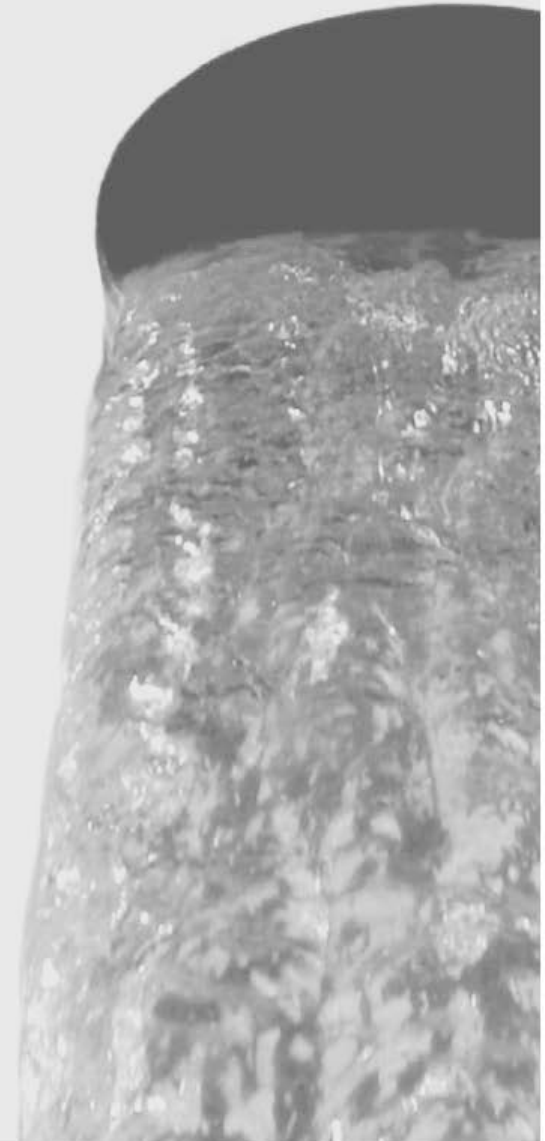




The Plan Progress report

2013 H1

August 29th 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 June 30th 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 H1 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 161.1.

Table 1

| Actions in millions | 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 | 93.1 |
| Sale of assets | ✓ 1 000 | ✗ 2 000 | 5 100 | 1 900 | | | 10 000 | 62.1 |
| Reduction in operation cost | ✓ 300 | ✓ 900 | 900 | 900 | 1 000 | 1 000 | 5 000 | 31.0 |
| 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 | 194.0 |
| Subordinated loans from owners | ✓ 8 000 | | 4 000 | | | | 12 000 | 74.5 |
| Increased revenues due to higher tariffs | ✓ 1 122 | ✓ 1 552 | 1 215 | 1 295 | 1 330 | 1 499 | 8 013 | 49.7 |
| Total | ✓ 9 122 | ✓ 1 552 | 5 215 | 1 295 | 1 330 | 1 499 | 20 013 | 124.2 |
| "PLAN" total | ✓ 11 877 | ✓ 10 170 | 15 005 | 6 813 | 2 940 | 4 458 | 51 326 | 318.6 |

2 DASHBOARD

2.1 TOTAL PROGRESS OF THE PLAN

| Amounts in million | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|--------------------|---------|--------------|-----------|
| Target ISK | 8 978 | 31 025 | 51 263 |
| Progress ISK | 8 873 | 32 738 | 32 738 |
| Target EUR | 55.7 | 192.6 | 318.2 |
| Progress EUR | 55.1 | 203.2 | 203.2 |

The total progress 2013 H1 is ISK 104 millions worse 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 H1 is ISK 1,714 millions better than target or 5.5%.

Influences of external variables are positive in 2013 H1 by ISK 755 millions and positive by ISK 287 millions during the period 2011-2013 H1. Net total of "the PLAN" is therefore ISK 651 millions above target in 2013 H1 and ISK 2.001 millions above target 2011-2013 H1.

