HS Orka hf.

Financial statements
for the year 2021

HS Orka hf.
Orkubraut 3, Svartsengi
241 Grindavík
id no. 680475-0169

Contents

Endorsement by the Board of Directors and the CEO

HS Orka hf. (the "Company" or "HS Orka") is a privately owned power generator in Iceland, owning and operating 161 MW of geothermal power production capacity, in addition to a 10 MW hydropower plant. The Company sells electricity to individuals and companies in all areas of Iceland as well as to power intensive industries. HS Orka also produces hot water for heating and cold water for sales to a distribution company which delivers the products to nearby communities. Furthermore, HS Orka produces geothermal by-products, such as brine and steam, which it delivers and sells, as well as electricity and hot and cold water to companies in the Resource Park, that are located in the vicinity of its geothermal power plants.

The financial statements of HS Orka for the year 2021 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with additional Icelandic disclosure requirements.

Business operations in the year 2021

The Company's operating revenues for the year 2021 amounted to ISK 9,234 million (2020: 8,614 million) and profit after tax amounted to ISK 2,253 million (2020: 1,118 million). Total comprehensive income was ISK 1,874 million (2020: 971 million). The Company's assets amounted to ISK 59,484 million at the end of December 2021 (2020: 56,479 million). Equity at year end amounted to ISK 30,128 million (2020: 31,909 million) or 50.6 % of total assets in 2021 (2020: 56.5%). Reference is made to the statement of changes in equity regarding information on changes in equity during the year. The average number of employees was 73 in 2021 (2020: 70).

The power generation in MWh in 2021 is lower than in 2020. This is due to the following incidents. There was production loss due to a fire incident and a turbine failure, further details are disclosed in note 14. Also, there is some uncertainty regarding the generation development of the Reykjanes geothermal resource although in the past months several actions have been put in place in order to obtain a long term sustainable balance to stabilise the production capacity. The condition and utilisation of the geothermal resource has a material impact on HS Orka's performance. The Company has made an effort in building knowledge and developing resource evaluating models to ensure the sustainable use of the resource.

HS Orka secured a USD 210 million, equivalent to about ISK 27 billion, financing from a group of European lenders in 2020 which was used in part to refinance existing debt and in part is and will be used for building new power stations.

The 30 MW expansion of the Reykjanes power plant, or REY 4, is under construction and the power station is scheduled to be in commercial operation in the 1st quarter of 2023.

Other projects being developed on the Reykjanes peninsula are Eldvörp, Trölladyngja and Krýsuvík which is a rich geothermal capacity area and a future source of hot water for the capital area.

The operational results of the Company were not materially affected by the COVID-19 pandemic. Business plans and projections were revised regulary during the year and the operating revenue was marginally lower than projected but slightly above previous year.

HS Orka has actively monitored the development of the COVID-19 pandemic and has implemented measures to keep its employees safe and minimize any detrimental effects of the virus to its business. The Company is not aware of any material impact to its business, short or long term, neither on operations, financial performance or on employees. HS Orka did not make use of COVID-19 government related support.

A small eruption about 8 km East of Svartsengi Power plant occurred on 19 March 2021 and magma flowed to the surface until September 2021. Since then, activity has slowed down with no visible eruption and limited earthquake activity. It should be noted that the earthquake activity has caused no damage to operating assets and had no negative impact on the operations of HS Orka. The eruption was officially announced to be over in December 2021.

Further information on matters related to the environment, human resources, sustainability and social responsibility is disclosed in the Non-financial reporting chapter.

The Board of Directors propose that no dividend to be paid in the year 2022.

Share capital and Articles of Association

On a shareholders meeting held on 26 November 2021 a proposal from the Board of Directors based on Article 55 of the Companies Act. no. 2/1995, a share capital reduction by 527,248 shares was approved. The share capital of the Company was reduced based on item 2 of Paragraph 2 of Article 51 of the Companies Act with payment to Shareholders in the amount of USD 28 million in cash (equivalent to ISK 3,655 million). The share capital was reduced by ISK 527,248 of nominal value or 527,248 shares and was after the reduction ISK 6,766,760.

The number of shareholders at year end 2021 was 2, unchanged from last year. The ultimate beneficial owners were Jarðvarmi slhf. and funds managed by Ancala Partners LLP, each with 50% of shares.

Corporate Governance

HS Orka is a limited liability company operating under Act No. 2/1995 respecting Public Limited Companies. The framework for Corporate Governance practices within the Company is defined by the provisions of law, a shareholders´ agreement, the Company's Articles of Association and Rules of Procedure for the Board and its sub-committees. The Company is governed by shareholders meetings, the Board of Directors and the Chief Executive Officer. Further information is provided in the Corporate Governance Statement which is an appendix to these Financial Statements.

The Board of Directors held thirteen meetings in 2021, the Audit Committee five meetings and the Remuneration Committee three meetings. The Board of Directors consists of four members with equal representation of women and men. The Company´s Executive Board in the year 2021 consisted of seven members, four men and three women. The ratio of female workers at HS Orka in the end of 2021 was 19%.

HS Orka follows a formal risk management process to identify and control the Company´s main risk factors. HS Orka has recently implemented a new comprehensive management tool to increase transparency and enable each division to better manage risks.

Information on matters related to financial risk management is disclosed in note 27.

Non-Financial reporting

Further to the content of this endorsement, a reference is made to the enclosed chapter Non-financial reporting. The Company complies in all main respect to the Private Ltd. Act. No 2/1995 as amended and the Act on Annual Accounts No. 3/2006 and other applicable legislations and regulations.

Endorsement by the Board of Directors and the CEO, contd.

Statement of the Board of Directors and the CEO

To the best knowledge of the Board of Directors and the CEO, the Company's financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements 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 2021, its financial performance, and the changes in cash flows during the year 2021.

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, performance and position, including descriptions of the main risk factors and uncertainties faced by the Company.

The Board of Directors and the CEO of HS Orka have today discussed the Company's financial statements for the year 2021 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 on 26 April 2022.

Svartsengi, 22 February 2022

The Board of Directors

Adrian Pike
Chairman of the board

Bjarni Þórður Bjarnason

Ingunn Agnes Kro

Heike Bergmann

Chief Executive Officer

Tómas Már Sigurðsson
Chief Executive Officer

Independent auditor's report

To the Board of Directors and Shareholders of HS Orka hf.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HS Orka hf. ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were first appointed as auditors by of the predecessor of HS Orka hf., Hitaveita Suðurnesja, by the Annual General Meeting in the year 1980. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

Key Audit Matters

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

Key Audit Matters, cont.

Key Audit Matter	How the matter was addressed in the audit
At year end 2021 Power plants amounted ISK 43,323 million (ref. note 4.e and 14) and Operating assets under construction amounted to ISK 7,490 million (ref. note 4.e and 15). The power plants in use are measured at revalued cost less accumulated depreciation and impairment. Operating assets under construction are valued at cost. 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 these assets due to the size of the carrying amount of the power plants in use and under construction, which represent 88% 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: • Concluded on the appropriateness of the design and implementation of the cash flow model used by management to assess recoverable amount at year end and verified the calculations of the model by using our own model to recalculate the recoverable amount. • Focused on challenging management's forecasting based on the information about possible future utilization, capital expenditure and revenues of the power plants, both for current power plants and power plants under construction. • Assessed the reasonableness of the discount rate used by considering whether discount rates were within acceptable ranges. • Performed sensitivity analysis on the assumption used.

Responsibilities of the Board of Directors and CEO for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements, contd.:

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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Sigurjón Örn Arnarson.

Reykjavík, 22, February 2022

KPMG ehf.

Sigurjón Örn Arnarson
Sæmundur Valdimarsson

Statement of Comprehensive Income for the year ended 31 December 2021

	Notes	2021	2020
Operating revenue	5	9.233.500	8.613.659
Other revenues (insurance claim)	5, 19	414.801	0
Realised aluminium hedges	5	(338.037)	0
Production cost and cost of sales	6	(7.303.623)	(6.120.673)
Gross profit		2.006.642	2.492.986
Other operating expenses	7	(826.982)	(881.754)
Research and development	8	(28.808)	(41.691)
Other expenses		(855.790)	(923.446)
Profit from operations		1.150.852	1.569.540
Finance income		10.343	13.458
Finance costs		(438.590)	(477.562)
Net exchange rate differences		(367.969)	442.007
Changes in fair value of embedded derivatives	33	2.168.690	217.279
Changes in fair value of other derivatives	31, 33	294.378	(357.417)
Net finance income (expense)	12	1.666.852	(162.234)
Share of loss of associates	17	(1.271)	(4.558)
Profit before income tax		2.816.433	1.402.748
Income tax expense	13	(563.545)	(284.965)
Net profit		2.252.889	1.117.783
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	23	(473.486)	(183.606)
Tax on items not reclassified to profit or loss	13	94.697	36.721
Other comprehensive loss		(378.789)	(146.885)
Total comprehensive income		1.874.100	970.898

