



Financial Statements
for the year 2022

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

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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 with power licences of 214.9 MW in total for electrical power production, of which 205 MW is for geothermal and 9.9 MW is for hydropower production. 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 2022 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 2022

The Company's operating revenues for the year 2022 amounted to ISK 10,591 million (2021: ISK 9,234 million) and profit after tax amounted to ISK 69 million (2021: ISK 2,253 million). Total comprehensive loss was ISK 66 million (2021: total comprehensive income ISK 1,874 million). The Company's assets amounted to ISK 69,043 million at the end of December 2022 (2021: ISK 59,484 million). Equity at year end amounted to ISK 28,632 million (2021: ISK 30,128 million) or 41.5% of total assets in 2022 (2021: 50.6%). Equity ratio if subordinated shareholder loan would be classified as equity was at year end 2022 49.4%. 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 85 in 2022 (2021: 73).

The power generation in MWh in 2022 was about the same as in 2021. Nevertheless some uncertainty remains with regard to the generation development of the Reykjanes geothermal resource. The condition and utilisation of the geothermal resource has a material impact on HS Orka's long-term performance. In 2022, continued emphasis has been on the constant development in the conceptual models and the newly developed reservoir models in order to stabilise the production capacity and ensure the sustainable use of the resource.

An expansion and modernisation of Svartengis power plant, or SVA 7, was fully funded in 2022 after HS Orka secured a USD 62 million, equivalent to about ISK 8.8 billion financing from two of the four banks in the group of HS Orka's European lenders, in addition to a USD 38 million, equivalent to ISK 5.5 billion loan from the Company's shareholders.

In late December the 30 MW expansion of the Reykjanes power plant, or REY 4, was reclassified as an operating asset when commercial operations by generating electricity to grid started, a few months earlier than scheduled.

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

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

Towards the end of July 2022, an increase in seismic activity was monitored at the eruption site at Fagradalsfjall and close to Grindavík. The seismic activity led to an eruption on 3 August, when a new fissure opened about 1 km east of the main crater and about 8.5 km away from Svartsengi. The eruption was very active in the beginning but showed a rapid decline and lasted until end of August. Since then, the activity has not picked up again. The eruption did not have any negative effects on the operations at Svartsengi.

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 2023.

Share capital and Articles of Association

On a shareholders meeting held on 1 September 2022 a proposal from the Board of Directors based on Article 55 of the Companies Act. no. 2/1995, a share capital reduction by 205,250 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 10.13 million in cash (equivalent to ISK 1,429 million). The share capital was reduced by ISK 205,250 of nominal value or 205,250 shares and was after the reduction ISK 6,561,510.

The number of shareholders at year end 2022 was 2, unchanged from last year. HSO 1 ehf. with 99,99997% of shares and HSO 2 ehf. with 0,00003% of shares. 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 eleven meetings in 2022, the Audit Committee four meetings and the Remuneration Committee seven meetings. The Board of Directors consists of four members with equal representation of women and men. The Company's Executive Board in the year 2022 consisted of seven members, four men and three women. The ratio of female workers at HS Orka in the end of 2022 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 28.

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 2022, its financial performance, and the changes in cash flows during the year 2022.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and the 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 2022 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 2023.

Svartsengi, 27 February 2023

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 2022, the statement of 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 2022, 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 and additional Icelandic disclosure requirement in accordance with Icelandic Financial Statements Act no. 3/2006.

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 the Annual General Meeting in the year 1980 of the predecessor of HS Orka hf., Hitaveita Suðurnesja. 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.

Independent Auditor's Report, contd.:

Key Audit Matters, cont.

Key Audit Matter	How the matter was addressed in the audit
<p>At year end 2022 Power Plants amounted ISK 54,286 million (ref. note 4.e and 14) and Operating assets under construction amounted to ISK 1,562 million (ref. note 15). The Power Plants are measured at revalued cost less accumulated depreciation and impairment. The measurement is based on value-in-use method by discounting future cash-flows generated by the underlying assets. 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.</p> <p>The results were that the Power Plants were revalued (ref. note 14).</p> <p>We focused on these assets due to the size of the carrying amount of the Power Plants in use and under construction, which represent 81% of total assets and because management's assessment of value in use involves significant judgement about forecasting and discounting future cash flows which are the basis of the measurement of the assets. Therefore it is a key audit matter.</p>	<p>With the assistance of our valuation specialists we:</p> <ul style="list-style-type: none">• Assessed the cash flow models used by management in their calculations to assess recoverable amount at year end and verified the calculations of the model.• 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 and compared to market variables.• Performed sensitivity analysis on the assumption used.• Concluded on the appropriateness of relevant disclosures.

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 Icelandic disclosure requirement in accordance with Icelandic Financial Statements Act no. 3/2006, 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.

Independent Auditor's Report, contd.:

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

Reykjavík, 27 February 2023

KPMG ehf.

Statement of Comprehensive Income for the year ended 31 December 2022

	Notes	2022	2021
Operating revenue	5	10.591.147	9.233.500
Other revenues (insurance claim)	5, 19	87.090	414.801
Realised aluminium hedges	5	86.957	(338.037)
Production cost and cost of sales	6	(7.636.736)	(7.303.623)
Gross profit		<u>3.128.458</u>	<u>2.006.642</u>
Other operating expenses	7	(1.053.178)	(826.982)
Research and development	8	(29.598)	(28.808)
Other expenses		<u>(1.082.776)</u>	<u>(855.790)</u>
Profit from operations		<u>2.045.681</u>	<u>1.150.852</u>
Finance income		55.586	10.343
Finance costs		(640.386)	(438.590)
Net exchange rate differences		(1.806.542)	(367.969)
Changes in fair value of embedded derivatives	34	(253.341)	2.168.690
Changes in fair value of other derivatives	32, 34	687.760	294.378
Net finance (expense) income	12	<u>(1.956.923)</u>	<u>1.666.852</u>
Share of loss of associates and subsidiaries	17	(1.597)	(1.271)
Profit before income tax		<u>87.162</u>	<u>2.816.433</u>
Income tax expense	13	(17.756)	(563.545)
Net profit		<u>69.406</u>	<u>2.252.889</u>
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	24	(169.559)	(473.486)
Tax on items not reclassified to profit or loss	13	33.912	94.697
Other comprehensive loss		<u>(135.647)</u>	<u>(378.789)</u>
Total comprehensive (loss) income		<u><u>(66.241)</u></u>	<u><u>1.874.100</u></u>

