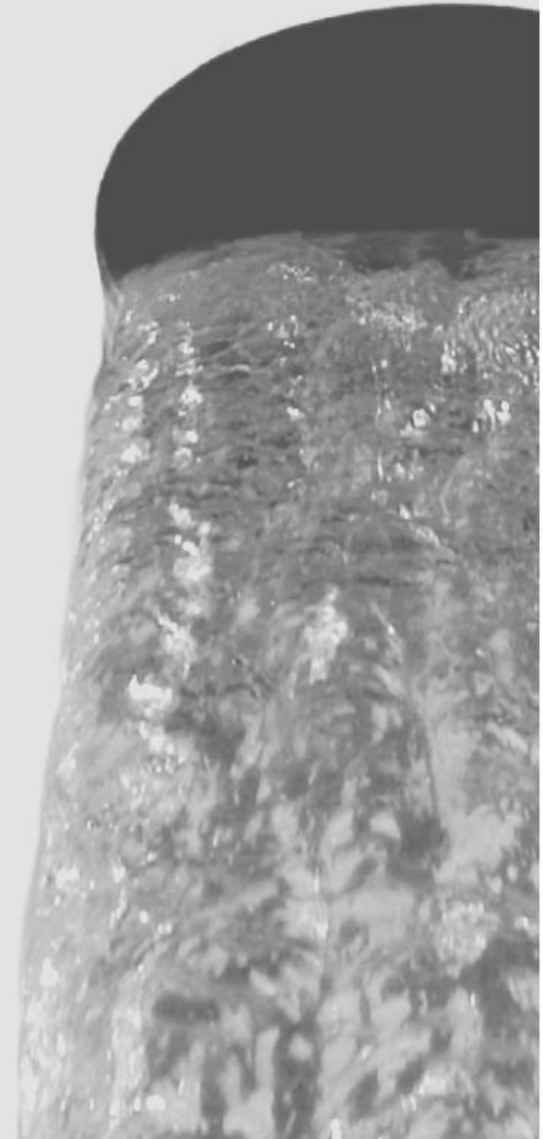




The Plan Progress report

2013 Q1

May 21st 2013



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1 INTRODUCTION

- An agreement between OR and its owners lead to the project "Planið" (THE PLAN) which commenced April 1st 2011. The progress and financial data are collected until March 31st 2012. In the table below (table 1), the actions of the PLAN are listed.
- 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 - 2013 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 159.4.

Table 1

Aðgerðir	2011	2012	2013	2014	2015	2016	Total ISK	Total EUR
Reduction of investments in utility systems	✓ 1 205	✓ 3 518	2 690	2 518	2 410	2 659	15 000	94.1
Sale of assets	✓ 1 000	✗ 2 000	5 100	1 900			10 000	62.7
Reduction in operation cost	✓ 300	✓ 900	900	900	1 000	1 000	5 000	31.4
Reduction in other investments	✓ 250	✓ 200	200	200	200	200	1 250	7.8
Postponement of investments in sewage		✓ 2 000	900		-2 000	-900	0	0.0
Total	✓ 2 755	✓ 8 618	9 790	5 518	1 610	2 959	31 250	196.0
Subordinated loans from owners	✓ 8 000		4 000				12 000	75.3
Increased revenues due to higher tariffs	✓ 1 122	✓ 1 552	1 215	1 295	1 330	1 499	8 013	50.3
Total	✓ 9 122	✓ 1 552	5 215	1 295	1 330	1 499	20 013	125.6
"PLAN" total	✓ 11 877	✓ 10 170	15 005	6 813	2 940	4 458	51 326	322.0

2 DASHBOARD

2.1 TOTAL PROGRESS OF THE PLAN

Amounts in million	2013 Q1	2011-2013 Q1	2011-2016
Target ISK	5 977	28 108	51 263
Progress ISK	6 682	30 547	30 547

Target EUR	37.5	176.3	321.6
Progress EUR	41.9	191.6	191.6

The total progress 2013 Q1 is ISK 705 millions better than the PLAN's target figures. The best results are in postponement of investments in utility systems and good progress is shown in most areas of the PLAN as may be seen in table 2. Individual reports follow in the next pages. Total progress of the PLAN in 2011-2013 Q1 is ISK 2,439 millions better than target or 8.7%.

