

### Research Update:

## Norwegian Utility Statkraft AS Outlook To Stable From Negative On Expected Capital Increase; 'A-/A-2' Ratings Affirmed

#### Primary Credit Analyst:

Andreas Kindahl, Stockholm (46) 8-440-5907;andreas\_kindahl@standardandpoors.com

#### Secondary Contact:

Gustav Liedgren, Stockholm +46 (0) 8 440 5916;gustav\_liedgren@standardandpoors.com

### Table Of Contents

---

- Overview
- Rating Action
- Rationale
- Outlook
- Related Criteria And Research
- Ratings List

## Research Update:

# Norwegian Utility Statkraft AS Outlook To Stable From Negative On Expected Capital Increase; 'A-/A-2' Ratings Affirmed

## Overview

- The government of Norway has announced its intention to support state-owned utility Statkraft AS with a Norwegian krone 14 billion capital increase to help fund the group's sizable investment program.
- We are revising our outlook on Statkraft to stable from negative.
- The stable outlook reflects our view that Statkraft's credit metrics are likely to remain within our expectations for Statkraft's stand-alone credit profile, which we currently assess at 'bbb'.

## Rating Action

On Nov. 30, 2010, Standard & Poor's Ratings Services revised its outlook on Norwegian state-owned utility Statkraft AS to stable from negative. At the same time, the 'A-' long-term and 'A-2' short-term corporate credit ratings were affirmed.

## Rationale

The rating actions reflect the Norwegian government's recent announcement that it has submitted a proposal to parliament (Stortinget) to strengthen Statkraft's capital base with a Norwegian krone (NOK) 14 billion (about €1.7 billion) equity injection. The Kingdom of Norway (AAA/Stable/A-1+) owns 100% of Statkraft. The proposal is likely to be discussed and voted on in Stortinget within the coming weeks. We believe there is a strong likelihood that the announced capital injection will be completed. Should the capital increase unexpectedly fail, we would expect management to implement other measures, such as amending its investment plan and making divestments, to strengthen Statkraft's financial profile.

A successful equity increase could, in our view, lead to a sustained, albeit modest improvement of Statkraft's financial risk profile. We believe that Statkraft is likely to upsize its investment program in the coming years, which is likely to largely counterbalance the positive contribution to credit metrics resulting from the capital increase.

The ratings reflect Statkraft's position as the third-largest Nordic power generator, its competitive and flexible hydropower generation asset base, and full state ownership. We also view positively the Norwegian government's recent announcement that it intends to contribute NOK14 billion to Statkraft

through a capital increase. This, we believe, is a strong commitment of ongoing support from the government and will, if implemented, allow Statkraft to implement its large investment program without damaging its financial risk profile.

These factors are offset by the inherent volatility of Statkraft's earnings generation as a result of its exposure to hydropower and wholesale power prices, a significant investment program, high tax rates, and the group's aggressive dividend policy. Furthermore, large minority stakes in electric utilities limit Statkraft's access to cash flow from these holdings, and some of its growth investments are in higher-risk countries, in our view, which could weigh on our assessment of the group's business risk profile.

The group's large number of hydropower stations and huge reservoirs mitigate the significant share of weather-sensitive hydropower in its power generation portfolio. In addition, Statkraft has hedged a large proportion of its power output through bilateral contracts with industrial clients or through the Nordic power exchange.

We currently assess Statkraft's stand-alone credit profile at 'bbb'. In our opinion, there is a "moderately high" likelihood that the government of the Kingdom of Norway would provide timely and sufficient extraordinary support to Statkraft in the event of financial distress.

In accordance with our criteria for government-related entities, our view of a "moderately high" likelihood of extraordinary government support is based on our assessment of Statkraft's:

- "Important" role for the Norwegian economy, in light of its vast domestic hydropower resources, which we view as highly strategic to Norway's power supply; and
- "Strong" link with the Norwegian government, its owner, and our view that the risk of privatization is remote.

For the 12 months ended Sept. 30, 2010, the ratio of adjusted funds from operations (FFO) to debt improved to 28% from 18% as of fiscal year ended Dec. 31, 2009. This largely reflects improved profitability in the first nine months of 2010, particularly in the first quarter. Operating income in the near term is likely to be pressured by low hydro reserves in Norway, resulting in lower hydroproduction volumes.

### **Short-term credit factors**

The short-term rating is 'A-2'. We consider Statkraft's liquidity to be adequate. As of Sept. 30, 2010, the company reported on-balance-sheet cash and short-term investments of about NOK5.7 billion, access to an unused NOK5 billion multicurrency revolving credit facility maturing in 2012, an unused NOK3 billion multicurrency revolving credit facility maturing in 2013, and NOK400 million in uncommitted bank lines. This compared with short-term debt of NOK6.9 billion as of the same date. We believe Statkraft will look to extend its credit facilities in the coming quarters to mitigate refinancing

risks.

Statkraft has a policy of holding liquidity (cash and committed credit lines) to cover at least six months' of outflows, including the annual dividend payment, without external financing. Furthermore, financial flexibility is strongly supported by the group's holding of a minority share in E.ON AG (A/Stable/A-1), which is listed on the Frankfurt stock exchange. The stake was valued at about €1.9 billion (NOK15 billion) as of today's date, using the current E.ON share price.

Covenants attached to Statkraft's borrowing arrangements relate mainly to restrictions regarding indebtedness at group subsidiaries and government guarantees and ownership.

## Outlook

The stable outlook reflects our expectation that Statkraft's credit profile will stabilize as a result of the NOK14 billion capital increase. We would consider an FFO-to-debt ratio of 15%-20% and only moderately negative cash flows after dividend payments to be consistent with the current ratings.

The ratings could come under pressure as a result of concerns over a gradual deterioration of Statkraft's business risk profile over the longer term, which could result from the company's still-significant investment program with its attached execution risks. In addition, we note that the program will be partly implemented in higher-risk countries. We would also consider a negative rating action if a prolonged period of low electricity wholesale prices or poor hydro availability were to result in a weaker-than-expected earnings performance, or if we see that the likelihood of government support were decreasing.

Any upside to the ratings would likely be the result of an unexpected change to its financial strategies and targets, which would include a focus on maintaining higher-than-expected credit metrics than currently factored into the ratings.

## Related Criteria And Research

- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Statkraft AS		
Statkraft SF		
Statkraft Energi AS		
Corporate Credit Rating	A-/Stable/A-2	A-/Negative/A-2

Ratings Affirmed

Statkraft AS  
Senior Unsecured A-

Statkraft SF  
Senior Unsecured A-

### Additional Contact:

Infrastructure Finance Ratings Europe;InfrastructureEurope@standardandpoors.com

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

Copyright © 2010 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).