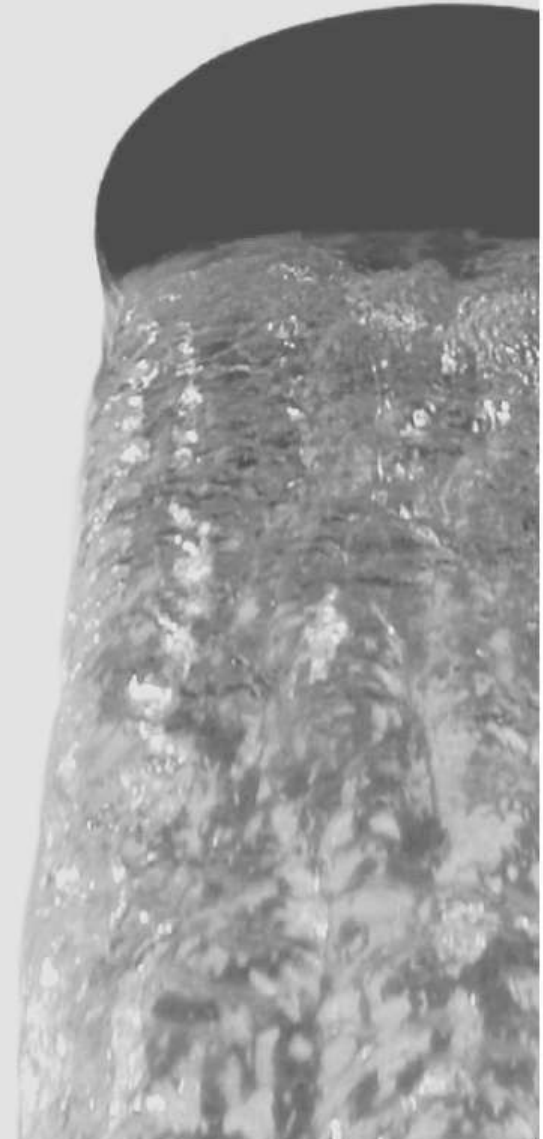




# The Plan Progress report

2013

March 21<sup>st</sup> 2014



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# 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 year end 2013. 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 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 158.5.

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        | 94.6         |
| Sale of assets                              | ✓ 1 000         | ✗ 2 000         | ✓ 5 100         | 1 900        |              |              | 10 000        | 63.1         |
| Reduction in operation cost                 | ✓ 300           | ✓ 900           | ✓ 900           | 900          | 1 000        | 1 000        | 5 000         | 31.5         |
| Reduction in other investments              | ✓ 250           | ✓ 200           | ✓ 200           | 200          | 200          | 200          | 1 250         | 7.9          |
| Postponement of investments in sewage       |                 | ✓ 2 000         | ✓ 900           |              | -2 000       | - 900        | 0             | 0.0          |
| <b>Total</b>                                | ✓ <b>2 755</b>  | ✓ <b>8 618</b>  | ✓ <b>9 790</b>  | <b>5 518</b> | <b>1 610</b> | <b>2 959</b> | <b>31 250</b> | <b>197.2</b> |
| Subordinated loans from owners              | ✓ 8 000         |                 | ✓ 4 000         |              |              |              | 12 000        | 75.7         |
| Increased revenues due to higher tariffs    | ✓ 1 122         | ✓ 1 552         | ✓ 1 215         | 1 295        | 1 330        | 1 499        | 8 013         | 50.6         |
| <b>Total</b>                                | ✓ <b>9 122</b>  | ✓ <b>1 552</b>  | ✓ <b>5 215</b>  | <b>1 295</b> | <b>1 330</b> | <b>1 499</b> | <b>20 013</b> | <b>126.3</b> |
| <b>"PLAN" total</b>                         | ✓ <b>11 877</b> | ✓ <b>10 170</b> | ✓ <b>15 005</b> | <b>6 813</b> | <b>2 940</b> | <b>4 458</b> | <b>51 263</b> | <b>323.4</b> |

