HS Orka hf.

Financial Statements
for the year 2014
ISK 000´s

HS Orka hf.
Brekkustígur 36
260 Reykjanesbær

Reg. no. 680475-0169

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Endorsement by the Board of Directors and the CEO

The financial statements of HS Orka hf. (the Company or HS Orka) for the year 2014 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with additional Icelandic disclosure requirements.

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 7,479 million for the year 2014 (2013: ISK 7,031 million) and the profit for the year amounted to ISK 736 million (2013: ISK 355 million loss). Total comprehensive income amounted to ISK 679 million (2013: ISK 434 million comprehensive loss). According to the statement of financial position, the Company's assets amounted to ISK 44,383 million at the end of December 2014 (at year end 2013: ISK 44,873 million). Equity amounted to ISK 26,480 million at the end of December 2014 (at year end 2013: ISK 26,021 million) or 59.7% of total capital (at year end 2013: 58.0%).

The Company's power plants were revalued to fair value on 31 December 2012 by calculating the present value of estimated cash flows from the operating assets. At 31 December 2014 Management reviewed whether there was an indication of impairment of the Company's operating assets and concluded that there was no indication of impairment.

The Company's shareholders numbered two at the end of 2014, there was no change in the number of shareholders during the year. At the end of 2014 Magma Energy Sweden A.B. held 66.6% of the shares in HS Orka hf. and Jarðvarmi slhf. held 33.4%.

The Company's Board of Directors proposes that dividends of ISK 320 million (ISK 0,04 pr. share) will be paid to shareholders in the year 2015, and refers to the financial statements for further allocation of profit and changes in equity during the year.

The Board had 12 meetings and the Audit Committee had 6 meetings in 2014.

Statement of Corporate Governance

The Board of Directors of HS Orka hf. emphasizes maintaining good management practices. The Board of Directors is of the opinion that practicing good corporate governance is vital for the existence of the Company and in best interest of the shareholders, employees and other stakeholders and will in the long run produce satisfactory profits on shareholders investments. The framework on corporate governance is made in accordance with Article 66-c of the Icelandic Financial Statements Act No. 3/2006, as amended. This statement has been approved by the Board of Directors and is also published in the Company’s Annual Report. This statement covers the financial year ended on 31 December 2014. The Board of Directors has prepared a corporate government statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the corporate governance statement in the appendix to the financial statements.

It is the opinion of the Board of Directors that HS Orka hf. complies with the Icelandic guidelines for Corporate Governance.

Endorsement by the Board of Directors and the CEO, continued.:

Statement by the Board of Directors and the CEO

To the best knowledge of the Board of Directors and the CEO, the Company's 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 CEO that the financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 31 December 2014, its financial performance, and the changes in cash flows during the year 2014.

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

The Board of Directors and the CEO of HS Orka hf. have today discussed the Company's financial statements for the year 2014 and confirmed by means of their signatures. The Board of Directors and the CEO will submit the financial statements for approval at the annual general meeting to be held at 25 March 2015.

Reykjanesbær, 26 February 2015.

The Board of Directors:

Ross Beaty
Chairman of the board

Gylfi Árnason

John Carson

Anna Skúladóttir

Lynda Freeman

Chief Executive Officer
Ásgeir Margeirsson

Independent Auditor's 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 statement of financial position as at 31 December 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

The Board of Directors and CEO´s Responsibility for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 policies 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 31 December 2014, 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.

Report on the Board of Directors Report

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Reykjanesbær, 26 February 2015.

KPMG ehf.

Statement of Comprehensive Income (Loss) for the year ended 31 December 2014

	Note	2014	2013
Operating revenue	5	7.478.876	7.031.390
Production cost and cost of sales	6	(5.622.666)	(5.312.588)
Gross profit		1.856.210	1.718.802
Other operating expenses	7	(486.555)	(437.192)
Results from operating activities		1.369.655	1.281.610
Finance income		308.324	1.962.236
Finance costs		(362.567)	(501.418)
Changes in fair value of currency and interest rate swap contracts		424.615	463.357
Changes in fair value of embedded derivatives	18	(1.555.726)	(4.138.090)
Net finance expense	10	(1.185.354)	(2.213.915)
Share of profit of associates	15	588.353	390.765
Profit (loss) before income tax		772.654	(541.540)
Income tax (expense) recovery	11	(36.871)	186.461
Profit (loss) for the year		735.783	(355.079)
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit liability	27	(53.412)	(37.765)
Tax on items that will never be reclassified to profit or loss	19	10.682	7.553
		(42.730)	(30.212)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference on associates		(13.995)	(48.528)
Other comprehensive loss, net of tax		(56.725)	(78.740)
Total comprehensive income (loss) for the year		679.058	(433.819)
Earnings per share			
Basic and diluted earnings (loss) per share	25	0,09	(0,05)

Notes on pages 10 to 40 are an integral part of these financial statements

Financial Statements 31 December 2014 of HS Orka hf. 6 All amounts are in thousands of ISK

Statement of Financial Position
as at 31 December 2014

Assets	Note	2014	2013
Operating assets	12	31.115.291	31.422.097
Operating assets under construction	13	3.818.171	3.841.191
Intangible assets	14	1.119.873	1.050.738
Investments in associates	15	1.197.628	863.619
Investments in other companies	16	27.075	27.075
Bonds	17	253.457	313.586
Embedded derivatives in power sales contracts	18	0	260.580
Prepaid lease and royalty fee	20	497.428	492.449
Long-term receivable	21	395.544	331.364
Total non-current assets		38.424.467	38.602.699
Inventories		431.198	414.388
Bonds	17	79.205	81.532
Trade and other receivables	21	1.278.181	1.003.885
Short-term investments	22	400.540	357.020
Cash and cash equivalents	23	3.769.443	4.413.403
Total current assets		5.958.567	6.270.228
Total assets		44.383.034	44.872.927
Equity			
Share capital		7.841.124	7.841.124
Share premium		7.038.855	7.038.855
Translation reserve		271.942	285.937
Revaluation reserve		5.852.098	6.142.790
Retained earnings		5.475.923	4.712.178
Total equity	24	26.479.942	26.020.884
Liabilities			
Loans and borrowings	26	10.131.860	12.299.097
Pension obligations	27	1.894.500	1.792.000
Deferred tax liability	19	658.153	631.964
Embedded derivatives in power sales contracts	18	1.260.382	0
Currency and interest rate swap contracts	28	0	263.495
Total non-current liabilities		13.944.895	14.986.556
Loans and borrowings	26	2.263.830	2.221.609
Trade and other payables	29	1.521.603	1.094.759
Embedded derivatives in power sales contracts	18	172.764	137.999
Currency and interest rate swap contracts	28	0	411.120
Total current liabilities		3.958.197	3.865.487
Total liabilities		17.903.092	18.852.043
Total equity and liabilities		44.383.034	44.872.927

Notes on pages 10 to 40 are an integral part of these financial statements

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Statement of Changes in Equity
for the year ended 31 December 2014

	Share capital	Share premium	Translation reserve	Revaluation reserve	Retained earnings	Total
2013						
Equity at 1 January 2013	7.841.124	7.038.855	334.465	6.443.110	4.947.149	26.604.703
Loss for the year					(355.079)	(355.079)
Other comprehensive loss			(48.528)		(30.212)	(78.740)
Total comprehensive loss			(48.528)		(385.291)	(433.819)
Revaluation reserve transferred to retained earnings				(300.320)	300.320	0
Dividends declared ISK 0.02 per share					(150.000)	(150.000)
Equity at 31 December 2013	7.841.124	7.038.855	285.937	6.142.790	4.712.178	26.020.884
2014						
Equity at 1 January 2014	7.841.124	7.038.855	285.937	6.142.790	4.712.178	26.020.884
Profit for the year					735.783	735.783
Other comprehensive loss			(13.995)		(42.730)	(56.725)
Total comprehensive (loss) income			(13.995)		693.053	679.058
Revaluation reserve transferred to retained earnings				(290.692)	290.692	0
Dividends declared ISK 0.03 per share					(220.000)	(220.000)
Equity at 31 December 2014	7.841.124	7.038.855	271.942	5.852.098	5.475.923	26.479.942

