S&P Global Ratings

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Statkraft AS

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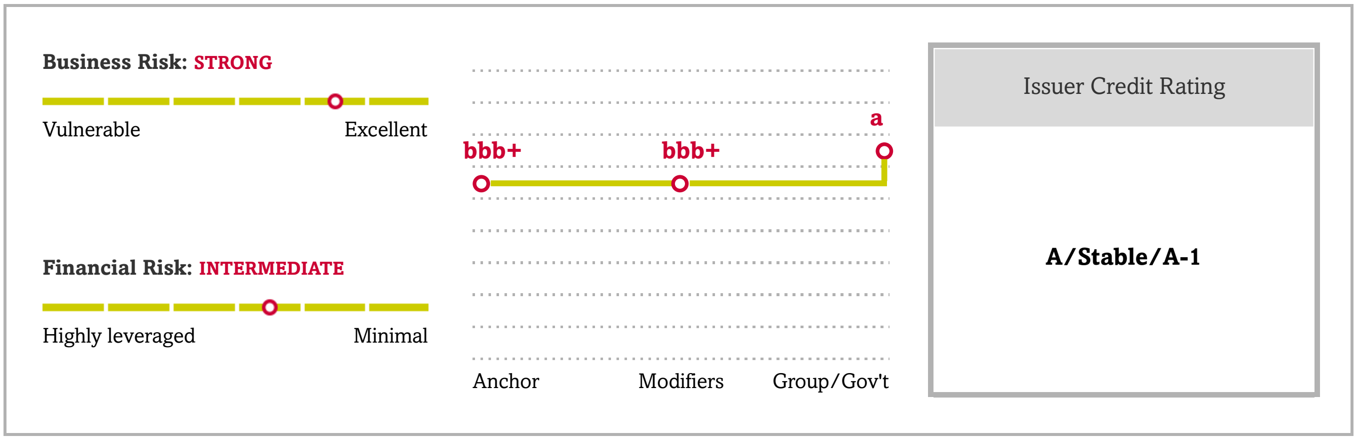
Table Of Contents

Table Of Contents (cont.)

Statkraft AS



Credit Highlights

Overview

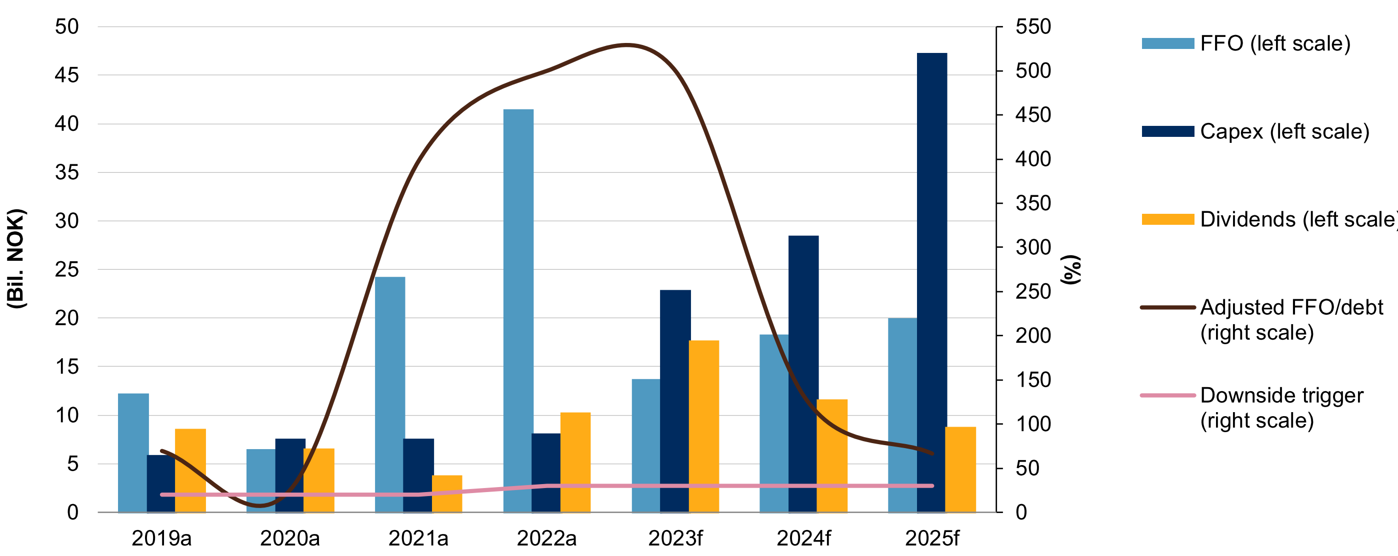
Key strengths	Key risks
Unique position as Europe's largest hydro generator with large reservoirs.	High exposure to volatile Nord Pool power prices, with 65%-70% of production unhedged and given variability in hydrological conditions in the Nordic region, which strongly influence power prices.
Highly competitive and flexible hydropower production allows a high share (97%) of renewable production.	Weak cash conversion and volatile cash flow, due to taxes and dividends paid in arrears.
High profitability and free cash flow support the ambitious 2.5 gigawatts (GW)-3GW annual renewable additions target during 2024-2027.	
Ample credit metric headroom in 2023 and 2024, when we expect debt to be not meaningful.	
Two notches of uplift in the rating from supportive ownership by the government of Norway.	

