# Norðurorka hf.

## Consolidated Financial Statements 2009

Norðurorka hf.
Rangárvöllum
603 Akureyri

ID. No. 550978-0169

# Contents

# Endorsement by the Board of Directors and the CEO

The Company is an energy company that produces and distributes geothermal water for heating, electricity and cold water at Akureyri and its neighbourhood. The financial statements of Norðurorka hf. contain the consolidated financial statements of the Group and its subsidiary, Fallorka ehf. During the year the average number of employees was 51 and salaries amounted to ISK 244.8 million and salary-related expenses ISK 59.9 million.

According to the income statement, net profit for the year 2009 amounted to ISK 1,198.6 million. According to the balance sheet the equity amounted to ISK 3,605.4 million at the end of 2009.

The Company's board of Directors decided to utilise an authority in the Financial Statements Act No. 3/2006 to a write-up of fixed asset according to revaluation method. The revaluation is based on estimated future cash flows and notice is also taken of estimated reconstruction cost with a notice of service life. The result of the revaluation is that book value of fixed assets increases by ISK 2,561.8 million. The effect on equity is an increase of ISK 2,226.4 million with respect to effect on income tax.

The Company's Board of Directors proposes that no dividends shall be paid to shareholders in the year 2010 and refers to the financial statements for further allocation of profit and changes in equity during the year.

The Company's share capital at year end amounted to ISK 846.7 million. At the end of the year the number of shareholders was six, unchanged from previous year. One shareholder held more than 10% of outstanding shares, Akureyrarbær, with 98.3% share at the end of the year 2009.

The Board of Directors of Norðurorka and the CEO hereby confirm the financial statements for the year 2009 with their signature.

Akureyri, 6. April 2010.

Board of Directors:

Ásgeir Magnússon
Bjarni Jónasson
Hákon Hákonarson
Anna Þóra Baldursdóttir
Kristín Sigfúsdóttir

CEO:

Franz Árnason

# Independent Auditor's Report

To the Board of Directors and Shareholders of Norðurorka hf.

We have audited the accompanying consolidated financial statements of Norðurorka hf. and its subsidiary, which comprise the report by the Board of Directors, the balance sheet as at December 31, 2009, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Icelandic Financial Statement Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the financial statements give a true and fair view of the financial position of Norðurorka hf. as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with the Financial Statement Act.

Akureyri, 6. April 2010.

***KPMG hf.***

Arnar Árnason
Þorsteinn G. Þorsteinsson

# Income Statement for the year 2009

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Operating revenue:** | | | |
| Sales | 3 | 2.199.238 | 1.979.548 |
| Gain on sale of assets | | 146 | 970 |
| | | 2.199.384 | 1.980.518 |
| **Operating expenses:** | | | |
| Energy purchase | | 523.330 | 482.568 |
| Salaries and related expenses | 4 | 260.329 | 288.153 |
| General and administrative expenses | | 321.439 | 384.747 |
| Depreciation | 8,9 | 334.813 | 321.075 |
| | | 1.439.911 | 1.476.544 |
| **Operating profit** | | 759.473 | 503.973 |
| **Finance income and expenses** | 5 | 648.374 | ( 2.882.225) |
| Share of results in associated companies | 11 | ( 30.209) | ( 154.700) |
| Profit (loss) before income tax | | 1.377.638 | ( 2.532.952) |
| Income tax | 6 | ( 179.043) | 167.288 |
| **Profit (loss) for the year** | 15 | 1.198.595 | ( 2.365.663) |
| Profit (loss) per share | | 1,42 | ( 2,80) |

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# Balance Sheet 31 December 2009

