

# The Plan Progress Report

2015

February 2016



# INDEX

<b>1 Introduction</b>	<b>3</b>
<b>2 Dashboard</b>	<b>4</b>
2.1 Total progress	4
2.2 External variables	5
2.3 Postponement of investments in sewerage	6
2.4 Reduction of investments in utility systems	7
2.5 Reduction of other investments	9
2.6 Increased revenues due to higher tariffs	10
2.7 Reduction in operating cost	11
2.8 Sale of assets	13
2.9 Subordinated loan from owners	14

# 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 December 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 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 141.32.

## 2 DASHBOARD

### 2.1 TOTAL PROGRESS OF THE PLAN

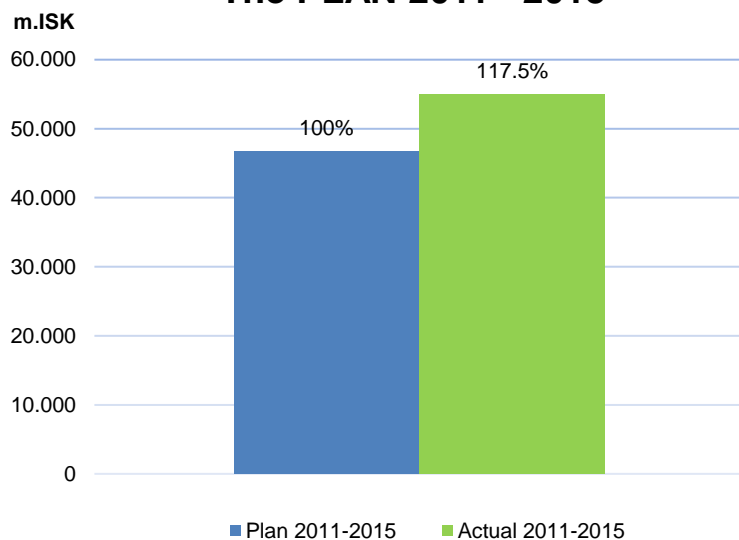
	2015	2011-2015	2011-2016
Target ISK	2 940	46 805	51 263
Progress ISK	5 383	54 989	54 989

	20.8	331.2	362.7
Target EUR	20.8	331.2	362.7
Progress EUR	38.1	389.1	389.1

The total progress 2015 is ISK 2.443 millions better than the PLAN's target figures. The best results are in postponement and reduction of investments as well as 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 is ISK 8,184 millions better than target or 17.5%.

Influences of external variables are negative in 2015 by ISK 1,240 millions and negative by ISK 2,445 millions during the period 2011-2015. Net total of "the PLAN" is therefore ISK 1,203 millions above target in 2015 and ISK 5,739 millions above target 2011-2015.

#### The PLAN 2011 - 2015



Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2015	2011-2015	
Reduction of investments in utility systems	15.0	11.6	✓	15.1
Sale of assets	10.0	10.0	✗	9.0
Reduction in operating costs	5.0	3.7	✓	6.3
Reduction of other investments	1.3	1.0	✓	1.4
Postponement of investments in sewerage	0.0	1.5	✓	2.2
<b>Total</b>	<b>31.3</b>	<b>27.8</b>	<b>✓</b>	<b>33.9</b>
Subordinated loans from owners	12.0	12.0	✓	12.0
Increased revenues due to higher tariffs	8.0	6.1	✓	9.1
<b>Total</b>	<b>20.0</b>	<b>18.1</b>	<b>✓</b>	<b>21.1</b>
<b>The Plan Total</b>	<b>51.3</b>	<b>45.9</b>	<b>✓</b>	<b>55.0</b>

## 2.2 EXTERNAL VARIABLES 2015

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. 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 negative effect on cash flow by ISK 1,240 million above 2015 projections. Effect on cash flow in the period 2011-2015 is negative by ISK 2,445 million.

Main assumptions	2015 PLAN	2015 actual	Affect on cash flow m.ISK 2015	Affect on cash flow m.EUR 2015	Affect on cash flow m.ISK 2011-2015	Affect on cash flow m.EUR 2011-2015
<b>Consumer price index, change</b>	2.5%	1.6%	407	2.9	2 063	14.6
<b>Building cost index, change</b>	2.5%	4.1%				
<b>TWI, average</b>	216.3 pts	201.0 pts	-1 442	-10.2	-2 774	-19.6
<b>Aluminum price, average</b>	\$2 790	\$1 681	-3 193	-22.6	-10 427	-73.8
<b>Interest rates, average</b>	3.93%	1.77%	2 988	21.1	8 693	61.5
<b>Total</b>			<b>-1 240</b>	<b>8.8</b>	<b>-2 445</b>	<b>-17.3</b>



