

Rating Action: Orkuveita Reykjavikur

Moody's reviews Aa2 rating of Orkuveita Reykjavikur for possible downgrade

London, 10 July 2008 -- Moody's Investors Service placed the Aa2 rating of Orkuveita Reykjavikur (OR also known as "Reykjavik Energy") under review for possible downgrade. The review has been triggered by a weakened financial profile at the company as a result of a significant increase in debt beyond levels anticipated by the current Aa2 rating.

The review will focus on the impact of recent acquisitions, an increased and accelerated capex programme and negative foreign exchange movements, leading to higher financial and operating costs as well as higher debt levels, in 2007 and 2008. The review will also consider the speed at which the company can recover its financial profile, set against the background of some ongoing economic and currency volatility in Iceland. Moody's will also take into account the possible beneficial impact of higher expected aluminium prices and increased revenues generated over time from greater levels of investments, although these are only expected to be returned in the medium-to-long-term.

The review will also factor the recent acquisition by OR in a 16.6% stake in Hitaveita Sudurnesja, a neighbouring utility, for ISK 8.7billion. Whilst OR had committed to increase its stake to 33%, the competition authorities have recently decided that OR should reduce its stake to 10%. Moody's will factor the potential outcomes of this decision into its review.

OR is a Government Related Issuer under Moody's methodology. A downgrade in the fundamental credit assessment of the company from a BCA of 11 to 12 (equivalent to "Ba1" and "Ba2" respectively), is likely to lead to a one notch downgrade in the final rating of the company from Aa2 to Aa3, assuming all other inputs remain the same. Moody's consider the City of Reykjavik of high credit quality and the rating factors support near the top end of the "high" category for OR, given the guarantee of collection from its 93.5% shareholder, the City of Reykjavik, and its partners, the Town of Akranes and the Municipality of Borgabyggd. Nonetheless, Moody's will also review whether the credit profile of the City may also be impacted by a potential weakened BCA of this major subsidiary, and these considerations will also be factored into the rating.

Orkuveita Reykjavikur, based in and around Reykjavik, Iceland is the country's largest multi-utility, providing electricity, hot water heating, cold water and waste services to more than 50% of the Icelandic population. The company focuses on generating environmentally friendly energy from geothermal sources. As at FYE 2007, the company had revenues of ISK21 billion.

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