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Statnett SF

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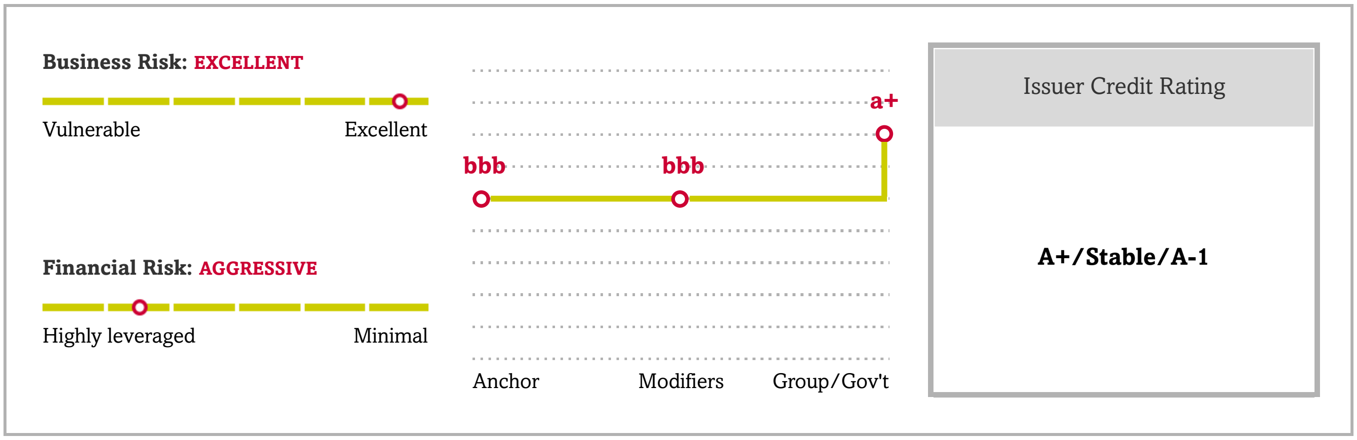


Credit Highlights

Overview

Key strengths	Key risks
A monopoly position as Norway's sole power transmission system operator (TSO), which is highly unlikely to change.	The recent change in how the regulator calculates Statnett's efficiency score resulted in the score falling 50 basis points (bps) to 99.5%. This could lower the company's revenue cap, especially given the increased weight of the score in calculating allowed revenue from 2023.
Stable and predictable regulatory framework that we view as credit supportive, allowing for solid cost recovery. We expect cash flows will result in funds from operations (FFO) to debt at about 9%-11% over 2021-2023.	Continued high investments, given Norway's electrification strategy and goal of reducing carbon emissions by at least 50% by 2030 compared to 1990 levels, and becoming carbon neutral by 2050.
Operates in Norway, where wealth levels are high, the policy environment is stable, and very strong external and fiscal net asset positions support the country's electrification efforts.	Negative discretionary cash flows (DCF) through 2023, of about negative Norwegian krone (NOK) 2.6 billion-NOK2.8 billion, driven by high capital expenditure (capex) and dividends increasing debt by NOK10 billion by 2023 from 2020.
Fully owned and controlled by the Norwegian government (AAA/Stable/A-1+), which is likely to continue providing support, historically shown through lower dividends and equity injections when needed. Support results in four notches uplift from its stand-alone credit profile (SACP).	

