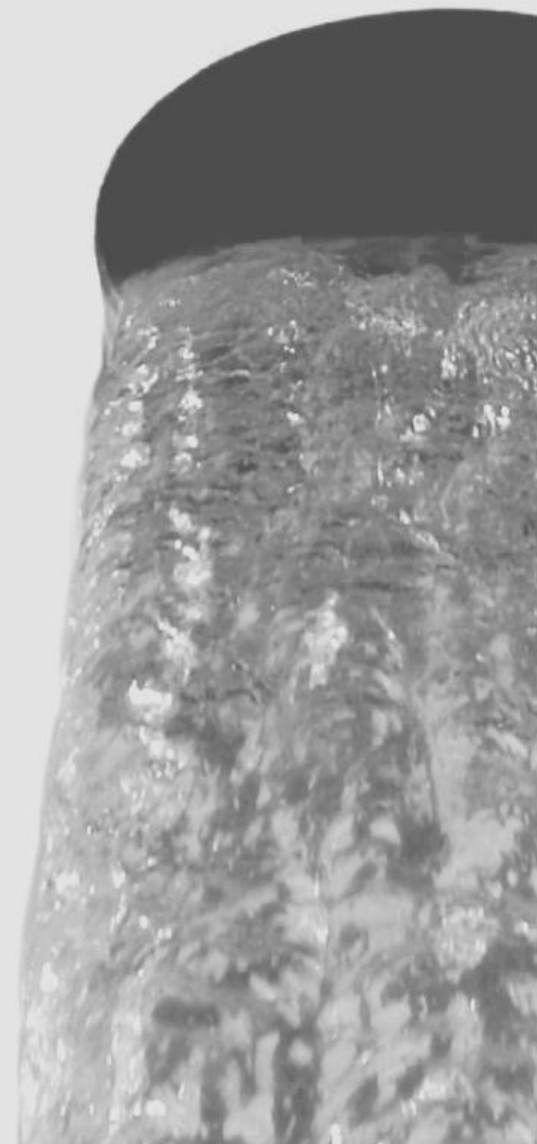




The Plan Progress report

2014

March 23rd 2015



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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 Desember 31st 2014. 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 - 2014 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 154,3.

2 DASHBOARD

2.1 TOTAL PROGRESS OF THE PLAN

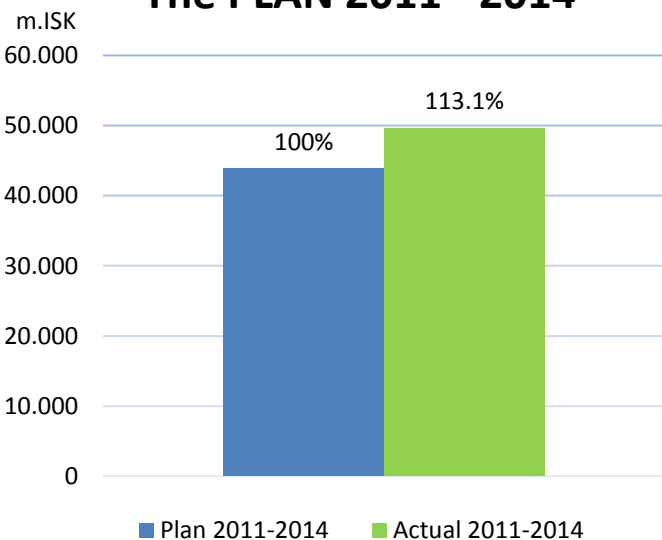
	2014	2011-2014	2011-2016
Target ISK	6 813	43 865	51 263
Progress ISK	7 441	49 607	49 607

Target EUR	44.2	284.3	332.3
Progress EUR	48.2	321.6	321.6

The total progress 2014 is ISK 628 millions better than the PLAN's target figures. The best results are in reduction in operating costs and Increased revenues due to higher tariffs. 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 2011-2014 is ISK 5,742 millions better than target or 13,1%.

Influences of external variables are negative in 2014 by ISK 784 millions and negative by ISK 1,205 millions during the period 2011-2014. Net total of "the PLAN" is therefore ISK 156 millions below target in 2014 and ISK 4,537 millions above target 2011-2014.

