HS Orka hf.

Consolidated Financial Statements
for the year 2016
ISK 000's

HS Orka hf.
Svartsengi
240 Grindavík
kt. 680475-0169

Contents

Endorsement by the Board of Directors and the CEO

The consolidated financial statements of HS Orka hf. (the "Company" or "HS Orka") for the year 2016 are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with additional Icelandic disclosure requirements.

According to the consolidated statement of comprehensive income, the Company's operating revenue amounted to ISK 7,099 million for the year 2016 (2015: ISK 7,343 million) and the profit for the year amounted to ISK 3,104 million (2015: Loss ISK 247 million). Total comprehensive income amounted to ISK 2,757 million (2015: ISK 2,632 million).

According to the consolidated statements of financial position, the Company's assets amounted to ISK 46,951 million at the end of 2016 (at year end 2015: ISK 49,296 million). Equity amounted to ISK 31,304 million at the end of 2016 (at year end 2015: ISK 28,901 million) or 66.7% of total capital (at year end 2015: 58.6%).

The Company's shareholders numbered two at the end of 2016, there was no change in the number of shareholders during the year. At the end of 2016 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 420 million (ISK 0.05 pr. share) will be paid to shareholders in the year 2017, and refers to the financial statements for further allocation of profit and changes in equity during the year.

The Board had 15 meetings and the Audit Committee had 5 meetings in 2016.

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. 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 which were 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 2016.
It is the opinion of the Board of Directors that HS Orka hf. complies with the Icelandic guidelines for Corporate Governance.

Non-Financial Reporting:
In June 2016 the Parliament of Iceland approved extensive changes to the Financial Statements Act. These changes are retroactive as of 1. January 2016. Among the changes to the Act is a requirement that the endorsement of certain entities shall include a non-financial statement containing information necessary for an understanding of the development, performance, position and impact of its activity, relating to environmental, social and employee matters. Furthermore, it shall include the entities´ policy regarding human rights and how the entities counteracts corruption and bribery matters. The statement shall also contain a brief description of the entities´ business model, non-financial key performance indicators etc. Where the entity does not pursue policies with respect to one or more of those public interest entity and thus must comply with these requirements. It should be noted that for entities within the European Union, the provision applies as of the year 2017. Due to the short time which has elapsed from the change of the Act to the end of the financial year, the Company has not been able to implement this requirement. Implementation will take place in the year 2017.

Statement of Board of Directors and 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 2016, its financial performance, and the changes in cash flows during the year 2016.

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 2016 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 29 March 2017.

Reykjanesbær, 27 February 2017

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.

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of HS Orka hf, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of HS Orka as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional disclosure requirements for listed companies in Iceland.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
At year end 2016 Power plants amounted ISK 34,479 million (ref. note 16) and Operating assets under construction amounted to ISK 3,400 million (ref. note 13). The power plants in use are measured at revalued cost less accumulated depreciation and impairment but operating assets under construction are valued at cost (ref. note 3d). The recoverable amount of these assets were assessed at year end and compared to the carrying amount to assess whether there is a need for revaluation or an indication of impairment. We focused on this area due to the size of the carrying amount of the power plants in use and under construction, which represent 77% of total assets and because management's assessment of value in use in the fair value assessment involves significant judgement about the future results of the business and the discount rates applied in the future cash flow forecast.	With the assistance of our in-house valuation specialists we: • Conclude on the appropriateness of management's use of the going concern basis of accounting addressed the appropriateness of the design and implementation of the cash flow model used by management to assess recoverable amount at year end • focused on challenging management's forecasting based on the information we have about possible future utilization and revenues of the power plants, both current power plants and power plants under construction and by comparing actual performance for the year against forecast for the same period in the prior year model • assessed the reasonableness of the discount rate used • performed sensitivity analysis on the assumption used.

Other information
The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The Annual report is not available at our reporting date but is expected to be made available to us after that date.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements
The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the EU, and for such internal control as they determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern andusing the going concern basis of accounting unless they either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with The Board of Directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide The Board of Directors and audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
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 consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partners on the audit resulting in this independent auditor's report is Margret G. Flóvenz and Sigurjón Örn Arnarson.

Reykjavik, 27 February 2017.

KPMG ehf.

Consolidated Statements of Comprehensive Income for the year ended 31 December 2016

	Notes	2016	2015
Operating revenue	5,6	7,099,159	7,343,275
Production cost and cost of sales	7	(5,962,238)	(5,293,006)
Gross profit		1,136,921	2,050,269
Other income	8	81,192	6,262
Other operating expenses	9	(600,614)	(611,675)
Research and development	10	(282,021)	(86,825)
Profit from operations		335,478	1,358,030
Finance income		99,747	210,837
Finance costs		(173,224)	(300,677)
Net exchange rate differences		969,993	197,239
Changes in fair value of embedded derivatives	32	1,467,004	(3,247,953)
Net finance income (expense)	14	2,363,520	(3,140,554)
Share of profit of associates	19	945,125	1,178,955
Profit (loss) before income tax		3,644,122	(603,569)
Income tax (expense) recovery	15	(539,799)	356,505
Net profit (loss) for the period		3,104,323	(247,064)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of operating assets		0	3,800,000
Remeasurement of defined benefit liability	30	(73,573)	(80,365)
Tax on items not reclassified to profit or loss	15	14,715	(743,927)
		(58,858)	2,975,708
Items that may be reclassified subsequently to profit or loss			
Currency translation difference on associates	19	(287,980)	(95,901)
Other comprehensive (loss), income for the period		(346,838)	2,879,807
Total comprehensive income		2,757,485	2,632,743
Profit attributable to:			
Owners of the Parent Company		3,104,323	(247,064)
Comprehensive income attributable to:			
Owners of the Parent Company		2,757,485	2,632,743
Earnings (loss) per share:			
Basic and diluted earnings (loss) per share	28	0.40	(0.03)

Notes on pages 12-43 are an integral part of these financial statements

Consolidated Financial Statements 31 December 2016 8 All amounts in thousands of ISK

Consolidated Statements of Financial Position
as at 31 December 2016

Assets	Notes	31/12/2016	31/12/2015
Fixed assets			
Operating assets	16	36,213,477	36,566,712
Operating assets under construction	17	3,399,732	3,151,270
Intangible assets	18	1,643,747	1,470,899
Investments in associates	19	2,113,797	1,874,168
Investments in other companies	20	27,075	27,075
Bonds	21	59,269	193,886
Prepaid lease and royalty fee	22	517,736	507,236
Long-term receivables	23	640,561	504,019
		44,615,394	44,295,264
Current assets			
Inventories		487,444	483,368
Bonds	21	0	77,554
Trade and other receivables	24	1,310,279	1,367,118
Short-term investments		0	907,175
Restricted cash and cash equivalents	25	508,500	1,324,298
Cash and cash equivalents	26	29,233	841,069
		2,335,456	5,000,584
Total assets		46,950,850	49,295,848

