

The Plan Progress Report

2016

February 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 December 31st 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 – 2016 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 119.13.

2 DASHBOARD

2.1 TOTAL PROGRESS OF THE PLAN

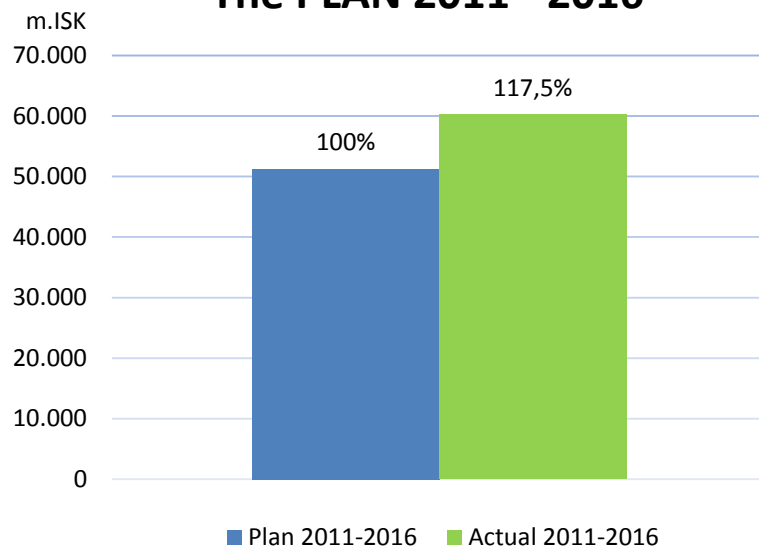
	2016	2011-2016	2011-2016
Target ISK	4 458	51 263	51 263
Progress ISK	5 237	60 226	60 226

Target EUR	34.9	4009	400.9
Progress EUR	40.9	471.0	471.0

The total progress 2016 is ISK 779 millions better than the PLAN's target figures. The best results are 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 2011-2016 is ISK 8,963 millions better than target or 17,5%.

Influences of external variables are negative in 2016 by ISK 1,202 millions and negative by ISK 3,647 millions during the period 2011-2016. Net total of "the PLAN" is therefore ISK 423 millions below target in 2016 and ISK 5,316 millions above target 2011-2013.

The PLAN 2011 - 2016



Actions in ISK billions	The Plan 2011-2016	Actual 2011-2016
Reduction of investments in utility systems	15,0	✓ 17,9
Sale of assets	10,0	✗ 9,0
Reduction in operating costs	5,0	✓ 8,0
Reduction of other investments	1,3	✓ 1,4
Postponement of investments in sewerage	0,0	✓ 1,3
Total	31,3	✓ 37,6
Subordinated loans from owners	12,0	✓ 12,0
Increased revenues due to higher tariffs	8,0	✓ 10,6
Total	20,0	✓ 22,6
The Plan Total	51,3	✓ 60,2

2.2 EXTERNAL VARIABLES 2016

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 2016. 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 1,202 million compared to 2016 projections. Effect on cash flow in the period 2011-2016 is negative by ISK 3,647 million.

Main assumptions	2016 PLAN	2016 actual	Affect on cash flow m.ISK 2016	Affect on cash flow m.EUR 2016	Affect on cash flow m.ISK 2011-2016	Affect on cash flow m.EUR 2011-2016
Consumer price index, change	2.5%	1.7%	545	4.6	2 608	21.9
Building cost index, change	2.5%	4.1%				
TWI, average	216.3 pts	179.6 pts	-1 299	-10.9	-4 073	-34.2
Aluminum price, average	\$2 817	\$1 609	-3 577	-30.0	-14 004	-117.6
Interest rates, average	4.20%	1.94%	3 129	26.3	11 822	99.2
Total			-1 202	-10.1	-3 647	-30.6