## 2 DASHBOARD

### 2.1 TOTAL PROGRESS OF THE PLAN

| Amounts in millions | 2013   | 2011-2013 | 2011-2016 |
|---------------------|--------|-----------|-----------|
| Target ISK          | 15 005 | 37 052    | 51 263    |
| Progress ISK        | 18 301 | 42 166    | 42 166    |

|              |       |       |       |
|--------------|-------|-------|-------|
| Target EUR   | 94,7  | 233,8 | 323,4 |
| Progress EUR | 115,5 | 266,0 | 266,0 |

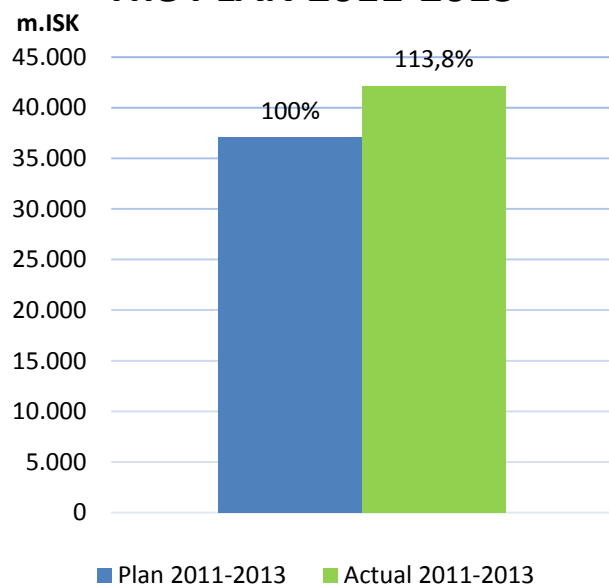
The total progress 2013 is ISK 3,296 millions better than the PLAN's target figures. The best results are in sale of assets and good progress is shown in most areas of the PLAN as may be seen in table 2. Individual reports follow in the next pages. Total progress of the PLAN in 2011-2013 is ISK 5,114 millions better than target or 13.8%.

Influences of external variables are positive in 2013 by ISK 47 millions but negative by ISK 421 millions during the period 2011-2013. Net total of "the PLAN" is therefore ISK 3,343 millions above target in 2013 and ISK 4,693 millions above target 2011-2013.

Table 2

| Actions in ISK billions                     | The Plan    |             | Actual    |             |
|---|-------------|-------------|-----------|-------------|
|   | 2011-2016   | 2011-2013   | 2011-2013 |             |
| Reduction of investments in utility systems | 15.0        | 7.4         | ✓         | 9.8         |
| Sale of assets                              | 10.0        | 8.1         | ✗         | 7.4         |
| Reduction in operating costs                | 5.0         | 2.1         | ✓         | 3.0         |
| Reduction of other investments              | 1.3         | 0.7         | ✓         | 1.1         |
| Postponement of investments in sewerage     | 0.0         | 2.9         | ✓         | 3.3         |
| <b>Total</b>                                | <b>31.3</b> | <b>21.2</b> | <b>✓</b>  | <b>24.7</b> |
| Subordinated loans from owners              | 12.0        | 12.0        | ✓         | 12.0        |
| Increased revenues due to higher tariffs    | 8.0         | 3.9         | ✓         | 5.5         |
| <b>Total</b>                                | <b>20.0</b> | <b>15.9</b> | <b>✓</b>  | <b>17.5</b> |
| <b>The Plan Total</b>                       | <b>51.3</b> | <b>37.1</b> | <b>✓</b>  | <b>42.2</b> |

#### The PLAN 2011-2013



## 2.2 EXTERNAL VARIABLES 2013

- 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. A lower trade weighted index than expected and 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 47 million above 2013 projections. Effect on cash flow in the period 2011-2013 is negative by ISK 421 million.

