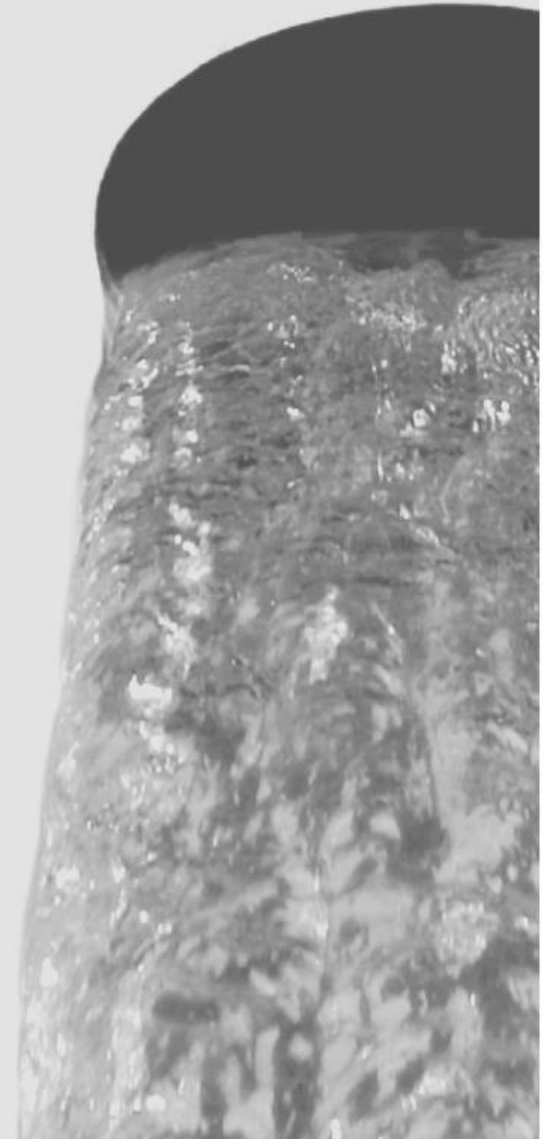




# The Plan Progress report

2015 Q1

May 26<sup>th</sup> 2015



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# 1 INTRODUCTION

An agreement between OR and its owners lead to the project “Planið” (THE PLAN) which commenced April 1<sup>st</sup> 2011. The progress and financial data are collected until March 31<sup>st</sup> 2015. The PLAN is a first priority at OR and strong emphasis is on increasing the cash flow and building up cost-awareness in the company. The dashboard shows actual figures for years 2011 – 2015 Q1 compared to the PLAN’s goals on accumulative and annual basis. The dashboard shows results in column charts and tables, coloured in green, yellow and red.

Exchange rate used in the progress report is EUR/ISK 147,25.

## 2 DASHBOARD

### 2.1 TOTAL PROGRESS OF THE PLAN

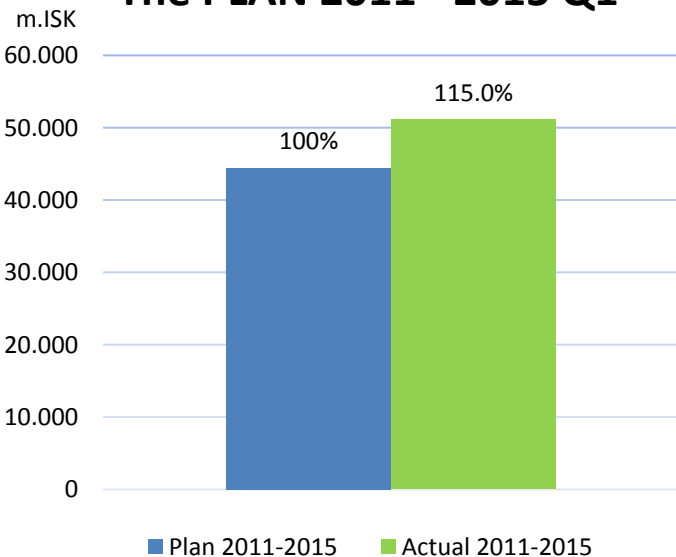
	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	595	44 460	51 263
Progress ISK	1 506	51 113	51 113