The PLAN 2011 - 2014



Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2014	2011-2014	
Reduction of investments in utility systems	15.0	9.9	✓	12.2
Sale of assets	10.0	10.0	✗	9.0
Reduction in operating costs	5.0	3.0	✓	4.6
Reduction of other investments	1.3	0.9	✓	1.3
Postponement of investments in sewerage	0.0	2.9	✓	3.2
Total	31.3	26.7	✓	30.2
Subordinated loans from owners	12.0	12.0	✓	12.0
Increased revenues due to higher tariffs	8.0	5.2	✓	7.4
Total	20.0	17.2	✓	19.4
The Plan Total	51.3	43.9	✓	49.6

2.2 EXTERNAL VARIABLES 2014

- 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 2014. 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 784 million above 2014 projections. Effect on cash flow in the period 2011-2014 is negative by ISK 1,205 million.

Main assumptions	2014 budget	2014 actual	Affect on cash flow m.ISK 2014	Affect on cash flow m.EUR 2014	Affect on cash flow m.ISK 2011-2014	Affect on cash flow m.EUR 2011-2014
Consumer price index, change	2.5%	2.0%	625	4.1	1 656	10.7
Building cost index, change	2.5%	1,6%				
TWI, average	216.3 pts	206.9 pts	-907	-5.9	-1.332	-8.6
Aluminum price, average	\$2 758	\$1 893	-2 820	-18.3	-7 234	-46.9
Interest rates, average	3.54%	1.73%	2 318	15.0	5 075	37.0
Total			-784	-5.1	-1 205	-7.8

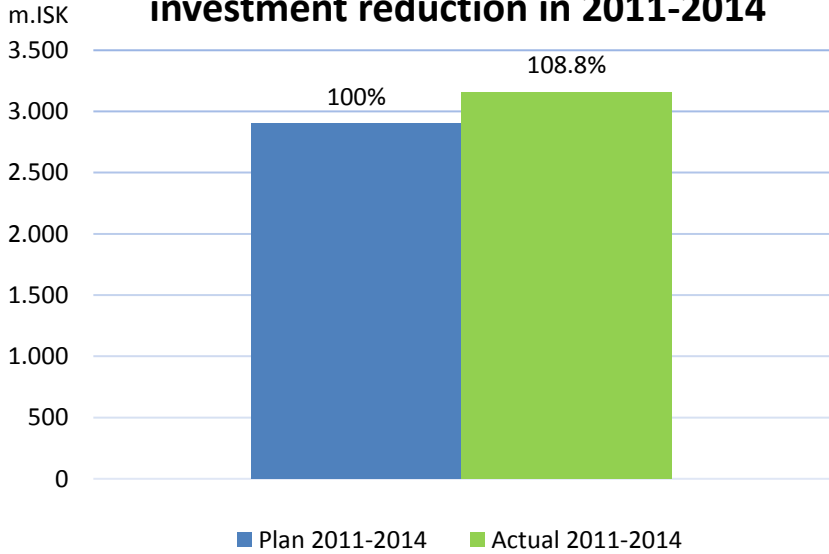
2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2014	2011-2014	2011-2016
Target ISK	0	2 900	0
Progress ISK	- 148	3 154	3 154

