

October 8, 1997

S&P Rates Landsvirkjun Foreign Currency A+, Local AA+

Credit Analyst:

Carin Frost, Stockholm (46) 8-440-5929; Juan Jose Garcia Seijo, London (44) 171-826-3642

NY -- Standard & Poor's CreditWire 10/8/97 -- Standard & Poor's today assigned its single-`A'-plus/`A-1'-plus foreign currency ratings and its double-`A'-plus/`A-1'-plus local currency ratings to Landsvirkjun. The outlook on the foreign and local long-term ratings is stable.

The ratings are based on strong explicit and implicit support from the Republic of Iceland, reflecting a joint and several ultimate guarantee from the owners of Landsvirkjun and the utility's economic importance as the national grid company and the dominant electricity producer. Therefore, the ratings of Landsvirkjun equals the sovereign ratings.

The three owners of Landsvirkjun (the Republic of Iceland, the city of Reykjavik, and the Township of Akureyri) have provided a joint and several ultimate guarantee for all obligations of the utility. In light of Landsvirkjun's main grid operation and its strategic role within the country's electricity production, Standard & Poor's believes that the government has strong incentives to provide timely financial assistance if and when needed. Landsvirkjun is presently operated as a partnership but the organizational structure will come under review before Jan. 1, 2004. However, if converted into a limited liability company, the owner guarantee will remain unchanged for debt existing before the utility was incorporated.

Landsvirkjun owns and operates the main power grid encircling the entire country and is responsible for coordinating national power supply.

The utility also accounts for more than 90% of the Icelandic electricity production. The government's promotion of Iceland to foreign investors as a good location for power-intensive industries to diversify the Icelandic economy away from the fishing sector has been successful and electricity demand is expected to increase by over 50% to 2000. While the power-intensive industries are of great importance to the country's economy and therefore reinforce the strategic importance of Landsvirkjun, it gives the utility a significant industrial customer concentration and less revenue stability as industrial tariffs may fluctuate with the prices of aluminium. On the other hand, Landsvirkjun is not expected to face significant competition for the foreseeable future.

Landsvirkjun's sales were Icelandic kronur (IKr) 7.7 billion (US\$115 million) in 1996. The main part of Landsvirkjun's electricity production facilities have been developed in recent years, therefore the utility is characterized by high depreciation charges and debt levels. The level of investments in new capacity and enforcement of the main grid required by the increase in industrial consumption will result in further stretching of Landsvirkjun's already weak financial profile. Cash flow cover of interest costs is expected to fall to 1.5 times (x) in 1998 from 1.7x in 1996, while the ratio of cash flow to debt may be down to 3% compared to 5% last year.

OUTLOOK: STABLE

Despite Landsvirkjun's increasing customer concentration and somewhat weakening financial profile, ratings should remain at the sovereign level based on the utility's very strong market position, strategic importance to the country, and supportive legal and regulatory framework, which are expected to remain unchanged, Standard & Poor's said. -- CreditWire

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.