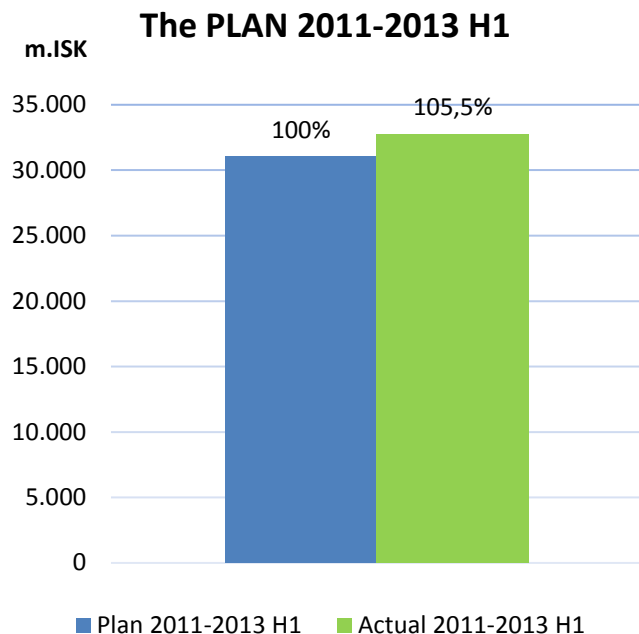


Table 2

| Actions in millions | Forecast 2013 H1 | Actual 2013 H1 | Forecast 2013 H1 | Actuals 2013 H1 |
|---|------------------|----------------|------------------|-----------------|
| | ISK | ISK | EUR | EUR |
| Reduction of investments in utility systems | 1 063 | 1 672 | 6.6 | 10.4 |
| Sale of assets | 2 550 | 979 | 15.8 | 6.1 |
| Reduction in operating costs | 406 | 774 | 2.5 | 4.8 |
| Reduction of other investments | 79 | 129 | 0.5 | 0.8 |
| Postponement of investments in sewerage | 356 | 424 | 2.2 | 2.6 |
| Total | 4 454 | 3 979 | 27.6 | 24.7 |
| Subordinated loans from owners | 4 000 | 4 000 | 24.8 | 24.8 |
| Increased revenues due to higher tariffs | 524 | 895 | 3.3 | 5.6 |
| Total | 4 524 | 4 895 | 28.1 | 30.4 |
| Planið Total | 8 978 | 8 873 | 55.7 | 55.1 |

Chart 1

2.2 EXTERNAL VARIABLES 2013 H1

Table 3

| Main assumptions | 2013 H1 budget | 2013 H1 actual | Affect on cash flow m.ISK 2013 H1 | Affect on cash flow m.EUR 2013 H1 | Affect on cash flow m.ISK 2011-2013 H1 | Affect on cash flow m.EUR 2011-2013 H1 |
|------------------------------|----------------|----------------|-----------------------------------|-----------------------------------|--|--|
| Consumer price index, change | 2.2% | 4.3% | 219 | 1,4 | 739 | 4,6 |
| Building cost index, change | 2.2% | 4.2% | | | | |
| TWI, average | 216.3 pts | 221.6 pts | 792 | 4,9 | 325 | 2,0 |
| Aluminum price, average | \$2.708 | \$1.955 | -818 | -5,1 | -2.705 | -16,8 |
| Interest rates, average | 2.98% | 1.90% | 562 | 3,5 | 1.928 | 12,0 |
| Total | | | 755 | 4,7 | 287 | 1,8 |

- 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 2013 H1. Trade weighted index is higher than expected, however development of individual currencies had a positive 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 755 million above 2013 H1 projections. Effect on cash flow in the period 2011-2013 H1 is positive by ISK 287 million.