Thanks to Statkraft's highly competitive, flexible, and low-cost hydro assets in the Nordics, we expect credit ratios to remain very robust over 2023 and 2024, with no or limited adjusted debt. We expect Statkraft will continue to benefit from its strong position as Norway's largest hydro producer by far, and generate strong cash flow and credit ratios, tempered by high quarterly and yearly volatility. Statkraft is benefiting immensely from the current high power price environment, due to its low operating costs--full cost including deprecation is about Norwegian krone (NOK)11.2 øre (an øre is 1/100 of a krona) per kilowatt hour (/KWh), or about €11.5-€12.5 per megawatt-hour (/MWh)--and to its high production flexibility. Following its strong discretionary cash flow in 2021 and 2022 of about NOK22 billion, Statkraft had no adjusted debt at year end 2022. In our updated base case, we assume underlying EBITDA of NOK40 billion-NOK45 billion in 2023 and NOK35 billion-NOK40 billion in 2024. Whilst well below the record high NOK57 billion EBITDA in 2022, this is still above historical levels (around NOK15 billion-NOK20 billion). For 2023-2024, our expectations mainly reflect higher power prices on average, while increased volatility makes Statkraft's earnings and cash flow profile volatile from quarter to quarter. This is because Statkraft is more exposed to power prices than its Nordic peers (Vattenfall, Orsted, and Fortum).

Despite an ambitious capital expenditure (capex) plan, we forecast only moderate debt increases and very strong credit metrics, although with continued high volatility. We expect Statkraft to have limited debt at year-end 2023 before modestly increasing in 2024 and 2025. Whilst committed capex for 2023-2027 is low at about NOK33 billion (about NOK7 billion annually), we expect annual capex including growth investments to amount about NOK25 billion-NOK26 billion on average over 2023 and 2024. As this figure includes uncommitted capex and bolt on acquisitions, it could vary significantly year on year. We expect a further step-up in capex after 2024 as larger projects ramp up. For Statkraft to meet its very ambitious strategy target of a run rate of renewables of 2.5GW-3.0GW additions per year over 2024-2027, its gross capex could approach NOK50 billion in some years. Net capex could be materially lower depending on asset and project divestments. We view positively that Statkraft's current asset base faces low obsolescence and energy-transition risks, i.e., it requires no significant investment to replace capacity, as typically is the case for European peers. This is because its hydro assets are long-life, and the company has a very low greenhouse gas emission profile at 11g of CO2/KWh produced. Statkraft's capex is instead directed toward capacity additions. In our base case, we do not assume large acquisitions, but believe there is headroom for some, which we would expect to be within renewable generation or potentially within district heating. While renewable generation is riskier, further additions would add to the company's size and diversity, likely resulting in a neutral to moderately positive effect on business risk, assuming no major change in political risk. We also think district heating could be more directly credit supportive.

Chart 1

We anticipate Statkraft's credit metrics will remain very strong but volatile



Capex--Capital expenditure. a--Actual. f--Forecast. NOK--Norwegian krone. FFO--Funds from operations.
Source: S&P Global Ratings.

We believe a structural shift is behind higher electricity prices, and that prices will remain volatile and high in the Nordics, which gives Statkraft the potential to achieve high prices. We expect continued volatility in prices to remain much higher than historically, at least until 2025. There are several factors that affect electricity prices in the Nordics:

- A large part of electricity is not generated where it is needed, therefore price equalization across zones requires significantly more transmission capacities than currently in place. We understand it will take an additional three-to-five years before this is solved.
- Nordic electricity prices are now more closely linked--at least in the South of the region--to those of Continental Europe and the U.K. due to the recent connection of submarine interconnectors. This includes the North Sea Link (connecting Norway and the U.K.) and NordLink (connecting Norway and Germany), which were connected in 2021 and each have a maximum capacity of 1,400MW. Additional projects are ongoing, enabling interconnection capacity to increase by 2.8GW by 2027.
- We expect EU/U.K. carbon emission prices to continue to exceed €80/MWh as they have since the end of 2021, fueling higher energy prices in Europe and the U.K., which are now passed on to the Nordics.
- In the Nordic region, additional production capacity will mainly come from wind (cumulatively we see that about 20 terawatt hours [TWh]-25TWh is planned until 2027) and this intermittent capacity will drive price volatility further. We believe Statkraft's hydro assets will benefit from this volatility, since its production is more flexible, and therefore it can lower capacity when wind capacity is high and driving down prices, then increase capacity when prices are more favorable.

Therefore, we foresee that Statkraft will benefit from both the increased average of Nordic prices and from price volatility, since it has the capability to quickly switch its generation capability, thereby outperforming the average price. In first-quarter 2023, underlying reported EBIT increased a further 3% year over year to NOK18.5 billion, despite Nordic system prices being down 22% and a 5% lower generation.

Our rating on Statkraft factors in two notches of uplift for extraordinary government support. The group is 100% owned by Norway (AAA/Stable/A-1+). We see the risk of privatization as remote, given the government stipulates that, by law, its hydro assets should remain at least two-thirds publicly owned.

Outlook: Stable

The stable outlook reflects our expectation that Statkraft will continue to benefit greatly from elevated energy prices, resulting in funds from operations (FFO) to debt comfortably above 30%, even with significant investments of NOK22 billion-NOK28 billion annually through 2024. The rating has some headroom for merger and acquisitions (M&A), of between NOK25 billion-NOK30 billion, beyond our base case.