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

Financial Statements of HS Orka hf. 2021 8 Amounts in ISK thousands

Statement of Financial Position as at 31 December 2021

Assets	Notes	31.12.2021	31.12.2020
Fixed assets			
Operating assets	14	45.056.809	46.231.460
Operating assets under construction	15	7.489.750	3.906.076
Intangible assets	16	1.451.573	1.441.124
Investments in associates and subsidiaries	17	602.359	606.058
Investments in other companies	18	13.575	11.075
Embedded derivatives in power sales contracts	33	484.457	0
Total fixed assets		55.098.523	52.195.793
Current assets			
Inventories		1.120.404	1.577.617
Trade and other receivables	19	1.792.908	1.182.671
Embedded derivatives in power sales contracts	33	112.481	0
Cash and cash equivalents	20	1.359.394	1.522.482
Total current assets		4.385.186	4.282.770
Total assets		59.483.710	56.478.563
Equity and liabilities			
Equity			
Share capital		6.767	7.294
Share premium and statutory reserve		1.238.368	1.238.368
Revaluation reserve		10.466.882	11.220.586
Retained earnings		18.415.642	19.442.711
Total equity	21	30.127.659	31.908.959
Liabilities			
Loans and borrowings	22	20.858.422	15.796.272
Pension obligations	23	2.852.000	2.468.000
Deferred tax liability	24	3.395.984	2.979.174
Embedded derivatives in power sales contracts	33	0	1.272.234
Other derivatives	31	41.759	357.417
Lease commitment	25	125.737	90.407
Total non-current liabilities		27.273.902	22.963.503
Current liabilities			
Loans and borrowings	22	15.375	15.375
Lease commitment	25	10.659	8.329
Aluminium hedges	33	21.280	0
Tax payable	24	52.037	0
Trade and other payables	26	1.982.798	1.282.879
Embedded derivatives in power sales contracts	33	0	299.518
Total current liabilities		2.082.149	1.606.101
Total liabilities		29.356.051	24.569.604
Total liabilities and equity		59.483.710	56.478.563

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

Financial Statements of HS Orka hf. 2021 9 Amounts in ISK thousands

Statement of Changes in Equity for the year ended 31 December 2021

	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Total Equity
2020					
Equity at 1 January 2020	4.092	1.242.368	12.024.652	23.224.999	36.496.110
Profit for the year				1.117.783	1.117.783
Other comprehensive loss				(146.885)	(146.885)
Total comprehensive income				970.898	970.898
Increase of Share Capital	4.000	(4.000)			0
Decrease of Share Capital	(798)			(5.557.252)	(5.558.050)
Revaluation reserve transferred to Retained earnings			(804.065)	804.065	0
Equity at 31 December 2020	7.294	1.238.368	11.220.586	19.442.711	31.908.959
2021					
Equity at 1 January 2021	7.294	1.238.368	11.220.586	19.442.711	31.908.959
Profit for the year				2.252.889	2.252.889
Other comprehensive loss				(378.789)	(378.789)
Total comprehesive income				1.874.100	1.874.100
Decrease of Share Capital	(527)			(3.654.873)	(3.655.400)
Revaluation reserve transferred to Retained earnings			(753.703)	753.703	0
Equity at 31 December 2021	6.767	1.238.368	10.466.882	18.415.642	30.127.659

Financial Statements of HS Orka hf. 2021 10 Amounts in ISK thousands

Statement of Cash Flows for the year ended 31 December 2021

Cash flows from operating activities	Notes	2021	2020
Profit for the year		2.252.889	1.117.783
Adjustments for:			
Gain on sale of operating assets		(7.303)	(5.554)
Pension obligations (decrease)	23	(89.486)	(70.306)
Depreciation and amortization	11	2.429.905	2.502.222
Net finance (income) expense	12	(1.666.852)	162.234
Share of loss of associates	17	1.271	4.558
Income tax expense	13	563.545	284.965
Cash generated by operations		3.483.969	3.995.901
Inventories, decrease		457.213	14.991
Receivables, (increase), decrease		(610.237)	259.704
Current liabilities, increase, (decrease)		122.675	(497.188)
Net cash from operations before interest and taxes		3.453.620	3.773.409
Interest received		10.343	13.458
Interest paid		(470.509)	(362.824)
Cash from operating activities		2.993.454	3.424.043
Cash flows from investing activities			
Acquisition of operating assets	14	(1.211.036)	(767.705)
Acquisition of operating assets under construction	12, 15	(2.759.650)	(1.143.369)
Proceeds from sale of operating assets		13.650	23.537
Acquisition of intangible assets	16	(18.121)	(29.891)
Acquisition of shares in associates and other companies	17	(2.500)	(1.500)
Dividends received from associates	17	2.428	2.428
Investing activities		(3.975.230)	(1.916.500)
Cash flows from financing activities			
Share capital reduction	21	(3.655.400)	(5.558.050)
New long-term borrowings	22	4.504.526	15.904.381
Repayment of borrowings	22	(15.375)	(8.163.962)
Repayment of lease liability	25	(5.298)	(5.134)
Repayment of short-term borrowings	22	0	(3.253.089)
Financing activities		828.453	(1.075.854)
(Decrease) increase in cash and cash equivalents		(153.324)	431.689
Effect of exchange rate fluctuations on cash held		(9.765)	116.220
Cash and cash equivalents at 1 January		1.522.482	974.573
Cash and cash equivalents at 31 December		1.359.394	1.522.482
Investing and financing activities not affecting cash flows			
Acquisition of operating assets under construction		(622.864)	0
Current liabilities, increase		622.864	0

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

Financial Statements of HS Orka hf. 2021 11 Amounts in ISK thousands

Notes to the Financial Statements

1. Reporting entity

HS Orka hf. is a limited liability company domiciled in Iceland. The Company's registered office address is Orkubraut 3, Svartsengi, Grindavík, Iceland. The Company generates and sells electricity as well as cold water and hot water for heating. The Company is ultimately owned by Jarðvarmi slhf. and funds managed by Ancala Partners LLP, holding a 50% share each.

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 22 February 2022.

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
- embedded derivatives in power sales contracts and other derivatives are measured at fair value
- defined benefit pension obligatons measured at the present value of the pension obligation
- shares in other companies are measured at fair value through profit or loss are measured at fair value

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.

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 14. Depreciation of operating assets and revaluation of operating assets.
- Note 15. and 16. Impairment of assets under construction and intangibles.
- Note 33. Fair value of embedded derivatives in power sales agreements.
- Note 23. Pension obligations.

3. Basis of preparation, contd.

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 of the finance department, led by the CFO, that have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

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

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

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The 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 accounting policies is included in the following notes:

- Note 14. Operating Assets.
- Note 33. Embedded derivatives in power sales contract.
- Notes 27-35. Risk management.

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 except as explained in Changes in accounting policies.

a. 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. Investments in subsidiaries are accounted for using the equity method and are recognized initially at cost.

4. Significant accounting policies, contd.

b. 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.

c. 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.

d. Financial instruments

(i) Non-derivative financial assets

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

4. Significant accounting policies, contd.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise 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 financial assets measured at amortised cost.

Financial assets at fair value through profit or loss comprise investment in other companies.

(ii) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Non-derivative financial assets measured at amortised cost 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.

(iii) Non-derivative financial liabilities

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

The Company derecognises a financial liability when its contractual obligations are discharged or canceled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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.

Non-derivative financial liabilities comprise loans and borrowings and trade and other payables.

(iv) Derivative financial instruments

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

4. Significant accounting policies, contd.

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 a long-term power sales agreement which contains embedded derivative. Income from this agreement is directly correlated to changes in the future price of aluminum. Changes in the fair value of derivatives is not designated as a hedge and separable embedded derivatives are recognized immediately in profit or loss.

(v) 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.

e. 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 quarterly 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 and the Reykjanes Power plant took place on 31 December 2018. 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.

4. Significant accounting policies, contd.

(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	40-60 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.

f. 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.

(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.

4. Significant accounting policies, contd.

(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 and useful lives are reviewed at each reporting date and adjusted if appropriate.

g. Leased assets

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

4. Significant accounting policies, contd.

Lease payments included in the measurement of the lease liability comprise the following:

– fixed payments, including in-substance fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable under a residual value guarantee; and
– the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property, plant and equipment' and lease liabilities as a separate line item in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

h. 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.

i. 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.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories 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.

4. Significant accounting policies, contd.

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.

j. 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.

k. 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.

4. Significant accounting policies, contd.

l. Revenue

The Company recognises revenue from the following major sources

(i) Electricity

Revenue from the sale of electricity along with power transmission is recognised when control is transferred to the customer. Transfer of control occurs when the electricity is delivered. The supply of electricity to the customer is regarded as one performance obligation. Revenue from the sale of electricity 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.

Revenues are usually invoiced monthly with 30 day payment terms.

(ii) Water (hot and cold)

Revenue is recognised when control is transferred to the customer. Transfer of control occurs when the water is delivered. The supply of water to the customer is regarded as one performance obligation. Revenue from the sale of hot water is recognized in profit or loss based on recorded measurement of delivery during the period. Between measurements, usage is estimated based on prior period usage.

Revenues are usually invoiced monthly with 30 day payment terms.

(iii) Other

Other revenues includes sale of service, rental of facilities and equipment, steam, brine and other sales. Revenue is recognised when goods are transferred or services are performed and when the performance obligation is satisfied and control of the goods or services is transferred to the customer.

Revenues are usually invoiced monthly with 30 day payment terms.

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.

4. Significant accounting policies, contd.

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.

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. New standards and interpretations

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the financial statements.

– Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
– Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
– COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).
– Annual Improvements to IFRS Standards 2018–2020.
– Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
– Reference to Conceptual Framework (Amendments to IFRS 3).
– Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
– IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
– Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
– Definition of Accounting Estimates (Amendments to IAS 8).

