

# The Plan Progress Report

2016Q1

May 2016



# INDEX

<b>1 Introduction</b>	<b>3</b>
<b>2 Dashboard</b>	<b>4</b>
2.1 Total progress	4
2.2 External variables	5
2.3 Postponement of investments in sewerage	6
2.4 Reduction of investments in utility systems	7
2.5 Reduction of other investments	9
2.6 Increased revenues due to higher tariffs	10
2.7 Reduction in operating cost	11
2.8 Sale of assets	13
2.9 Subordinated loan from owners	14

# 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 March 31<sup>st</sup> 2016. 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 – 2016Q1 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 140.58.

## 2 DASHBOARD

### 2.1 TOTAL PROGRESS OF THE PLAN

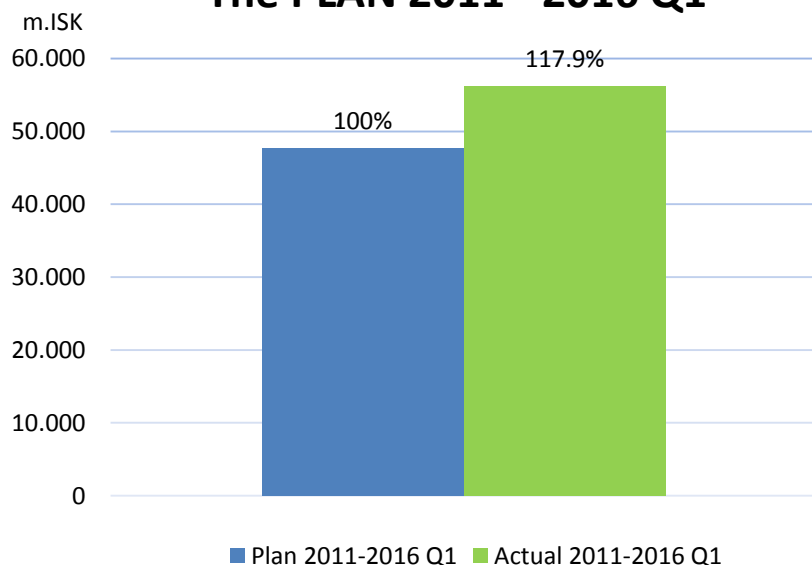
	2016Q1	2011-2016Q1	2011-2016
Target ISK	862	47 667	51 263
Progress ISK	1 215	56 205	56 205

	6.1	339.1	364.7
Target EUR	6.1	339.1	364.7
Progress EUR	8.6	399.8	399.8

The total progress 2016Q1 is ISK 353 millions better than the PLAN's target figures. The best results are increased revenues due to higher tariffs and in reduction of investments. 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 2011-2016Q1 is ISK 8,537 millions better than target or 17.9%.

Influences of external variables are negative in 2016Q1 by ISK 407 millions and negative by ISK 2,852 millions during the period 2011-2016Q1. Net total of "the PLAN" is therefore ISK 54 millions below target in 2016Q1 and ISK 5,685 millions above target 2011-2016Q1.

#### The PLAN 2011 - 2016 Q1



Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2016Q1	2011-2016Q1	
Reduction of investments in utility systems	15.0	12.8	✓	15.5
Sale of assets	10.0	10.0	✗	9.0
Reduction in operating costs	5.0	4.2	✓	6.6
Reduction of other investments	1.3	1.1	✓	1.5
Postponement of investments in sewerage	0.0	0.7	✓	2.0
<b>Total</b>	<b>31.3</b>	<b>28.8</b>	<b>✓</b>	<b>34.7</b>
Subordinated loans from owners	12.0	12.0	✓	12.0
Increased revenues due to higher tariffs	8.0	6.8	✓	9.5
<b>Total</b>	<b>20.0</b>	<b>18.8</b>	<b>✓</b>	<b>21.5</b>
<b>The Plan Total</b>	<b>51.3</b>	<b>47.7</b>	<b>✓</b>	<b>56.2</b>

## 2.2 EXTERNAL VARIABLES 2016Q1

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 2016Q1. 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 407 million compared to 2016Q1 projections. Effect on cash flow in the period 2011-2016Q1 is negative by ISK 2,852 million.