2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

| Amounts in millions | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|---------------------|---------|--------------|-----------|
| Target ISK | 356 | 2 356 | 0 |
| Progress ISK | 424 | 2 574 | 2 574 |

| | | | |
|--------------|-----|------|------|
| Target EUR | 2.2 | 14.6 | 0.0 |
| Progress EUR | 2.6 | 16.0 | 16.0 |

Target vs. performance of sewerage investment reduction in 2011-2013 H1

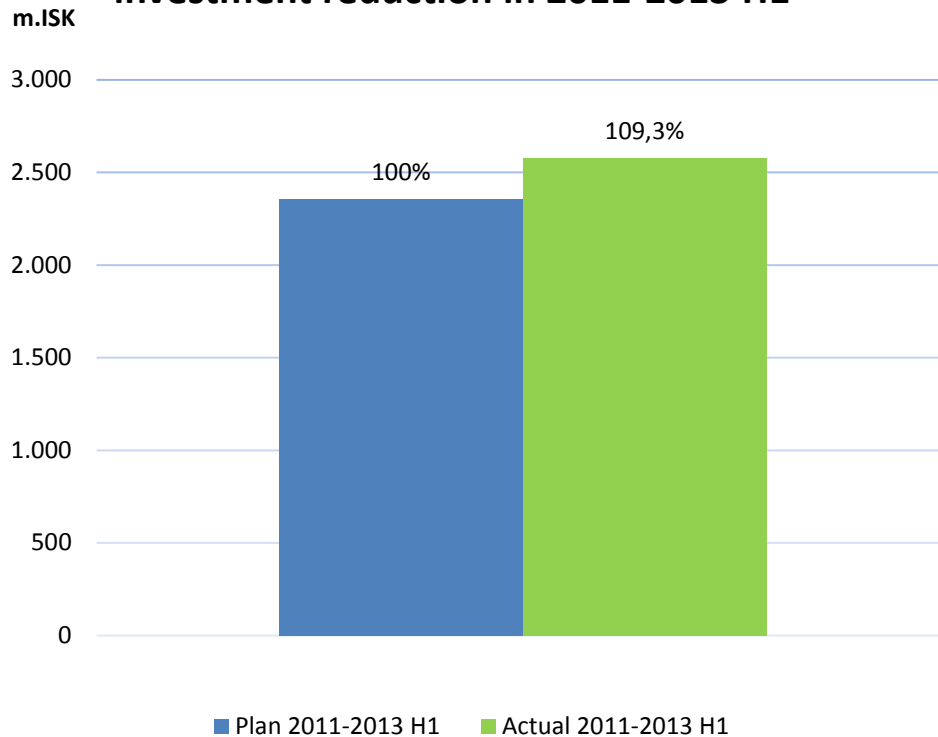


Chart 2

- 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 millions | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|---------------------|---------|--------------|-----------|
| Target ISK | 1 063 | 5 786 | 15 000 |
| Progress ISK | 1 672 | 8 305 | 8 305 |

| | | | |
|--------------|------|------|------|
| Target EUR | 6.6 | 35.9 | 93.1 |
| Progress EUR | 10.4 | 51.6 | 51.6 |