Target EUR	4.0	301.9	348.1
Progress EUR	10.2	347.1	347.1

The total progress 2015 Q1 is ISK 911 millions better than the PLAN's target figures. The best results are in postponement and reduction of investments and reduction in operating costs. Good progress is shown in most areas of the PLAN as may be seen in the table below. Individual reports follow in the next pages. Total progress of the PLAN in 2011-2015 Q1 is ISK 6,653 millions better than target or 15,3%.

Influences of external variables are positive in 2015 Q1 by ISK 35 millions and negative by ISK 1,170 millions during the period 2011-2015 Q1. Net total of "the PLAN" is therefore ISK 946 millions below target in 2015 Q1 and ISK 5,483 millions above target 2011-2015 Q1.

#### The PLAN 2011 - 2015 Q1



Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2015 Q1	2011-2015 Q1	
Reduction of investments in utility systems	15.0	10.3	✓	12.8
Sale of assets	10.0	10.0	✗	9.0
Reduction in operating costs	5.0	3.2	✓	5.0
Reduction of other investments	1.3	0.9	✓	1.4
Postponement of investments in sewerage	0.0	2.6	✓	3.1
<b>Total</b>	<b>31.3</b>	<b>27.0</b>	<b>✓</b>	<b>31.3</b>
Subordinated loans from owners	12.0	12.0	✓	12.0
Increased revenues due to higher tariffs	8.0	5.5	✓	7.8
<b>Total</b>	<b>20.0</b>	<b>17.5</b>	<b>✓</b>	<b>19.8</b>
<b>The Plan Total</b>	<b>51.3</b>	<b>44.5</b>	<b>✓</b>	<b>51.1</b>

## 2.2 EXTERNAL VARIABLES 2015 Q1

- External variables affect OR's finances. Exchange rates, premiums, aluminium price, and indices are some of the most influential factors.
- Aluminium price was unfavourable in 2015 Q1. A lower trade weighted index than expected and development of individual currencies had a negative affect on cash flow . Consumer price index, building cost index and interest rates have been favourable. Combined leading to a positive effect on cash flow by ISK 35 million above 2015 Q1 projections. Effect on cash flow in the period 2011-2015 Q1 is negative by ISK 1,170 million.

Main assumptions	2015 Q1 budget	2015 Q1 actual	Affect on cash flow m.ISK 2015Q1	Affect on cash flow m.EUR 2015	Affect on cash flow m.ISK 2011-2015 Q1	Affect on cash flow m.EUR 2011-2015 Q1
Consumer price index, change	2.5%	1.1%	116	0.8	1 772	12.0
Building cost index, change	2.5%	1,3%				
TWI, average	216.3 pts	205.6 pts	-9	-0.1	-1 341	-9.1
Aluminum price, average	\$2 778	\$1 813	-750	-5.1	-7 984	-54.2
Interest rates, average	3.93%	1.58%	678	4.6	6 383	43.3
<b>Total</b>			<b>35</b>	<b>0.2</b>	<b>-1 170</b>	<b>-7.9</b>

