

HS Orka hf. - Interim Financial Statements 30 June 2010

The interim financial statements for 30 June 2010 of HS Orka hf. were approved at a Board of Directors' meeting 30 August 2010.

Main matters

The comprehensive income for January - June 2010 amounts to loss of ISK 2,464 million compared to profit of ISK 612 million for the same period in 2009.

Since the beginning of the year aluminum prices decreased significantly. Therefore, the future value of power sale agreements to aluminum smelter (fair value changes of embedded derivatives) has decreased by ISK 4,104 million during period compared to an increase of ISK 814 million during the same period in 2009.

Foreign exchange gain for the period amounted to ISK 597 million compared to loss of ISK 947 million for the same period 2009.

Equity ratio was 34.5%, whereas it was 33.5% at the beginning of the year 2009.

The Company's loss for the period amounted to ISK 2,396 million compared to profit of ISK 184 million during the same period in 2009. After taken into account income and expenses recognised under equity, comprehensive income for the period amounted to loss of ISK 2,464 million compared to profit of ISK 612 million for the same period in 2009. An decrease in comprehensive income is mainly due to increase in foreign exchange profit, loss in fair value changes of embedded derivatives and foreign currency translation difference of associate.

According to the statement of comprehensive income, HS Orka hf.'s operating revenue during the period amounted to ISK 3,544 million compared to ISK 2,857 million for the same period in 2009. The increase in revenue is mainly due to increase in aluminum price.

Production cost and cost of sales amounted to ISK 2,361 million during the period compared to ISK 2,113 million in the same period in 2009. The increase in production cost and cost of sales is due to increased cost of production and sale of electricity. Other operating expenses amounted to ISK 233 million during the period compared to ISK 187 million in the same period in 2009. Increase in other operating expenses is mainly due to impairment of operating assets in the amount of ISK 73 million, increase in administration cost versus less cost in pension fund compared to the same period in 2009.

Net finance loss amounted to ISK 3,651 million in the period compared to net finance loss in the amount of ISK 349 million for the same period in 2009. The strengthening of the Icelandic krona against foreign currencies lead to a ISK 597 million foreign exchange gain whereas in the previous year foreign exchange loss amounted to ISK 947 million during the same period in 2009. Interest expenses decreased to ISK 375 million from ISK 497 million during the same period 2009. Decrease in fair value of the Company's embedded derivatives amounted to ISK 4,104 million in the period compared to a increase of ISK 814 million in the same period in 2009.

According to the balance sheet as at 30 June 2010, HS Orka hf.'s assets amounted to ISK 40,287 million. Assets decreased by ISK 1,783 million from the beginning of the year. Decrease in assets is mainly due to fair value changes in derivatives that amounts to ISK 4,104 million and increase in operation assets under construction that amounts to ISK 1,941 million, due to purchase of turbine and cooling system for extension of power plant at Reykjanesvirkjun.

HS Orka hf.'s liabilities amounted to ISK 26,391 million according to the balance sheet, whereof short term liabilities amounted to ISK 3,928 million. Liabilities have decreased by ISK 1,590 million from the beginning of the year. Thereof, decrease in long term liabilities amounts to ISK 125 million. Short term liabilities decreased by ISK 1,464 million, which is mainly explained by the reclassification of the currency and interest rate swap contract and the payment of the note with Jarðboranir amounting to ISK 549 million. The currency and interest rate swap contract was classified as current liabilities in the beginning of the year but is now classified as non-current, that and the strengthening of the Icelandic krona against foreign currencies lead to decreases in the current liabilities in amount of ISK 1,342 million.

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.

Operating outlook for HS Orka hf. is good despite uncertain economic outlook. The 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 preparations are ongoing. Researches will be carried out on further power plant options and various licences are being obtained in relation thereto. The largest single projects are research drilling and other preparation for new power plants, in addition to increased reinjection and construction of supply systems.

Following are the main figures in the interim and annual financial statements in ISK thousand.

Income Statement	Jan-Jun 2010	Jan-Jun 2009	2009	2008
Operating revenue	3.543.867	2.856.538	6.225.965	5.424.774
Cost of production and sales	(2.360.608)	(2.112.596)	(4.418.975)	(3.066.017)
Gross profit	1.183.259	743.942	1.806.990	2.358.757
Other operating income	0	0	783.516	0
Other operating expenses	(233.081)	(187.263)	(499.044)	(376.456)
Result from operating activities	950.178	556.679	2.091.462	1.982.301
Net finance income and expenses	(3.651.027)	(348.502)	5.476.243	(15.516.242)
Share of profit (loss) of associates	(163.404)	7.051	227.381	(264.308)
Profit (loss) before income tax	(2.864.253)	215.228	7.795.086	(13.798.249)
Income tax	468.069	(31.247)	(997.380)	1.954.744
Profit (loss) from continuing operation	(2.396.184)	183.981	6.797.706	(11.843.505)
Profit from discontinued operation	0	0	0	161.886
Profit (loss) for the year	(2.396.184)	183.981	6.797.706	(11.681.619)
Other comprehensive income	(67.583)	427.584	1.356.837	6.937.400
Total comprehensive income (loss) for the year	(2.463.767)	611.565	8.154.543	(4.744.219)
Balance Sheet	30.6.2010	30.6.2009	31.12.2009	31.12.2008
Non-current assets	35.714.423	34.772.313	40.069.684	33.590.620
Current assets	4.572.444	943.087	1.999.757	2.888.366
Total assets	40.286.867	35.715.400	42.069.441	36.478.986
Equity	13.895.984	6.545.816	14.088.794	5.934.251
Long term liabilities	22.463.121	23.377.264	22.588.451	23.201.594
Short term liabilities	3.927.762	5.792.320	5.392.196	7.343.141
Total equity and liabilities	40.286.867	35.715.400	42.069.441	36.478.986
Key ratio				
Current ratio	1,16	0,16	0,37	0,39
Equity ratio	34,5%	18,3%	33,5%	16,3%

Further information is provided by Júlíus Jónsson, Managing Director of HS Orka hf., tel. 422 5200/860 5208.