5. Revenue split

The Company's revenue split is as follows:

	2021	2020
Electricity power intensive	2.911.231	2.734.585
Electricity other	5.149.985	4.783.945
Water (hot and cold)	928.444	905.401
Other	243.840	189.729
Revenue from contracts with customers	9.233.500	8.613.659
Insurance claim	414.801	0
Realised aluminium hedges	(338.037)	0
	9.310.264	8.613.659

6. Production cost, cost of sales and service

	2021	2020
Production cost	4.804.065	4.322.603
Cost of sales	2.499.558	1.798.070
	7.303.623	6.120.673

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

	2021	2020
Salaries and related expenses	933.493	863.016
Depreciation	2.373.398	2.455.567
Power purchases	2.332.857	1.677.612
Transmission cost	526.533	539.083
Maintenance and other production cost	1.137.342	585.395
	7.303.623	6.120.673

7. Other operating expenses

	2021	2020
Salaries and related expenses	443.268	435.042
Increase in pension fund obligation	52.764	48.306
Administrative expenses	276.802	354.600
Depreciation and amortization	54.148	43.806
	826.982	881.754

8. Research and development

	2021	2020
Salaries and related expenses	12.637	43.157
R&D projects	13.812	24.715
EU grants	0	(29.028)
Depreciation and amortization	2.360	2.848
	28.808	41.691

Financial Statements of HS Orka hf. 2021 23 Amounts in ISK thousands

9. Salaries and related expenses

	2021	2020
Salaries	1.263.639	1.129.636
Contribution to defined contribution fund	163.524	144.775
Increase in pension obligation	526.250	231.912
Other salary related expenses	138.761	122.456
	2.092.174	1.628.779
Average number of employees equivalent	73	70

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

	2021	2020
Capitalized on projects	176.527	55.653
Production cost and cost of sale	933.493	863.016
Research and development	12.637	43.157
Other operating expenses	496.032	483.348
Recognized in other comprehensive income	473.486	183.606
	2.092.174	1.628.779

Salaries paid to the Board of Directors and management amounted to ISK 73 million in 2021 (2020: ISK 88 million).

10. Auditor´s fee

Fee´s paid to the Company´s auditors in the year 2021 were ISK 21.3 million (2020: ISK 35.0 million) thereof ISK 11.7 million (2020: ISK 14.5 million) reflects fees for the audit of the Annual Financial Statement. Other services bought from KPMG amounted to ISK 9.6 million in 2021 (2020: ISK 20.5 million).

11. Depreciation and amortization

Depreciation and amortization is specified as follows:

	2021	2020
Depreciation of operating assets, see note 14	2.422.233	2.494.099
Amotization of intangible assets, see note 16	7.672	8.122
	2.429.905	2.502.222

Depreciation, amortization and impairment is allocated as follows:

Production cost and cost of sales	2.373.398	2.455.567
Other operating expenses	54.148	43.806
Reasearch and development	2.360	2.848
	2.429.905	2.502.222

Financial Statements of HS Orka hf. 2021 24 Amounts in ISK thousands

12. Finance income and expense

Finance income and expenses are specified as follows:

Finance income:

	2021	2020
Interest income on cash, loans and receivables	10.343	13.458
	10.343	13.458

Finance costs:

	2021	2020
Interest expense	(438.590)	(460.062)
Fair value changes of shares in other companies through profit or loss	0	(17.500)
	(438.590)	(477.562)
Net exchange rate differences	(367.969)	442.007
Changes in fair value of embedded derivatives	2.168.690	217.279
Changes in fair value of other derivatives	294.378	(357.417)
	2.095.099	301.870
Net finance income (expense)	1.666.852	(162.234)
Capitalized interest at 3.53% (2020: 3.96%)	201.159	124.008

13. Income tax

Effective tax in the income statement is specified as follows:

	2021	2020
Origination and reversal of temporary difference	(511.508)	(284.965)
Current tax	(52.037)	0
	(563.545)	(284.965)

Effective tax rate is specified as follows:

	2021	2020
Profit for the year	2.252.889	1.117.783
Income tax expense	563.545	284.965
Profit before income tax	2.816.433	1.402.748

	2021		2020	
Income tax at current tax rate	(563.287)	20,0%	(280.550)	20,0%
Effect of associates	(254)	0,0%	(912)	0,1%
Effects of share in other company	0	0,0%	(3.500)	1,2%
Other items	(4)	0,0%	(4)	0,0%
Effective income tax rate	(563.545)	20,0%	(284.965)	20,1%

Income tax recognized in OCI is specified as follows:	2021	2020
Tax on other item that will not be reclassified to proft or loss	(94.697)	(36.721)
Total income tax in OCI	(94.697)	(36.721)

Financial Statements of HS Orka hf. 2021 25 Amounts in ISK thousands

14. Operating assets

Revaluation of operating assets

Reykjanes and Svartsengi power plant were revalued to fair value on 31 December 2018. The revaluation amounted to ISK 7,000 million. Other properties were revalued to fair value at 1 January 2008. The Company carried out a review at year end 2021 of the recoverable amount of power plants. Results of that review shows no requirement for impairment at year end 2021.

	Power plants	Other operating assets	Total
Historical cost			
Balance at 1 January 2020	43.121.605	2.121.626	45.243.231
Additions during the year	701.218	66.487	767.705
Transferred from operating assets under construction	5.346.394	0	5.346.394
Eliminated on disposal	0	(57.453)	(57.453)
Lease assets	1.904	0	1.904
Balance at 31 December 2020	49.171.122	2.130.660	51.301.782
Additions during the year	1.145.026	66.011	1.211.036
Eliminated on disposal	0	(20.382)	(20.382)
Lease assets	42.893	0	42.893
Balance at 31 December 2021	50.359.041	2.176.289	52.535.330
Depreciation			
Balance at 1 January 2020	2.288.856	326.837	2.615.693
Depreciation for the year	2.409.141	84.958	2.494.099
Eliminated on disposal	0	(39.470)	(39.470)
Balance at 31 December 2020	4.697.997	372.325	5.070.322
Depreciation for the year	2.338.213	84.021	2.422.233
Eliminated on disposal	0	(14.035)	(14.035)
Balance at 31 December 2021	7.036.210	442.311	7.478.521
Net book value			
Book value at 1 January 2020	40.832.749	1.794.789	42.627.538
Book value at 31 December 2020	44.473.125	1.758.335	46.231.460
Book value at 31 December 2021	43.322.831	1.733.978	45.056.809
Net book value without revaluation			
1 January 2020	25.317.211	1.737.033	27.054.243
31 December 2020	30.506.361	1.699.367	32.205.728
31 December 2021	30.288.675	1.677.167	31.965.842
Depreciation rates	2-5%	5-20%	

Financial Statements of HS Orka hf. 2021 26 Amounts in ISK thousands

14. Operating assets, contd.

Other operating assets include capitalized land and buildings with the carrying amount of ISK 1,251 million (2020: ISK 1,262 million).

Rateable value and insurance value
Rateable value of the Company's buildings amounted to ISK 3,998 million at year-end 2021 (2020: ISK 3,896 million) and land measured at rateable value amounted to ISK 3,025 million (2020: ISK 2,990 million). Insurance value of the Company's assets amounted to ISK 61,518 million (2020: ISK 59,570 million).

Pledge of assets
In relation to the refinancing of the Company in 2020 the pledge of all of the Company´s real estates was released, except the undivided land Járngerðarstaðir, Grindavík, but the Company´s shares have been pledged along with the rights, title and interest in and to the Company´s bank accounts. The Company´s subordinated intragroup liabilities to Vesturverk have also been pledged, further details in Note 37. Related parties.

Machine breakdown

In April 2021 a machinery breakdown occurred which caused a small fire and there was extensive damage to the turbine and generator at Svartsengi power plant. The machinery was destroyed beyond repair, but it was not written off as it was at the end of its useful life and therefore fully depreciated at the time of the incident. An insurance recovery of ISK 415 million has been recognised as other income and a receivable, further information is disclosed in note 19.

In May 2021 another machinery breakdown occurred and there was damage to the turbine blade at the Reykjanes geothermal power plant. The rotor was replaced to minimise downtime and the broken machinery was written down to its recoverable amount of ISK 124 million which was determined by management based on costs of repair. The Company has filed a claim for reimbursement with the insurance company. However, the claim has not been recognised as a receivable at 31 December 2021.

15. Operating assets under construction

Operating assets under construction are specified as follows:

Net book value at 1 January 2020	8.109.102
Additions during the year	1.143.369
Brúarvirkjun transferred to Operating assets	(5.346.394)
Net book value at 31 December 2020	3.906.076
Additions during the year	3.583.673
Net book value at 31 December 2021	7.489.750

Operating assets under construction represent mainly capitalized cost related to the Reykjanes unit 4.

The 30 MW expansion of the Reykjanes power plant, or REY 4, has been in development since 2009. HS Orka has developed a sustainable solution to utilize the brine from the high-pressure separators serving Units 1 and 2 (REY 1 and REY2). In December 2020 the board of directors of HS Orka decided to proceed with the project. The civil work started in January 2021 in line with the scheduled project timeline, to start the Construction in Q1 2021. The work in progress is according to time schedule and the starting of the commercial operations of REY4 is scheduled in Q1 2023.

Financial Statements of HS Orka hf. 2021 27 Amounts in ISK thousands

16. Intangible assets

	Software	Development costs	Total
Historical cost			
Balance at 1 January 2020	378.199	1.496.015	1.874.214
Additions during the year	0	29.891	29.891
Balance at 31 December 2020	378.199	1.525.906	1.904.105
Additions during the year	4.228	13.893	18.121
Balance at 31 December 2021	382.427	1.539.799	1.922.226
Amortization			
Balance at 1 January 2020	308.620	146.241	454.861
Amortization for the year	8.122	0	8.122
Balance at 31 December 2020	316.742	146.241	462.983
Amortization for the year	7.672	0	7.672
Balance at 31 December 2021	324.414	146.241	470.655
Net book value			
Net book value at 31 December 2020	61.456	1.379.665	1.441.124
Net book value at 31 December 2021	58.013	1.393.558	1.451.573
Amortization rates	10-25%		

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

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 2021 ISK 683 million (2020 year end ISK 683 million).