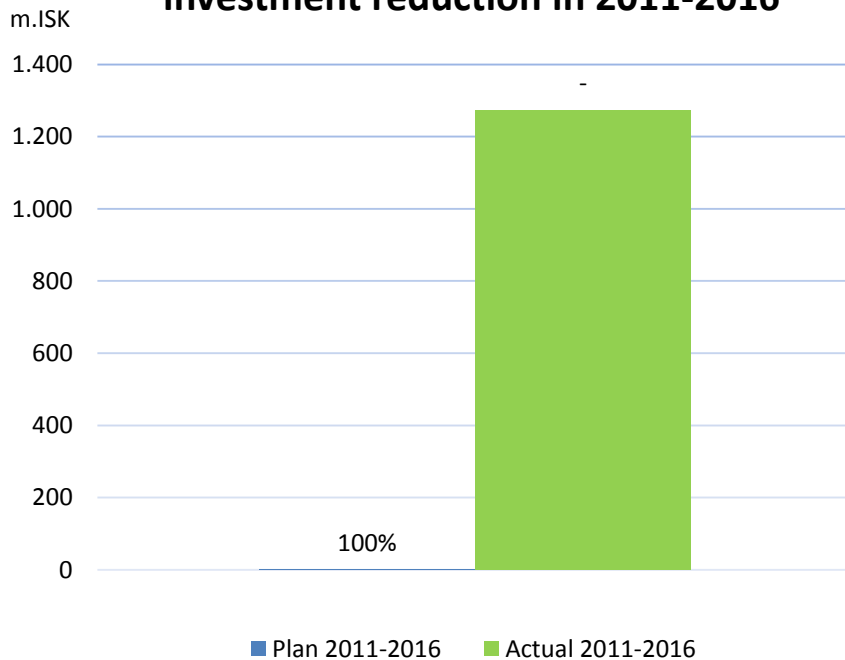
2.3 POSTPONEMENT OF INVESTMENTS IN SEWERAGE

	2016	2011-2016	2011-2016
Target ISK	- 900	0	0
Progress ISK	- 912	1 273	1 273

Target EUR	- 7.6	0.0	0.0
Progress EUR	- 7.7	10.7	10.7

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



2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS

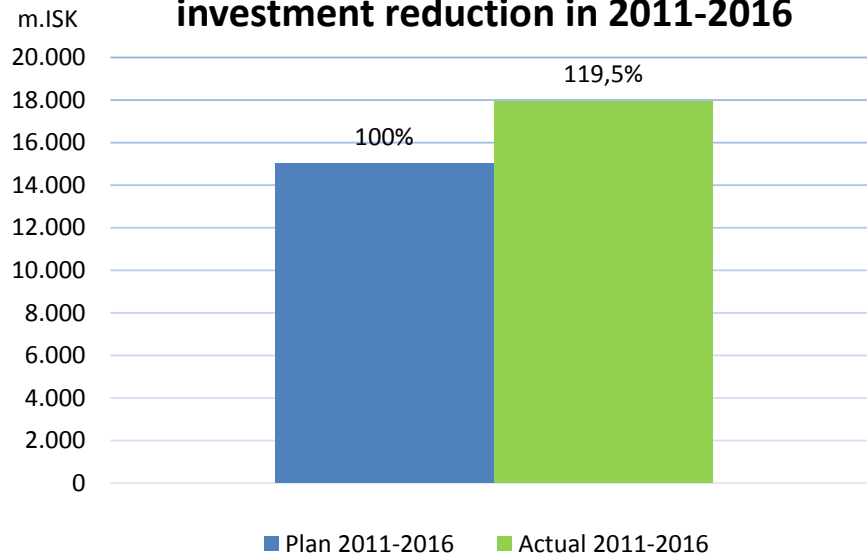
	2016	2011-2016	2011-2016
Target ISK	2 659	15 000	15 000
Progress ISK	2 851	17 930	17 930

Target EUR	22.3	125.9	125.9
Progress EUR	23.9	150.5	150.5

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

In 2016 the target in utilities is to lower investments by ISK 2,659 million. The decrease in 2016 is ISK 2,851 million. It is ISK 192 million better than target. The decrease in 2011-2016 is ISK 17,930 million. It is ISK 2,930 million above target.