Notes on pages 10 to 40 are an integral part of these financial statements

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Statement of Cash Flows
for the year ended 31 December 2014

	Note	2014	2013
Cash flows from operating activities			
Profit (loss) for the year		735.783	(355.079)
Adjustments:			
(Profit) loss on sale of operating assets		(1.125)	16
Increase in pension obligations	27	49.088	27.535
Depreciation and amortization	9	1.368.416	1.321.444
Net finance expense	10	1.185.354	2.213.915
Share of profit of associates	15	(588.353)	(390.765)
Income tax expense (recovery)	11	36.871	(186.461)
		2.786.034	2.630.605
Inventories, increase		(16.810)	(300)
Receivables, (increase) decrease		(287.508)	242.313
Current liabilities, increase (decrease)		196.844	(12.478)
Net cash from operations before interest and taxes		2.678.560	2.860.140
Interest income received		201.705	233.150
Interest and indexation costs paid		(353.705)	(442.597)
Net cash provided by operating activities		2.526.560	2.650.693
Cash flows from investing activities			
Acquisition of operating assets and assets under construction		(1.015.483)	(1.412.756)
Proceeds from sale of operating assets		10.010	950
Acquisition of intangible assets		(101.128)	(75.136)
Acquisition of shares in associates		(77.000)	(25.000)
Sale of shares in associates		0	27.457
Dividend received from associates		317.348	217.099
Investment in short-term investment		(400.000)	0
Proceeds from sale of short-term investments		371.636	232.411
Proceeds from repayment of bonds		84.479	82.562
Net cash used in investing activities		(810.138)	(952.413)
Cash flows from financing activities			
Paid dividends		(220.000)	(150.000)
Repayment of borrowings		(2.224.026)	(2.266.454)
Net cash used in financing activities		(2.444.026)	(2.416.454)
Decrease in cash and cash equivalents		(727.604)	(718.174)
Cash and cash equivalents at 1 January		4.413.403	5.227.728
Effect of exchange rate fluctuations on cash held		83.644	(96.151)
Cash and cash equivalents at 31 December		3.769.443	4.413.403

Notes on pages 10 to 40 are an integral part of these financial statements

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Notes to the Financial Statements

1. Reporting entity

HS Orka hf. is a limited liability company domiciled in Iceland. The Company's registered office address is Brekkustígur 36, Reykjanesbær, Iceland. The Company generates and sells electricity as well as hot water for heating. The Company is a subsidiary of Magma Energy Sweden AB. The financial statements of the Company are part of the consolidated financial statements of the ultimate parent company Alterra Power Corp., headquartered in Canada.

The financial statements of the Company includes the Companys share of associates accounted for on an equity basis of accounting.

2. Basis of preparation

a. Statement of compliance

The Company's financial statements are prepared according to IFRS as adopted by the EU and additional Icelandic disclosure requirement in accordance with Icelandic financial statement act no. 3/2006.

These financial statements were authorized for issue by the Board of Directors on 26 February 2015.

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:

- the majority of operating assets are recognized at revalued cost, which is their fair value at the revaluation date
- derivative financial instruments are measured at fair value (currency and interest rate swaps)
- embedded derivatives in power sales contracts are measured at fair value
- defined benefit pension obligations measured at the present value of the pension obligation
- financial instruments at fair value through profit or loss are measured at fair value (bonds and shares)

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 when otherwise indicated.

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS 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 future outcomes may differ from present estimates and assumptions potentially having a material future effect on the Company´s historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

Actual future outcomes could differ from present estimates and assumptions, potentially having a material future effect on the Company´s historical experience and other facts and circumstances.

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

- Note 11 - income taxes
- Note 12 - amortization of operating assets
- Notes 13 and 14 - impairment of geothermal development assets and assets under construction
- Note 17 - bonds
- Note 19 - deferred tax liability
- Notes 18 and 30 - fair value of embedded derivatives in power sales agreements
- Note 21 - provisions for bad debts
- Note 27 - pension obligations

2. Basis of preparation, continued:

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

- Note 12 - operating assets
- Note 13 - operating assets under construction
- Note 14 - intangible assets
- Note 17 - bonds
- Notes 18 and 30 - fair value of embedded derivatives in power sales agreements
- Note 19 - deferred tax liabilities
- Note 21 - provisions for bad debts
- Note 27 - pension obligations

e. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes staff members from the finance department, led by the CFO, that have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The finance department regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the finance department staff assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the finance department uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in 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).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 12 - operating assets
- Note 17 - bonds
- Note 18 - embedded derivatives in power sales agreements
- Note 30 - financial instruments

3. Significant accounting policies

The Company has consistently applied the accounting policies set out in this note to all periods presented in these financial statements.

Changes in accounting policies

The Company has adopted all new standards and amendments to standards with a date of initial application prior to or on 1 January 2014 that have been approved by the EU. No new standards apdopted during the year effected these financial statements.

a. Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over their 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 and are recognized initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Company's share of the profit or loss and other comprehensive income, 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 equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, 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.

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

b. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transaction. 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. 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 recognized 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.

c. Financial instruments

(i) Non-derivative financial assets

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

The Company derecognizes 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 recognized 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 realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

3. Significant accounting policies, continued:

(i) Non-derivative financial assets, continued:

Financial assets 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 (a) such financial assets eliminate or significantly reduces accounting mismatch, (b) 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, and (c) the financial assets contains one or more embedded derivatives. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets at fair value through profit or loss comprise investment in other companies, bond assets and short term investments.

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

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

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

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities other than derivatives comprise loans and borrowings and trade and other payables.

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 realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments

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

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.

HS Orka has two long-term power sales agreements which contain embedded derivatives. Income from these agreements is directly correlated to changes in the future price of aluminum. Changes in the fair value of derivatives not designated as a hedge and separable embedded derivatives are recognized immediately in profit or loss income.

3. Significant accounting policies, continued:

c. Financial instruments, continued:

(iv) Share capital

Ordinary shares

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

d. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost or revalued cost less accumulated depreciation and accumulated impairment 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 capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The Company's power plants and real estate holdings 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 is carried out on a regular basis. Any increase in the carrying amount of operating assets as a result of a revaluation is recognized in equity under the heading of revaluation reserve net of income tax. Depreciation of the revalued cost is recognized in profit or loss and an adjustment reflecting this amount is transferred annually from the revaluation reserve to retained earnings. Revaluations are expected to occur every three to four years or when market factors indicate a significant change in value. The latest valuation took place in December 2012.

When parts of an item of operating assets has 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 recognized on a net basis within other income or other expenses in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is based on the cost or revalued cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of operating assets. Land is not depreciated.

Operating assets are depreciated from the date they are installed and are ready for use, or in respect of internally constructed assets, from the date the asset is completed and ready for use.

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

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies, continued:

e. Intangible assets

(i) Research and development

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

Development activities involve surveys of geothermal areas where there is probability of future development and power production. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

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

Capitalized development expenditure is measured at cost less accumulated impairment losses. Development assets are tested annually for impairment

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

Amortization is based on the cost of an asset less its residual value.

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

Software .... 5-10 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f. Leased assets

Leases are operating leases and the leased assets are not recognized on the Company's statement of financial position.

g. Inventories

Inventories are measured at the lower of cost and net realizable 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 realizable 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) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact 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 judgment 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. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Company considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

(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 recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment loss of revalued operating assets is recognized in equity under revaluation reserve up to the value of the reserve, after which they are recognized in profit or loss. Impairment losses of other assets are recognized 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 amortization, if no impairment loss had been recognized.

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 recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized 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. Remeasurements of the net defined liabilities related to actuarial gains and losses are recognised in OCI, other expenses related to the defined benefit plans are recognized as incurred in profit or loss.

3. Significant accounting policies, continued:

j. Provisions

A provision is recognized 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 recognized as a finance cost.

k. Revenue

Revenue from the sale of electricity and hot water along with power transmission are recognized in profit or loss based on recorded measurement of delivery during the period. Between measurements, usage is estimated based on prior period usage.

Service revenues from HS Veitur hf. are based on a service contract and recognized in profit or loss when service has been provided.

