

# The Plan Progress Report

2016Q3

November 2016

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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 September 30<sup>th</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 – 2016Q3 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 127,88.

## 2 DASHBOARD

### 2.1 TOTAL PROGRESS OF THE PLAN

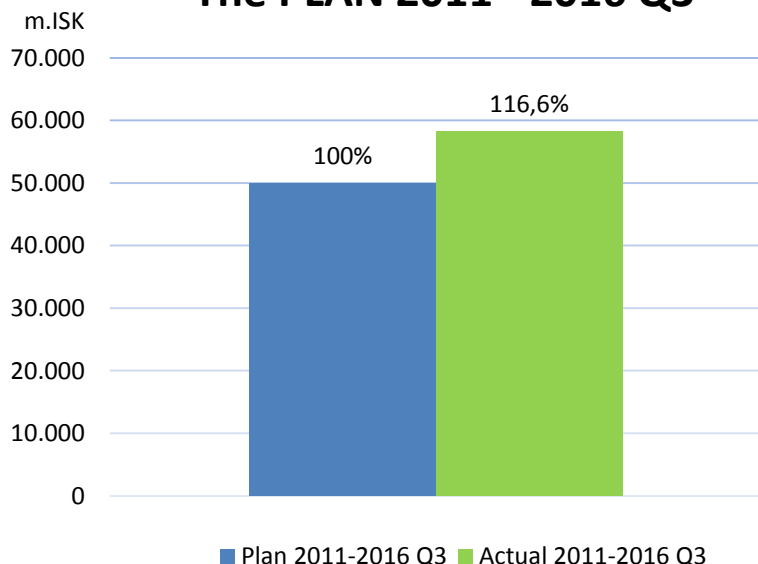
	2016Q3	2011-2016Q3	2011-2016
Target ISK	3 160	49 965	51 263
Progress ISK	3 291	58 280	58 280

Target EUR	24.7	390.7	400.9
Progress EUR	25.7	455.7	455.7

The total progress 2016Q3 is ISK 131 millions better than the PLAN's target figures. The best results are in Investments in sewerage and utility systems as well as in reduction in operation costs. 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 2011-2016Q3 is ISK 8,315 millions better than target or 16.6%.

Influences of external variables are negative in 2016Q3 by ISK 828 millions and negative by ISK 3,273 millions during the period 2011-2016Q3. Net total of "the PLAN" is therefore ISK 697 millions below target in 2016Q3 and ISK 5,042 millions above target 2011-2016Q3.

#### The PLAN 2011 - 2016 Q3



Actions in ISK billions	The Plan		Actual	
	2011-2016	2011-2016Q3	2011-2016Q3	
Reduction of investments in utility systems	15,0	14,2	✓	17,2
Sale of assets	10,0	10,0	✗	9,0
Reduction in operating costs	5,0	4,7	✓	7,3
Reduction of other investments	1,3	1,2	✓	1,5
Postponement of investments in sewerage	0,0	0,3	✓	1,1
<b>Total</b>	<b>31,3</b>	<b>30,4</b>	<b>✓</b>	<b>36,1</b>
Subordinated loans from owners	12,0	12,0	✓	12,0
Increased revenues due to higher tariffs	8,0	7,6	✓	10,2
<b>Total</b>	<b>20,0</b>	<b>19,6</b>	<b>✓</b>	<b>22,2</b>
<b>The Plan Total</b>	<b>51,3</b>	<b>50,0</b>	<b>✓</b>	<b>58,3</b>

## 2.2 EXTERNAL VARIABLES 2016Q3

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 2016Q3. 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 828 million compared to 2016Q3 projections. Effect on cash flow in the period 2011-2016Q3 is negative by ISK 3,273 million.

Main assumptions	2016 PLAN	2016 actual	Affect on cash flow m.ISK 2016Q3	Affect on cash flow m.EUR 2016Q3	Affect on cash flow m.ISK 2011-2016Q3	Affect on cash flow m.EUR 2011-2016Q3
<b>Consumer price index, change</b>	2.5%	1.6%	798	6.2	2 861	22.4
<b>Building cost index, change</b>	2.5%	4.8%				
<b>TWI, average</b>	216.3 pts	184.9 pts	-1 289	-10.1	-4 063	-31.8
<b>Aluminum price, average</b>	\$2 814	\$1 578	-2 685	-21.0	-13 112	-102.5
<b>Interest rates, average</b>	4.20%	1.89%	2 348	18.4	11 041	86.3
<b>Total</b>			<b>- 828</b>	<b>-6.5</b>	<b>-3 273</b>	<b>-25.6</b>

