

**Rating Action: Landsvirkjun**

**Moody's downgrades Landsvirkjun to A1, maintains review**

**Approximately USD1.65 billion of debt affected**

London, 10 October 2008 -- Moody's Investors Service downgraded to A1 from Aa1 the senior unsecured rating of Landsvirkjun and maintains it under review for further possible downgrade in line with the rating agency's recent decision to downgrade the Icelandic government bond ratings to A1 and maintain them under review. The P-1 rating of Landsvirkjun is unchanged.

With 99.9% of its share capital directly owned by the Government of Iceland, Moody's regards Landsvirkjun as a government-related issuer (GRI). The current rating attributes high support for Landsvirkjun from the Icelandic government given the explicit support for the company from the State through 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 which relies on baseload electricity provided by hydro and geothermal power.

As a GRI, the rating also reflects Landsvirkjun's Baseline Credit Assessment of 13 (which maps to a Ba3) and high dependence. Moody's notes that despite the weak financial metrics of Landsvirkjun given its significant investment programme in recent years, the company's liquidity position is comfortable, given a relatively limited debt repayment schedule over the next 12 months and a reasonably sizeable undrawn committed bank facility. Given the very high support levels, the rating is primarily driven by the rating of the Government. Moody's will nonetheless also consider as part of the review whether the underlying credit quality of Landsvirkjun may be impaired by Iceland's current difficulties.

The last rating action on Landsvirkjun was on 1 October 2008 when the Aa1 rating was put under review for downgrade in line with that of the sovereign.

Moody's downgrade and continuing review of the sovereign rating has been prompted by unprecedented seizing up of global credit markets compounding the difficulties of Icelandic banks and complicating the task of the government to restore financial stability. The long term credit standing of the country will depend on the authorities' crisis management skills and the extent to which the government's balance sheet will be durably impaired, both in absolute and comparative terms.

Landsvirkjun is headquartered in Reykjavik, Iceland and generates, transmits and sells electricity to local public utilities and energy-intensive industries. As at FYE 2007, it reported a turnover of approximately USD350 million.

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