Notes on pages 12-44 are an integral part of these financial statements

Statement of Financial Position as at 31 December 2022

Assets	Notes	31.12.2022	31.12.2021
Fixed assets			
Operating assets	14	56.033.557	45.056.809
Operating assets under construction	15	1.561.953	7.489.750
Intangible assets	16	1.480.767	1.451.573
Investments in associates and subsidiaries	17	600.762	602.359
Investments in other companies	18	15.075	13.575
Embedded derivatives in power sales contracts	34	306.569	484.457
Other derivatives	32	639.744	0
Total fixed assets		<u>60.638.427</u>	<u>55.098.523</u>
Current assets			
Inventories		452.671	1.120.404
Trade and other receivables	19	1.533.640	1.792.908
Embedded derivatives in power sales contracts	34	37.028	112.481
Cash and cash equivalents	20	6.381.226	1.359.394
Total current assets		<u>8.404.564</u>	<u>4.385.186</u>
Total assets		<u>69.042.991</u>	<u>59.483.710</u>
Equity and liabilities			
Equity			
Share capital		6.562	6.767
Share premium and statutory reserve		1.238.368	1.238.368
Revaluation reserve		9.768.911	10.466.882
Retained earnings		17.618.112	18.415.642
Total equity	21	<u>28.631.953</u>	<u>30.127.659</u>
Liabilities			
Loans and borrowings	22	25.893.868	20.858.422
Subordinated shareholder loan	23	5.462.890	0
Pension obligations	24	2.931.000	2.852.000
Deferred tax liability	25	3.244.890	3.395.984
Other derivatives	32	0	41.759
Lease commitment	26	453.467	125.737
Total non-current liabilities		<u>37.986.115</u>	<u>27.273.902</u>
Current liabilities			
Loans and borrowings	22	15.375	15.375
Lease commitment	26	317.508	10.659
Aluminium hedges	34	15.023	21.280
Tax payable	25	139.468	52.037
Trade and other payables	27	1.937.550	1.982.798
Total current liabilities		<u>2.424.923</u>	<u>2.082.149</u>
Total liabilities		<u>40.411.038</u>	<u>29.356.051</u>
Total liabilities and equity		<u>69.042.991</u>	<u>59.483.710</u>

Notes on pages 12-44 are an integral part of these financial statements

Statement of Changes in Equity for the year ended 31 December 2022

	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Total Equity
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 comprehensive 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
2022					
Equity at 1 January 2022	6.767	1.238.368	10.466.882	18.415.642	30.127.659
Profit for the year				69.406	69.406
Other comprehensive loss				(135.647)	(135.647)
Total comprehensive loss				(66.241)	(66.241)
Decrease of Share Capital	(205)			(1.429.260)	(1.429.465)
Revaluation reserve transferred to Retained earnings			(697.971)	697.971	0
Equity at 31 December 2022	6.562	1.238.368	9.768.911	17.618.112	28.631.953

Notes on pages 12-44 are an integral part of these financial statements

Statement of Cash Flows for the year ended 31 December 2022

Cash flows from operating activities	Notes	2022	2021
Profit for the year		69.406	2.252.889
Adjustments for:			
Gain on sale of operating assets		(7.470)	(7.303)
Pension obligations decrease	24	(90.559)	(89.486)
Depreciation and amortization	11	2.545.453	2.429.905
Net finance expense (income)	12	1.956.923	(1.666.852)
Share of loss of associates and subsidiaries	17	1.597	1.271
Income tax expense	13	17.756	563.545
Cash generated by operations		<u>4.493.106</u>	<u>3.483.969</u>
Inventories, (increase), decrease		(7.924)	457.213
Receivables, decrease, (increase)		259.268	(610.237)
Current liabilities, increase		<u>268.182</u>	<u>122.675</u>
Net cash from operations before interest and taxes		5.012.632	3.453.620
Interest received		55.586	10.343
Interest paid		(776.785)	(470.509)
Income taxes paid		<u>(47.507)</u>	<u>0</u>
Cash from operating activities		<u><u>4.243.927</u></u>	<u><u>2.993.454</u></u>
 Cash flows from investing activities			
Acquisition of operating assets	14	(1.091.553)	(1.211.036)
Acquisition of operating assets under construction	12, 15	(4.993.065)	(2.759.650)
Proceeds from sale of operating assets		14.318	13.650
Acquisition of intangible assets	16	(38.239)	(18.121)
Acquisition of shares in associates and other companies	17, 18	(1.500)	(2.500)
Dividends received from associates	17	0	2.428
Investing activities		<u>(6.110.040)</u>	<u>(3.975.230)</u>
 Cash flows from financing activities			
Share capital reduction	21	(1.429.465)	(3.655.400)
New long-term borrowings	22	2.945.635	4.504.526
Subordinated shareholder loan	23	5.485.300	0
Repayment of borrowings	22	(15.375)	(15.375)
Repayment of lease liability	26	(64.025)	(5.298)
Financing activities		<u>6.922.071</u>	<u>828.453</u>
Increase (decrease) in cash and cash equivalents		5.055.958	(153.324)
Effect of exchange rate fluctuations on cash held		(34.126)	(9.765)
Cash and cash equivalents at 1 January		<u>1.359.394</u>	<u>1.522.482</u>
Cash and cash equivalents at 31 December		<u><u>6.381.226</u></u>	<u><u>1.359.394</u></u>
 Investing and financing activities not affecting cash flows			
Acquisition of operating assets under construction		(392.930)	(622.864)
Current liabilities, (decrease), increase		(282.727)	622.864
Inventories, decrease		675.657	0

Notes on pages 12-44 are an integral part of these financial statements

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. The Company's Financial Statements are a part of the Consolidated Financial Statements of HS Orka Holding hf. and information on the Company's return and financial standing is included therein. As a result the Company is not required by IFRS to prepare consolidated financial statements.

2. Statement of compliance

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

These financial statements were authorized for issue by the Board of Directors on 27 February 2023.

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 obligations 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 34. Fair value of embedded derivatives in power sales agreements.
- Note 24. Pension obligations.

Notes to the Financial Statements

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 34. Embedded derivatives in power sales contract.
- Notes 28-36. 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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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. All other financial assets are measured at amortized cost.

(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. Bank balances that are subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. If the contractual restrictions to use the cash extend beyond 12 months after the end of the reporting period, the related amounts are classified as non-current in the statement of financial position.

(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.

Notes to the Financial Statements

4. Significant accounting policies, contd.

(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. Realised cash flows resulting from settlement of aluminium derivatives, entered into for hedging purposes, are recorded in profit or loss along with revenue.

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, Reykjanes Power plant and the Brú Power plant took place on 31 December 2022.

When parts of an item of operating assets has different useful lives, they are accounted for as separate items of operating assets.

Notes to the Financial Statements

4. Significant accounting policies, contd.

Gains and losses on disposal of an item of operating assets are determined by comparing the proceeds from disposal with the carrying amount of operating assets, and are recognized on a net basis within other income or other expenses in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

Power plants	40-60 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.

Notes to the Financial Statements

4. Significant accounting policies, contd.

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

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

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

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

Software	5-10 years
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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.

Notes to the Financial Statements

4. Significant accounting policies, contd.

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.

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.

4. Significant accounting policies, contd.

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.

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 and specialists from the pension funds using a method based on earned benefits. Remeasurements of the net defined liabilities related to actuarial gains and losses are recognised in OCI, other expenses related to the defined benefit plans are recognized as incurred in profit or loss.