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 8 | 247.298 | 275.959 |
| Operating assets | 9 | 7.466.751 | 5.045.401 |
| Investments in associates | 11 | 53.717 | 79.614 |
| Investments in other companies | 12 | 11.725 | 14.656 |
| Non-current notes receivable | 11 | 685.300 | 0 |
| Prepayments | | 6.508 | 8.050 |
| Deferred income tax asset | 13 | 290.157 | 804.647 |
| Total non-current assets | | 8.761.457 | 6.228.328 |
| Inventories | | 76.182 | 88.122 |
| Trade receivables | 14 | 196.340 | 179.917 |
| Receivables, related companies | | 19.561 | 19.631 |
| Current maturities of notes receivable | | 0 | 28 |
| Other receivables | 11 | 565.319 | 21.250 |
| Cash and cash equivalents | | 111.585 | 7.011 |
| Total current assets | | 968.986 | 315.958 |
| **Total assets** | | 9.730.443 | 6.544.286 |
| **Equity** | | | |
| Share capital | | 846.662 | 846.662 |
| Share premium | | 268.225 | 268.225 |
| Revaluation reserve | | 2.126.189 | 0 |
| Translation reserve | | 11.026 | 0 |
| Retained earnings (accumulated deficit) | | 353.283 | ( 945.493) |
| Total equity | 15 | 3.605.385 | 169.394 |
| **Liabilities** | | | |
| Credit institutions | 16 | 5.065.391 | 5.181.307 |
| Total non-current liabilities | | 5.065.391 | 5.181.307 |
| Credit institutions | | 0 | 111.093 |
| Accounts payable | | 76.265 | 132.467 |
| Current maturities of long-term debt | 16 | 671.612 | 603.841 |
| Other current liabilities | | 311.790 | 346.184 |
| Total current liabilities | | 1.059.667 | 1.193.585 |
| Total liabilities | | 6.125.058 | 6.374.891 |
| **Total equity and liabilities** | | 9.730.443 | 6.544.286 |
| **Obligations not included in the Balance Sheet** | 20 | | |

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# Statement of Cash Flows for the year 2009

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit (loss) for the year | 15 | 1.198.595 | (2.365.663) |
| Difference between net earnings and cash from operations: | | | |
| Gain on sale of assets | | (146) | (970) |
| Gain on sale of shares | | (1.164.475) | 0 |
| Provision of shares in other companies, change | | 2.697 | 21.094 |
| Depreciation | 8,9 | 334.813 | 321.075 |
| Indexation and currency fluctuation on non-current notes and liabilities | | 343.129 | 2.447.900 |
| Effects of associates | 11 | 30.209 | 154.700 |
| Deferred tax asset, change | | 179.043 | (167.288) |
| Working capital from operations | | 923.865 | 410.847 |
| Changes in operating assets and liabilities: | | | |
| Inventories, decrease (increase) | | 11.940 | (16.427) |
| Receivables, (increase) decrease | | (4.205) | 25.292 |
| Current liabilities (decrease ) increase | | (79.583) | 223.630 |
| Changes in operating assets and liabilities | | (71.848) | 232.494 |
| Net cash provided by operating activities | | 852.017 | 643.341 |
| **Cash flows from investing activities:** | | | |
| Acquisition of operating assets | 9 | (165.790) | (527.956) |
| Proceeds from sale of operating assets | | 250 | 1.000 |
| Acquisition of subsidiaries and associates | | (82.485) | (65.759) |
| Proceeds from sale of shares in associated companies | 11 | 1.254.000 | 0 |
| Acquisition of other companies | | (1.000) | 0 |
| Proceeds from sale of shares in other companies | | 910 | 9.706 |
| Non-current notes receivable, change | | (689.672) | 332 |
| Receivables, change | | (557.746) | (2.954) |
| Net cash used in investing activities | | (241.534) | (585.631) |
| **Cash from financing activities:** | | | |
| Paid in capital | | 0 | 5.000 |
| Dividends paid | | 0 | (63.425) |
| Proceeds from long-term borrowings | | 220.000 | 121.920 |
| Repayment of long-term borrowings | | (606.874) | (194.367) |
| Liabilities to related companies, change | | 3.070 | (51.247) |
| Other liabilities, change | | (122.105) | 66.105 |
| Net cash used in financing activities | | (505.909) | (116.014) |
| **Increase (decrease) in cash and cash equivalents** | | 104.575 | (58.304) |
| **Cash and cash equivalents at beginning of year** | | 7.011 | 65.314 |
| **Cash and cash equivalents at end of year** | | 111.585 | 7.011 |

