financial statements of HS Orka hf ("the Company") for the period from 1 January to 30 June 2010 are prepared in accordance with the International Accounting Standard, IAS 34, *Interim Financial Reporting*.

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 3,544 million for the first six months of the year 2010 (2009: ISK 2,857 million) and the loss of the period amounted to ISK 2,396 million (2009: ISK 184 million profit). Total comprehensive income was negative in the amount of ISK 2,464 million (2009: positive of ISK 612 million). According to the statement of financial position, the Company's assets amounted to ISK 40,287 million at the end of June 2010 (at year end 2009: ISK 42,069 million). Equity amounted to ISK 13,896 million at the end of June 2010 (at year end 2009: ISK 14,089 million) or 34.5% of total capital (at year end 2009: 33.5%).

At a board meeting on the 30 March 2010 the board of directors agreed to increase the share capital of the Company by 845 million shares. Geysir Green Energy and Magma Energy Sweden AB subscribed for the whole amount at the rate ISK 3 per share. The total share capital increase amounted to ISK 2,534 million and has been paid.

The shareholders holding more than 10% shares at 30 June 2010 were:

	Share
Geysir Green Energy hf. ....	52,35%
Magma Energy Sweden A.B. ....	46,18%

In May 2010, the shareholder Magma Energy Sweden A.B. ("Magma") entered into an agreement to acquire Geysir Green Energy's share in HS Orka. At August 17 Magma Energy Sweden AB acquired 38,03% of HS Orka hf shares from Geysir Green Energy hf the remaining shares of Geysir Green Energy hf shares are subject to closing conditions.

According to the best knowledge of the Board of Directors and the Management, the Company's condensed interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the Management that the interim financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 June 2010 and its financial performance and changes in cash flows during the period from 1 January to 30 June 2010.

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

The Board of Directors and the Management of HS Orka hf have today discussed the Company's interim financial statements for the period from 1 January to 30 June 2010 and confirmed by means of their signatures.

Reykjanesbær, 30 August 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 Auditor's Report

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To the Board of Directors of HS Orka hf.

We have audited the accompanying condensed interim financial statements of HS Orka hf, which comprise the report by the Board of Directors, statement of financial position as at June 30, 2010, and the income statement, statement of changes in equity and cash flows statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes.

## **Management responsibilities**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IAS 34, *Interim Financial Reporting*. 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.

## **Auditors responsibilities**

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 judgment, 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 30 June, 2010, and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34, *Interim Financial Reporting*.

The accompanying financial statements as at 30 June 2009 were reviewed by us and our report thereon, dated 31 August 2009, stated that nothing came to our attention that caused us to believe the financial statements did not give a true and fair view in accordance with International Financial Reporting Standards. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

## **Emphasis of matter**

Without qualifying our conclusion we would like to draw the attention to note 15 to the interim financial statements, which discusses on the fact that original agreements on covenants will come effective at beginning of the year 2011 and at end of June 2010 the Company will not be fulfilling covenants of minimum equity ratio requirement. Management believe that a favorable conclusion will be reached in negotiation with its lenders and therefore the loans are classified among long term liabilities. If negotiations on the refinancing of the Company is not concluded an uncertainty will prevail over the Company's ability to continue as a going concern. Presentation of assets and liabilities in the balance sheet is based on the assumption that the company is a going concern.