Downside scenario

We could take a negative rating action if Statkraft undertook a large acquisition or project that could not be funded by operating cash flows, or if a material cost overrun occurs, notably if this were to coincide with lower electricity prices in the Nordic region and result in FFO to debt unexpectedly returning to the 20%-30% range.

In addition, we could take a negative rating action if government support weakened, for example, if the government privatized a significant part of its ownership in Statkraft this could lead to a downgrade. However, we consider this unlikely over the near-to-medium term.

Upside scenario

Prospects for a higher rating are constrained by the company's capex program and lack of clarity regarding investments and potential M&A activity, including the long-term impact on Statkraft's financial ratios.

Our Base-Case Scenario

Assumptions

- Norwegian GDP growth of 0.8% in 2023, and 1.3% during 2024.
- Nord Pool System price averaging about €60/MWh-€80/MWh in 2023 and €50/MWh-€70/MWh in 2024.
- Statkraft's total annual European production volume of about 53/TWH-54/TWh, of which about 70%-75% exposed to Nordic spot prices and about 4TWh-5TWh from the rest of the word.
- Long-term contracts with fixed prices for about one-third of estimated production.
- Annual capex of NOK22 billion-NOK28 billion, which could include small acquisitions.
- Dividends based on net profit: 85% of earnings related to Norwegian hydro; and 35% of earning from other activities.
- Hydro generation tax in Norway being paid the following year.
- We do not include larger M&A transactions in our base case.

Key metrics

Statkraft A.S.--Key metrics*

	--Fiscal year ended Dec. 31--				
(Bil. NOK)	**2021a**	**2022a**	**2023e**	**2024f**	**2025f**
EBITDA	27.7	56.9	39-42	35-38	36-39
Funds from operations (FFO)	24.1	41.4	13-15	17-19	19-21
Debt	6.1	0.0	0.0	13-15	29-31
FFO to debt (%)	398.3	N.M.	N.M.	130-140	60-70
Debt to EBITDA (x)	0.2	N.M.	N.M.	0.0-0.5	0.5-1.0

*All figures adjusted by S&P Global Ratings. NOK--Norwegian krone. N.M.--Not Meaningful a--Actual. e--Estimate. f--Forecast.

We anticipate continued high operating cash flow in 2023 and 2024. We assume prices will soften toward over the next two years, from about €135/MWh on average in 2022 to date toward €60/MWh-€80/MWh in 2023. Under those market conditions, Statkraft's earnings from its Nordic hydro generation, while softening, will remain high and support FFO above NOK13 billion-NOK14 billion for 2023 and NOK17 billion-NOK20 billion for 2024. In 2024, we expect tax cash payments to soften somewhat compared with 2023, as the tax payments in 2023 reflect the record high earnings achieved during 2022. We forecast FFO to debt to stay significantly above our minimum 30% expectation for the 'bbb+' stand-alone credit profile (SACP) and our 'A' rating. Toward the end of the next two years, we assume EBITDA generation will be further supported by new generation capacity. As part of its strategy, Statkraft aims to farm down its interest in projects from time to time. We do not include any profit from such sale in our adjusted EBITDA and FFO, whether historical or forecast.

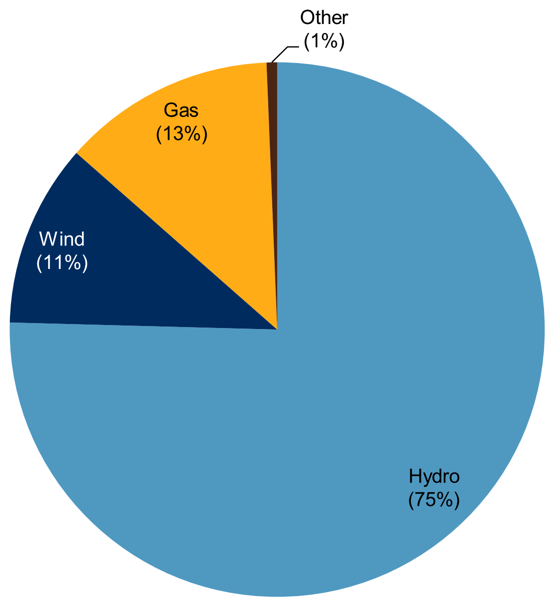
We anticipate discretionary cash flow will turn negative in 2023, and remain so over 2023-2025. Due to our assumption of lower power prices and increasing capex and dividends, we expect to see negative discretionary cash flow of NOK20 billion-NOK30 billion over the coming years, compared with NOK14 billion in 2021 and NOK22 billion in 2022. Therefore, we expect debt to gradually build up, but this is unlikely to significantly impair ratios until after 2025.

Company Description

Norwegian-based Statkraft is the largest renewable hydro energy producer in Europe, with about 60TWh of generation in 2022. Its EBITDA stems from power generation, with the vast majority from hydro production in Norway, but also to a large extent from market operations, including trading and risk optimization, origination, and market access for smaller generators. About 80% of EBITDA will stem from its Nordic activities. Other generation sources are onshore wind, solar, and district heating (see chart 2). Statkraft is present in other markets: Nordic countries other than Norway, the rest of Europe, South America, India, and Nepal. The company is pursuing expanding its renewable portfolio in Europe, South America, and India. About two-thirds of planed investment is for Europe, with more than one-third of the European investment in Norway.