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# Notes

## 1. Basis of preparation

The financial statements of Norðurorka hf. contain the consolidated financial statements of the Company and its subsidiary, Fallorka ehf. The financial statements are prepared in accordance with the Financial Statements Act and the related regulation on the presentation and substance of Financial Statements and Consolidated Financial Statements. It is based on cost accounting except that a part of the operating assets have been revalued to fair value at the revaluation day less revalued depreciation from the acquiring day of the assets. The financial statements are prepared in Icelandic krona (ISK) and the figures are presented in thousands of ISK.

Subsidiary is a company in which the Company holds controlling interest, directly or indirectly. A controlling interest exists when the Company has significant influence over the financial and operational policies of a subsidiary. The financial statements of the subsidiary are included in the Group's consolidated financial statements from the acquisition of the controlling interest until the interest is no longer held.

All material balances between the Group companies, transactions and profits created in transactions between Group companies are eliminated in the consolidated financial statements.

Associated company is a company where the Group has significant influence over the financial and operational policies but not controlling interest. The Consolidated Financial Statements include the Group's share in the net profit or loss of associated company. Should the Group's share of loss be higher than the book value of an associated company the book value is recorded at zero and further share of loss is not recorded unless the Company has granted guarantees for the associated company or financed it.

## 2. Summary of accounting policies

### a. *Foreign currency*

Assets and liabilities in foreign currencies are converted to Icelandic currency at the year-end 2009 exchange rate. Currency fluctuations on assets and liabilities are entered to the income statement.

### b. *Hedging*

The Company uses derivatives to hedge against foreign currency fluctuations on long-term debt. The performance of the hedging is entered in the income statement.

### c. *Revenue recognition*

Revenue from the sale is recognized when service has been rendered to the buyer.

Initial charges are entered as income in the income statement as they are insignificant part of the total operating revenue.

### d. *Intangible assets*

Intangible assets stem from difference of the acquisition cost of energy distribution companies and the valuation of the fixed assets of these companies. Intangible assets will be expensed over the period of ten years.

### e. *Operating assets*

Operating assets, other than utilities and real estate, are capitalized at historical cost value less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of fixed assets, until residual value is reached.

Utilities and real estate are entered at revalued value in the balance sheet, but a revaluation was performed during the year. All increase in book value from the revaluation is posted to a special revaluation reserve among equity with respect to effects on deferred income tax liability. Depreciation of the revalued book value is recognised to the income statement. Redemption of revaluation owing to depreciation is entered from the revaluation reserve to equity with respect to influence on income tax. At sale or disposal of the assets the part of the revaluation reserve which belongs to the relevant asset is posted to retained earnings.

**f.** ***Subsidiary***
Investment in a subsidiary is capitalized at a value corresponding to the Company's share in their equity, including the difference between the purchase price and the Company's share in the equity of the subsidiary at the acquisition date. The premium is entered as other intangible assets and depreciated over a period of ten to twenty years.

**g.** ***Associated companies***
Investments in associated companies are capitalized at a value corresponding to the Company's share in the equity of the associated companies taking into account the acquisition cost.

**h.** ***Investment in other companies***
Investments in other companies are entered at purchase price less provision.

**i.** ***Inventories***
Inventories of supplies are valued at purchase price.

**j.** ***Trade receivables***
Allowance has been made for doubtful trade receivables. This entry does not represent a final write-off, but only a reserve to meet possible losses, and is deducted from the appropriate balance sheet items.

**k.** ***Cash and cash equivalents***
Cash and cash equivalents consist of cash and bank deposits.

**l.** ***Impairment***
The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Impairment tests are carried out at least once a year.

Impairment loss is recognised when the book value of the asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest distinguishable asset group that generates cash, which is mostly independent from other units or unit groups. Impairment loss of cash generating units is first entered as a reduction in the book value of the relevant goodwill. Impairment loss is expensed in the income statement and later proportionally as reduction in the book value of other assets pertaining to the unit.