Target vs. performance of utility investment reduction in 2011-2013 H1

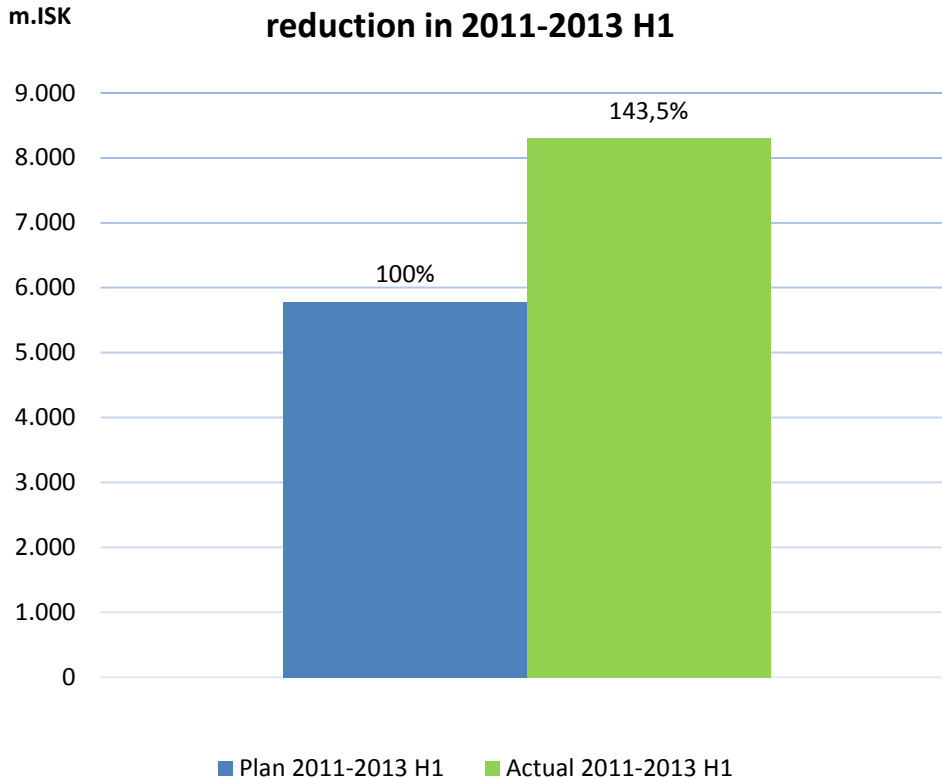


Chart 3

- 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 H1 is ISK 1,672 million. It is ISK 609 million above target. The decrease in 2011-2013 H1 is ISK 8,305 million. It is ISK 2,519 million above target.



2.4 Reduction of investments in utility systems cont.

Investments in utility segments

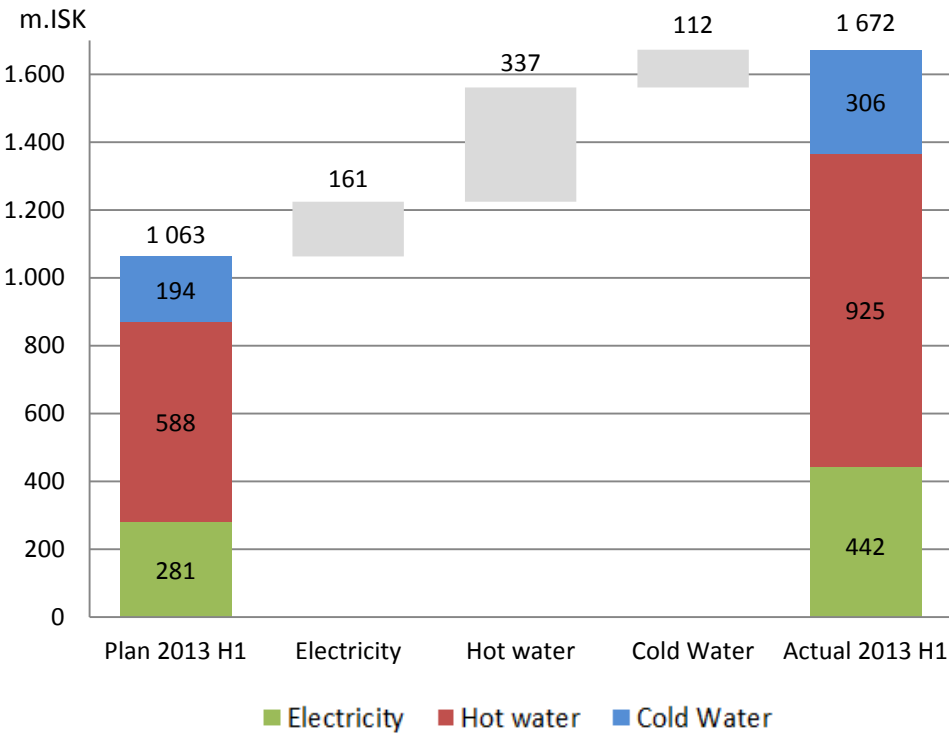


Chart 4

- 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 millions | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|---------------------|---------|--------------|-----------|
| Target ISK | 79 | 529 | 1 250 |
| Progress ISK | 129 | 922 | 922 |
| Target EUR | 0.5 | 3.3 | 7.8 |
| Progress EUR | 0.8 | 5.7 | 5.7 |

