

The Plan Progress Report

2016H1

August 2016



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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 June 30th 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 – 2016H1 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 136.75.

2 DASHBOARD

2.1 TOTAL PROGRESS OF THE PLAN

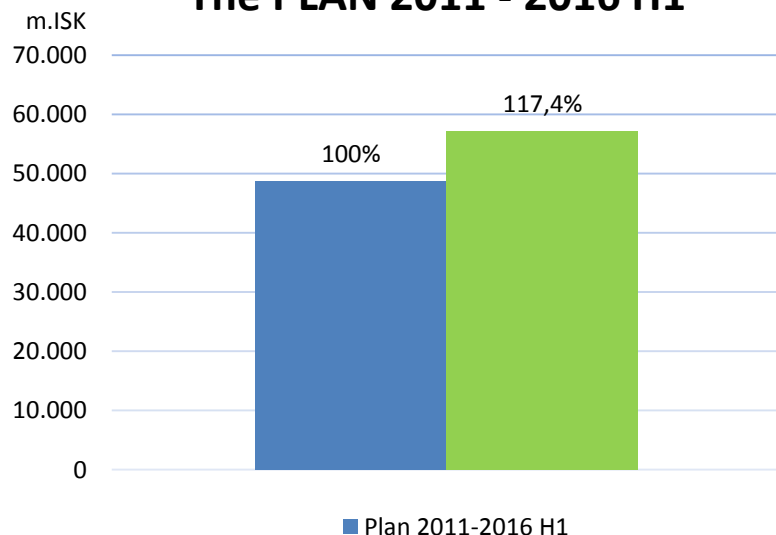
	2016H1	2011-2016H1	2011-2016
Target ISK	1 872	48 677	51 263
Progress ISK	2 175	57 164	57 164

	2016H1	2011-2016H1	2011-2016
Target EUR	13.7	356.0	374.9
Progress EUR	15.9	418.0	418.0

The total progress 2016H1 is ISK 303 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 2011-2016H1 is ISK 8,487 millions better than target or 17.4%.

Influences of external variables are negative in 2016H1 by ISK 812 millions and negative by ISK 3,257 millions during the period 2011-2016H1. Net total of "the PLAN" is therefore ISK 509 millions below target in 2016H1 and ISK 5,230 millions above target 2011-2016H1.

The PLAN 2011 - 2016 H1



Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2016H1	2011-2016H1	
Reduction of investments in utility systems	15,0	13,4	✓	16,2
Sale of assets	10,0	10,0	✗	9,0
Reduction in operating costs	5,0	4,5	✓	6,7
Reduction of other investments	1,3	1,1	✓	1,7
Postponement of investments in sewerage	0,0	0,5	✓	1,7
Total	31,3	29,5	✓	35,3
Subordinated loans from owners	12,0	12,0	✓	12,0
Increased revenues due to higher tariffs	8,0	7,2	✓	9,9
Total	20,0	19,2	✓	21,9
The Plan Total	51,3	48,7	✓	57,2

2.2 EXTERNAL VARIABLES 2016H1

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 2016H1. 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 812 million compared to 2016H1 projections. Effect on cash flow in the period 2011-2016H1 is negative by ISK 3,257 million.

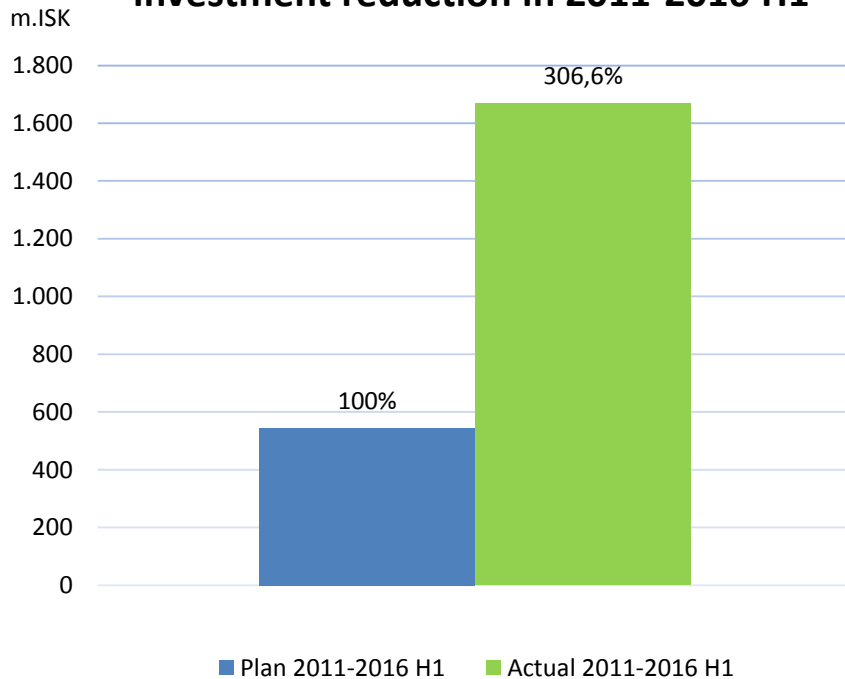
Main assumptions	2016 PLAN	2016 actual	Affect on cash flow m.ISK 2016H1	Affect on cash flow m.EUR 2016H1	Affect on cash flow m.ISK 2011-2016H1	Affect on cash flow m.EUR 2011-2016H1
Consumer price index, change	2.5%	1.8%	233	1.7	2 296	16.8
Building cost index, change	2.5%	5.2%				
TWI, average	216.3 pts	189.1 pts	-847	-6.2	-3 621	-26.5
Aluminum price, average	\$2 812	\$1 548	-1.787	-13.1	-12 214	-89.3
Interest rates, average	4.20%	1.72%	1.589	11.6	10 282	75.2
Total			-812	-5.9	-3 257	-23.8