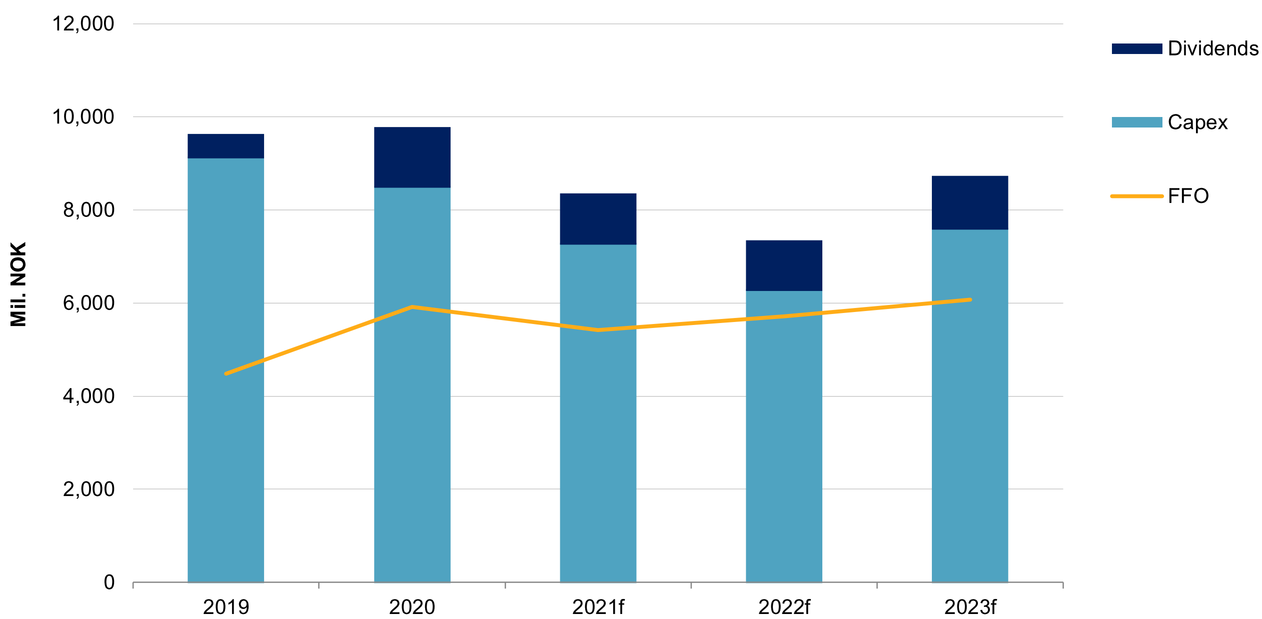
A gradual increase in Statnett's regulatory asset base (RAB) will allow for higher remuneration, and underpin continued rating headroom. We expect FFO will increase by almost NOK1 billion by year-end 2023 from 2020, based on similar remuneration. This results mainly from a larger RAB rather than changes in the weighted average cost of capital (WACC) in the revenue cap model, which we assume will remain at about 5.1%-5.3%. We therefore expect the company will maintain its rating headroom, with FFO to debt remaining stable at about 9%-11% over 2021-2023, well above the downgrade trigger of 6%. At the same time, debt to EBITDA should average about 9x, commensurate with the 'bbb' SACP.

Statnett's financials will continue to be constrained by its large debt-funded investment program. Statnett's 2015-2020 investments were partly financed by debt, resulting in a steep increase in debt to NOK48 billion at end-2020 from about almost NOK20 billion in 2015. We believe debt will continue rising to about NOK58 billion by 2023, because operational cash flows will not cover its capex program (see chart 1). The company is about to complete a period of large investments. Annual capex averaged almost NOK9 billion over 2016-2019, compared with less than NOK7 billion over 2021-2013. Higher investments were to a large extent due to the construction of two major subsea interconnections projects connecting Norway with Europe (NordLink and North Sea Link), which combined required investments of about NOK20 billion and are now largely complete. We understand that Statnett's future projects require smaller investments on an individual basis, but that the company plans to undertake a greater number of projects. We believe this will strengthening the grid in light of Norway's electrification plans, and also enable more export of electricity.

Over 2021-2023, we expect that capex will reduce to about NOK7 billion annually but remain relatively high, as investments are required to manage Norway's increased electrification until 2030, a transition including the majority of domestic industries. Norway has opened up areas for offshore wind development, which also would require additional transmission capacity. However, we understand these investments are more flexible than they have been historically and could be adjusted to support metrics if needed.

Chart 1

Funds From Operations Do Not Fully Cover Investments And Dividends



Capex--Capital expenditure. FFO--Funds from operations. NOK--Norwegian krone. f--Forecast. Source: S&P Global Ratings and Statnett's 2020 annual report.

We expect dividends to increase significantly, given that the owner is reinstating the old distribution policy, and that dividends together with capex will exceed FFO. We forecast annual dividends of about NOK1.1 billion-NOK1.2 billion during 2021-2023, compared with about NOK400 million annually during 2016-2019. This follows the owner's retraction of the temporary dividend policy of distributing 25% of profits, and the reinstatement of the old policy under which 50% of profits are distributed. This, together with large annual capex, will exceed operational cash flows and result in negative DCF and ultimately higher debt. We expect negative DCF of about NOK4 billion in 2021, NOK1.6 billion in 2022, and NOK2.5 billion in 2023.

