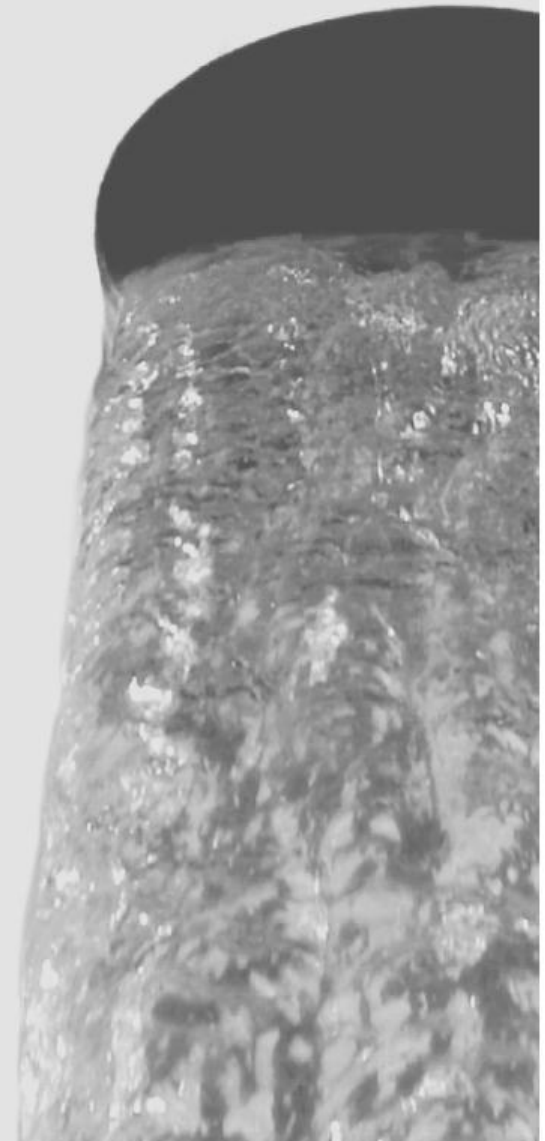




The Plan Progress report

2013 Q3

November 15th 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 September 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 Q3 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 163.4.

Table 1

Actions in million ISK	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	91.8
Sale of assets	✓ 1 000	✗ 2 000	5 100	1 900			10 000	61.2
Reduction in operation costs	✓ 300	✓ 900	900	900	1 000	1 000	5 000	41,5
Reduction in other investments	✓ 250	✓ 200	200	200	200	200	1 250	7.6
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	191.2
Subordinated loans from owners	✓ 8 000		4 000				12 000	73.4
Increased revenues due to higher tariffs	✓ 1 122	✓ 1 552	1 215	1 295	1 330	1 499	8 000	59.0
Total	✓ 9 122	✓ 1 552	5 215	1 295	1 330	1 499	20 013	122.5
“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 millions	2013 Q3	2011-2013 Q3	2011-2016
Target ISK	12 011	34 058	51 263
Progress ISK	11 407	35 272	35 272
Target EUR	73.5	208.4	313.7
Progress EUR	69.8	215.9	215.9

The total progress 2013 Q3 is ISK 604 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. Contracts regarding the sale of OR's headquarters were signed on November 1st. The amount of ISK 5.1 billions will fulfill sale of assets target in 2013. Individual reports follow in the next pages. Total progress of the PLAN in 2011-2013 Q3 is ISK 1,214 millions better than target or 3.6%.

Influences of external variables are positive in 2013 Q3 by ISK 1,015 millions and positive by ISK 547 millions during the period 2011-2013 Q3. Net total of "the PLAN" is therefore ISK 411 millions above target in 2013 Q3 and ISK 1.761 millions above target 2011-2013 Q3.

