Research Update:

Norway-Based Statnett SF 'A+/A-1' Ratings Affirmed Amid Increasing Investment Needs; Outlook Stable

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Rating Action Overview

- We continue to view the regulatory environment in Norway as supportive due to the stable and predictable framework with a fair remuneration (pre-tax nominal weighted average cost of capital of 7.3% expected for 2025). Although we view assets under construction not entering the regulated asset base (RAB) until completed as a weakness.
- In our view, congestion income will enhance the group's liquidity through cash inflows even if it contributes to increasing volatility in reported earnings.
- Over the next five years, we expect Norway-based transmission system operator (TSO) Statnett SF to invest Norwegian krone (NOK) 15 billion-NOK20 billion annually up from NOK5 billion-NOK7 billion in 2023-2024, increasing reported debt to NOK116 billion in 2029 from NOK66 billion at year-end 2024. The RAB in operation should increase slightly slower to NOK122 billion in 2029 from NOK73 billion at year-end 2024 and EBITDA to NOK12 billion from NOK8 billion.
- On average, we expect underlying funds from operations (FFO) to debt to be close to 7.5%-8.5% in coming years, and underlying debt to EBITDA on average about 7.5x-8.0x, both which we consider well commensurate with the 'bbb' stand-alone credit profile (SACP).
- We continue to expect Norway to be very likely to provide support to Statnett should it be in distress and therefore affirmed our long-term 'A+' rating and short-term 'A-1' on Statnett, the outlook is stable.
- The stable outlook indicates that we expect Statnett's underlying metrics to remain at about 7.5%-8.5% on average.

Rating Action Rationale

We view the Norwegian regulatory framework for Statnett as strong although slightly weaker than some of the frameworks in Western Europe. In our view, the framework is stable and predictable and has a long track record of supportiveness. Although there are no set regulatory periods, all major regulatory pillars must remain in place for at least five years. Similar to most of its peers, the framework allows for operating cost and volume recovery although with a two-year time frame. However, compared to its peers, assets under construction do not enter the RAB until completed, which we view as a weakness. We view the following as positive:

- A completed asset but not operating can be included in the RAB considering a full year of completion; and
- Interconnectors entering the RAB once Statnett has finished the construction, even if the counterpart has not yet finished its side.

We also note that the Norwegian Energy Regulatory Authority (RME) is working on the subject of compensation for assets under construction.

We expect capital expenditure to increase more than RAB and to be mostly debt funded. With investments of NOK 15 billion-NOK20 billion annually over 2025-2029, mainly debt funded this will lead to an increase in financial debt of 75% to NOK110 billion-NOK120 billion in 2029 from NOK66 billion in 2024. We expect the RAB used in the regulatory formula to increase 40% to NOK120-NOK125 billion in 2029 from NOK73.4 billion in 2024. At the same time, we expect RAB under construction (currently excluded from the formula) to increase to NOK26 billion in 2029 from NOK8 billion in 2024. This will lead to total RAB almost doubling to NOK150 billion in 2029, up from NOK82 billion in 2024. Over our forecast period (2025-2029), we expect permitted revenues to increase to about NOK20 billion-NOK30 billion supported by the high level of historical costs and RAB growth, and we expect underlying EBITDA to increase 55% to NOK12 billion-NOK13 billion in 2029 from NOK 8.1 billion in 2024. supporting the ‘bbb’ SACP.

Statnett’s financials will be constrained by its large debt-funded investment program of about NOK15 billion-NOK20 billion from 2026 up from NOK10 billion in 2025, and NOK8 billion in 2024. Statnett’s investments have historically been partly financed by debt, resulting in financial debt increasing to NOK66 billion at end-2024 from about NOK38 billion in 2017. The upcoming investment program of about NOK15 billion-NOK20 billion annually over the next 10 years is underpinned by the requirement for Statnett to strengthen and expand the Norwegian grid as part of the government’s electrification plan. This highlights Statnett’s important position in Norway, since the TSO is required to facilitate electrification needed to lower national carbon dioxide emissions. It includes strengthening the grid to accommodate electrification of most domestic industries. We forecast financial debt to increase to about NOK110 billion billion by 2029.