Other revenues are recognized when the goods or services are delivered.

l. Lease payments

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

m. Net finance income (expense)

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

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

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

n. Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current 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 tax is recognized 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 recognized 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 utilized. 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 realized.

3. Significant accounting policies, continued:

o. 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. Diluted EPS equals to basic EPS as the Company has not issued convertible notes nor granted share options.

p. 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, for which discrete financial information is available, 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.

q. New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company. Those new accounting standards which may be relevant to the Company's financial statements are set out below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The new standard also requires a single impairment method to be used, adds guidance on the classification and measurement of financial liabilities, and provides new general hedge accounting standards.

The effective date is January 1, 2018. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

IFRS 8 - Operating segments

Operating segments (amendments to IFRS 8) was amended to require disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The amendment is effective for annual periods commencing on or after July 1, 2014. The Company does not expect the amendments to IFRS 8 to have a material impact on the financial statements.

4. Segment reporting

The Company has three operating segments that are described below:

Power Production

Includes production and sale of electricity, heating water and fresh water from subterranean steam.

Electricity Sale

Includes purchases and sale of electricity to users other than mass users and power companies.

Other

Includes sale of service, rental of facilities and equipment, and other sales.

Year 2014	**Power production**	**Electricity sale**	**Other**	**Total**
External revenue	2.958.325	3.515.765	1.004.786	7.478.876
Inter-segment revenue	1.548.051			1.548.051
Total segment revenue	4.506.376	3.515.765	1.004.786	9.026.927
Segment operating results	920.026	392.535	57.094	1.369.655
Unallocated items				
Net finance expenses				(1.185.354)
Share of profit of associates				588.353
Income tax expense				(36.871)
Profit for the year				735.783
Segment assets	35.455.560	51.821	545.954	36.053.335
Unallocated assets				8.329.699
Total assets				44.383.034
Unallocated liabilities				17.903.092
Capital expenditures	1.047.046	14.805	54.760	1.116.611
Depreciation and amortization	1.315.550	10.155	42.711	1.368.416

Year 2013				
External revenue	3.022.135	3.046.218	963.037	7.031.390
Inter-segment revenue	1.526.573			1.526.573
Total segment revenue	4.548.708	3.046.218	963.037	8.557.963
Segment operating results	949.510	266.761	65.339	1.281.610
Unallocated items				
Net finance expenses				(2.213.915)
Share of profit of associates				390.765
Income tax recovery				186.461
Loss for the year				(355.079)
Segment assets	35.732.144	45.590	536.292	36.314.026
Unallocated assets				8.558.901
Total assets				44.872.927
Unallocated liabilities				18.852.043
Capital expenditures	1.473.428	3.234	11.230	1.487.892
Depreciation and amortization	1.282.836	6.003	32.605	1.321.444

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4. Segment reporting, continued.:

Power production

Revenues in the power production segment are specified as follows:

Year 2014	Electricity	Hot water	Other	Total
External revenue	2.003.847	735.265	219.213	2.958.325
Inter-segment revenue	1.548.051			1.548.051
Total segment revenue	3.551.898	735.265	219.213	4.506.376
Year 2013				
External revenue	2.092.443	743.448	186.244	3.022.135
Inter-segment revenue	1.526.573			1.526.573
Total segment revenue	3.619.016	743.448	186.244	4.548.708

5. Major customers

Revenues from one customer of the Company's power production segment amounted to ISK 1,755 million (2013: ISK 1,820 million).

Revenues from HS Veitur hf. were as follows:

	Power production	Electricity sale	Other	Total
Revenues 2014	796.481	321.231	896.059	2.013.771
Revenues 2013	802.077	293.623	869.176	1.964.876

6. Production cost and cost of sales

Production cost and cost of sales are specified as follows:

	2014	2013
Production cost	3.225.678	3.273.318
Cost of sales	1.441.666	1.133.491
Cost of service	955.322	905.779
Total production cost and cost of sales	5.622.666	5.312.588

Production cost and cost of sales are specified as follows based on nature of cost:

Salaries and related expenses	1.107.233	1.065.014
Depreciation	1.350.750	1.307.927
Power puchases	1.391.992	1.097.264
Transmission	508.380	522.440
Maintenance and other production cost	1.264.311	1.319.943
Total production cost and cost of sales	5.622.666	5.312.588

7. Other operating expenses

Operating expenses specifies as follows:

Salaries and related expenses	210.831	197.646
Increase in pension fund obligation	20.329	23.583
Administrative expenses	237.729	202.448
Depreciation and amortization	17.666	13.515
Total other operating expenses	486.555	437.192

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8. Salaries and related expenses

Salaries and salary related expenses are as follows:

	2014	2013
Salaries	1.096.060	1.057.629
Contribution to defined contribution fund	121.276	109.819
Increase in pension obligation	81.855	65.300
Other salary related expenses	151.088	143.423
Total salaries and salary related expenses	1.450.279	1.376.171
Average number of full time employees equivalent	136	134

Salaries and salary related expenses including changes in pension obligations are allocated as follows:

Capitalized on projects	58.474	52.163
Production cost and cost of sale	1.107.233	1.065.014
Other operating expenses	231.160	221.229
Recognized in other comprehensive income	53.412	37.765
Total salaries and salary related expenses	1.450.279	1.376.171

On 31 December 2014 a new work contract between HS Orka and HS Veitur (HS Veitur hf.) was signed. This contract replaces previous work contract between same parties from 7 August 2009. It was agreed that 83 employees of HS Orka should transfer to, and become employees of, HS Veitur as of 1 January 2015. The parties entered into a mutual agreement to provide and purchase services. HS Veitur will purchase services in the fields of finance, accounting, human resources, quality control, record management, public relations and security from HS Orka. HS Orka will purchase services in the field of service desk operation, energy billing, IT services, payment collection, procurement, inventories and maintenance of properties from HS Veitur. In the year 2014 HS Orka sold services to HS Veitur for ISK 646 million.

Salaries paid to the Board of Directors and Management amounted to ISK 58 million in 2014 (2013: ISK 87 million).

9. Depreciation, amortization and impairment

Depreciation, amortization and impairment is specified as follows:

	2014	2013
Depreciation of operating assets, see note 12	1.336.424	1.306.981
Amortization of intangible assets, see note 14	31.992	14.463
Depreciation and amortization recognized in the income statement	1.368.416	1.321.444

Depreciation and amortization is allocated as follows:

Production cost and cost of sales	1.350.750	1.307.929
Other operating expenses	17.666	13.515
Depreciation and amortization recognized in the income statement	1.368.416	1.321.444

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Notes, continued:

10. Finance income and costs

Finance income and costs is specified as follows:

	2014	2013
Interest income on loans and receivables	257.868	300.455
Fair value changes on financial assets through profit or loss	37.620	59.605
Net foreign exchange gain	12.836	1.602.176
Total finance income	308.324	1.962.236
Interest expense	(340.433)	(414.777)
Indexation	(22.134)	(86.641)
Total finance costs	(362.567)	(501.418)
Changes in fair value of currency and interest rate swap contracts	424.615	463.357
Changes in fair value of embedded derivatives	(1.555.726)	(4.138.090)
Net finance expense	(1.185.354)	(2.213.915)

11. Income tax

Income tax expense (recovery) recognised in profit and loss is specified as follows:

	2014	2013
Origination and reversal of temporary difference	(36.871)	186.461

Effective tax rate is specified as follows:

		2014		2013
Profit (loss) for the year		735.783		(355.079)
Income tax expense (recovery)		36.871		(186.461)
Profit (loss) before income tax		772.654		(541.540)
Income tax according to current tax rate	20,0%	(154.542)	20,0%	108.308
Effect of associates	(15,2%)	117.671	14,4%	78.153
Effective income tax rate	4,8%	(36.871)	34,4%	186.461

Income tax expense recognised in OCI is specified as follows:

	2014	2013
Tax on other items that will never be reclassified to profit or loss	10.682	7.553
	10.682	7.553

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12. Operating assets

Operating assets are specified as follows:

	Power plants	Other operating assets	Total
Cost			
Balance at 1.1.2013	30.027.090	1.542.494	31.569.584
Additions during the year	1.204.382	31.471	1.235.853
Disposals	0	(1.200)	(1.200)
Balance at 31.12.2013	31.231.472	1.572.765	32.804.237
Additions during the year	905.293	133.209	1.038.502
Disposals	0	(21.462)	(21.462)
Balance at 31.12.2014	32.136.765	1.684.512	33.821.277
Depreciation			
Balance at 1.1.2013	0	75.392	75.392
Depreciation for the year	1.267.481	39.500	1.306.981
Disposals	0	(234)	(234)
Balance at 31.12.2013	1.267.481	114.658	1.382.139
Depreciation for the year	1.295.225	41.199	1.336.424
Disposals	0	(12.577)	(12.577)
Balance at 31.12.2014	2.562.706	143.280	2.705.986
Net book value			
1.1.2013	30.027.090	1.467.102	31.494.192
31.12.2013	29.963.991	1.458.106	31.422.097
31.12.2014	29.574.059	1.541.231	31.115.291
Net book value without revaluation			
1.1.2013	22.058.232	1.382.073	23.440.305
31.12.2013	22.356.043	1.387.569	23.743.612
31.12.2014	22.330.704	1.469.467	23.800.171

Other operating assets include capitalized land and buildings with the carrying amount of ISK 1,145 million (2013: ISK 1,092 million). The Company´s power plants were revalued on 31 December 2012. Other property´s were revalued to fair value at 1 January 2008.

Rateable value and insurance value

Rateable value of the Company's buildings amounted to ISK 2,639 million at year-end 2014 (2013: ISK 2,332 million) and land measured at rateable value amounted to ISK 1,689 million (2013: ISK 1,653 million). Insurance value of the Company's assets amounted to ISK 45,612 million (2013: ISK 44,242 million).

Capital commitments

The Company anticipates that it will need to invest in a new discharge pipe system for Svartsengi and the majority of the investment will be in the year 2015. Then the Company made contract for drilling three new wells, one at Reykjanes and two at Svartsengi which will mostly take place in 2015. Total capital commitment in those projects is approximately ISK 1,604 million in 2015.

Pledge of assets

The Company's power plants at Reykjanes and Svartsengi are pledged to secure bank loans in the amount of ISK 10,622 million (2013: ISK 12,182 million).

Impairment testing

Management reviewed whether there was an indication of impairment of the Company's operating assets at the year end 2014 and management concluded that there was no indication of impairment.

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13. Operating assets under construction

Operating assets under construction are specified as follows:

	2014	2013
Net book value 1.1.	3.841.191	3.664.287
Additions	62.173	176.904
Transferred to operating assets	(85.193)	0
Net book value 31.12.	3.818.171	3.841.191

Operating assets under construction represents capitalized cost related to an expansion to the power plant at Reykjanes, which is planned to supply Norðurál Helguvík ehf. (together with its affiliates "Norðurál") (a subsidiary of Century Aluminum) with power for a new aluminum smelter in Helguvík (located in Reykjanesbær, Iceland). In 2007, HS Orka hf. and Norðurál executed a power purchase agreement on power for a new aluminum smelter in Helguvík. The agreement with Norðurál was under dispute and Norðurál initiated arbitration proceedings to determine the validity of the agreement. A conclusion was reached on 16 December 2011. According to the award the agreement from 2007 remains valid but some of the conditions have not been fulfilled. In 2014 HS Orka has commenced an arbitration again to determine the validity of the Power Purchase Agreement. The Proceeding was commenced on 10 July 2014. Arbitrators have been appointed for the tribunal and hearings are expected to take place in April 2016.

Indication of impairment

The operating assets under construction were tested for impairment at 31 December 2014 by estimating their recoverable amount. No impairment was identified. The impairment test was based on several assumptions including the future timing of the project (Reykjanes expansion) due to the arbitrations with Norðurál, assumptions of price and market conditions, what WACC is relevant and the form of financing for the project, which could affect the recoverability of the assets.

14. Intangible assets

Intangible assets are specified as follows:

	Software	Development cost	Total
Cost			
Balance 1.1.2013	292.209	1.016.361	1.308.570
Additions during the year	3.064	72.072	75.136
Balance 31.12.2013	295.273	1.088.433	1.383.706
Additions during the year	4.086	97.042	101.128
Balance at 31.12.2014	299.359	1.185.475	1.484.834
Amortization			
Balance at 1.1.2013	172.266	146.241	318.507
Amortization for the year	14.463	0	14.463
Balance at 31.12.2013	186.729	146.241	332.970
Amortization for the year	31.992	0	31.992
Balance at 31.12.2014	218.721	146.241	364.962
Book value			
1.1.2013	119.943	870.120	990.063
31.12.2013	108.545	942.193	1.050.738
31.12.2014	80.639	1.039.234	1.119.873

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14. Intangible assets, continued:

Impairment test 2014

Development cost includes the costs for experimental drilling at Trölladyngja, Krýsuvík and Eldvörp. Relevant costs are capitalized to the extent that it is probable that future benefits are generated in order to recover the investment. HS Orka hf. holds research permits in these areas and according to management results from analysis to date are positive. If it becomes evident that the development cost will not be utilized by the Company to generate revenue it must be expensed as an impairment cost. Management has confirmed that the above projects are feasible and it is likely that they will generate revenues in the future. An annual impairment test was performed at the end of 2014 and expected returns are in excess of capitalized cost.

Trölladyngja

In 2012 The Icelandic parliament accepted "Rammaáætlun II" a national Energy developement plan, which categorized existing hydro and geothermal power sites into three groups: protected sites, pending sites and power developing sites. The Trölladyngja area is categorized as a pending site meaning more information, research and data is required. The carrying amount of Trölladyngja was at year end 2014 ISK 676 million.

15. Investments in associates

Investments in associates are as follows:

	2014		2013	
	Share	Carrying amount	Share	Carrying amount
Bláa Lónið hf. (the Blue Lagoon), Iceland	33,0%	894.822	33,0%	643.280
DMM-lausnir ehf., Iceland	27,2%	22.669	27,1%	17.202
Suðurorka ehf., Iceland	50,0%	219.637	50,0%	202.637
Vesturverk ehf., Iceland	35,6%	60.000	-	-
HS Orkurannsóknir ehf., Iceland	100,0%	500	100,0%	500
Total		1.197.628		863.619

The Company's share in profit of its associates for the year 2014 was ISK 588 million (2013: ISK 391 million). The share in associates profit or loss is based on un-audited financial information. Currency translation difference for the year was negative in the amount of ISK 14 million (2013: negative ISK 49 million).

The Company made additional investments of ISK 17 million in Suðurorka ehf. in a joint venture for Búlandsvirkjun Hydro development asset. ISK 60 million was invested in Vesturverk ehf., a joint venture for Hvalá Hydro development project.

Results from HS Orkurannsóknir ehf. are not included in the share of profit of associates as the Company had no operations during the year.

16. Investments in other companies

Investments in other companies are as follows:

	2014		2013	
	Share	Carrying amount	Share	Carrying amount
Keilir ehf., Iceland	10.2%	17.500	10.2%	17.500
Íslensk nýorka hf., Iceland	8.1%	9.575	8.1%	9.575
Total		27.075		27.075

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17. Bonds

	2014	2013
Non-current		
Reykjanesbær bonds	253.457	313.586
Current		
Reykjanesbær bonds	79.205	81.532
Total	332.662	395.118

The bonds are interest-bearing financial assets designated at fair value through profit or loss, with a carrying amount of ISK 333 million at 31 December 2014 (2013: ISK 395 million) have stated interest rates of 5.0% plus indexation, are paid in annual installments and mature in 2019. The bond is valued at 5.0% interest rate.

18. Embedded derivatives in power sales contracts

In 2004 The Company signed power sales agreements with Norðurál on power supply until the year 2026. In 1999 the Company also signed an agreement with Landsvirkjun for the sale of power until the year 2019. Payments under the agreements are made in USD and are linked to the price of aluminium.

These long-term power sales agreements feature embedded derivatives, the value of which is adjusted upon changes in the future price of aluminium.