Equity and liabilities

Equity	27		
Share capital		7,841,124	7,841,124
Share premium and statutory reserve		7,038,855	7,038,855
Translation reserve		(111,939)	176,041
Other reserves		945,125	0
Revaluation reserve		8,120,761	8,601,406
Retained earnings		7,356,242	5,135,258
Total equity attributable to owners of the parent company		31,190,168	28,792,684
Non-controlling interest		113,519	108,617
Total equity		31,303,687	28,901,301
Liabilities			
Loans and borrowings	29	4,950,857	7,681,185
Pension obligations	30	2,178,300	2,052,400
Deferred tax liability	31	1,605,903	1,080,815
Embedded derivatives in power sales contracts	32	2,802,385	4,058,803
		11,537,445	14,873,203
Current liabilities			
Loans and borrowings	29	1,798,361	2,264,472
EU grant payable to participants	25	0	741,143
Trade and other payables	33	1,899,647	1,893,433
Embedded derivatives in power sales contracts	32	411,710	622,296
		4,109,718	5,521,344
Total liabilities		15,647,163	20,394,547
Total liabilities and equity		46,950,850	49,295,848

Notes on pages 12-43 are an integral part of these financial statements

Consolidated Financial Statements 31 December 2016 9 All amounts in thousands of ISK

Statements of Changes in Equity for the year ended 31 December 2016

	Share Capital	Share Premium	Translation Reserve	Revaluation Reserve	Other Reserves*	Retained Earnings	**Attributable to Parent**	Non- controlling Interest	**Total Equity**
Equity at 1 January 2015	7,841,124	7,038,855	271,942	5,852,098	0	5,475,923	**26,479,942**	0	**26,479,942**
Profit for the period						(247,064)	**(247,064)**		**(247,064)**
Other comprehensive loss			(95,901)	3,040,000		(64,292)	**2,879,807**		**2,879,807**
Total comprehensive income			(95,901)	3,040,000	0	(311,356)	**2,632,744**	0	**2,632,743**
Revaluation reserve transferred to Retained earnings				(290,692)		290,692	**0**		**0**
Dividends paid ISK 0.04 per share						(320,000)	**(320,000)**		**(320,000)**
Aquisition of subsidiary with non-controlling interest							**0**	108,618	**108,618**
Equity at 31 December 2015	7,841,124	7,038,855	176,041	8,601,406	0	5,135,258	**28,792,684**	108,618	**28,901,302**
Equity at 1 January 2016	7,841,124	7,038,855	176,041	8,601,406	0	5,135,258	**28,792,684**	108,618	**28,901,301**
Profit for the period					945,125	2,159,198	**3,104,323**		**3,104,323**
Other comprehensive loss			(287,980)			(58,858)	**(346,838)**		**(346,838)**
Total comprehensive (loss), income			(287,980)	0	945,125	2,100,340	**2,757,485**	0	**2,757,485**
Share capital increase in subsidiary								4,901	**4,901**
Revaluation reserve transferred to Retained earnings				(480,645)		480,645			**0**
Dividends decleared ISK 0.05 per share						(360,000)	**(360,000)**		**(360,000)**
Equity at 31 December 2016	7,841,124	7,038,855	(111,939)	8,120,761	945,125	7,356,242	**31,190,168**	113,519	**31,298,785**

*Other reserves include recognized share in profit and loss of subsidiaries and associates which is in excess of received or declared dividend by the subsidiary or the associate in accordance with change made to the Icelandic Financial statements act in the year 2016. Funds in the reserve can not be declared for dividend payments

Notes on pages 12-43 are an integral part of these financial statements

Consolidated Financial Statements 31 December 2016 10 All amounts in thousands of ISK

Consolidated Statements of Cash Flows
for the year ended 31 December 2016

	Notes	2016	2015
Cash flows from operating activities			
Profit for the period (loss)		3,104,323	(247,064)
Gain on sale of operating assets		(81,192)	(6,262)
Increase in pension obligations	30	52,327	77,535
Depreciation and amortization	13	1,698,669	1,416,011
Net finance (income), expense	14	(2,363,520)	3,140,554
Share of profit of associates	19	(945,125)	(1,178,955)
Income tax (expense) recovery	15	539,799	(356,505)
Cash generated by operations		2,005,281	2,845,314
Inventories, (increase)		(4,076)	(52,170)
Receivables, (increase)		(26,844)	(126,602)
Current liabilities (decrease), increase		(324,030)	372,200
Net cash from operations before interest and taxes		1,650,331	3,038,742
Interest received		30,257	102,378
Interest paid		(188,402)	(282,024)
Net cash provided by operating activities		1,492,186	2,859,096
Cash flows from investing activities			
Acquisition of operating assets		(1,596,865)	(2,372,720)
Acquisition of operating assets under construction		(248,462)	0
Proceeds from sale of operating assets		367,581	12,163
Sale of intangible assets		925	(117,968)
Acquisition of intangible assets		(208,718)	0
Acquisition of shares in associates		(4,000)	(16,000)
Dividends received from associates		421,517	362,514
Acquisition of subsidiary, net of cash acquired		0	(58,410)
Investment in short-term investments		0	(2,610,473)
Proceeds from sale of short-term investments		922,408	2,119,707
Proceeds from repayment of bonds		203,069	82,549
		(142,546)	(2,598,638)
Cash flows from financing activities			
Paid dividends		0	(320,000)
New short-term borrowings		89,873	0
Repayment of borrowings		(2,196,439)	(2,307,639)
Miniority payment of share capital increase in subsidiary		4,900	0
		(2,101,666)	(2,627,639)
Decrease in cash and cash equivalents		(752,026)	(2,367,181)
Cash and cash equivalents at 1 January		841,069	3,186,286
Effect of exchange rate fluctuations on cash held		(59,811)	21,964
Cash and cash equivalents at 31 December		29,233	841,069
Investing and financing activities not affecting cash flows			
Unpaid dividends		360,000	0
Current liabilities		360,000	0

Notes on pages 12-43 are an integral part of these financial statements

Consolidated Financial Statements 31 December 2016 11 All amounts in thousands of ISK

Notes to the Condensed Consolidated 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 consolidated financial statements of the Company consolidate the financial statements of its subsidiary Vesturverk ehf. (Vesturverk) and the Companys share of associates are accounted for on an equity basis of accounting.

The Company's financial statements can be found at its website www.hsorka.is and at the website of the Icelandic Stock Exchange; www.nasdaqomxnordic.com.

As at December 31, 2016 the Company holds a working capital deficit of ISK 1.774 million (ISK 521 million deficit at December 31, 2015). Though the Company projects that it will be able to meet its working capital needs from operating results, it is currently in late stage negotiations with potential lenders for a loan to more fully accommodate working capital needs plus provide expansion capital.

2. 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 27 February 2017.