4. Significant accounting policies, contd.

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.

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.

Notes to the Financial Statements

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. The Company received no grants in the year 2022 (2021: nil).

p. New standards and interpretations

A number of new standards are effective for annual periods beginning after 1 January 2022 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.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- 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).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16, Leases).

Notes to the Financial Statements

5. Revenue split

The Company's revenue split is as follows:

	2022	2021
Electricity power intensive ¹	3.277.114	2.911.231
Electricity other	5.707.890	5.149.985
Water (hot and cold)	1.024.026	928.444
Other	582.117	243.840
Revenue from contracts with customers	<u>10.591.147</u>	<u>9.233.500</u>
Insurance claim	87.090	414.801
Realised aluminium hedges	86.957	(338.037)
	<u>10.765.193</u>	<u>9.310.264</u>

¹ The definition of electricity power intensive is an end user who receives at least 80 GWh in one place within 3 year period in accordance with Electricity Act, No. 65/2003.

6. Production cost, cost of sales and service

	2022	2021
Production cost	4.830.370	4.804.065
Cost of sales	<u>2.806.366</u>	<u>2.499.558</u>
	<u>7.636.736</u>	<u>7.303.623</u>

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

	2022	2021
Salaries and related expenses	929.033	933.493
Depreciation	2.483.671	2.373.398
Power purchases	2.574.272	2.332.857
Transmission cost	653.521	526.533
Maintenance and other production cost	996.239	1.137.342
	<u>7.636.736</u>	<u>7.303.623</u>

7. Other operating expenses

	2022	2021
Salaries and related expenses	519.781	443.268
Increase in pension fund obligation	57.318	52.764
Administrative expenses	416.073	276.802
Depreciation and amortization	60.006	54.148
	<u>1.053.178</u>	<u>826.982</u>

8. Research and development

	2022	2021
Salaries and related expenses	15.867	12.637
R&D projects	11.955	13.812
Depreciation and amortization	1.776	2.360
	<u>29.598</u>	<u>28.808</u>

Notes to the Financial Statements

9. Salaries and related expenses

	2022	2021
Salaries	1.402.972	1.263.639
Contribution to defined contribution fund	182.177	163.524
Increase in pension obligation, see note 24	226.877	526.250
Other salary related expenses	169.989	138.761
	<u>1.982.015</u>	<u>2.092.174</u>
Average number of employees equivalent	85	73

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

	2022	2021
Capitalized on projects	290.458	176.527
Production cost and cost of sale	929.033	933.493
Research and development	15.867	12.637
Other operating expenses	577.099	496.032
Recognized in other comprehensive income	169.559	473.486
	<u>1.982.015</u>	<u>2.092.174</u>

Salaries paid to the Board of Directors and management amounted to ISK 81 million in 2022 (2021: ISK 73 million).

10. Auditor's fee

Fee's paid to the Company's auditors in the year 2022 were ISK 21.5 million (2021: ISK 21.3 million) thereof ISK 12.2 million (2021: ISK 11.7 million) reflects fees for the audit of the Annual Financial Statements. Other services bought from KPMG amounted to ISK 9.3 million in 2022 (2021: ISK 9.6 million).

11. Depreciation and amortization

Depreciation and amortization is specified as follows:

	2022	2021
Depreciation of operating assets, see note 14	2.536.408	2.422.233
Amotization of intangible assets, see note 16	9.045	7.672
	<u>2.545.453</u>	<u>2.429.905</u>

Depreciation, amortization and impairment is allocated as follows:

Production cost and cost of sales	2.483.671	2.373.398
Other operating expenses	60.006	54.148
Reasearch and development	1.776	2.360
	<u>2.545.453</u>	<u>2.429.905</u>

Notes to the Financial Statements

12. Finance income and expense

Finance income and expenses are specified as follows:

Finance income:

	2022	2021
Interest income on cash, loans and receivables	55.586	10.343
	<u>55.586</u>	<u>10.343</u>

Finance costs:

Interest expense on loans and borrowings	(613.569)	(432.368)
Interest expense on lease liabilities	(26.817)	(6.222)
	<u>(640.386)</u>	<u>(438.590)</u>
Net exchange rate differences	(1.806.542)	(367.969)
Changes in fair value of embedded derivatives	(253.341)	2.168.690
Changes in fair value of other derivatives	687.760	294.378
	<u>(1.372.123)</u>	<u>2.095.099</u>
Net finance (expense) income	<u>(1.956.923)</u>	<u>1.666.852</u>
Capitalized interest at 4.42% (2021: 3.53%)	416.055	201.159

13. Income tax

Effective tax in the income statement is specified as follows:

	2022	2021
Origination and reversal of temporary difference.....	121.712	(511.508)
Current tax.....	(139.468)	(52.037)
	<u>(17.756)</u>	<u>(563.545)</u>

Effective tax rate is specified as follows:

Profit for the year.....	69.406	2.252.889
Income tax expense.....	17.756	563.545
Profit before income tax.....	<u>87.162</u>	<u>2.816.433</u>

	2022		2021	
Income tax at current tax rate	(17.432)	20,0%	(563.287)	20,0%
Effect of associates and subsidiaries	(319)	0,4%	(254)	0,0%
Other items	(4)	0,0%	(4)	0,0%
Effective income tax rate	<u>(17.756)</u>	20,4%	<u>(563.545)</u>	20,0%

Income tax recognized in OCI is specified as follows:

	2022	2021
Tax on other item that will not be reclassified to profit or loss	(33.912)	(94.697)
Total income tax in OCI	<u>(33.912)</u>	<u>(94.697)</u>

Notes to the Financial Statements

14. Operating assets

Revaluation of operating assets

Svartsengi, Reykjanes and Brú power plants were revalued to fair value on 31 December 2022. The revaluation during the year 2022 amounted to ISK 4,000 million for Svartsengi, negative revaluation ISK 4,000 million for Reykjanes and no revaluation was recognized for Brú. Fair value of the power plants was determined using the discounted cash flow method. The discount rate was 10.43% for Svartsengi, 10.78% for Reykjanes and 8.98% for Brú. The cash flow was projected using estimates for the next nineteen years and expected future value calculated for the years thereafter. Projections and estimates are based on historical knowledge and data on the generation development in the area. The calculations were performed by the HS Orka finance division and are categorised as Level 3 fair value hierarchy.