In evaluating the value of embedded derivatives, generally accepted valuation methods are applied, as the market value is not available. The fair value of the power purchase agreements is calculated on the basis of the forward price of aluminium. The expected present value of cash flows based on the reporting date is calculated on the basis of the registered forward price of aluminium on the London Metal Exchange (LME) over the next 10 years after the reporting date and expectations of price trends of aluminium when a forward market ends, and growth applied to the calculation was 2.27% (2013: 2.19%). The expected present value of cash flows, from the agreements, on the agreement date is deducted from this value based on aluminium price assumptions used for the conclusion of the agreements. The difference is a fair value change of the derivative, which is recognized in profit or loss. Embedded derivatives in power purchase agreements are expected to have no value at the beginning of the agreements.

When calculating the present value the Company uses the current government yield curve for US sovereign strips plus applicable counterparty risk spread which is calculated based on the credit rating of the counterparty.

In addition, the Company has concluded that other power sale agreements that the Company holds with Landsvirkjun where the power price is based on Landsvirkjun's price list, with indexation in ISK, do not include embedded derivatives.

Fair value of embedded derivatives are as follows:	2014	2013
Fair value of embedded derivatives at 1.1.	122.581	4.260.671
Changes in fair value	(1.555.727)	(4.138.090)
Fair value of embedded derivatives at 31.12.	(1.433.146)	122.581

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18. Embedded derivatives in power sales agreements, continued:

Interest rates used for determining fair value of embedded derivaties:

	2014	2013
Embedded derivatives in power purchase agreements (USD)	1.26 - 4.84%	1.64 - 4.84%

For sensitivity of aluminum prices and interest rates a reference is made to note 30.

19. Deferred tax liabilty

Movement in deferred tax liability is specified as follows:

	2014	2013
Deferred tax liability on 1.1.	(631.964)	(825.978)
Changes recognized in profit or loss	(36.871)	186.461
Changes recognised in Other Comprehensive Income	10.682	7.553
Deferred tax liability on 31.12.	(658.153)	(631.964)

Deferred tax liability is as follows at the year end:

	2014	2013
Operating assets	(1.456.123)	(1.200.566)
Derivatives	286.629	110.407
Inventories	4.792	3.399
Trade and other receivables	5.366	5.366
Pension obligation	299.791	292.127
Deferred foreign exchange loss	(108.524)	(161.472)
Tax losses carried forward	309.916	318.775
Deferred tax liability on 31.12.	(658.153)	(631.964)

Tax loss carry-forward can be utilized over 10 years from the date that the loss is incurred. Tax loss carry-forward at year end amounted to ISK 1,550 million (2013: ISK 1,594 million) and is useable until 2018. Management has concluded, based on its projections, that there will be sufficient taxable profit in the future to use the tax loss currently carried forward.

20. Prepaid lease and royalty fee

The Board of the Company exercised the right to convert the long term receivable with Grindavíkurbær, following the sale of land, into prepaid royalty fee and land lease. The prepaid royalty fee and land lease is classified as a long term receivable and will be expensed over the remaining life of the long term receivable (61 years).

21. Receivables

Long-term receivables

Changes in long term receivables from HS Veitur hf. are as follows:

	2014	2013
Long-term receivable from HS veitur due to pension liability 1.1.	331.364	289.647
HS Veitur share of increase in pension obligation	110.612	87.317
Collected from HS Veitur	(46.432)	(45.600)
Long-term receivables from HS veitur due to pension liability 31.12.	395.544	331.364

Trade and other receivables

Trade and other receivables are specified as follows:

	2014	2013
Trade receivables	944.149	774.698
Receivable from HS veitur hf.	240.649	157.123
Allowance for bad debt	(26.830)	(26.830)
Total trade receivables	1.157.968	904.991
Other receivables	120.213	98.894
Total trade and other receivables	1.278.181	1.003.885

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 30.

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22. Short-term investments

The Company has invested in short-term debt securities amounting to ISK 401 million at the end of the year (2013: ISK 357 million). Fair value of short-term investment is based on brokers quote.

23. Cash and cash equivalents

Cash and cash equivalents are as follows:

	2014	2013
Bank balances	3.769.443	4.413.403

At year end 2014 cash in the amount of ISK 571 million or USD 4.5 million (2013: ISK 520 million, USD 4.5 million) is classified as restricted. The cash is dedicated to secure loan payments in accordance with a collateral agreement concluded in March 2010 with the Company's lenders.

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 30.

24. Equity

Issued capital

Issued share capital, as stipulated in the Company's Articles of Association, amounted to ISK 7,841 million (2013: ISK 7,841 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 in full.

Outstanding number of ordinary shares	2014	2013
Outstanding shares during the year	7.841.124	7.841.124

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Translation reserve

The translation reserve comprises of all foreign currency differences arising from the translation of the Company's proportionate share in certain associates.

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

Dividend paid during 2014 was ISK 220 million (2013: ISK 150 million dividend paid).

The Board of directors proposes that dividend in the amount of ISK 320 million (ISK 0.04 per share) will be paid to shareholders during the year 2015.

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25. Earnings per share

Basic and diluted earnings (loss) per share

	2014	2013
Profit (loss) for the year	735.783	(355.079)

Weighted average number of ordinary shares

	2014	2013
Weighted average number of ordinary shares	7.841.124	7.841.124
Basic and diluted earnings (loss) per share	0,09	(0,05)

26. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 30.

	2014	2013
Non-current debt		
Unsecured bank loans	336.116	385.044
Secured bank loans with covenants	10.622.127	12.181.758
Unsecured bond issue	1.437.447	1.953.904
Current maturities	(2.263.830)	(2.221.609)
Non-current debt	10.131.860	12.299.097
Current debt		
Current maturities	2.263.830	2.221.609
Current loans and borrowings	2.263.830	2.221.609
Total interest-bearing loans and borrowing	12.395.690	14.520.706

Terms of loans and borrowings

Loans in foreign currency:	Final due date	2014 Weighted average interest rate	2014 Carrying amount	2013 Weighted average interest rate	2013 Carrying amount
Loans in USD	2019-2023	2,0%	2.342.215	2,1%	2.479.299
Loans in CHF	2021-2022	2,1%	3.334.573	2,1%	3.852.216
Loans in EUR	2019-2021	2,8%	2.141.729	2,9%	2.614.025
Loans in JPY	2021-2023	1,4%	1.006.639	1,4%	1.177.993
Loans in CAD	2021-2023	1,7%	943.577	1,8%	1.039.731
Loans in SEK	2021	3,1%	541.231	3,8%	675.187
Loans in GBP	2021	0,9%	312.163	0,8%	343.308
			10.622.127		12.181.759
Loans in ISK:					
Indexed loans in ISK	2016-2017	4,0%	1.512.196	4,0%	2.062.205
Other loans in ISK	2031	6,8%	261.367	6,8%	276.742
			1.773.563		2.338.947
Total interest-bearing loans and borrowings			12.395.690		14.520.706

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26. Loans and borrowings, continued:

Annual maturities of loans and borrowings are as follows:

	2014	2013
Year 2015/2014	2.263.830	2.221.609
Year 2016/2015	2.287.526	2.244.195
Year 2017/2016	1.967.895	2.267.687
Year 2018/2017	1.669.019	1.951.526
Year 2019/2018	1.669.019	1.655.703
Subsequent	2.538.401	4.179.986
Total interest-bearing loans and borrowings	12.395.690	14.520.706

Covenants

At the end of the year 2009, the Company signed temporary agreements with its lenders with revised covenants and interest rates for the years 2009 and 2010. One of these temporary agreements was extended to 2014 by one of the banks (European Investment Bank) but further waivers were not required by the other two banks. The Company does not consider a waiver will be necessary in 2015 as the original covenants are expected to be fulfilled. All effective covenants were fulfilled by the Company in 2014.

27. Pension obligations

According to actuaries' assessment, the Company's accrued pension obligations amounted at year end 2014 to ISK 1,895 million (2013: ISK 1,792 million), discounted based on an interest rate of 2.0%, (taking into account the net assets of part of the pension funds). 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 increase in the obligation in 2014 is based on general salary increase taking into account interests. The Company's pension obligation is uncapitalized.

A part of the pension obligation pertains to the Company's employees providing services to HS Veitur and HS Veitur participates in the cost of the increase in these employees' pension obligations. HS Veitur's share in the increase in the pension obligations during the year amounted to ISK 64 million (2013: ISK 41 million) and is recognized as a long-term receivable from HS Veitur. Actuarial gains and losses relating to HS Veitur´s share in pension liability are recognized as production cost as they are reimbursed by HS Veitur.