17. Investments in associates

Investments in associates are as follows:

Shares in associates and subsidiaries	Share	Carrying amount 31.12.2021	Share	Carrying amount 31.12.2020
DMM lausnir ehf., Iceland	27,20%	11.536	27,20%	13.787
Suðurorka ehf., Iceland	50,00%	0	50,00%	0
Heimsþing 2020 ehf., Iceland	33,33%	0	33,33%	0
HS Orkurannsóknir ehf., Iceland	100,00%	500	100,00%	500
VesturVerk ehf., Iceland	80,49%	590.323	80,49%	591.771
		602.359		606.058

Financial Statements of HS Orka hf. 2021 28 Amounts in ISK thousands

17. Investments in associates, contd.

	2021	2020
Balance at beginning of year	606.058	613.044
Share of profits	(1.271)	(4.558)
	(1.271)	(4.558)
Dividends received	(2.428)	(2.428)
Balance at year end	602.359	606.058

HS Orka has provided a guarantee for Heimsþing of the amount of USD 250,000 (equivalent to ISK 33 million).

The following table summarises the financial information of VesturVerk as included in its own financial statements, adjusted for fair value adjustments at acquisition:

	2021	2020
Revenues	1.654	612
Profit or loss and total comprehensive income	(6.287)	(4.489)
Non-current assets	888.162	868.259
Current assets	580	2.006
Non-current liabilities	(51.659)	(52.582)
Current liabilities	(103.665)	(82.465)
Net assets	733.419	735.218
Share of HS Orka 80,49%	590.323	591.771
Share of loss during the year	(1.447)	(3.613)

No consolidated statements are prepared as the effects of the subsidiaries VesturVerk ehf. and HS Orkurannsóknir ehf. are deemed immaterial.

18. Investments in other companies

	Share	Carrying amount 31.12.2021	Share	Carrying amount 31.12.2020
Keilir ehf., Iceland	0,02%	0	0,02%	0
Íslensk nýorka ehf., Iceland	8,14%	12.575	7,54%	11.075
Ölfus Cluster þekkingarsetur ses.		1.000		0
		13.575		11.075

HS Orka's share in Keilir ehf. was diluted in 2020 and therefore the carrying amount has been impaired.

Financial Statements of HS Orka hf. 2021 29 Amounts in ISK thousands

19. Trade and other receivables

Trade and other receivables are specified as follows:

	2021	2020
Trade receivables	1.289.676	1.127.181
Allowance for bad debt	(31.767)	(31.767)
Total trade receivables	1.257.909	1.095.413
Other receivables	17.993	18.924
Receivables (insurance claim)	414.801	0
Receivables from subsidiary	102.205	85.333
Allowance for bad debt related to other receivables	0	(17.000)
	1.792.908	1.182.671

The insurance claim figure is based on the interim advise report from the loss adjusters that have confirmed that the lead insurer have stated the Policy liability in principal is accepted. The business interruption claim has been accepted as confirmed by HS Orka´s Senior Managing Consultant. Claim preparation cost and incurred cost derived from the loss event in Svartsengi is also accounted for as allowed in the policy terms and conditions.

20. Cash and cash equivalents

Cash and cash equivalents are as follows:

	31.12.2021	31.12.2020
Bank balances	1.359.394	1.522.482
	1.359.394	1.522.482

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 31.

21. Equity

Issued share capital, as stipulated in the Company’s Articles of Association, amounted to ISK 6,766,760 (2020: ISK 7,294,008). 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.

An Extraodinary Sharholders Meeting held on 26 November 2021 a proposal from the Board of Directors based on Article 55 of Act no. 2/1995, respecting Public Limited Companies (the Companies Act) on share capital reduction by 527,248 shares was approved. The share capital of the Company was reduced based on item 2 of Paragraph 2 of Article 51 of the Company Act with payment to Shareholders in the amount of USD 28 million in cash (equivalent to ISK 3,655 million). The share capital was reduced by ISK 527,248 of nominal value or 527,248 shares, and was after the reduction ISK 6,766,760.

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.

Financial Statements of HS Orka hf. 2021 30 Amounts in ISK thousands

21. Equity, contd.

Other reserves

Other reseserves include recognized share in profit of subsidiaries and associates from 1 January 2016 in excess of dividend received or declared. This reserve can not be declared for dividend payments. Balance at 31 December 2021 is nil (31.12.2020: nil).

Revaluation reserve

The revaluation reserve relates to the revaluation of operating assets, net of income tax. The revaluation reserve may not be distributed as dividends to the Company's shareholders.

Dividends

In 2021 no dividend was distributed to shareholders (2020: No dividend distributed). The Board of Directors propose that no dividend to be paid in the year 2022.

22. 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 liquidity, interest rate and foreign currency risk , see notes 29, 31 and 32.

	2021	2020
Total interest bearing debt and borrowings 1 January	15.811.647	11.466.989
New long-term loans and borrowings	4.562.250	16.544.845
Capitalized borrowing cost	(57.724)	(640.463)
Repayment of short-term loans and borrowings	0	(3.264.878)
Repayment of long-term loans and borrowings	(15.375)	(8.163.962)
Changes related to financing cash flows	4.489.151	4.475.541
Currency exchange difference	403.640	(169.993)
Loans and borrowings transferred to accounts payable	0	(100.000)
Accrued effective interests on long-term loan	169.359	127.320
Accrued effective interests on short-term loan	0	11.789
Other liability related changes	572.999	(130.884)
Total interest bearing debt and borrowings 31 December	20.873.796	15.811.647

	31.12.2021	31.12.2020
Secured bank loans	20.873.796	15.811.647
Total interest bearing debt and borrowings	20.873.796	15.811.647
Current maturities of secured bank loans	15.375	15.375
Current debt	15.375	15.375
Non current debt	20.858.422	15.796.272

Financial Statements of HS Orka hf. 2021 31 Amounts in ISK thousands

22. Loans and borrowings, contd.

Loans in foreign currency:	Final due date	31.12.2021 Weighted average interest rate	31.12.2021 Carrying amount	31.12.2020 Weighted average interest rate	31.12.2020 Carrying amount
Loans in USD.......................	2025	3,53%	20.720.051	3,78%	15.642.517
			20.720.051		15.642.517
Loans in ISK.........................	2031	3,54%	153.745	4,41%	169.130
			153.745		169.130
Total interest-bearing loans and borrowings..........................			20.873.796		15.811.647

Annual maturities of loans and borrowings are as follows:	31.12.2021	31.12.2020
Year 2022/2021	15.375	15.375
Year 2023/2022	15.375	15.375
Year 2024/2023	15.375	15.375
Year 2025/2024	20.735.426	15.375
Year 2026/2025	15.375	15.657.900
Subsequent	76.873	92.247
	20.873.796	15.811.646

In February 2020 HS Orka secured financing from a group of four European banks consisting of a USD 100 million term loan, USD 100 million capex facility and a USD 10 million revolving credit facility. The financing has a term of 5 years and contains financial covenants on leverage ratio and interest coverage. The term loan of USD 100 million has been fully disbursed and was used to repay existing loans. As of year end 2021 USD 62 million are drawn on the capex facility. Drawdowns on the capex facility are recorded under liabilities (non-current) in the Statement of financial position as the Company can unilaterally roll-over drawdowns up to the final maturity of the facility. The revolving credit facility is undrawn.

23. Pension obligations

	2021	2020
Pension commitment at 1 January	2.468.000	2.354.700
Contribution during the year	(142.250)	(118.611)
Current service costs	4.244	1.105
Interest expenses	48.520	47.200
Acturial changes charged to other comprehensive income	473.486	183.606
Pension commitment at 31 December	2.852.000	2.468.000

Pension obligations are as follows:

The pension fund for State employees	1.451.537	1.189.048
The pension fund for Municipality of Hafnarfjörður employees	777.049	717.142
The pension fund for Municipality of Westman Islands employees	623.414	561.810
	2.852.000	2.468.000

Financial Statements of HS Orka hf. 2021 32 Amounts in ISK thousands

23. Pension obligations, contd.

According to Actuaries' assessment, the Company's accrued pension obligations amounted at year end 2021 to ISK 2,852 million (2020: ISK 2,468 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 is largely due to the following:

– Ministry of Finance and Economic Affairs issued changes in mortality rate and life expectancy, at year end 2021 that are to be used as a reference in these calculations.
– General salaries increase, changes in achieved rights and effect of interest for present value calculations.
– In the year 2021 the ratio on how the liability is divided between HS Orka and the pension fund LSR was changed and HS Orka`s share increased from 57% to 67% after recalculations by Actuaries.

24. Deferred tax liability

Movement in deferred tax liability is specified as follows:	2021	2020
Balance at beginning of year	2.979.174	2.730.930
Changes recognized in profit or loss	563.545	284.965
Changes recognized in other comprehensive income	(94.697)	(36.721)
Tax payable	(52.037)	0
Balance at year end	3.395.984	2.979.174

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

	31.12.2021	31.12.2020
Operating and intangible assets	3.845.434	3.827.687
Inventories and other items	(2.904)	(4.274)
Trade and other receivables	63.950	1.554
Pension obligation	(570.400)	(493.600)
Derivatives	106.780	(385.834)
Lease liability	(27.279)	(19.747)
Deferred foreign exchange	(19.595)	53.388
	3.395.984	2.979.174

Financial Statements of HS Orka hf. 2021 33 Amounts in ISK thousands

25. Leases

Right-of-use assets

Right-of-use assets related to leased properties are presented as property, plant and equipment in Note 14. Operating Assets.

Lease commitment

	31.12.2021	31.12.2020
Current	10.659	8.329
Non-current	125.737	90.407
	136.396	98.736

The maturity analysis of the lease commitment is presented in in Note 29, Liquidity risk.

Additions to the right-of-use assets and lease commitment during the year 2021 amounted to ISK 36 million (2020: nil). The Company also had non-cash additions to right-of-use assets and lease commitment of ISK 7 million (2020: ISK 2 million) due to increases in variable lease payments.

