



I **HS ORKA**
Brekustíg 36
260 Reykjanesbær
Sími: 520 9300
hsorka@hsorka.is
www.hsorka.is

Press Release

Svartsengi, February 27, 2017

HS Orka hf announces Consolidated Financial Statements for the year ended December 31, 2016

Consolidated Financial Statements for the year ended December 31, 2016 of HS Orka hf. (the "Company") were approved at a Board of Directors meeting on 27 February 2017. The financial statements of HS Orka hf. are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and are stated in Icelandic krónur (ISK). The financial statements can be found on the Company's website: <http://www.hsorka.is>

Net profit for the year was ISK 3,104 million, up from a net loss of ISK 247 million in 2015, with the movement predominantly due to non-cash gains in the year further discussed below.

Operating revenue was ISK 7,099 million against 7,343 million in 2015, with the decrease primarily due to a reduction in aluminum based sales (as a result of a decline in aluminum prices in 2016) plus a decrease in the sale of geothermal water due to unusually warm weather in 2016. This is somewhat offset by a continuing growth in sale of electricity to the retail market.

Production cost increased by 13% to ISK 3,671 million in 2016 mostly because of an increase in power purchases and a rise in depreciation derived from the revaluation of the Svartsengi Power Plant at year-end 2015.

Research and development costs were higher in 2016 due to the deep drilling program at Reykjanes. Drilling was completed at a depth of 4,650 meters. Initial well readings (427°C temperature, 340 bars pressure) indicate supercritical conditions at the base of the well, comprising significantly higher energy content versus conventional high-temperature geothermal steam.

Legal fees were higher in 2016 due to arbitration proceedings regarding the power purchase agreement with Norðurál Helgúvík ehf ("Norðurál"). HS Orka hf. received positive results in November 2016, indicating that the power purchase agreement had lapsed due to certain circumstances, and therefore was at an end. The panel further determined that the ending of the contract was not due to any fault on the part of the Company. All counterclaims advanced by Norðurál Helgúvík ehf. in the arbitration were denied.

Finance-related income increased to a gain of ISK 2,364 million (2015: ISK 3,141 million loss). This was driven primarily by an increase in future aluminum prices during the year, resulting in an increase in the fair value of embedded derivatives in power purchase agreements of ISK 1,467 million (2015: ISK 3,248 million loss). Currency gains were ISK 970 million compared to a gain of ISK 197 million in 2015.

A total comprehensive profit of ISK 2,757 million was recorded against ISK 2,633 million profit in 2015. The Company's equity ratio is 66.7% compared to 58.6% at year-end 2015.

Further information can be provided by Ásgeir Margeirsson, Managing Director of HS Orka hf., tel. 520 9300 / 855 9301.