	Power plants	Other operating assets	Total
Historical cost			
Balance at 1 January 2021	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
Additions during the year	990.214	101.340	1.091.553
Transferred from operating assets under construction	11.910.045	0	11.910.045
Transferred to operating assets under construction	(180.198)	0	(180.198)
Depreciation adjustments due to revaluation	(9.343.853)	0	(9.343.853)
Eliminated on disposal	(148.111)	(81.971)	(230.082)
Lease assets	698.603	0	698.603
Balance at 31 December 2022	54.285.741	2.195.657	56.481.398
Depreciation			
Balance at 1 January 2021	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
Depreciation for the year	2.454.379	82.029	2.536.408
Eliminated on disposal	(146.736)	(76.498)	(223.234)
Depreciation adjustments due to revaluation	(9.343.853)	0	(9.343.853)
Balance at 31 December 2022	0	447.841	447.841
Net book value			
Book value at 1 January 2021	44.473.125	1.758.335	46.231.460
Book value at 31 December 2021	43.322.831	1.733.978	45.056.809
Book value at 31 December 2022	54.285.741	1.747.816	56.033.557

Notes to the Financial Statements

14. Operating assets, contd.

Net book value without revaluation

1 January 2021	30.506.361	1.699.367	32.205.728
31 December 2021	30.288.675	1.677.167	31.965.842
31 December 2022	42.116.783	1.693.163	43.809.946
Depreciation rates	2-5%	5-20%	

Other operating assets include capitalized land and buildings with the carrying amount of ISK 1,236 million (2021: ISK 1,251 million).

Rateable value and insurance value

Rateable value of the Company's buildings amounted to ISK 4,117 million at year-end 2022 (2021: ISK 3,998 million) and land measured at rateable value amounted to ISK 3,386 million (2021: ISK 3,025 million). Insurance value of the Company's assets amounted to ISK 59,353 million (2021: ISK 61,518 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 38, Related parties.

Machine breakdown

In May 2021 a 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 2022.

15. Operating assets under construction

Operating assets under construction are specified as follows:

Net book value at 1 January 2021	3.906.076
Additions during the year	3.583.673
Net book value at 31 December 2021	7.489.750
Additions during the year	5.802.050
Reykjanes power plant unit 4 (REY4) transferred to Operating assets	(11.910.045)
Transferred from operating assets	180.198
Net book value at 31 December 2022	1.561.953

Operating assets under construction at the end of the year 2022 represent mainly capitalized cost related to the Svartsengi unit 7.

With all necessary permits obtained, HS Orka broke ground in December 2022 on the 22 MW modernisation and expansion of the Svartsengi power plant allowing the Company to decommission older and less efficient units of power plants 3 and 4 and to replace with a single and more efficient unit in a new power plant 7. This first phase of the Svartsengi 7 project has been in development since 2018. The current production does not require drilling additional wells and will allow for further optimisation of resources in Svartsengi in the future.

Notes to the Financial Statements

16. Intangible assets

	Software	Development costs	Total
Historical cost			
Balance at 1 January 2021	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
Additions during the year	15.684	22.555	38.239
Balance at 31 December 2022	398.111	1.562.355	1.960.465
Amortization			
Balance at 1 January 2021	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
Amortization for the year	9.045	0	9.045
Balance at 31 December 2022	333.460	146.241	479.701
Net book value			
Net book value at 31 December 2021	58.013	1.393.558	1.451.573
Net book value at 31 December 2022	64.651	1.416.114	1.480.767
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 2022 The Icelandic parliament accepted “Rammaáætlun III” 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 2022 ISK 683 million (2021 year end ISK 683 million).

17. Investments in associates and subsidiaries

Investments in associates and subsidiaries are as follows:

Shares in associates and subsidiaries	Share	Carrying amount	
		31.12.2022	31.12.2021
DMM lausnir ehf., Iceland	27,20%	11.970	11.536
Suðurorka ehf., Iceland	50,00%	0	0
Heimsping 2020 ehf., Iceland	33,33%	0	0
HS Orkurannsóknir ehf., Iceland	100,00%	500	500
VesturVerk ehf., Iceland	80,49%	588.293	590.323
		<u>600.762</u>	<u>602.359</u>

Notes to the Financial Statements

17. Investments in associates and subsidiaries, contd.

	2022	2021
Balance at beginning of year	602.359	606.058
Share of loss	(1.597)	(1.271)
	<u>(1.597)</u>	<u>(1.271)</u>
Dividends received	0	(2.428)
Balance at year end	<u>600.762</u>	<u>602.359</u>

Heimsping 2020 ehf. is scheduled to be voluntary dissolved in the year 2023.

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

	2022	2021
Revenues	988	1.654
Profit or loss and total comprehensive loss	(2.879)	(1.442)
Non-current assets	906.943	888.162
Current assets	9.883	580
Non-current liabilities	(50.861)	(51.659)
Current liabilities	(135.068)	(103.665)
Net assets	730.896	733.419
Share of HS Orka 80,49%	588.293	590.323
Share of loss during the year	(2.317)	(1.447)

18. Investments in other companies

	Share	Carrying amount 31.12.2022	Share	Carrying amount 31.12.2021
Keilir ehf., Iceland	0,02%	0	0,02%	0
Íslensk nýorka ehf., Iceland	8,36%	14.075	8,14%	12.575
Ölfus Cluster þekkingarsetur ses.		1.000		1.000
		<u>15.075</u>		<u>13.575</u>

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

Notes to the Financial Statements

19. Trade and other receivables

Trade and other receivables are specified as follows:

	2022	2021
Trade receivables	1.423.416	1.289.676
Allowance for bad debt	(31.767)	(31.767)
Total trade receivables	1.391.649	1.257.909
Other receivables	10.711	17.993
Receivables (insurance claim)	0	414.801
Receivables from subsidiary	131.280	102.205
	<u>1.533.640</u>	<u>1.792.908</u>

20. Cash and cash equivalents

Cash and cash equivalents are as follows:

	2022	2021
Bank balances	6.381.226	1.359.394
	<u>6.381.226</u>	<u>1.359.394</u>

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in note 32.

21. Equity

Issued share capital, as stipulated in the Company's Articles of Association, amounted to ISK 6,561,510 (2021: ISK 6,766,760). 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.

On an extraordinary shareholders meeting held on 1 September 2022, 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 205,250 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 10.13 million in cash (equivalent to ISK 1,429 million). The share capital was reduced by ISK 205,250 of nominal value or 205,250 shares, and was after the reduction ISK 6,561,510.

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.

Notes to the Financial Statements

21. Equity, contd.

Other reserves

Other reserves 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 2022 is nil (31.12.2021: 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 2022 no dividend was distributed to shareholders (2021: No dividend distributed). The Board of Directors propose that no dividend to be paid in the year 2023.

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 30, 32 and 33.