Target vs. performance of other investment reduction in 2011-2013 H1

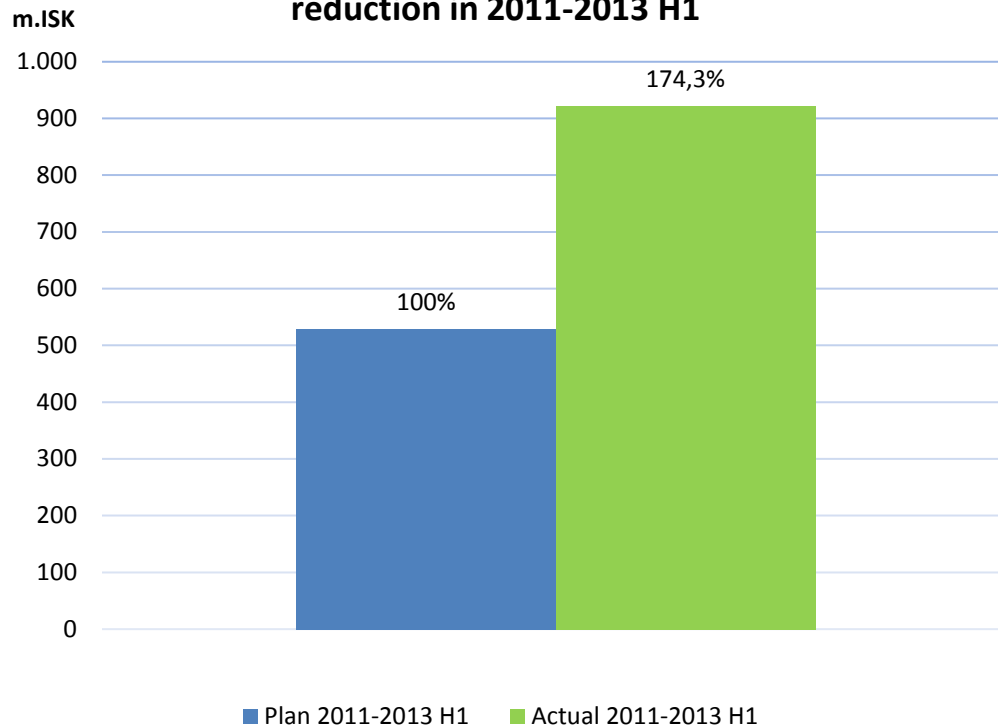


Chart 5

- The total target for 2013 H1 is ISK 79 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2013 H1 amounts to ISK 129 million which is ISK 50 million above target.
- The decrease for 2011-2013 H1 amounts to ISK 922 million which surpasses target by ISK 393 million.



2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

| Amounts in millions | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|---------------------|---------|--------------|-----------|
| Target ISK | 524 | 3 198 | 8 013 |
| Progress ISK | 895 | 4 223 | 4 223 |

| | | | |
|--------------|-----|------|------|
| Target EUR | 3.3 | 19.9 | 49.7 |
| Progress EUR | 5.6 | 26.2 | 26.2 |

Target vs. performance - increased revenues from sewerage and hot water in 2011 - 2013 H1