Target EUR	0.0	18.8	0.0
Progress EUR	- 1.0	20.4	20.4

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 2011-2014

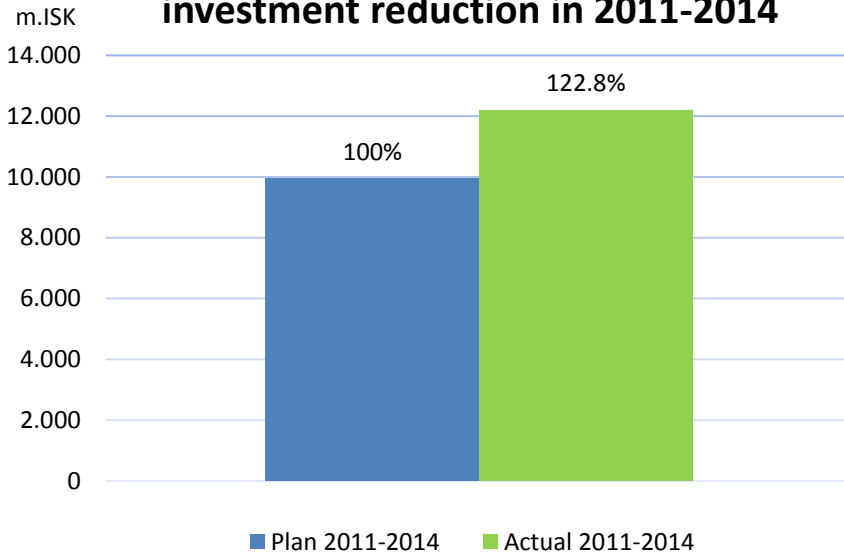


2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

- An internal investment committee prioritizes all projects. Each project categorised as priority will then have to be approved by the procurement control.
- In 2014 the target in utilities is to lower investments by ISK 2,518 million. The decrease in 2014 is ISK 2,362 million. It is ISK 156 million below target. The decrease in 2011-2014 is ISK 12,197 million. It is ISK 2,266 million above target.

	2014	2011-2014	2011-2016
Target ISK	2 518	9 931	15 000
Progress ISK	2 362	12 197	12 197
Target EUR	16.3	64.4	97.2
Progress EUR	15.3	79.1	79.1

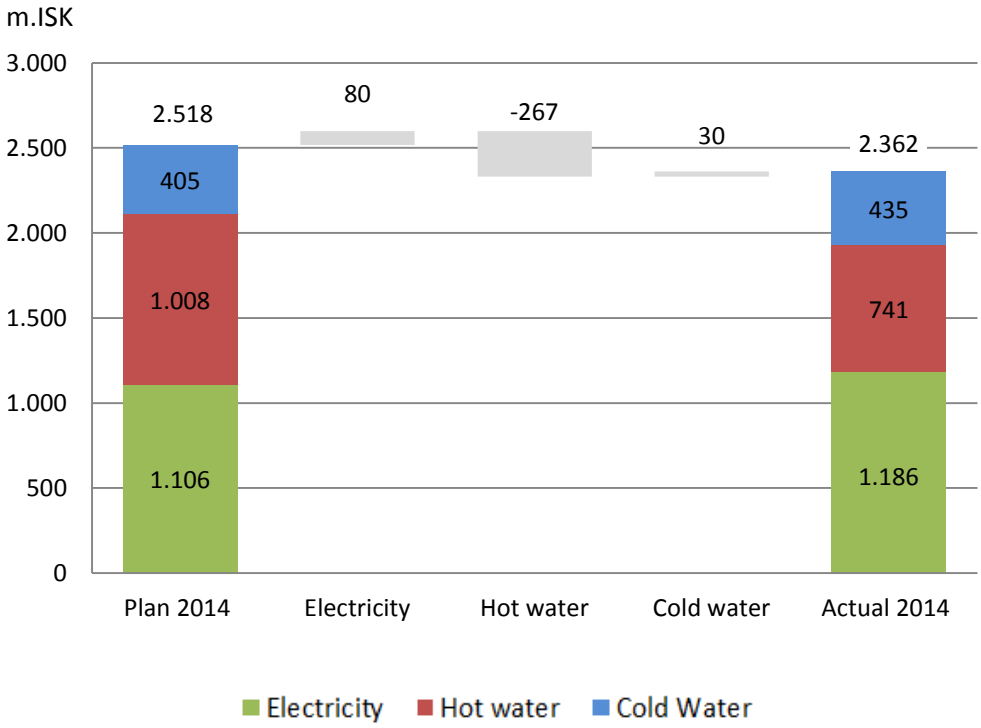
Target vs. performance of utility investment reduction in 2011-2014



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 2011-2014.
- The chart shows the contribution of each segment to the reduction of investments in utility systems in 2014.

