

**Rating Action: Moody's changes outlook on Landsvirkjun's Baa3/P-3 ratings to negative**

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**Global Credit Research - 06 Apr 2010**

London, 06 April 2010 -- Moody's Investors Service has today changed the outlook on the Baa3/P-3 senior unsecured ratings of Landsvirkjun to negative from stable. This outlook revision is in line with the rating agency's decision to change the outlook on the Icelandic government's Baa3 ratings to negative from stable.

The change in the sovereign outlook is prompted by ongoing uncertainty related to the country's external liquidity. The recovery of the Icelandic economy is threatened by the delays in the resolution of the Icesave dispute, which constitutes an obstacle to the resumption of official and private financial flows into the country. Whilst the negotiations with the UK and the Netherlands over Iceland's reimbursement of Icesave depositors may yet yield a more favourable outcome for Iceland's public finances than the previous agreement, still the level of uncertainty generated by protracted discussion is harmful to short-term economic and financial prospects.

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

Landsvirkjun's Baseline Credit Assessment remains unchanged at 15 (equivalent to a B2) reflecting its stretched financial profile. Landsvirkjun's cash flow remains exposed to a rise in interest rates and aluminium rate movements via its contracts with power intensive industry. However, whilst highly indebted, Landsvirkjun now has limited investment needs.

The last rating action on Landsvirkjun was on 11 November 2009 when the ratings were downgraded to Baa3/P-3 stable outlook from Baa1/P-2 negative outlook. This action was prompted by Moody's downgrade of the Icelandic government's local and foreign currency ratings to Baa3 with a stable outlook from Baa1 with a negative outlook.

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, which are available on [www.moody.com](http://www.moody.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.

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