Reykjanesbær, 30 August 2010

**KPMG hf.**

Kristrún Helga Ingólfssdóttir

# Condensed Statement of Comprehensive Income 1 January to 30 June

	Notes	2010 Q2 <i>Reviewed</i>	2009 Q2 <i>Reviewed</i>	2010 H1 <i>Audited</i>	2009 H1 <i>Reviewed</i>
Operating revenue .....		1.731.587	1.301.842	3.543.867	2.856.538
Production cost and cost of sales .....		<u>( 1.102.659)</u>	<u>( 967.601)</u>	<u>( 2.360.608)</u>	<u>( 2.112.596)</u>
<b>Gross profit</b> .....		628.928	334.241	1.183.259	743.942
Other operating expenses .....	6	<u>( 177.365)</u>	<u>( 77.714)</u>	<u>( 233.081)</u>	<u>( 187.263)</u>
<b>Results from operating activities</b> .....		451.563	256.527	950.178	556.679
Finance income .....		717.637	140.406	801.517	258.198
Finance costs .....		<u>( 247.239)</u>	<u>( 1.947.152)</u>	<u>( 564.095)</u>	<u>( 1.558.036)</u>
Changes in fair value of derivatives .....		169.609	<u>( 3.745)</u>	215.971	137.448
Changes in fair value of embedded derivatives in sales contracts .....		<u>( 5.315.017)</u>	<u>1.206.984</u>	<u>( 4.104.420)</u>	<u>813.888</u>
<b>Net finance costs</b> .....	7	<u>( 4.675.010)</u>	<u>( 603.507)</u>	<u>( 3.651.027)</u>	<u>( 348.502)</u>
Share of (loss) profit of associates .....		<u>( 104.860)</u>	<u>10.702</u>	<u>( 163.404)</u>	<u>7.051</u>
<b>(Loss) profit before income tax</b> .....		<u>( 4.328.307)</u>	<u>( 336.278)</u>	<u>( 2.864.253)</u>	<u>215.228</u>
Income tax .....		<u>742.137</u>	<u>52.027</u>	<u>468.069</u>	<u>( 31.247)</u>
<b>(Loss) profit for the period</b> .....		<u>( 3.586.170)</u>	<u>( 284.251)</u>	<u>( 2.396.184)</u>	<u>183.981</u>
<b>Other comprehensive income</b>					
Foreign currency translation difference of associate .....		<u>( 41.449)</u>	<u>94.011</u>	<u>( 67.583)</u>	<u>427.584</u>
<b>Other comprehensive income for the period, net of income tax</b> .....		<u>( 41.449)</u>	<u>94.011</u>	<u>( 67.583)</u>	<u>427.584</u>
<b>Total comprehensive income for the period</b> .....		<u><u>( 3.627.619)</u></u>	<u><u>( 190.240)</u></u>	<u><u>( 2.463.767)</u></u>	<u><u>611.565</u></u>
<b>(Loss) earnings per share</b>					
Basic and diluted (loss) earnings earnings per share .....		<u>( 0,52)</u>	<u>( 0,03)</u>	<u>( 0,37)</u>	<u>0,03</u>

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

# Condensed Statement of Financial Position as at 30 June

	<b>Notes</b>	<b>30.6.2010</b>	<b>31.12.2009</b>
<b>Assets</b>			
Operating assets .....		25.151.257	25.492.705
Operating assets under construction .....	8	4.162.625	2.221.463
Intangible assets .....		971.676	952.899
Investments in associates .....	9	400.360	893.984
Investments in other companies .....	10	27.075	127.543
Bonds .....	11	541.356	2.742.040
Embedded derivatives in electric power sales contracts .....		2.952.688	6.623.015
Deferred tax asset .....		952.023	483.954
Long term receivable .....		555.363	532.081
Total non-current assets		35.714.423	40.069.684
Inventories .....		364.760	346.371
Bonds .....		1.655.108	0
Trade and other receivables .....		1.302.801	802.002
Embedded derivatives in electric power sales contracts .....		265.510	699.602
Cash and cash equivalents .....	12	984.265	151.782
Total current assets		4.572.444	1.999.757
<b>Total assets</b>		40.286.867	42.069.441
 <b>Equity</b>			
Share capital .....		6.962.919	6.118.387
Share premium and statutory reserves .....		3.218.660	1.529.597
Translation reserve .....		339.800	407.383
Revaluation reserve .....		1.805.728	1.830.311
Reserve for shares in associate .....	9	( 262.638)	0
Retained earnings .....		1.831.515	4.203.116
Total equity	13	13.895.984	14.088.794
 <b>Liabilities</b>			
Loans and borrowings .....		19.929.619	21.212.751
Pension obligation .....		1.407.200	1.375.700
Currency and interest rate swap contract .....	14	1.126.302	0
Total non-current liabilities		22.463.121	22.588.451
Loans and borrowings .....		1.971.957	2.563.250
Trade and other payables .....		1.733.043	1.263.911
Currency and interest rate swap contract .....	14	222.762	1.565.035
Total current liabilities		3.927.762	5.392.196
Total liabilities		26.390.883	27.980.647
<b>Total equity and liabilities</b>		40.286.867	42.069.441
Off balance sheet liabilities .....	8		