Main assumptions	2016 PLAN	2016 actual	Affect on cash flow m.ISK 2016Q1	Affect on cash flow m.EUR 2016Q1	Affect on cash flow m.ISK 2011-2016Q1	Affect on cash flow m.EUR 2011-2016Q1
<b>Consumer price index, change</b>	2.5%	1.9%				
<b>Building cost index, change</b>	2.5%	4.5%	192	1.4	2 255	16.0
<b>TWI, average</b>	216.3 pts	190.4 pts	-471	-3.4	-3 245	-23.1
<b>Aluminum price, average</b>	\$2 810	\$1 515	-889	-6.3	-11 316	-80.5
<b>Interest rates, average</b>	4.20%	1.70%	761	5.4	9 454	67.2
<b>Total</b>			<b>-407</b>	<b>-2.9</b>	<b>-2 852</b>	<b>-20.3</b>

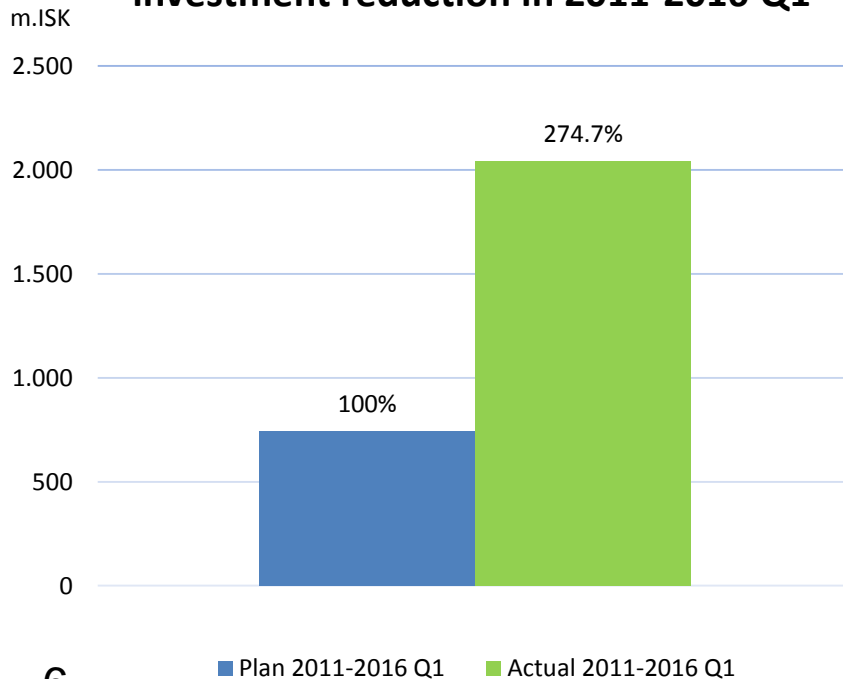
## 2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2016Q1	2011-2016Q1	2011-2016
Target ISK	- 155	745	0
Progress ISK	- 141	2 044	2 044

	2016Q1	2011-2016Q1	2011-2016
Target EUR	- 1.1	5.3	0.0
Progress EUR	- 1.0	14.5	14.5

