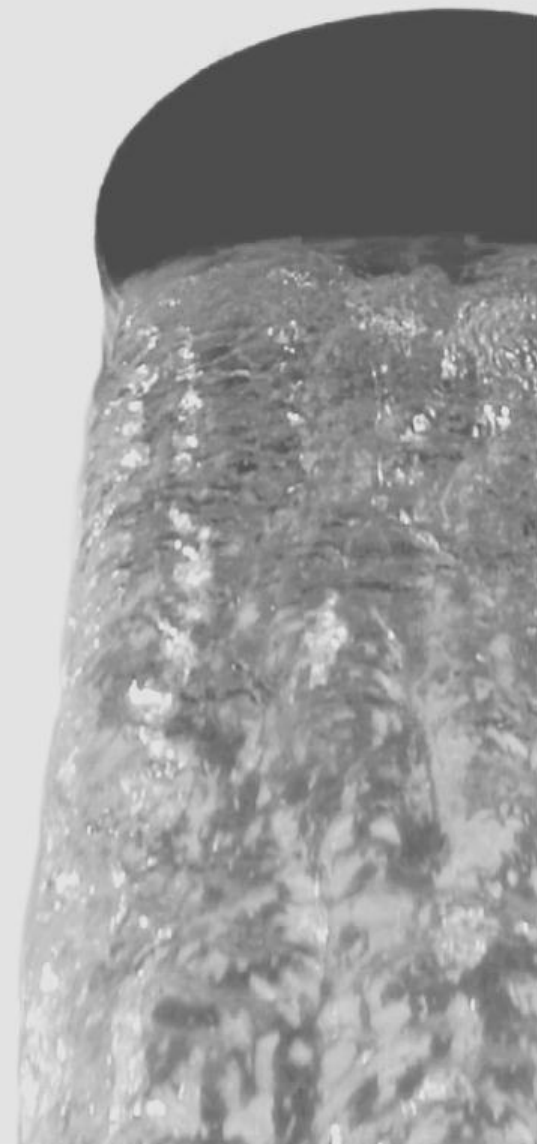




The Plan Progress report

2014 Q1
Unaudited

May 16th 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 March 31st 2014. 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 155.4.

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	96.5
Sale of assets	✓ 1 000	✗ 2 000	✓ 5 100	1 900			10 000	64.4
Reduction in operation cost	✓ 300	✓ 900	✓ 900	900	1 000	1 000	5 000	32.2
Reduction in other investments	✓ 250	✓ 200	✓ 200	200	200	200	1 250	8.0
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	201.1
Subordinated loans from owners	✓ 8 000		✓ 4 000				12 000	77.2
Increased revenues due to higher tariffs	✓ 1 122	✓ 1 552	✓ 1 215	1 295	1 330	1 499	8 013	51.6
Total	✓ 9 122	✓ 1 552	✓ 5 215	1 295	1 330	1 499	20 013	128.8
"PLAN" total	✓ 11 877	✓ 10 170	✓ 15 005	6 813	2 940	4 458	51 263	329.9

2 DASHBOARD

2.1 TOTAL PROGRESS OF THE PLAN

	2014 Q1	2011-2014 Q1	2011-2016
Target ISK	1 679	38 731	51 263
Progress ISK	2 986	45 152	45 152

Target EUR	10.8	249.2	329.9
Progress EUR	19.2	290.6	290.6

The total progress 2014 Q1 is ISK 1,307 millions better than the PLAN's target figures. The best results are in sale of assets and good progress is shown in all areas of the PLAN as may be seen in table 2. Individual reports follow in the next pages. Total progress of the PLAN in 2011-2014 Q1 is ISK 6,421 millions better than target or 16.6%.

Influences of external variables are positive in 2014 Q1 by ISK 186 millions but negative by ISK 235 millions during the period 2011-2014 Q1. Net total of "the PLAN" is therefore ISK 1,493 millions above target in 2014 Q1 and ISK 6,186 millions above target 2011-2014 Q1.