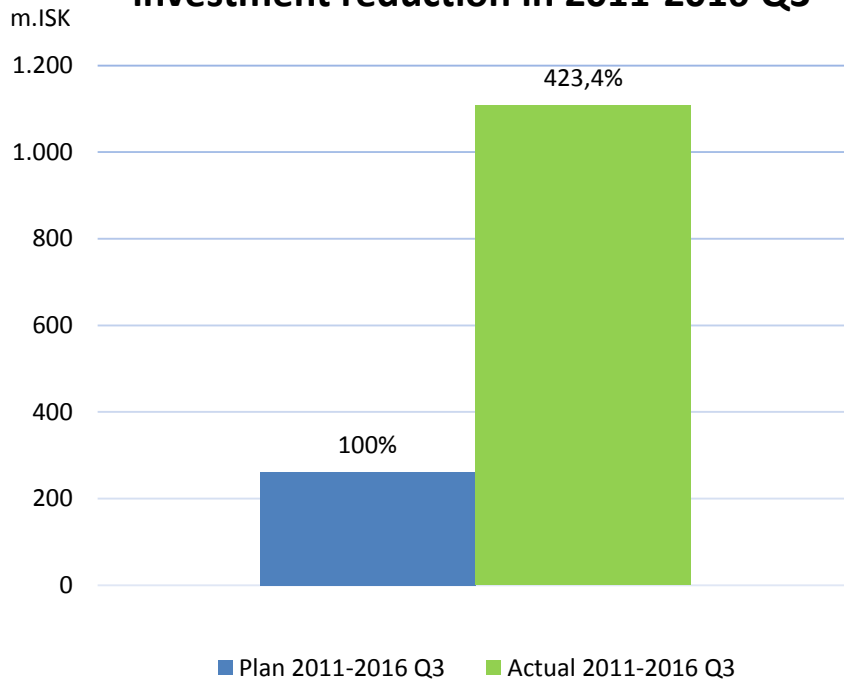


## 2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2016Q3	2011-2016Q3	2011-2016
Target ISK	- 638	262	0
Progress ISK	-1 077	1 108	1 108
Target EUR	- 5.0	2.0	0.0
Progress EUR	- 8.4	8.7	8.7

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 Q3



## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

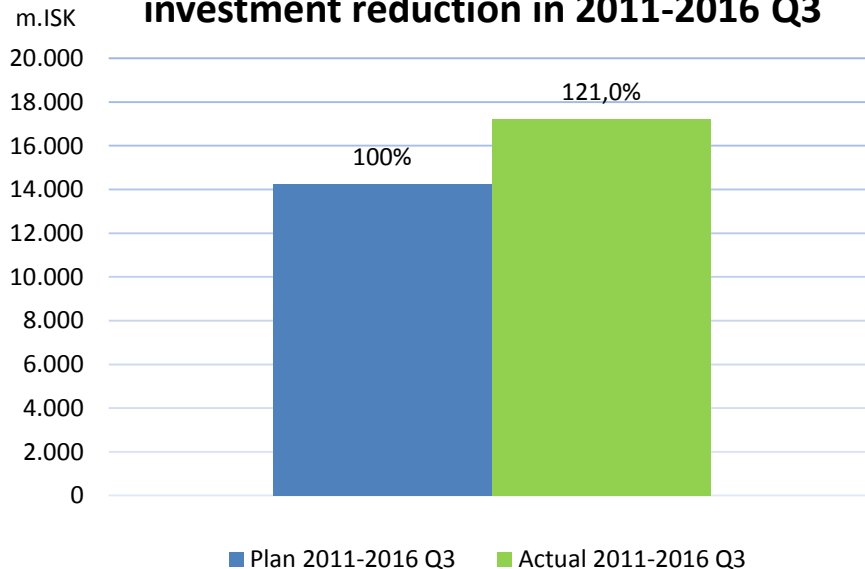
	2016Q3	2011-2016Q3	2011-2016
Target ISK	1 886	14 227	15 000
Progress ISK	2 131	17 211	17 211

Target EUR	14.7	111.3	117.3
Progress EUR	16.7	134.6	134.6

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

In 2016Q3 the target in utilities is to lower investments by ISK 1,886 million. The decrease in 2016Q3 is ISK 2,131 million. It is ISK 245 million better than target. The decrease in 2011-2016Q3 is ISK 17,211 million. It is ISK 2,984 million above target.