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

# Condensed Statement of Changes in Equity for the period ended 30 June

	Share capital	Share premium and statutory reserve	Translation reserve	Revaluation reserve	Reserve for shares in associate	Retained earnings	Total
<b>1 January to 30 June 2009</b>							
<i>Reviewed</i>							
Equity at 1 January 2009 .....	6.118.387	1.529.597	0	929.933	0	( 2.643.666)	5.934.251
Profit for the period .....						183.981	183.981
Foreign currency translation difference of associate .....			427.584				427.584
Total comprehensive income .....			427.584	0	0	183.981	183.981
Depreciation transferred to retained earnings .....				( 24.439)		24.439	0
Equity at 30 June 2009 .....	6.118.387	1.529.597	427.584	905.494	0	( 2.435.246)	6.545.816
<b>1 January to 30 June 2010</b>							
<i>Audited</i>							
Equity at 1 January 2010 .....	6.118.387	1.529.597	407.383	1.830.311	0	4.203.116	14.088.794
Loss for the period .....						( 2.396.184)	( 2.396.184)
Foreign currency translation difference of associate .....			( 67.583)				( 67.583)
Total comprehensive income .....			( 67.583)	0	0	( 2.396.184)	( 2.463.767)
Depreciation and tax transferred to retained earnings .....				( 24.583)		24.583	0
Share capital increase .....	844.532	1.689.063					2.533.595
Effects of put option on own shares of an associate .....					( 277.354)		( 277.354)
Expired put options on own shares of an associate .....					14.716		14.716
Equity at 30 June 2010 .....	6.962.919	3.218.660	339.800	1.805.728	( 262.638)	1.831.515	13.895.984

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# Condensed Statement of Cash Flows

## 1 January to 30 June

	Notes	2010 H1 Audited	2009 H1 Reviewed
<b>Cash flows from operating activities</b>			
(Loss) profit for the period .....	(	2.396.184)	183.981
Items not affecting working capital:			
Increase in pension fund obligation .....		31.500	138.700
Depreciation and amortization .....		529.585	429.813
Finance income and costs .....		3.651.027	348.502
Share of loss (profit) of associates .....		163.404	( 7.051)
Income tax .....	(	468.069)	31.247
		1.511.263	1.125.192
Inventories, increase .....	(	18.389)	( 84.589)
Receivables, (increase) decrease .....	(	524.521)	528.957
Current liabilities, increase (decrease) .....		568.346	( 741.884)
Net cash from operations before interest and taxes		1.536.699	827.676
Interest income received .....		4.237	27.522
Interest and indexation costs paid .....	(	343.320)	( 333.392)
Net cash from operating activities		1.197.616	521.806
<b>Cash flows from investing activities</b>			
Acquisition of operating assets during the period .....	(	1.853.289)	( 460.537)
Payments for operating assets acquired in 2008 .....		0	( 956.556)
Proceeds from sale of operating assets .....		0	1.606
Acquisition of intangible assets .....	(	37.726)	( 46.535)
Acquisition of shares in other companies .....		0	( 10.500)
Repayment of loan to HS Veitur .....		0	697.244
Proceeds from sale of bonds .....		742.908	290.803
Net cash used in investing activities	(	1.148.107)	( 484.475)
<b>Cash flows from financing activities</b>			
Share capital increase .....		2.533.595	0
Paid with-holding tax of dividend .....		0	( 50.000)
Repayment of borrowings .....	(	822.792)	( 665.030)
Loan from HS Veitur .....		0	617.082
Repayment of loan from HS Veitur .....	(	378.816)	0
Short-term loans, decrease .....	(	549.013)	( 733.498)
Net cash provided by (used in) financing activities		782.974	( 831.446)
<b>Increase (decrease) in cash and cash equivalents</b> .....		832.483	( 794.115)
<b>Cash and cash equivalents at 1 January</b> .....		151.782	822.305
<b>Cash and cash equivalents at 30 June</b> .....		984.265	28.190
<b>Investing and financing activities not affecting cash flows</b>			
Acquisition of operating assets .....	(	257.062)	0
Current liabilities .....		257.062	0