Investments in utility segments



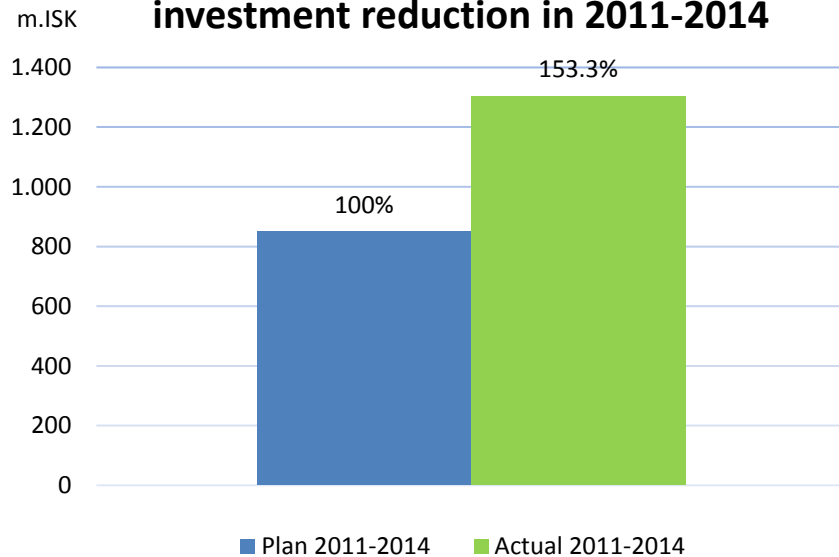
	2014	2011-2014	2011-2016
Target ISK	200	850	1 250
Progress ISK	223	1 303	1 303

Target EUR	1.3	5.5	8.1
Progress EUR	1.4	8.4	8.4

2.5 REDUCTION IN OTHER INVESTMENTS

- The total target for 2014 is ISK 200 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2014 amounts to ISK 223 million which is ISK 23 million above target.
- The decrease for 2011-2014 amounts to ISK 1,303 million which surpasses target by ISK 453 million.

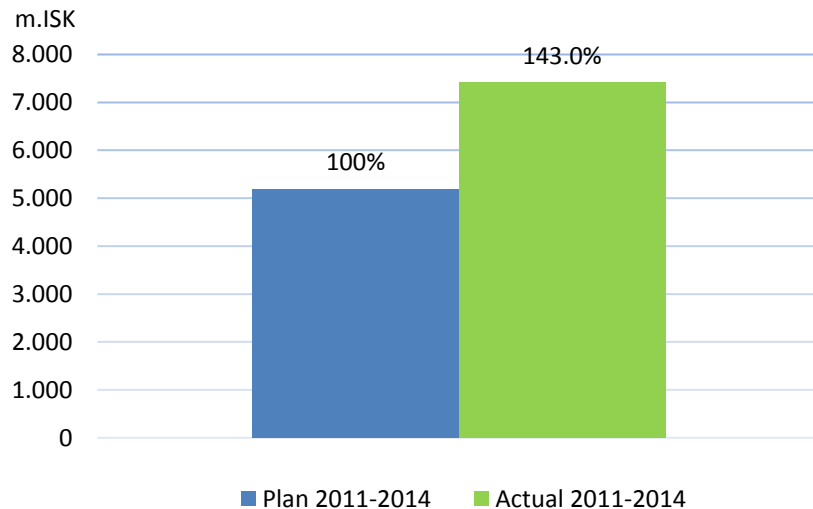
Target vs. performance of other investment reduction in 2011-2014



2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

- The target for 2014 was to raise revenues by ISK 1,295 million and for 2011-2014 by ISK 5,184 million by increasing tariffs. The increase in 2011-2014 is ISK 7,411 million. It is ISK 2,227 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 - 2014



	2014	2011-2014	2011-2016
Target ISK	1 295	5 184	8 013
Progress ISK	1 913	7 411	7 411