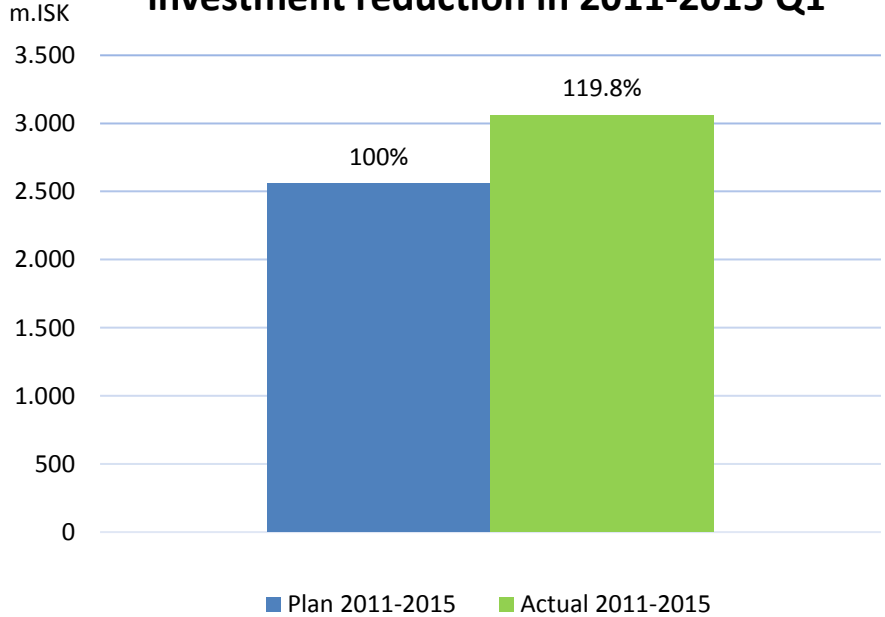
# 2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	- 345	2 555	0
Progress ISK	- 94	3 060	3 060

Target EUR	- 2.3	17.4	0.0
Progress EUR	- 0.6	20.8	20.8

Three year postponement of investments in sewerage systems will lead to a deferral of ISK 2.9 billion from 2012 and 2013 to 2015 and 2016. Total investments in sewerage over a 5 year period is therefore unchanged but will result in less financing cost over the first half of the period 2011-2016. Income of the investment is negligible as it mainly refers to big renewal projects in the western part of Iceland. This deferral is of importance due to large payments of loans in April 2013 amounting to approximately ISK 10 billion.

**Target vs. performance of sewerage investment reduction in 2011-2015 Q1**



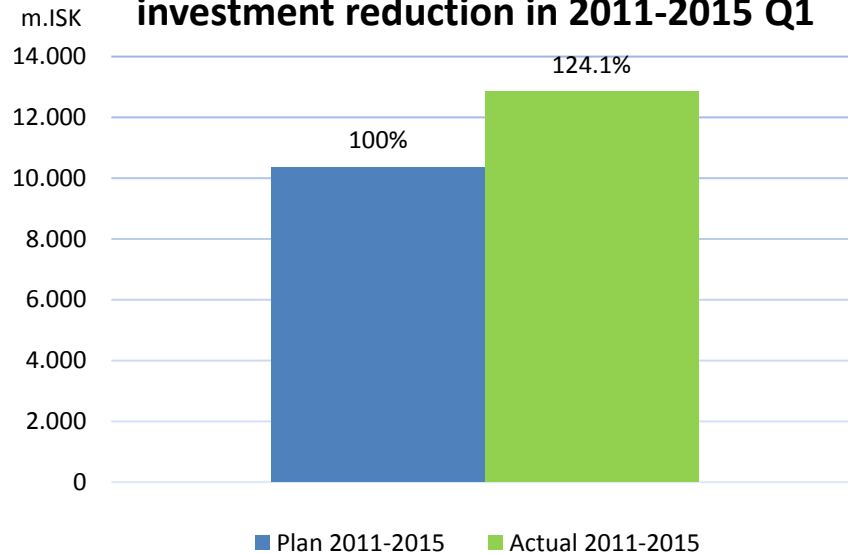
## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

- An internal investment committee prioritizes all projects. Each project categorised as priority will then have to be approved by the procurement control.
- In 2015 Q1 the target in utilities is to lower investments by ISK 415 million. The decrease in 2015 Q1 is ISK 643 million. It is ISK 228 million below target. The decrease in 2011-2015 Q1 is ISK 12.840 million. It is ISK 2,494 million above target.