	2022	2021
Total interest bearing debt and borrowings 1 January	20.873.796	15.811.647
New long-term loans and borrowings	2.979.690	4.562.250
Capitalized borrowing cost	(34.055)	(57.724)
Repayment of long-term loans and borrowings	(15.375)	(15.375)
Changes related to financing cash flows	2.930.260	4.489.151
Currency exchange difference	1.892.070	403.640
Accrued effective interests on long-term loan	213.116	169.359
Other liability related changes	2.105.186	572.999
Total interest bearing debt and borrowings 31 December	25.909.242	20.873.796
	31.12.2022	31.12.2021
Secured bank loans	25.909.242	20.873.796
Total interest bearing debt and borrowings	25.909.242	20.873.796
Current maturities of secured bank loans	15.375	15.375
Current debt	15.375	15.375
Non current debt	25.893.868	20.858.422

Notes to the Financial Statements

22. Loans and borrowings, contd.

Loans in foreign currency:	Final due date	Weighted average interest rate	31.12.2022	31.12.2021
			Carrying amount	Carrying amount
Loans in USD	2025	4,75%	25.770.872	20.720.051
			<u>25.770.872</u>	<u>20.720.051</u>
Loans in ISK	2031	4,95%	138.371	153.745
			<u>138.371</u>	<u>153.745</u>
Total interest-bearing loans and borrowings.....			<u>25.909.242</u>	<u>20.873.796</u>

Annual maturities of loans and borrowings are as follows:	31.12.2022	31.12.2021
Year 2023/2022	15.375	15.375
Year 2024/2023	15.375	15.375
Year 2025/2024	25.786.246	15.375
Year 2026/2025	15.375	20.735.426
Year 2027/2026	15.375	15.375
Subsequent	61.498	76.873
	<u>25.909.242</u>	<u>20.873.796</u>

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 2022 USD 83 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.

In November 2022 HS Orka secured a new USD 62 million capex increase facility provided by two European banks. The facility matures at the same time as the other facilities in February 2025 and contains financial covenants on leverage ratio and interest coverage. Drawdowns on the capex increase 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 capex increase facility is undrawn.

Notes to the Financial Statements

23. Subordinated shareholder loan

A USD 38 million subordinated and unsecured shareholder loan was provided to HS Orka in November 2022. The shareholder loan has a term of 7 years and carries a fixed rate of 10.9% per annum, interest will accrue until the principal amount and interest is paid in full at the maturity date.

The shareholder loan is fully drawn and available on Company accounts to be utilised pro rata with the capex increase facility. The balance of the shareholder loan is recorded under cash and cash equivalents.

	2022
New long-term subordinated shareholder loan	5.485.300
Changes related to financing cash flows	5.485.300
Currency exchange difference	(87.752)
Accrued effective interests on long-term loan	65.342
Other liability related changes	(22.410)
Total subordinated shareholder loan 31 December	<u>5.462.890</u>

24. Pension obligations

	2022	2021
Pension commitment at 1 January	2.852.000	2.468.000
Contribution during the year	(147.877)	(142.250)
Current service costs	3.089	4.244
Interest expenses	54.229	48.520
Actuarial changes charged to other comprehensive income	169.559	473.486
Pension commitment at 31 December	<u>2.931.000</u>	<u>2.852.000</u>

Pension obligations are as follows:

The pension fund for State employees	1.502.528	1.451.537
The pension fund for Municipality of Hafnarfjörður employees	779.592	777.049
The pension fund for Municipality of Westman Islands employees	648.880	623.414
	<u>2.931.000</u>	<u>2.852.000</u>

Notes to the Financial Statements

24. Pension obligations, contd.

According to Actuaries' and Brú Pension Fund's assessment, the Company's accrued pension obligations amounted at year end 2022 to ISK 2,931 million (2021: ISK 2,852 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 general salaries increase, changes in achieved rights and effect of interest for present value calculations.

25. Deferred tax liability

Movement in deferred tax liability is specified as follows:

	2022	2021
Balance at beginning of year	3.395.984	2.979.174
Changes recognized in profit or loss	17.756	563.545
Changes recognized in other comprehensive income	(33.912)	(94.697)
Tax payable	(139.468)	(52.037)
Other items	4.530	0
Balance at year end	3.244.890	3.395.984

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

	31.12.2022	31.12.2021
Operating and intangible assets	4.052.545	3.845.434
Inventories and other items	(9.581)	(2.904)
Trade and other receivables	7.547	63.950
Pension obligation	(586.200)	(570.400)
Derivatives	193.664	106.780
Lease liability	(154.195)	(27.279)
Deferred foreign exchange difference	(265.404)	(19.595)
Other items	6.514	0
	3.244.890	3.395.984

Notes to the Financial Statements

26. Leases

The Company has leases for power plant, properties and land. These leases have terms of between 2 and 60 years. In 2022, the Company entered into a lease for a power plant which has a term of 2 years. The carrying amount recognised as right-of-use asset and lease liability amounted to ISK 680 million.

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

	2022	2021
As at 1 January	136.396	98.736
Additions	686.131	35.122
Non-cash additions due to increases in variable lease payments	12.472	7.836
Payments	(64.025)	(5.298)
As at 31 December	<u>770.975</u>	<u>136.396</u>
Current	317.508	10.659
Non-current	453.467	125.737
	<u>770.975</u>	<u>136.396</u>

The maturity analysis of the lease commitment is presented in in Note 30, Liquidity risk.

Additions to the right-of-use assets and lease commitment during the year 2022 amounted to ISK 686 million (2021: 35 million). The Company also had non-cash additions to right-of-use assets and lease commitment of ISK 12 million (2021: ISK 8 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:

	2022	2021
Variable payments linked to the Icelandic consumer price index	87.948	9.052
Other variable payments	2.893	2.467
	<u>90.841</u>	<u>11.519</u>

Amounts recognised in profit or loss:

	2022	2021
Depreciation expense on right-of-use assets	113.983	7.004
Interest expense on lease liabilities	26.817	6.694
	<u>140.800</u>	<u>13.698</u>

Notes to the Financial Statements

27. Trade and other payables

Trade and other payables are as follows:

	31.12.2022	31.12.2021
Trade payables	1.528.430	1.173.207
Trade payables due to operating assets under construction	228.640	661.466
Other payables	180.480	148.125
	<u>1.937.550</u>	<u>1.982.798</u>

The Company's exposure to liquidity and currency risk related to trade and other payables, see notes 30 and 33.

28. 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 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.

29. 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.

Notes to the Financial Statements

29. Credit risk, contd.

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. The Company has a policy to hold cash only with reputable banking institutions.

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:

	31.12.2022	31.12.2021
Trade receivables	1.359.882	1.226.142
Other receivables	141.991	534.999
Cash and cash equivalents	6.381.226	1.359.394
	<u>7.883.099</u>	<u>3.152.302</u>

Age debtor analysis and loss allowance

	31.12.2022		31.12.2021	
	Gross value	Loss allowance	Gross value	Loss allowance
Not past due	1.400.413	24.465	1.253.206	17.959
Past due 0 - 30 days	9.317	600	9.095	838
Past due 31 - 60 days	6.028	2.516	2.613	510
Past due 61 - 90 days	4.198	1.056	11.333	1.717
Past due more than 90 days	3.460	3.131	13.429	10.743
	<u>1.423.416</u>	<u>31.767</u>	<u>1.289.676</u>	<u>31.767</u>

	2022	2021
Loss allowance balance at 1 January	31.767	31.767
Changes during the year	(1.496)	7.866
Write offs	1.496	(7.866)
Loss allowance balance at 31 December	<u>31.767</u>	<u>31.767</u>

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

Notes to the Financial Statements

30. 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 2022 the Company held cash and cash equivalents in the amount of ISK 6,381 million (2021: ISK 1,359 million) of which the proceeds from the shareholder loan amount to USD 38 million (ISK 5,398 million). In addition USD 17 million (ISK 2,415 million) were undrawn on a capex facility, USD 62 million (ISK 8,806 million) were undrawn on a capex increase facility and USD 10 million (ISK 1,420 million) were undrawn on the revolving facility.