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

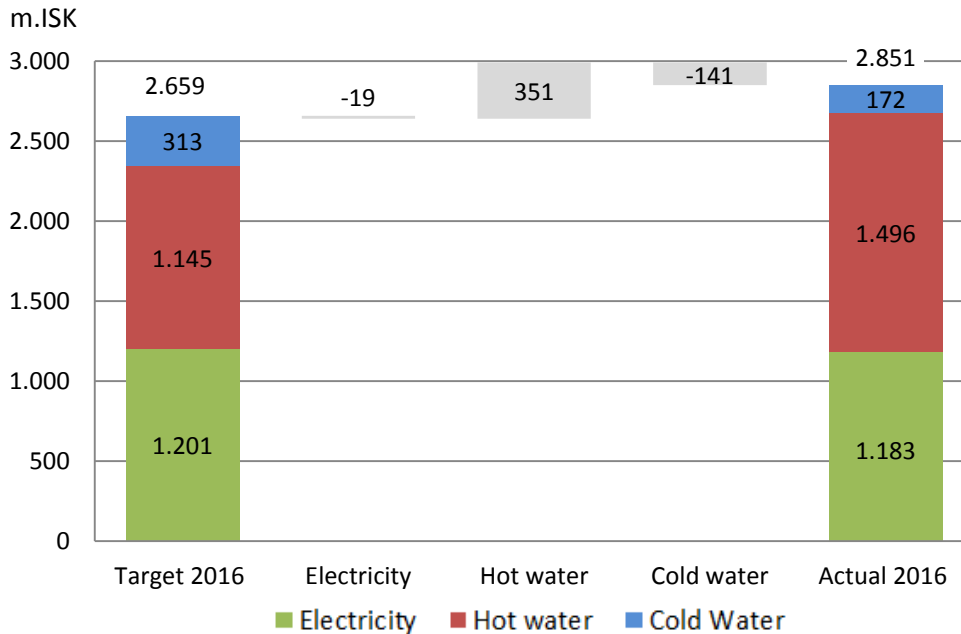


2.4 REDUCTION OF INVESTMENTS IN UTILITY SYSTEMS CONT.

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 2011-2016.

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

Investments in utility segments



2.5 REDUCTION IN OTHER INVESTMENTS

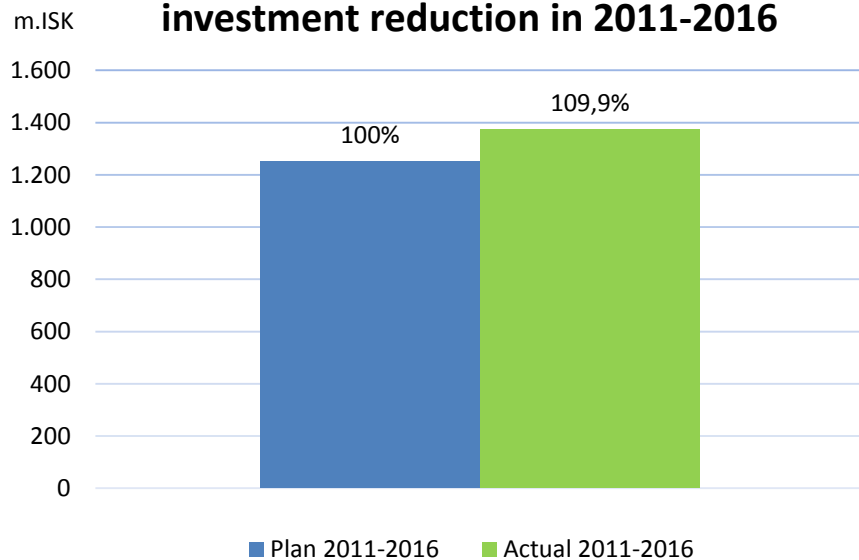
	2016	2011-2016	2011-2016
Target ISK	200	1 250	1 250
Progress ISK	- 22	1 373	1 373

Target EUR	1.7	10.5	10.5
Progress EUR	- 0.2	11.5	11.5

The total target for 2016 is ISK 200 million decrease in other investments. Departments like IT, Facilities, Property management, etc. are in this category. Investments for 2016 are ISK 222 million above target.

The decrease for 2011-2016 amounts to ISK 1,373 million which surpasses target by ISK 123 million.

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



2.6 INCREASED REVENUES DUE TO HIGHER TARIFFS

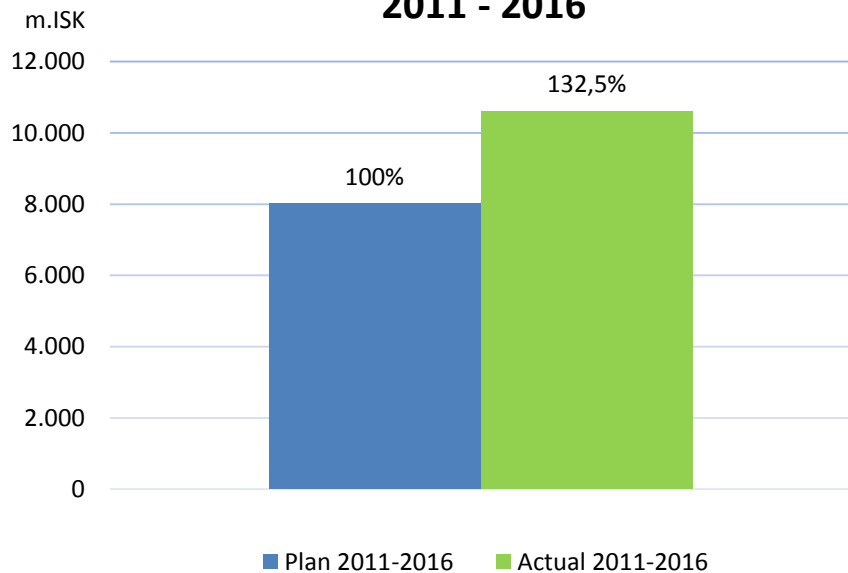
	2016	2011-2016	2011-2016
Target ISK	1 499	8 013	8 013
Progress ISK	1 563	10 613	10 613