The recoverable amount of an asset and cash generating unit is the greater of its fair value less cost to sell or its value in use. 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 specified to the asset.

Impairment loss of goodwill is not reversed. Impairment loss of former periods of other assets is reviewed at each reporting date to determine whether there is any indication of a reduction or a cease of the impairment loss. 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 if no impairment loss had been recognised.

**m.** ***Income tax***
Income tax expense comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognised directly in equity, but in such instances the income tax is recognised in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date. Operation of cold water utility is exempt from income tax.

**m.** ***Income tax, cont.***

Deferred income tax is recognised 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. in the financial statements. 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.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The subsidiary's deferred tax asset is calculated but not entered in the financial statements due to uncertainty of its usefulness in the future. Calculated deferred tax asset of the subsidiary amounts to ISK 136.9 million at year end.

The deferred tax asset of the Parent Company is capitalized in full.

In december 2009 the Icelandic Parliament approved an increase in the income tax rate from 15% to 18% as of 1 January 2010. The change will become effective in the tax assessment of the year 2011. The effect of the increase of the tax rate on the Parent Company's deferred tax asset is an increase by the amount of ISK 104.3 million.

## 3. Sales

| Sales specify as follows: | 2009 | 2008 |
|---|---|---|
| Hot water utility | 912.944 | 853.083 |
| Cold water system | 250.969 | 203.185 |
| Electric works | 961.049 | 857.506 |
| Other operating revenue | 74.276 | 65.773 |
| | 2.199.238 | 1.979.548 |

## 4. Salaries

Salaries and related expenses are specified as follows:

| | | |
|---|---|---|
| Salaries | 244.847 | 273.308 |
| Salary-related expenses | 59.885 | 70.458 |
| Cost price of own work | ( 44.403) | ( 55.613) |
| Total salaries and related expenses | 260.329 | 288.153 |
| | | |
| Number of full time employees at year end | 51 | 54 |

Salaries and fringe benefits to the Board of Directors and the CEO of the Parent Company amounted to ISK 17.1 million for the year

## 5. Finance income and finance expenses

Finance income and finance expenses specify as follows:

| | | |
|---|---|---|
| Interest income and dividend | 8.752 | 5.605 |
| Interest expenses and indexation | ( 299.002) | ( 408.057) |
| Currency fluctuation | ( 223.154) | ( 2.458.679) |
| Gain on sale of shares | 1.164.475 | 0 |
| Provision of shares | ( 2.697) | ( 21.094) |
| Net finance income (expense) | 648.374 | ( 2.882.225) |

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## 6. Effective tax rate

Effective income tax rate is specified as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Profit (loss) before income tax | | 1.377.638 | | ( 2.532.952) |
| Income tax according to current tax rate | 15,00% | 206.646 | 15,00% | ( 379.943) |
| Effect of change in income tax rate | ( 7,57% ) | ( 104.267) | ( 4,19% ) | 106.226 |
| Investment in other companies | 5,61% | 77.218 | ( 0,32% ) | 8.002 |
| Effects of subsidiary | 0,47% | 6.460 | ( 4,20% ) | 106.308 |
| Cold water system, exempt from income tax | ( 1,29% ) | ( 17.806) | 0,31% | ( 7.883) |
| Other items | 0,78% | 10.793 | ( 0,00% ) | 0 |
| Effective tax rate | 13,00% | 179.043 | 6,60% | ( 167.288) |

## 7. Earnings (loss) per share

Earnings (loss) per share is the ratio between profit and weighted average share capital during the year and shows the profit (loss) per each ISK 1 of share capital.

| | 2009 | 2008 |
|---|---|---|
| Profit (loss) for the year | 1.198.595 | ( 2.365.663) |
| Weighted average share capital | 846.662 | 846.162 |
| Earnings (loss) per share | 1,42 | ( 2,80) |

## 8. Intangible assets

Book value of intangible assets is specified as follows:

| | |
|---|---|
| Book value 1.1.2009 | 275.959 |
| Expensed during the year | ( 28.661) |
| Book value 31.12.2009 | 247.298 |