**Table 3**

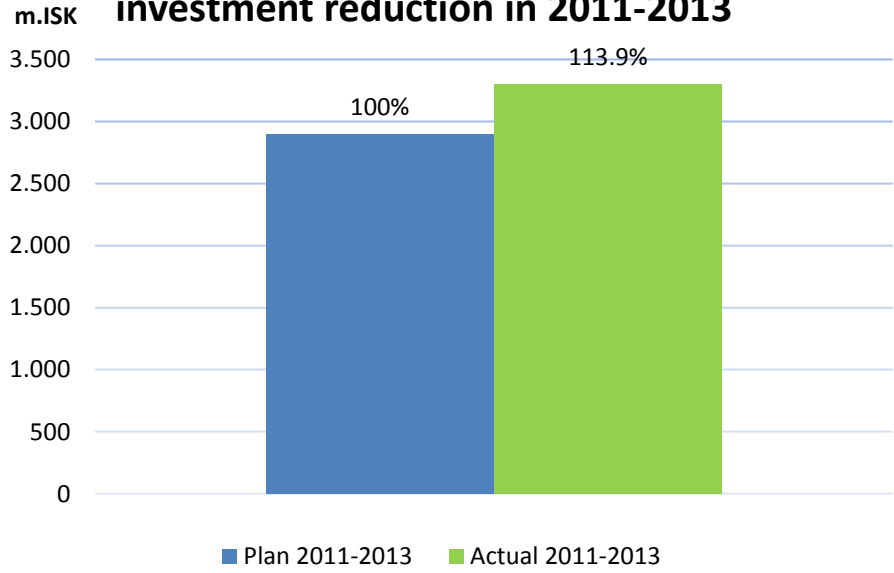
| Main assumptions                    | 2013 budget | 2013 actual | Affect on cash flow m.ISK 2013 | Affect on cash flow m.EUR 2013 | Affect on cash flow m.ISK 2011-2013 | Affect on cash flow m.EUR 2011-2013 |
|-------------------------------------|-------------|-------------|--------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| <b>Consumer price index, change</b> | 2.2%        | 3.9%        |                                |                                |                                     |                                     |
| <b>Building cost index, change</b>  | 2.2%        | 3.5%        | 511                            | 3.2                            | 1 031                               | 6.5                                 |
| <b>TWI, average</b>                 | 216.3 pts   | 210.1 pts   | 42                             | 0.3                            | -425                                | -2.7                                |
| <b>Aluminum price, average</b>      | \$2 722     | \$1 884     | -2 527                         | -15.9                          | -4 414                              | -27.8                               |
| <b>Interest rates, average</b>      | 2.98%       | 1.67%       | 2 021                          | 12.8                           | 3 387                               | 21.4                                |
| <b>Total</b>                        |             |             | <b>47</b>                      | <b>0.3</b>                     | <b>-421</b>                         | <b>-2.7</b>                         |

# 2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

| Amounts in millions | 2013  | 2011-2013 | 2011-2016 |
|---------------------|-------|-----------|-----------|
| Target ISK          | 900   | 2 900     | 0         |
| Progress ISK        | 1 152 | 3 302     | 3 302     |
| Target EUR          | 5.7   | 18.3      | 0.0       |
| Progress EUR        | 7.3   | 20.8      | 20.8      |

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 2011-2013**



## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

| Amounts in millions | 2013  | 2011-2013 | 2011-2016 |
|---------------------|-------|-----------|-----------|
| Target ISK          | 2 690 | 7 413     | 15 000    |
| Progress ISK        | 3 203 | 9 835     | 9 835     |
| Target EUR          | 17.0  | 46.8      | 94.6      |
| Progress EUR        | 20.2  | 62.1      | 62.1      |

- 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 is ISK 3,203 million. It is ISK 513 million above target. The decrease in 2011-2013 is ISK 9,835 million. It is ISK 2,422 million above target.