3. Basis of preparation

a. 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)

b. 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.

Notes to the Condensed Consolidated Financial Statements

3. Basis of preparation, continued;

c. 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 and assumptions and estimates that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:
- Note 13 - Amortization of assets
- Note 15 - Income taxes
- Notes 17 and 18 - Impairment of geothermal development assets and assets under construction
- Note 21 - Bonds
- Note 24 - Provisions
- Note 31 - Deferred taxes
- Note 32 - Fair value of embedded derivatives in power sales agreements
- [illegible]

d. 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).

3. Basis of preparation, continued;

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 Company 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 and accoutning policies is included in the following notes:
- Note 16 - Operating Assets

4. 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 2016 that have been approved by the EU. No new standards apdopted during the year effected these financial statements.

The Company has changed the presentation of the consolidated interim statements of comprehensive income as research and development costs and net foreign exchange rate differences are now presented as a specific line item. Comparatives have been restated accordingly. Presentation of restricted cash and cash equivalents in the consolidated interim statements of financial position is now presented as a specific line item. Comparatives have been restated accordingly. Segment reporting have been changed as other operating expenses and research and development is now presented as unallocated items. Comparatives have been restated accordingly.

a. Basis of consolidation

(i) Business combination

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Non-controlling interest

Non controlling interest (NCI) are initially measured at the proportionate share of the acquiree's identifiable net assets at the date of aquisition. Transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. As a result no gain or loss on such changes is recognized in the statement of operations and no change in the carrying amounts of assets (including goodwill) or liabilities is recognized. All changes as a result of acquisitions and disposals of non-controlling interests are recognized directly in the statement of equity.

(iv) Loss of control

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

4. Significant accounting policies, continued;

(vi) 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.

The company equity accounts for its 30% in Bláa Lónið ehf.

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.

Notes to the Condensed Consolidated Financial Statements

4. Significant accounting policies, continued;

c. Financial instruments (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 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-derivatice financial instruments

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) Derivatice 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.

4. Significant accounting policies, 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 of Svartsengi Power plant took place in December 2015, the Reykjanes Power plant was revalued in 2012 and other assets were revalued in 2008.

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.

4. 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 surveying other areas suitable for power production by other sources, 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 and other areas suitable for power production by other sources 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 labor, 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. Due to uncertainty surrounding the companies' deep drilling project and the research nature of the project the associated cost have not been capitalized, but expensed. (note 39)

(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.

4. 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.

4. 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 recovery (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.

4. Significant accounting policies, continued;

o. Government grants (including European Union (EU))

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

p. 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.

q. 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.

r. New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. Those new accounting standards which may be relevant to the Company's financial statements are set out below.

IFRS 9, The new financial instruments standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and replaces IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income, and fair value through profit and loss. 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 a new general hedge accounting standard. The effective date is January 1, 2018 but may be adopted early at the Company's discretion. The Company is currently evaluating the impact the standard is expected to have and at present do not anticipate there to be a material impact on our consolidated financial statements.

IFRS 15, Revenue from contracts with customers is a new standard superseding IAS 18 - Revenue, IAS 11 - Construction contracts and related interpretations. The new standard is intended to establish a new control-based revenue recognition model and change the basis for deciding whether revenue is to be recognized over time or at a point in time. The new standard is effective for interim periods within years beginning on or after January 1, 2018. The Company is currently evaluating the impact the standard is expected to have and at present do not anticipate there to be a material impact on our consolidated financial statements.

IFRS 16, Leases specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize leased assets on the balance sheet to reflect their right to use an asset for a period of time and the associated liability to pay rentals unless the lease term is 12 months or less, or the underlying asset has an insignificant value. The effective date is annual periods commencing on or after January 1, 2019. The Company does not expect adoption of this new standard to have any material affect on its financial statements.

5. 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.

2016	Power production	Electricity sale	Other	Total
External revenue	2,611,206	4,187,455	300,498	7,099,159
Other income			0	0
Inter-segment revenue	1,417,447			1,417,447
Total segment revenue	4,028,653	4,187,455	300,498	8,516,606
Segment operating results	357,967	736,890	42,064	1,136,921

Unallocated items

Other income				81,192
Research and development				(282,021)
Other operating expenses				(600,614)
Net finance income				2,363,520
Share of profit of associates				945,125
Income tax expense				(539,799)
Net profit for the period				3,104,324
Segment assets	39,440,032	700	0	39,440,732
Unallocated assets				7,510,118
Total assets				46,950,850
Unallocated liabilities				15,647,163
Capital expenditures	1,700,742	0	0	1,700,742
Unallocated capital expenditures				244,121
Depreciation and amortization	1,644,691	1,144	31,216	1,677,051
Unallocated depreciation and amortization				21,619

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5. Segment reporting (continued)

2015	Power production	Electricity sale	Other	Total
External revenue	3,022,096	3,958,910	362,269	7,343,275
Inter-segment revenue	1,589,611	0	0	1,589,611
Total segment revenue	4,611,707	3,958,910	362,269	8,932,886
Segment operating results	1,357,872	669,560	22,836	2,050,268
Unallocated items				
Other income				6,262
Research and development				(86,825)
Other operating expenses				(611,675)
Net finance expense				(3,140,554)
Share of profit of associates				1,178,955
Income tax recovery				356,505
Net loss for the period				(247,064)
Segment assets	39,655,570	1,844	223,041	39,880,455
Unallocated assets				9,415,393
Total assets				49,295,848
Unallocated liabilities				20,394,547
Capital expenditures	2,459,137	0	0	2,459,137
Unallocated capital expenditures				31,551
Depreciation and amortization	1,357,172	1,260	35,489	1,393,921
Unallocated depreciation and amortization				22,089

6. Major customers (customers with more than 10% of total revenue)

Revenues from one customer of the Company's power production segment amounted to ISK 1.423 million (2015: ISK 1.697 million).

Revenues from HS Veitur hf. were as follows:

	Power production	Electricity sale	Other	Total
Revenues 2016	744,914	383,083	189,497	1,317,494
Revenues 2015	803,806	345,575	238,920	1,388,301

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Notes to the Condensed Consolidated Financial Statements

7. Production cost and cost of sales

	2016	2015
Production cost	3,670,686	3,253,835
Cost of sales	2,033,118	1,699,738
Cost of service	258,434	339,433
	5,962,238	5,293,006

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

	2016	2015
Salaries and related expenses	530,500	510,855
Depreciation	1,677,051	1,397,060
Power purchases	1,939,561	1,635,977
Transmission	494,857	546,985
Maintenance and other production cost	1,320,269	1,226,239
	5,962,238	5,317,116

8. Other income

HS Orka sold its office former building to HS Veitur hf. in June resulting in sales profit of ISK 77 million and the remaining ISK 4 million are sales profit of operating assets.