Statnett benefits from stable and predictable cash flow generation supported by the regulatory framework. We see the Norwegian regulatory framework as credit supportive, allowing for full cost pass-through and efficiency. Statnett's allowed revenue is calculated annually, and any deviations to allowed revenue are adjusted in tariffs for the following years. While the regulator's current method for calculating allowed revenue puts a 60% focus on Statnett's efficiency score, from 2023 this is set to increase to 70%.

In our view, such changes do not weaken our assessment of the regulatory framework, but they could have a negative impact on Statnett, if its efficiency score weakens. The company had a track record of achieving an efficiency score of 100%, the highest score for a TSO in Norway, until the recent change in how the regulator calculates the score resulted in a marginal 50 bps reduction in April 2021. If its score weakens further, all else equal, Statnett's revenue cap would lower. However, we believe that due to the challenging conditions Statnett operates in, its efficiency score is likely to remain close to 100%.

Increasing differences in electricity prices in the Nordics is generating earnings volatility, which is challenging to predict. Statnett's 2020 credit ratios were boosted by congestion income. In total, the company received about NOK2.4 billion in congestion income, because of large price discrepancies between Nord pool electricity price areas connecting with Norway. This was one of the main reasons for Statnett's higher income of NOK792 million before tax and resulted in balancing the accumulated lower income as per 2019 of NOK732 million. Current accumulation is now at NOK60 million, which in itself should not have a material impact on revenue in 2021.

The company is fully owned by the government and an essential part of the national infrastructure. Our 'A+' rating on Statnett benefits from a four notches uplift for government support. We don't expect a change in the ownership support given the importance of Statnett to the country's electrification and carbon neutrality target as demonstrated in historical equity injection and lowering of dividends to allow for higher investments. In addition, and as per law, only the government can own Statnett. We don't expect any changes to such condition in the long-term.

Outlook: Stable

The stable outlook reflects our expectation that Norway's stable and predictable regulatory framework will continue to support Statnett's cash flow. It also reflects our assumption that Statnett will maintain an efficiency score of close to 100% and that the subsea interconnector (NSL) will be added to RAB as planned, increasing RAB to about NOK70 billion by the end of 2021.

In 2021-2022, we forecast Statnett's FFO to debt at 9%-11%, and debt to EBITDA on average at about 8.5x.

Downside scenario

We would consider a downgrade if FFO to debt fell below 6%, with no signs of recovery. This could occur, for example if:

- Statnett's capex increases further without offsetting measures.
- The Norwegian regulator's benchmark assessment results in an efficiency score well below 100% for the company.
- Statnett changed its financial policy.

In addition, we could lower the rating if our assessment of the likelihood of extraordinary government support for Statnett weakens. This could be, for example, if the company's liquidity deteriorates without any supportive government action. That said, we view this as very unlikely.

Upside scenario

We could raise the ratings if Statnett's financial risk profile strengthens compared with our forecasts. This could result from a deleverage plan or scaling down of its investment plan combined with a financial policy commitment to stronger credit metrics, with FFO to debt sustainably above 9%, and with our expectations that debt to EBITDA will be below 8x on average.

Our Base-Case Scenario

Assumptions

- EBITDA margins of about 56%-58%.
- Statnett's efficiency score close to 100% throughout our review period.
- Earnings forecasts don't include fluctuations in congestion revenue.
- Investments of about NOK6.0 billion-NOK7.5 billion annually during 2021-2023.
- Subsea interconnector projects proceeding according to plan, with the start of regular operations in 2021, which will result in Statnett's RAB increasing to about NOK68 billion in 2021, NOK72 billion by end-2022 and NOK74 billion by end-2023.
- Dividends of 50% of the group's net results after tax, adjusted for post-tax higher or lower revenue, starting accounting year 2019, i.e. cash effect in 2020. Dividends of NOK1,039 million in 2021 and about NOK1,100 million-NOK1,300 million annually thereafter.
- No tax payments until 2026