	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	415	10 346	15 000
Progress ISK	643	12 840	12 840

	2015 Q1	2011-2015 Q1	2011-2016
Target EUR	2.8	70.3	101.9
Progress EUR	4.4	87.2	87.2

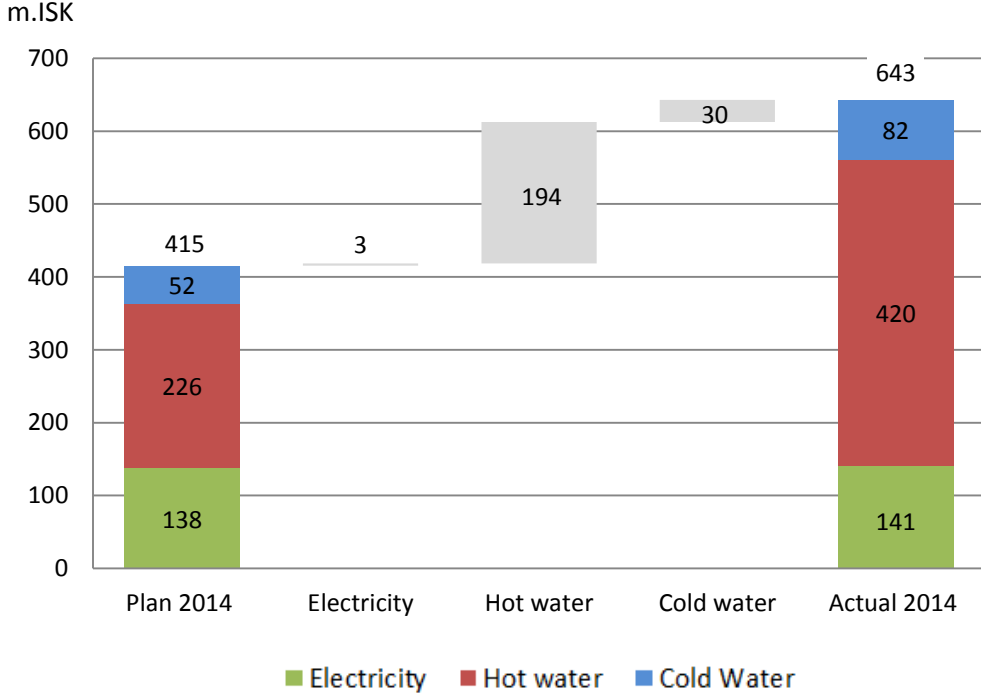
**Target vs. performance of utility investment reduction in 2011-2015 Q1**



# 2.4 Reduction of investments in utility systems cont.

- Reductions of investments in utility systems are in three segments, electric, hot- and cold water. Each segment performance has succeeded expectations in the period of the Plan 2011-2015 Q1.
- The chart shows the contribution of each segment to the reduction of investments in utility systems in 2015 Q1.