All leases contain variable lease payments in which the Company is the lessee. The breakdown of the total cash outflow for lease payments is as follows:

	2021	2020
Variable payments linked to the Icelandic consumer price index	9.052	8.626
Other variable payments	2.467	2.321
	11.519	10.947

Amounts recognised in profit and loss:

	2021	2020
Depreciation expense on right-of-use assets	7.004	6.648
Interest expense on lease liabilities	6.694	5.792
	13.698	12.440

26. Trade and other payables

Trade and other payables are as follows:

	31.12.2021	31.12.2020
Trade payables	1.173.207	862.113
Trade payables due to operating assets under construction	661.466	38.601
Other payables	148.125	382.165
	1.982.798	1.282.879

The Company's exposure to currency and liquidity risk related to trade and other payables, see note 29 and 32.

Financial Statements of HS Orka hf. 2021 34 Amounts in ISK thousands

27. Risk management

Overview

The Company's is exposed to financial risk consisting of credit risk, liquidity risk and market risk. Market risk consists of currency risk, interest rate risk and aluminium price risk.

This note provides information on 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

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.

28. 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.

The Company's exposure to credit risk arises principally from customers through power agreements, counterparties in derivative hedge agreements and counterparties that keep the Company's cash and cash equivalents.

The Company has set a credit policy where all new significant customers are evaluated for credit risk and payment history 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. 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. A receivable is written off when it becomes clear it will not be collected, that usually happens when the counterparty files for bankruptcy.

28. Credit risk, contd.

Exposure to credit risk

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned below.

Exposure to credit risk at the reporting date was:

	31.12.2021	31.12.2020
Trade and other receivables	1.792.908	1.182.671
Cash and cash equivalents	1.359.394	1.522.482
	3.152.302	2.705.153

Age debtor analysis and loss allowance

	31.12.2021		31.12.2020	
	Gross value	Loss allowance	Gross value	Loss allowance
Not past due	1.253.206	17.959	1.077.087	5.236
Past due 0 - 30 days	9.095	838	9.422	868
Past due 31 - 60 days	2.613	510	2.612	510
Past due 61 - 90 days	11.333	1.717	2.013	305
Past due more than 90 days	13.429	10.743	36.047	24.847
	1.289.676	31.767	1.127.181	31.767

	2021	2020
Loss allowance balance at 1 January	31.767	75.767
Changes during the year	7.866	(31.908)
Write offs	(7.866)	(12.092)
Loss allowance balance at 31 December	31.767	31.767

The Company does not consider credit risk from other receivables than trade receivables.

29. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Company’s approach to managing liquidity is to ensure sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation. At year end 2021 the Company held cash and cash equivalents in the amount of ISK 1,359 million (2020: ISK 1,522 million). In addition USD 38 million (ISK 4,954 million) were undrawn on a capex facility and USD 10 million (ISK 1,303 million) were undrawn on a revolving facility.

Financial Statements of HS Orka hf. 2021 36 Amounts in ISK thousands

29. Liquidity risk, contd.

Exposure to liquidity risk

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

31. December 2021

Contractual cash flows	Within 1 year	1-5 years	5+ years	Total
Loans and borrowings	(514.403)	(23.018.211)	(90.241)	(23.622.855)
Tax payable	(52.037)			(52.037)
Lease commitments	(17.752)	(64.971)	(228.271)	(310.994)
Trade and other payables	(1.982.798)	0	0	(1.982.798)
	(2.566.990)	(23.083.182)	(318.512)	(25.968.684)
Contractual cash flows of derivatives				
Aluminium hedge	(48.652)	0	0	(48.652)
Interest rate swap	(82.800)	41.560	0	(41.240)
	(131.452)	41.560	0	(89.892)
Total contractual cash flows	(2.698.441)	(23.041.622)	(318.512)	(26.058.576)

31. December 2020

Contractual cash flows	Within 1 year	1-5 years	5+ years	Total
Loans and borrowings	(355.155)	(17.524.199)	(108.049)	(17.987.403)
Lease commitments	(8.329)	(28.607)	(248.166)	(285.103)
Trade and other payables	(1.282.879)	0	0	(1.282.879)
	(1.646.363)	(17.552.806)	(356.215)	(19.555.385)
Contractual cash flows of derivatives				
Interest rate swap	(113.566)	(244.774)	0	(358.340)
Total contractual cash flows	(1.759.929)	(17.797.580)	(356.215)	(19.913.724)

Contractual cash flows of derivatives are calculated based on forward prices.

30. Market risk

Market risk is the risk that changes in 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 return.

Financial Statements of HS Orka hf. 2021 37 Amounts in ISK thousands

31. Interest rate risk

The majority of the Company's long-term borrowings carries floating interest rates. To mitigate this risk the Company has entered into an interest rate swap which included brings the ratio of fixed interest on debt to about 61% at the end of the year (2020: 78% fixed).

Fair value of interest rate swaps

	2021	2020
Fair value of interest rate swaps at 1 January	(357.417)	0
Changes in fair value	315.658	(357.417)
Fair value of interest rate swaps at 31 December	(41.759)	(357.417)

Fair value is based on brokers quote.

Financial instruments with floating interest rates	2021	2020
Financial assets	1.359.394	1.522.482
Financial liabilities	(20.873.796)	(15.811.647)
Interest rate swap	13.038.000	12.721.000
	(6.476.402)	(1.568.164)

Financial instruments with fixed interest rates

Interest rate swap	(13.038.000)	(12.721.000)
	(13.038.000)	(12.721.000)

Cash flow sensitivity analysis for floating interest rate instruments

An increase or decrease in interest rates of 100 basis points would increase (decrease) one years return by the following amounts after tax. 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 2020.

	Profit or loss	
31.12.2021	100 bp increase	100 bp decrease
Financial instruments with floating interest rates	(51.811)	51.811
Cash flow sensitivity analysis, net	(51.811)	51.811
31.12.2020		
Financial instruments with floating interest rates	(12.545)	12.545
Cash flow sensitivity analysis, net	(12.545)	12.545

Financial Statements of HS Orka hf. 2021 38 Amounts in ISK thousands

31. Interest rate risk, contd.

Fair value sensitivity analysis for changes in interest rates

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 2020.

	Profit or loss	
31.12.2021	100 bp increase	100 bp decrease
Embedded derivative in power sales contract	666	(863)
Aluminium hedge	30	(30)
Interest rate swap	223.036	229.008
Total	223.732	228.115

31.12.2020		
Embedded derivative in power sales contract	33.028	(34.572)
Interest rate swap	323.988	(336.114)
Total	357.016	(370.686)

32. Foreign exchange risk

The Company is exposed to foreign exchange risk due to sales, purchases and borrowings that are denominated in currencies other than ISK. The currencies in which these transactions are primarily denominated are US Dollar (USD) and Euro (EUR). Exposure to other currencies is insignificant.

The Company currently does not use forward contracts or other derivatives to hedge against foreign exchange rate risk. However, about 33% (2020: 35%) of the Company's revenue is in USD mitigating the risk from USD denominated debt.

Exposure to foreign exchange risk

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

31.12.2021	Assets	Liabilities
EUR	19.500	10.367
USD	1.427.366	20.807.175
JPY	40	0
	1.446.906	20.817.542

31.12.2020	Assets	Liabilities
EUR	143.205	4.222
USD	392.111	15.677.913
JPY	252.992	0
	788.308	15.682.135

Financial Statements of HS Orka hf. 2021 39 Amounts in ISK thousands

32. Foreign exchange risk, contd.

Exchange rates against the ISK were:	Average exchange rate 2021	2020	Year end exchange rate 2021	2020
EUR	150,19	154,52	147,60	156,10
USD	127,05	135,27	130,38	127,21
JPY	1,16	1,27	1,13	1,23

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 2020.

	2021	2020
EUR	(731)	(11.119)
USD	1.550.385	1.222.864
JPY	(3)	(20.239)

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.

33. Aluminium price risk

In 2004 the Company signed a power sales agreement with Norðurál on power supply until 2026. The agreement is USD denominated and the power price is linked to the price of aluminum on the London Metal Exchange (LME). The Company entered into derivative agreement fixing an aluminium price range for the period of February-December 2021. The purpose is to mitigate the aluminum price risk fluctuations and secure the contracted income, i.e. to secure the revenue when prices go below the defined range or realise less income if prices go above. In 2021 and 2022 around 85% of contracted volume sales to Norðurál was hedged against changes in the price of aluminium.

The power sales agreement with Norðurál features an embedded derivative, the value of which depends on the futures price of aluminium. However, at the beginning of the agreements they have no value. As market value is not available for these embedded derivative, generally accepted valuation methods are applied to determine the fair value. The present value of cash flows over the remaining lifetime of the power contract is calculated on the basis of the London Metal Exchange (LME) futures on the reporting date. From this number, the present value of cash flows based on aluminium price assumptions on the date of the power agreements is subtracted. The fair value change between reporting dates is recognized in the income statement.

When calculating the present value of the embedded derivatives, the Company applies a discount rate based on US risk free rates plus a risk spread.

Financial Statements of HS Orka hf. 2021 40 Amounts in ISK thousands

33. Aluminium price risk, contd.

Fair value of embedded derivatives is as follows:

	2021	2020
Fair value of embedded derivatives at 1 January	(1.571.752)	(1.789.031)
Changes in fair value	2.168.690	217.279
Fair value of embedded derivatives at 31 December	596.938	(1.571.752)
Interest rates used for determining fair value of embedded derivative	0.9-1.9%	0.5-1.4%

The Company has entered into derivative hedge agreements to mitigate risk to aluminium price exposure arising from the Norðurál power sales agreement. Hedging strategy is reviewed at least annually.

