



Moody's Investors Service

Rating Action: **Moody's downgrades Statnett to A2; outlook stable**

Global Credit Research - 16 Dec 2009

London, 16 December 2009 -- Moody's Investors Service has today downgraded to A2 from Aa3 the long-term issuer rating of Statnett SF ("Statnett"). At the same time, Moody's affirmed Statnett's Prime-1 short-term issuer rating. The outlook assigned to the rating is stable. The rating action concludes the review initiated on 4 August 2009 and follows the company's recent announcement of a sizeable increase in its capex plan.

As part of its updated capex programme, Statnett has identified necessary investments for 2010-19 totalling approximately NOK38 billion (of which NOK19 billion in 2010-14). This is a material increase compared with the company's previous plan, which envisaged investments of NOK23 billion over 2009-18 (of which NOK13 billion in 2009-13). Capex will be mainly related to new grid projects aimed at increasing interconnections and meeting growing power needs in Norway.

In Moody's view, Statnett's planned debt-funded investments will result in a material deterioration of the company's financial profile. In this context, Moody's also notes the recent rejection of Statnett's request for an equity injection of NOK4 billion to its owner, Norway's Ministry of Petroleum and Energy.

Moody's notes the recent regulatory change aimed at removing the previous two-year time lag for the remuneration of capex recognised in the company's regulated asset base. Whilst this measure should result in a more timely recognition of a return on investments, Moody's also notes that capex continue to be remunerated upon commissioning. Therefore, this measure is not expected to materially offset the weakening in the company's projected credit metrics deriving from Statnett's ambitious investment programme and debt requirements associated with it.

Going forward, to support the current rating, Moody's expects Statnett to exhibit ratios of FFO Interest Coverage of at least 2.0x and FFO/Net Debt of at least 6%. This ratio guidance recognises the company's low business risk profile, underpinned by a well-established regulatory framework and transparent tariff setting system, as well as Statnett's position as a natural monopoly, with virtually all of its operating profit derived from stable regulated electricity transmission activities. Furthermore, this ratio guidance allows for the peak of Statnett's investment programme (expected in 2012-14) and factors in the company's prudent and established liquidity policies.

Moody's expects Statnett to meet the minimum ratio guidance indicated above over the medium term. Therefore, the outlook assigned to Statnett's rating is stable. However, Moody's cautions that, in light of the sizeable level of projected investments, Statnett's financial flexibility is expected to be constrained at the current rating level, leaving limited headroom to absorb large adverse variances in operational performance, sizeable cost overruns and/or further material increase in the scale of planned capex.

In light of Statnett's 100% ownership by the government of Norway, the company falls under Moody's methodology for Government Related Issuers ("GRIs") and its rating incorporates a three-notch uplift for potential government support. As a reflection of the considerations discussed above, Moody's has revised downward one of Statnett's GRI rating inputs - the Baseline Credit Assessment ("BCA"), which represents the company's standalone credit quality - to 9 from 7, which, on a scale of 1-21, is equivalent to the Baa2 rating category. The other GRI inputs for Statnett remain unchanged, namely: (1) the Aaa/stable outlook rating of the government of Norway; (2) Moody's assessment of medium default dependence between the government of Norway and Statnett; and (3) the agency's assessment of high probability of support.

The previous rating action on Statnett was implemented on 4 August 2009, when Moody's placed the company's Aa3 long-term issuer rating under review for possible downgrade.

The principal methodologies used in rating Statnett were "Regulated Electric and Gas Networks", published in August 2009, and "The Application of Joint Default Analysis to Government Related Issuers", published in April 2005, and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory.

Statnett is the owner of around 90% of Norway's high-voltage electricity grid and is the country's sole electricity transmission operator. The company is wholly owned by the Norwegian government. In the nine months ended 30 September 2009, Statnett recorded a turnover of approximately NOK2 billion.

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