**Investments in utility segments**



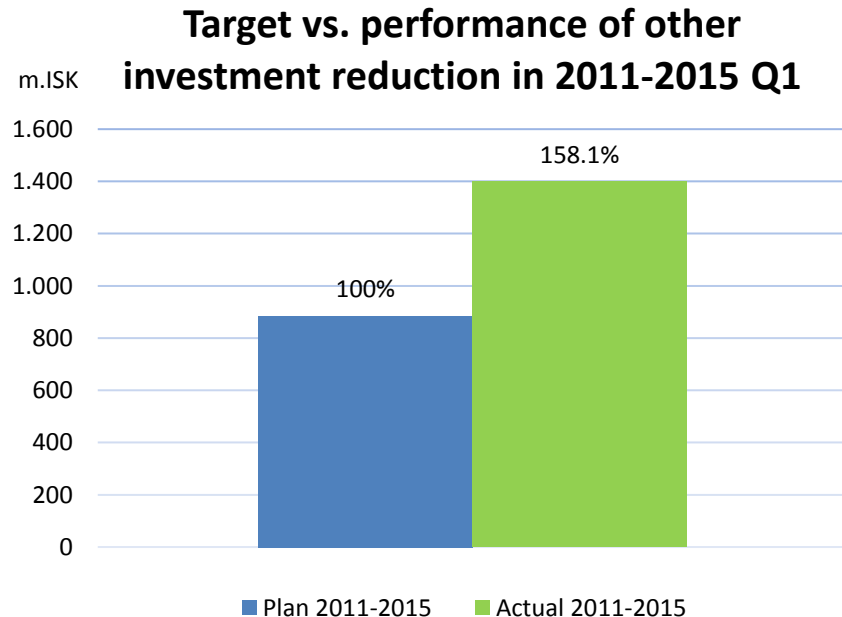


	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	34	884	1 250
Progress ISK	96	1 398	1 398

Target EUR	0.2	6.0	8.5
Progress EUR	0.7	9.5	9.5

## 2.5 REDUCTION IN OTHER INVESTMENTS

- The total target for 2015 Q1 is ISK 34 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2015 Q1 amounts to ISK 96 million which is ISK 62 million above target.
- The decrease for 2011-2015 Q1 amounts to ISK 1,398 million which surpasses target by ISK 514 million.



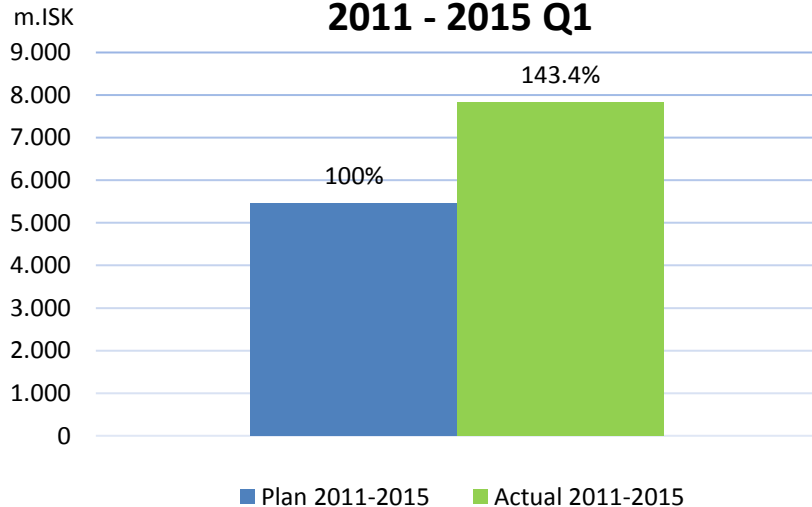
## 2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	272	5 456	8 013
Progress ISK	415	7 826	7 826

	2015 Q1	2011-2015 Q1	2011-2016
Target EUR	1.8	37.1	54.4
Progress EUR	2.8	53.1	53.1

- The target for 2015 Q1 was to raise revenues by ISK 415 million and for 2011-2015 Q1 by ISK 5,456 million by increasing tariffs. The increase in 2011-2015 Q1 is ISK 7,826 million. It is ISK 2,370 million above target.
- Tariffs are now connected to CPI and revenues are beyond target because of unexpected rise in the CPI.