The PLAN 2011 - 2014 Q1

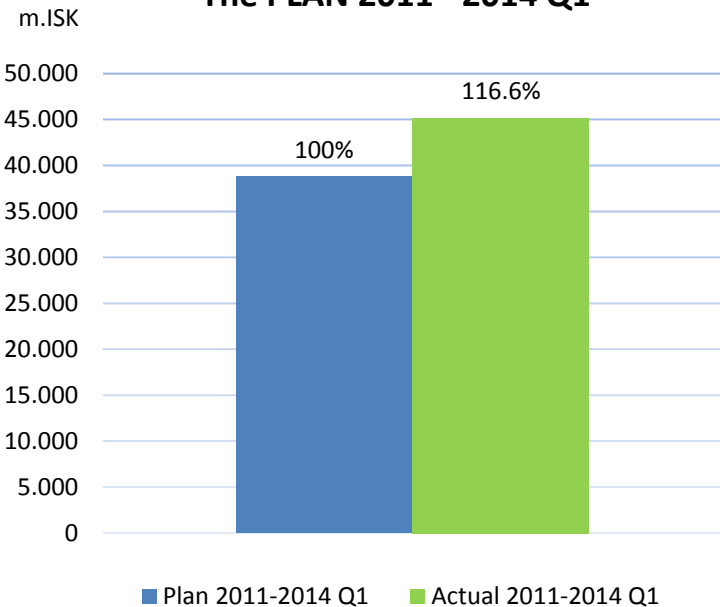


Table 2

Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2014Q1	2011-2014Q1	
Reduction of investments in utility systems	15.0	7.8	✗	10.4
Sale of assets	10.0	8.9	✓	8.9
Reduction in operating costs	5.0	2.3	✓	3.3
Reduction of other investments	1.3	0.7	✓	1.2
Postponement of investments in sewerage	0.0	2.9	✓	3.3
Total	31.3	22.6	✓	27.1
Subordinated loans from owners	12.0	12.0	✓	12.0
Increased revenues due to higher tariffs	8.0	4.2	✓	6.0
Total	20.0	16.2	✓	18.0
The Plan Total	51.3	38.7	✓	45.2

2.2 EXTERNAL VARIABLES 2014 Q1

- 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 Q1. 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 186 million above 2013 projections. Effect on cash flow in the period 2011-2013 is negative by ISK 235 million.

Table 3

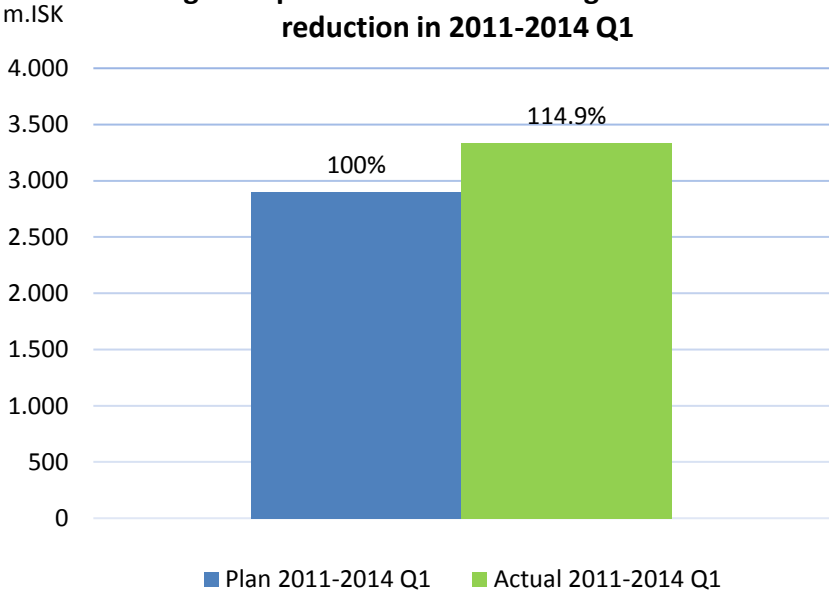
Main assumptions	2014 Q1 budget	2014 Q1 actual	Affect on cash flow m.ISK 2014 Q1	Affect on cash flow m.EUR 2014 Q1	Affect on cash flow m.ISK 2011-2014 Q1	Affect on cash flow m.EUR 2011-2014 Q1
Consumer price index, change	2.2%	2.5%	196	1.3	1 227	7.9
Building cost index, change	2.2%	3.3%				
TWI, average Q1	216.3 pts	207.6 pts	60	0.4	-365	-2.3
Aluminum price, average Q1	\$2 745	\$1 752	-756	-4.9	-5 170	-33.3
Interest rates, average	3.54%	1.87%	686	-4.4	4 073	-26.2
Total			186	1.2	-235	-1,5