Influences of external variables are negative in 2013 Q1 by ISK 19 millions and negative by ISK 487.0 millions during the period 2011-2013 Q1. Net total of "the PLAN" is therefore ISK 686 millions above target in 2013 Q1 and ISK 1,952 millions above target 2011-2013 Q1.

m.ISK **The PLAN 2011-2013 Q1**

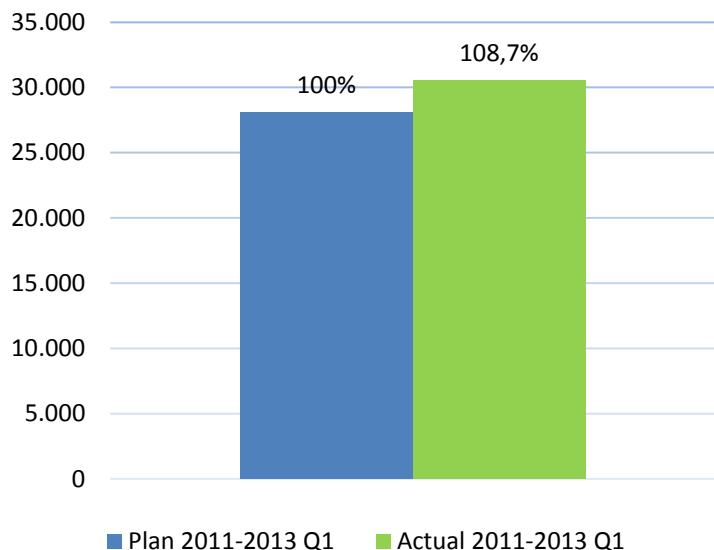


Table 2

Actions in millions	Forecast	Actual	Forecast	Actuals
	2013 Q1	2013 Q1	2013 Q1	2013 Q1
	ISK	ISK	EUR	EUR
Reduction of investments in utility systems	463	647	2.9	4.1
Sale of assets	879	963	5.5	6.0
Reduction in operating costs	197	436	1.2	2.7
Reduction of other investments	34	71	0.2	0.4
Postponement of investments in sewerage	155	158	1.0	1.0
Total	1 728	2 275	10.8	14.3
Subordinated loans from owners	4 000	4 000	25.1	25.1
Increased revenues due to higher tariffs	248	407	1.6	2.6
Total	4 248	4 407	26.6	27.6
Planið Total	5 977	6 682	37.5	41.9

Chart 1

2.2 EXTERNAL VARIABLES 2013 Q1

Table 3

Main assumptions	2013 Q1 budget	2013 Q1 actual	Affect on cash flow m.ISK 2013 Q1	Affect on cash flow m.EUR 2013 Q1	Affect on cash flow m.ISK 2011- 2013 Q1	Affect on cash flow m.EUR 2011-2013Q1
Consumer price index, change	2.20%	4.30%	242	1,5	762	4.8
Building cost index, change	2.20%	4.20%				
TWI, average	216.3 pts	229.1 pts	-75	-0.5	-542	-3.4
Aluminum price, average	\$2,708	\$2,027	-524	-3.3	-2,411	-0.6
Interest rates, average	2.98%	1.79%	338	2.1	1,704	0.0
Total			-19.0	-0.1	-487.0	-3.1

- External variables affect OR's finances. Exchange rates, premiums, aluminium price, and indices are some of the most influential factors.
- Aluminium price and trade weighted index were unfavourable in 2013 Q1. However, consumer price index, building cost index, and interest rates have been favourable, leading to a negative effect on cash flow by ISK 19 million above 2013 Q1 projections. Effect on cash flow in the period 2011-2013 Q1 is negative by ISK 487.0 million.

2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

Amounts in million	2013 Q1	2011-20123 Q1	2011-2016
Target ISK	155	2 155	0
Progress ISK	158	2 308	2 308
Target EUR	1.0	13.5	0.0
Progress EUR	1.0	14.5	14.5