	2014	2013
Pension commitment at 1.1.	1.792.000	1.726.700
Contribution during the year	(81.855)	(80.232)
Current service cost	21.262	15.917
Interest expense	35.938	35.203
Actuarial changes HS Orka part charged to comprehensive income (loss)	53.413	37.765
Actuarial changes HS Veitur part charged to profit or loss	73.742	56.647
Pension obligation at 31.12.	1.894.500	1.792.000

Pension obligations are as follows:

	2014	2013
The pension fund for State employees	956.400	895.400
The pension fund for Municipality of Hafnarfjörður employees	563.200	541.700
The pension fund for Municipality of Westman Islands employees	374.900	354.900
Pension fund obligation at 31.12.	1.894.500	1.792.000

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28. Currency and interest rate swap contracts

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

During 2014 a dispute between Glitnir and HS Orka about the validity of the contract was settled.

29. Trade and other payables

Trade and other payables are as follows:	2014	2013
Trade payables	555.530	437.668
Other payables	966.073	657.091
Total trade and other payables	1.521.603	1.094.759

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

30. Financial instruments

Overview

The Company's activities are exposed to financial risk consisting of credit risk, liquidity risk and market risk. Market risk consists of currency risk and interest rate 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 management under policies approved by the Board of Directors. Management identifies, evaluates and manages financial risk in close co-operation with the Board of Directors. The Company's risk management program focuses on addressing the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company determines whether or not to use derivative financial instruments to hedge certain risk exposures if such derivatives are available. The Company does not currently hedge its risk exposure except for part of its currency risk where revenues in USD are indirectly hedged against loans in USD.

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 its customer. Approximately 50% (2013: 54%) of the Company's revenue is attributable to sales transactions with the two largest customers. Trade and other receivables are receivables from retail customers, companies, large consumers and power companies.

The Company has set a credit policy where all new significant customers are evaluated for credit risk. Payment history of those customers is checked.

Most of the Company's customers have been customers for many years and loss on receivables has been insignificant in proportion to turnover. Credit risk management includes taking into account the age of the receivables and financial standing of each customer. The list of aged receivables is reviewed on a regular basis by the credit controller. Customers that are behind in payments are not permitted to make further transactions with the Company until they settle their debt or the Company's collection department approves further transactions based on an agreement.

The Company establishes an allowance for impairment that represents an estimate of expected losses 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 companies with 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.

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30. Financial instruments, continued:
Credit risk, continued;
Exposure to 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	2014	2013
Bonds	17	332.662	395.118
Long term receivables	21	395.544	331.364
Trade and other receivables	21	1.278.181	1.003.885
Short-term investment	22	400.540	357.020
Cash and cash equivalents	23	3.769.443	4.413.403
		6.176.370	6.500.790

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

Large users and power companies	326.335	327.490
Receivables from HS Veitur	223.720	157.124
Other customers	634.743	447.207
	1.184.798	931.821

Impairment

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

	2014 Gross value	Impairment	2013 Gross value	Impairment
Not past due	1.052.257	7.702	878.507	4.898
Past due 0 - 30 days	35.049	602	11.650	1.672
Past due 31 - 60 days	5.764	550	5.830	1.211
Past due 61 - 90 days	1.687	325	4.045	882
Past due more than 90 days	90.041	17.651	31.789	18.167
	1.184.798	26.830	931.821	26.830

Impairment of trade receivables relates fully to other customers.

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

	2014	2013
Balance at 1.1.	26.830	37.775
Final write off	(11.749)	(14.717)
Impairment losses recognized	11.749	3.772
Balance at 31.12.	26.830	26.830

Other financial assets subject to credit risk are not impaired

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30. Financial instruments, continued:

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. 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. At the year end 2014 the Company held Cash and Cash equivalent (including short-term investment) in the amount of ISK 4,170 million (2013: 4,770 million).

The Company has not made agreements for new loan facilities and had no unused loan facilities at year end 2014 and 2013.

Exposure to 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 2014						
Loans and borrowings	12.395.690	13.524.993	2.562.866	2.551.341	5.746.497	2.664.289
Trade and other payables	1.521.603	1.521.603	1.521.603			
31 December 2013						
Loans and borrowings	14.520.706	16.088.720	2.583.605	2.544.002	6.502.137	4.458.976
Trade and other payables	1.094.759	1.094.759	1.094.759			
Derivatives	674.615	627.807	411.120	62.565	154.122	

Market risk

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

Currency risk

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

The Company does not use forward contracts or other derivatives to hedge against foreign exchange rate risk. The Company does indirectly hedge a portion of its revenue in USD with borrowings in USD. The Company holds USD cash at year end amounting to ISK 807 million (2013: ISK 764 million) for repayments of loans in foreign currencies.

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30. Financial instruments, continued:

Exposure to currency risk

The Company's exposure to foreign currency risk is as follows:

2014	CHF	EUR	USD	JPY	CAD	Other currencies
Derivatives			(1.433.146)			
Receivables		6.509	171.194			
Cash and cash equivalents	85	18.968	807.245	4	4	412
Loans and borrowings	(3.334.573)	(2.141.729)	(2.342.215)	(1.006.639)	(943.577)	(853.394)
Payables			(61.653)		(9.277)	(152)
Balance sheet risk	(3.334.488)	(2.116.252)	(2.858.575)	(1.006.635)	(952.850)	(853.134)

2013	CHF	EUR	USD	JPY	CAD	Other currencies
Derivatives	(1.102.293)	(339.943)	(285.809)	(318.353)		(172.119)
Receivables		7.616	163.247			
Cash and cash equivalents	86	11.789	764.225	5	4	396
Loans and borrowings	(3.852.216)	(2.614.025)	(2.479.299)	(1.177.993)	(1.039.731)	(1.018.495)
Payables			(39.926)		(2.317)	(6.618)
Balance sheet risk	(4.954.423)	(2.934.563)	(1.877.562)	(1.496.341)	(1.042.044)	(1.196.836)

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30. Financial instruments, continued:

Currency risk, continued:

The following exchange rates were used during the year:

	Average exchange rate		End of year exchange rate	
	2014	2013	2014	2013
CHF	127,86	132,27	128,65	129,55
EUR	155,26	162,83	154,70	158,94
USD	117,03	122,52	127,20	115,30
JPY	1,11	1,26	1,07	1,10
CAD	106,02	119,06	109,91	108,39

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. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2013.

	Profit or (loss)	
	2014	2013
CHF	266.759	396.354
EUR	169.300	234.765
USD	228.686	150.205
JPY	80.531	119.707
CAD	76.228	83.364
Other currencies	68.251	95.747

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 the year 2013.

Interest rate risk

The majority of the Company's long-term borrowings are subject to variable interest rates. Due to current market conditions in Iceland the Company does not currently hedge its interest rate risk.

Exposure to interest rate risk

Interest-bearing financial assets and liabilities are as follows at the year end:	2014	2013
Financial instruments with fixed interest rate		
Financial assets	332.662	395.118
Financial liabilities	(1.512.196)	(2.062.205)
	(1.179.534)	(1.667.087)
Financial instruments with floating interest rate		
Financial assets	3.769.443	4.413.403
Financial liabilities	(10.883.494)	(12.458.501)
	(7.114.051)	(8.045.098)
Derivatives		
Embedded derivatives	(1.433.146)	122.581
Currency and interest rate swap	0	(674.615)
	(1.433.146)	(552.034)

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30. Financial instruments, continued:

Fair value sensitivity analysis for fixed rate instruments:

An increase or decrease of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2013.

	Other Comprehensive Income		Profit or loss	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2014				
Financial assets	0	0	(5.763)	5.996
Fair value sensitivity analysis, net	0	0	(5.763)	5.996
2013				
Financial assets	0	0	(10.380)	10.868
Fair value sensitivity analysis, net	0	0	(10.380)	10.868

Cash flow sensitivity analysis for floating interest rate instruments

An increase or decrease 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 the assumption that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2013.