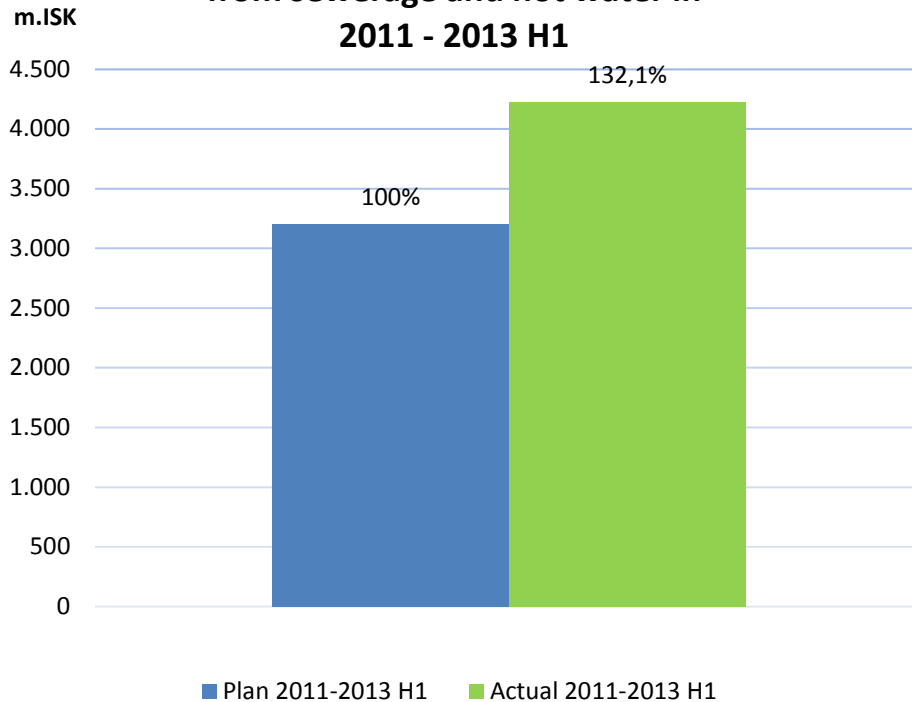


Chart 6

- The target for 2013 was to raise revenues by ISK 1,215 million and for 2011-2013 H1 by ISK 3,198 million by increasing tariffs. The increase in 2011-2013 H1 is ISK 4,223 million. It is ISK 1,025 million above target.
- Tariffs are now connected to CPI and revenues are beyond target because of unexpected rise in the CPI.

