

Rating Action: Moody's affirms Statnett's A2 rating; stable outlook

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London, 22 March 2016 -- Moody's Investors Service, ("Moody's") has today affirmed the A2 and Prime-1 long-term and short-term issuer ratings of Statnett SF (Statnett). The outlook on the ratings is stable.

The rating affirmation follows the company's announcement of a sizeable increase in investment levels over the next five years.

RATINGS RATIONALE

"The affirmation of Statnett's A2/Prime-1 issuer ratings reflects sound operational and financial performance and our view that the demands of the company's large investment programme will be manageable for the group" said Helen Francis, a Vice President -- Senior Credit Officer at Moody's and lead analyst for Statnett. "While the company's key financial metrics will likely suffer, we do not expect the plan to weigh heavily on the group's credit quality and also take into account that Statnett has said it will take steps to strengthen its balance sheet if necessary" Helen added.

Statnett's 2015 Grid Development Plan published in October 2015 shows planned investment of between NOK50-70 billion over the next 10 years. Statnett has subsequently guided to investments of around NOK55 billion (EUR5.9 billion) over the 2016-20 period. NOK55 billion represents almost three times the company's capital expenditure over the 2010-14 period and nearly double their average annual capex over the 2013-15 period. The main drivers of the planned upgrades of existing lines and new grid projects are improving security of supply, facilitating renewables projects and industrial and commercial development, in line with wider government objectives.

Moody's considers Statnett is well-equipped to manage the associated execution risk of such a large programme. The company has a good track record of delivering projects on time and on budget. In addition, last year it extended the budgeted schedule for the interconnector projects, which account for around 20-30% of the 2016-20 investment plan and carry higher construction risk in Moody's view, from four to five years, reducing the likelihood of delays.

Although Moody's estimates 2/3 of planned investments over the 2016-20 will be debt-funded, increasing leverage, the relatively early payback provided by the supportive regulatory framework should limit the impact on the group's credit quality. Furthermore, under the methodology used to set allowed returns, the impact of persistently low interest rates is manageable for the group.

Moody's also notes Statnett's commitment in November 2015 that it is prepared, if necessary, to take measures such as hybrid debt issuance to defend its credit rating. Such measures would mitigate against a deterioration in key financial metrics in the event of delays to its two planned subsea interconnectors, in particular the one to Germany (NordLink) which is due to become operational at a point in time where key credit metrics would otherwise be more affected should the project be delayed.

Statnett's A2/P-1 issuer ratings with stable outlook also reflects (1) Statnett's natural monopoly position as the high voltage electricity grid owner and operator in Norway; (2) the very low business risk of such activities; and (3) a well-established and transparent regulatory framework which provides stability and predictability of expected cash flows; (4) Statnett's strategic role in supporting Norway's broader energy infrastructure plans; and (5) 100% ownership by the Norwegian government.

Statnett's A2 rating incorporates a three-notch uplift for potential support from the Norwegian government from its baseline credit assessment (BCA) of baa2. This is based on the credit quality of the Government of Norway (Aaa stable) and our assessment of Statnett's high dependence on the Government and a strong likelihood of receiving support.

RATIONALE FOR STABLE OUTLOOK

The outlook for Statnett's rating is stable, reflecting our expectation that Statnett will manage the demands of its large capital expenditure programme such that the company will continue to meet the minimum ratio

guidance over the medium term. In light of the sizeable level of projected investments, Statnett has very limited financial headroom at the current rating level.

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of Statnett's rating is unlikely this decade, as the rating is constrained by the significant investment programme. Over the long term, upward pressure for the rating could develop if (1) the growth capex programme is substantially complete; and (2) Statnett also has strong cash flow based debt metrics, expressed as FFO to Net Debt comfortably in the low teens in percentage terms, and moderate levels of leverage, expressed as net debt to fixed assets not above the low 60s in percentage terms (both on a sustained basis).

Negative pressure on Statnett's rating could arise if weaker than anticipated financial performance causes FFO/Net Debt to fall below 8% or net debt to fixed assets rises above the low 70s in percentage terms, without prospect of a speedy recovery. This could be the result of material capex overruns or time delays in the completion of projects, further increase in planned investments and/or implementation of a higher-than-anticipated dividend policy. Material adverse changes in the regulatory framework, impacting Statnett's business risk profile, would also result in downward rating pressure.

Under our methodology for Government Related Issuers (GRI), Statnett's ratings are not likely to be affected in the event of a limited deterioration in Norway's creditworthiness. However, the company's ratings may be affected by changes in our assessment of the likelihood of government support. This could be the result of a change in the government's ownership levels or strategy for the company, neither of which is foreseeable in the medium term.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Regulated Electric and Gas Networks published in November 2014, and Government-Related Issuers published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Statnett SF (Statnett) is the owner of around 95% of Norway's high-voltage electricity grid and has a strategic position as the country's sole electricity transmission system operator. Statnett is 100% owned by the Government of Norway (Aaa stable), through the Ministry of Petroleum and Energy, and is regulated by the Norwegian Water Resources and Energy Directorate (NVE). Statnett's revenues for the year December 2015 were NOK 5.91 billion (EUR0.61 billion).

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