Key metrics

Statnett SF--Key Metrics

(Mil. NOK)	2019a	2020a	2021f	2022f	2023f
EBITDA	5,452.0	6,880.0	5,900-6,200	6,300-6,600	6,800-7,100
FFO	4,482.0	5,917.0	5,300-5,500	5,600-5,800	5,900-6,100
DCF	(5,439.0)	(3,430.0)	(3,900)-(3,700)	(1,700)-(1,500)	(2,700-(2,500)
Debt	44,155.8	47,531.2	51,000-53,000	53,000-56,000	55,000-58,000
FFO to debt (%)	10.2	12.4	9-11	9-11	9-11
Debt to EBITDA (x)	8.1	6.9	8.0-9.0	8.0-9.0	8.0-9.0

a--Actual. f--Forecast. FFO--Funds from operations. DCF--Discretionery cash flow. NOK--Norwegian krone.

Company Description

Oslo-headquartered Statnett is the monopoly TSO of the Norwegian power system, with reported EBITDA of about €660 million in 2020. It owns and operates the Norwegian power transmission network, as well as the Norwegian sections of power lines (about 11,000 kilometers of high voltage lines) and subsea cables to other countries. It also develops the main transmission grid system and plans, builds, owns, and operates interconnectors. Statnett's other businesses include a small captive insurance company related to its grid activities, and fully owned subsidiary Elhub--a data hub for the Norwegian power market that began operations in February 2019.

In addition, the company partially owns imbalance settlement services provider eSett and power balance IT solutions provider Fifty together with other TSOs, and has an indirect 10% stake in electricity market Nord Pool AS via TSO Holding AS. None of these activities significantly contribute to the group's EBITDA.

Statnett is fully owned by the Norwegian government through the Ministry of Petroleum and Energy. The company is fully regulated, and cash flow is stable and predictable.

Peer Comparison

Table 1

Statnett SF--Peer Comparison

	Statnett SF	Fingrid Oyj	TenneT Holding B.V.	Elia Group SA/NV
Rating as of April 7, 2021	A+/Stable/A-1	AA-/Stable/A-1+	A-/Stable/A-2	BBB+/Stable/A-2
Related sovereign rating	AAA/Stable/A-1+	AA+/Stable/A-1+	AAA/Stable/A-1+	AA/Stable/A-1+
GRE	+4 notches	+1 notch	+2 notches	N/A
Key operating highlights				
SACP	bbb	a+	bbb	bbb+
Business Risk Profile	Excellent	Excellent	Excellent	Excellent
Country Risk	Very Low	Very Low	Very Low	Low
Industry Risk	Very Low	Very Low	Very Low	Very Low
Competitive Position	Strong	Excellent	Strong	Strong
Financial Risk Profile	Aggressive	Intermediate	Aggressive	Aggressive
Cash Flow / Leverage	Aggressive	Intermediate	Aggressive	Aggressive
Anchor	bbb	a+	bbb	bbb
Capital Structure	Neutral	Neutral	Neutral	Neutral
Liquidity	Adequate	Adequate	Adequate	Strong
Financial Policy	Neutral	Neutral	Neutral	Neutral
Management / Governance	Satisfactory	Satisfactory	Fair	Satisfactory
Comparable Rating Analysis	Neutral	Neutral	Neutral	Positive (1+ notch)
Key Financial hightlights				
	--Fiscal year ended Dec. 31, 2020--		**--Fiscal year ended Dec. 31, 2019--**	
(Mil. €)				
Revenue	1,026.4	684.3	4,422.0	2,318.5
EBITDA	656.2	213.3	2,059.0	950.2
Funds from operations (FFO)	564.3	156.3	1,675.5	613.3
Interest expense	88.3	13.8	225.0	140.2
Cash interest paid	92.2	16.2	183.5	170.4
Cash flow from operations	604.3	295.0	1,145.5	61.8
Capital expenditure	811.2	156.3	2,720.0	1,157.7
Free operating cash flow (FOCF)	(206.9)	138.7	(1,574.5)	(1,095.9)
Discretionary cash flow (DCF)	(327.1)	(9.6)	(1,819.0)	(1,233.2)
Cash and short-term investments	255.0	125.9	202.0	513.7
Debt	4,533.3	1,049.0	11,601.3	6,546.7
Equity	1,806.2	632.4	5,980.0	3,981.4

Table 1

Statnett SF--Peer Comparison (cont.)