## 9. Operating assets

Operating assets are specified as follows:

| | Hot water utility | Cold water utility | Electric works | Other assets | Total |
|---|---|---|---|---|---|
| Total value 1.1.2009 | 3.470.848 | 1.331.011 | 2.526.966 | 781.234 | 8.110.059 |
| Previously depreciated | ( 1.005.115) | ( 812.462) | ( 956.876) | ( 290.204) | ( 3.064.657) |
| Book value 1.1.2009 | 2.465.733 | 518.549 | 1.570.090 | 491.030 | 5.045.401 |
| Additions during the year | 31.354 | 28.580 | 97.881 | 7.975 | 165.790 |
| Sales during the year | 0 | 0 | 0 | ( 104) | ( 104) |
| Depreciation | ( 141.760) | ( 48.325) | ( 69.342) | ( 46.725) | ( 306.153) |
| Revaluation | 1.768.877 | 599.369 | ( 24.266) | 217.837 | 2.561.816 |
| Book value 31.12.2009 | 4.124.204 | 1.098.172 | 1.574.362 | 670.014 | 7.466.751 |
| Depreciation ratio | 2.5 - 5% | 2.% | 1.7 - 6% | 2 - 20% | |
| Estimated useful life | 20 - 40 years | 40 years | 17 - 60 years | 5 - 50 years | |

Due to construction of rural power stations the Company is entitled to a reimbursement for a part of the construction cost. Estimated refund of capitalized construction cost at year end is ISK 15.9 million, which will be entered as a reduction of the construction cost when payments will be received.

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**Revaluation of operating assets**
At year end 2009 a special revaluation was carried out on the production and distribution systems and real estate of the Group by the amount of ISK 2,561.8 million. The revaluation is recognised as an increase in equity less effect of income tax, amounting to total ISK 2,226.4 million.

In the revaluation the relevant asset groups are measured at fair value. The aforementioned increases are recognised in a revaluation reserve among equity taken into account effects of deferred income tax.

The fair value of production and distribution assets and real estate is determined on the basis of depreciated replacement value. This entails that an assessment is made on changes in the construction cost of comparable assets and both cost and accumulated depreciation are revalued in accordance with those changes.

Revalued production and distribution systems are used in operations subject to special licence and income limits are primarily based on changes in the building cost index. This is also taken into account when determining the fair value of the assets.

Revaluation is specified as follows at year-end:

| | |
|---|---|
| Revalued book value | 7.466.751 |
| Thereof effects of the revaluation | ( 2.461.636) |
| Book value without revaluation | 5.005.116 |

Impairment tests will be carried our annually in order to confirm that the carrying amounts of assets will meet estimated future cash flows of these assets.

**Rateable value and insurance value**
Insurance value, rateable value and book value of the Group's assets at year end are as follows:

| | |
|---|---|
| Insurance value of production and distribution systems | 21.967.442 |
| Book value of production and distribution systems | 6.796.738 |
| | |
| Insurance value of real estate | 1.765.997 |
| Rateable value of real estate | 698.778 |
| Rateable value of rented premises | 136.126 |
| Book value of real estate | 627.103 |
| | |
| Insurance value of liquid assets | 236.136 |
| Book value of liquid assets | 42.911 |

**10. Subsidiary**
At the end of the year the Company had one subsidiary, Fallorka ehf. which is a part of the Company's consolidated financial statements. The book value of the investment is negative by ISK 404.5 million at year end.

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## 11. Associates

At the end of the year Norðurorka hf. sold its share in Þeistareykir ehf. In the financial statements USD 10.0 million are recognised as a selling price for the share but additional payment is contingent on power production having started within twenty five years from the signing of the contract and it is not recognised in the financial statement due to uncertainty of the payment.

At year end the part of the selling price which will be paid in the year 2010, ISK 560.7 million, is posted among receivables and ISK 685.3 million among long-term securities, as this amount will be paid in the years 2019 to 2034.