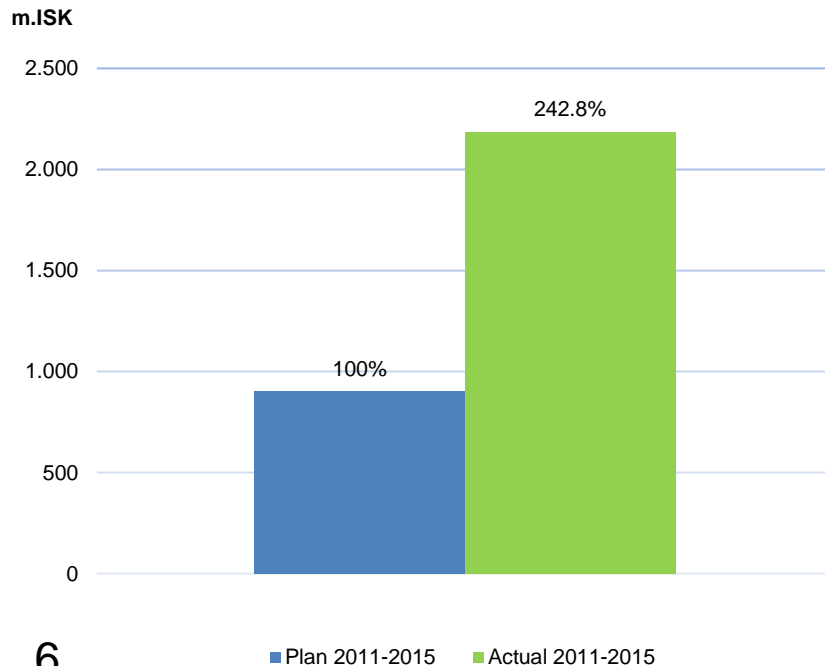
## 2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2015	2011-2015	2011-2016
Target ISK	-2 000	900	0
Progress ISK	- 969	2 185	2 185

	2015	2011-2015	2011-2016
Target EUR	- 14.2	6.4	0.0
Progress EUR	- 6.9	15.5	15.5

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



## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

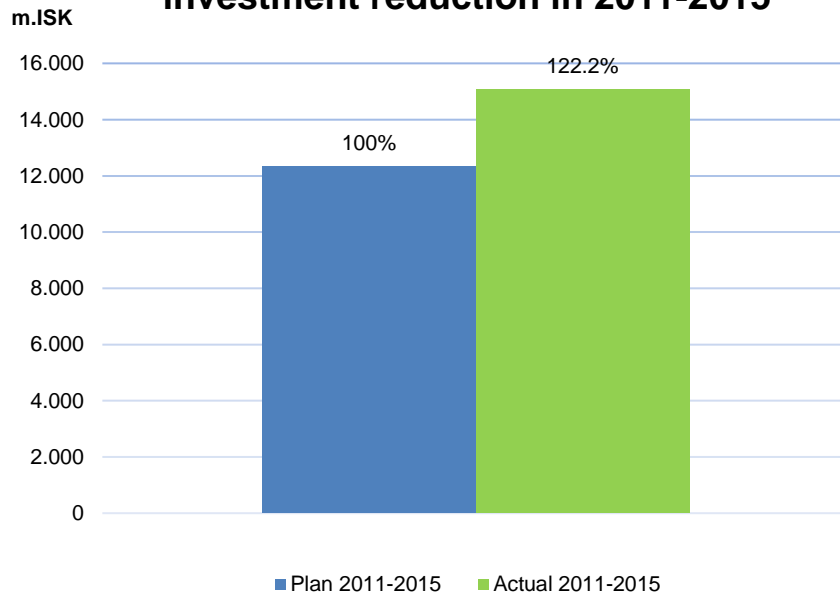
	2015	2011-2015	2011-2016
Target ISK	2 410	12 341	15 000
Progress ISK	2 882	15 079	15 079

Target EUR	17.1	87.3	106.1
Progress EUR	20.4	106.7	106.7

An internal investment committee prioritizes all projects. Each project categorised as priority will then have to be approved by the procurement control.

In 2015 the target in utilities is to lower investments by ISK 2,410 million. The decrease in 2015 is ISK 2,882 million. It is ISK 472 million below target. The decrease in 2011-2015 is ISK 15,079 million. It is ISK 2,738 million above target.