Target EUR	8.4	33.6	51.9
Progress EUR	12.4	48.0	48.0

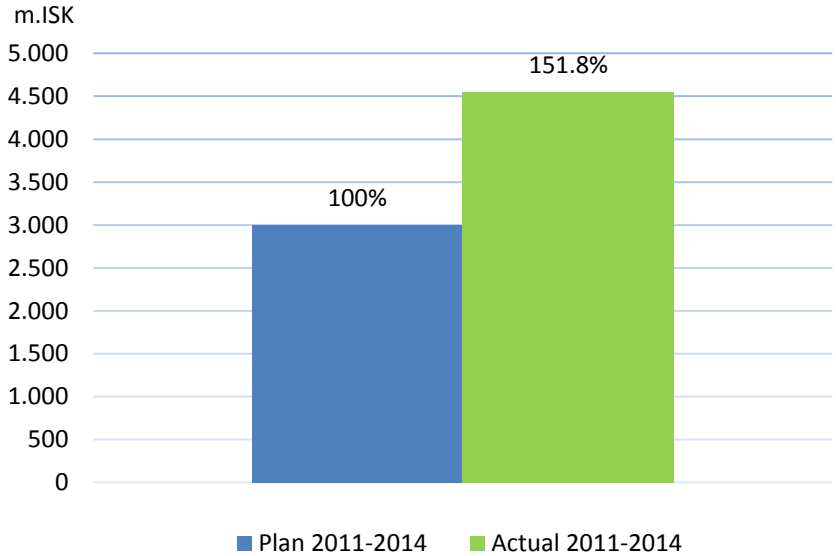


2.7 REDUCTION IN OPERATING COST

Amounts in millions	2014	2011-2014	2011-2016
Target ISK	900	3 000	5 000
Progress ISK	1 538	4 554	4 554

Target EUR	5.8	19.4	32.4
Progress EUR	10.0	29.5	29.5

Reduction in operating cost 2011-2014



- The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2014 was ISK 900 million. Operation costs are ISK 638 million lower than target in 2014.
- Operation cost reduction in 2011-2014 was ISK 4,554 million or ISK 1,554 million above target.
- Pension expenses and allowance for doubtful accounts are ISK 39.8 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.

