

**ISSUER COMMENT**

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**ANALYST CONTACTS**

Erica Gauto Flesch +44 207 772 1968  
*Analyst*  
One Canada Square Canary Wharf  
erica.gautoflesch@moody's.com

## Negative impact of higher Swiss franc is manageable for Icelandic utilities

The two major Icelandic utilities, Landsvirkjun (Baa3/ Ba2 stable) and Reykjavik Energy (B1 positive), have issued some debt denominated in Swiss francs which they have not hedged or only marginally hedged. Both will see their debt repayments rise in local currency terms after the Swiss National Bank decided on 15 January to remove the cap on the currency's value, which has led to a sharp appreciation of the Swiss franc.

However, the overall impact is very small in the case of Landsvirkjun. The company has debt denominated in Swiss francs of around CHF47 million according to its interim financial statements in June 2014. But this only represents a small part of Landsvirkjun's total debt (c. 2%). Landsvirkjun's reporting currency is US dollar, the currency in which most of its revenues are derived. Since June 2014 the company has benefitted from a rising US dollar in terms of foreign currency debt exposure. Therefore, the net impact on Landsvirkjun is an increase in the total outstanding debt of only c. 0.4% in US dollar terms compared to June 2014, which is immaterial.

In the case of Reykjavik Energy, cash flows are mainly derived in Icelandic krona, which is the reporting currency. About 10% of outstanding debt is denominated in Swiss francs. We estimate that the sudden appreciation of the Swiss franc against the Icelandic krona of more than 20% during the last week has increased Reykjavik Energy's total amount of debt by around ISK3.1 billion in local currency terms (c. 1.7% of total debt). This will weaken credit metrics marginally but it is manageable. Furthermore, this increase in debt burden does not represent an immediate liquidity concern as the scheduled annual repayments in Swiss francs, until final maturity in 2027, are relatively small. The company's liquidity position, which includes foreign currency deposits to cover amortizations for the next 6 months, is adequate to withstand the current situation.

**Moody's Related Research**

[Swiss National Bank's Removal Of Cap on Franc Is Credit Negative For Swiss Corporates' Earnings, January, 2015 \(1002471\)](#)

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