

Rating Action: Moody's changes outlook on Orkuveita Reykjavikur's Ba1 rating to negative

Global Credit Research - 06 Apr 2010

London, 06 April 2010 -- Moody's Investors Service has today changed the outlook of the Ba1 long term senior unsecured issuer rating of Orkuveita Reykjavikur ("OR" also known as "Reykjavik Energy") to negative from stable. The rating action primarily reflects the rating agency's decision to change the outlook on the Baa3 ratings of the Icelandic government to negative from stable.

The change in the sovereign outlook is prompted by ongoing uncertainty related to the country's external liquidity. The recovery of the Icelandic economy is threatened by the delays in the resolution of the Icesave dispute, which constitutes an obstacle to the resumption of official and private financial flows into the country. Whilst the negotiations with the UK and the Netherlands over Iceland's reimbursement of Icesave depositors may yet yield a more favourable outcome for Iceland's public finances than the previous agreement, still the level of uncertainty generated by protracted discussion is harmful to short-term economic and financial prospects.

OR is a Government-Related Issuer under Moody's methodology given its 100% ownership by the City of Reykjavik (93,5%) and other local authorities. The company's Baseline Credit Assessment remains unchanged at 16 (equivalent to a B3), reflecting the stretched financial profile of the company.

The uplift to Ba1 is primarily driven by the guarantee of collection from its owners as Moody's would expect that, in the first instance, the City of Reykjavik and other municipal owners would support the company in case of extraordinary need to pay any shortfall in interest and principal. However should further support be needed, Moody's would expect the central government to coordinate with the local governments to arrange timely intervention. The one notch difference with the sovereign reflects the fact that were there to be large and conflicting demands on the government, timely support may not always be forthcoming. It additionally reflects the absence of a direct guarantee from the government in favour of the company.

The last rating action on OR was implemented on 11 November 2009 when the rating was downgraded to Ba1 stable from Baa1 negative. This action was closely linked to Moody's downgrade of the Icelandic government's local and foreign currency ratings to Baa3 with a stable outlook from Baa1 with a negative outlook.

The principal methodology used in rating OR was the Application of Joint Default Analysis for Government Related Issuers, April 2005 available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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 2009, the company had revenues of ISK26 billion.

London
Monica Merli
Managing Director
Infrastructure Finance
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

London
Helen Francis
Vice President - Senior Analyst
Infrastructure Finance
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

© Copyright 2010, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of MOODY'S Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Any publication into Australia of this Document is by MOODY'S affiliate MOODY'S Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be

provided only to wholesale clients (within the meaning of section 761G of the Corporations Act 2001). By continuing to access this Document from within Australia, you represent to MOODY'S and its affiliates that you are, or are accessing the Document as a representative of, a wholesale client and that neither you nor the entity you represent will directly or indirectly disseminate this Document or its contents to retail clients (within the meaning of section 761G of the Corporations Act 2001).