Chart 2

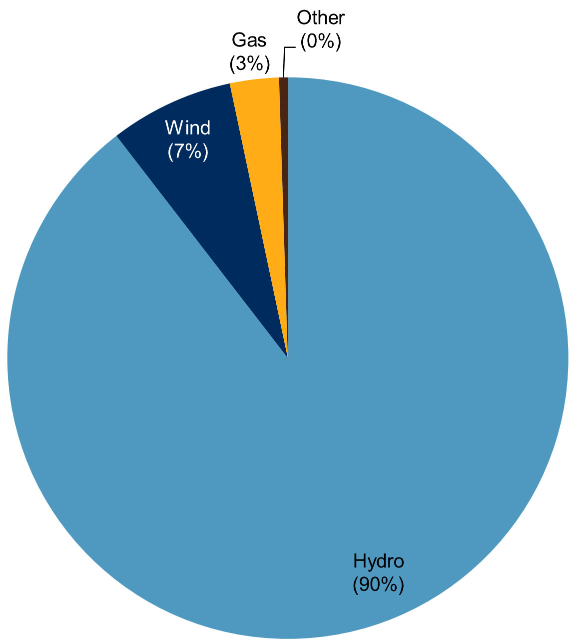
Statkraft's installed capacity
Production split in 2022



Source: S&P Global Ratings.

Chart 3

Hydro generation dominates output
Terawatt hours of production in 2022



Source: S&P Global Ratings.

Peer Comparison

Table 1

Statkraft AS--Peer comparison					
Industry sector: Infrastructure					
	Statkraft AS	**Orsted A/S**	**Fortum Oyj**	**CEZ a.s.**	**Vattenfall AB**
Ratings as of July 14, 2023	A/Stable/A-1	BBB+/Stable/A-2	BBB/Stable/A-2	A-/Stable/--	BBB+/Positive/A-2
	--Fiscal year ended Dec. 31, 2022--				
(Mil. NOK)					
Revenue	159,014.0	187,241.5	92,699.0	122,497.5	226,493.8
EBITDA	56,956.0	29,912.9	23,680.1	58,973.4	45,467.2
Funds from operations (FFO)	41,407.0	23,356.9	19,805.4	54,656.3	38,081.5
Interest expense	776.0	4,594.1	2,453.3	2,834.6	4,948.7
Cash interest paid	1,030.0	4,768.2	2,116.4	1,959.6	3,264.9
Cash flow from operations	40,204.0	16,536.9	22,153.4	2,072.0	1,286.8
Capital expenditure	8,038.0	46,718.0	5,622.6	14,649.0	23,406.0

Table 1

Statkraft AS--Peer comparison (cont.)

Industry sector: Infrastructure

	Statkraft AS	Orsted A/S	Fortum Oyj	CEZ a.s.	Vattenfall AB
Free operating cash flow (FOCF)	32,166.0	(30,181.1)	16,530.8	(12,576.9)	(22,119.3)
Discretionary cash flow (DCF)	21,952.0	(38,406.1)	5,664.7	(23,756.1)	(46,424.6)
Cash and short-term investments	59,199.0	58,567.4	41,263.9	20,206.5	159,034.5
Debt	0.0	74,757.5	43,466.6	112,079.4	71,030.3
Equity	131,691.0	121,219.3	81,464.3	113,435.3	132,225.5
Adjusted ratios					
EBITDA margin (%)	35.8	16.0	25.5	48.1	20.1
Return on capital (%)	41.8	9.1	6.1	23.9	14.0
EBITDA interest coverage (x)	73.4	6.5	9.7	20.8	9.2
FFO cash interest coverage (x)	41.2	5.9	10.4	28.9	12.7
Debt/EBITDA (x)	0.0	2.5	1.8	1.9	1.6
FFO/debt (%)	N.M.	31.2	45.6	48.8	53.6
Cash flow from operations/debt (%)	N.M.	22.1	51.0	1.8	1.8
FOCF/debt (%)	N.M.	(40.4)	38.0	(11.2)	(31.1)
DCF/debt (%)	N.M.	(51.4)	13.0	(21.2)	(65.4)

N.M.--Not meaningful. NOK--Norwegian krone.

In our view, Statkraft has a stronger business risk profile than Orsted and Fortum, but slightly weaker than Vattenfall. Orsted's business risk profile factors in the significant construction risk inherent to the offshore wind industry, despite its strong track record as a wind farm developer, with projects largely on time and in budget. Vattenfall is a more integrated operator than Statkraft, and its operations include regulated activities such as distribution and district heating, which has proved more stable over recent years. All four Nordic operators have very low carbon emission profiles--Statkraft and Fortum have the lowest. However, Statkraft has a more dominant position in its home market than Fortum, thanks to its very low Nordic hydropower assets better placed on the merit order (meaning the electricity sold by Statkraft is competitive compared with that of other generators in the market, even when market prices are low). Statkraft has the strongest balance sheet in the group, followed by Fortum, Vattenfall, then Orsted.

Business Risk: Strong

As the third-largest power generation company in the Nordic region and Europe's largest hydro generator based on production, Statkraft's output is proven and stable, with a very high level of operational efficiency. It has a dominant position in Norway and generates about 40% of power in the country.