Fair value of aluminium hedge derivatives is as follows:

	2021	2020
Fair value of aluminium hedge derivatives at 1 January	0	0
Changes in fair value	(21.280)	0
Fair value of aluminium hedge derivatives at 31 December	(21.280)	0

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 2020.

	Profit or loss	
	2021	2020
Increase of 10%		
Embedded derivatives	905.529	898.062
Aluminium hedge derivatives	(39.012)	0
	866.517	898.062
Decrease of 10%		
Embedded derivatives	(905.529)	(898.062)
Aluminium hedge derivatives	21.002	0
	(884.526)	(898.062)

34. Classification of financial instruments

Financial assets and liabilities are classified as follows:

Financial assets	31.12.2021	31.12.2020
Financial assets recognised at amortised cost	3.152.302	2.705.153
Financial assets at fair value through profit or loss	610.513	11.075
	3.762.815	2.716.228

Financial liabilities		
Financial liabilities at fair value through profit or loss	63.039	1.929.169
Financial liabilities measured at amortized cost	23.045.028	17.193.262
	23.108.066	19.122.430

Financial Statements of HS Orka hf. 2021 41 Amounts in ISK thousands

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:

	31.12.2021		31.12.2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Int. bearing long-term debt (level 3)	20.873.796	20.873.796	15.811.648	15.811.648

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.

Interest rates used for determining fair value:

	2021	2020
Margin on interest-bearing long-term foreign debt	1,75%-2,5%	1,75%-2,5%

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 2021				
Operating assets	0	0	45.056.809	45.056.809
Embedded derivatives	0	596.938	0	596.938
Aluminium hedges	0	(21.280)	0	(21.280)
Other derivatives	0	(41.759)	0	(41.759)
Investments in other companies	0	0	13.575	13.575
Total	0	533.899	45.070.384	45.604.283
31 December 2020				
Operating assets	0	0	46.231.460	46.231.460
Embedded derivatives	0	(1.571.752)	0	(1.571.752)
Other derivatives		(357.417)	0	(357.417)
Investments in other companies	0	0	11.075	11.075
Total	0	(1.929.169)	46.242.535	44.313.366

Financial Statements of HS Orka hf. 2021 42 Amounts in ISK thousands

36. 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 50.6% at year end 2021 (2020: 56.5%).

37. Related parties

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

	Sale	Purchase	Interest income	Receivables	Payables
31 December 2021					
Parent entities	2.125	0	0	0	0
Subsidiaries	0	0	6.871	102.205	0
Associates	73	12.182	0	17.180	1.247
	2.198	12.182	6.871	119.385	1.247
31 December 2020					
Parent entities	0	16.000	0	0	0
Subsidiaries	0	0	5.199	85.333	0
Associates	0	16.000	0	17.000	2.756
	0	32.000	5.199	102.333	2.756

In 2021 HS Orka provided a loan to VesturVerk ehf. for the amount of ISK 10 million. Outstanding loan principle and accrued interest at the end of the year is ISK 102 million (2020: ISK 85 million).

HS Orka owns 33% of the shares of Heimsþing ehf. founded in 2018 with the sole purpose to host the World Geothermal Congress in Iceland 2020. The congress was postponed due to uncertainty in relation to Covid 19, until 2021 with a new approach, online meetings were held in the spring 2021 and the Congress took place in October. Outstanding loan principle and accrued interest at the end of the year is ISK 17 million (2020: ISK 17 million). A loan to Heimsþing ehf. of the amount of ISK 17 million is included in the allowance for bad debt in the year 2020.

Financial Statements of HS Orka hf. 2021 43 Amounts in ISK thousands

Appendix: Corporate Governance Statement, unaudited

Legislation and corporate governance

The Company complies to the Private Limited Companies Act (Act No 2/1995), as amended, the Annual Accounts Act (Act No 3/2006), and other applicable legislation and regulations. The Board of Directors of HS Orka hf. stresses the importance of maintaining good management practices in accordance with Guidelines for Corporate Governance, version 6. The Company's articles of association, last reviewed on 26 November 2021, lay down the framework for the governance of the Company, together with the Board's rules of procedure. The Company´s article of association can be found on the Company´s webpage.

The Company complies to all main aspects of the Guidelines for Corporate Governance but as each shareholder nominates Board members there is no acting Nomination Committee and consequently all Board members are dependent of the Company's major shareholders.

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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.

Internal control and risk management

To ensure that the Company's financial statements are in accordance with generally accepted accounting practice, the Company has focused on well-defined areas of responsibility, proper segregation of duties, regular reporting, and transparency in its activities. The process of monthly reporting and reviews is an important part of monitoring financial performance and other key performance indicators.

The Board of Directors, according to its rules of procedure, defines the risk factors that the Company must address, including the nature and extent thereof. It also defines remedial action for the risks in question. In addition, the Board verifies the effectiveness of internal control and risk management.

The main role of the of HS Orka's Audit Committee, in accordance with its rules of procedure, is to ensure the quality of financial statements and other financial information and the independence of auditors.

An auditing firm is elected at the Annual General Meeting (AGM) for a term of one year. External auditors are not allowed to own shares in the Company. External auditors examine the Company's annual financial statements in accordance with international standards on auditing and, to this end, inspect accounting records and other material relating to the operations and financial position of the Company. External auditors have unlimited access to the general ledger at all times. External auditors report any significant findings regarding accounting matters to the Board of Directors via the Audit Committee in the audit report.

The Board of Directors and sub-committees of the Board

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

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

The ultimate authority in all affairs of the Company, within the limits established by the Company's articles of association and statutory law, lies with the statutory shareholder meetings. The ultimate beneficial owners (UBO) of HS Orka are Ancala Partners and Jarðvarmi slhf., each holding 50% of the shares.

The Board of Directors and sub-committees of the Board, contd.

The Company´s diversity policy is a part of the policy of equality, last reviewed 8 November 2021. The policy states that the Company provide diversity and equality to all in employment, irrespective of their age, gender, sexuality, nationality, national origin, religion or belief or political opinions. The Company oppose all form of unlawful and unfair discrimination of any kind. The Company's team has varied background, knowledge, experience, and abilities. The Board of Directors is gender-balanced, with four members from various countries, with wide-ranging educational and professional backgrounds. The members of the Executive Board are experts in their specialised fields, with various educational backgrounds. Three out of the seven members are women.

The Board of Directors

The Board of Directors is the supreme authority in the affairs of the Company within the limits established by law, the articles of association, and the Shareholders' Agreement.

The Board consists of four members – who are nominated by each shareholder and elected at the Annual General Meeting for a term of one year – and is responsible for the affairs of the Company. The Board of Directors operates in accordance with the Company's articles of association and the Board's rules of procedures, last reviewed on 7 April 2021. Board´s rules of procedure can be found on the Company´s intranet.

The Board's main roles and duties are as follows:

a. Entering into a contract of employment with the CEO and supervise his work.
b. Responsibility for long-term strategy.
c. Supervising all aspects of the Company's operations and ensuring that the Company's organisation and activities are always in good and proper order. The Board ensures adequate supervision of accounting and disposal of the Company's financial assets and, at least once a year, ratifies the Company's operating plan and budget.
d. Defining, at least once a year, the risk factors that the Company must address, including the nature and extent thereof. It also defines remedial action for the risks in question. In addition, the Board regularly verifies the effectiveness of internal control and risk management. It ensures that employees can report failures to prevent risk and incidents in the Company's operations without any kind of detrimental effect to their employment.

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, i.e. to execute its duties in an efficient manner with integrity in the best interest of the Company.

Representation of women and men on the board in 2021 is equal. The members of HS Orka's Board of Directors are: Mr. Adrian Pike (Chairman), Mr. Bjarni Þórður Bjarnason (Vice Chairman), Ms. Heike Bergmann and Ms. Ingunn Agnes Kro.

The Board of Directors, contd.

Mr. Adrian Pike, Chairman of the Board, was born in 1967 and lives in Grazely Green, United Kingdom. Mr. Pike has been on the Board since 2 July 2020. He is qualified electrician, holds degrees in Electrical Engineering and Management. He has over 30 years' experience in the utility and energy infrastructure sectors. Mr. Pike started his career as an apprentice electrician at Scottish and Southern Energy and rose through the ranks to become Group Managing Director. In 2010 he co-founded Anesco Ltd. and was the Chief Executive Officer to 2016. Later, Mr. Pike co-founded InstaVolt Ltd, a rapid EV network and is currently the Chairman of the Board. Furthermore, Mr. Pike is Chairman of the Board of Enviromena.

Mr. Bjarni Þórður Bjarnason, Vice-Chairman of the Board, born in 1969 and lives in Reykjavik, Iceland. Mr. Bjarnason has been on the Board since 10 June 2019. He is certified as Security Broker and holds a C.S. degree in Mechanical Engineering from the University of Iceland and Business Administration from SMU Cox School of Business. Mr. Bjarnason has experience in corporate finance and in recent years advised, both Icelandic and foreign, investors in M&A and capital raising. Mr. Bjarnason co-founded Arctica Finance and is currently the Deputy Chief Executive Officer. Furthermore, Mr. Bjarnason is a Board member of Arctica Eignarhaldsfélag, Árvakur and Þórsmörk. From June 2003 to October 2009 Mr. Bjarnason was the Head of the Corporate Finance department at Landsbankinn hf. Previous, he was the Assistant Head of Búnaðarbanki´s Corporate Finance and prior to that in a similar position at Gilding investment fund.

Ms. Heike Bergmann, born in 1968 and lives in Heidenheim an der Brenz, Germany. Ms. Bergmann has been on the Board since 24 May 2019. She holds a degree in Master of Business Administration and Electrical Engineering, from the Technische Universität Darmstadt. Ms. Bergmann has experience in sales and marketing in the utility and energy infrastructure sectors. From July 2016, she is the Senior Vice President Sales Africa at Voith Hydro Holding GmbH&Co, previously in a role as Managing Director from 2012 within the same company. From 2011 to 2012 she was a Service Unit Manager at Alstom Grid Inc. and Sales Director from 1997 to 2010 at Areva T&D. She is Vice Chairwomen of the Sub-Sahara Africa Initiative of the German Industry (regional initiative of the BDI) and member of the Private Sector Advisory Board of GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH).