Exposure to liquidity risk

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

31 December 2022

Contractual cash flows	Carrying amount	Within 1 year	1-5 years	5+ years	Total
Loans and borrowings	(25.909.242)	(1.900.852)	(28.413.572)	(71.113)	(30.385.536)
Subordinated shareholder loan	(5.462.890)	0	0	(11.135.637)	(11.135.637)
Tax payable	(139.468)	(139.468)	0	0	(139.468)
Lease commitments	(770.975)	(366.120)	(403.885)	(248.612)	(1.018.617)
Trade and other payables ..	(1.937.550)	(1.937.550)	0	0	(1.937.550)
	<u>(34.220.125)</u>	<u>(4.343.990)</u>	<u>(28.817.457)</u>	<u>(11.455.362)</u>	<u>(44.616.809)</u>

Contractual cash flows of derivatives

Aluminium hedge	(15.023)	0	0	0	0
Interest rate swap	639.744	573.979	90.418	0	664.396
	<u>624.721</u>	<u>573.979</u>	<u>90.418</u>	<u>0</u>	<u>664.396</u>

Total contractual cash flows		<u>(3.770.011)</u>	<u>(28.727.039)</u>	<u>(11.455.362)</u>	<u>(43.952.412)</u>
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31 December 2021

Contractual cash flows	Carrying amount	Within 1 year	1-5 years	5+ years	Total
Loans and borrowings	(20.873.796)	(514.403)	(23.018.211)	(90.241)	(23.622.855)
Tax payable	(52.037)	(52.037)	0	0	(52.037)
Lease commitments	(136.396)	(17.752)	(64.971)	(228.271)	(310.994)
Trade and other payables ..	(1.982.798)	(1,982.798)	0	0	(1,982.798)
	<u>(23.045.028)</u>	<u>(2.566.990)</u>	<u>(23.083.182)</u>	<u>(318.512)</u>	<u>(25.968.684)</u>

Contractual cash flows of derivatives

Aluminium hedge	(21.280)	(48.652)	0	0	(48.652)
Interest rate swap	(41.759)	(82.800)	41.560	0	(41.240)
	<u>(63.039)</u>	<u>(131.452)</u>	<u>41.560</u>	<u>0</u>	<u>(89.892)</u>

Total contractual cash flows		<u>(2.698.441)</u>	<u>(23.041.622)</u>	<u>(318.512)</u>	<u>(26.058.576)</u>
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Contractual cash flows of derivatives are calculated based on forward prices.

Notes to the Financial Statements

31. 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.

32. 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 63% (subordinated shareholder loan included) at the end of the year (2021: 61% fixed).

Fair value of interest rate swaps

	2022	2021
Fair value of interest rate swaps at 1 January	(41.759)	(357.417)
Changes in fair value	681.503	315.658
Fair value of interest rate swaps at 31 December	<u>639.744</u>	<u>(41.759)</u>

Fair value is based on brokers quote.

Financial instruments with floating interest rates

Financial assets	6.381.226	1.359.394
Financial liabilities	(25.909.243)	(20.873.796)
Interest rate swap	14.204.000	13.038.000
	<u>(5.324.018)</u>	<u>(6.476.402)</u>

Financial instruments with fixed interest rates

Subordinated shareholder loan	(5.462.890)	0
Interest rate swap	(14.204.000)	(13.038.000)
	<u>(19.666.890)</u>	<u>(13.038.000)</u>

Cash flow sensitivity analysis for floating interest rate instruments

An increase or decrease in interest rates of 100 basis points at the reporting date would have increased (decreased) the return after tax by the following amounts. This analysis is based on the assumption that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for the year 2021.

	Profit or loss	
	100 bp increase	100 bp decrease
31.12.2022		
Financial instruments with floating interest rates	(42.592)	42.592
Cash flow sensitivity analysis, net	<u>(42.592)</u>	<u>42.592</u>
31.12.2021		
Financial instruments with floating interest rates	(51.811)	51.811
Cash flow sensitivity analysis, net	<u>(51.811)</u>	<u>51.811</u>

Notes to the Financial Statements

32. 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 2021.

	Profit or loss	
	100 bp increase	100 bp decrease
31.12.2022		
Embedded derivative in power sales contract	(5.755)	5.953
Aluminium hedge	43	(43)
Interest rate swap	67.797	(69.179)
Total	<u>62.085</u>	<u>(63.269)</u>
31.12.2021		
Embedded derivative in power sales contract	666	(863)
Aluminium hedge	30	(30)
Interest rate swap	223.036	(229.008)
Total	<u>223.732</u>	<u>(229.902)</u>

33. 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% (2021: 33%) 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:

	Assets	Liabilities
31.12.2022		
EUR	31.731	0
USD	5.978.581	31.306.138
JPY	216.387	208.490
	<u>6.226.699</u>	<u>31.514.628</u>
31.12.2021		
EUR	19.500	10.367
USD	1.427.366	20.807.175
JPY	40	0
	<u>1.446.906</u>	<u>20.817.542</u>

Notes to the Financial Statements

33. Foreign exchange risk, contd.

Exchange rates against the ISK were:	Average exchange rate		Year end exchange rate	
	2022	2021	2022	2021
EUR	142,33	150,19	151,50	147,60
USD	135,46	127,05	142,04	130,38
JPY	1,03	1,16	1,08	1,13

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 2021.

	2022	2021
EUR	(2.538)	(731)
USD	2.026.205	1.550.385
JPY	(632)	(3)

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.

34. 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 agreements fixing an aluminium price range for the period of January-December 2023. 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 2022 around 90% of 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 agreement the embedded derivative has 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.

Notes to the Financial Statements

34. Aluminium price risk, contd.

Fair value of embedded derivatives is as follows:

	2022	2021
Fair value of embedded derivatives at 1 January	596.938	(1.571.752)
Changes in fair value	(253.341)	2.168.690
Fair value of embedded derivatives at 31 December	<u>343.597</u>	<u>596.938</u>
Interest rates used for determining fair value of embedded derivative	6.1-5.3%	0.9-1.9%

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:

	2022	2021
Fair value of aluminium hedge derivatives at 1 January	(21.280)	0
Realised aluminium hedges	86.957	(338.037)
Other changes in fair value	(80.700)	316.756
Fair value of aluminium hedge derivatives at 31 December	<u>(15.023)</u>	<u>(21.280)</u>

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 2021.