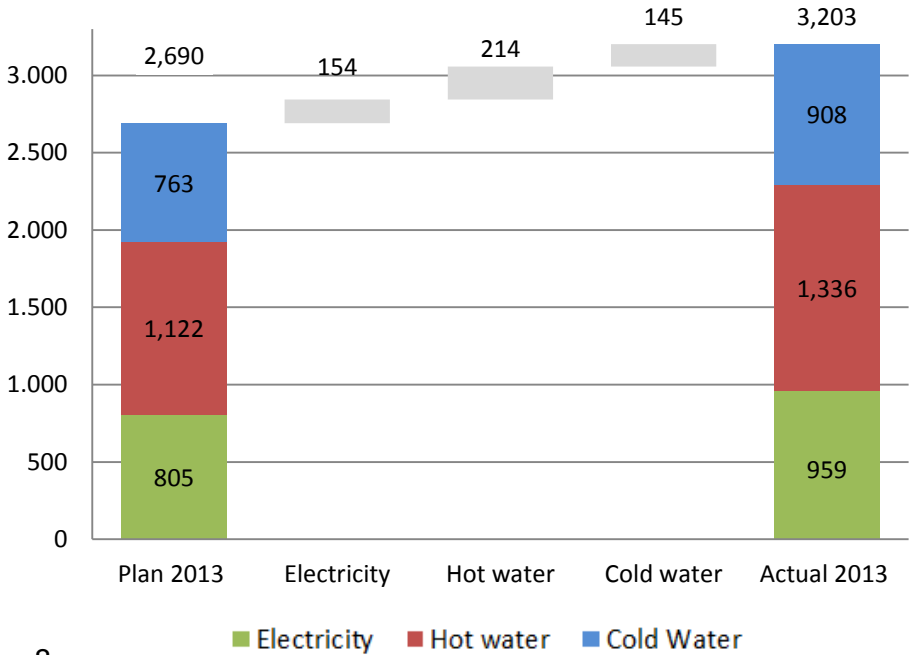
**Target vs. performance of utility investment reduction in 2011-2013**



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

**Investments in utility segments**



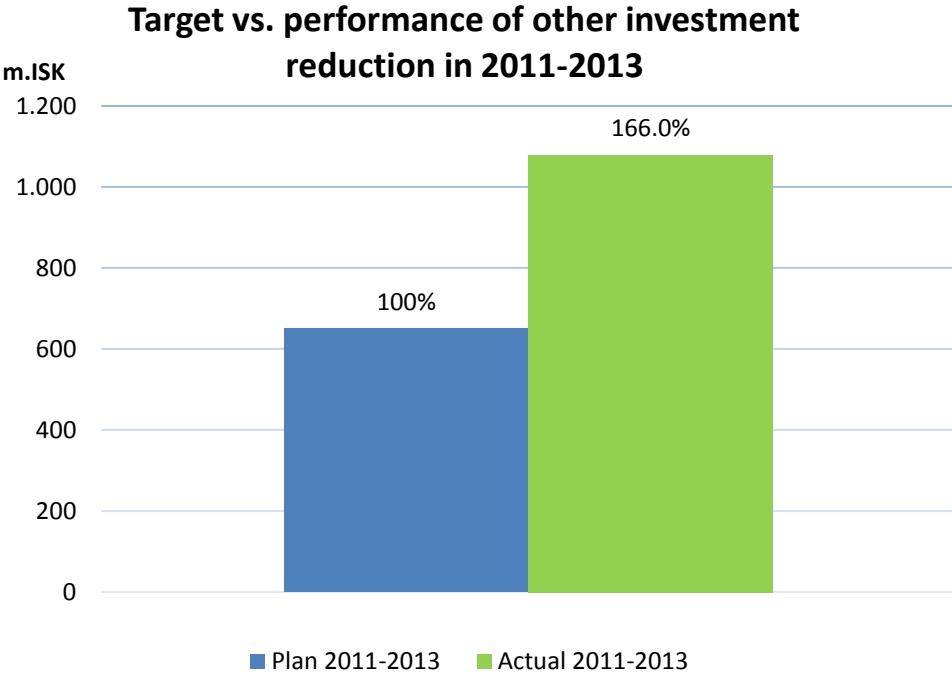


# 2.5 REDUCTION IN OTHER INVESTMENTS

| Amounts in millions | 2013 | 2011-2013 | 2011-2016 |
|---------------------|------|-----------|-----------|
| Target ISK          | 200  | 650       | 1 250     |
| Progress ISK        | 286  | 1 079     | 1 079     |

|              |     |     |     |
|--------------|-----|-----|-----|
| Target EUR   | 1.3 | 4.1 | 7.9 |
| Progress EUR | 1.8 | 6.8 | 6.8 |

- The total target for 2013 is ISK 200 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2013 amounts to ISK 286 million which is ISK 86 million above target.
- The decrease for 2011-2013 amounts to ISK 1,079 million which surpasses target by ISK 429 million.