9. Other operating expenses

	2016	2015
Salaries and related expenses	242,660	191,709
Increase in pension fund obligation	20,014	19,013
Administrative expenses	317,617	380,753
Depreciation and amortization	20,323	20,200
	600,614	611,675

10. Research and development

	2016	2015
Salaries and related expenses	(141,336)	(9,985)
R&D projects	(1,180,997)	(75,591)
EU grants	237,656	0
Other grants	803,952	0
Depreciation and amortization	(1,297)	(1,249)
	(282,021)	(86,825)

Research grants are discussed further in note 39

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11. Salaries and related expenses

	2016	2015
Salaries	765,894	612,808
Contribution to defined contribution fund	87,885	66,686
Increase in pension obligation	93,588	99,378
Other salary related expenses	92,286	77,089
	1,039,653	855,961
Average number of employees equivalent	63	56

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

	2016	2015
Capitalized on projects	314,241	64,004
Production cost and cost of sale	530,500	510,855
Research and development	(141,336)	(9,985)
Other operating expenses	262,674	210,722
Recognized in other comprehensive income	73,573	80,365
	1,039,653	855,961

Salaries paid to the Board of Directors and Management amounted to ISK 50 million in 2016 (2015: ISK 41 million).

12. Auditor´s fee

Fee´s paid to the companies auditors in the year 2016 were ISK 18 million (2015: 16 million) thereof ISK 8 million (2015: 7 million) reflects fees for the audit of the Annual Financial Statements. Other services bought from KPMG amounted to ISK 3 million in 2016 (2015: ISK 2 million).

13. Depreciation, amortization and impairment

Depreciation, amortization and impairment is specified as follows:	2016	2015
Depreciation of operating assets, see note 16	1,663,418	1,384,797
Depreciation of intangible assets, see note 18	35,251	31,214
	1,698,669	1,416,011
Depreciation and amortization is allocated as follows:		
Production cost and cost of sales	1,677,051	1,394,562
Other operating expenses	20,323	20,200
Reasearch and developement	1,297	1,249
	1,698,670	1,416,011

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14. Finance income and expense

Finance income and expenses are specified as follows:

Finance income:

	2016	2015
Interest income on cash, loans and receivables	93,616	164,156
Fair value changes through profit or loss	6,131	46,681
	99,747	210,837
Finance cost		
Interest expense	(157,181)	(268,436)
Indexation	(16,043)	(32,241)
	(173,224)	(300,677)
Net exchange rate differences	969,993	197,239
Changes in fair value of embedded derivatives	1,467,004	(3,247,953)
	2,363,520	(3,140,554)

15. Income tax

Effective tax rate is specified as follows:

	2016	2015
Origination and reversal of temporary difference	(539,799)	356,505

Effective tax rate is specified as follows:	2016	2015
Profit (loss) for the year	3,104,323	(247,064)
Income tax expense (recovery)	539,799	(356,505)
Profit (loss) before tax	3,644,122	(603,569)

	2016		2015	
Income tax according to current tax rate	(728,824)	20.0%	120,714	20.0%
Effect of associates	189,025	5.2%	235,791	39.1%
Effective income tax rate	(539,799)	14.8%	356,505	59.1%

Income tax recognized in OCI is specified as follows:	2016	2015
Income tax on revaluation on operating assets	0	(760,000)
Tax on other item that will not be reclassified to proft or loss	14,715	16,073
Total income tax in OCI	14,715	(743,927)

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16. Operating assets

	Power plants	Other operating assets	Total
Historical cost			
Balance at 1 January 2015	32,136,765	1,684,512	33,821,277
Additions during the year	2,251,838	78,673	2,330,511
Transferred from operating assets under construction	709,111	0	709,111
Eliminated on disposal	(5,340)	(29,675)	(35,015)
Acquisition of Vesturverk	0	2,496	2,496
Depreciation adjustments	(1,401,222)	0	(1,401,222)
Revaluation at 31 December 2016	3,800,000	0	3,800,000
Balance at 31 December 2015	37,491,152	1,736,006	39,227,158
Additions during the year	1,349,779	245,654	1,595,433
Transferred to other operating assets	(335,687)	337,118	1,431
Eliminated on disposal	0	(448,664)	(448,664)
Balance at 31 December 2016	38,505,244	1,870,114	40,375,358
Depreciation			
Balance at 1 January 2015	2,562,705	143,280	2,705,985
Depreciation for the year	1,332,448	52,349	1,384,797
Disposals	(5,934)	(23,181)	(29,115)
Depreciation adjustments	(1,401,222)	0	(1,401,222)
Balance at 31 December 2015	2,487,997	172,448	2,660,445
Transferred to other operating assets	(63,990)	63,990	0
Depreciation for the year	1,602,276	61,142	1,663,418
Disposals	0	(161,983)	(161,983)
Balance at 31 December 2016	4,026,283	135,597	4,161,880
Net book value			
Book value at 1 January 2015	29,574,059	1,541,231	31,115,290
Book value at 1 January 2016	35,003,155	1,563,558	36,566,712
Book value at 31 December 2016	34,478,961	1,734,517	36,213,478
Net book value without revaluation			
1 January 2015	22,330,704	1,469,467	23,800,171
1 January 2016	24,318,441	1,496,515	25,814,956
31 December 2016	24,401,557	1,611,812	26,013,369
Depreciation rates	2-5%	5-20%	

Other operating assets include capitalized land and buildings with the carrying amount of ISK 1,268 million (2015: ISK 1,140 million).

Revaluation of operating assets

The Svartsengi power plant was revalued to fair value on 31 December 2015. The revaluation amounted to ISK 3,800 million. The calculations were performed by the HS Orka financial department. The Reykjanes power plant was 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 2,856 million at year-end 2016 (2015: ISK 2,733 million) and land measured at rateable value amounted to ISK 1,903 million (2015: ISK 1,846 million). Insurance value of the Company's assets amounted to ISK 46,784 million (2015: ISK 46,420 million).

Pledge of assets

The Company's power plants at Reykjanes and Svartsengi are pledged to secure bank loans in the amount of ISK 6,117 million (2015: ISK 8,762 million).

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17. Operating assets under construction

Operating assets under construction are specified as follows:

Net book value at 1 January 2015	3,818,171
Additions during the year	42,210
Transferred to operating assets	(709,111)
Net book value at 31 December 2015	3,151,270
Additions during the year	248,462
Net book value at 31 December 2016	3,399,732

Operating assets under construction represents capitalized cost related to an expansion to the power plant at Reykjanes.

Indication of impairment

The operating assets under construction were tested for impairment at 31 December 2016 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), 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.