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

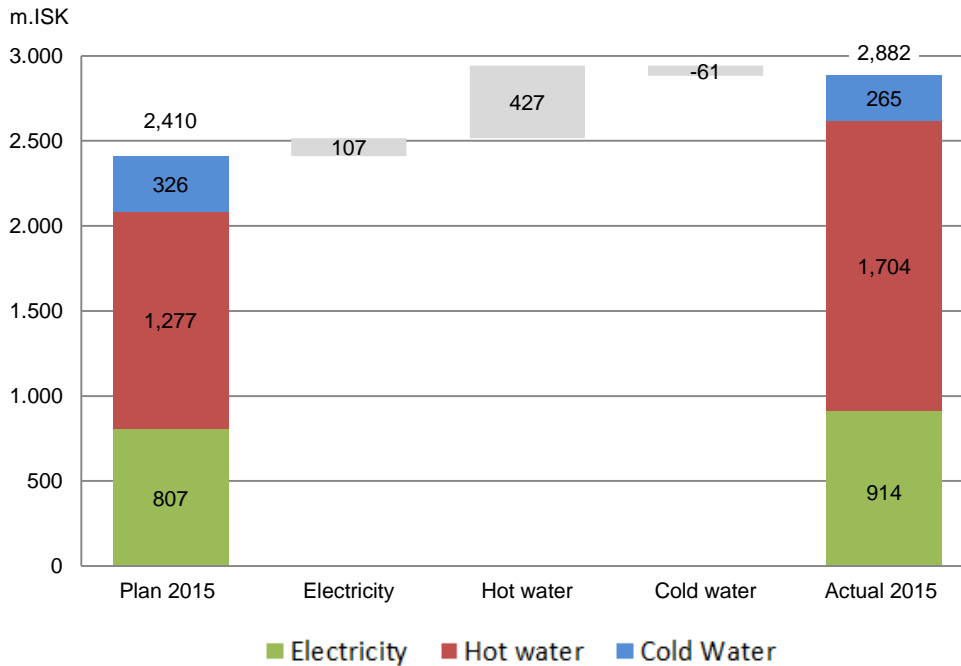


## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS CONT.

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.

The chart shows the contribution of each segment to the reduction of investments in utility systems in 2015.

### Investments in utility segments





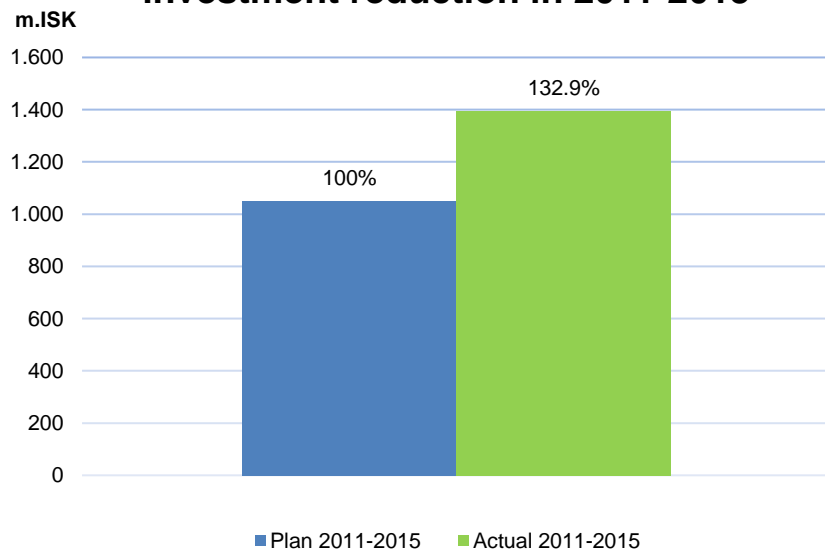
## 2.5 REDUCTION IN OTHER INVESTMENTS

	2015	2011-2015	2011-2016
Target ISK	200	1 050	1 250
Progress ISK	93	1 395	1 395

Target EUR	1.4	7.4	8.8
Progress EUR	0.7	9.9	9.9

The total target for 2015 is ISK 200 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. Other investments in 2015 exceed the PLAN for the period, the progress is therefore ISK 107 million less than expected. The decrease for 2011-2015 amounts to ISK 1,395 million which surpasses target by ISK 345 million.