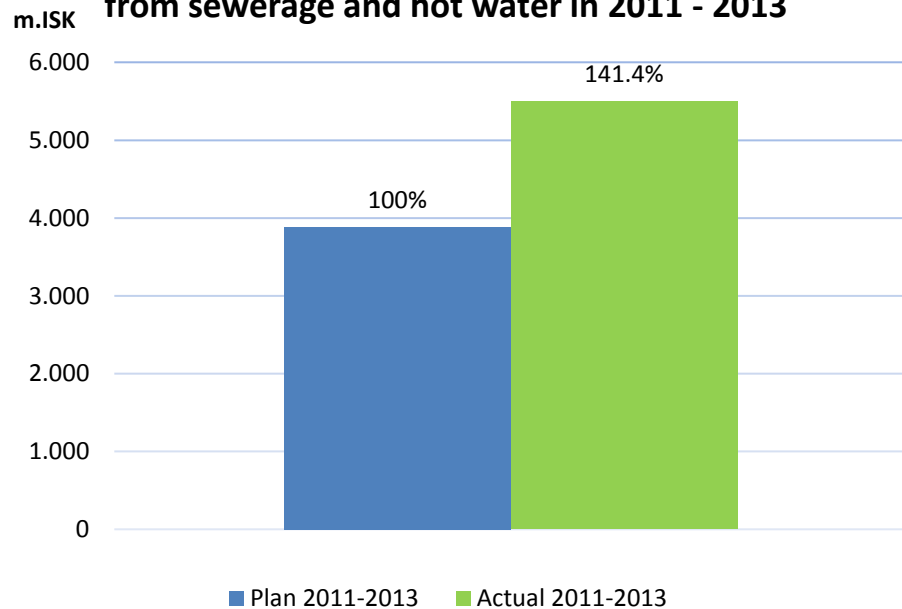


## 2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

| Amounts in millions | 2013  | 2011-2013 | 2011-2016 |
|---------------------|-------|-----------|-----------|
| Target ISK          | 1 215 | 3 889     | 8 013     |
| Progress ISK        | 2 170 | 5 498     | 5 498     |
| Target EUR          | 7.7   | 24.5      | 50.6      |
| Progress EUR        | 13.7  | 34.7      | 34.7      |

- The target for 2013 was to raise revenues by ISK 1,215 million and for 2011-2013 by ISK 3,889 million by increasing tariffs. The increase in 2011-2013 is ISK 5,489 million. It is ISK 1,609 million above target.
- Tariffs are now connected to CPI and revenues are beyond target because of unexpected rise in the CPI.

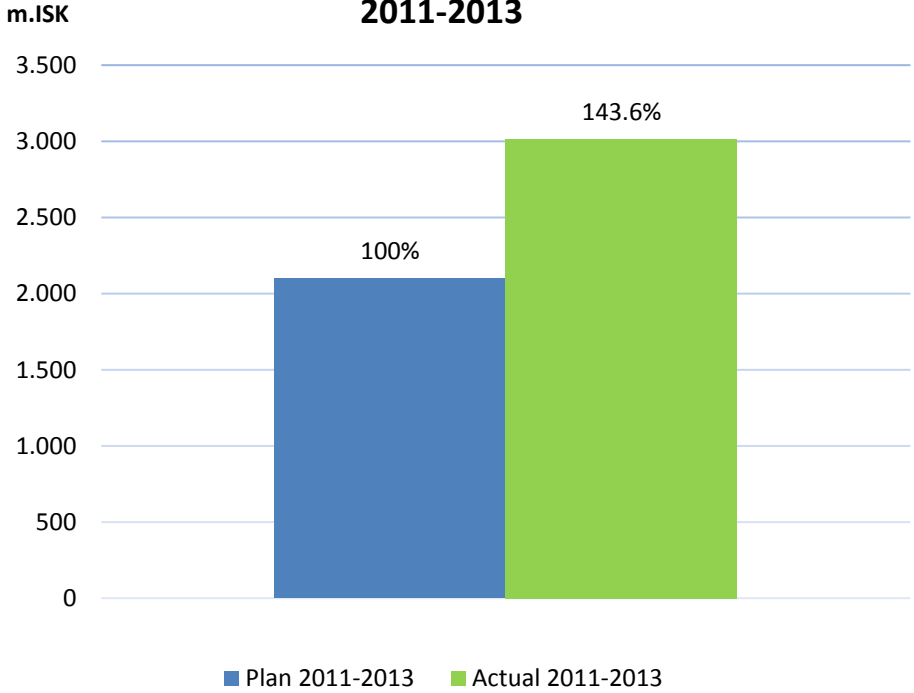
**Target vs. performance - increased revenues from sewerage and hot water in 2011 - 2013**