Investment in associated companies is specified as follows:

| | Share | Book value | Entered in the income statement |
|---|---|---|---|
| Norak ehf., Akureyri | 33,33% | 41.615 | 9.588 |
| Tengir hf., Akureyri | 38,25% | 12.102 | 7.608 |
| Þeistareykir ehf., Húsavík | 0,00% | 0 | ( 47.405) |
| Book value 31.12.2009 | | 53.717 | ( 30.209) |

## 12. Investment in other companies

Investment in other companies specifies as follows:

| | Share | Book value |
|---|---|---|
| Hrafnabjargavirkjun hf., Laugum | 18,75% | 1.875 |
| Íslensk orka ehf., Akureyri | 29,23% | 55.944 |
| NetOrka hf., Hafnarfirði | 4,55% | 6.604 |
| Orkey ehf., Akureyri | 5,66% | 1.919 |
| Orkuvörður ehf., Akureyri | 7,37% | 20.000 |
| Stáltak hf., Reykjavík | 1,35% | 2.374 |
| | | 88.716 |
| Provision for shares in other companies | | ( 76.991) |
| Investment in other companies total | | 11.725 |

## 13. Deferred tax asset

The deferred tax asset of the Parent Company is specified as follows:

| | |
|---|---|
| Deferred tax asset at beginning of year | 804.647 |
| Effect of change in income tax rate | 104.267 |
| Revaluation change | ( 439.714) |
| Income tax for the year | ( 179.043) |
| Deferred tax asset at year end | 290.157 |

The deferred tax asset of the Parent Company is classified as follows:

| | |
|---|---|
| Intangible assets | ( 15.470) |
| Operating assets | 136.970 |
| Deferred gain on sale of shares | ( 214.209) |
| Inventories | ( 589) |
| Trade receivables | ( 84) |
| Tax loss carry-forward of the Parent Company | 361.861 |
| Deferred exchange loss | 21.678 |
| Deferred tax asset at year end | 290.157 |

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**14. Trade receivables**

Provision for doubtful trade receivables specify as follows:

| | 2009 | 2008 |
|---|---|---|
| Provision 1.1. 2009 | 10.000 | 8.600 |
| Bad debts during the year | ( 15.285) | ( 7.281) |
| Increase in provision recorded as expense | 18.285 | 8.681 |
| Provision 31.12. 2009 | 13.000 | 10.000 |

**15. Equity**

Total share capital at year end amounted to ISK 846.7 million according to the Company's articles of association. Each share of one ISK in the Company carries one vote.

Changes in equity are as follows:

| | Share capital | Share premium | Revaluation reserve | Translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Equity 1.1.2009 | 846.662 | 268.225 | 0 | 0 | ( 945.493) | 169.394 |
| Revaluation of operating assets | 0 | 0 | 2.561.816 | 0 | 0 | 2.561.816 |
| Income tax of revaluation | 0 | 0 | ( 335.447) | 0 | 0 | ( 335.447) |
| Depreciation of revaluation | 0 | 0 | ( 100.181) | 0 | 100.181 | 0 |
| Translation reserve | 0 | 0 | 0 | 11.026 | 0 | 11.026 |
| Profit for the year | 0 | 0 | 0 | 0 | 1.198.595 | 1.198.595 |
| Equity 31.12.2009 | 846.662 | 268.225 | 2.126.189 | 11.026 | 353.283 | 3.605.385 |

**16. Loans and borrowings**

Non-current liabilties:

| | |
|---|---|
| Loans in foreign currencies: | |
| Loans in CAD | 62.592 |
| Loans in CHF | 543.749 |
| Loans in EUR | 3.186.191 |
| Loans in GBP | 38.067 |
| Loans in JPY | 412.034 |
| Loans in SEK | 30.243 |
| Loans in USD | 146.685 |
| | 4.419.560 |
| Loans in domestic currency | 1.317.443 |
| Total non-current loans and borrowings including current maturities | 5.737.003 |
| Current maturities | ( 671.612) |
| Total non-current loans and borrowings | 5.065.391 |