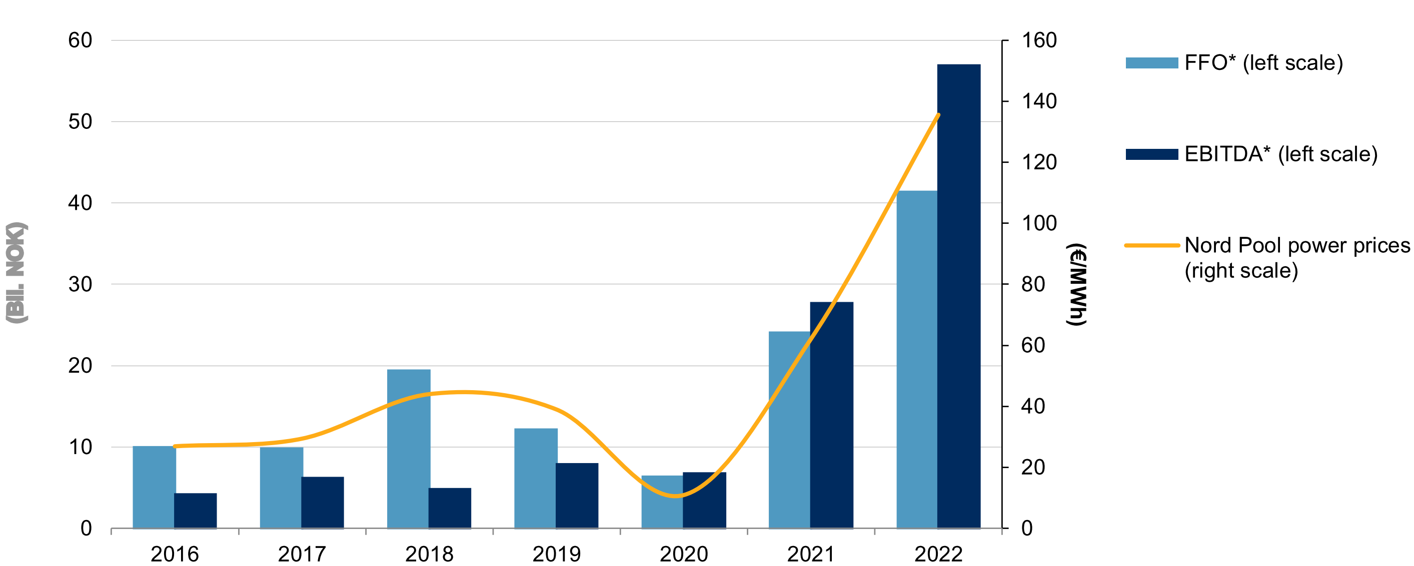
Statkraft's low operating costs and operating flexibility are a key credit strength, placing it in the most credit-supportive area of the merit order. Its production has a very low cash operating cost of NOK11.2 öre/KWh (about €11.5-€12.5/MWh), and also has limited maintenance costs. This is broadly about one-half of the operating cost for efficient nuclear operations and implies Statkraft's operations are cash flow positive even under extreme low-price scenarios. This was demonstrated in 2020, when, despite record low system prices of €11/MWh, Statkraft generated a healthy underlying EBITDA of NOK10.7 billion. Under such market conditions, most other merchant generators in the region had higher costs than Statkraft and recorded EBITDA losses. In a high price environment, such as 2022-2024, Statkraft's hydro operations become very profitable. Furthermore, the fleet has a long life expectancy and very low CO2 emissions. With 2022 average emissions around 11g Co2/KWh, of those we rate, Statkraft is the power producer in EMEA with the lowest emissions (Fortum 19g CO2/KWh, Orsted 60g, Vattenfall 78g, and EDF 50g, of which 4g is for nuclear only.

Thanks to its flexibility--production can be switched on and off within minutes--Statkraft captures stronger prices, typically about 5% higher than spot prices.

Statkraft's cash flow and profitability is driven by spot price exposure and hydro levels. Statkraft's large water reservoir capacity (one-quarter of Europe's total), while low-cost and flexible, faces profit volatility due to variable hydro conditions. A tight hydrological balance, as in southern Norway during 2022, typically leads to spiking prices and profits; conversely, abundant rainfall lowers prices. To mitigate this variability, the company has, by entering long-term price agreements with industrial customers, locked in about one-third of its total estimated generation for 2023-2025; about 14TWh are already locked in through 2030 with fixed prices. In our view, while the locked-in price may be lower than future spot prices, this still stabilizes profits at a level that partly captures the current high-price situation. While the modest one-third level exposes Statkraft more to spot price developments than peers--which therefore has a stronger impact on profitability and cash flow than peers--from a rating perspective we are somewhat more comfortable with the significant residual exposure given Statkraft's very low operating costs.