18. Intangible assets

	Software	Development costs	Total
Historical cost			
Balance at 1 January 2015	299,358	1,185,475	1,484,833
Additions during the year	21,793	96,175	117,968
Acquisition of Vesturverk	0	264,273	264,273
Balance at 31 December 2015	321,151	1,545,923	1,867,074
Eliminated on disposal	(3,737)	0	(3,737)
Additions during the year	48,522	160,209	208,731
Balance at 31 December 2016	365,936	1,706,132	2,072,068
Amortization			
Balance at 1 January 2015	218,721	146,241	364,962
Amortization for the year	31,214	0	31,214
Balance at 31 December 2015	249,935	146,241	396,176
Amortization for the year	35,251	0	35,251
Eliminated on disposal	(3,105)	0	(3,105)
Balance at 31 December 2016	282,081	146,241	428,322
Net book value			
Net book value at 1 January 2016	71,216	1,399,682	1,470,898
Net book value at 31 December 2016	83,855	1,559,891	1,643,747
Depreciation rates	10-25%		

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18. Intangible assets, continued;

Impairment test

Development cost includes the costs for experimental drilling at Trölladyngja, Krýsuvík, Eldvörp and preparation of power plant at Hvalá. 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. Review for indication of impairment was performed at the end of 2016 and results are in excess of capitalized cost.

Trölladyngja

In 2012 The Icelandic parliament accepted "Rammaáætlun II" a national Energy development 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 2016 ISK 683 million (2015 year end ISK 683 million).

19. Investments in associates

Investments in associates are as follows:

	Share	Carrying amount 31/12/2016	Share	Carrying amount 31/12/2015
Shares in associates				
Bláa Lónið hf. (the Blue Lagoon), Iceland	30.00%	1,853,066	30.00%	1,618,111
DMM lausnir ehf., Iceland	27.20%	20,593	27.20%	19,919
Suðurorka ehf., Iceland	50.00%	239,638	50.00%	235,638
HS Orkurannsóknir ehf., Iceland	100.00%	500	100.00%	500
		2,113,797		1,874,168

	2016	2015
Balance at beginning of year	1,874,168	1,137,628
Additions during the year	4,000	16,000
Dividends	(421,517)	(362,514)
Translation differences	(287,980)	(95,901)
Share of profits	945,125	1,178,955
Balance at year end	2,113,797	1,874,168

The Company's share in profit of its associates for the year 2016 was ISK 945 million (2015: ISK 1.179 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 288 million (2015: negative ISK 96 million). In 2015 there was a positive impact of increase of share capital in the Blue Lagoon of ISK 447 million.

The Company made additional investments of ISK 4 million in Suðurorka ehf. in a joint venture for Búlandsvirkjun Hydro development asset. See also note 40.

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

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20. Investments in other companies

	Share	Carrying amount 31/12/2016	Share	Carrying amount 31/12/2015
Keilir ehf., Iceland	10.20%	17,500	10.20%	17,500
Íslensk nýorka hf., Iceland	8.10%	9,575	8.10%	9,575
		27,075		27,075

21. Bonds

	1.1-31.12.2016	1.1-31.12.2015
Balance at beginning of year	271,440	332,663
Installments	(203,069)	(82,561)
Changes in fair value	(9,102)	21,338
Balance at year end	59,269	271,440
Current maturity	0	(77,554)
	59,269	193,886

The bonds are interest-bearing financial assets designated at fair value through profit or loss, with a carrying amount of ISK 59 million at 31 December 2016 (2015: ISK 271 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. The bonds are with Reykjanesbær municipality and due to indications of their uncertain financial position, there is some uncertainty on the recoverability of the bond. The municipality is up to date with all payments due, paid in full. In 2016 due to uncertainty the bond was written down by 25% of its fair value.

22. 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 (60 years).

23. Long-term receivables

Changes in long-term receivables from HS Veitur hf. are as follows:	31/12/2016	31/12/2015
Long-term receivable from HS veitur due to pension liability 1.1.	504,018	395,545
HS Veitur share of increase in pension obligation	140,382	149,067
Collected from HS Veitur	(3,839)	(40,593)
	640,561	504,018

Long-term receivable from HS Veitur due to pension liability is discussed further in note 40.

24. Trade and other receivables

Trade and other receivables are specified as follows:

	31/12/2016	31/12/2015
Trade receivables	1,060,669	1,071,586
Receivable from HS veitur hf.	182,983	209,390
Allowance for bad debt	(26,830)	(26,830)
Total trade receivables	1,216,822	1,254,146
Other receivables	93,458	112,972
	1,310,279	1,367,118

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25. Restricted cash

At the end of 2016 cash in the amount of ISK 509 million (USD 4.5 million) (at year end 2015: ISK 583 million (USD 4.5 million)) was 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. At year end 2015 an additional ISK 741 million was held as restricted which comprised a portion of the grants related to the deep drilling program. The full amount was distributed to drilling program partners in January 2016.

26. Cash and cash equivalents

Cash and cash equivalents are as follows:

	31/12/2016	31/12/2015
Bank balances	29,233	841,069

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 34.

27. Equity

Issued capital

	Issued shares	Ratio	Total
Outstanding shares at year end	7,841,124	100%	7,841,124

Issued share capital, as stipulated in the Company's Articles of Association, amounted to ISK 7,841 million (2015: 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.

Share premium and statutory reserve

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 proportional share in certain associates.

Other reserve

According to changes made to the Icelandic Financial Statement Act in 2016, effective from 1 January 2016, companies must present in a seperate equity account recognized share in profit of subsidiaries and associates in excess of dividend received or declared. The effect of the new legislation is presented as other reserve in the statements of changes in equity. This reserve can not be declared for dividend payments.

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.

Non-controlling interest

Non-controlling interests represent ownership interests by third parties in businesses consolidated by HS Orka.

Dividends

Dividend declared during 2016 was ISK 360 million (2015: ISK 320 million dividend paid). The Board of Directors proposes that dividend in the amount of ISK 420 million (0.05 per Share) will be paid to shareholders in 2017.

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28. Earning per share

Basic and diluted earnings (loss) per share is as follows:	1.1-31.12.2016	1.1-31.12.2015
Profit (loss) for the year	3,104,323	(247,064)
Weighted average number of ordinary shares	7,841,124	7,841,124
Basic and diluted earnings (loss) per share	0.40	(0.03)

29. 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 34.

