



Moody's Investors Service

Rating Action: Moody's downgrades Landsvirkjun to Baa3/P-3 stable from Baa1/P-2 negative

Global Credit Research - 11 Nov 2009

London, 11 November 2009 -- Moody's Investors Service has today downgraded the senior unsecured ratings of Landsvirkjun to Baa3/P-3 stable outlook from Baa1/P-2 negative outlook. These rating downgrades are in line with the rating agency's recent decision to downgrade the Icelandic government's bond ratings to Baa3/P-3 with a stable outlook.

The downgrade of the sovereign rating reflects the enduring fiscal, financial and monetary challenges resulting from the crisis set against Iceland's high wealth, economic flexibility and sound institutions. The stable outlook additionally reflects the balance of risks between the divergent trends of an improving economic outlook, severe strains on public finances and the still uncertain exit strategy from capital controls.

Given 100% direct and indirect ownership by the Government, Landsvirkjun's current ratings attribute high support to the company from the Icelandic government given the explicit support for the company from the State given its guarantee of Collection under which it ultimately has a joint and several liability for the obligations of Landsvirkjun.

This high support is reinforced by the strategic importance of Landsvirkjun given its position as the country's dominant electric utility and the significant role played in the economy by the aluminium smelting industry in Iceland which relies in large part on the electricity provided by Landsvirkjun.

At the same time Moody's has moved the company's baseline credit assessment (BCA) from a 14 (equivalent to a B1) to a 15 (equivalent to a B2). This reflects Landsvirkjun's exposure to fairly low aluminium prices through its contracts with power intensive industries and Moody's belief that these prices will remain under pressure given the current overcapacity in the aluminium industry. Whilst Landsvirkjun has benefited from lower interest rates over the past year, it remains vulnerable to both a general rise in interest rates as well as overall higher funding costs as a result of a lower rating than in the past. Both these factors could stress the company's already stretched financial profile.

At the same time, Moody's acknowledges the reduction in execution risk as the company has finished its major projects and the fact that it is relatively well insulated against the weak krona, as 70% of the company's revenues are paid in dollars and its funding base has limited exposure to the domestic currency. The company also has adequate liquidity well into 2011 and a well-spread maturity profile. In a reasonably benign environment, the company could gradually improve financial metrics and reduce debt.

The last rating action on Landsvirkjun was on 5 December 2008 when the ratings were downgraded to Baa1/P-2 from A1/P-1.

The principal methodologies used in rating Landsvirkjun are The Application of Joint Default Analysis to Government Related Issuers, April 2005 and Unregulated Utilities and Power Companies published in August 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research and Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Ratings Methodologies sub-directory on Moody's website.

Landsvirkjun is headquartered in Reykjavik, Iceland and generates, transmits and sells electricity to public utilities and energy intensive industries. As at FYE 2008, it had turnover of approximately USD450 million.

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



CREDIT RATINGS ARE MIS'S 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.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY 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, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. 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 credit ratings and financial reporting analysis 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. 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. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (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 on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance -

Director and Shareholder Affiliation Policy."