

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

Global Credit Research - 26 Apr 2010

London, 26 April 2010 -- Moody's Investors Service has today changed the outlook on the Baa3/P-3 senior unsecured ratings of Landsvirkjun to stable from negative. This outlook revision is in line with the rating agency's decision to change the outlook on the Icelandic government's Baa3 ratings to stable from negative.

The change in sovereign outlook back to stable from negative on 23 April 2010 was primarily driven by the improvement in Iceland's external liquidity due to the restoration of financing from the IMF and Nordic governments. Moody's had changed the outlook on the government's rating to negative a few weeks previously due to uncertainty about the country's external liquidity.

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.

Moody's notes that the recent volcanic eruption at Eyjafjallajokull in South Iceland has had a very limited effect in Iceland and no impact on Landsvirkjun's operations to date. Moody's notes that an impact assessment carried out by Landsvirkjun indicates no, or very limited, risk for Landsvirkjun's facilities due to the potential effects of ash clouds, floods and lava flows.

The last rating action on Landsvirkjun was on 6 April 2010 when the outlook of the Baa3 rating was changed to negative from stable in line with the sovereign action.

The principal methodologies used in rating Landsvirkjun are The Application of Joint Default Analysis to Government Related Issuers, published in April 2005, and Unregulated Utilities and Power Companies, published in August 2009, which are 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 2009, it had turnover of approximately USD296 million.

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