

Announcement: Moody's Disclosures on Credit Ratings of Landsvirkjun

Global Credit Research - 02 May 2012

London, 02 May 2012 -- The following release represents Moody's Investors Service's summary credit opinion on Landsvirkjun and includes certain regulatory disclosures regarding its ratings. This release does not constitute any change in Moody's ratings or rating rationale for Landsvirkjun.

Moody's current ratings on Landsvirkjun are:

BACKED Senior Unsecured (foreign currency) ratings of Baa3

BACKED Senior Unsecured MTN Programme (foreign currency) rating of (P)Baa3

BACKED Other Short Term (foreign currency) rating of (P)P-3

RATINGS RATIONALE

Given Landsvirkjun's 100% direct and indirect ownership by the state, Moody's considers the company to be a government-related issuer. Therefore, its rating is determined by an assessment of its standalone credit quality (expressed as a baseline credit assessment, or "BCA"), and factors pertaining to the likelihood of extraordinary support being provided by the Government of Iceland (Baa3, negative outlook).

Landsvirkjun's Baa3/(P)P-3 debt ratings are in line with the government of Iceland's Baa3 local and foreign currency bond ratings, given the explicit support provided by the state under the guarantee of collection to Landsvirkjun and the company's strategic role in Iceland.

Landsvirkjun's standalone assessment, expressed as a BCA of 14 (B1 equivalent) reflects (i) Landsvirkjun's still high financial leverage; (ii) exposure to aluminium prices in a weak commodity market; (iii) concentrated exposure to a comparatively small number of counterparties in the aluminium industry; (iv) currency risk; and (v) vulnerability to increases in funding costs in the event of higher interest rates. However, these negatives are partially offset by its dominant position in the Icelandic energy market, supported by the company's low-cost renewable generation asset base, albeit in a small and isolated market.

The negative outlook on the ratings of Landsvirkjun reflects the negative outlook on the Icelandic government's ratings.

Given the current negative outlook, Moody's does not expect upward rating pressure in the intermediate term. The outlook could return to stable if the outlook on the sovereign rating was changed to stable and there were no changes to the rating agency's view of support assumptions incorporated in the current assessment of Landsvirkjun.

Moody's would expect to downgrade the rating (i) following a downgrade of the sovereign rating; (ii) if it were to perceive that there were a reduced likelihood of the government providing timely support to Landsvirkjun.

The methodologies used in this rating were Unregulated Utilities and Power Companies published in August 2009, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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