Chart 4

Statkraft's credit metrics have a high correlation to power prices

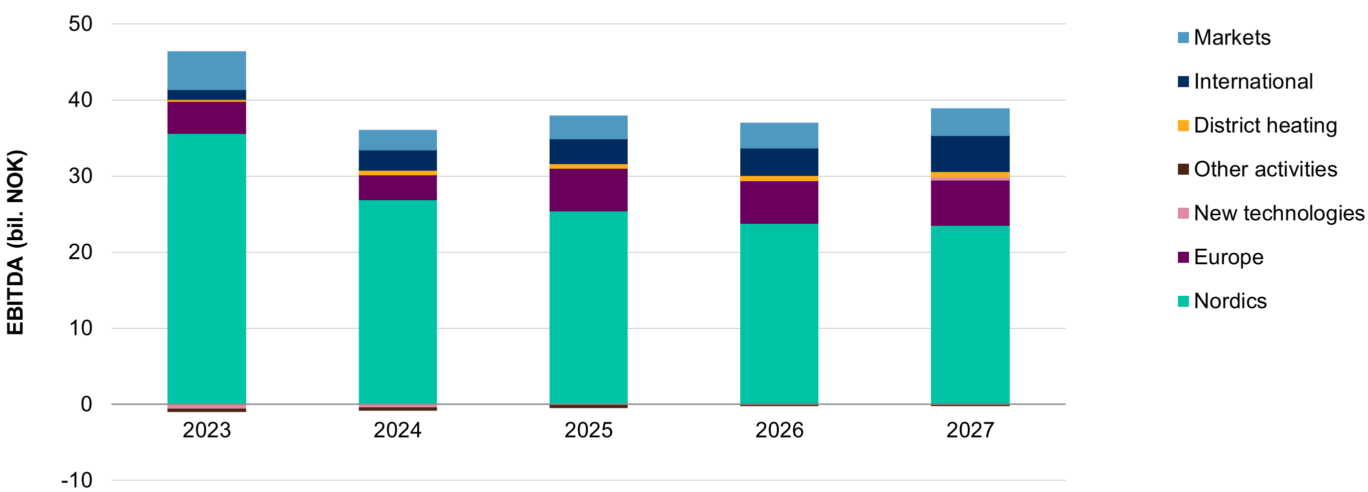


*S&P Global Ratings-adjusted. NOK--Norwegian krone. FFO--Funds from operations. MWh--Megawatt-hour. Source: S&P Global Ratings.

Statkraft has significantly strengthened its growth strategy focusing on renewable expansion, wind, and solar in Europe, South America, and India. Between 2024-2027, Statkraft plans to have a run rate of 2.5GW-3GW of annual capacity additions, or a sustained 13%-17% of existing capacity of 19GW (of which 77% is hydro). It expects most of this in Europe and the Nordics, and we therefore do not expect any material dilution of Statkraft's currently very healthy country-risk exposure (we assess country risk for Norway as the strongest of six categories). We expect the company will sell minority participations across its projects, aiming to share the risk with partners, which we see as reflective of prudent financial risk management. Typically, Nordic operations contribute 80%-90% of total revenue. Although the contribution from other regions is likely to increase, we expect Nordic and Western Europe operations to constitute well over 75% of EBITDA. Most operational wind and solar generation are also likely to be hedged, with long-term contracts at fixed prices.

Chart 5

Nordic remains the core contributor to EBITDA



NOK--Norwegian krone. Source: S&P Global Ratings.

Financial Risk: Intermediate

In our base-case scenario, we assume credit metrics commensurate with an intermediate financial risk profile using our standard volatility table, with FFO to debt above 30% over the next two years. Currently Statkraft is well above those ratios, but as we expect material swings in the ratios, we lower our view of the financial risk profile by two categories compared to the 'minimal' level our ratio expectations imply to reflect the expected volatility. This follows Statkraft's relatively large merchant exposure, and volatile power prices combined with a lag in tax payments (current-year tax payments are based on the previous year's earnings).

We base our view on Statkraft's financial risk on the three-year average FFO to debt. This is because cash flow volatility stems from the one-year lag of its payment of its tax and dividends. This causes cash flow volatility, especially when profits fluctuate, as seen in recent years. We expect FFO will reach about NOK13 billion in 2023, burdened by tax payments of about NOK24 billion-NOK26 billion on peak 2022 earnings. This assumption includes a new, temporary, high-price contribution for hydropower that was adopted by the Norwegian government in late 2022. It adds a tax rate of 23% on the part of monthly average prices exceeding NOK 0.70/KWh. The total effective tax rate amounted to 51% in 2022. This is high compared to European standards, and therefore undermines EBITDA-to-FFO conversion more than for Europeans peers. Nonetheless, we expect FFO to debt will remain above 100% on average over the coming years.

Statkraft's policy is to pay dividends equivalent to 85% of its profit from Norwegian hydropower business and 35% from other business activities. We therefore expect it to distribute about NOK17.6 billion in dividends in 2023, up from NOK3.5 billion in 2021, and we think it is likely to distribute NOK8 billion-NOK12.0 billion in the coming years, under our base-case scenario.

Statkraft issues debt predominantly under its Euro Medium Term Note program. About 65%-70% of external debt is therefore denominated in euros, but we understand the majority of its debt is currency-hedged, so currency risk low. The majority of its revenue is in euros and krone. At the end of 2022, cash and cash equivalents exceeded the interest-bearing debt of NOK43 billion, resulting in a negative net interest-bearing debt-equity ratio. However, we do not think that is a permanent feature.