The PLAN 2011-2013 Q3

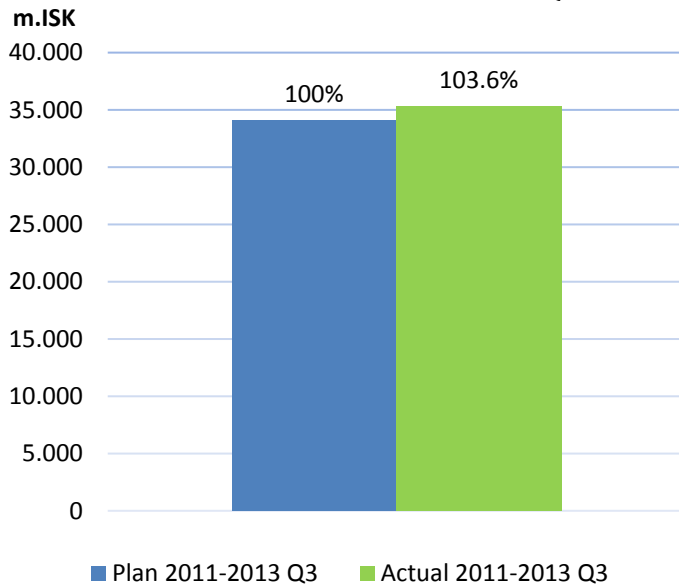


Table 2

Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2013 Q3	2011-2013 Q3	
Reduction of investments in utility systems	15.0	6.6	✓	9.3
Sale of assets	10.0	6.8	✗	2.3
Reduction in operating costs	5.0	1.8	✓	2.9
Reduction of other investments	1.3	0.6	✓	1.0
Postponement of investments in sewerage	0.0	2.6	✓	3.0
Total	31.3	18.5	✗	18.4
Subordinated loans from owners	12.0	12.0	✓	12.0
Increased revenues due to higher tariffs	8.0	3.5	✓	4.8
Total	20.0	15.5	✓	16.8
The Plan Total	51.3	34.1	✓	35.3

Chart 1

2.2 EXTERNAL VARIABLES 2013 Q3

Table 3

Main assumptions	2013 Q3 budget	2013 Q3 actual	Affect on cash flow m.ISK 2013 Q3	Affect on cash flow m.EUR 2013 Q3	Affect on cash flow m.ISK 2011-2013 Q3	Affect on cash flow m.EUR 2011-2013 Q3
Consumer price index, change	2.2%	4.3%	363	2.2	883	5.4
Building cost index, change	2.2%	4.2%				
TWI, average Q3	216.3 pts	221.6 pts	495	3.0	28	0.2
Aluminum price, average Q3	\$2 717	\$1 908	-1 354	-8.3	-3 241	-19.8
Interest rates, average	2.98%	1.90%	1 511	9.2	2 877	17.6
Total			1 015	6.2	547	3.3

- 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 Q3. 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 1,015 million above 2013 Q3 projections. Effect on cash flow in the period 2011-2013 Q3 is positive by ISK 547 million.

2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

Amounts in millions	2013 Q3	2011-2013 Q3	2011-2016
Target ISK	638	2 638	0
Progress ISK	841	2 990	2 990
Target EUR	3.9	16.1	0.0
Progress EUR	5.1	18.3	18.3