### Target vs. performance - increased revenues from sewerage and hot water in 2011 - 2015 Q1

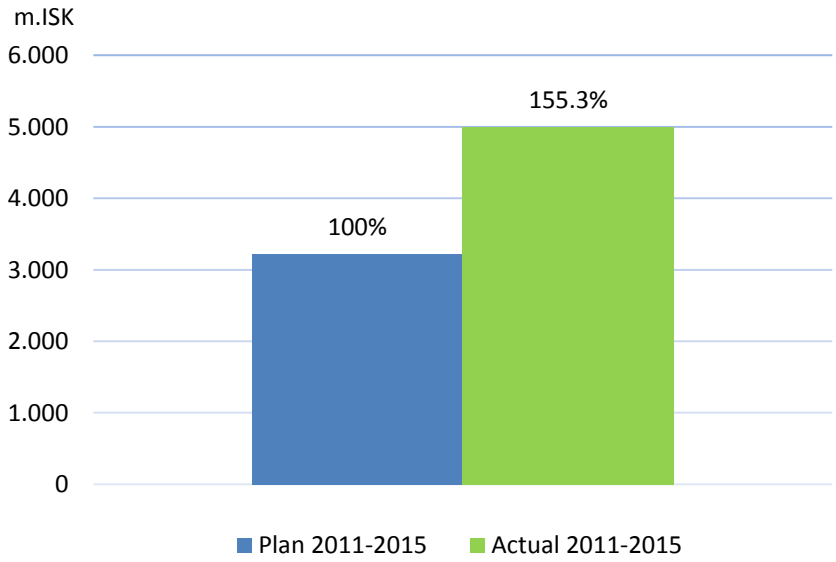


# 2.7 REDUCTION IN OPERATING COST

Amounts in millions	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	218	3 218	5 000
Progress ISK	445	4 998	4 998

Target EUR	1.5	21.9	34.0
Progress EUR	3.0	33.9	33.9

**Reduction in operating cost 2011-2015 Q1**



- The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2015 Q1 was ISK 218 million. Operation costs are ISK 227 million lower than target in 2015 Q1.
- Operation cost reduction in 2011-2015 Q1 was ISK 4,998 million or ISK 1,780 million above target.
- Pension expenses and allowance for doubtful accounts are ISK 33.4 million lower than estimated. This does not affect the cash flow.
- Strong emphasis has been on increasing employees' cost awareness in all areas of operation. Results are being realized faster than expected.