**Target vs. performance of utility investment reduction in 2011-2016 Q3**

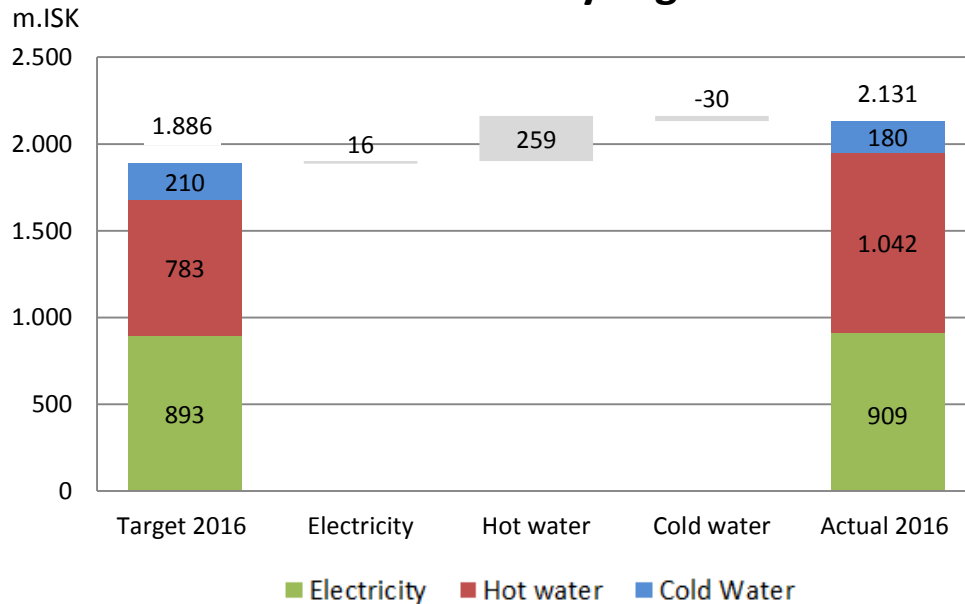


## 2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS CONT.

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 2011-2016Q3.

The chart shows the contribution of each segment to the reduction of investments in utility systems in 2016Q3.

### Investments in utility segments





	2016Q3	2011-2016Q3	2011-2016
Target ISK	142	1 192	1 250
Progress ISK	145	1 540	1 540

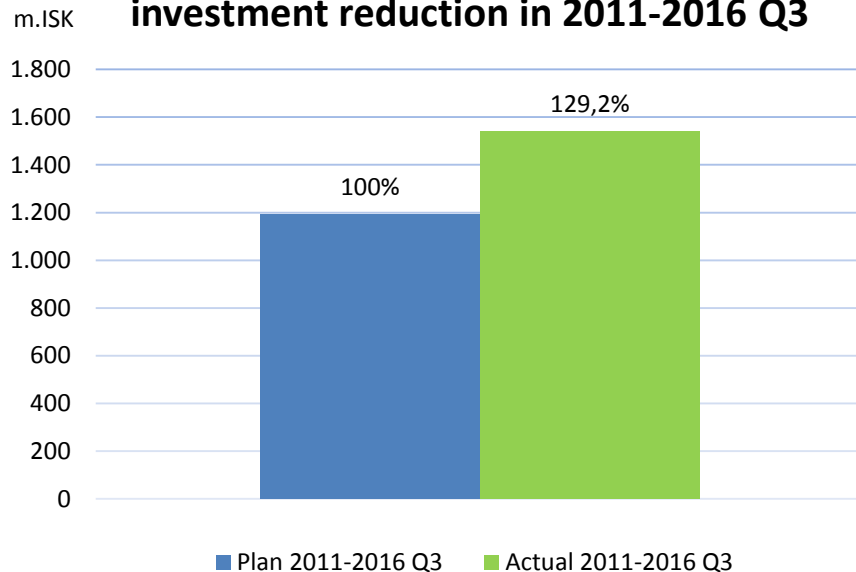
Target EUR	1.1	9.3	9.8
Progress EUR	1.1	12.0	12.0

## 2.5 REDUCTION IN OTHER INVESTMENTS

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 2016Q3 amounts to ISK 145 million which is ISK 3 million above target.

The decrease for 2011-2016Q3 amounts to ISK 1,540 million which surpasses target by ISK 348 million.