Target vs. performance of sewerage investment reduction in 2011-2012

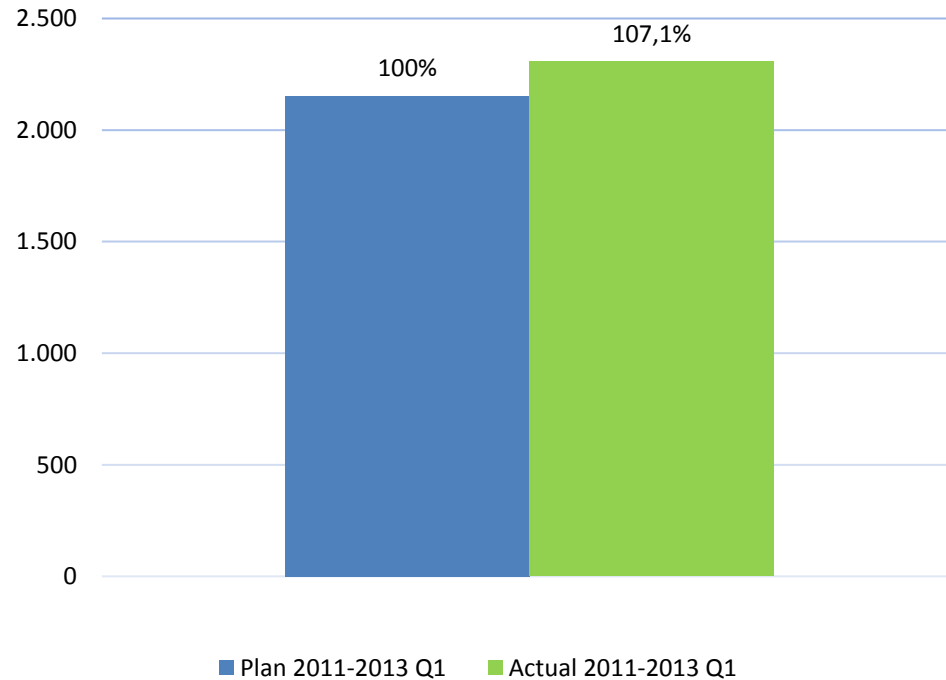


Chart 2

- 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.



2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

Amounts in million	2013 Q1	2011-2013 Q1	2011-2016
Target ISK	463	5 186	15 000
Progress ISK	647	7 280	7 280
Target EUR	2.9	32.5	94.1
Progress EUR	4.1	45.7	45.7

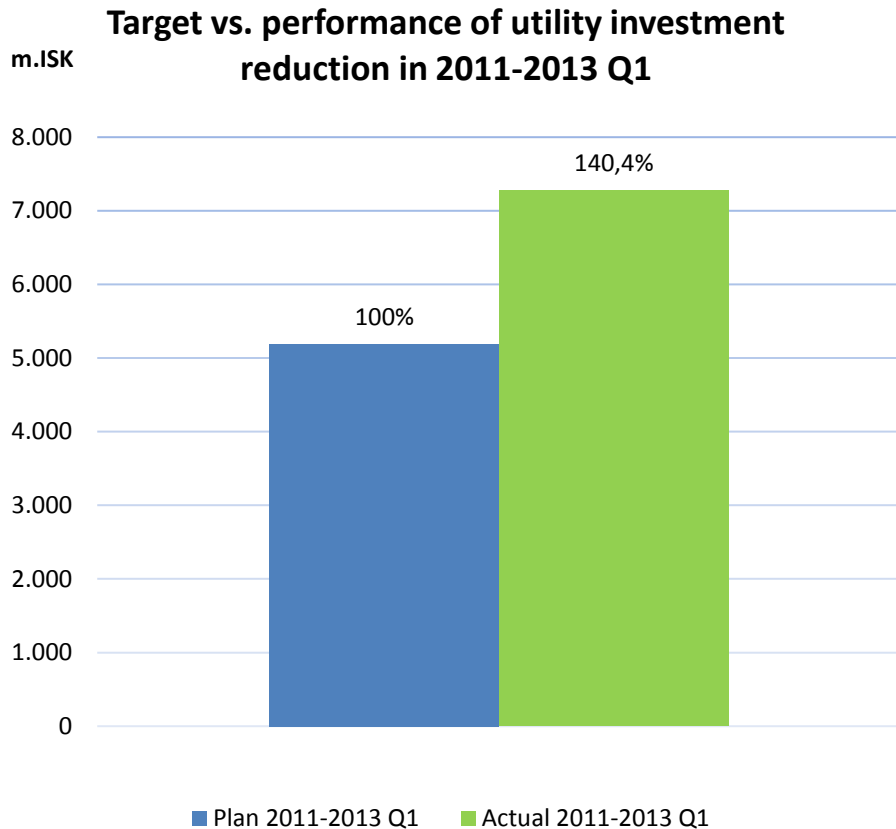


Chart 3

- An internal investment committee prioritizes all projects. Each project categorised as priority will then have to be approved by the procurement control.
- In the year 2013 the target in utilities is to lower investments by ISK 2,690 million. The decrease in 2013 Q1 is ISK 647 million. It is ISK 184 million above target. The decrease in 2011-2013 Q1 is ISK 7,280 million. It is ISK 2,094 million above target.