2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2014 Q1	2011-2014 Q1	2011-2016
Target ISK	0	2 900	0
Progress ISK	32	3 333	3 333
Target EUR	0.0	18.7	0.0
Progress EUR	0.2	21.5	21.5

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 2011-2014 Q1

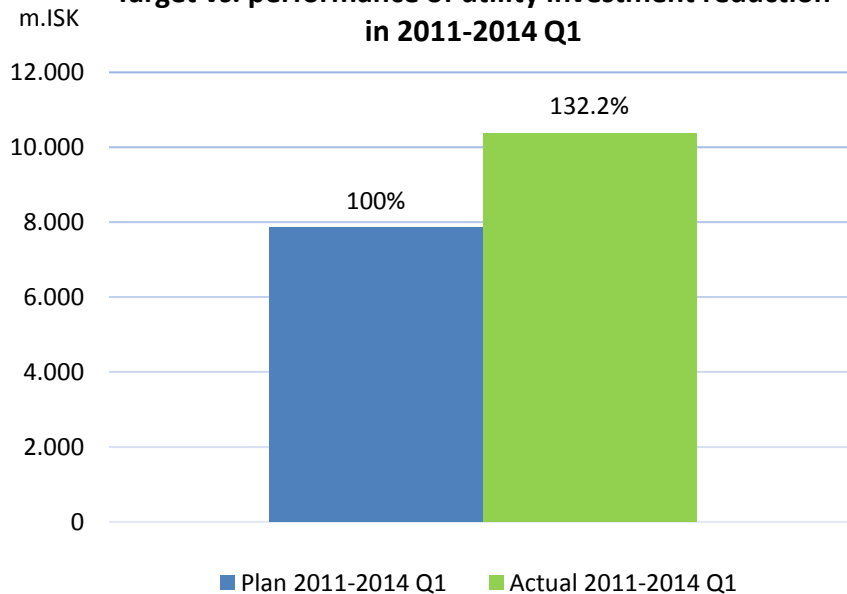


2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

- An internal investment committee prioritizes all projects. Each project categorised as priority will then have to be approved by the procurement control.
- In 2014 Q1 the target in utilities is to lower investments by ISK 434 million. The decrease in 2014 Q1 is ISK 538 million. It is ISK 104 million above target. The decrease in 2011-2014 Q1 is ISK 10,373 million. It is ISK 2,526 million above target.

	2014 Q1	2011-2014 Q1	2011-2016
Target ISK	434	7 847	15 000
Progress ISK	538	10 373	10 373
Target EUR	2.8	50.5	96.5
Progress EUR	3.5	66.8	66.8

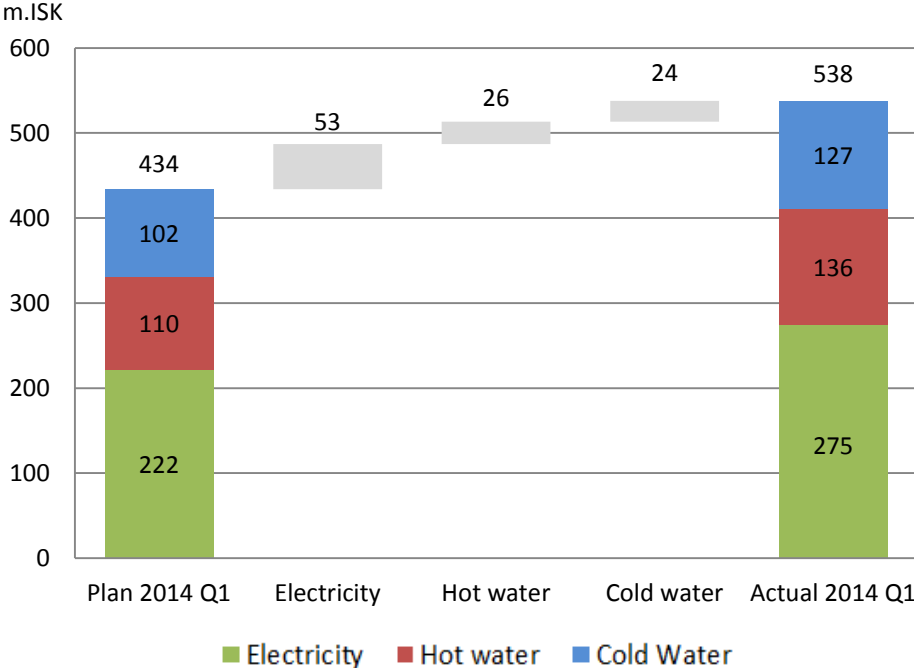
Target vs. performance of utility investment reduction in 2011-2014 Q1