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



## 2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

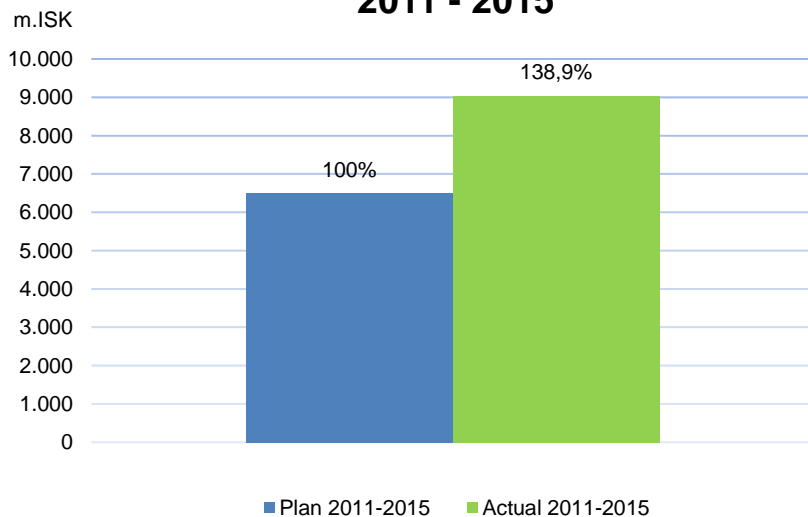
	2015	2011-2015	2011-2016
Target ISK	1 330	6 514	8 013
Progress ISK	1 639	9 050	9 050

Target EUR	9.4	46.1	56.7
Progress EUR	11.6	64.0	64.0

The target for 2015 was to raise revenues by ISK 1,330 million and for 2011-2015 by ISK 6,514 million by increasing tariffs. The increase in 2011-2015 is ISK 9,050 million. It is ISK 2,536 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

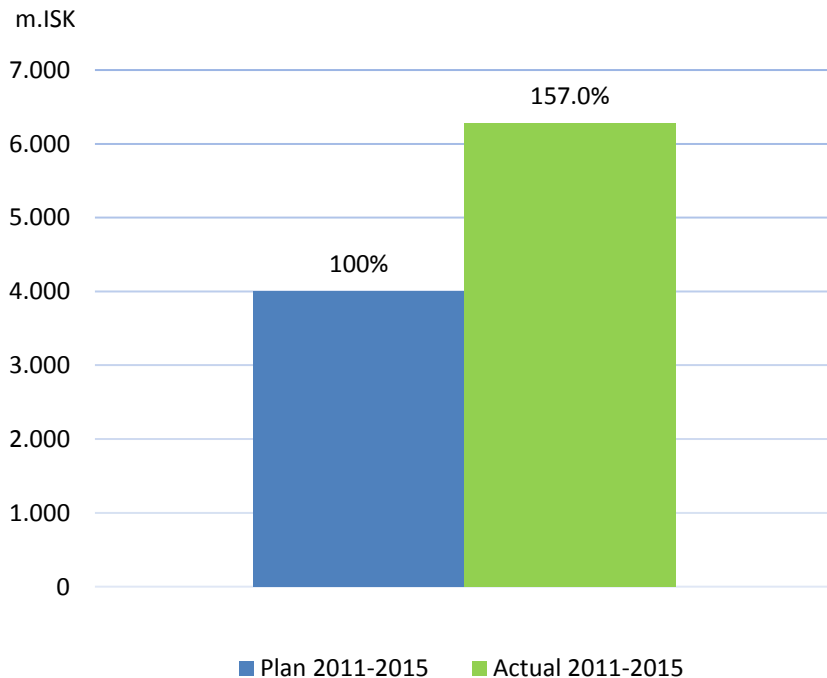


## 2.7 REDUCTION IN OPERATING COST

	2015	2011-2015	2011-2016
Target ISK	1 000	4 000	5 000
Progress ISK	1 727	6 281	6 281

Target EUR	7.1	28.3	35.4
Progress EUR	12.2	44.4	44.4

### Reduction in operating cost 2011-2015



The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2015 was ISK 1,000 million. Operation costs are ISK 727 million lower than target in 2015.

Operation cost reduction in 2011-2015 was ISK 6,281 million or ISK 2,281 million above target.

Pension expenses and allowance for doubtful accounts are ISK 36.8 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.

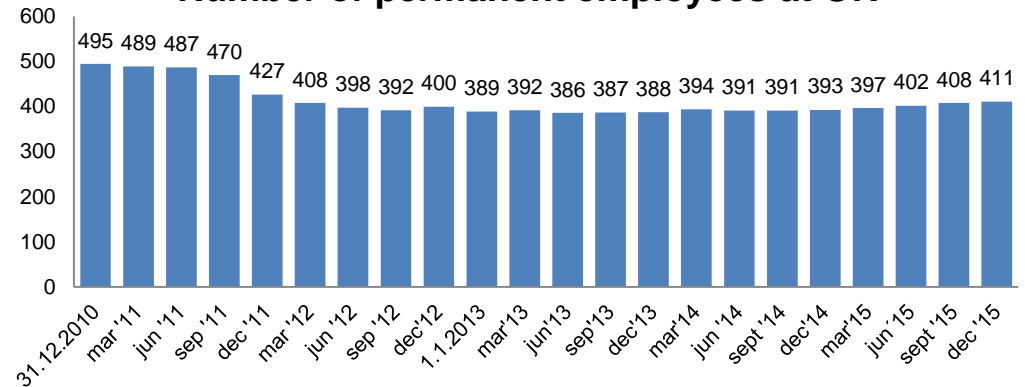
The goal was accomplished by the end of February 2012.