2.4 Reduction of investments in utility systems cont.

Investments in utility segments

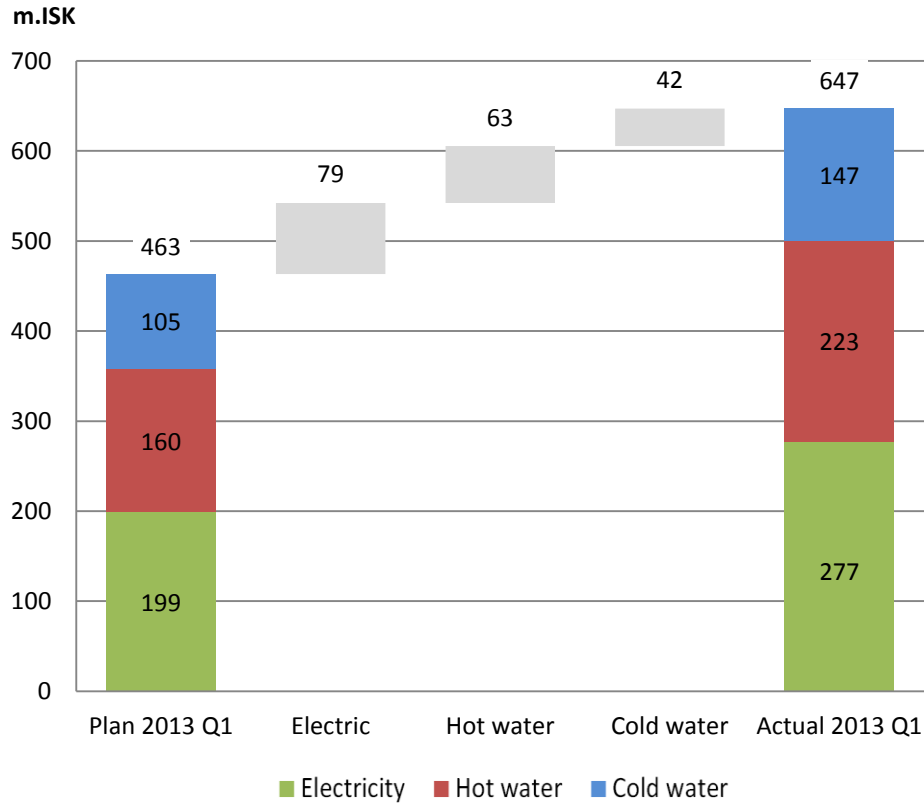


Chart 4

- Reductions of investments in utility systems are in three segments, electric, hot- and cold water. Each segment performance has succeeded expectations.
- **Chart 4** shows the contribution of each segment to the reduction of investments in utility systems.



2.5 REDUCTION IN OTHER INVESTMENTS

Amounts in million	2013 Q1	2011-2013 Q1	2011-2016
Target ISK	34	484	1 250
Progress ISK	71	864	864