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



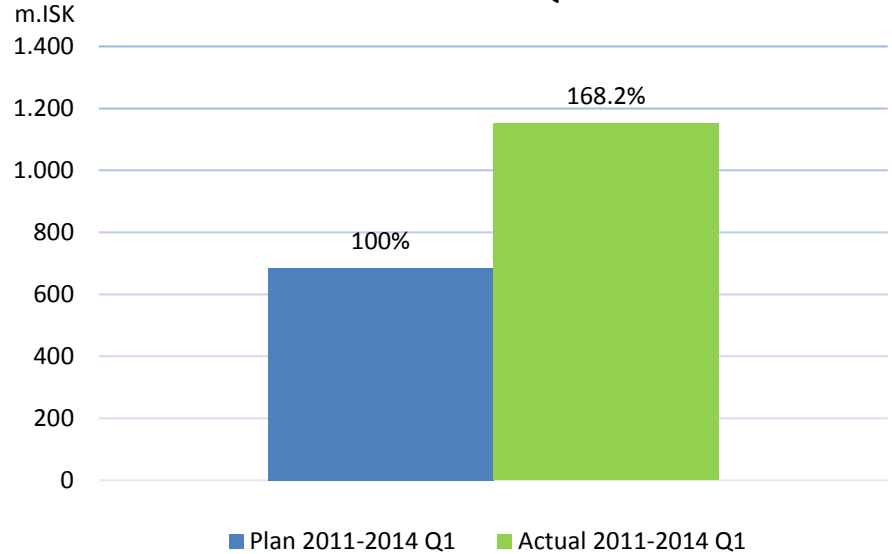
	2014 Q1	2011-2014 Q1	2011-2016
Target ISK	34	684	1 250
Progress ISK	72	1 152	1 152

Target EUR	0.2	4.4	8.0
Progress EUR	0.5	7.4	7.4

2.5 REDUCTION IN OTHER INVESTMENTS

- The total target for 2014 Q1 is ISK 34 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2014 Q1 amounts to ISK 72 million which is ISK 38 million above target.
- The decrease for 2011-2014 Q1 amounts to ISK 1,152 million which surpasses target by ISK 467 million.

Target vs. performance of other investment reduction in 2011-2014 Q1



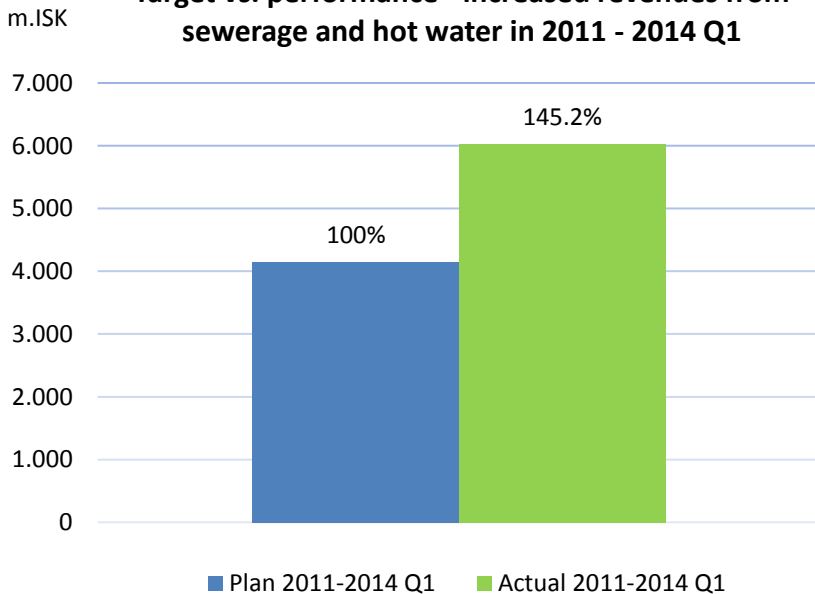
2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

- The target for 2014 Q1 was to raise revenues by ISK 265 million and for 2011-2014 Q1 by ISK 4,154 million by increasing tariffs. The increase in 2011-2014 is ISK 6,032 million. It is ISK 1,878 million above target.
- Tariffs are now connected to CPI and revenues are beyond target because of unexpected rise in the CPI.

