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## Iceland Electric Co. Landsvirkjun Foreign Currency Outlook Revised to Positive; Rtg's Affirmed

**Credit Analyst:**

Andreas Zsiga, Stockholm (46) 8-440-5936; Magnus Pettersson, Stockholm (46) 8-440-5929; Peter Kernan, London (44) 20-7826-3618

LONDON (Standard & Poor's) Dec. 17, 2003--Standard & Poor's Ratings Services said today it revised its foreign currency outlook on Iceland-based electricity transmission and generation company Landsvirkjun to positive from stable following a similar outlook revision on the Republic of Iceland (foreign currency A+/Positive/A-1+; local currency AA+/Stable/A-1+; see "Foreign Currency Outlook on Iceland Revised to Positive; 'A+/A-1+' FC Ratings Affirmed", published on Dec. 16, 2003, on RatingsDirect, Standard & Poor's Web-based credit analysis system).

At the same time, Standard & Poor's affirmed its local currency 'AA+/A-1+' and foreign currency 'A+/A-1+' corporate credit, and its foreign currency 'A+' senior unsecured debt ratings on Landsvirkjun. The local currency outlook is stable.

The ratings on Landsvirkjun reflect the joint and several ultimate guarantees for the utility's obligations provided by its owners, including the government, which has a 50% stake. The ratings also reflect the utility's economic importance, dominant position in the Icelandic electricity market, and modern asset base. These factors offset its weaknesses, such as customer concentration, significant foreign currency and aluminum price exposure, and a weak financial profile owing to significant investments in new generation capacity.

Landsvirkjun's strategic importance to Iceland's electricity supply, its role in providing for a industrial expansion in Iceland, and the potential negative consequences for the sovereign's position in the financial markets if Landsvirkjun were to default all indicate that the government can be expected to provide timely financial support if needed. On a stand-alone basis, Landsvirkjun's credit quality is noninvestment grade, owing to further financial weakening and construction risks resulting from its expansion projects.

"The stable local currency outlook and the positive foreign currency outlook on Landsvirkjun reflect those on the sovereign. We expect government support to remain given Landsvirkjun's strategic importance to the economic development of Iceland, indicated by the government's decision to invest in the Kárahnjúkar project," said Standard & Poor's Infrastructure Finance credit analyst Andreas Zsiga. "Sector deregulation and restructuring appear to have limited negative or neutral credit implications. The ratings are expected to move with those on the sovereign in the absence of any privatization, abolition of Landsvirkjun's guarantees status, or signs of reduced willingness or ability to provide timely support if needed."

ANALYST E-MAIL ADDRESSES

andreas\_zsiga@standardandpoors.com  
magnus\_pettersson@standardandpoors.com  
peter\_kernan@standardandpoors.com  
InfrastructureEurope@standardandpoors.com

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