Target EUR	0.2	3.0	7.8
Progress EUR	0.4	5.4	5.4

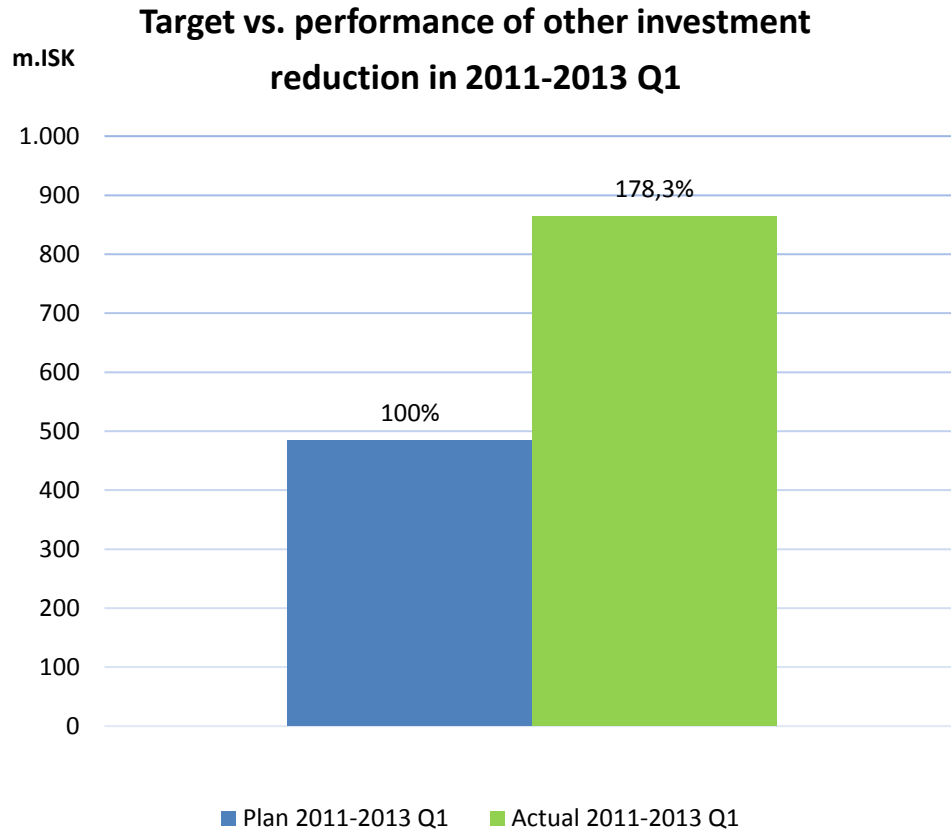


Chart 5

- The total target for 2013 Q1 is ISK 34 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2013 Q1 amounts to ISK 71 million which is ISK 37 million above target.
- The decrease for 2011-2013 Q1 amounts to ISK 864 million which surpasses target by ISK 380 million.



2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

Amounts in million	2013 Q1	2011-2013 Q1	2011-2016
Target ISK	248	2 922	8 013
Progress ISK	407	3 736	3 736
Target EUR	1,6	18,3	50,3
Progress EUR	2,6	23,4	23,4

Target vs. performance - increased revenues from sewerage and hot water in 2011 - 2013 Q1

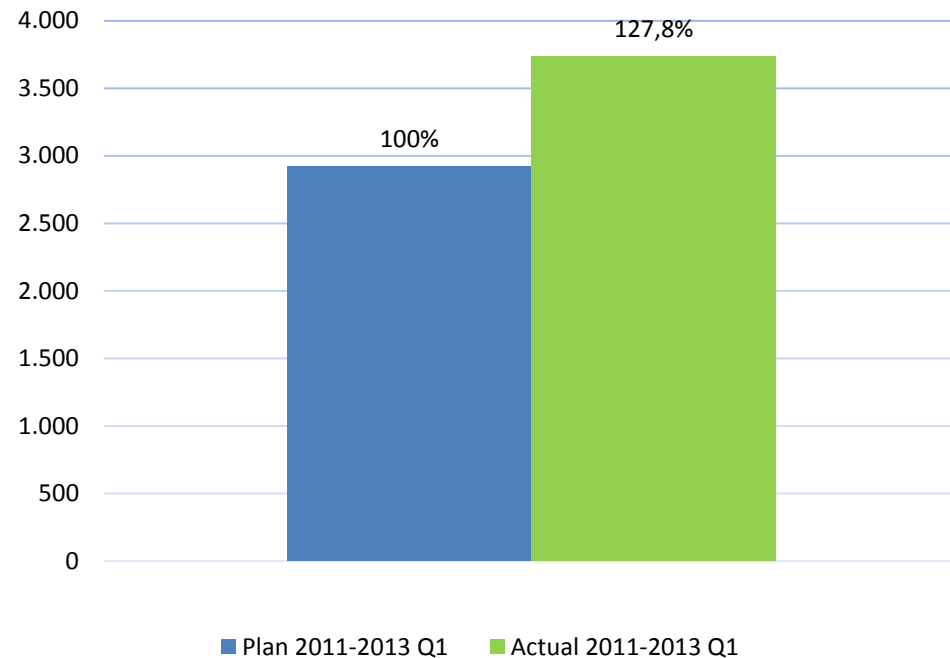


Chart 6

- The target for 2013 was to raise revenues by ISK 1,215 million and for 2011-2013 Q1 by ISK 2,922 million by increasing tariffs. The increase in 2011-2013 Q1 is ISK 3,736 million. It is ISK 814 million above target.
- Tariffs are now connected to CPI and revenues are beyond target because of unexpected rise in the CPI.