Ms. Ingunn Agnes Kro, born in 1982 and lives in Reykjavík, Iceland. Ms. Kro has been on the Board since 10 June 2019. She is a certified District Court Attorney and Securities Broker with a master's degree in Law and in Business Administration from the University of Iceland. Ms. Kro has experience in corporate law, corporate governance and sustainability matters and has been a Board member in various companies. She currently is the General manager at Jarðvarmi slhf. since 2020 and sits as Board member in Icelandic Seafood International hf., Sjóvá Almennar tryggingar hf. Freyja slhf. and The wetlands fund. Previously, Ms. Kro was the Chief Executive Officer at Íslenska Vetnisfélagið, a company founded to introduce and create infrastructure for hydrogen as an energy carrier in transportation. Ms. Kro worked at Skeljungur for ten years, from 2009 to 2019, first as General Counsel, later as Compliance Officer as well and from 2017 to 2019 as Director of Administration and Communication.

All Board members are independent of the company and its day-to-day managers, meaning that the Board members do not own, direct or indirect any shares in the Company, they have not carried out any work for the Company nor have any other connections to the Company´s main clients or competitors. All Board members are dependent of the company's major shareholders, the reason being that there are only two shareholders in the Company.

Once a year the Board conducts self-assessment where each Board member evaluates the work, results, size and the composition of the Board and the Board´s sub-committees. The results provide the Board to continuously improve efficiency, strategic foresight, stewardship, value creation and corporate culture. The Board, furthermore, evaluate the work and results of the CEO.

The Board of Directors, contd.

The communication between the Shareholders and the Board of Directors takes place at statutory shareholder meetings. General Meeting is hold annually before 1 April and Extraordinary General Meetings are called as needed in accordance with the Company's articles of association and applicable laws. Regular Board meetings are held with the management team over the course of the operating year including on-site visits. Board members and the management team communicate, in between meetings, through emails and telephone and additional meetings are convened as needed.

In the course of 2021, the Board of Directors held thirteen meetings with 100% attendance.

Sub-committees

The sub-committees are two in total, Audit Committee and Remuneration Committee.

Audit Committe

The Audit Committee (AC) is a sub-committee of the Company's Board of Directors and is appointed by and operates under the authority of the Board of Directors. The establishment of an AC does not detract from the responsibilities of the Board or relieve it of any liability. Each Board Member must have an overview of the matters addressed by the Committee.

The Audit Committee operates in accordance with its rules of procedure, last reviewed on 18 May 2021, available on the Company´s intranet. The Committee is responsible for reviewing and assessing the quality of the financial information received from management and provide oversight of the audit process. The Committee ensures that the information given to the Board on the Company's operations, status and future prospects are reliable and give the clearest possible picture of the Company's position at any given time.

The Committee's key activities and tasks are to:

a. Monitor working processes in the preparation of financial statements, the corporate governance statement and non-financial information;
b. Review the post-audit management letter together with the management´s response and follow up on mitigating action with the management;
c. Assess management reports on the Company´s finances;
d. Monitor the arrangement and efficiency of the Company's internal controls, internal auditing (where applicable), risk management (including responses to risks) and follow up on remedies to shortcomings identified during internal controls;
e. Monitor the auditing of the Company's annual financial statements and consolidated financial statements, including reviewing and challenging where necessary;
f. Assess and manage the work of the Company's auditors and review their findings.

The Audit Committee consists of three members, one appointed by each shareholder and one independent member. The members are Ms Hildur Árnadóttir (Chairman and independent), Mr. Juhani Sillanpaa and Mr. Bjarni Þórður Bjarnason.

In the course of 2021, the Audit Committee held five meetings with 100% attendance.

The Remuneration Committee

The Remuneration Committee (RC) is a sub-committee of the Company's Board of Directors and operates under the authority of the Board. The establishment of a RC does not detract from the responsibilities of the Board or relieve it of any liability. Each Board member must have an overview of the matters addressed by the Committee.

The Remuneration Committee operates in accordance with its rules of procedure, last reviewed on 22 February 2021, available on the Company's intranet. The Remuneration Committee consists of two members, one appointed by each shareholder.

The Remuneration Committee assists the Board in ensuring that compensation arrangements support the Company's strategic aims and enable the recruitment, motivation and retention of senior executives, while also complying with legal requirements.

The Committee's key activities and tasks are to:

a. Prepare and submit to the Board of Directors a draft policy on the remuneration of the Board of Directors, CEO and the executive management and monitor execution of that policy;
b. Collect specific information and present it to the AGM, to enable the shareholders to fully understand the structure of the employment terms of the Board of Directors, the CEO and other managers;
c. Monitor compliance of wages and other employment terms with the laws, regulations and best practices in place at any given time, prepare the Board's decisions on salary and other remuneration of the CEO, and present to the Board of Directors a draft proposal to the AMG regarding the remuneration of Board and committee members and the auditors.

The Remuneration Committee consists of two members appointed by each shareholder. The members are Mr. Adrian Pike and Ms. Ingunn Agnes Kro.

In the course of 2021, the Remuneration Committee held three meetings with 100% attendance.

The Chief Executive Officer

The Chief Executive Officer (CEO) is appointed by the Board of Directors and is in charge of the Company's daily operations. He is responsible for the Company's accounts, recruitment of staff. He is obliged to follow Board policies and instructions and to provide the Board of Directors and Company auditors with any information pertaining to the Company's operations which they may request and which may be required by law. The CEO represents the Company in all matters relating to its normal operations. Normal operations do not include measures that are unusual or extraordinary. The CEO may only take such measures if specifically authorised to do so by the Board, unless it is impossible to wait for Board's decision without substantial disadvantage to the Company's obligations. In such an event, the CEO must inform the Board of any action taken without delay.

The Chief Executive Officer, contd.

The CEO of HS Orka hf. is Mr. Tómas Már Sigurðsson. He is born in 1968 and lives in Reykjavík. Mr. Sigurðsson holds an M.Sc in Planning from Cornell University, United States and a B.Sc. in Civil and Environmental Engineering from the University of Iceland. Mr. Sigurðsson was appointed as CEO of the Company from 1 January 2020. Prior to that, Mr. Sigurðsson was the Senior Vice President, Strategic Alliances for Alcoa Corporation, Pittsburgh, USA, CEO of Alcoa Fjarðarál and Alcoa in Iceland but moved to Geneva in 2011 where he became the President of Alcoa Europe. From 2014 to year end 2018 Mr. Sigurðsson was the Executive Vice President and Chief Operating Officer for Alcoa Corporation. He was the chairman of the Iceland Chamber of Commerce from 2009 to 2012 and served as a member of the Federation of Icelandic Industries in 2005-2011. He was also a member of the Executive Committees of the European Aluminium Association, Eurometaux, and the American Chamber of Commerce to the European Union from 2012 to 2014. When working for Alcoa Mr. Sigurðsson sat on number of boards for Alcoa Corporation and was a member of the Executive Committee of Europe Aluminium and Business Europe. From 2019 to 2020 Mr. Sigurðsson was the Vice Chairman of the Board of Directors of Íslandsbanki. He is currently a board member of the Dutch shipping company Cargow B.V.

The CEO is not a shareholder in the Company, neither directly nor indirectly and has no connections with principal clients or competitors or major shareholders in the Company. No call-option agreements exist between the CEO and the Company.

The Executive Board

The Company's Executive Directors are seven. The Executive Board is responsible for strategic planning and decision making according to the mission, vision, and values of the Company as laid down by the Board of Directors. The Executive Board reports directly to the CEO and support the CEO in the daily operations. The members have various backgrounds, specialising in various fields, and three out of the seven members are women.

Arna Grímsdóttir	Executive Vice President of Legal Affairs
Ásbjörn Blöndal	Executive Vice President of Project Development
Björk Þórarinsdóttir	Executive Vice President of Finances and Information Technology
Friðrik Friðriksson	Executive Vice President of Sales and Services
Jón Ásgeirsson	Executive Vice President of Strategy and Resource Park
Kristinn Harðarson	Executive Vice President of Production
Sunna Björg Helgadóttir	Executive Vice President of Technology

Non financial reporting, unaudited

Business model, materiality and stakeholders

HS Orka is an energy company owned (Ultimate beneficial owner) 50% by Ancala Partners and 50% by Jarðvarmi slhf., a dedicated investment vehicle owned by several Icelandic pension funds. HS Orka owns and operates 174 MW of electrical power production capacity, in addition to a 10 MW hydropower plant. The Company also purchases power from other power producers in Iceland. Produced and procured power is sold to households, private and publicly owned companies as well as to power retailers. HS Orka also produces hot water for heating and cold, potable water for sales to a distribution company which delivers the products to neighbouring communities. Most of the households that purchase power from HS Orka are legacy customers of the Company. Furthermore, HS Orka produces geothermal by products, such as brine and steam, which it delivers and sells to companies in the Resource Park located in the vicinity of its geothermal power plants.

In 2021, the Company identified five material topics. Each topic is addressed with impact on relevant stakeholders in mind:

Sustainable use of natural resources (freshwater and geothermal energy)

Since the condition and utilisation of the geothermal resource has a material impact on HS Orka's performance, the Company has stepped up its efforts to build knowledge on the resource by adding resources and developing models to ensure the sustainable use of the resource. This also assists the Company in monitoring one of its major risks, i.e., seismic and volcanic activity in the vicinity of its geothermal power plants.

