

Rating Action: MOODY'S REPORTS: ICELAND'S Aaa RATINGS AND STABLE OUTLOOK BASED ON ECONOMIC RESILIENCY AND SOUND PUBLIC FINANCES

Global Credit Research - 05 Jun 2003

New York, June 05, 2003 -- In its new annual report, Moody's Investors Service says Iceland's Aaa ratings and stable outlook are based on a resilient economy with a proven capacity to absorb sizeable economic dislocations. In addition, Iceland boasts healthy government finances, longstanding political stability, and standards of living considerably above the OECD average.

"The ratings are also supported by a structural economic adjustments undertaken during the 1990's, including fisheries management as well as market liberalization, fiscal consolidation, and privatization," say Moody's sovereign analysts Kristin Lindow and Joan Vidra, authors of the report. Moody's also cites increased export diversification, both within the all-important fisheries industry and as a consequence of the development of significant aluminum smelter capacity, and low and declining government direct debt.

The Icelandic economy has reached a relatively benign juncture after a serious bout of overheating in the late 1990's that was characterized by huge current account deficits and rapid inflation. Still, the mild recession of 2002 represented a softer landing than Moody's had feared, demonstrating once again the economy's remarkable resilience, with much of the impact being absorbed by the external sector thanks to the relatively flexible labor market, the shift to a floating exchange rate in early 2001, and credible inflation targeting.

Concerns linger about the possible emergence of a new boom-and-bust cycle, given the decision to proceed with a large new aluminum smelter and related power generation facilities, says Moody's. "While controversial because of their negative impact on the government-guaranteed external debt levels, increasing Iceland's vulnerability to external shocks as they expose the small, open economy to wide swings in activity, the new smelter and other industrial expansions are integral to the government's long-term strategy to diversify the economy and its exports," say the analysts. "It is also expected to partly mitigate the population drift toward the southwest of the country."

Spending restraint kept public finances in rough balance last year as the government's budget surplus evaporated along with the buoyancy of tax revenues. If the fiscal authorities fulfill their commitment to maintain better control of spending during the coming high-investment phase, small budget surpluses are likely to re-emerge as early as 2004, says Moody's. Tighter fiscal policy will also be needed to avoid excessive reliance on monetary policy and the recurrence of large external deficits and a wage-price spiral.

The rating agency's report is a yearly update to the markets and is not a formal action to alter the credit rating of the issuer.

** * * * * **

NOTE TO JOURNALISTS ONLY: For a copy of this report, Iceland, please contact New York Press Information +1-212-553-0376; London Press Information +44-20-7772-5454; David Frohrip in Paris +33-1-5330-1062; Juergen Berblinger in Frankfurt +49-69-707-30-700; Juan Pablo Soriano in Madrid +34-91-310-1454; Benedicte Pfister in Milan +39-02-58-215-585; Hector Lim in Sydney +612-9270-8190; Tokyo Press Information +813-5408-4110; Lorraine Yee in Hong Kong +852-2916-1112; Hilary Parkes in Toronto +1-416-214-1635; Luiz Tess in São Paulo +55-11-3443-7473; or Benito Solis in Mexico City +525-261-8784 or visit our web site at www.moody.com.

New York
Kristin Lindow
VP - Senior Credit Officer
Sovereign Risk Unit
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Joan Feldbaum-Vidra
Analyst
Sovereign Risk Unit
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.