2.7 REDUCTION IN OPERATING COST

Amounts in million	2013 Q1	2011-2013 Q1	2011-2016
Target ISK	197	1 397	5 000
Progress ISK	436	2 071	2 071

Target EUR	1,2	8,8	31,4
Progress EUR	2,7	13,0	13,0

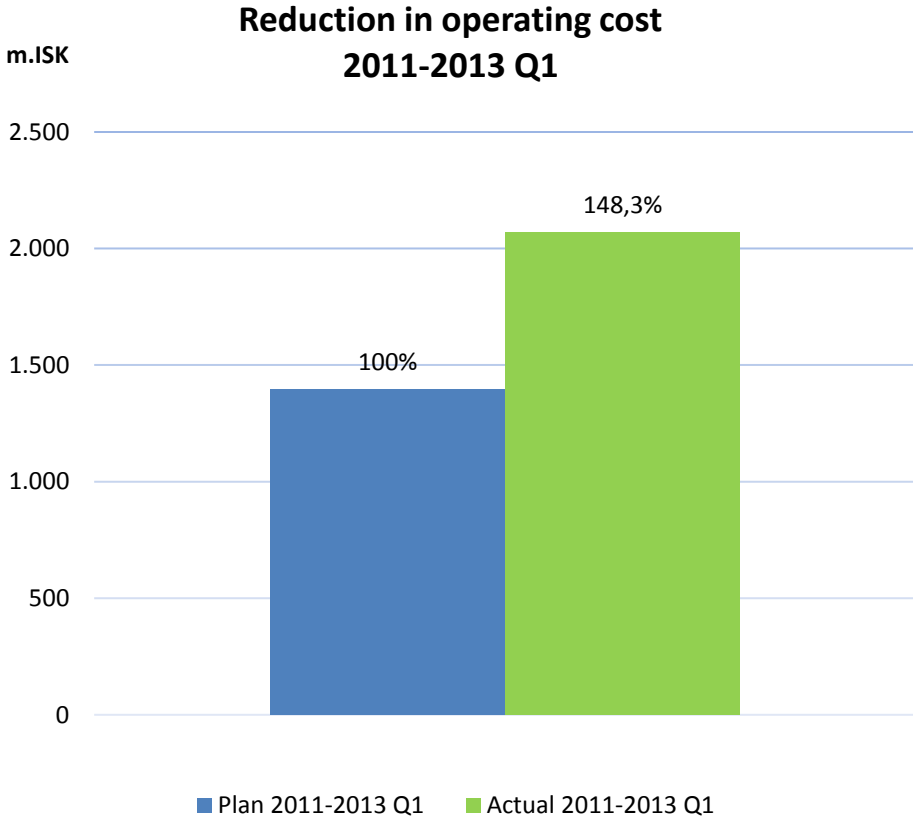


Chart 7

- The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2013 Q1 was ISK 197 million. Operation costs are ISK 239 million lower than target in 2013 Q1.
- Operation cost reduction in 2011-2013 Q1 was ISK 2,071 million or ISK 674 million above target.
- Pension expenses and allowance for doubtful accounts are ISK 2 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 183 since 2008 when it was at its peak and the employee count now stands at 424.
- In 2013 Q1, the number of permanent employees of OR reduced by 8. At the end of March, employees were 392.
- Salary cost is on target.
- 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