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 2011-2016 Q1



## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

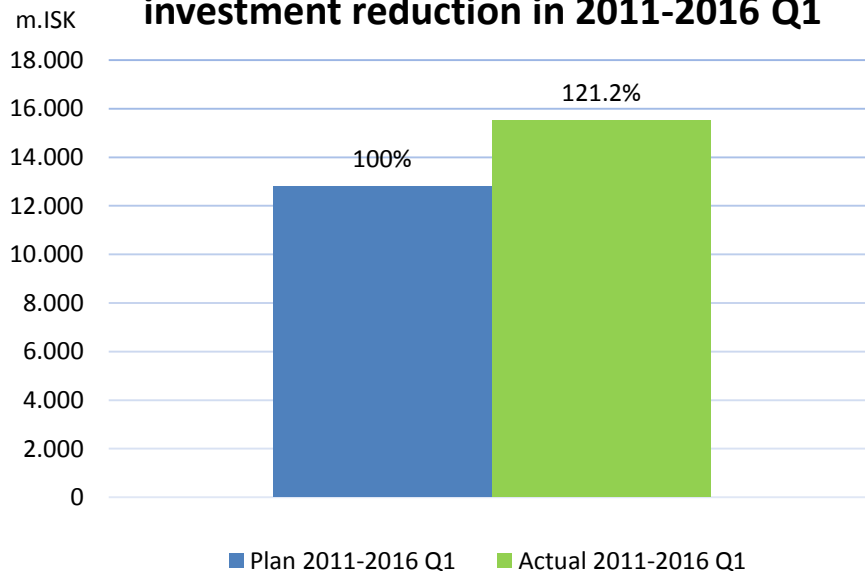
	2016Q1	2011-2016Q1	2011-2016
Target ISK	458	12 799	15 000
Progress ISK	439	15 518	15 518

	3.3	91.0	106.7
Target EUR	3.3	91.0	106.7
Progress EUR	3.1	110.4	110.4

An internal investment committee prioritizes all projects. Each project categorised as priority will then have to be approved by the procurement control.

In 2016Q1 the target in utilities is to lower investments by ISK 458 million. The decrease in 2016Q1 is ISK 439 million. It is ISK 19 million below target. The decrease in 2011-2016Q1 is ISK 15,518 million. It is ISK 2,719 million above target.

**Target vs. performance of utility investment reduction in 2011-2016 Q1**

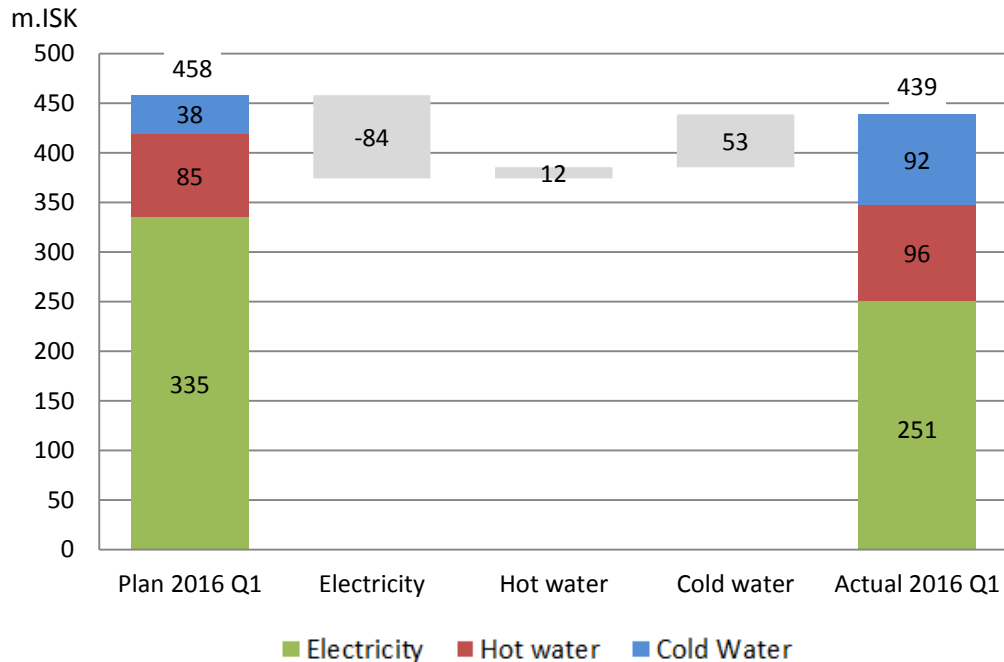


## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS CONT.

Reductions of investments in utility systems are in three segments, electric, hot- and cold water. Each segment performance has succeeded expectations in the period of the Plan 2011-2016Q1.

The chart shows the contribution of each segment to the reduction of investments in utility systems in 2016Q1.