	Statnett SF	Fingrid Oyj	TenneT Holding B.V.	Elia Group SA/NV
Adjusted ratios				
EBITDA margin (%)	63.9	31.2	46.6	41.0
Return on capital (%)	6.3	7.2	6.6	5.9
EBITDA interest coverage (x)	7.4	15.5	9.2	6.8
FFO cash interest coverage (x)	7.1	10.6	10.1	4.6
Debt/EBITDA (x)	6.9	4.9	5.6	6.9
FFO/debt (%)	12.4	14.9	14.4	9.4
Cash flow from operations/debt (%)	13.3	28.1	9.9	0.9
FOCF/debt (%)	(4.6)	13.2	(13.6)	(16.7)
DCF/debt (%)	(7.2)	(0.9)	(15.7)	(18.8)

N/A--Not applicable. GRE--Government-related entity.

Statnett's main peers are Finland-based Fingrid, Belgium-based Elia, and Netherlands-based Tennet. Fingrid is the Finnish electricity TSOs that like Statnett operates under a predictable, independent, and supportive regulatory framework. Fingrid has stronger financials than Statnett, since it finances its capex program primarily with operating cash flow, while other peers predominantly use debt funding. As such, Fingrid's SACP is the highest of the peers.

Elia and TenneT are both power TSOs operating in their domestic countries and in Germany (50Hertz and TenneT). Both companies have an extensive investment program that focuses on German operations to reinforce the network and enable the transmission of electricity from the North (renewables generation) to the South (Thermal) in light of recent political decisions to exit coal and nuclear generation. Similarly to Statnett, their investment program weighs on their credit metrics and is mostly debt-funded.

Compared to peers, Statnett benefits from a very high likelihood of government support, notably due to its legal status as only the government can own 100% of the company and its very important role in Norway's electrification. In our view, we believe that this results in a higher likelihood of government support than its peers.

Business Risk: Excellent

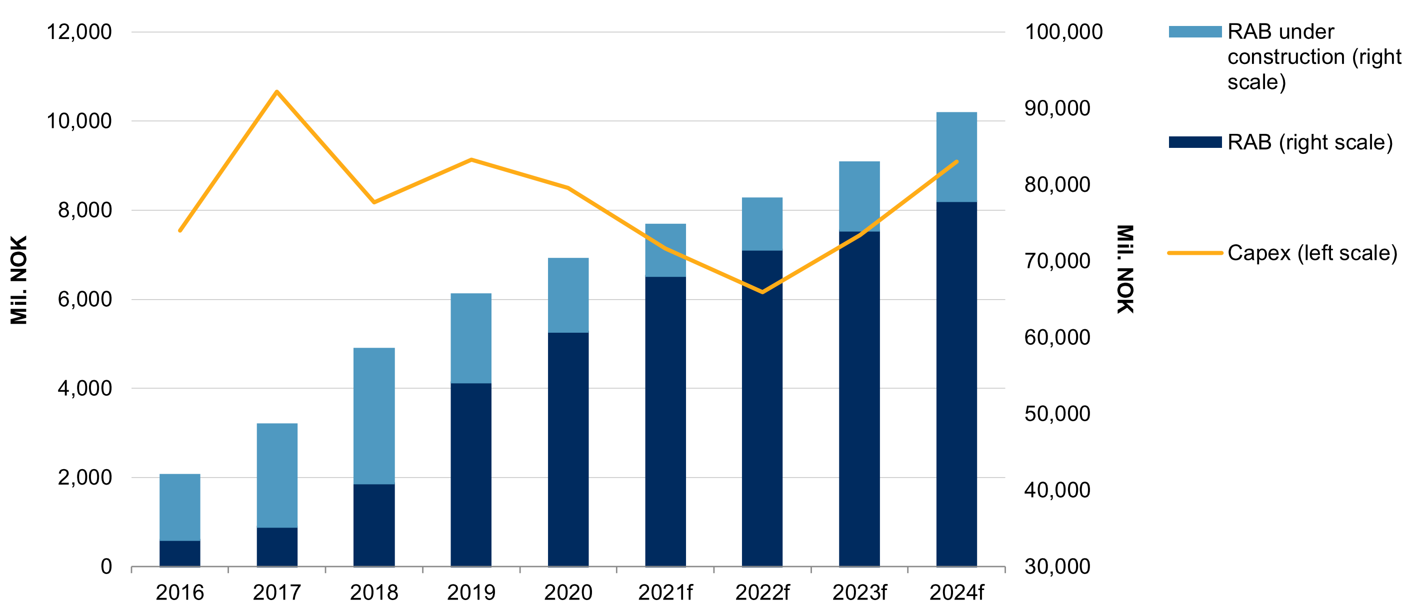
Statnett benefits from a monopoly position as the sole electricity TSO of Norway. Statnett is key to Norway's goal of reducing its carbon emission by at least 50% by 2030 compared to 1990 levels and achieving carbon neutrality by 2050 in line with EU directives. Since this will required increased electrification and Statnett owns and operates the entire electricity transmission network in Norway. Statnett's goal is to secure stable supply, and prepare for increasing electrification throughout the country, which includes connecting with its neighboring countries via interconnectors.