	Profit or loss	
	100 bp increase	100 bp decrease
2014		
Financial instruments with floating interest rates	(56.912)	56.912
Cash flow sensitivity analysis, net	(56.912)	56.912
2013		
Financial instruments with floating interest rates	(64.361)	64.361
Cash flow sensitivity analysis, net	(64.361)	64.361

Fair value sensitivity analysis for derivatives

An increase or decrease 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 was performed on the same basis for the year 2013.

	Profit or loss	
	100 bp increase	100 bp decrease
2014		
Embedded derivatives in power sales contracts	(51.997)	56.156
Fair value sensitivity analysis, net	(51.997)	56.156
2013		
Embedded derivatives in power sales contracts	(22.517)	25.052
Currency and interest rate swap contracts	(23.128)	23.897
Fair value sensitivity analysis, net	(45.645)	48.949

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30. Financial instruments, continued:

Aluminium price risk

The Company has entered into power purchase agreements with Norðurál on power supply until the year 2026. The Company has also entered into an agreement with Landsvirkjun on the sale of power until the year 2019. The agreements are in USD and the contract price of power is based on the world market value of aluminum. The Company does not currently hedge against aluminum price change.

Sensitivity analysis

A 10 percent increase or decrease of aluminium prices at 31 December would have increased (decreased) profit or loss after tax by the amounts shown below. The analysis was performed on the same basis for 2013.

	Profit or (loss)	
	2014	**2013**
Increase of 10%	1.647.902	1.699.406
Decrease of 10%	(1.647.902)	(1.699.406)

Other market risk

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

Fair value

Fair value versus carrying amounts

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

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Interest-bearing long-term debts	(12.395.690)	(12.103.473)	(14.520.706)	(14.142.410)

Interest rates used for determining fair value for disclosure purpose

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.

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:

	2014	**2013**
Interest bearing long-term liabilities	Libor + 250 bp	Libor + 250 bp

Fair value of other financial assets and liabilities is equal to their carrying amount.

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30. Financial instruments, continued:

Classification of financial instruments

Financial assets and liabilities are classified as follows:

	Loans and receivables	Financial assets designated at fair value through profit and loss	Financial liabilities designt at fair value through profit and loss	Financial liabilities measured at amortized cost	Carrying amount
2014					
Investment in other companies		27.075			27.075
Bonds		332.662			332.662
Trade receivables	1.157.968				1.157.968
Other receivables	515.757				515.757
Short-term investments		400.540			400.540
Cash and cash equivalent	3.769.443				3.769.443
Total assets	5.443.168	760.277	0	0	6.203.445
Loans and borrowings				12.395.690	12.395.690
Embedded derivatives			1.433.146		1.433.146
Trade payables				555.530	555.530
Other payables				966.073	966.073
Total liabilities	0	0	1.433.146	13.917.293	15.350.439
2013					
Investment in other companies		27.075			27.075
Bonds		395.118			395.118
Embedded derivatives			260.580		260.580
Trade receivables	904.991				904.991
Other receivables	430.258				430.258
Short term investments		357.020			357.020
Cash and cash equivalent	4.413.403				4.413.403
Total assets	5.748.652	779.213	260.580	0	6.788.445
Loans and borrowings				14.520.706	14.520.706
Derivatives			812.614		812.614
Trade payables				437.668	437.668
Other payables				657.091	657.091
Total liabilities	0	0	812.614	15.615.465	16.428.079

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Notes, continued:

31. Fair value hierarchy:

The table below analyses assets and liabilities carried at fair value, sorted 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 (ie. as prices) or indirectly (ie. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2014				
Operating assets			31.115.291	31.115.291
Embedded derivatives		(83.848)	(1.349.298)	(1.433.146)
Bonds		332.662		332.662
Investments in other companies			27.075	27.075
Short-term investments	400.540			400.540
Total	400.540	248.814	29.793.068	30.442.422
31 December 2013				
Operating assets			31.422.097	31.422.097
Embedded derivatives		(21.385)	143.966	122.581
Bonds		395.118		395.118
Currency and interest rate swap contracts		(302.827)		(302.827)
Investments in other companies			27.075	27.075
Short-term investments	357.020			357.020
Total	357.020	70.906	31.593.138	32.021.064

Embedded derivatives that expire in the year 2026 are classified in level 3 due to the fact that the forward market for aluminium only extends to maximum of ten years. Fair value change for asset classified at Level 3 amount to ISK 1,493 million (2013: ISK negative 3,889 million).

32. 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 lower levels of borrowings. The equity ratio was 59.7% at year end 2014 (2013: 58.0%).

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 those required pursuant to covenants in its loan agreements.

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33. Related parties

Identity of related parties

The Company has a related party relationship with its shareholders, subsidiaries, associates, fellow subsidiaries, HS Veitur hf., its directors and executive officers and other companies owned by them.

The Company did not make any sales to shareholders in the years 2014 and 2013. The Company bought services from shareholders for the amount of ISK 28 million (2013: ISK 11 million).

The Company purchased goods and services from associate companies in the amount of ISK 30 million in the year 2014 (2013: ISK 16 million).

The Company sold goods to an associate company in the amount of ISK 41 million (2013: ISK 48 million).

The Company purchased services from fellow subsidiaries in the amount of ISK 2 million in the year 2014 (2013: ISK 18 million). At year end trade payables to fellow subsidiaries were ISK 0 million (2013: ISK 2 million).

Sales to HS Veitur hf. amounted to ISK 2,013 million during the year (2013: ISK 1,965 million). Purchases from HS Veitur hf. amounted to ISK 71 million (2013: ISK 105 million). At year end the receivables from HS Veitur hf. amounted to ISK 241 million (2013: ISK 157 million) and payables to HS Veitur hf. amounted to ISK 24 million (2013: ISK 74). Long term receivable from HS Veitur due to pension liability amounted to ISK 396 million (2013: ISK 331 million)

Appendix: Corporate Governance Statement, unaudited

This statutory statement on corporate governance is made in accordance with Article 66-c of the Icelandic Financial Statements Act No. 3/2006, as amended. This statement has been approved by the Board of Directors of HS Orka hf. and is also published in the Company's Annual Report. This statement covers the financial year ended on 31 December 2014.

This statement includes information on the following items:

- A reference to the corporate governance procedures the Company follows and how the Company adhere to procedures, including any deviations and explanations thereto.
- A description of the main aspects of internal controls and risk management systems used in connection with preparation of financial statements.
- A description of the Company´s organizational structure and the role and composition of each function.

1. Corporate Governance

The Company complies in all main respect to the laws mentioned above. The Board of Directors of HS Orka hf. emphasizes maintaining good management practices. The articles of association for the Company lay the framework for the governance of the Company.

The Audit Committee, consists of two members of the Board of Directors and an independent member. Remuneration committee was established in 2014. It consists of two members from the Board of Directors.

The Company's Board of Directors determines the CEO's terms of employment and gets reports from the Audit Committee which meets regularly with the Company's auditors. Two members of the Board are associated with the minority shareholder of the Company and three members of the Board are associated with the major shareholder according to a definition in Article 2.5 in the Guidelines on Corporate Governance, issued in March 2012, by Iceland Chamber of Commerce, Nasdaq OMX Iceland hf. and Confederation of Icelandic Employers.

The preparation of financial statements in conformity with IFRS 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.

2. Main aspects of internal controls and risk management systems in connection with preparation of financial statements

The Company implemented key provisions of the Sarbanes-Oxley Act (SOX) in 2011. The company used an external independing auditing firm on testing the internal controls in 2014. This will continue in the years 2015 and 2016.

The Board of Directors has an ongoing dialogue with the CEO on the identification, description and handling of the business risks to which the Company may be exposed. Material risks and risk management are discussed in the Annual Report.

The Company´s risk management and internal controls, in relation to financial processes, are designed to control the risk of material misstatements. The Company designs its processes to ensure that there are no material weaknesses with internal controls that could lead to a material misstatement in the financial reporting.

The Company goes through a detailed strategic and budget process each year and a budget report is prepared. The Board approves the Company´s budget each year. Deviations from the budget are carefully monitored on a monthly basis. A year over year comparison is also performed on a monthly basis and deviations explained. The Company´s overall business is fairly stable and past budgets have been reliable and therefore deviations become visible quickly.