Differences in electricity prices across price zones result in International Financial Reporting Standards (IFRS) earnings volatility, which is challenging to predict and provides transitory liquidity benefits rather than any long-term credit benefit. Over 2021-2022, Statnett reported NOK28.2 billion as congestion revenue which led to FFO to debt of 15.8% in 2021 and 24.4% in 2022. To compensate for this, Statnett returned NOK11.3 billion to grid customers in 2023 and lowered tariffs close to zero for the second half of 2022 and full year 2023, which resulted in FFO to debt of negative 1% at end 2023. In 2024, Statnett restored grid tariffs and reported revenues of NOK17.5 billion, well in line with the regulator's allowance of NOK17.5 billion. This resulted in EBITDA of NOK8.1 billion for 2024 and an accumulated balance of higher revenues of NOK4.5 billion that Statnett must give back to the system. Therefore, we see the cash inflow as temporary, and it will have a neutral effect on credit although it increases volatility in S&P Global Ratings-adjusted FFO to debt and liquidity position.

Congestion income will continue to bring volatility although we expect Statnett's higher/lower revenue balance to be neutral overtime. Although we expected the higher/lower revenue balance to be neutral by end 2024, Statnett recorded NOK11 billion of congestion income in 2024 resulting in an accumulate revenue balance of NOK4.5 billion as of end 2024. We forecast Statnett to continue receiving large amount of congestion income in 2025 (€376.5 million as of the first quarter of 2025) further increasing the balance. We anticipate that Statnett will benefit from congestion income over the coming years and compensate consumers. This should result in the company applying lower tariffs each year than what the regulatory framework allows for. We expect that the accrued balance will decrease over time so that Statnett's five-year average reported FFO to debt and underlying FFO to debt remain at about 7.5%-8.0% well within our 6%-9% thresholds for Statnett's 'bbb' SACP.

The company is fully owned by the government and an essential part of the national infrastructure. Our 'A+' rating on Statnett benefits from four notches of uplift for government support. We do not 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 injections and the lowering of dividends to allow for higher investments. In addition, and as per law, only the government can own Statnett. We do not expect any changes to such conditions.

Outlook

The stable outlook reflects our expectation that Norway's stable and predictable regulatory framework will continue to support Statnett's cash flow so that Statnett's underlying FFO to debt remains within 6%-9%.

Downside scenario

We would consider a downgrade to 'A' should the SACP decrease to 'bbb-'. That could occur if underlying FFO to debt falls below 6% on average.

In addition, we could lower the rating if our assessment of the likelihood of extraordinary government support for Statnett weakens, which we do not anticipate at this stage.

Upside scenario

We could raise the ratings if Statnett's financial risk profile strengthens compared with our forecasts. This could result from a deleveraging plan or scaling down of its investment plan combined with a commitment to stronger credit metrics, with underlying FFO to debt sustainably above 9%. We would also expect debt to EBITDA to remain below 8.0x.

Company Description

Statnett is Norway's national electricity TSO and owner of the Norwegian power transmission grid. It owns and operates the Norwegian power transmission network across Norway's five price zones and connects the power system to neighboring countries including Sweden, Denmark, Germany, the Netherlands, and the U.K.

Statnett is fully owned by the Norwegian government through the Ministry of Energy. In 2024, Statnett reported an EBITDA of NOK8.1 billion.

Our Base-Case Scenario

Assumptions

- Inflation in Norway of about 2.7% in 2025 and 2.3% in 2026.
- Congestion income of €370 million-€400 million expected in 2025 (NOK18 billion equivalent) to be offset in 2026 through tariff reduction.
- Statnett's efficiency score of about 100% over the forecast period.
- Average interest rates of 3.0%-3.5%% over 2025-2028.
- A corporation tax of 22% with no tax payment expected over our forecast horizon as directed by the corporate law.
- Investments increasing toward NOK18 billion-NOK20 billion from 2027 onward from NOK15 million in 2026, NOK10 billion in 2025, and NOK8 billion in 2024.
- RAB includes ready to operate assets but excludes assets under construction. RAB in operation to increase to NOK107 billion by end 2028 from NOK73 billion in 2024.
- Flat dividends of 50% of profits based on underlying profits