We believe that the regulatory framework for TSOs in Norway is supportive. In our view, the Norwegian regulatory framework is credit supportive for Statnett (see "Norwegian Electricity Distribution And Transmission Regulatory Framework: Supportive" published Oct. 15, 2020, on RatingsDirect), and supports its stable cash flows, full cost recovery, and rapid RAB growth.

The framework follows a revenue-cap model based on operators' RAB, regulatory return, and efficiency score. Though there are no fixed regulatory periods as in neighboring countries, we see the framework as successful in establishing predictable revenue while allowing for full cost recovery, a fair return on investments, and significant incentives for efficiencies.

Chart 2

We Expect Statnett's RAB Will Double By 2024 Compared With 2016



Capex--Capital expenditure. f--Forecast. NOK--Norwegian krone. Source: S&P Global Ratings and Statnett's 2016-2020 annual reports.

Statnett's operations are fully regulated, but congestion income results in some earnings volatility. The unpredictable nature of congestion revenue, which can result in higher or lower revenue than the regulatory framework permits, introduces some volatility to Statnett's revenue in a single year. As the company pays back revenue that exceeds the permitted amount by adjusting tariffs, this tend to normalize over a few years. For 2020, Statnett had accumulated surplus revenue of about NOK60 million, requiring Statnett to lower tariffs by the same amount the following year. Although we recognize that the payback of higher revenue and the volatility of congestion revenue can create large fluctuations in revenue year on year, we expect the underlying profit to remain stable. The underlying result is based on regulated permitted revenue, while the accounting result will vary depending on established tariffs and congestion revenue. The difference is known as higher/lower revenue.

Table 2

Statnett's Higher/Lower Revenue Normalized Over Years

	2016	2017	2018	2019	2020
EBITDA	3,272.0	3,585.0	5,062.0	5,366.0	6,688.0
Higher/lower revenue (+/-) before tax	(1,003.0)	(646.0)	362.0	(791.0)	792.0
Underlying EBITDA	4,275.0	4,231.0	4,699.0	6,157.0	5,896.0

Table 2

Statnett's Higher/Lower Revenue Normalized Over Years (cont.)

	2016	2017	2018	2019	2020
Accumulated higher/lower revenue (+/-) before tax	343.0	(303.0)	59.0	(732.0)	60.0

Changes to the calculation of Statnett's efficiency score might reduce the TSO's allowed revenue, especially given the score's increase weight in allowed income from 2023. From 2023, the regulator will increase the importance of the efficiency score for allowed income. The formula will switch from a 40%/60% weight on cost base and cost norm, respectively, to a 30%/70% weight.

We also note that the regulator recently amended how it calculates Statnett's efficiency score. The regulator has historically given the company a 100% efficiency score--the highest level for a TSO under the framework--despite benchmark reports indicating that Statnett is less efficient than other European TSOs. This is due to the benchmark reviews not fully accounting for the specifics of Statnett's operating environment, such as geographical challenges and wages.

In April 2021, the Norwegian Energy Regulatory Authority (RME) announced a revenue cap for Statnett for 2021 corresponding to a efficiency score for Statnett to about 99.5%. It is our understanding that the 50-bps reduction in efficiency score only had a limited effect to Statnett's allowed income.