	31/12/2016	31/12/2015
Unsecured bank loans	320,491	245,993
Secured bank loans with covenants	6,117,492	8,762,328
Unsecured bond issue	311,235	937,336
Total interest bearing debt and borrowings	6,749,218	9,945,657
Current maturities	1,708,488	2,264,472
Short-term credit facility	89,873	0
Current debt	1,798,361	2,264,472
Non current debt	4,950,857	7,681,185

Annual maturities loans and borrowings are as follows:	31/12/2016	31/12/2015
Year 2017/2016	1,798,361	2,264,472
Year 2018/2017	1,397,123	1,936,822
Year 2019/2018	1,397,123	1,631,979
Year 2020/2019	928,790	1,631,979
Year 2021/2020	685,478	1,086,084
Subsequent	542,344	1,394,321
	6,749,218	9,945,657

Loans in foreign currency:		1.1-31.12.2016		1.1-31.12.2015	
	Final due date	Weighted average interest rate	Carrying amount	Weighted average interest rate	Carrying amount
Loans in USD	2019-2023	2.41%	1,383,639	2.10%	1,990,619
Loans in CHF	2021-2022	1.39%	2,032,215	1.80%	2,892,542
Loans in EUR	2019-2021	1.99%	1,032,131	2.60%	1,593,130
Loans in JPY	2021-2023	0.81%	668,904	1.30%	882,899
Loans in CAD	2021-2023	1.41%	551,617	1.20%	708,799
Loans in SEK	2021	1.85%	292,283	2.30%	434,346
Loans in GBP	2021	0.71%	156,703	0.90%	259,993
			6,117,492		8,762,328
Loans in ISK:					
Indexed loans in ISK	2017	3.80%	311,235	4.00%	937,337
Short-term credit facility	2017	8.20%	89,873		0
Other loans in ISK	2031	6.80%	230,617	6.80%	245,993
			631,726		1,183,330
Total interest-bearing loans and borrowings			6,749,218		9,945,657

Covenants

All effective covenants in the Company´s loan agreements were fulfilled in 2016.

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30. Pension obligations

	1.1-31.12.2016	1.1-31.12.2015
Pension commitment at 1 January	2,052,400	1,894,500
Contribution during the year	(138,077)	(119,064)
Current service costs	8,677	9,366
Interest expenses	41,356	38,165
Acturial changes HS Orka part charged to other comprehensive income	73,573	80,365
Actuarial changes HS Veitur part charged to profit or loss	140,369	149,068
Pension commitment at 31 December	2,178,300	2,052,400

Pension obligations are as follows:

The pension fund for State employees	1,087,800	1,036,500
The pension fund for Municipality of Hafnarfjörður employees	641,600	603,900
The pension fund for Municipality of Westman Islands employees	448,900	412,000
	2,178,300	2,052,400

According to actuaries' assessment, the Company's accrued pension obligations amounted at year end 2016 to ISK 2.178 million (2015: ISK 2,052 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 2016 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 140 million (2015: ISK 149 million) and is recognized as a long-term receivable from HS Veitur. (note 23) 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 (note 40).

31. Deferred tax liability

Movement in deferred tax liability is specified as follows:	2016	2015
Balance at beginning of year	(1,080,815)	(658,153)
Acquisition of Vesturverk deferred tax liability	0	(35,240)
Changes recognized in profit or loss	(539,799)	356,505
Changes recognized in other comprehensive income	14,712	(743,927)
Balance at year end	(1,605,903)	(1,080,815)

The following are the major deferred tax liabilities and assets recognized:

	31/12/2016	31/12/2015
Operating and intangible assets	(2,426,496)	(2,388,343)
Derivatives	642,819	936,220
Inventories	4,786	4,786
Trade and other receivables	5,366	5,366
Long-term receivables	(128,112)	(100,804)
Pension obligation	435,660	410,480
Deferred foreign exchange loss	(142,588)	(27,154)
Tax losses carried forward	2,662	78,634
	(1,605,903)	(1,080,815)

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 13 million (2015: ISK 393 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.

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32. 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 aluminum.

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

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 aluminum. The expected present value of cash flows based on the reporting date is calculated on the basis of the registered forward price of aluminum on the London Metal Exchange (LME) over the remaining lifetime of the contracts. The expected present value of cash flows, from the agreements, on the agreement date is deducted from this value based on aluminum 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 discount rate Company uses is based on 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 is as follows:	2016	2015
Fair value of embedded derivatives at 1 January	(4,681,099)	(1,433,146)
Changes in fair value	1,467,004	(3,247,953)
Fair value of embedded derivatives at 31 December	(3,214,095)	(4,681,099)
Interest rates used for determining fair value of embedded derivatives:	1.1-31.12.2016	1.1-31.12.2015
Embedded derivatives in power purchase agreements (USD)	1.92-4.04%	1.55-4.06%

For sensitivity of aluminum prices and interest rates a reference is made to note 34.

33. Trade and other payables

Trade and other payables are as follows:

	31/12/2016	31/12/2015
Trade payables	1,256,329	1,357,066
Other payables	643,318	536,367
	1,899,647	1,893,433

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 34.

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34. 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 39% (2015: 42%) 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.

34. 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:

	1.1-31.12.2016	1.1-31.12.2015
Bonds	59,269	271,440
Long term receivables	640,561	504,019
Trade and other receivables	1,310,279	1,367,118
Short-term investment	0	907,175
Cash restricted to EU grant partners	0	741,143
Cash and cash equivalents	29,233	1,424,224
	2,039,342	5,215,120

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

	1.1-31.12.2016	1.1-31.12.2015
Large users and power companies	256,364	224,550
Receivables from HS Veitur	182,983	209,390
Other customers	870,933	847,036
	1,310,279	1,280,976

Impairment

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

	2016		2015	
	Gross value	Impairment	Gross value	Impairment
Not past due	1,167,478	758	1,148,435	746
Past due 0 - 30 days	45,580	494	35,049	380
Past due 31 - 60 days	5,829	315	5,764	311
Past due 61 - 90 days	8,130	2,978	1,687	618
Past due more than 90 days	83,262	22,285	90,041	24,775
	1,310,279	26,830	1,280,976	26,830

Impairment of trade receivables relates fully to other customers.

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 2016 the Company held Cash and Cash equivalent (including short-term investment and restricted cash) in the amount of ISK 538 million (2015: 3,071 million).

The Company has made agreements for new ISK 300 million credit facility in 2016 and but made no new agreements or had unused loan facilities at year end 2015.

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34. Financial instruments (continued)

Liquidity risk (continued)

Exposure to liquidity risk

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

31. December 2016	**Contractual cash flows**			
	Less than 1 year	1-5 years	5+ years	Total
Loans and borrowings	1,940,220	4,649,574	600,249	7,190,043
Trade and other payables	1,899,647	0	0	1,899,647
	3,839,867	4,649,574	600,249	9,089,690

Exposure to liquidity risk

31. December 2015	**Contractual cash flows**			
	Less than 1 year	1-5 years	5+ years	Total
Loans and borrowings	2,463,335	6,671,460	1,461,254	10,596,049
EU grant	0	0	0	0
Trade and other payables	1,893,433	0	0	1,893,433
	4,356,768	6,671,460	1,461,254	12,489,482

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.

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.

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

Financial instruments with fixed interest rates	1.1-31.12.2016	1.1-31.12.2015
Financial assets	59,269	271,440
Financial liabilities	(311,235)	(937,337)
	(251,966)	(665,897)
Financial instruments with floating interest rates		
Financial assets	537,733	3,072,543
Financial liabilities	(6,437,983)	(9,008,320)
	(5,900,250)	(5,935,777)
Derivatives		
Embedded derivatives	(3,214,095)	(4,681,099)
	(3,214,095)	(4,681,099)

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34. 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 2015.