	Profit or loss	
	2022	2021
Increase of 10%		
Embedded derivatives	713.435	905.529
Aluminium hedge derivatives	(54.408)	(39.012)
	<u>659.027</u>	<u>866.517</u>
Decrease of 10%		
Embedded derivatives	(713.435)	(905.529)
Aluminium hedge derivatives	48.219	21.002
	<u>(665.216)</u>	<u>(884.526)</u>

35. Classification of financial instruments

Financial assets and liabilities are classified as follows:

	31.12.2022	31.12.2021
Financial assets		
Financial assets recognised at amortised cost	7.914.866	3.152.302
Financial assets at fair value through profit or loss	358.672	610.513
	<u>8.273.537</u>	<u>3.762.815</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss	15.023	63.039
Financial liabilities measured at amortized cost	34.220.125	23.045.028
	<u>34.235.148</u>	<u>23.108.066</u>

Notes to the Financial Statements

36. 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:

	31.12.2022		31.12.2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Int. bearing long-term debt (level 3)	31.372.132	31.372.132	20.873.796	20.873.796

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:

	2022	2021
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 2022				
Operating assets	0	0	56.033.557	56.033.557
Embedded derivatives	0	343.597	0	343.597
Aluminium hedges	0	(15.023)	0	(15.023)
Other derivatives	0	639.744	0	639.744
Investments in other companies	0	0	15.075	15.075
Total	0	968.318	56.048.632	57.016.950
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

Notes to the Financial Statements

37. Capital management

The Board's policy is to maintain a strong capital base to sustain future development of the business.

The Company's Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by lower levels of borrowings. The equity ratio was 41.5% at year end 2022 (2021: 50.6%). Equity ratio if subordinated shareholder loan would be classified as equity was at year end 2022 49.4%.

38. 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 2022					
Parent entities	3.625	0	0	217	0
Subsidiaries	0	0	9.076	131.280	0
Associates	67	7.737	0	200	0
	<u>3.692</u>	<u>7.737</u>	<u>9.076</u>	<u>131.697</u>	<u>0</u>
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
	<u>2.198</u>	<u>12.182</u>	<u>6.871</u>	<u>119.385</u>	<u>1.247</u>

In 2022 HS Orka provided a loan to VesturVerk ehf. for the amount of ISK 20 million. Outstanding loan principle and accrued interest at the end of the year is ISK 131 million (2021: ISK 102 million).

39. Subsequent events

Legal

HS Orka filed a lawsuit against the Icelandic State in the year 2022 based on the grounds of illegitimate electricity supervision charges collected from 2018. In January 2023 the Ministry of Finance agreed to the Company's claim but the final figure is yet to be confirmed and settled. No claim has been recognised as a receivable on 31 December 2022.

HS Orka filed another lawsuit against the Icelandic State in the year 2022 based on the ruling of the Reykjavík District Court from 8 March 2019 in case no. E-205/2018 where HS Orka claimed penalties for lost profits from the Icelandic State on the grounds of unlawful discrimination in a tender process. The settlement of the case is in process.

On 20 April 2022 Orkuveita Reykjavíkur requested arbitration of a dispute regarding the interpretation of a provision in the power purchase agreement between Orkuveita Reykjavíkur, HS Orka on the one hand, and Norðurál on the other hand. The hearing is scheduled in December 2023, but a conclusion is not expected until 2024.

Appendix: Corporate Governance Statement, unaudited

Legislation and corporate governance

The Company complies to the Public 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 1 September 2022 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 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 funds managed by Ancala Partners Ltd and fourteen Icelandic pension funds.

Appendix: Corporate Governance Statement, unaudited

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 16 September 2022. 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 opposes 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 providing international experience 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 nominated by shareholders, elected at the Annual General Meeting for a term of one year and 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 procedure were last reviewed on 30 March 2022. Board's rules of procedure can be found on the Company's website.

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 2022 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.

Appendix: Corporate Governance Statement, unaudited

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 Arctia 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 2007 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, evaluates the work and results of the CEO.

Appendix: Corporate Governance Statement, unaudited

The Board of Directors, contd.

The communication between the Shareholders and the Board of Directors takes place at statutory shareholder meetings. General Meeting is held annually before 30 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 2022, the Board of Directors held eleven meetings with 100% attendance.

Sub-committees

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

Audit Committee

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 23 August 2022, available on the Company's website. 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, 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 2022, the Audit Committee held four meetings with 100% attendance.

Appendix: Corporate Governance Statement, unaudited

The Remuneration Committee

The Remuneration Committee (RC) is a sub-committee of the Company's Board of Directors and is appointed by 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 26 September 2022, available on the Company's website. 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 AGM 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 2022, the Remuneration Committee held seven 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 and 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.

Appendix: Corporate Governance Statement, unaudited

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 share option agreement 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

Regulatory compliance

In the year 2022, the Company has not violated any laws or regulations to any court or administrative order.

Non financial reporting, unaudited

Business model, materiality and stakeholders

HS Orka is a power 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 has power licences of 214.9 MW in total for electrical power production, of which 205 MW is for geothermal and 9.9 MW is for hydropower production. The Company also purchases power from other producers in Iceland. Produced and procured power is sold to households, private and publicly owned companies as well as to retail energy providers. HS Orka also produces hot water for heating and cold, potable water for sales to the regional distribution utility which delivers the products to neighbouring communities. Most of the households that purchase power from HS Orka are long term customers of the Company. Furthermore, HS Orka produces geothermal by-products, such as brine and steam, which it delivers and sells to companies located in the Resource Park in the vicinity of its geothermal power plants.

In 2022 the Company identified six material topics in a new materiality analysis. Each topic is assessed in terms of HS Orka's actual and potential impact, as well as its overall importance for the Company's stakeholders.

Sustainable use of natural resources

The condition and utilisation of the geothermal resource has a material impact on HS Orka's long-term performance. The Company has further increased its efforts to build knowledge on the geothermal resource. The number of employees dedicated to this task has increased from three to seven in the last three years and modelling of the resources has materially improved, both supporting the continuous review of measurement campaigns and drilling plans. The target is to ensure the sustainable use of the resource. This also assists the Company in fulfilling its reporting responsibilities and 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 2022 a training system for contractors was developed and implemented as a requirement prior to work. Efforts to build risk awareness and diligence in prevention and follow up among employees continued. An employee survey on safety culture was conducted for the third time and it revealed a marked improvement from the previous survey in 2019.

Climate issues

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

Security of power supply and related infrastructure

Any disruption of supply from HS Orka has a material impact on companies and households that are located in the vicinity of the power plants, especially on customers that get thermal energy from HS Orka. The relevant infrastructure is partly under the responsibility of HS Orka and partly under responsibility of third parties. Resources have been directed towards strengthening the maintenance of HS Orka's assets and align the organization with the goal of delivering all necessary maintenance. Clear objectives with regard to operational availability have been set. Interfaces between the infrastructure of HS Orka and that of 3rd parties is being clarified in terms of ownership and corresponding responsibility.