Target EUR	12.6	67.3	67.3
Progress EUR	13.1	89.1	89.1

The target for 2016 is to raise revenues by ISK 1,499 million and for 2011-2016 by ISK 8,013 million by increasing tariffs. The increase in 2011-2016 is ISK 10,613 million. It is ISK 2,600 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

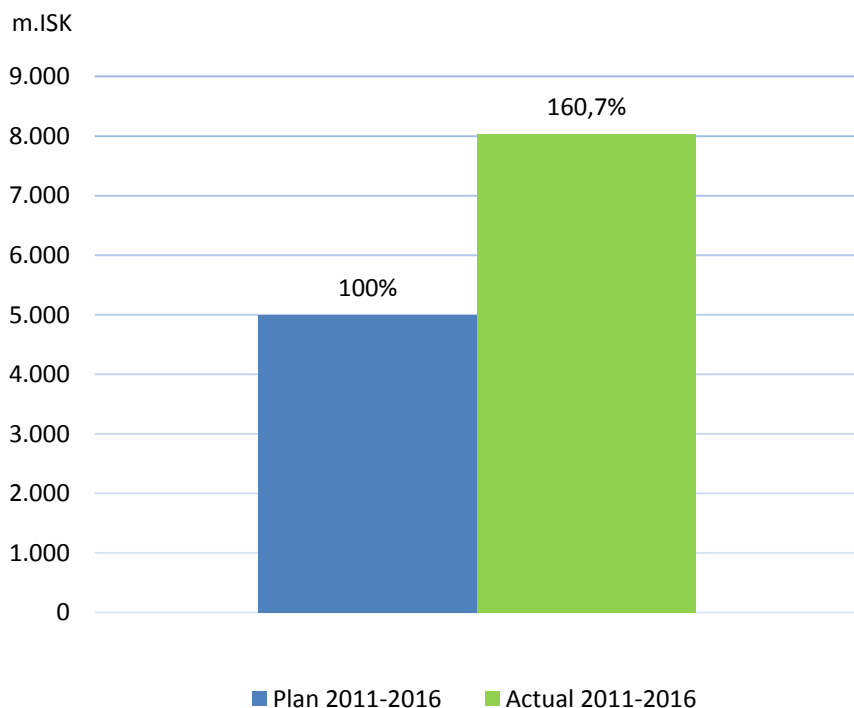


2.7 REDUCTION IN OPERATING COST

	2016	2011-2016	2011-2016
Target ISK	1 000	5 000	5 000
Progress ISK	1 753	8 034	8 034

Target EUR	8.4	42.0	42.0
Progress EUR	14.7	67.4	67.4

Reduction in operating cost 2011-2016



The target in cost-cutting in operations is ISK 5,000 million in the years 2011 through 2016. The target for 2016 was ISK 1,000 million. Operation costs are ISK 753 million lower than target in 2016.

Operation cost reduction in 2011-2016 was ISK 8,034 million or ISK 3,034 million above target.

Pension expenses and allowance for doubtful accounts are ISK 59.7 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

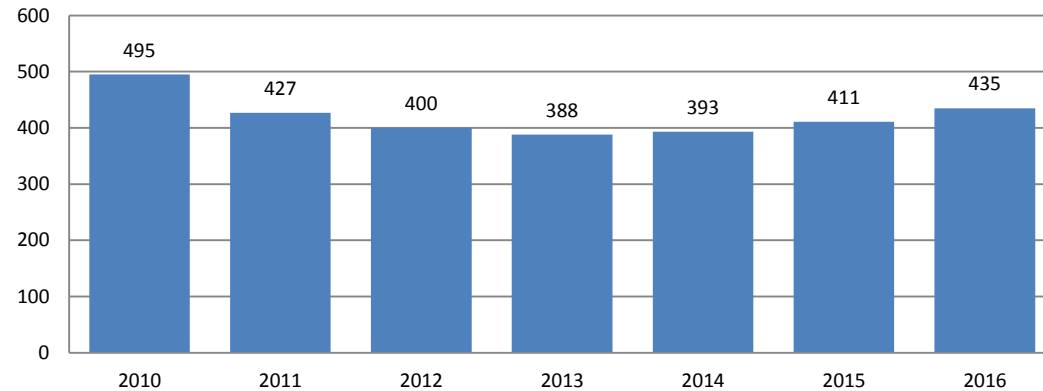
OR's target for reduction of personnel was 90 in the years 2011-2016.