# 2.7 REDUCTION IN OPERATING COST

| Amounts in millions | 2013  | 2011-2013 | 2011-2016 |
|---------------------|-------|-----------|-----------|
| Target ISK          | 900   | 2 100     | 5 000     |
| Progress ISK        | 1 381 | 3 016     | 3 016     |
| Target EUR          | 5.7   | 13.2      | 31.5      |
| Progress EUR        | 8.7   | 19.0      | 19.0      |

**Reduction in operating cost  
2011-2013**



- The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2013 was ISK 900 million. Operation costs are ISK 481 million lower than target in 2013.
- Operation cost reduction in 2011-2013 was ISK 3,016 million or ISK 916 million above target.
- Pension expenses and allowance for doubtful accounts are ISK 101 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.

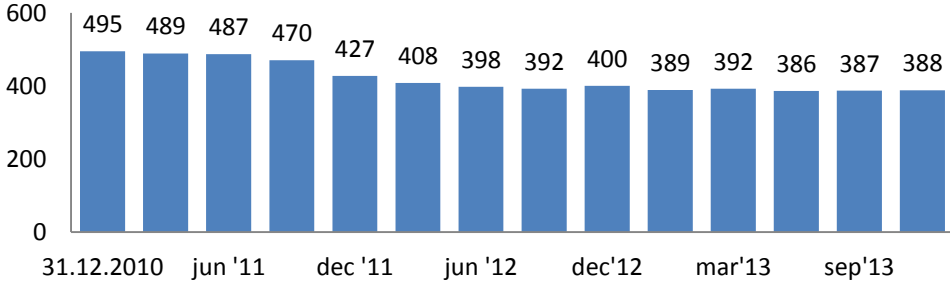


# 2.7 REDUCTION IN OPERATING COST, CONT.

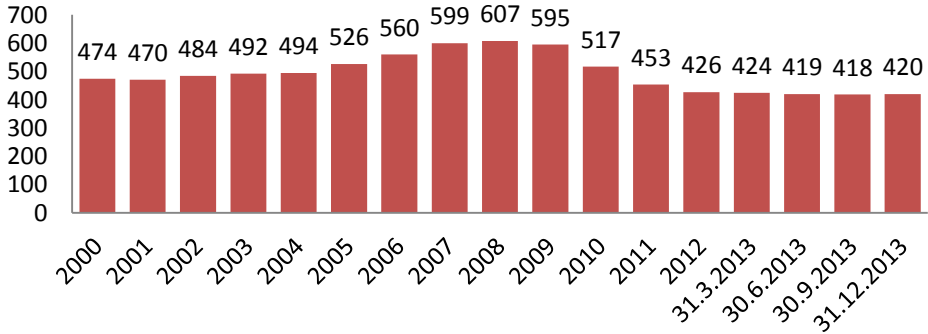
## REDUCING PERSONNEL – SALARY COST

- 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 187 since 2008 when it was at its peak and the employee count now stands at 420.
- In 2013, the number of permanent employees of OR reduced by 12. At the end of the year, employees were 388.
- Salary cost is ISK 103,7 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

| Amounts in millions | 2013  | 2011-2013 | 2011-2016 |
|---------------------|-------|-----------|-----------|
| Target ISK          | 5 100 | 8 100     | 10 000    |
| Progress ISK        | 6 109 | 7 436     | 7 436     |

|              |      |      |      |
|--------------|------|------|------|
| Target EUR   | 32.2 | 51.1 | 63.1 |
| Progress EUR | 38.5 | 46.9 | 46.9 |