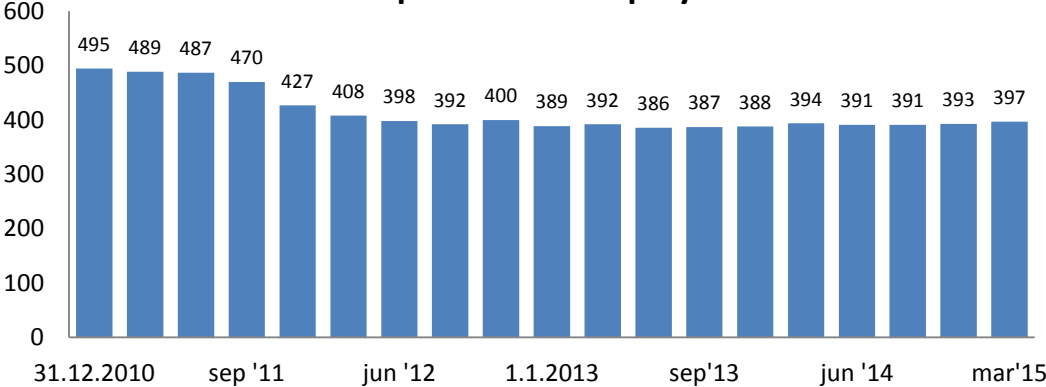


# 2.7 REDUCTION IN OPERATING COST, CONT.

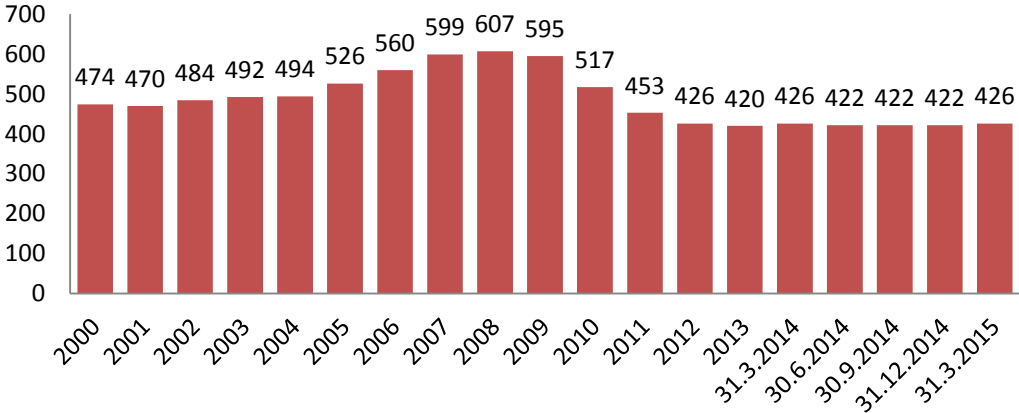
## REDUCING PERSONNEL – SALARY COST

- OR’s target for reduction of personnel was 90 in the years 2011-2016.
- The goal was accomplished by the end of February 2012.
- The number of permanent employees in consolidated OR has been reduced by 181 since 2008 when it was at its peak and the employee count now stands at 426.
- From year beginning, the number of permanent employees of OR increased by 4. At the end of March, employees were 397.
- Salary cost is ISK 260 million lower than expected.
- Positions left will not be filled by external hiring unless absolutely necessary. Employees have been transferred within OR in order to meet company’s and employee’s needs and a lot of work has been done in skills matching and key personnel analysis.

**Number of permanent employees at OR**



**Numer of permanent employees at OR group**



# 2.8 SALE OF ASSETS

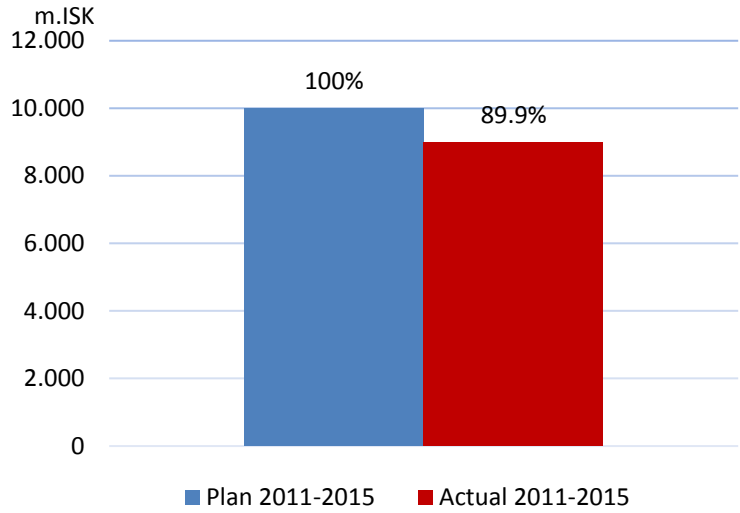
Various equipment and materials were sold for ISK 2 million

ISK millions	2015 Q1	Status
Sale of various equipment	2,0	Paid in full
<b>Total</b>	<b>2,0</b>	

	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	0	10 000	10 000
Progress ISK	2	8 990	8 990

	2015 Q1	2011-2015 Q1	2011-2016
Target EUR	0.0	67.9	67.9
Progress EUR	0.0	61.1	61.1

**Sale of assets 2011-2015 Q1**



# 2.9 SUBORDINATED LOAN FROM OWNERS

	2015 Q1	2011-2015 Q1	2011-2016
Target ISK	0	12 000	12 000
Progress ISK	0	12 000	12 000

Target EUR	0.0	77.8	77.8
Progress EUR	0.0	77.8	77.8

The owners of OR agreed to lend the company ISK 8,000 million in April 2011 and ISK 4,000 million in 2013 Q1. Reykjavik City, Akranes and Borgarbyggð municipalities have fulfilled their respective commitments.