Key metrics

Statnett SF--Forecast summary

Period ending	Dec-31-2021*	Dec-31-2022*	Dec-31-2023*	Dec-31-2024*	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. NOK)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	14,412	22,993	11,600	18,961	18,231	21,088	23,641	25,189
Gross profit	11,161	15,285	6,007	13,005	10,374	13,152	14,879	15,964
EBITDA (reported)	7,965	11,503	1,744	8,123	5,801	8,425	10,229	11,275
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	53	7	14	22	--	--	--	--
EBITDA (IFRS)	8,018	11,510	1,758	8,145	13,420	930		
EBITDA (Underlying)	5,615	4,635	7,131	7,480	5,801	8,425	10,229	11,275
Less: Cash interest paid	(648)	(1,065)	(2,226)	(2,819)	(2,711)	(2,872)	(3,293)	(4,009)
Less: Cash taxes paid	8	(4)	(10)	(12)	(88)	--	--	--
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO) (IFRS)	7,378	10,441	(478)	5,314	9,621	(1,959)		
Funds from operations (FFO) (Underlying)	4,975	3,566	6,895	4,649	3,002	5,553	6,936	7,266
EBIT	4,860	8,558	(1,254)	5,087	2,495	4,613	6,134	6,819
Interest expense	723	1,178	2,237	2,995	2,770	2,931	3,352	4,068

Statnett SF--Forecast summary								
Cash flow from operations (CFO)	8,141	9,105	(7)	6,004	9,526	5,087	6,098	6,295
Capital expenditure (capex)	6,533	4,926	5,527	7,506	10,099	14,260	17,319	17,655
Free operating cash flow (FOCF)	1,608	4,179	(5,534)	(1,502)	(573)	(9,173)	(11,221)	(11,360)
Dividends	1,039	737	296	793	688	17	867	1,384
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	569	3,442	(5,830)	(2,295)	(1,261)	(9,190)	(12,088)	(12,744)
Debt (reported)	53,510	47,164	54,633	66,474	67,999	77,189	89,278	102,021
Plus: Lease liabilities debt	224	240	228	287	406	574	811	1,147
Plus: Pension and other postretirement debt	108	167	119	--	--	--	--	--
Less: Accessible cash and liquid Investments	(3,088)	(3,613)	(3,247)	(11,262)	(12,996)	(12,996)	(12,997)	(12,996)
Plus/(less): Other	(3,981)	(1,198)	(3,718)	(4,250)	(952)	(880)	(786)	(691)
Debt	46,774	42,760	48,016	51,249	54,456	63,886	76,306	89,480
Equity	21,467	26,978	24,119	25,483	24,829	26,556	28,468	30,039
FOCF (adjusted for lease capex)	1,608	4,179	(5,534)	(1,502)	(692)	(9,341)	(11,458)	(11,696)
Interest expense (reported)	576	957	1,942	2,583	2,451	2,389	2,584	3,048
Capex (reported)	6,653	5,102	5,776	7,859	10,359	14,743	18,028	18,616
Cash and short-term investments (reported)	3,794	5,232	4,499	12,732	12,996	12,996	12,997	12,996
Adjusted ratios								
Debt/EBITDA (x)	5.8	3.7	27.3	6.3	9.4	7.6	7.5	7.9
FFO/debt (Underlying) (%)	10.6	8.3	14.3	9.1	5.5	8.7	9.1	8.1
FFO/Debt (IFRS) (%)	15.8	24.4	(1.0)	10.4	14.6	(2.6)	--	--
FFO cash interest coverage (x)	12.4	10.8	0.8	2.9	2.1	2.9	3.1	2.8
EBITDA interest coverage (x)	11.1	9.8	0.8	2.7	2.1	2.9	3.1	2.8
CFO/debt (%)	17.4	21.3	(0.0)	11.7	17.5	8.0	8.0	7.0
FOCF/debt (%)	3.4	9.8	(11.5)	(2.9)	(1.1)	(14.4)	(14.7)	(12.7)
DCF/debt (%)	1.2	8.0	(12.1)	(4.5)	(2.3)	(14.4)	(15.8)	(14.2)
Lease capex-adjusted FOCF/debt (%)	3.4	9.8	(11.5)	(2.9)	(1.3)	(14.6)	(15.0)	(13.1)
Annual revenue growth (%)	33.9	59.5	(49.5)	63.5	(3.9)	15.7	12.1	6.5
Gross margin (%)	77.4	66.5	51.8	68.6	56.9	62.4	62.9	63.4
EBITDA margin (%)	55.6	50.1	15.2	43.0	31.8	40.0	43.3	44.8
Return on capital (%)	7.2	12.4	(1.8)	6.8	3.2	5.4	6.3	6.1
Return on total assets (%)	5.8	10.0	(1.4)	5.2	2.4	4.1	4.9	4.8
EBITDA/cash interest (x)	12.4	10.8	0.8	2.9	2.1	2.9	3.1	2.8
EBIT interest coverage (x)	6.7	7.3	(0.6)	1.7	0.9	1.6	1.8	1.7
Debt/debt and equity (%)	68.5	61.3	66.6	66.8	68.7	70.6	72.8	74.9
Debt fixed-charge coverage (x)	11.1	9.8	0.8	2.7	2.1	2.9	3.1	2.8
Debt/debt and undepreciated equity (%)	68.5	61.3	66.6	66.8	68.7	70.6	72.8	74.9