### Target vs. performance of other investment reduction in 2011-2016 Q3



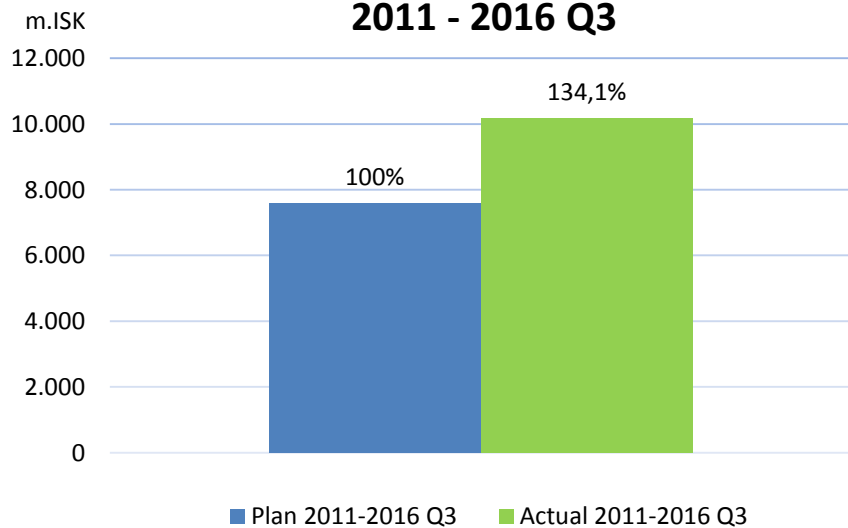
## 2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

	2016Q3	2011-2016Q3	2011-2016
Target ISK	1 064	7 578	8 013
Progress ISK	1 109	10 160	10 160
Target EUR	8.3	59.3	62.7
Progress EUR	8.7	79.4	79.4

The target for 2016 is to raise revenues by ISK 1,499 million and for 2011-2016Q3 by ISK 7,578 million by increasing tariffs. The increase in 2011-2016Q3 is ISK 10,160 million. It is ISK 2,582 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 Q3



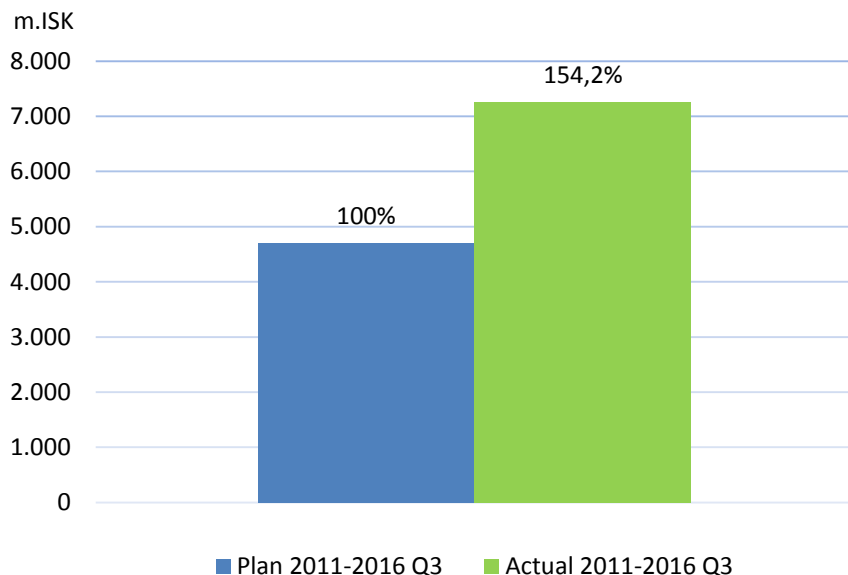
## 2.7 REDUCTION IN OPERATING COST

	2016Q3	2011-2016Q3	2011-2016
Target ISK	706	4 706	5 000
Progress ISK	977	7 258	7 258

Target EUR	5.5	36.8	39.1
Progress EUR	7.6	56.8	56.8

### Reduction in operating cost 2011-2016 Q3



The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2016Q3 was ISK 706 million. Operation costs are ISK 271 million lower than target in 2016Q3.

Operation cost reduction in 2011-2016Q3 was ISK 7,258 million or ISK 2,552 million above target.

Pension expenses and allowance for doubtful accounts are ISK 42.7 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

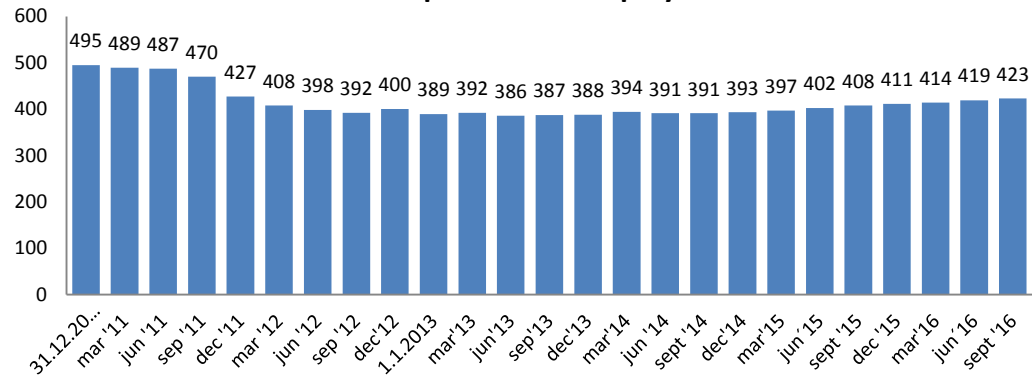
OR's target for reduction of personnel was 90 in the years 2011-2016.