	2014 Q1	2011-2014 Q1	2011-2016
Target ISK	265	4 154	8 013
Progress ISK	534	6 032	6 032

Target EUR	1.7	26.7	51.6
Progress EUR	3.4	38.8	38.8

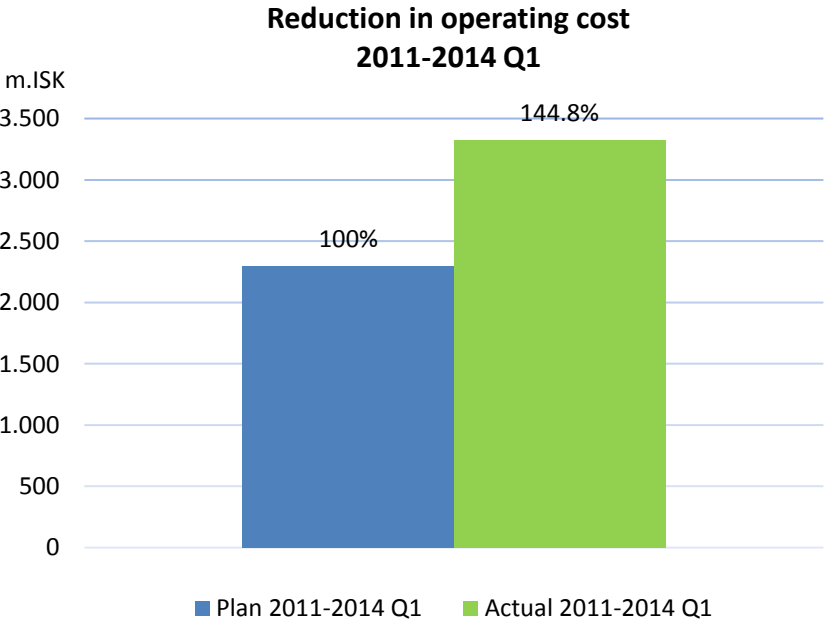
Target vs. performance - increased revenues from sewerage and hot water in 2011 - 2014 Q1



2.7 REDUCTION IN OPERATING COST

Amounts in millions	2014 Q1	2011-2014 Q1	2011-2016
Target ISK	197	2 297	5 000
Progress ISK	310	3 326	3 326

Target EUR	1.3	14.8	32.2
Progress EUR	2.0	21.4	21.4



- 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 114 million lower than target in 2014 Q1.
- Operation cost reduction in 2011-2014 Q1 was ISK 3,326 million or ISK 1,029 million above target.
- Pension expenses and allowance for doubtful accounts are ISK 30 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.