	Other comprehensive income		Profit or loss	
1.1-31.12.2016	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets	0	0	593	(593)
Fair value sensitivity analysis, net	0	0	593	(593)
1.1-31.12.2015				
Financial assets	0	0	3,837	(3,968)
Fair value sensitivity analysis, net	0	0	3,837	(3,968)

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 2015.

	Profit or loss	
	100 bp increase	100 bp decrease
1.1-31.12.2016		
Financial instruments with floating interest rates	(47,202)	47,202
Cash flow sensitivity analysis, net	(47,202)	47,202
1.1-31.12.2015		
Financial instruments with floating interest rates	(47,486)	47,486
Cash flow sensitivity analysis, net	(47,486)	47,486

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 2015.

	Profit or loss	
	100 bp increase	100 bp decrease
1.1-31.12.2016		
Embedded derivatives in power sales contracts	104,780	(112,153)
Fair value sensitivity analysis, net	104,780	(112,153)
1.1-31.12.2015		
Embedded derivatives in power sales contracts	160,331	(172,456)
Fair value sensitivity analysis, net	160,331	(172,456)

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34. Financial instruments (continued)

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 509 million (2015: ISK 863 million) for repayments of loans in foreign currencies.

Exposure to currency risk

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
CHF	2,032,214	2,892,542	74	87
EUR	1,032,213	1,593,130	13,799	1,098,437
USD	4,660,523	1,990,619	732,296	1,201,747
JPY	671,098	882,899	4	5
CAD	553,703	708,799	3	4
GBP	156,828	259,993	291	407
SEK	292,283	434,346	1	1
	9,398,862	8,762,328	746,468	2,300,688

	Average exchange rate		Year end exchange rate	
	1.1-31.12.2016	1.1-31.12.2015	1.1-31.12.2016	1.1-31.12.2015
The following exchange rates were used during the year:				
CHF	122.50	137.08	110.81	130.50
EUR	133.59	146.30	119.13	141.32
USD	120.67	131.85	112.82	129.59
JPY	1.11	1.09	0.97	1.08
CAD	91.08	103.25	83.72	93.27
GBP	163.80	201.58	138.91	192.06
SEK	14.13	15.64	12.43	15.40

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 2015.

	1.1-31.12.2016	1.1-31.12.2015
CHF	162,571	231,396
EUR	81,473	39,575
USD	314,258	63,110
JPY	53,688	70,631
CAD	44,296	56,704
GBP	12,523	20,767
SEK	23,383	34,748

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.

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34. 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 2015.

	Profit or loss	
	1.1-31.12.2016	1.1-31.12.2015
Increase of 10%	1,081,777	1,614,021
Decrease of 10%	(1,081,777)	(1,614,021)

Other market risk

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

Classification of financial instruments

Financial assets and liabilities are classified as follows:

Financial assets	31/12/2016	31/12/2015
Loans and receivables	2,488,573	4,036,505
Financial assets designated held for trading at fair value through profit or loss	86,344	1,205,691
	2,574,917	5,242,196

Financial liabilities	31/12/2016	31/12/2015
Financial liabilities designated at fair value through profit or loss	3,214,095	4,681,099
Financial liabilities measured at amortized cost	8,648,865	12,580,233
	11,862,959	17,261,332

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35. 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:

	31/12/2016		31/12/2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Interest-bearing long-term debts	6,749,219	6,631,885	9,945,657	9,593,082

Interest rates used for determining fair value for disclosure purposes

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:

	1.1-31.12.2016	1.1-31.12.2015
Interest-bearing long-term debts	Libor + 250 bp	Libor + 300 bp

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

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 2016				
Operating assets			36,213,477	36,213,477
Embedded derivatives		(3,214,095)		(3,214,095)
Bonds		59,269		59,269
Investments in other companies			27,075	27,075
Total	0	(3,154,825)	36,240,552	33,085,727
31 December 2015				
Operating assets			36,566,712	36,566,712
Embedded derivatives		(234,088)	(4,447,010)	(4,681,098)
Bonds		271,440		271,440
Investments in other companies			27,075	27,075
Short-term investments	907,175			907,175
Total	907,175	37,352	32,146,777	33,091,304

Embedded derivatives related to the contract expiring in 2026 have all been transferred from level 3 to level 2 due to the fact that the valuation can now be based on the forward market for aluminium prices which extends out ten years.

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36. Subsidiary

In 2016 when control was gained, the Company acquired an additional 12.1% of the shares and voting interests in Vesturverk. As a result, the Company's equity interest in Vesturverk increased from 52.5% to 66.6% with ISK 4.9 million booked directly to non controlling interest within the statement of equity. Main asset of Vesturverk is development cost and the assets were recognized at fair value, which was considered to equal consideration paid on the date of the acquisition.

37. 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 66.7% at year end 2016 (2015: 58.6%).

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.

38. Related parties

Identity of related parties

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

The Company did not make any sales to shareholders in the years 2016 and 2015. The Company bought services from shareholders for the amount of ISK 12 million (2015: ISK 22 million).

The Company purchased goods and services from associate companies in the amount of ISK 27 million in the year 2016 (2015: ISK 27 million).

The Company sold goods to associate companies in the amount of ISK 91 million (2015: ISK 80 million).

39. Research grants

In 2000 a consortium of three Icelandic energy companies including HS Orka's predecessor Hitaveita Sudurnesja, Landsvirkjun and Orkuveita Reykjavíkur and the National Energy Authority of Iceland founded the Iceland Deep Drilling Program (IDDP). During 2015, the IDDP partners participated in the DEEPEGS proposal to the European Union research program called Horizon 2020. HS Orka was granted a share in the Research Grant for participation in the IDDP-2 well at Reykjanes. The consortium began by preparing the drilling of a 4-5 km deep drill hole into one of its high-temperature hydrothermal systems in order to plan to reach 400-600°C hot supercritical hydrous fluid at a rifted plate margin on a mid-ocean ridge. Drilling was completed in mid-January 2017 at 4,650 meter depth. All of the initial targets were reached. These targets were to drill deep, extract drilling cores, measure the temperature and search for permeability. Temperature at the bottom of the well has already been measured at 427 degrees Celsius, the pressure at 340 bars.

The DEEPEGS project is a four year project administered by HS Orka, in cooperation with other partners from Iceland, France, Germany, Italy and Norway. HS Orka is compensated for administering the grant, and is responsible for distributing funds and reporting performance to the EU. HS Orka has no responsibility for the results of the partners, only the results of its own drilling program.

40. Other matters

Litigation and claims

On 10 July 2014 HS Orka commenced an arbitration to determine the validity of the Power Purchase Agreement between HS Orka and Norðurál Helguvík ehf. (dated 23 April 2007). The hearings took place in April 2016 and HS Orka received positive result in November 2016. The arbitration panel determined that the power purchase agreement has lapsed due to certain circumstances, and therefore is at an end. The panel further determined that the ending of the contract was not due to any fault of either party, and that all counterclaims advanced by Norðurál Helguvík ehf. in the arbitration have been denied.