2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2016H1	2011-2016H1	2011-2016
Target ISK	- 356	544	0
Progress ISK	- 516	1 669	1 669
Target EUR	- 2.6	4.0	0.0
Progress EUR	- 3.8	12.2	12.2

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.

Target vs. performance of sewerage investment reduction in 2011-2016 H1



2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

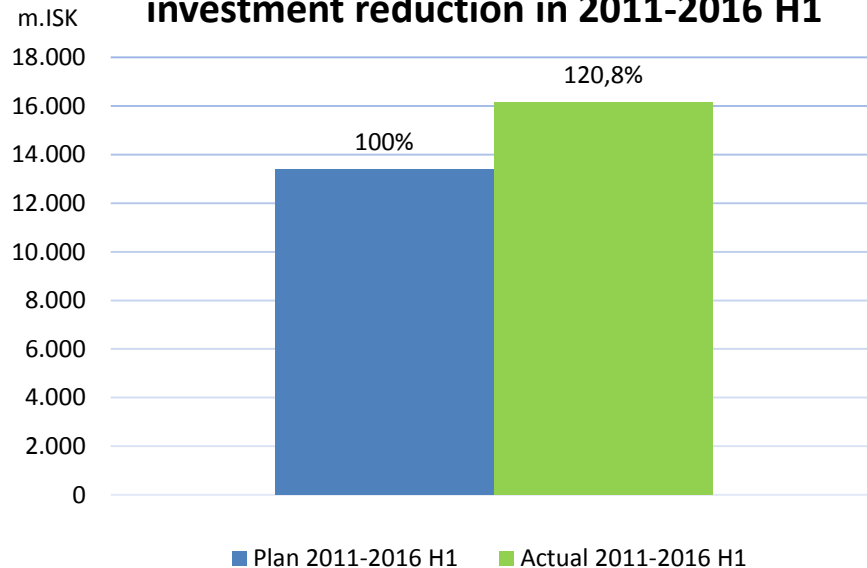
	2016H1	2011-2016H1	2011-2016
Target ISK	1 051	13 392	15 000
Progress ISK	1 096	16 175	16 175

	7,7	97,9	109,7
Target EUR	7,7	97,9	109,7
Progress EUR	8,0	118,3	118,3

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

In 2016H1 the target in utilities is to lower investments by ISK 1,051 million. The decrease in 2016H1 is ISK 1,096 million. It is ISK 45 million better than target. The decrease in 2011-2016H1 is ISK 16,175 million. It is ISK 2,783 million above target.