Target vs. performance of sewerage investment reduction in 2011-2013 Q3

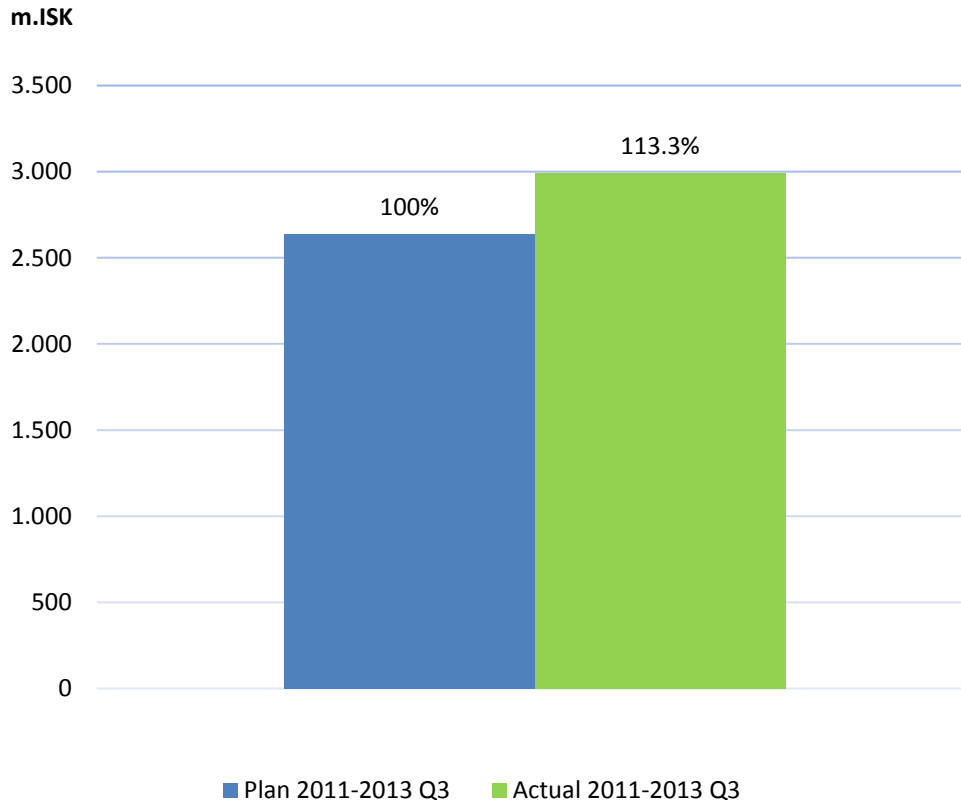


Chart 2

- 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 Q3	2011-2013 Q3	2011-2016
Target ISK	1 908	6 631	15 000
Progress ISK	2 683	9 316	9 316

Target EUR	11.7	40.6	91.8
Progress EUR	16.4	57.0	57.0

Target vs. performance of utility investment reduction in 2011-2013 Q3

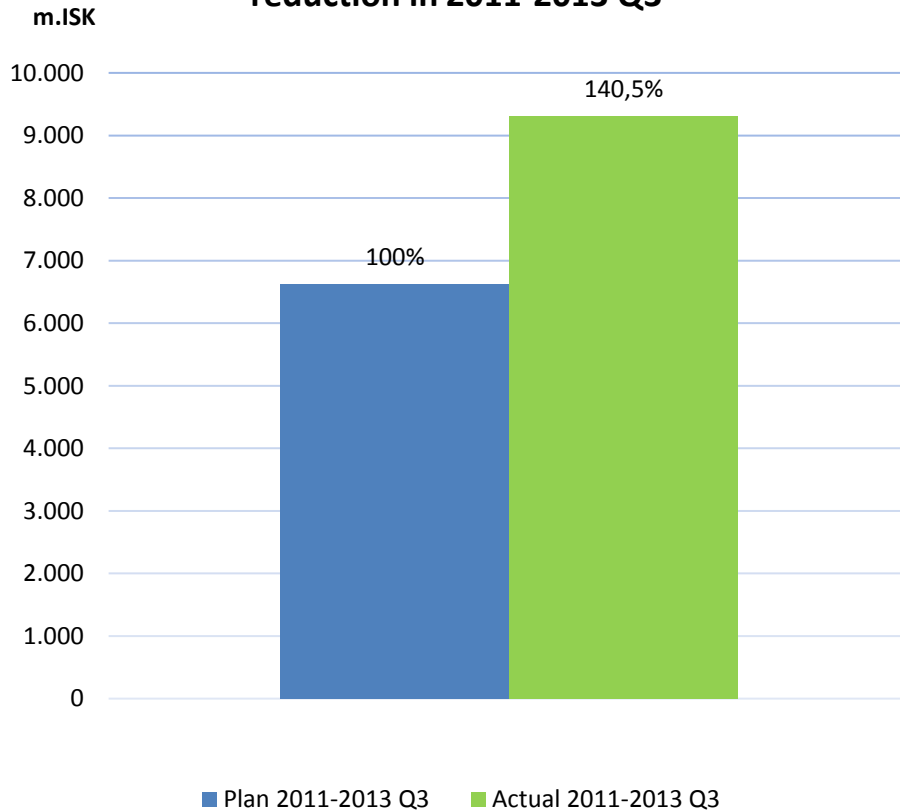


Chart 3

- 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 Q3 is ISK 2,683 million. It is ISK 775 million above target. The decrease in 2011-2013 Q3 is ISK 9,316 million. It is ISK 2,685 million above target.