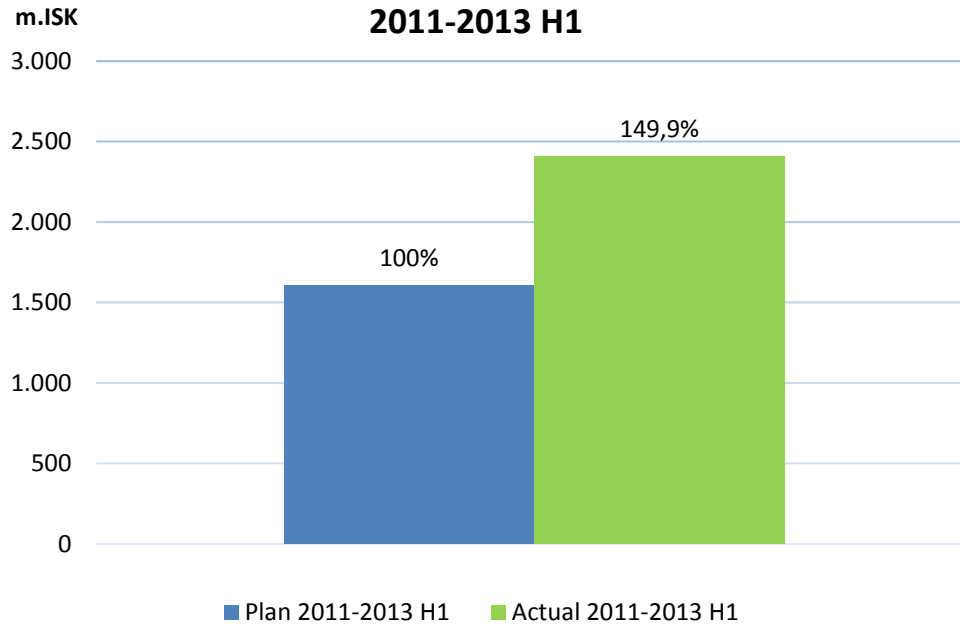


2.7 REDUCTION IN OPERATING COST

| Amounts in millions | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|---------------------|---------|--------------|-----------|
| Target ISK | 406 | 1 606 | 5 000 |
| Progress ISK | 774 | 2 408 | 2 408 |

| | | | |
|--------------|-----|------|------|
| Target EUR | 2.5 | 10.0 | 31.0 |
| Progress EUR | 4.8 | 14.9 | 14.9 |

**Reduction in operating cost
2011-2013 H1**



- The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2013 H1 was ISK 406 million. Operation costs are ISK 368 million lower than target in 2013 H1.
- Operation cost reduction in 2011-2013 H1 was ISK 2,408 million or ISK 802 million above target.
- Pension expenses and allowance for doubtful accounts are ISK 62.8 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.

Chart 7

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 188 since 2008 when it was at its peak and the employee count now stands at 419.
- In 2013 H1, the number of permanent employees of OR reduced by 14. At the end of March, employees were 386.
- Salary cost is ISK 45 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

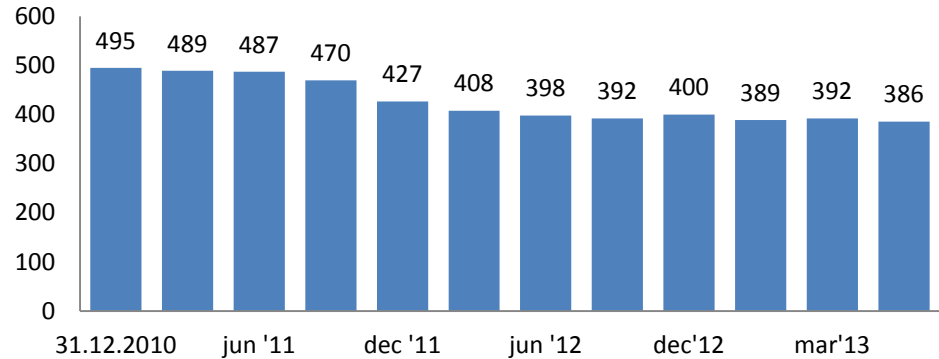


Chart 8

Numer of permanent employees at OR group

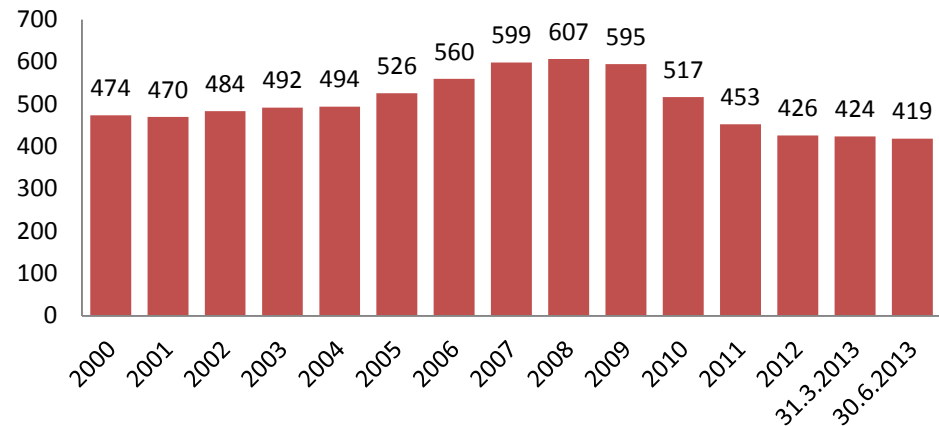


Chart 9

2.8 SALE OF ASSETS

| Amounts in millions | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|---------------------|---------|--------------|-----------|
| Target ISK | 2 550 | 5 550 | 10 000 |
| Progress ISK | 979 | 2 306 | 2 306 |

| | | | |
|--------------|------|------|------|
| Target EUR | 15,8 | 34,5 | 62,1 |
| Progress EUR | 6,1 | 14,3 | 14,3 |