### Investments in utility segments





## 2.5 REDUCTION IN OTHER INVESTMENTS

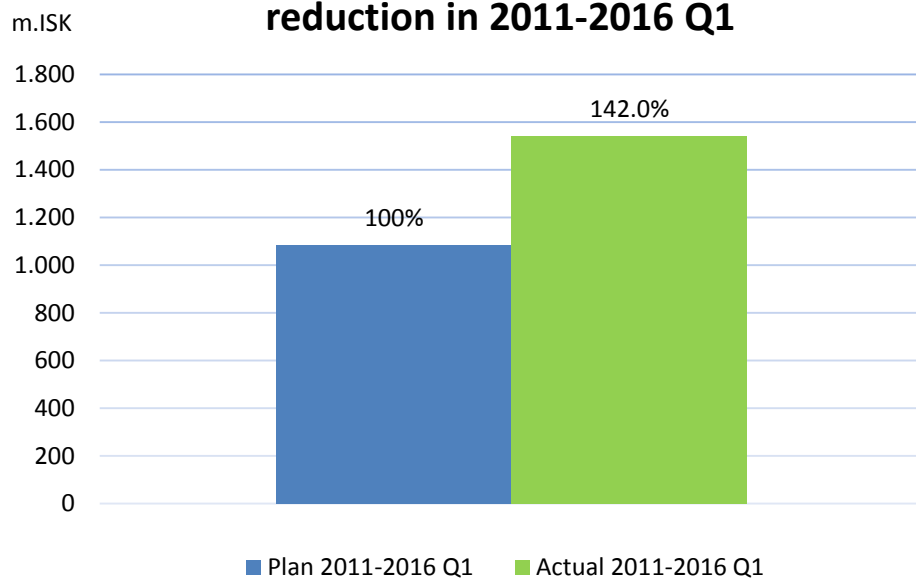
	2016Q1	2011-2016Q1	2011-2016
Target ISK	34	1 084	1 250
Progress ISK	144	1 539	1 539

	0.2	7.7	8.9
Target EUR	0.2	7.7	8.9
Progress EUR	1.0	11.0	11.0

The total target for 2016 is ISK 200 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. The decrease for 2016Q1 amounts to ISK 144 million which is ISK 110 million above target.

The decrease for 2011-2016Q1 amounts to ISK 1,539 million which surpasses target by ISK 455 million.

### Target vs. performance of other investment reduction in 2011-2016 Q1



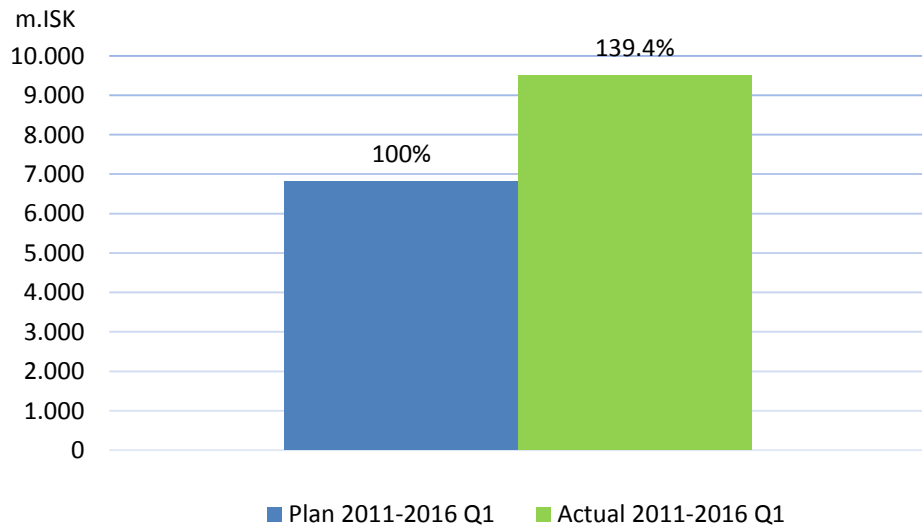
## 2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