Annual maturities of non-current loans are as follows:

| | |
|---|---|
| Year 2010 | 671.612 |
| Year 2011 | 603.023 |
| Year 2012 | 584.726 |
| Year 2013 | 1.531.574 |
| Year 2014 | 551.529 |
| Subsequent years | 1.794.539 |
| Total non-current loans and borrowings including current maturities | 5.737.003 |

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**17. Subordinated loan**

Among non-current loans are bonds payable by the amount of ISK 20.0 million by a subordinated title. The bonds have a maturity date in the year 2011 and are only to be paid if the profitability of Reykjaveita is at least 6.5%. The bonds are unindexed and carry no interest.

**18. Derivatives**

The Company has entered into derivative contracts with financial institutions to limit its risk regarding currency and interest rates. These contracts are related to the Company's debt structure. The status of the contracts at year end 2009 is negative by ISK 159.1 million and this amount is entered as a liability in the balance sheet. During the year 2009 the Company's contracts were closed and the bank is making claim on the Company for ISK 184.6 million and also penalty interest and collection fee. The Company's executives have objected to the bank's calculations and are working on an agreement with the bank on a settlement of the contracts.

**19. Taxes**

As of December 31, 2009 the Company has available as an offset against future taxable income net operating tax loss carry-forwards of ISK 2,010.3 million. Tax loss carry-forward can only be utilized to offset taxable income over the next ten years after the loss incurred. Tax loss carry-forwards is specified as follows:

| | |
|---|---|
| Loss in 2006, valid until year-end 2016 ............................................................................................ | 9.400 |
| Loss in 2008, valid until year-end 2018 ............................................................................................ | 2.000.941 |
| | 2.010.341 |

**20. Obligations not included in the Balance Sheet**

The Company has guaranteed loans towards Þeistareykir ehf. of the amount of ISK 199.8 million at year end 2009. The selling contract of the Company's share in Þeistareykir ehf. includes that the Company will continue to guarantee the loans until they have been paid in full, but if the loans fall to the guarantor to pay Landsvirkjun will overtake that guarantee.

**21. Uncertainty**

On December 20, 2006 a flood in the river Djúpadalsá, as a result of a natural catastrophe, incurred damage to both power plants at Djúpadalsvirkjun which are in the possession of the Company's subsidiary, Fallorka ehf., and roads and assets of a third party were also damaged. Damage to the power plants of Fallorka is estimated as ISK 128.0 million and the damage to the dam is not included in that figure. Uncertainty prevails of the compensation from the insurance company. The influence of this incident on the operation and financial position of the Company is therefore uncertain. Accrued damage expenses have been taken into consideration in the financial statements. Claims from a third party by the amount of ISK 11.8 million have also been put forward which have not been entered in the financial statements due to uncertainty.

On January 16, 2010 the Decision Committee of Catastrophe Insurance decided against the decision of the Board of Directors of Iceland Catastrophe Insurance, to decline to pay compensation due to the natural catastrophe in Djúpidalur in December 2006. Obligation of the Iceland Catastrophe Insurance to pay the damage claim are on the other hand not provided for in the decision. Main reason for the committee's verdict were that the flood had been caused by natural catastrophe, cf. report from the Icelandic Institute of Natural History, the assets had been insured against natural catastrophe and that Fallorka ehf. had neither on purpose or by gross negligence abolished its rights to compensation.

By a letter dated 4 February 2010 the Board of Directors of the Iceland Catastrophe Insurance announced that it had decided that compensation will not be paid for the time being. Fallorka hf. will continue to try to obtain its rights against the Iceland Catastrophe Insurance and the Board of Directors of Fallorka ehf. consider its position as fairly strong with consideration to the decision of the Decision Committee.

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**22. Ratios**

Financial ratios:

| | 2009 | 2008 |
|---|---|---|
| EBITDA | 1.094.286 | 825.049 |
| Working capital ratio | 0,91 | 0,26 |
| Equity ratio | 37,1% | 2,6% |
| Intrinsic value of share capital | 4,26 | 0,20 |

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