According to Norwegian regulator, the external TSO peer benchmark comparison will be replaced by a comparison to Statnett own historic costs, adjusted by inflation and a non-cumulative productivity factor of 2% (0.6% used for certain system operation areas). The change is limited to the benchmarking method and scope.

If Statnett's efficiency score drops to 90%, we expect this would result in Statnett's allowed income decreasing 5% under the current method for calculating allowed revenue and 6% under the new one from 2023. We maintain in our base case an efficiency score close to a 100% for the forecast period, in line with Statnett's ambition to maintain its position in the top 25% of most-efficient TSO in Europe, and its track record to achieve this. In addition, we note that from 2013 to 2018, Statnett managed to improve its efficiency by 15%, and we expect the company will generate more efficiencies by 2022.

Financial Risk: Aggressive

Statnett's financial risk profile is constrained by its investment plan, despite historical flexibility in its financial policy. The company now expects to invest about NOK20 billion over 2021-2023 to upgrade its transmission system and enhance Norway's supply security.

Despite a supportive financial policy notably through the government's equity injection in 2014 and a lowering of the dividend policy reducing distribution to 25% of net income until 2019 to support the heavy investment phase, investments remain mostly debt-funded. Therefore, we forecast net debt will increase to about NOK58 billion by end-2023 from NOK48 billion at end-2020 leading to:

- FFO to debt relatively stable at about 9%-11%, despite increasing debt.
- Debt to EBITDA to average 8.5x through the forecast period.

- Debt to RAB decreasing toward 80% from levels above 100% during 2018.

Statnett's FFO is boosted by Norwegian tax policy. The Norwegian tax authority has reclassified tax payments for Statnett's maintenance investments, resulting in no cash taxes paid until 2026 and efficiently boosting FFO. This compares with tax expense of NOK723 million in 2020 and NOK534 million in 2019, which would have a negative impact on FFO to debt of about 120 basis points. We forecast Statnett's EBITDA will increase to about NOK6,100 million and FFO to reach NOK5,400 million in 2021.

Financial summary

Table 3

Statnett SF--Financial Summary

Industry sector: Electric					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. NOK)					
Revenue	10,762.0	9,641.0	9,139.0	7,401.0	6,678.0
EBITDA	6,880.0	5,452.0	5,195.0	3,806.5	3,374.0
Funds from operations (FFO)	5,917.0	4,482.0	4,345.4	3,169.3	2,852.7
Interest expense	926.0	999.0	812.6	649.2	536.3
Cash interest paid	967.0	972.0	829.6	627.2	513.3
Cash flow from operations	6,336.0	4,174.0	3,740.4	3,472.3	3,134.7
Capital expenditure	8,505.0	9,129.0	8,174.0	10,661.0	7,549.0
Free operating cash flow (FOCF)	(2,169.0)	(4,955.0)	(4,433.6)	(7,188.7)	(4,414.3)
Discretionary cash flow (DCF)	(3,430.0)	(5,439.0)	(4,759.6)	(7,538.7)	(4,771.3)
Cash and short-term investments	2,674.0	2,196.0	3,475.0	2,163.0	2,911.0
Gross available cash	2,674.0	2,196.0	3,475.0	2,163.0	2,911.0
Debt	47,531.2	44,155.8	42,786.0	37,373.7	27,021.8
Equity	18,938.0	17,783.0	16,194.0	14,011.0	13,867.0
Adjusted ratios					
EBITDA margin (%)	63.9	56.6	56.8	51.4	50.5
Return on capital (%)	6.3	5.1	5.8	3.0	3.2
EBITDA interest coverage (x)	7.4	5.5	6.4	5.9	6.3
FFO cash interest coverage (x)	7.1	5.6	6.2	6.1	6.6
Debt/EBITDA (x)	6.9	8.1	8.2	9.8	8.0
FFO/debt (%)	12.4	10.2	10.2	8.5	10.6
Cash flow from operations/debt (%)	13.3	9.5	8.7	9.3	11.6
FOCF/debt (%)	(4.6)	(11.2)	(10.4)	(19.2)	(16.3)
DCF/debt (%)	(7.2)	(12.3)	(11.1)	(20.2)	(17.7)

NOK--Norwegian krone.