	2016Q1	2011-2016Q1	2011-2016
Target ISK	306	6 820	8 013
Progress ISK	454	9 504	9 504
Target EUR	2.2	48.5	57.0
Progress EUR	3.2	67.6	67.6

The target for 2016 is to raise revenues by ISK 1,499 million and for 2011-2016Q1 by ISK 6,820 million by increasing tariffs. The increase in 2011-2016Q1 is ISK 9,504 million. It is ISK 2,684 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 - 2016 Q1

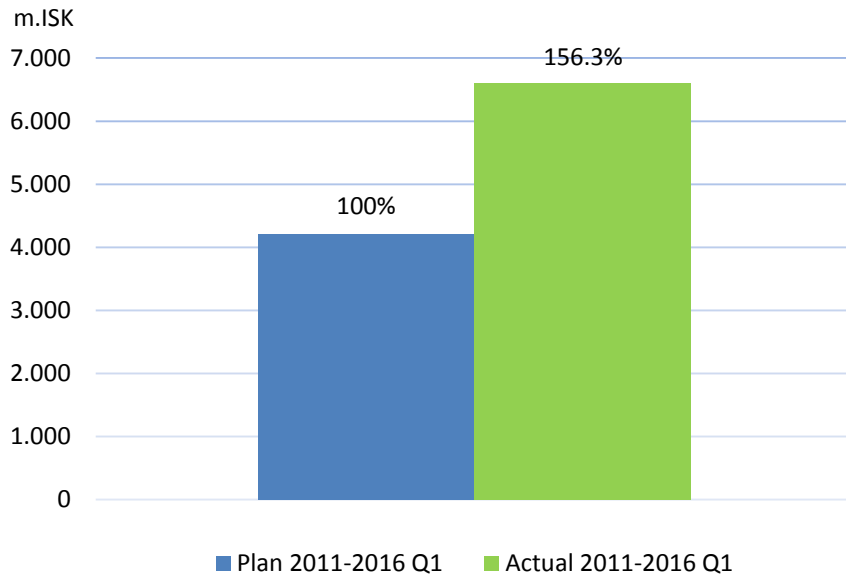


## 2.7 REDUCTION IN OPERATING COST

	2016Q1	2011-2016Q1	2011-2016
Target ISK	218	4 218	5 000
Progress ISK	314	6 595	6 595

Target EUR	1.6	30.0	35.6
Progress EUR	2.2	46.9	46.9

### Reduction in operating cost 2011-2016 Q1



The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2016Q1 was ISK 218 million. Operation costs are ISK 96 million lower than target in 2016Q1.

Operation cost reduction in 2011-2016Q1 was ISK 6,595 million or ISK 2,376 million above target.

Pension expenses and allowance for doubtful accounts are ISK 36.8 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.

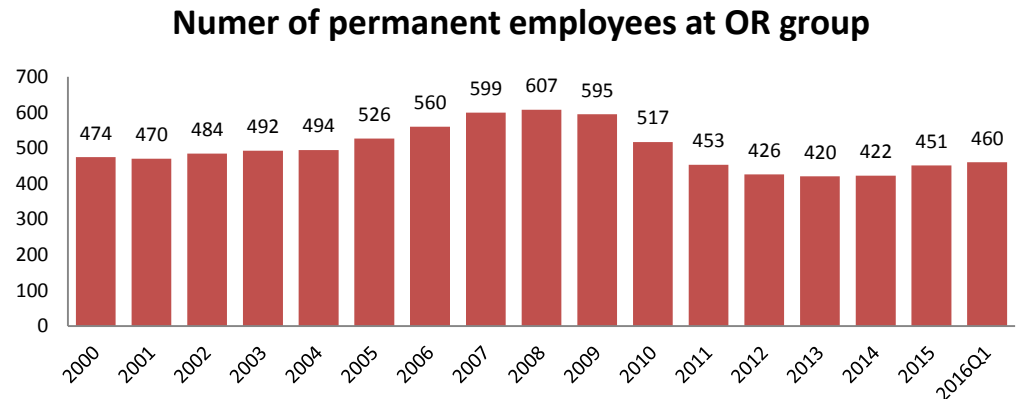
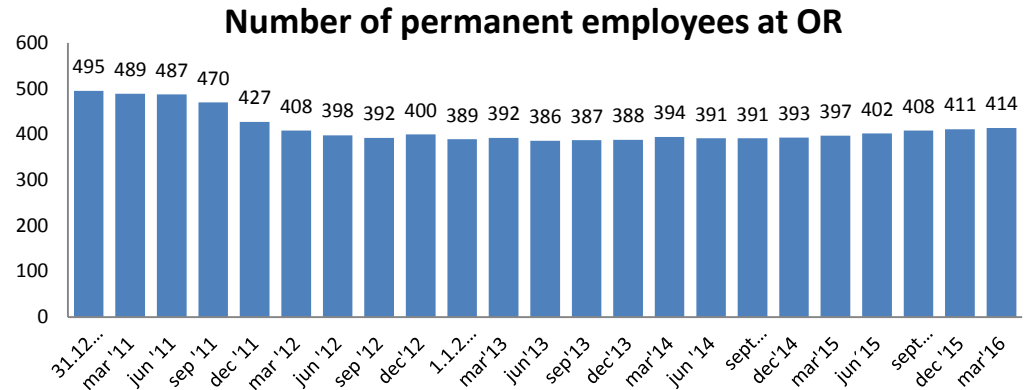
## 2.7 REDUCTION IN OPERATING COST, CONT. REDUCING PERSONNEL – SALARY COST