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



# Notes to the Condensed Interim Financial Statements

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## **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. After the period the Company became a subsidiary of Magma Energy Sweden.

The Company's financial statements can be found at its website [www.hsorka.is](http://www.hsorka.is) and at the website of the Icelandic Stock Exchange; [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com).

## **2. Statement of compliance**

The Company's interim financial statements are prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2009.

These condensed interim financial statements were approved by the Board of Directors on 30 August 2010.

## **3. Significant accounting policies**

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2009.

Comparative amounts in statement of cash flows have been reclassified to conform with a change in classification of loans to HS Veitur hf.

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

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

## **4. Use of estimates and judgments**

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key source of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2009.

## Notes, continued

### 5. Segment reporting

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

<b>1 January - 30 June 2010</b>	<b>Power Production</b>	<b>Electricity sale</b>	<b>Other</b>	<b>Total</b>
External revenue .....	2.071.880	1.033.235	438.752	3.543.867
Inter-segment revenue .....	370.265			370.265
Total segment revenue .....	2.442.145	1.033.235	438.752	3.914.132
Segment operating results .....	919.924	( 570)	30.824	950.178
<b>Unallocated items</b>				
Net finance income and costs .....				( 3.651.027)
Share of loss of associates .....				( 163.404)
Income tax expense .....				468.069
Loss for the period .....				( 2.396.184)
Segment assets .....	29.597.274	59.055	629.229	30.285.558
Unallocated assets .....				10.001.309
Total assets .....				40.286.867
Unallocated liabilities .....				26.390.883
Capital expenditures .....	2.122.507	3.140	22.430	2.148.077
Depreciation and amortization .....	506.152	2.992	20.441	529.585
<b>1 January - 30 June 2009</b>	<b>Production Reviewed</b>	<b>Electricity sale Reviewed</b>	<b>Other Reviewed</b>	<b>Total Reviewed</b>
External revenue .....	1.414.906	1.056.319	385.313	2.856.538
Inter-segment revenue .....	411.016			411.016
Total segment revenue .....	1.825.922	1.056.319	385.313	3.267.554
Segment operating results .....	414.210	116.684	25.785	556.679
<b>Unallocated items</b>				
Net finance income and costs .....				( 348.502)
Share of profit of associates .....				7.051
Income tax expense .....				( 31.247)
Profit for the period .....				183.981
Segment assets .....	27.651.988	46.587	676.338	28.374.913
Unallocated assets .....				7.410.615
Total assets .....				35.785.528
Unallocated liabilities .....				29.169.584
Capital expenditures .....	485.926	2.305	18.841	507.072
Depreciation and amortization .....	409.394	2.527	17.892	429.813

## Notes, continued

### 5. Segment reporting, contd.:

#### Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 1.588.980 million of the Company's total revenues during the period (1.1.2009- 30.6.2009: ISK 1.007.204.)