Target vs. performance of utility investment reduction in 2011-2016 H1

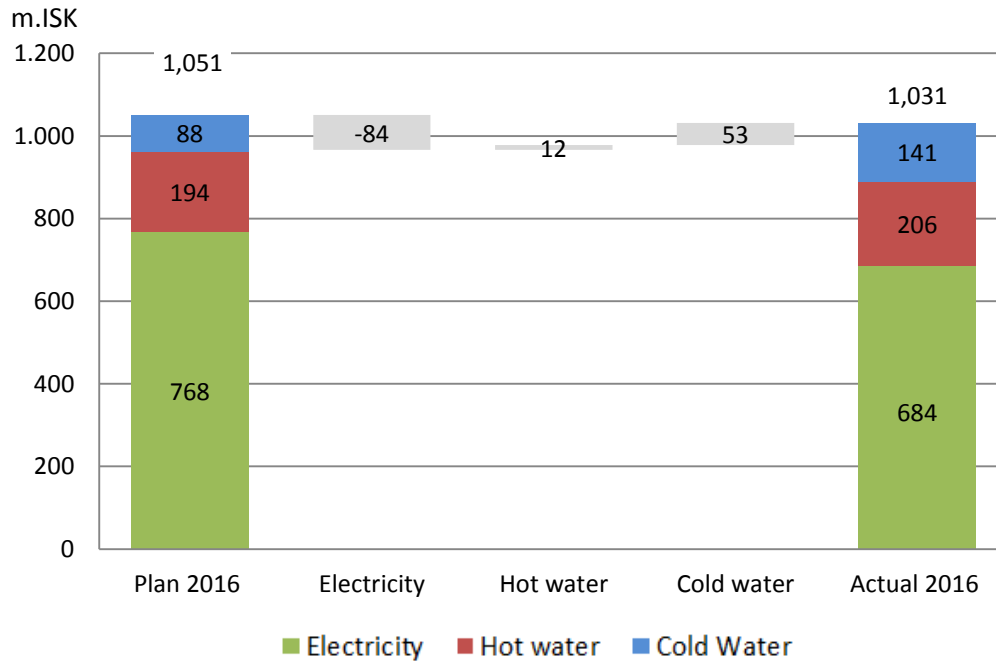


2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS CONT.

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 2011-2016H1.

The chart shows the contribution of each segment to the reduction of investments in utility systems in 2016H1.

Investments in utility segments



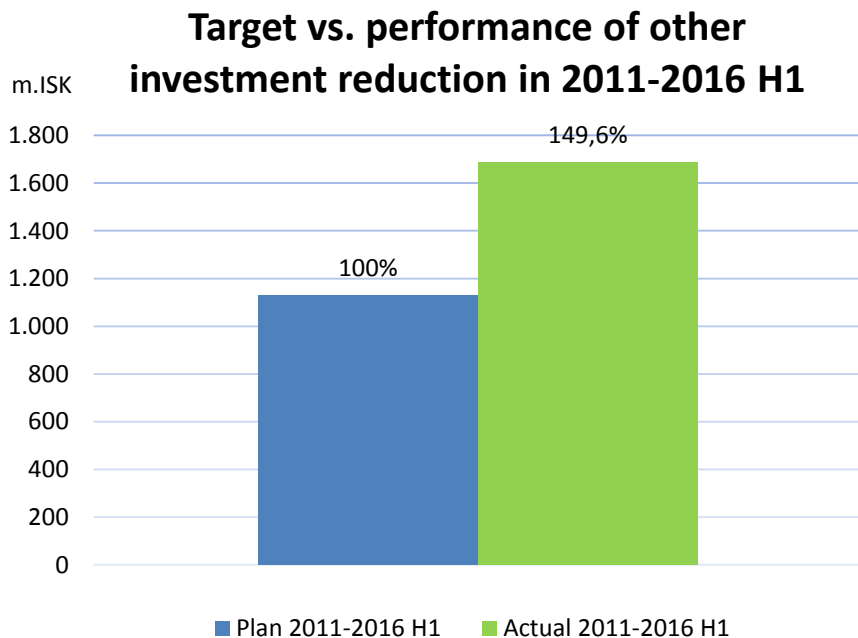
2.5 REDUCTION IN OTHER INVESTMENTS

	2016H1	2011-2016H1	2011-2016
Target ISK	79	1 129	1 250
Progress ISK	293	1 689	1 689

	2016H1	2011-2016H1	2011-2016
Target EUR	0.6	8.3	9.1
Progress EUR	2.1	12.3	12.3

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 2016H1 amounts to ISK 293 million which is ISK 214 million above target.

The decrease for 2011-2016H1 amounts to ISK 1,689 million which surpasses target by ISK 560 million.