2.4 Reduction of investments in utility systems cont.

Investments in utility segments

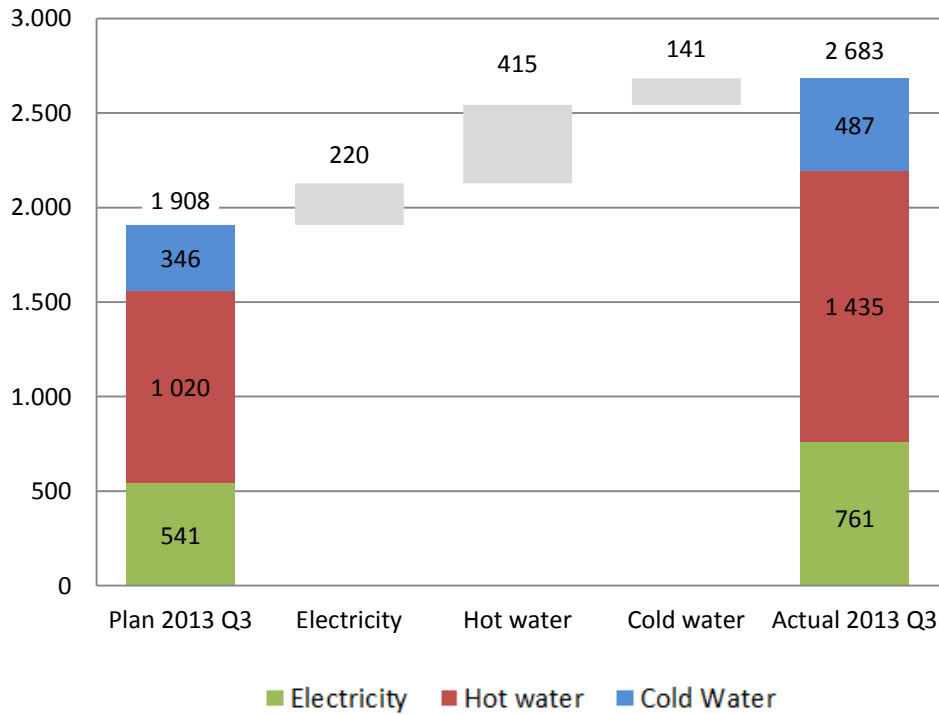


Chart 4

- 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 Q3	2011-2013 Q3	2011-2016
Target ISK	142	592	1 250
Progress ISK	158	951	951