Assets sold in 2013 amounted to ISK 6,109 million. Properties and real estate that are not a part of OR's core business were sold for ISK 6,050 million. Various equipment and materials were sold for ISK 59 million

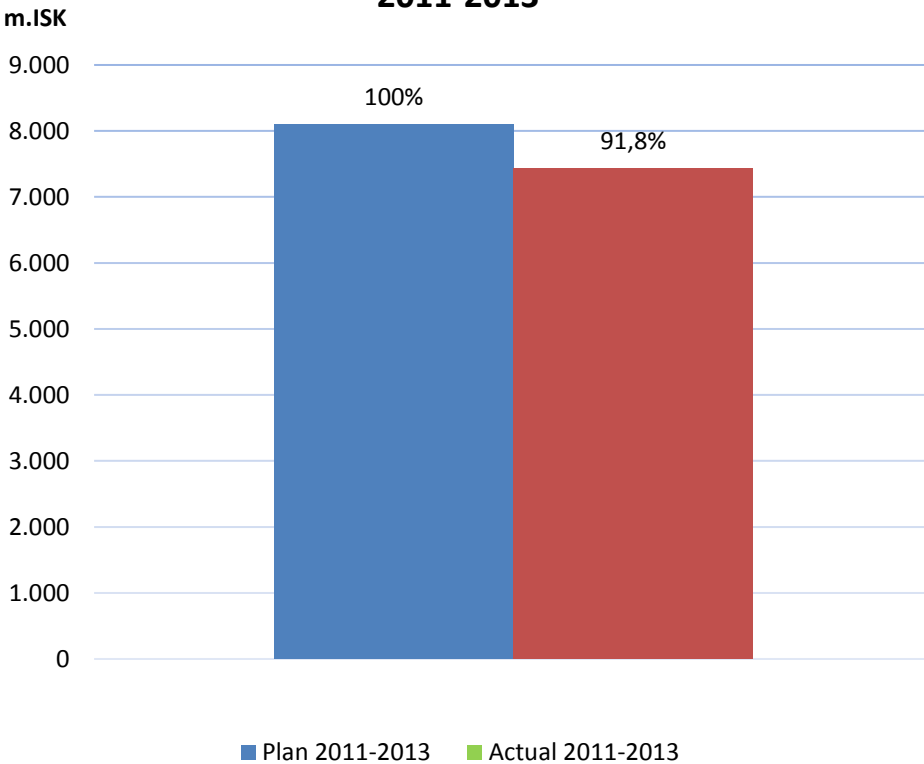
**Table 4**

| ISK millions                     | 2013    | Status       |
|----------------------------------|---------|--------------|
| <b>Property and real estates</b> |         |              |
| Perlan                           | 950.0   | Paid in full |
| Bæjarháls headquarters           | 5,100.0 | Paid in full |
| Sale of various equipment        | 58.9    | Paid in full |
| Equity in affilitates total      | 6,108.9 |              |

# 2.8 SALES OF ASSETS, CONT.

- **List of 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.
- Bæjarhóls 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 hf. began in Q2 2012. The purchase agreement was finalized without preconditions on behalf of Reykjavik Energy before end of year 2013. Documentation was finalized in February 2013 and awaits approval of the Icelandic competition authority.

**Sale of assets  
2011-2013**



# 2.9 SUBORDINATED LOAN FROM OWNERS

| Amounts in millions | 2013  | 2011-2013 | 2011-2016 |
|---------------------|-------|-----------|-----------|
| Target ISK          | 4 000 | 12 000    | 12 000    |
| Progress ISK        | 4 000 | 12 000    | 12 000    |
| Target EUR          | 25.2  | 75.7      | 75.7      |
| Progress EUR        | 25.2  | 75.7      | 75.7      |

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.