2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

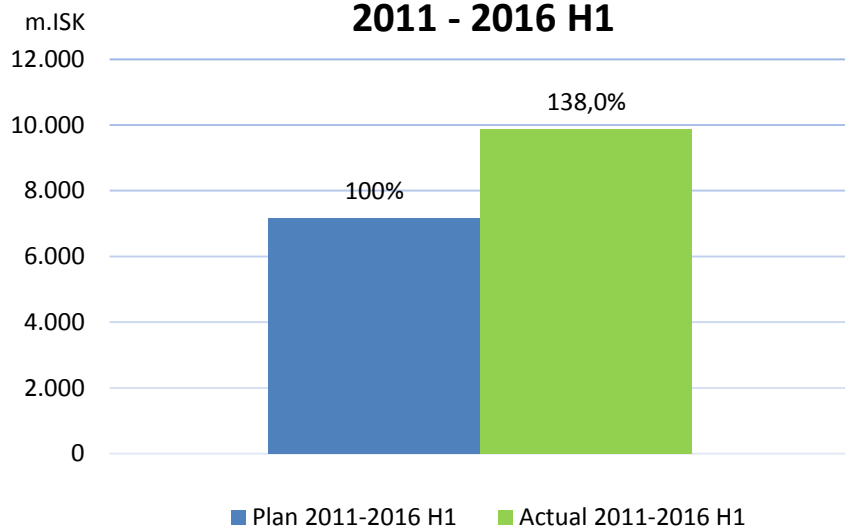
	2016H1	2011-2016H1	2011-2016
Target ISK	646	7 160	8 013
Progress ISK	834	9 885	9 885

	4.7	52.4	58.6
Target EUR	4.7	52.4	58.6
Progress EUR	6.1	72.3	72.3

The target for 2016 is to raise revenues by ISK 1,499 million and for 2011-2016H1 by ISK 7,160 million by increasing tariffs. The increase in 2011-2016H1 is ISK 9,885 million. It is ISK 2,724 million above target.

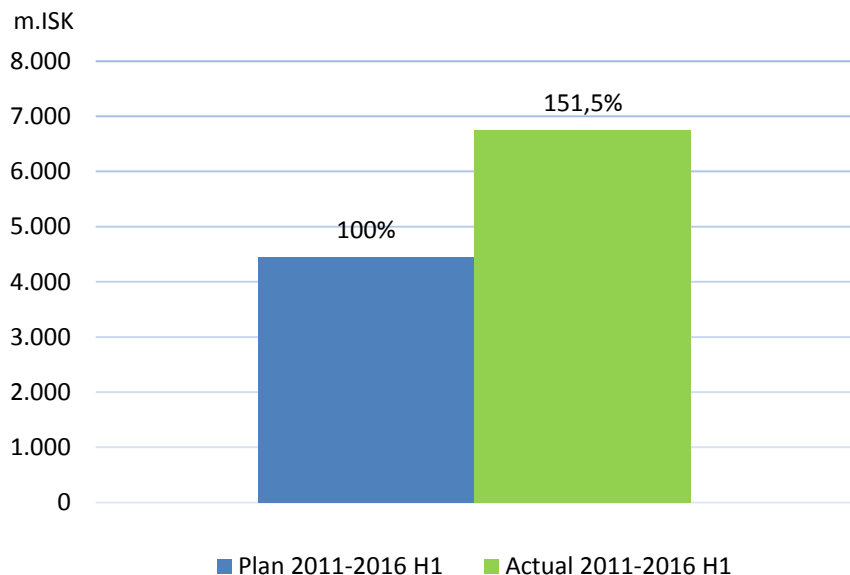
Tariffs are now connected to CPI and revenues are beyond target because of unexpected rise in the CPI.

Target vs. performance - increased revenues from sewerage and hot water in 2011 - 2016 H1



2.7 REDUCTION IN OPERATING COST

Reduction in operating cost 2011-2016 H1



	2016H1	2011-2016H1	2011-2016
Target ISK	452	4 452	5 000
Progress ISK	461	6 742	6 742

	2016H1	2011-2016H1	2011-2016
Target EUR	3.3	32.6	36.6
Progress EUR	3.4	49.3	49.3

The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2016H1 was ISK 218 million. Operation costs are ISK 10 million lower than target in 2016H1.

Operation cost reduction in 2011-2016H1 was ISK 6,742 million or ISK 2,291 million above target.

Pension expenses and allowance for doubtful accounts are ISK 56.8 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.