In February 2016 HS Orka issued a legal letter to HS Veitur hf demanding full payment of the long-term receivable in relation to the shared pension liability. This was following receipt of a termination notice by HS Veitur of an agreement regarding payments of the pension liability, sent on 31 December 2015. The two companies had reached an agreement in 2011 on HS Veitur's share and HS Orka considers its claim on the basis of that agreement to be fully valid. Negotiations have not settled the matter and it is now up to the court to resolve the matter. Conclusion is expected in the spring of 2017.

Power purchase agreement

HS Orka hf has signed a power purchase agreement with Thorsil ehf., which is planning to construct and operate a silicon metal plant in Helguvík, Iceland. Under the contract, HS Orka would supply up to 44 MW, a minority portion of the plant's power needs. The delivery of the power from HS Orka is subject to several conditions on behalf of both parties.

Suðurorka

Suðurorka, a company owned 50% by HS Orka and has in recent years been developing á 150 MW hydro project in Skaftá in Southern Iceland, called Búlandsvirkjun. Until now the project has been in the pending category of the framework masterplan in Iceland. Now, however the steering committee for the framework masterplan has delivered its proposal to Althingi, the Icelandic parliament suggesting that Búlandsvirkjun falls in the preservation category. HS Orka strongly disagrees with the proposal and intends to protest against it . The final decision on the renewal of the framework masterplan is in the hands of Althingi and HS Orka believes that there will be, more likely than not changes made to the proposal before its approval by Althingi. Since this proposal has not been approved HS Orka does not consider it appropriate to write off its investment in Suðurorka at this time. However, that could change should the current proposal be approved by Althingi. HS Orka's total investment in Suðurorka at year end 2016 was ISK 240 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 2016.

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 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 2015. This will continue in the year 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 effectives of internal controls
- Continuous analysis of results acheived 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.

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

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.

3. Organizational structure and the role and composition of each function (continued)

The Audit Committe

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.

Quarterly statements, unaudited

Summary of the Company's results by quarters

2016	Q1	Q2	Q3	Q4	Total
Operating revenue	1,861,410	1,645,913	1,611,351	1,980,485	7,099,159
Production cost and cost of sales	(1,440,471)	(1,299,952)	(1,408,370)	(1,813,446)	(5,962,238)
Gross profit	420,939	345,961	202,981	167,040	1,136,921
Other income	1,307	77,324	2,561	0	81,192
Other operating expenses	(135,214)	(246,966)	(117,172)	(101,262)	(600,614)
Research and development	(26,990)	(72,591)	(98,466)	(83,976)	(282,021)
Results from operations	260,042	103,729	(10,095)	(18,198)	335,477
Finance income	(38,306)	34,081	22,202	81,771	99,747
Finance costs	(57,457)	(54,921)	(20,657)	(40,189)	(173,224)
Net exchange rate differences	82,643	66,905	447,139	373,306	969,993
Changes in fair value of embedded derivatives	194,730	645,899	812,420	(186,046)	1,467,004
Net finance income (expense)	181,609	691,965	1,261,104	228,842	2,363,520
Share of profit of associates	88,681	201,586	440,058	214,800	945,125
Profit (loss) before income tax	530,332	997,279	1,691,067	425,444	3,644,122
Income tax recovery (expense)	(47,547)	(199,309)	(249,011)	(43,932)	(539,799)
Net profit (loss) for the period	482,785	797,970	1,442,056	381,512	3,104,323
Other comprehensive income (loss):					
Items that will not be reclassified to proft or loss:					
Remeasurement of defined benefit liability	(7,615)	(35,601)	(9,884)	(20,473)	(73,573)
Tax on items that will not be reclassified to profit or loss	1,523	7,120	1,977	4,095	14,715
	(6,092)	(28,481)	(7,907)	(16,378)	(58,859)
Items that may be reclassified subsequently to profit or loss					
Foreign currency translations difference on associates	(8,032)	(41,823)	(120,107)	(118,019)	(287,980)
	(8,032)	(41,823)	(120,107)	(118,019)	(287,980)
Other comprehensive income (loss):	(14,124)	(70,304)	(128,014)	(134,397)	(346,838)
Total comprehensive income (loss)	468,661	727,666	1,314,042	247,115	2,757,485

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Quarterly statements, unaudited

Summary of the Company's results by quarters

2015	Q1	Q2	Q3	Q4	Total
Operating revenue	2,076,496	1,749,235	1,562,521	1,955,023	7,343,275
Production cost and cost of sales	(1,443,633)	(1,245,215)	(1,200,123)	(1,404,036)	(5,293,006)
Gross profit	632,864	504,020	362,398	550,987	2,050,269
Other income	0	(34)	0	6,296	6,262
Other operating expenses	(179,129)	(113,115)	(117,116)	(202,316)	(611,675)
Research and development	(14,676)	(18,761)	(11,433)	(41,955)	(86,825)
Results from operations	439,059	372,111	233,849	313,012	1,358,031
Finance income	61,460	62,503	52,767	34,107	210,837
Finance costs	(87,760)	(83,957)	(71,817)	(57,142)	(300,677)
Net exchange rate differences	(388,041)	106,261	488,264	(9,245)	197,239
Changes in fair value of embedded derivatives	(603,744)	(635,292)	(917,424)	(1,091,493)	(3,247,953)
Net finance income (expense)	(1,018,085)	(550,485)	(448,210)	(1,123,773)	(3,140,553)
Share of profit of associates	142,245	605,321	319,752	111,636	1,178,955
Profit (loss) before income tax	(436,781)	426,947	105,391	(699,125)	(603,567)
Income tax recovery (expense)	115,805	35,674	42,872	162,153	356,505
Net profit (loss) for the period	(320,975)	462,621	148,263	(536,973)	(247,062)
Other comprehensive income (loss):					
Items that will not be reclassified to proft or loss:					
Revaluation of operating assets	0	0	0	3,800,000	3,800,000
Remeasurement of defined benefit liability	(10,969)	(21,808)	(7,141)	(40,447)	(80,365)
Tax on items that will not be reclassified to profit or loss	2,194	4,362	1,428	(751,911)	(743,927)
	(8,775)	(17,446)	(5,713)	3,007,642	2,975,708
Items that may be reclassified subsequently to profit or loss					
Foreign currency translations difference on associates	(43,828)	3,254	(44,985)	(10,342)	(95,901)
	(43,828)	3,254	(44,985)	(10,342)	(95,901)
Other comprehensive income (loss):	(52,603)	(14,192)	(50,698)	2,997,300	2,879,807
Total comprehensive income (loss)	(373,579)	448,429	97,565	2,460,328	2,632,744

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