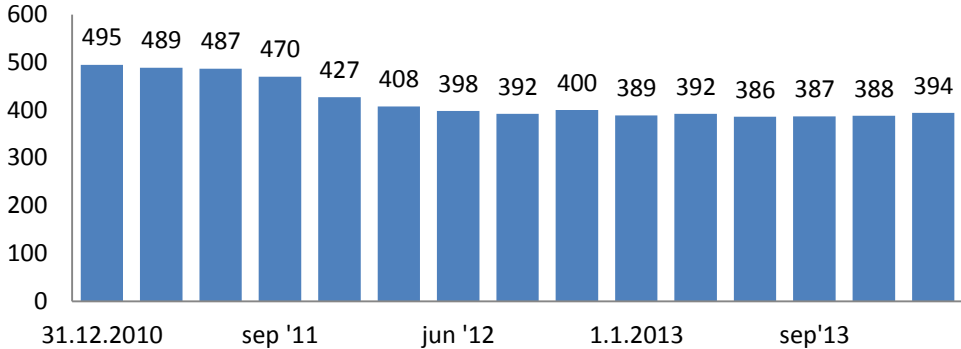


2.7 REDUCTION IN OPERATING COST, CONT.

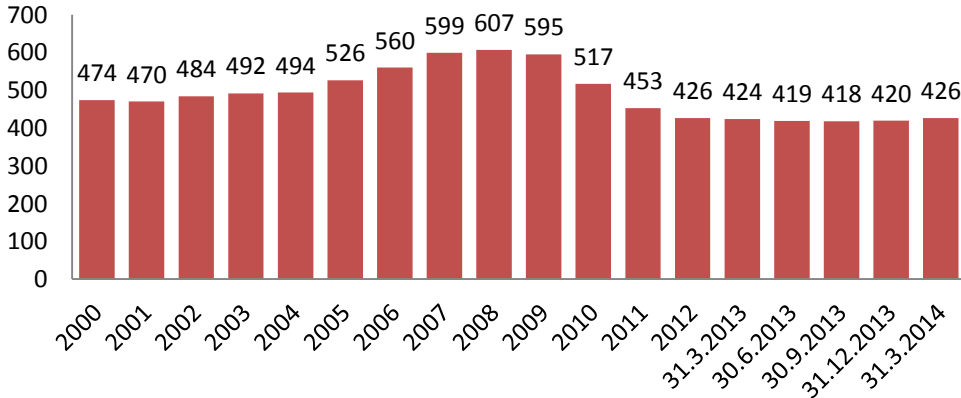
REDUCING PERSONNEL – SALARY COST

- 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 181 since 2008 when it was at its peak and the employee count now stands at 426.
- In 2014 Q1, the number of permanent employees of OR increased by 6. At the end of the year, employees were 394.
- Salary cost is ISK 23.7 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



	2014 Q1	2011-2014 Q1	2011-2016
Target ISK	750	8 850	10 000
Progress ISK	1 500	8 936	8 936

Target EUR	4.8	56.9	64.4
Progress EUR	9.7	57.5	57.5

2.8 SALE OF ASSETS

Assets that are not a part of OR's core business and sold in 2014 Q1 amounted to ISK 1,500 million.

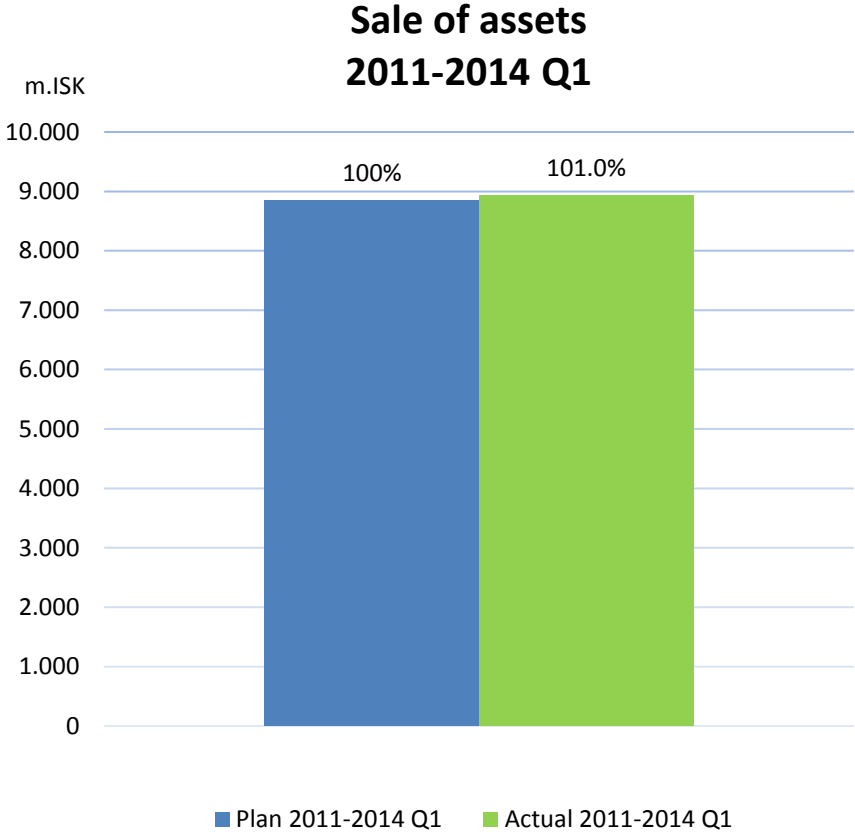
Various equipment and materials were sold for ISK 0.4 million

Table 4

ISK millions	2014 Q1	Status
HS Veitur hf.	1,500.0	Paid in full
Sale of various equipment	0.4	Paid in full
Total	1,500.4	

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.



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.