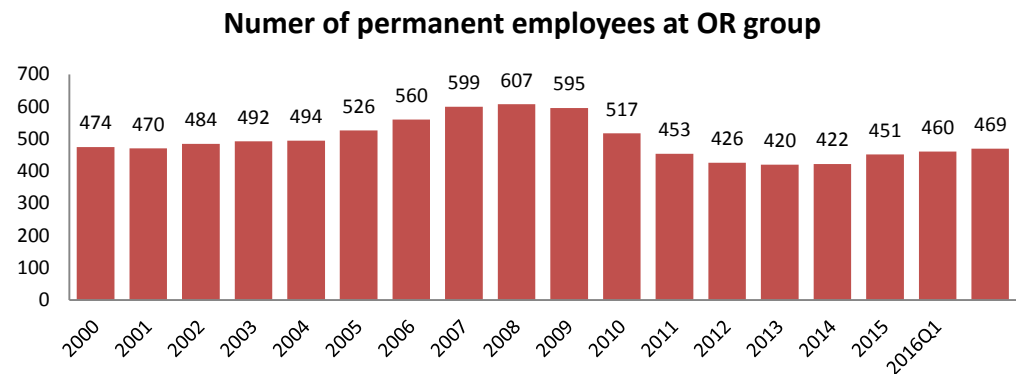
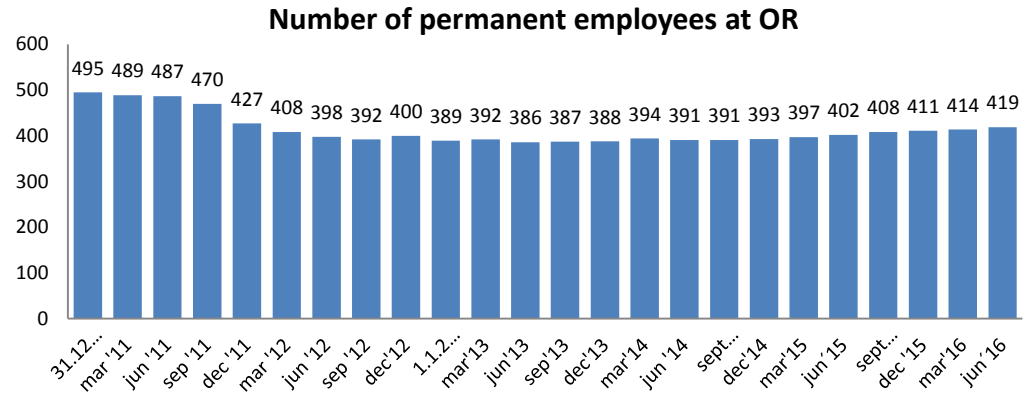
REDUCING PERSONNEL – SALARY COST

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 138 since 2008 when it was at its peak and the employee count now stands at 469. From year beginning, the number of permanent employees of OR increased by 8. On June 30th employees were 419.

Salary cost is ISK 286 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

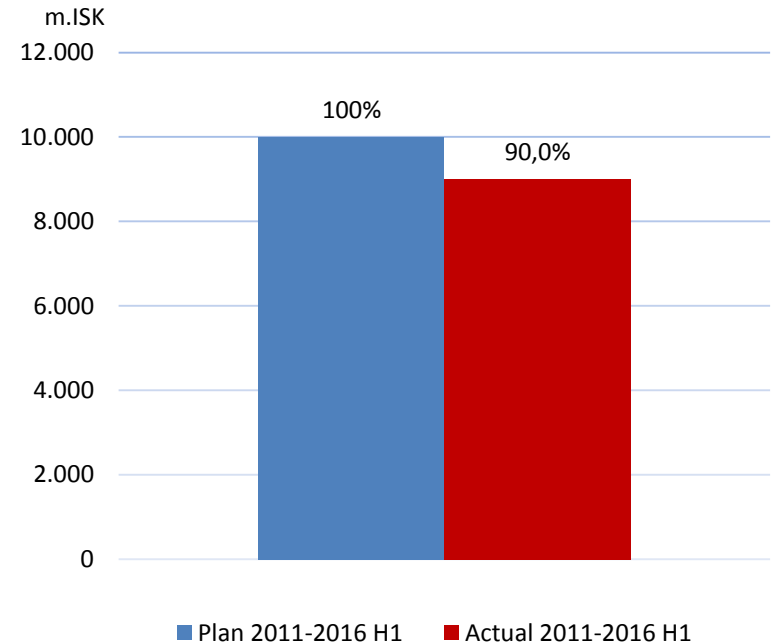
Various equipment and materials were sold for ISK 5.9 million.

ISK millions	2016H1	Status
Sale of various equipment	5.7	Paid in full
Total	5.7	

	2016H1	2011-2016H1	2011-2016
Target ISK	0	10 000	10 000
Progress ISK	6	9 004	9 004

	2016H1	2011-2016H1	2011-2016
Target EUR	0.0	73.1	73.1
Progress EUR	0.0	65.8	65.8

Sale of assets 2011-2016 H1



2.9 SUBORDINATED LOAN FROM OWNERS

	2016H1	2011-2016H1	2011-2016
Target ISK	0	12 000	12 000
Progress ISK	0	12 000	12 000

Target EUR	0.0	87.8	87.8
Progress EUR	0.0	87.8	87.8

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.