Target EUR	0.9	3.6	7.6
Progress EUR	1.0	5.8	5.8

Target vs. performance of other investment reduction in 2011-2013 Q3

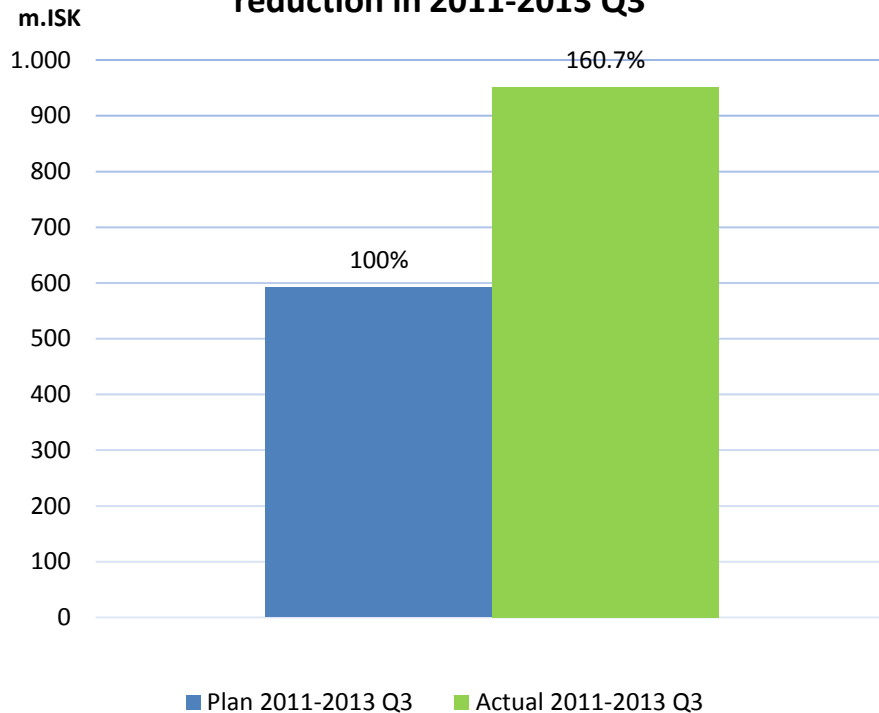


Chart 5

- The total target for 2013 Q3 is ISK 142 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2013 Q3 amounts to ISK 158 million which is ISK 16 million above target.
- The decrease for 2011-2013 Q3 amounts to ISK 951 million which surpasses target by ISK 359 million.



2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

Amounts in millions	2013 Q3	2011-2013 Q3	2011-2016
Target ISK	862	3 536	8 013
Progress ISK	1 513	4 841	4 841

Target EUR	5.3	21.6	49.0
Progress EUR	9.3	29.6	29.6

Target vs. performance - increased revenues from sewerage and hot water in 2011 - 2013 Q3

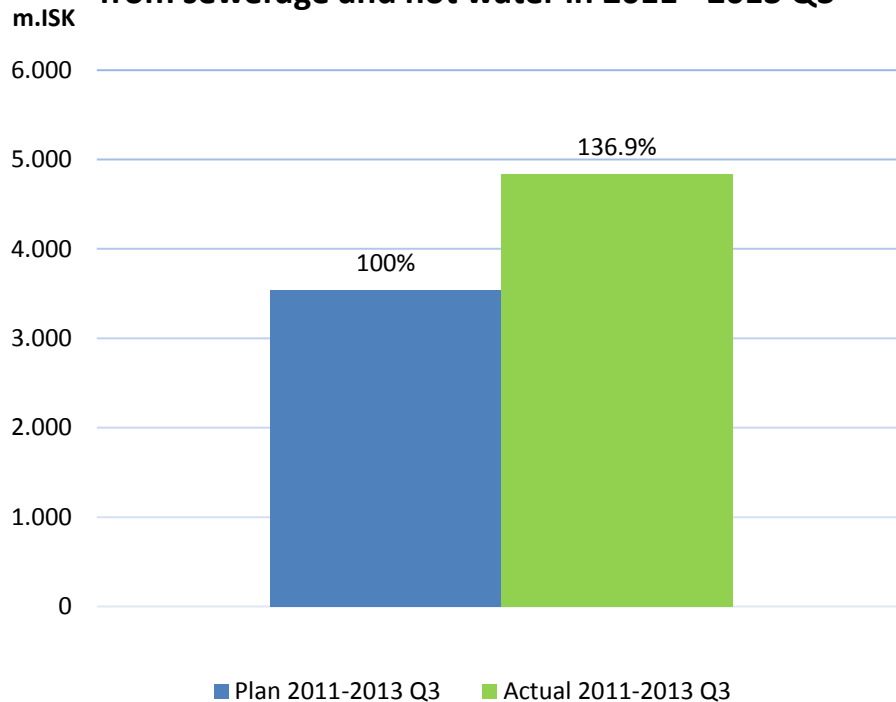


Chart 6

- The target for 2013 was to raise revenues by ISK 1,215 million and for 2011-2013 Q3 by ISK 3,536 million by increasing tariffs. The increase in 2011-2013 Q3 is ISK 4,841 million. It is ISK 1,305 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 Q3	2011-2013 Q3	2011-2016
Target ISK	636	1 836	5 000
Progress ISK	1 226	2 860	2 860
Target EUR	3.9	11.2	30.6
Progress EUR	7.5	17.5	17.5