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 147 since 2008 when it was at its peak and the employee count now stands at 460. From year beginning, the number of permanent employees of OR increased by 3. On march 31<sup>st</sup> employees were 414.

Salary cost is ISK 154.4 million higher 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.



## 2.8 SALE OF ASSETS

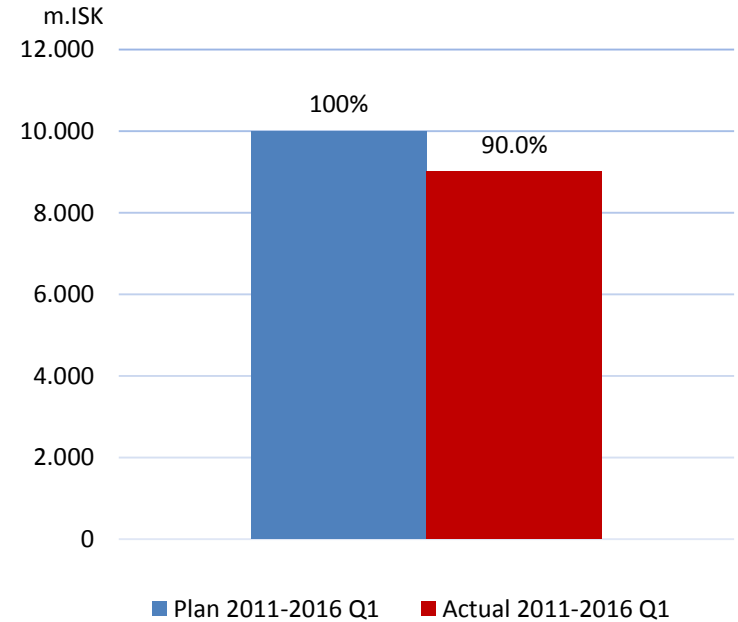
	2016Q1	2011-2016Q1	2011-2016
Target ISK	0	10 000	10 000
Progress ISK	6	9 004	9 004

	2016Q1	2011-2016Q1	2011-2016
Target EUR	0.0	71.1	71.1
Progress EUR	0.0	64.1	64.1

Various equipment and materials were sold for ISK 5.9 million.

ISK millions	2016Q1	Status
Sale of various equipment	5.9	Paid in full
<b>Total</b>	5.9	

### Sale of assets 2011-2016 Q1



## 2.9 SUBORDINATED LOAN FROM OWNERS

	2016Q1	2011-2016Q1	2011-2016
Target ISK	0	12 000	12 000
Progress ISK	0	12 000	12 000

Target EUR	0.0	85.4	85.4
Progress EUR	0.0	85.4	85.4

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.