Safety and risk management

The Company addresses safety and risk management which is of major importance to its employees and to the public by implementing its environmental, health and safety policies which are an integral part of its management systems. In 2021 the emphasis was on updating processes that relate to the topic and this work will continue in 2022 with a special focus on critical risk management and safety leadership training.

Climate change

Carbon dioxide is emitted as Scope 1 fugitive emissions from HS Orka's power plants in Svartsengi and in Reykjanes and as such it is of interest to the authorities and to the general public. The Company has issued public, quantitative and timed commitments to reduce CO2 emissions and has assign resources to actively seek ways and work on projects to mitigate emissions by carbon capture and storage (CCS) or carbon capture and utilization (CCU) while other emissions are addressed by a mix of avoidance and remediation through offsets.

Security of power supply and related infrastructure (from the customer viewpoint)

Disruption of supply from HS Orka has material impact on companies and households that are located in the vicinity of the power plants, especially on customers that take thermal energy from HS Orka.

The relevant infrastructure is partly under the responsibility of HS Orka and partly under responsibility of third parties. Resources for maintaining HS Orka´s assets have been added to strengthen the organization and align it towards delivering improved maintenance. Clear objectives with regard to operational availability are set. Work is ongoing in cooperation with 3rd parties to define interfaces between the infrastructure of HS Orka and that of 3rd parties on order to clarify ownership and corresponding responsibility. Funds are made available for sustaining HS Orka´s assets and to add contingencies.

Business model, materiality and stakeholders, contd.

Circularity in the Resource Park

Companies in the Resource Park (RP) take more than one Resource stream from HS Orka´s power plants, some of them using streams that otherwise would be a waste. However, the management is not aware of further circularity in the RP, that is to say that there are no known cases where a by-product or waste of one company (apart from HS Orka) is the input of another company. The management believes that developing circularity further is an important element in maintaining and strengthening the position of the RP as a green industrial park, attracting future-safe companies which bring sustained long-term business. Developing circularity is thus considered a material topic which is not entirely under the control of HS Orka but approaching this in an appropriate way will be a focus point in 2022. In 2021 a long-term sales contract for power and warm seawater was signed with Samherji Fiskeldi which is planning a large-scale land-based salmon farm.

In the beginning of 2021, the escalation in seismic activity in the region around Svartsengi increased causing a blackout in Power Plant 5 two times. On the 19th of March 2021 an eruption started in Fagradalsfjall, located approximately 7.5 km from Svartsengi. Following the eruption, the seismic activity decreased, and estimations and precautionary measures were taken for likely scenarios. The eruption was small and did not affect the Company‘s operations. The eruption was officially announced to be over in December 2021.

In April 2021 Power plant 3 in Svartsengi broke down causing the turbine to catch fire. After the machine failure the Power plant was unrepairable causing the Company to lose the 5 MW of installed capacity. The turbine was old and fully depreciated. The replacement will be a part of renewing the machinery in use in Svartsengi in the coming months.

Sustainability and social responsibility – policy and focus

Management systems

In recent years the Company has developed and adopted a Quality Management system (ISO 9001), Environmental Management standard (ISO 14001), Occupational Health and Safety Management standard (ISO 45001) an an Equal Pay Management system (ÍST 85:2012). All the systems are certified.

The Company is working on embedding process thinking in all aspects of its operations. Management is already committed to this, but the project is a multi-year transition as engagement of all employees is needed for it to succeed. This will, together with certified management systems to manage policies, objectives, and procedures, cement the reliability of the business and ensure that internal and external requirements are met.

Natural Resource

HS Orka has been entrusted with a natural resource that is imperative to create circularity. The Company’s role is to maximise the yield and value of the resource in a sustainable, responsible, and efficient manner. Diverse utilisation of resources where all products are fully utilised is the future of geothermal industry.

Monitoring of natural resources has undergone major changes in recent years. This has resulted in resource optimisation as a result of the advances in research and earth sciences in general. Monitoring of geothermal resource considers important environmental factors in each area individually and holistically. For example, changes in physical and chemical factors are monitored with constant measurements of temperature, pressure, conductivity, water levels and chemical composition. In 2021 emphasis has been in the constant development in the conceptual models and the newly developed reservoir models for Reykjanes and Svartsengi.

HS Orka is in compliance with all legal and regulatory requirements set out by the National Energy Authority of Iceland.

Sustainability and social responsibility – policy and focus, contd.

Social responsibility

In 2021 there has been ongoing preparations for the publishing of the Company´s first report in accordance with GRI core standard. The standards serve as a guide for goal setting, change management and performance measurement within the scope of sustainable operation. The report will be published in March 2022. The Company's social responsibility will be described in detail in the report.

Community involvement and philanthropy

HS Orka has a policy of backing its local communities by supporting social projects and activities. The specific items supported vary from year to year depending on external factors. The Company supports various charities depending on need and is a strong backer of most sports and sport teams in its local communities.

Indicator: The total amount of sponsorships amounted to ISK 16 million., somewhat lower than in the years prior to COVID-19, mainly attributable to lower demand related to COVID-19 restrictions (2020: ISK 5,5 million).

Risk Management

HS Orka follows a formal risk management process to identify and control the Company's main risk. HS Orka has recently implemented a new comprehensive management tool to increase transparency and enable each division to better manage risks. A priority has been set on HSE risk identification management where programs on fatal risk and preventing controls will be launched. Furthermore, focus has been on resource optimization, i.e. to seek balance in production and long term sustainability.

Indicator: SO 9001, 45001 and 14001 were maintained (2020: maintained certification).

Environment

HS Orka has an operating permit from health authorities and is compliant with the applicable environmental laws and regulations. HS Orka has an ISO 14001 certified environmental management system. The organisation works towards fulfilling its Environmental Policy with preventive and reduction measures as regards the environmental aspects of its operations. The main objects are preventing climate change, reduce fugitive emissions and to avoid the occurrence of environmental accidents in HS Orka's operations.

Indicator: ISO 14001 certification was maintained. No environmental accidents occurred (2020: maintained certification).

Action needs to be taken to slow the pace of global warming and regain climate stability. HS Orka is working on a climate strategy to reach its goal of carbon neutrality in 2040. The goal is to achieve 25 g CO_2/kWh in 2030 and net zero emissions in 2040.

Indicator: Emissions 30,4 g CO_2/kWh in 2021 (2020: 42 g CO_2eq/kWh). In 2021, direct emissions were 86,700 tonnes of CO_2eq and indirect emissions involving corporate flights and waste management were 75 tonnes of CO_2eq (2020: 95,800 tonnes and 24 tonnes respectively). Additionally, indirect emissions of material used for construction work were 1,030 tonnes CO_2eq.

Sustainability and social responsibility – policy and focus, contd.

HS Orka has actively increased the share of electric and plug-in hybrid vehicles in its fleet since 2015 and the objective is to reach 100% eco-friendlier vehicles in 2030. The organisation thus participates in the transition to clean energy. In 2021 the organization added a hydrogen vehicle to its fleet.

Indicator: Share of eco-friendlier vehicles – 67% in 2020 (2020: 63%).

Indirect emissions due to waste management and corporate flights resulting from the Company operations increased by 313%. Of this, emissions from waste increased by 289% due to Reykjanes power plant construction work. As a mitigation effort, wetland in Iceland was restored. Wetland restoration stops emissions from the area and leads to an increase in biodiversity. The goal is to sort 95% of waste by 2030.

Indicator: Waste sorting – 90% in 2021 (2020: 84%).

Human resources and human rights

Human resources

The HS Orka Values (Dedication – Vision – Integrity) set the course for HS Orka and its employees. The Company's operations require a vast degree of expertise and its sustainable growth and successful innovation is therefore dependent upon recruiting the right staff and avoiding the risk of losing them in the competitive market. This is done by creating and maintaining an interesting workplace with clear values, paying special attention to company culture.

HS Orka's aim is to attract and retain employees who are dedicated to working under the values. HS Orka's human resources policy ensures that the workplace combines professional knowledge, know-how, excellent service, positive working spirit, and mutual respect. The policy was drafted in cooperation with employees and is revised regularly, most recently 20 September 2021. HS Orka also has a clear gender policy as part of in its equal opportunities policy, in place as required by Act No 10/2008. HS Orka's Board of Directors consists of four members – two men and two women – and its Executive Board consists of seven members – four men and three women.

Indicator: At the end of 2021, the ratio of female workers at HS Orka was 19% (2020: 19%).

Indicator: HS Orka maintained certification of ÍST 85:2012 in the BSI audit in 2021 (maintained in 2020).

The Company has policies, rules and frameworks regarding safety and health, victimisation, and employee behaviour and performance of work for the benefit of the employer. The Company has policy of zero harm injury and registers all incidents and keeps records on accidents and absence due to illness. In 2021, there was one lost time incident and two accidents where employees needed treatment at the emergency room.

Indicator: HS Orka maintained ISO 45001 certification in the BSI audit in 2021 (2020: maintained certification).

Human resources and human rights, contd.

Human rights

The Company is committed to ensuring that all people are treated with dignity and respect. Human rights violation risks include illegal labour conditions and child labour. HS Orka is committed to complying with all laws, rules and regulations in relation to fundamental human rights. This includes, but is not limited to, forced labour, workplace abuse, human trafficking and other forms of discrimination. HS Orka's commitment to operate with integrity means avoiding corruption in any form and complying with anti-corruption laws. The Company has anti-bribery and corruption policy, last reviewed on 28 October 2021, that sets out clear rules regarding potential bribes and how to act when subjected to potential acts of bribery and matters of corruption.

In addition, the Company maintains certified quality standards and strict safety rules to ensure the safety of its employees and contractors providing services to it. Major contracts with contractors, including subcontractors, require compliance with labour laws and health and safety regulations.