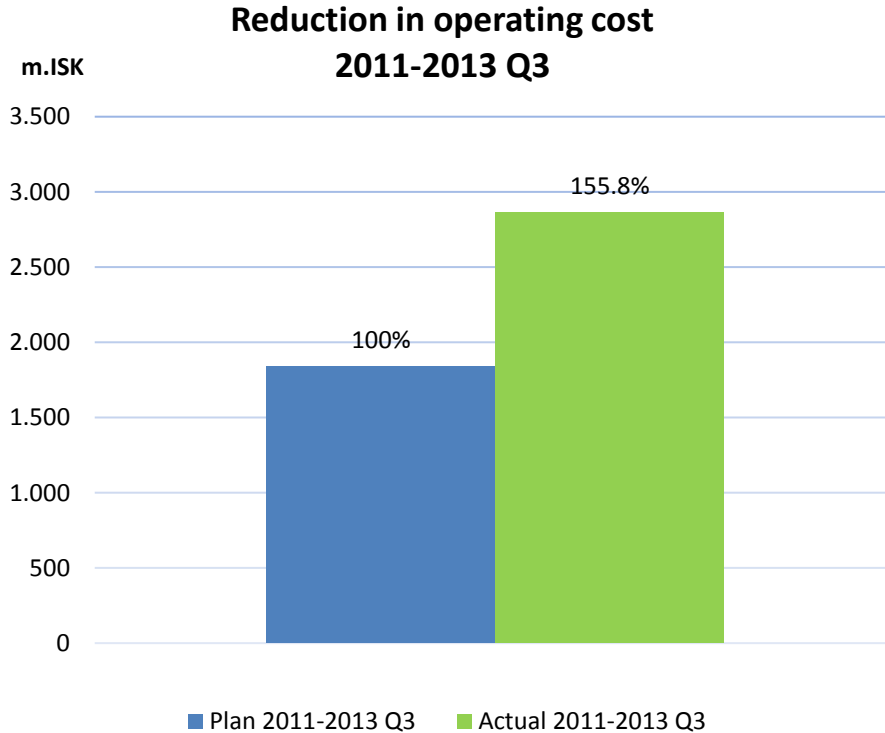


Chart 7

- The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2013 Q3 was ISK 636 million. Operation costs are ISK 590 million lower than target in 2013 Q3.
- Operation cost reduction in 2011-2013 Q3 was ISK 2,860 million or ISK 1,024 million above target.
- Pension expenses and allowance for doubtful accounts are ISK 44.2 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 189 since 2008 when it was at its peak and the employee count now stands at 418.
- In 2013 Q3, the number of permanent employees of OR reduced by 13. At the end of March, employees were 387.
- Salary cost is ISK 72 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