Revenues from one customer of the Company's represents approximately ISK 824.828 million during the period (1.1.2009- 30.6.2009: ISK 772.031) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1.2010 - 30.6.2010 .....	337.904	100.492	386.432	824.828
Revenues 1.1.2009 - 30.6.2009 .....	310.522	96.180	365.329	772.031

### 6. Other operating expenses

Operating expenses specifies as follows:

	2010 Q2 <i>Reviewed</i>	2009 Q2 <i>Reviewed</i>	2010 H1 <i>Audited</i>	2009 H1 <i>Reviewed</i>
Salaries and related expenses .....	29.443	26.908	59.040	55.278
Increase in pension fund commitment .....	( 844)	10.348	7.778	55.480
Administrative expenses .....	71.757	36.622	84.033	68.805
Depreciation and amortization .....	4.097	3.836	9.318	7.700
Assets subject to final write off .....	72.912	0	72.912	0
Total operating expenses .....	<u>177.365</u>	<u>77.714</u>	<u>233.081</u>	<u>187.263</u>

During the period capitalized cost in the amount ISK 62,5 millions related to new headquarters was written off.

### 7. Finance income and costs

Finance income and costs specifies as follows:

	Notes	2010 Q2 <i>Reviewed</i>	2009 Q2 <i>Reviewed</i>	2010 H1 <i>Audited</i>	2009 H1 <i>Reviewed</i>
Interest income on loans and receivables ....		4.236	13.656	4.236	32.801
Interest income on available for sale securities .....		32.060	126.750	97.445	225.397
Net foreign exchange difference .....		578.164	0	596.659	0
Fair value changes on financial assets through profit and loss .....		103.177	0	103.177	0
Total finance income .....		<u>717.637</u>	<u>140.406</u>	<u>801.517</u>	<u>258.198</u>
Interest expenses .....		( 187.410)	( 281.740)	( 374.560)	( 496.677)
Indexation .....		( 42.329)	( 24.119)	( 89.067)	( 114.227)
Impairment of shares in other companies ...	10	( 17.500)	0	( 100.468)	0
Net foreign exchange difference .....		0	( 1.641.293)	0	( 947.132)
Total finance costs .....		<u>( 247.239)</u>	<u>( 1.947.152)</u>	<u>( 564.095)</u>	<u>( 1.558.036)</u>
Changes in fair value of derivatives .....		169.609	( 3.745)	215.971	137.448
Changes in fair value of embedded derivatives in sales contracts .....		( 5.315.017)	1.206.984	( 4.104.420)	813.888
Net finance costs .....		<u>( 4.675.010)</u>	<u>( 603.507)</u>	<u>( 3.651.027)</u>	<u>( 348.502)</u>

## Notes, continued

### 8. Operating assets under construction

Operating assets under constructions are specified as follows:	<b>30.6.2010</b>	<b>31.12.2009</b>
Net book value 1.1. ....	2.221.463	1.285.521
Additions .....	1.941.162	935.942
Net book value .....	<u>4.162.625</u>	<u>2.221.463</u>

#### Impairment of operating assets under construction

Operating assets under construction is capitalized cost related to a new power plant at Reykjanes, which was planned to supply Norðurál with power for a new aluminum smelter in Helguvík. In 2007, HS Orka and Norðurál concluded an electric power sales agreement on power for the new aluminum smelter in Helguvík. Due to the current market condition, which is affecting the financing of the Company and a delay in receiving operational license there is a delay in opening the new power plant and the length of the delay is uncertain. The agreement with Norðurál is currently under dispute and Norðurál has initiated arbitration proceedings to determine the validity of the agreement, which is further explained in note 15. Despite the delay and the dispute with Norðurál it is the management's opinion that the recoverable amount of operating assets under construction is above carrying amount as the Company has an opportunity to negotiate on power sale.

#### Capital commitment

The Company entered into a contract with Jarðboranir which is a related party, to purchase a drilling of a well for a construction of extension of plant at Reykjanes. The total estimated cost of the drilling amounts to ISK 510 million and will be capitalized at delivery which is expected to be in September 2010 and fully paid before year end 2010.