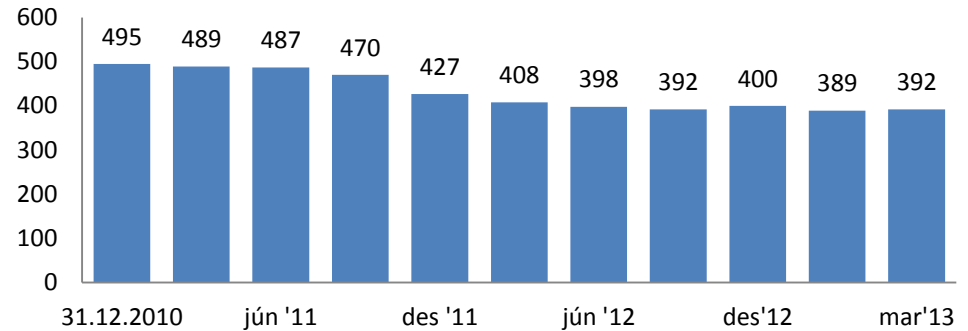


Chart 8

Numer of permanent employees at OR group

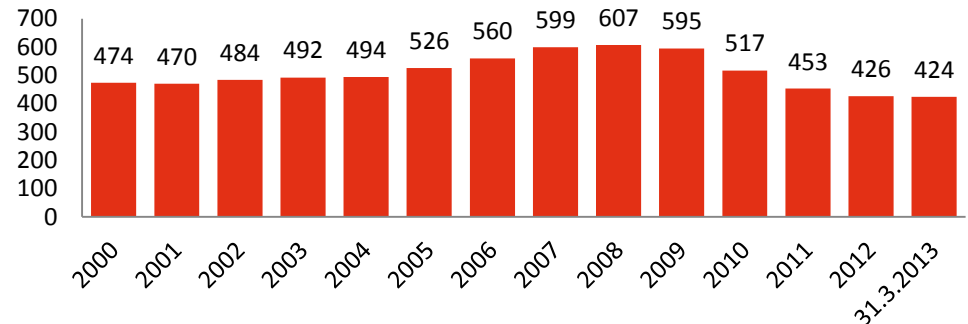


Chart 9

2.7 REDUCTION IN OPERATING COST, CONT.

CONSTRUCTION MATERIALS AND CONSULTANTS

- The cost of building materials has dropped significantly since 2009
- Reduction in construction costs in 2013 Q1 decreased by ISK 1,214 millions from 2009 Q1.

- Some of the actions OR has taken in previous years are reduction of consultancy cost. Those action have been very successful compared to Q1 of previous years.