The goal was accomplished by the end of February 2012.

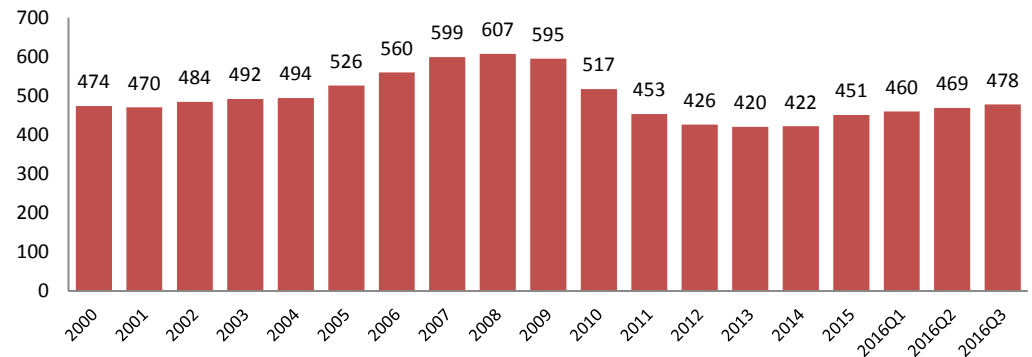
The number of permanent employees in consolidated OR has been reduced by 129 since 2008 when it was at its peak and the employee count now stands at 478. From year beginning, the number of permanent employees of OR increased by 12. On September 30<sup>th</sup> employees were 423.

Salary cost is ISK 346 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.

Number of permanent employees at OR



Numer of permanent employees at OR group



## 2.8 SALE OF ASSETS

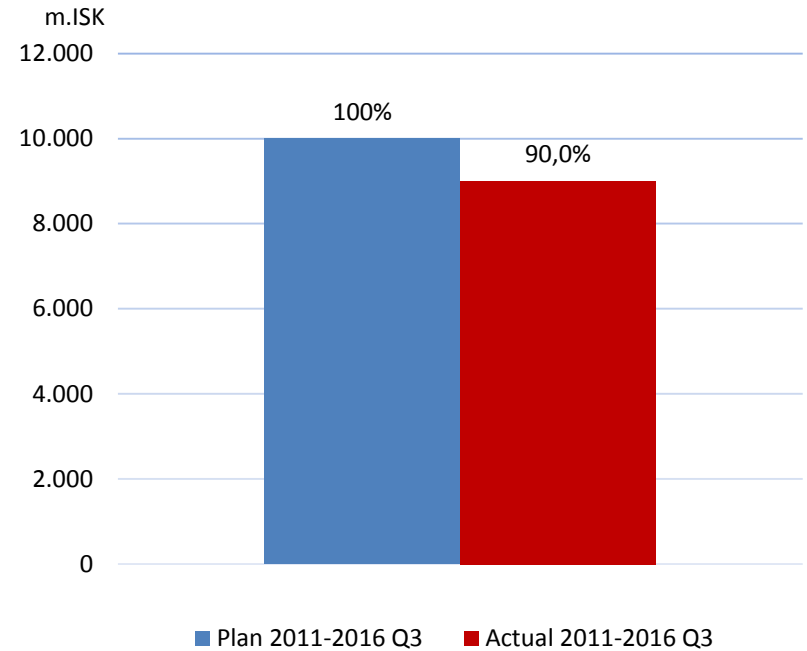
	2016Q3	2011-2016Q3	2011-2016
Target ISK	0	10 000	10 000
Progress ISK	5	9 004	9 004

Target EUR	0.0	78.2	78.2
Progress EUR	0.0	70.4	70.4

Various equipment and materials were sold for ISK 5.4 million.

ISK millions	2016Q3	Status
Sale of various equipment	5.7	Paid in full
<b>Total</b>	5.7	

### Sale of assets 2011-2016 Q3



	2016Q3	2011-2016Q3	2011-2016
Target ISK	0	12 000	12 000
Progress ISK	0	12 000	12 000

Target EUR	0.0	93.8	93.8
Progress EUR	0.0	93.8	93.8

## 2.9 SUBORDINATED LOAN FROM OWNERS

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.