The goal was accomplished by the end of February 2012.

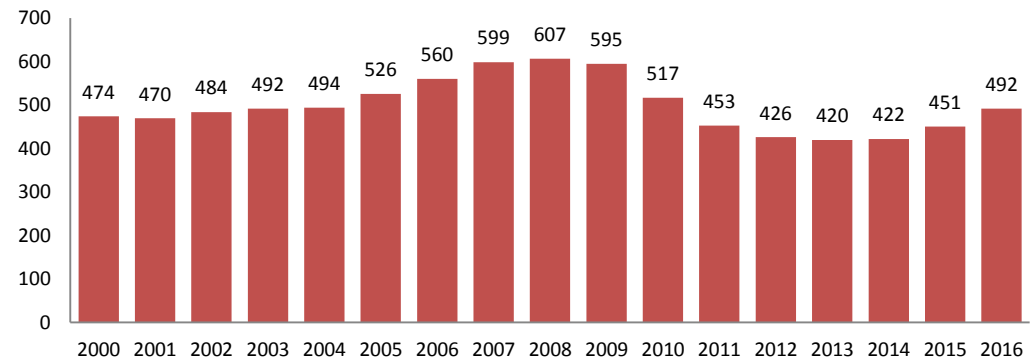
The number of permanent employees in consolidated OR has been reduced by 115 since 2008 when it was at its peak and the employee count now stands at 492. From year beginning, the number of permanent employees of OR increased by 24. On December 31st employees were 435.

Salary cost is ISK 215,2 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

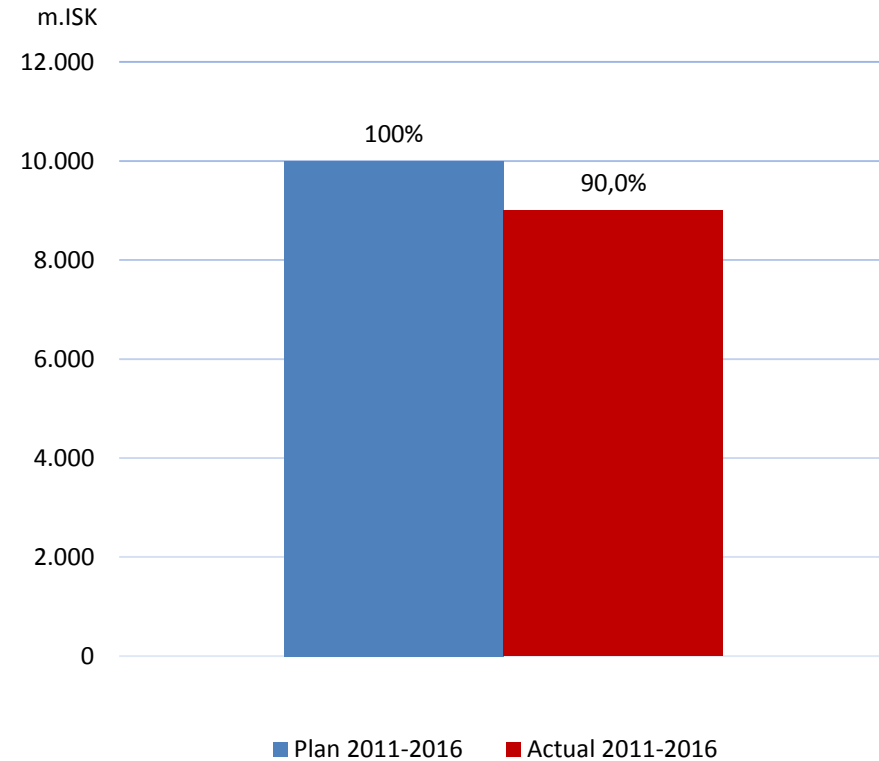
Various equipment and materials were sold for ISK 4.5 million.

ISK millions	2016	Status
Sale of various equipment	4.5	Paid in full
Total	4.5	

	2016	2011-2016	2011-2016
Target ISK	0	10 000	10 000
Progress ISK	4	9 003	9 003

Target EUR	0.0	83.9	83.9
Progress EUR	0.0	75.6	75.6

Sale of assets 2011-2016



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

Target EUR	0.0	100.7	100.7
Progress EUR	0.0	100.7	100.7

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.