To ensure quality in the Company‘s financial reporting systems the following policies, procedures and guidelines for financial reporting and internal control have been adopted:

Continuous analysis of year over year result variations.

Annual tests of operating effectiveness of internal controls.

Continuous analysis of results achieved compared to the approved budget.

Policies for key aspects of the business including (but not limited to) IT use, insurance, cash management, segregation of duties, procurement etc.

The responsibility for maintaining sufficient and effective internal control and risk management in connection with financial reporting lies with the CEO.

An auditing firm is elected at the Annual General Meeting for a term of one year. The external auditors are not allowed to own shares in the Company. The external auditors shall examine the Company´s annual financial statements in accordance with international standards on auditing, and shall, for this purpose, inspect account records and other material relating to the operation and financial position of the Company. The external auditors have access to all of the Company´s books and documents at all times. The external auditors report any significant findings regarding accounting matters via the Audit Committee to the Board of Directors in the auditors report.

3. Organizational structure and the role and composition of each function

According to the Company´s Articles of Association the Company is managed by

- Shareholders meetings
- The Board of Directors
- The Chief Executive Officer

Shareholders´ Meetings

The ultimate authority in all affairs of the Company, within the limits established by the Company´s Articles of Association and statutory law, is in the hands of lawful shareholders meetings.

The controlling shareholder Alterra Power Corp, through its subsidiary Magma Energy Sweden, holds 66.6% of the shares and voting rights of HS Orka hf. The other shareholder Jarðvarmi slhf. holds 33.4% of the shares and voting rights.

The Board of Directors

According to the Company´s Articles of Association the Board of Directors is responsible for the affairs of the Company between the Shareholders´ Meetings. The Board shall operate in accordance with the Company´s Articles of Association and the Board´s Rules of Procedure. The Principal duties of the Board are as follows:

- Appoint a CEO and decide the CEO´s salary and terms of employment, establish terms of reference and supervise the CEO´s work.
- Supervise continuously and precisely all aspects of the Company´s operations and ensure that the Company´s organization and activities are always in order. In particular, the Board of Directors shall ensure adequate supervision of the financial control and accurate reporting and disposal of the Company´s financial assets, and at least once a year confirm the Company´s operating plan and budget.
- Establish the Company´s goals in accordance with the Company´s objectives pursuant to the Articles of Association, and formulate the policy and strategy required to achieve these goals.

All Board Members have consented to the Board´s procedures and considered them to be efficient. The Board Members also found the Board materials and presentations were good and well prepared. They also confirm the Board has been well informed and all matters have been discussed in an open and constructive way. When evaluating its size and composition, the Board takes into account the Company´s operations, policies and practices and the knowledge, experience and expertise of each Board member. The Board considers its size and composition to be in line with the Board‘s aim, to discharge its duties in an efficient manner with integrity in the best interest of the Company.

Further information on the Board can be found in the Annual Report and on the Company‘s website.

The Audit Committee

The Audit Committee shall operate in accordance with its Rules of Procedure. The principal duty of the Audit Committee is to ensure the quality of the Company´s financial statements and other financial information, and the independence of the Company's auditors.

The Remuneration Committee

The Remuneration Committee shall operate in accordance with its Rules of Procedure. The principal duty of the Remuneration Committee is to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives while complying with the requirements of regulatory and governance bodies, satisfying the expectations of shareholders and remaining consistent with the expectations of the employees.

The Chief Executive Officer

According to the Company´s Articles of Association the Board of Directors appoints a CEO to manage the Company´s daily operations.

The principal duties of the CEO are as follows:

- He is responsible for daily operations and is obliged to follow the Boards' policy and instructions in that regard. The daily operations do not include measures that are unusual or extraordinary. The CEO may only take such measures if specially authorized by the Board, unless it is impossible to wait for the Board´s decision without substantial disadvantage to the Company´s operations. In such event the CEO shall inform the Board of any action taken without delay.
- He is responsible for the work and results of executive management.
- He shall ensure that the financial statements of the Company conform to the law and accepted practices and that the treatment of the Company´s assets is secure. The CEO shall provide any information that may be requested by the Company´s auditors.

Further information on the CEO can be found in the Annual Report and on the Company´s website.

Unaudited financial information

Quarterly Statements

Summary of the Company´s results by quarters:

2014	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Operating revenue	1.899.108	1.683.049	1.729.172	2.167.547	7.478.876
Production cost and cost of sales	(1.291.526)	(1.403.908)	(1.348.200)	(1.579.032)	(5.622.666)
Gross profit	607.582	279.141	380.972	588.515	1.856.210
Other operating expenses	(118.336)	(102.641)	(106.116)	(159.462)	(486.555)
Results from operating activities	489.246	176.500	274.856	429.053	1.369.655
Finance income	303.864	79.973	74.448	(149.961)	308.324
Finance costs	(101.210)	(99.798)	(205.693)	44.134	(362.567)
Changes in fair value of swap contracts	21.169	20.049	(8.621)	392.018	424.615
Changes in fair value of embedded derivatives	(707.768)	465.705	65.487	(1.379.150)	(1.555.726)
Net finance (expense) income	(483.945)	465.929	(74.379)	(1.092.959)	(1.185.354)
Share of profit of associates	86.205	136.064	297.518	68.566	588.353
Profit (loss) before income tax	91.506	778.493	497.995	(595.340)	772.654
Income tax (expense) recovery	(1.060)	(128.486)	(40.095)	132.770	(36.871)
Profit (loss) for the period	90.446	650.007	457.900	(462.570)	735.783
Other comprehensive income (loss):					
Items that will never be reclassified to profit or loss					
Remeasuremt. of defined benefit liability	7.002	(19.827)	(29.491)	(11.096)	(53.412)
Tax on items that will never be reclassified to profit or loss	(1.400)	3.965	5.898	2.219	10.682
	5.602	(15.862)	(23.593)	(8.877)	(42.730)
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation difference on associates	(20.979)	6.060	(7.740)	8.664	(13.995)
Other comprehensive loss, net of tax	(15.377)	(9.802)	(31.333)	(213)	(56.725)
Total comprehensive income (loss)	75.069	640.205	426.567	(462.783)	679.058

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Quarterly Statements, contd.:

2013	Q1	Q2	Q3	Q4	Total
Operating revenue	1.947.270	1.642.827	1.551.943	1.889.350	7.031.390
Production cost and cost of sales	(1.318.110)	(1.393.715)	(1.194.939)	(1.405.824)	(5.312.588)
Gross profit	629.160	249.112	357.004	483.526	1.718.802
Other operating expenses	(173.502)	(62.449)	(70.112)	(131.129)	(437.192)
Results from operating activities	455.658	186.663	286.892	352.397	1.281.610
Finance income	1.022.431	291.745	88.393	559.667	1.962.236
Finance costs	(162.057)	(113.051)	(234.697)	8.387	(501.418)
Changes in fair value of swap contracts	253.453	81.275	11.537	117.092	463.357
Changes in fair value of embedded derivatives	(2.755.939)	(1.194.429)	907.089	(1.094.811)	(4.138.090)
Net finance (expenses) income	(1.642.112)	(934.460)	772.322	(409.665)	(2.213.915)
Share of profit (loss) of associates	38.775	93.636	266.067	(7.713)	390.765
(Loss) profit before income tax	(1.147.679)	(654.161)	1.325.281	(64.981)	(541.540)
Income tax recovery (expense)	237.296	149.554	(211.842)	11.453	186.461
(Loss) profit for the period	(910.383)	(504.607)	1.113.439	(53.528)	(355.079)
Other comprehensive income (loss):					
Items that will never be reclassified to profit or loss					
Remeasuremt. of defined benefit liability	0	(33.491)	(2.682)	(1.592)	(37.765)
Tax on items that will never be reclassified to profit or loss	0	6.698	536	319	7.553
	0	(26.793)	(2.146)	(1.273)	(30.212)
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation difference of associates	(31.815)	(6.665)	9.758	(19.806)	(48.528)
Other comprehensive loss net of tax	(31.815)	(33.458)	7.612	(21.079)	(78.740)
Total comprehensive (loss) income	(942.198)	(538.065)	1.121.051	(74.607)	(433.819)

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