Reconciliation

Table 4

Statnett SF--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. NOK)

	--Fiscal year ended Dec. 31, 2020--						
Statnett SF reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	55,694.0	6,742.0	3,869.0	642.0	6,880.0	6,461.0	8,765.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	4.0	--	--
Cash interest paid	--	--	--	--	(707.0)	--	--
Reported lease liabilities	201.0	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	193.4	3.0	3.0	3.0	--	--	--
Accessible cash and liquid investments	(2,674.0)	--	--	--	--	--	--
Capitalized interest	--	--	--	260.0	(260.0)	(260.0)	(260.0)
Dividends received from equity investments	--	135.0	--	--	--	--	--
Asset-retirement obligations	390.8	--	--	21.0	--	--	--
Nonoperating income (expense)	--	--	172.0	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	135.0	--
Debt: Foreign currency hedges	(6,274.0)	--	--	--	--	--	--
Total adjustments	(8,162.8)	138.0	175.0	284.0	(963.0)	(125.0)	(260.0)
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	47,531.2	6,880.0	4,044.0	926.0	5,917.0	6,336.0	8,505.0

NOK--Norwegian krone.

Statnett's consolidated accounts are prepared under International Financial Reporting Standards. Our key analytical adjustments relate to adjustment of derivative assets at fair value to reflect the impact of locked-in rates for the foreign debt.

Liquidity: Adequate

Statnett's liquidity is adequate, supported by our view of available liquidity resources--including cash, FFO, the received equity injection, and available credit facilities--which will cover expected cash outflows by at least 1.26x in the 12 months from Dec. 31, 2020.

We also assume that liquidity sources will exceed uses even if EBITDA were to drop by 10%. Statnett's solid relationship with banks, high standing in the credit markets, and 100% ownership by the Norwegian state further support our assessment of the group's liquidity. This is underpinned by its ability to issue commercial paper, even during the very tough weeks at the beginning of the pandemic in 2020.

Principal liquidity sources	Principal liquidity uses
• NOK2.7 billion in unrestricted cash and cash equivalent. • Access to undrawn committed revolving credit facilities totaling NOK8 billion maturing in January 2024 • FFO of about NOK5.2 billion.	• Debt of NOK3.4 billion maturing over the 12 months from Dec. 31, 2020. • Working capital outflow of about NOK1.0 billion. • Annual investments of about NOK7.1 billion • About NOK1.0 billion of dividends annually.

Environmental, Social, And Governance

The utility industry, including TSOs, faces short- and long-term risks from environmental factors, but also safety and societal issues when cabling in challenging terrains and environments, such as under the sea, and over or through mountains. Overall, we believe that environmental risks are not material for Statnett from a credit quality perspective. The utility industry at large is challenged by climate change and a general transition away from fossil energy sources into volatile renewable generation. This affects Statnett's status as a TSO, with its role to ensure security of supply and balance the system. Furthermore, the company's ongoing interconnector projects are intended to meet additional demand from volatile renewable generation.

Statnett has an excellent track record in terms of project execution. Although the company's projects are exposed to high-risk situations, it has a good health and safety record, and regularly reviews procedures.

We assess Statnett's management and governance as satisfactory, based on the company's consistent good operating track record, effective project planning, and active approach toward corporate social responsibility.

Government Influence

The long-term rating on Statnett is four notches higher than the 'bbb' SACP. This reflects our view of the very high likelihood that the government of Norway would provide timely and sufficient extraordinary support to the company in the event of financial distress, and is based on Statnett's:

- Very important role as Norway's monopoly TSO, including its clear public-policy position within the country's energy market, and as a supplier to the strategically important oil industry.

- Very strong link with Norway, demonstrated by its full government ownership, remote privatization prospects due to its legal status, and strategic importance to the government.

Ratings Score Snapshot

Issuer Credit Rating

A+/Stable/A-1

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Aggressive

- **Cash flow/leverage:** Aggressive

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (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:** Very high (+4 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Norwegian Electricity Distribution And Transmission Regulatory Framework: Supportive, Oct. 15, 2020

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 April 26, 2021)*

Statnett SF	
Issuer Credit Rating	A+/Stable/A-1
Senior Unsecured	A+
Issuer Credit Ratings History	
14-Jan-2010	A+/Stable/A-1
14-Oct-2009	AA/Watch Neg/A-1+
30-Jun-2009	AA/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.