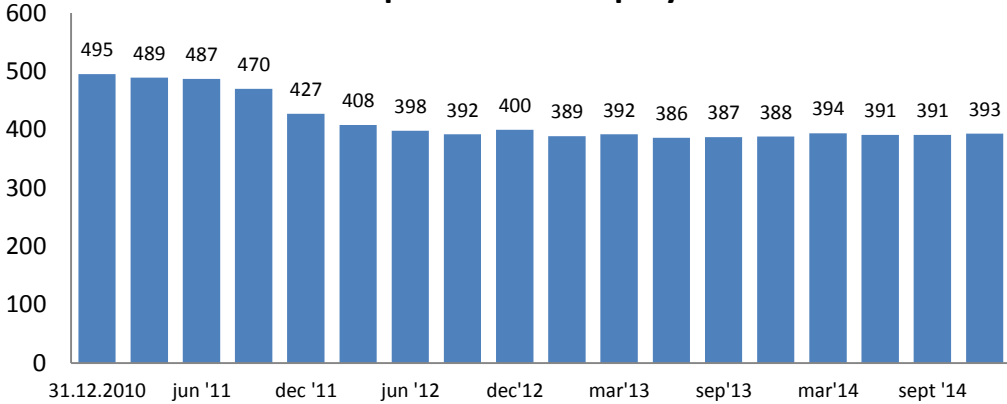


2.7 REDUCTION IN OPERATING COST, CONT.

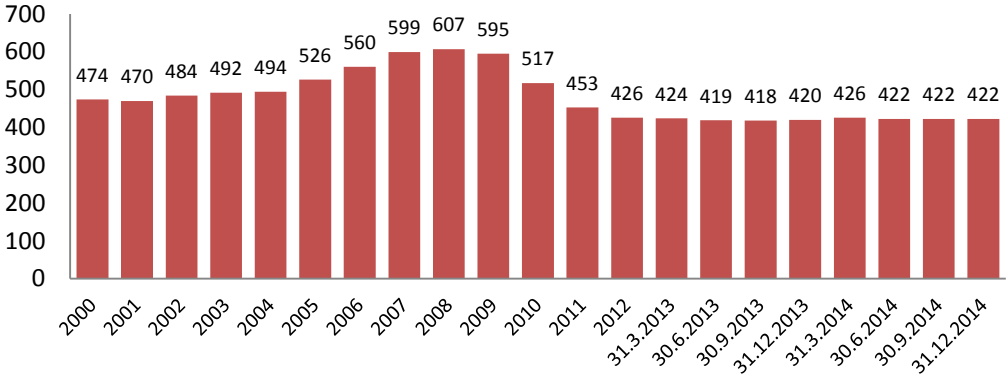
REDUCING PERSONNEL – SALARY COST

- 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 185 since 2008 when it was at its peak and the employee count now stands at 422.
- From year beginning, the number of permanent employees of OR increased by 5. At the end of Desember, employees were 393.
- Salary cost is ISK 329 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



	2014	2011-2014	2011-2016
Target ISK	1 900	10 000	10 000
Progress ISK	1 552	8 988	8 988

Target EUR	12.3	64.8	64.8
Progress EUR	10.1	58.3	58.3

2.8 SALE OF ASSETS

Assets that are not a part of OR's core business and sold in 2014 amounted to ISK 1,518.8 million.

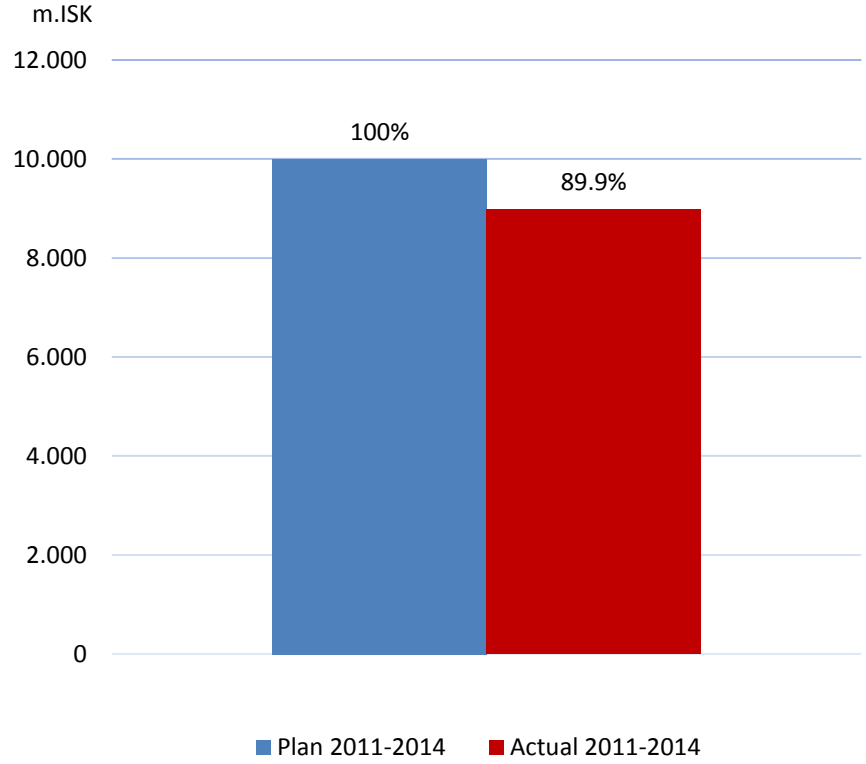
Various equipment and materials were sold for ISK 33.6 million

ISK millions	2014	Status
HS Veitur hf.	1,500.0	Paid in full
Industrial property	18.8	Paid in full
Sale of various equipment	33.6	Paid in full
Total	1,552.4	

2.8 SALES OF ASSETS, CONT.

- List of assets planned to be sold in 2014
- Sales process for HS Veitur hf. began in Q2 2012. The sale has been finalized and paid in full.
- The sale of 49% of Reykjavik Energy's shares in Gagnaveita Reykjavíkur (Reykjavik fiber network) is in process.

Sale of assets 2011-2014



2.9 SUBORDINATED LOAN FROM OWNERS

	2014	2011-2014	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.

