

Announcement: Moody's maintains Reykjavik Energy's Ba1 outlook at negative

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London, 27 April 2010 -- Moody's Investors Service maintains the outlook of the Ba1 long-term senior unsecured issuer rating of Orkuveita Reykjavikur ("OR" also known as "Reykjavik Energy") at negative despite the change back to stable from negative in the outlook of Iceland's Baa3 ratings on 23 April 2010.

Moody's maintains its outlook at negative as a result of a number of concerns:

- 1) The company's still stretched liquidity position for 2010, although Moody's notes that OR is in negotiations with a number of international banks which, if successful, could secure its funding needs well into 2011.
- 2) The company's highly leveraged financial profile. This has been primarily driven by a heavy investment burden and weakening of the krona against the foreign currencies in which RE's debt is primarily denominated. However, revenues have also been constrained and, despite a significant rise in inflation in the past year, RE has not increased its tariffs.

Moody's points out that a failure to show signs of improvement in the company's credit and liquidity profile could lead to further negative pressure developing on the rating.

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 of 16 (equivalent to a B3), reflects 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 current notching 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 6 April 2010 when the rating outlook was changed to negative. This action was closely linked to the outlook change on the government's Baa3 ratings to negative due to uncertainty about the country's external liquidity. The sovereign outlook was changed back to stable from negative on 23 April 2010, primarily driven by the improvement in Iceland's external liquidity due to the restoration of financing from the IMF and Nordic governments.

The principal methodology used in rating OR was the Application of Joint Default Analysis for Government Related Issuers, April 2005 available on www.moody's.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.

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