Financial summary

Table 2

Statkraft AS--Financial summary

Industry sector: Infrastructure					
	--Fiscal year ended Dec. 31--				
	2022	**2021**	**2020**	**2019**	**2018**
(Mil. NOK)					
Revenue	159,014.0	86,212.0	34,560.0	44,217.0	57,930.0
EBITDA	56,956.0	27,748.0	13,148.0	19,975.0	24,224.0
Funds from operations (FFO)	41,407.0	24,139.0	6,377.0	12,117.0	19,426.4
Interest expense	776.0	318.0	325.0	647.0	1,150.6
Cash interest paid	1,030.0	567.0	509.0	958.0	1,192.6
Cash flow from operations	40,204.0	25,820.0	11,414.0	11,443.0	14,642.4
Capital expenditure	8,038.0	7,464.0	7,535.0	5,781.0	4,703.0
Free operating cash flow (FOCF)	32,166.0	18,356.0	3,879.0	5,662.0	9,939.4
Discretionary cash flow (DCF)	21,952.0	14,683.0	(2,621.0)	(2,887.0)	3,846.4
Cash and short-term investments	59,199.0	37,481.0	11,730.0	16,637.0	23,718.0
Gross available cash	59,144.0	37,481.0	11,730.0	16,637.0	23,718.0
Debt	0.0	6,060.8	24,915.6	17,431.0	15,652.7
Equity	131,691.0	107,775.0	98,028.0	100,764.0	98,004.0
Adjusted ratios					
EBITDA margin (%)	35.8	32.2	38.0	45.2	41.8

Table 2

Statkraft AS--Financial summary (cont.)

Industry sector: Infrastructure

	--Fiscal year ended Dec. 31--				
	2022	**2021**	**2020**	**2019**	**2018**
Return on capital (%)	41.8	20.8	7.9	14.9	18.0
EBITDA interest coverage (x)	73.4	87.3	40.5	30.9	21.1
FFO cash interest coverage (x)	41.2	43.6	13.5	13.6	17.3
Debt/EBITDA (x)	0.0	0.2	1.9	0.9	0.6
FFO/debt (%)	N.M.	398.3	25.6	69.5	124.1
Cash flow from operations/debt (%)	N.M.	426.0	45.8	65.6	93.5
FOCF/debt (%)	N.M.	302.9	15.6	32.5	63.5
DCF/debt (%)	N.M.	242.3	(10.5)	(16.6)	24.6

N.M.--Not meaningful. NOK--Norwegian krone.

Reconciliation

Table 3

Statkraft AS--Reconciliation of reported amounts with S&P Global Ratings' adjusted amounts (mil. NOK)

	--Fiscal year ended Dec. 31, 2022--							
Statkraft AS reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	37,393.0	126,000.0	57,742.0	52,178.0	442.0	56,956.0	40,242.0	8,041.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(14,519.0)	--	--
Cash interest paid	--	--	--	--	--	(1,030.0)	--	--
Reported lease liabilities	2,032.0	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	1,092.0	--	384.0	384.0	41.0	--	--	--
Accessible cash and liquid investments	(59,144.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	293.0	--	--	--
Capitalized development costs	--	--	(3.0)	(3.0)	--	--	(3.0)	(3.0)
Dividends received from equity investments	--	--	1,154.0	--	--	--	--	--
Asset-retirement obligations	1,170.8	--	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	1,122.0	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(35.0)	--

Table 3

Statkraft AS--Reconciliation of reported amounts with S&P Global Ratings' adjusted amounts (mil. NOK) (cont.)								
Noncontrolling interest/minority interest	--	5,691.0	--	--	--	--	--	--
Debt: Contingent considerations	101.0	--	--	--	--	--	--	--
Debt: Other (situational)	200.0	--	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(226.0)	(226.0)	--	--	--	--
EBITDA: Derivatives	--	--	(1,867.0)	(1,867.0)	--	--	--	--
EBITDA: Business divestments	--	--	(228.0)	(228.0)	--	--	--	--
Total adjustments	(54,548.2)	5,691.0	(786.0)	(818.0)	334.0	(15,549.0)	(38.0)	(3.0)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	--	131,691.0	56,956.0	51,360.0	776.0	41,407.0	40,204.0	8,038.0

NOK--Norwegian krone. PP&E--Plant, property, and equipment.

Liquidity: Strong

We assess Statkraft's liquidity as strong. We expect the company will maintain liquidity sources that exceed uses by about 1.8x over the next 12 months and 1.4x in the subsequent 12 months. We also assume liquidity sources will exceed uses even if EBITDA were to decrease by 30%. We understand Statkraft's credit facilities are free from onerous financial covenants. We view the company as having solid relationships with its banks and a high standing in credit markets. This was demonstrated in 2022 when Statkraft had full access to the market, despite the more difficult geopolitical situation and the effect it had on Europe's financial markets. The company's main source of back up facility is its revolving €1.3 billion credit facility, which matures in 2027, currently undrawn.

We expect the state ownership to further increases access to bank financing. We view risk management as very prudent overall.

We estimate Statkraft's principal liquidity sources for the 12 months from March 31, 2023, as:

- Cash and cash equivalents of NOK49.2 billion;
- Access to about unused committed facility of NOK16.4 billion; and
- Cash FFO, which we expect to be about NOK20 billion.

We estimate Statkraft's principal liquidity uses for the 12 months from March 31, 2023, as:

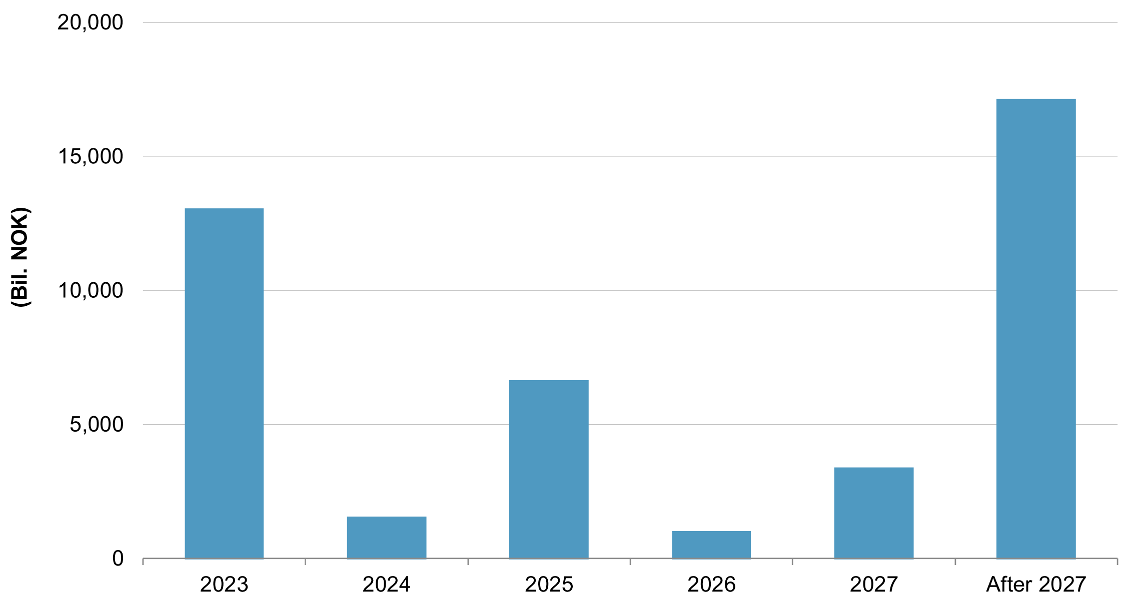
- Capex up to NOK20 billion;
- Some working capital outflow of NOK2 billion-NOK3 billion;

- Dividends of about NOK17 billion; and
- Debt maturities of about NOK6 billion.

Debt maturities

Chart 6

Debt maturity profile



The debt maturity schedule includes interest payments. NOK--Norwegian krone. Source: S&P Global Ratings.

Environmental, Social, And Governance

ESG Credit Indicators

Environmental	Social	Governance
E-1 E-2 E-3 E-4 E-5	S-1 **S-2** S-3 S-4 S-5	G-1 **G-2** G-3 G-4 G-5
- Climate transition risks	- N/A	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We believe that Statkraft is among the best-positioned power generators in Europe, given it is the continent's largest renewable producer and it has the lowest carbon footprint per produced electricity unit among our rated utilities in Europe. As such, environmental factors are a positive consideration in our credit rating analysis of Statkraft. We therefore assess our environmental credit indicator E-1 from E-2 previously. Statkraft's carbon footprint in terms of CO_2 emissions per MWh of power generation (across operations, i.e., including wind and gas) was 11 kilograms during 2022. This allows Statkraft to focus fully on growth, and not on transitioning its generation fleet, unlike other generators that have thermal generation that needs to be phased out or transformed into using renewable sources of fuel. Social and governance factors are a neutral consideration in the credit rating.

Group Influence

We view Statkraft SF and Statkraft Energi AS as core entities within the Statkraft group. Statkraft SF is the parent company of Statkraft AS and has virtually no other assets outside of it. Therefore, we use Statkraft AS' consolidated numbers when assessing the group's financial risk profile. Statkraft Energi carries the group's core Nordic hydropower assets and is operationally and financially integrated with Statkraft AS. We also believe all three Statkraft entities would receive extraordinary government support in a financial stress scenario. We therefore assess the supported group credit profile at 'a', two notches above Statkraft's SACP and rate all entities 'A'. We do not assign an SACP to either Statkraft SF or Statkraft Energi AS.

Government Influence

Statkraft is 100% owned by Norway. We assess that there is a moderately high likelihood the Norwegian government would provide timely and sufficient extraordinary support to the company in the event of financial distress. The ratings benefit from two notches of uplift from the SACP, based on our assessment of Statkraft's:

- Important role for the government, in light of its vast domestic hydropower resources, which we view as highly strategic to Norway's power supply. Another of Statkraft's strategic objectives is to secure and develop the country's renewable energy sector; and
- Strong link with the government, based on full ownership.

We believe the risk of privatization is remote as, by law, hydropower assets should remain at least two-thirds publicly owned. Although the company's board of directors is formally independent, and management is relatively autonomous, we believe the government retains a strong influence on high-level strategic decision-making.

Issue Ratings - Subordination Risk Analysis

Capital structure

Statkraft's reported debt stood at NOK43 billion in December 2022. Essentially all the debt is issued by the parent company, Statkraft AS.

Analytical conclusions

The issue rating on Statkraft's senior unsecured debt is 'A', in line with the issuer credit rating, because no significant elements of subordination risk are present in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating

A/Stable/A-1

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Excellent

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb+

- **Related government rating:** AAA
- **Likelihood of government support:** Moderately high (+2 notches from SACP)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments , April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings , March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers

, Dec. 16, 2014

- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry , March 28, 2014
- Criteria | Corporates | General: Corporate Methodology , Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Methodology: Industry Risk , Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities , Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating , Oct. 1, 2010

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 14, 2023)*

Statkraft AS	
Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A
Issuer Credit Ratings History	
16-Jun-2022	A/Stable/A-1
03-Jul-2017	A-/Stable/A-2
26-Feb-2016	A-/Negative/A-2
Related Entities	
Statkraft Energi AS	
Issuer Credit Rating	A/Stable/A-1
Statkraft SF	
Issuer Credit Rating	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.