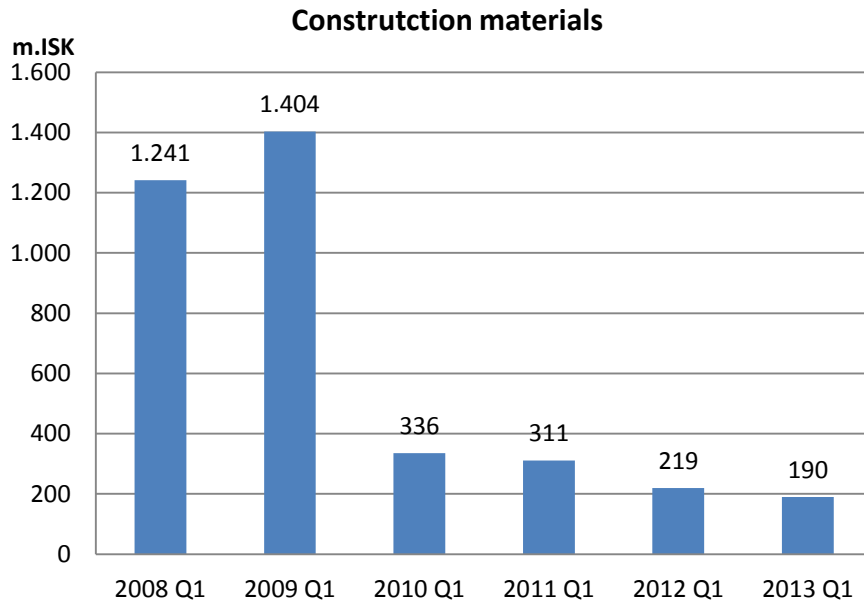


Chart 10

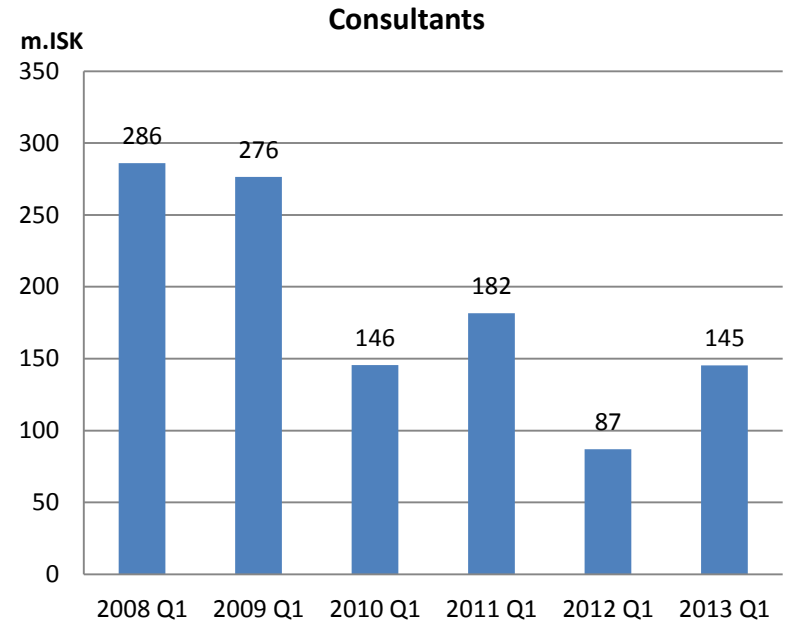


Chart 11

2.8 SALE OF ASSETS

Amounts in million	2013 Q1	2011-2013 Q1	2011-2016
Target ISK	879	3 963	10 000
Progress ISK	963	2 290	2 290
Target EUR	5.5	24.9	62.7
Progress EUR	6.0	14.4	14.4

Assets sold in 2013 Q1 amounted to ISK 963 million. Properties and real estate that are not a part of OR's core business were sold for ISK 950 million. Various equipment and materials were sold for ISK 12.7 million

Table 4

ISK millions	2013 Q1	Status
Property and real estates		
Perlan	950	Paid in full
Sale of various equipment	12.7	Paid in full
Equity in affilitates total	962.7	

2.8 SALES OF ASSETS, CONT.

- **List of other assets planned to be sold in 2013**
 - The Reykjavik landmark Perlan was sold to the City of Reykjavik in early 2013 and is paid in full.
 - Bæjarháls. An ISK 5.1 billion offer for OR headquarters has been accepted by the board and owners. The offers contains a disclaimer – yet to be removed – regarding due diligence and financing.
 - Sales process for HS Veitur utility began in Q2 2012 and is still in process
 - A price estimate for Landsnet is completed and sale prospects are under consideration.

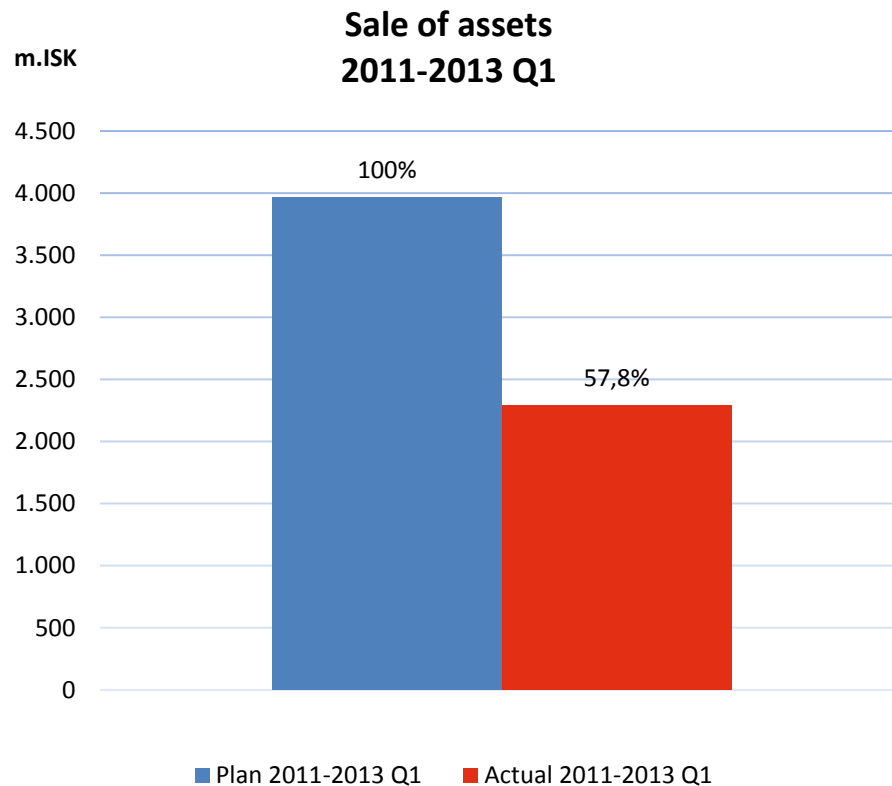


Chart 12

2.9 SUBORDINATED LOAN FROM OWNERS

Amounts in million	2013 Q1	2011-2013 Q1	2011-2016
Target ISK	4 000	12 000	12 000
Progress ISK	4 000	12 000	12 000
Target EUR	25.1	75.3	75,3
Progress EUR	25.1	75.3	75,3

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.