Statnett SF--Forecast summary

All figures are adjusted by S&P Global Ratings, unless stated as reported. *historical metrics based on reported figures under IFRS while forecasts are based on regulatory accounting a--Actual. e--Estimate. f--Forecast. NOK--Norwegian krone.

Liquidity

We assess Statnett's liquidity as adequate. This is supported by our view of available liquidity resources--including cash, FFO, and available credit facilities--which we estimate will cover expected cash outflows by 1.4x over the 12 months from Jan. 1, 2025.

We also assume that liquidity sources will exceed uses even if EBITDA were to drop by 10%. Statnett's solid relationships with banks and high standing in the credit markets further support the company's liquidity position. As of Jan. 1, 2025, we estimate the following principal liquidity sources and uses:

Principal liquidity sources

- NOK12 billion in unrestricted cash including cash received from congestion income;
- Access to undrawn committed revolving credit facilities totaling NOK8 billion;
- FFO of about NOK5.5 billion-NOK 4 billion; and
- NOK4.2 billion of accrued congestion income since Jan. 1, 2025.

Principal liquidity uses

- Debt of NOK6 billion maturing over the next 12 months;
- Annual investments of about NOK14 billion-NOK15 billion; and
- Dividends up to NOK1 billion in line with the financial policy.

Covenants

Statnett's credit facilities have no financial covenants.

Environmental, Social, And Governance

Environmental, social, and governance factors are a neutral consideration in our credit analysis for Statnett.

The utility industry, including TSOs, face 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 think 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. 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 neutral, based on the company's consistently good operating track record, effective project planning, and active approach toward corporate social responsibility.

Issue Ratings--Subordination Risk Analysis

Capital structure

Statnett's debt structure comprises senior unsecured debt in the form of bonds and loans issued at the parent level.

Analytical conclusions

We rate debt issued by Statnett 'A+', the same as the long-term issuer credit rating, this is because no significant elements of subordination risk are present in the capital structure.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	A+/STABLE/A-1
Local currency issuer credit rating	A+/STABLE/A-1
Business risk	Excellent
Country risk	Very Low Risk
Industry risk	Very Low Risk
Competitive position	Strong
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024

- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Industry Credit Outlook 2025: EMEA Utilities, Jan. 14, 2025
- Statnett SF, June 12, 2024
- Three Northern European TSOs Ratings Affirmed As Congestion Income Is Broadly Credit Neutral; Outlooks Remain Stable, April 14, 2023

Ratings List

Ratings list	
Ratings Affirmed	
Statnett SF	
Issuer Credit Rating	A+/Stable/A-1
Senior Unsecured	A+