### 9. Share in Bláa Lónið hf. ("Blue lagoon")

Share in Blue lagoon was decreased by ISK 277 million due to put option on own shares in the Blue lagoon. In June 2011 the Blue lagoon is obligated to acquire outstanding shares from one of its shareholders. HS Orka hf has recognizes its share in the put option in the reserve for shares in associate within equity. The reserve is decreased by HS Orka share in expired put option which amounted to ISK 15 million.

### 10. Impairment of shares in other companies

During the six months ended 30 June 2010 shares in Eignarhaldsfélagið Farice ehf. were written down in the amount of ISK 83 million and shares in Keilir, Atlantic Center of Excellence ehf. by ISK 17.5 million.

### 11. Bonds

Bonds are specified as follows:

	<b>30.6.2010</b>	<b>31.12.2009</b>
<b>Non-current</b>		
Financial assets designated through profit and loss .....	541.356	541.356
Available for sale financial assets .....	0	2.200.684
	<u>541.356</u>	<u>2.742.040</u>
<b>Current</b>		
Available for sale financial assets .....	<u>1.655.108</u>	<u>0</u>

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

### 12. Restricted cash

According to collateral agreement concluded in March 2010 with Company's lenders to secure loan repayments, received cash in foreign currency up to USD 4.5 million is dedicated for repayment of loans.

### 13. Equity

#### Issued capital

At a board meeting on the 30 March 2010 the board of directors agreed to increase the share capital of the Company by 845 million shares. Geysir Green Energy hf and Magma Energy Sweden AB subscribed for the whole amount at the rate ISK 3 per share. The total sales price amounted to ISK 2,534 million and has been paid.

#### Reserve for shares in associate

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

### 14. Currency and interest rate swap contract

The long term portion of currency and interest rate swap contract was classified as current in year 2009 due to an uncertainty of a settlement. The long term portion of the agreement has now been classified as long term liability as the resolution committee of Glitnir Bank has stated that it will collect the contract on its maturity. The contract is at 30 June 2010 classified according to the contracts term.

### 15. Subsequent event

#### Dispute of power sale agreement with Nordurál

HS Orka hf, in 2007, entered into a conditional power sale agreement with Nordural to sell power from a new power plant at Reykjanes, which is currently under construction, to a new aluminum smelter in Helguvík. The agreement contained a number of conditions, which were not fulfilled by the time set out in the agreement. Accordingly, HS Orka hf holds the view that the agreement has lapsed in accordance with its terms. Nordural disputes this interpretation and maintains that the agreement is in force. The agreement provides that disputes shall be resolved by arbitration and Nordural has initiated arbitration proceedings to determine the validity of the agreement. The arbitration proceedings were initiated on 19 July, 2010 and no hearing date has been set. There is an uncertainty about the conclusion of the arbitration, which leads to uncertainty on the future sale of electricity power from the power plant under construction.

#### Acquisition of additional shares in Suðurorka ehf.

In July 2010 the Company acquired additional shares in Suðurorka ehf in the amount of ISK 35 million and has agreed to acquire additional shares in the amount of ISK 35 million before end of year 2010.

#### Loan agreements

At end of the year 2009 the Company made temporary agreements with its lenders on covenants and interest rates. The agreements expires at end of the year 2010 and at that time the previous terms of the loans will become effective which will restrict the covenants and decrease interest premium. At end of June 2010 the Company fulfilled the covenants set in the original loan agreements except for equity ratio requirement. Management believe that a favorable conclusion will be reached in negotiation with its lenders as the banks have received additional guarantees for the repayment of the loans.

### 16. Related parties

#### Identity of related parties

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

The Company sold goods and services to owners with more than 25% share to the amount of ISK 0,6 million during the period.

The Company purchased goods and services from other related parties to the amount of ISK 142,1 million during the year.

The Company purchased goods and services from associated companies to the amount of ISK 7,6 million during the period.

The Company sold goods and services to associated companies to the amount of ISK 9,7 million during the period.

The Company purchased goods and services from companies owned by owners to the amount of ISK 142,1 million during the year.