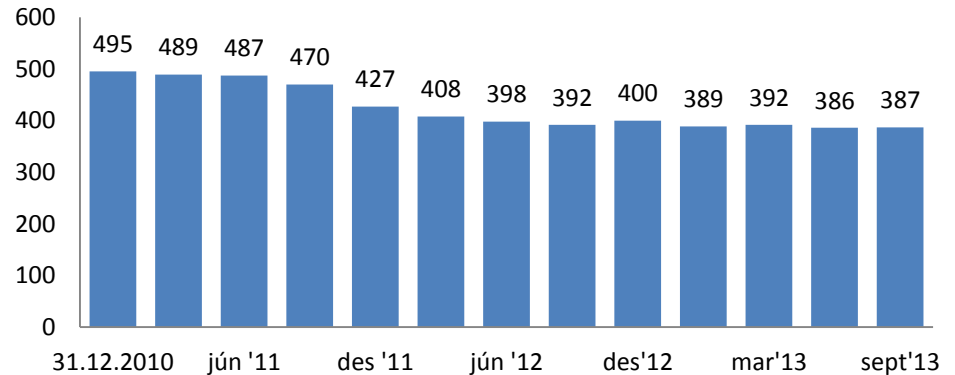


Chart 8

Numer of permanent employees at OR group

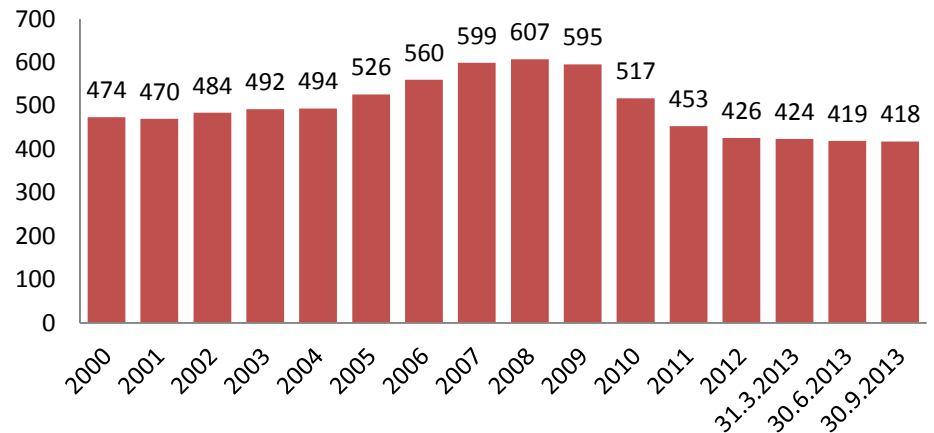


Chart 9

2.8 SALE OF ASSETS

Amounts in millions	2013 Q3	2011-2013 Q3	2011-2016
Target ISK	3 825	6 825	10 000
Progress ISK	986	2 313	2 313

Target EUR	23.4	41.8	61.2
Progress EUR	6.0	14.2	14.2

Assets sold in 2013 Q3 amounted to ISK 986 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 36 million

Table 4

ISK millions	2013 Q3	Status
Property and real estates		
Perlan	950.0	Paid in full
Sale of various equipment	36.0	Paid in full
Equity in affiliates total	986.0	

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 headquarters. Contracts regarding the sale of OR's headquarters were signed on November 1st. The amount of ISK 5.1 billions has been paid in full.
- Sales process for HS Veitur utility began in Q2 2012 and is still in process

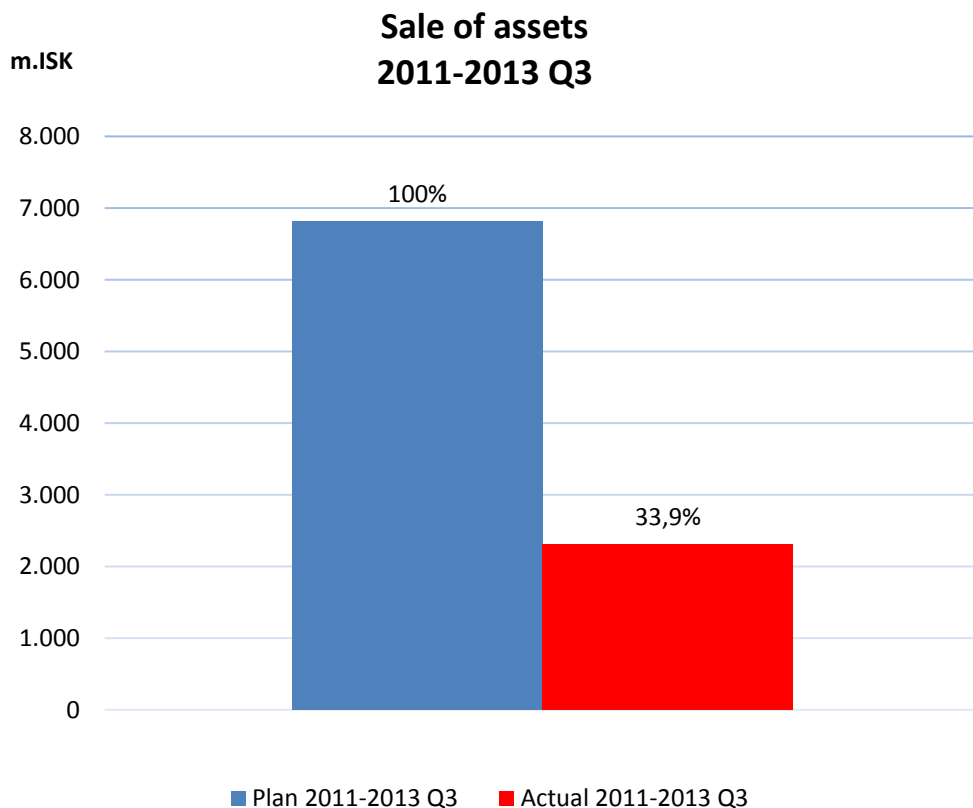


Chart 10

2.9 SUBORDINATED LOAN FROM OWNERS

Amounts in millions	2013 Q3	2011-2013 Q3	2011-2016
Target ISK	4 000	12 000	12 000
Progress ISK	4 000	12 000	12 000

Target EUR	24,5	73,4	73,4
Progress EUR	24,5	73,4	73,4

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.