The number of permanent employees in consolidated OR has been reduced by 156 since 2008 when it was at its peak and the employee count now stands at 451. From year beginning, the number of permanent employees of OR increased by 18. At the end of year, employees were 411.

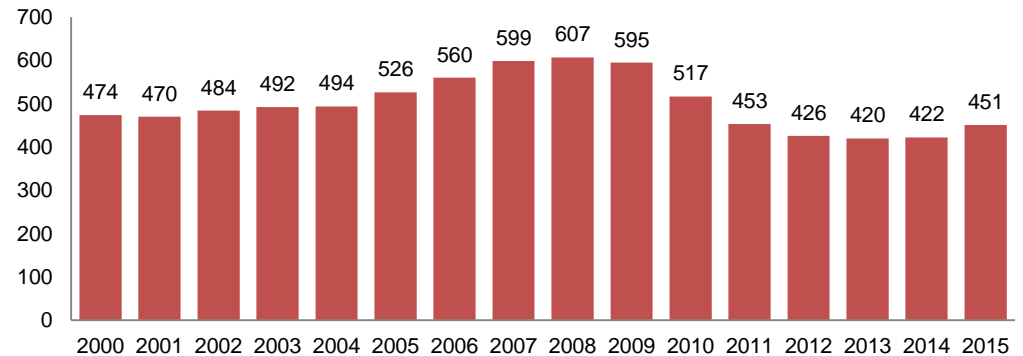
Salary cost is ISK 95.7 million lower than expected.

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

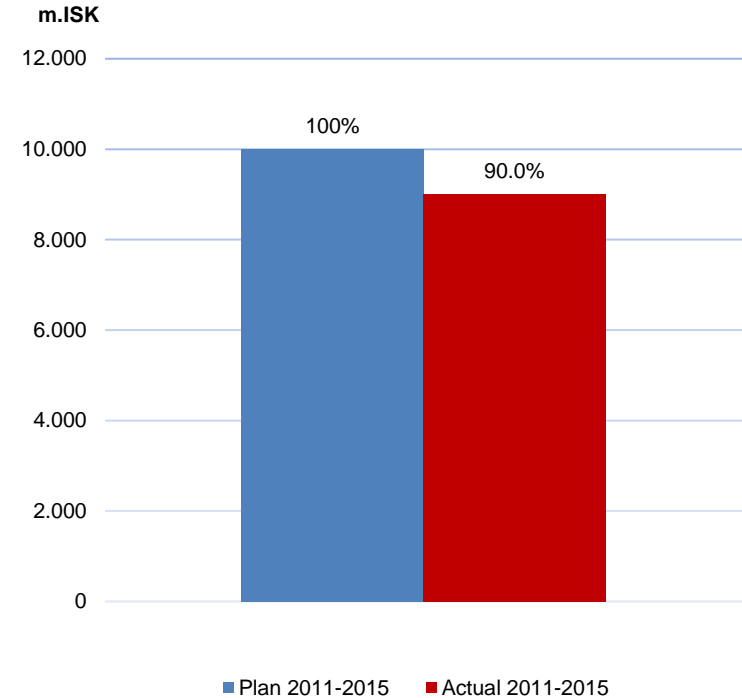
Various equipment and materials were sold for ISK 10.4 million.

ISK millions	2015	Status
Sale of various equipment	10.4	Paid in full
<b>Total</b>	10.4	

	2015	2011-2015	2011-2016
Target ISK	0	10 000	10 000
Progress ISK	10	8 998	8 998

	2015	2011-2015	2011-2016
Target EUR	0.0	70.8	70.8
Progress EUR	0.1	63.7	63.7

### Sale of assets 2011-2015



## 2.9 SUBORDINATED LOAN FROM OWNERS

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

Target EUR	0.0	84.9	84.9
Progress EUR	0.0	84.9	84.9

The owners of OR agreed to lend the company ISK 8,000 million in April 2011 and ISK 4,000 million in 2013 H1. Reykjavik City, Akranes and Borgarbyggð municipalities have fulfilled their respective commitments.