Assets sold in 2013 H1 amounted to ISK 979.6 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 29.6 million

Table 4

| ISK millions | 2013 H1 | Status |
|----------------------------------|---------|--------------|
| Property and real estates | | |
| Perlan | 950.0 | Paid in full |
| Sale of various equipment | 29.6 | Paid in full |
| Equity in affilitates total | 979.6 | |

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.

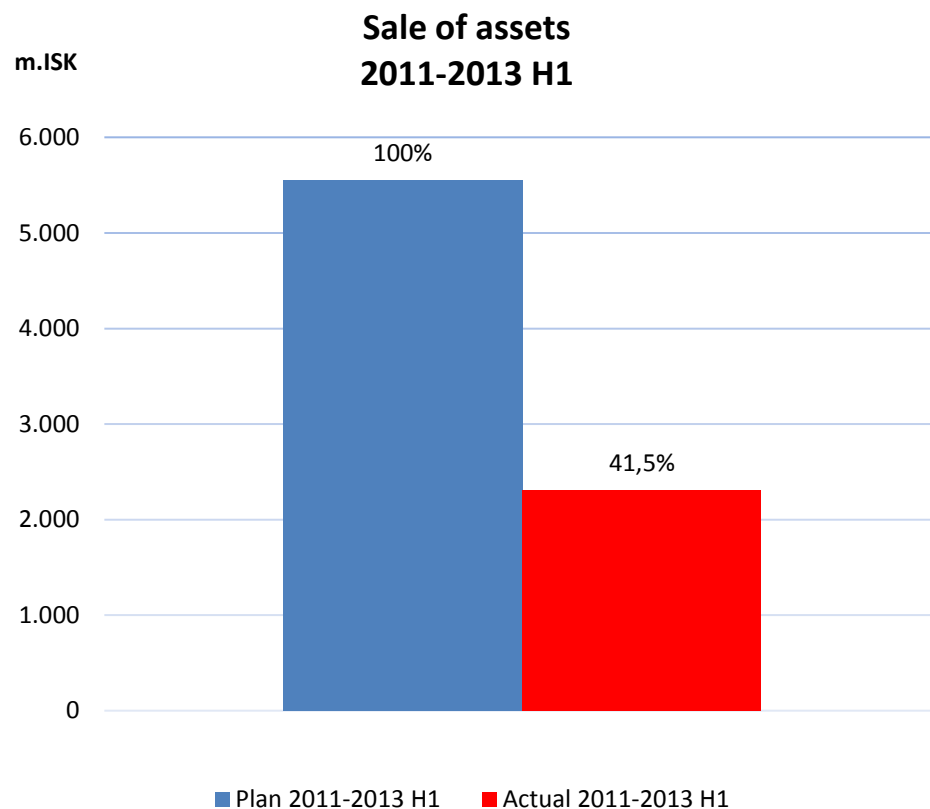


Chart 10

2.9 SUBORDINATED LOAN FROM OWNERS

| Amounts in millions | 2013 H1 | 2011-2013 H1 | 2011-2016 |
|---------------------|---------|--------------|-----------|
| Target ISK | 4 000 | 12 000 | 12 000 |
| Progress ISK | 4 000 | 12 000 | 12 000 |

| | | | |
|--------------|------|------|------|
| Target EUR | 24.8 | 74.5 | 74.5 |
| Progress EUR | 24.8 | 74.5 | 74.5 |

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.