Non financial reporting, unaudited

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 wasted. However, the management is not aware of further circularity in the RP, that is to say that there are no known cases where a byproduct or waste of one company (apart from HS Orka) is an input for 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 companies which bring sustained long-term business. Developing circularity is thus considered a material topic which nevertheless is not entirely under the control of HS Orka. The Company is addressing this by actively seeking contact with companies in sectors which could make use of outputs of other companies in the resource park and vice versa and conducting studies to identify opportunities in this respect.

Responsible consumption and production

This material topic is addressed in various parts of the 2022 sustainability report. It encompasses activities such as the treatment of waste and more generally the Company's efforts in limiting waste in all its processes. It also involves the management of air pollution, handling of harmful substances, publishing of information about the Company's operations, and responsible procurement practices. The Company is working on clarifying requirements for its suppliers and contractors with regard to ESG and will evaluate a list of key suppliers in 2023. This material topic also has a clear reference to one of HS Orka's chosen UN Sustainable Development Goals of the same name as the topic.

A more detailed deliberation about the materiality analysis can be found in the 2022 sustainability report.

Towards the end of July 2022, an increase in seismic activity was monitored at the eruption site at Fagradalsfjall and close to Grindavík. The seismic activity led to an eruption on 3 August, when a new fissure opened about 1 km east of the main crater and about 8.5 km away from Svartsengi. The eruption was very active in the beginning but showed a rapid decline and lasted until end of August. Since then, the activity has not picked up again. The eruption did not have any negative effects on the operations at Svartsengi.

The expansion of Reykjanesvirkjun is in its final stages and towards the end of the year. On 21 December 2022, the commissioning of new low-pressure 30 MW turbine started. The project improves the utilization of existing processes by making use of previously underutilized streams. The project will be finalized in the first quarter of 2023 when safety- and final inspections have been completed.

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) and 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 committed to this project as a multi-year transition and engagement of all employees is needed for its success. 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.

Indicator: ISO 9001, 45001 and 14001 were maintained (2021: maintained certification).

Non financial reporting, unaudited

Sustainability and social responsibility – policy and focus, contd.

Natural Resource

HS Orka has been entrusted with natural resources. The Company's role is to maximise the yield and value of the resource in a sustainable, responsible, and efficient manner. Furthermore, the Company has for decades pursued and facilitated the diverse utilisation of geothermal resources with the end goal of fully utilising all by-products.

Monitoring of natural resources has undergone major changes in recent years. This has contributed to improved resource optimisation as a result of advances in research and earth sciences in general. Monitoring of the geothermal resource considers 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 2022, continued emphasis has been on 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.

Social responsibility

In 2022 HS Orka published its first sustainability report (for 2021) in accordance with the GRI standards. The standards serve as a guide for goal setting, change management and performance measurement. In 2023 the sustainability report for 2022 is published at the same time as the 2022 financial statements.

UN Sustainable Development Goals (SDG)

In 2022 HS Orka chose six SDGs to incorporate into its ESG vision and activities. Those six are #5 Gender equality, #7 Affordable and clean energy, #9 Industry, innovation, and infrastructure, #12 Responsible consumption and production, #13 Climate action and #15 Life on land.

Community involvement

HS Orka has a policy of backing local communities by supporting social projects and activities. The specific items supported vary from year to year, but the Company supports different charities depending on need and the quality of applications. Apart from support based on a process of applications the Company is also a strong backer of sports and sport teams in local communities.

Indicator: The total amount of sponsorships amounted to ISK 25.5 million in 2022 (2021: ISK 16.0 million).

Risk Management

HS Orka follows a formal risk management process based on ISO 31000 to continuously identify and manage the Company's key risks. A comprehensive management tool has been implemented which increases transparency and improves risk management for each of the Company's key processes. Risks identified are recorded in the Company's risk register where both inherent and residual risk (risk mitigation included) is scored. Owners of key-processes present the risks they manage to the process committee. The process committee reviews the identified risks and risk scoring before board review.

A priority has been kept on Health, Safety and Environment (HSE) risk identification management where programs on fatal risk and preventing controls are in focus. Furthermore, focus has been on resource optimization, i.e. to seek balance in production and long term sustainability.

Non financial reporting, unaudited

Sustainability and social responsibility – policy and focus, contd.

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 with regard to the environmental aspects of its operations. The main objectives are eliminating carbon emissions (becoming net-zero) before 2040 and reducing emissions intensity. Generally, a key focus is on actions that aim to avoid occurrences of environmental accidents in HS Orka's operations.

Indicator: ISO 14001 certification was maintained. No significant environmental accidents occurred in 2022. (2021: maintained certification).

HS Orka is working on a climate strategy to reach its goal of carbon neutrality. The key goals are to achieve 26 g CO₂/kWh in 2030 and net -zero emissions in 2040. More detailed deliberation about the climate strategy can be found in the 2022 sustainability report.

Indicator: Emission intensity was 34 g CO₂/kWh in 2022 (2021: 30.4 g CO₂/kWh). In 2022, direct emissions were 94,738 tonnes of CO₂eq and indirect emissions involving corporate flights and waste management were 89 tonnes of CO₂eq (2021: 86,700 tonnes and 75 tonnes respectively). Additionally, indirect emissions of material used for construction work were 4,002 tonnes CO₂eq.

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.

Indicator: Share of eco-friendlier vehicles – 65% in 2022 (2021: 67%).

Indicator: Share of electric and hydrogen vehicles – 32% in 2022.

Indirect emissions due to waste management and corporate flights resulting from the Company's operations increased by 15%, due to ending of international flight restrictions due to covid and the Reykjanes power plant construction work. As a mitigation effort the Company has supported projects in forestry. The goal is to sort 95% of waste by 2030.

Indicator: Waste sorting – 91% in 2022 (2021: 90%).

Non financial reporting, unaudited

Human resources and human rights

Human resources

The HS Orka Values (Dedication – Vision – Integrity) sets 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 dependent upon recruiting the right staff and minimizing the risk of losing them. This is done by creating and maintaining an interesting workplace with clear values and by paying special attention to Company culture.

HS Orka's aim is to attract and retain employees who are dedicated to working in line with the Company's values. HS Orka's human resource 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 on 16 September 2022. HS Orka has a clear gender policy in place as part of its equal opportunities policy, 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. HS Orka received acknowledgement in 2022 for gender balance from the Association of Businesswomen in Iceland (FKA).

Indicator: At the end of 2022 the percentage of female workers at HS Orka was 19% (2021: 19%).

Indicator: HS Orka maintained certification of ÍST 85:2012 in the BSI audit in 2022 (maintained in 2021).

The Company has policies, rules and frameworks regarding safety and health, victimisation, employee behaviour and performance for the benefit of the employer. The Company has a policy of zero harm, registers all incidents and keeps records on accidents and absence due to illness. In 2022, no lost time incident was recorded but there were two incidents where employees needed treatment at the emergency room.

Indicator: HS Orka maintained ISO 45001 certification in the BSI audit in 2022 (2021: maintained certification).

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.

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