SCOPE | Ratings

# Hafslund AS

## Norway, Utilities

Issuer
A
Outlook
Stable
Short-term debt
S-1
Senior unsecured debt
A

### Rating composition

| Business Risk Profile | | |
|---|---|---|
| Industry risk profile | BB+ | BBB+ |
| Competitive position | A- | |
| **Financial Risk Profile** | | |
| Credit metrics | A+ | A |
| Cash flow generation | Good | |
| Liquidity | +/-0 notches | |
| **Standalone credit assessment** | | **A-** |
| **Supplementary rating drivers** | | |
| Financial policy | +/-0 notches | +1 notch |
| Governance & structure | +/-0 notches | |
| Parent/government support | +1 notch | |
| Peer context | +/-0 notches | |
| **Issuer rating** | | **A** |

### Key metrics

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios*** | **2023** | **2024** | **2025E** | **2026E** |
| Scope-adjusted EBITDA interest cover | >20x | 14.1x | 11.4x | 11.2x |
| Scope-adjusted debt/EBITDA | 0.8x | 1.5x | 1.8x | 1.9x |
| Scope-adjusted debt/EBITDA (excl. shareholder loans) | 0.4x | 1.0x | 1.2x | 1.3x |
| Scope-adjusted free operating cash flow/debt | 16% | 12% | 15% | 11% |
| Liquidity | >200% | >200% | >200% | >200% |

### Rating sensitivities

**The upside scenario for the ratings and Outlook is:**

- Improved BRP assessment, e.g. through improved segmentation and diversification, while maintaining a strong FRP (remote)

**The downside scenarios for the ratings and Outlook are (individually):**

- Sustained leverage (debt/EBITDA) above 2.0x
- Loss of GRE status due to change of ownership (remote)

**All credit metrics refer to Scope-adjusted figures.*

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**Related methodologies**

General Corporate Rating Methodology, February 2025

European Utilities Rating Methodology, June 2024

Government Related Entities Rating Methodology, December 2024

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## 1. Key rating drivers

| Positive rating drivers | Negative rating drivers |
|---|---|
| • Norway's 2nd largest power producer, that benefits from a leading position in the Nordics as a profitable and low-cost hydro power generator (positive ESG factor) and significant water reservoir capacity<br>• Status as a government-related entity with City of Oslo being the sole ultimate shareholder: Long-term, supportive and committed municipality owner, justifying an uplift from the standalone credit assessment<br>• Widened business outreach through exposure to district heating business via Hafslund Celsio which contributes to a circular economy (positive ESG factor)<br>• Strong profitability as measured by very strong Scope-adjusted EBITDA margin of more than 60% and a solid Scope-adjusted ROCE of about 15% on average<br>• Continuously low leverage and very strong interest coverage metrics as well as improved internal funding capacity following the downwards revision of the company's capex programme<br>• Indirect exposure to robust grid operations through recurring dividend inflows from a 50% ownership in Norway's largest electricity distribution grid company (Elvia) via Eidsiva Energi AS | • Large exposure to the volatility in power prices for its unhedged power production output and blended industry risk profile of BB+<br>• High potential volatility of free operating cash flow<br>• Weak cash flow and weak financial credit ratios when market prices are low, as exemplified with FY 2020 numbers<br>• Limited geographical outreach within and outside of Norway |

## 2. Rating Outlook

The **Stable Outlook** reflects our expectation that Hafslund's leverage, as measured by the debt/EBITDA, will remain below 2.0x over the next few years. This is supported by achievable average power prices within the range of 48–55 øre/kWh and annual investments within the range of NOK 1. 5–2.0bn, which backs up positive FOCF and broadly stable indebtedness.

## 3. Corporate profile

Norway's 2nd largest power producer

Hafslund AS is a Norwegian utility that is wholly owned by the City of Oslo. Although the company's corporate history is very long, the group structure changed significantly in 2019 with the swap of assets with Eidsiva Energi, thereby forming two companies with a primary focus on either power generation or grid operations. Today, Hafslund is Norway's second largest power producer, with operating responsibility for an annual hydro power production of about 20 TWh. Activities are supplemented by holding a majority share (60%) in Hafslund Celsio, Norway's largest district heating company which primarily supplies heating/cooling in the Oslo area. Finally, Hafslund retains exposure to regulated energy grid operations through its 50% stake in Eidsiva Energi AS (rated A-/Stable) and a 49% interest in Fredrikstad Energi AS.

## 4. Rating history

| Date | Rating action | Issuer rating & Outlook |
|---|---|---|
| 4 Jun 2025 | Upgrade | A/Stable |
| 5 Jun 2024 | Affirmation | A-/Positive |
| 5 Jun 2023 | Upgrade | A-/Positive |
| 7 Jun 2022 | Outlook change | BBB+/Positive |
| 9 Jul 2021 | New | BBB+/Stable |

## 5. Financial overview (financial data in NOK m)

| | | | | Scope estimates | | |
|---|---|---|---|---|---|---|
| **Scope credit ratios** | **2022** | **2023** | **2024** | **2025E** | **2026E** | **2027E** |
| EBITDA interest cover | 36.9x | 20.2x | 14.1x | 11.4x | 11.2x | 11.2x |
| Debt/EBITDA | 0.5x | 0.8x | 1.5x | 1.8x | 1.9x | 1.8x |
| Debt/EBITDA (excluding shareholder loans) | 0.2x | 0.4x | 1.0x | 1.2x | 1.3x | 1.3x |
| Free operating cash flow/debt | 103% | 16% | 12% | 15% | 11% | 15% |
| Liquidity | >200% | >200% | >200% | >200% | >200% | >200% |
| **EBITDA** | | | | | | |
| Reported EBITDA[1] | 19,806 | 12,971 | 9,384 | 9,717 | 9,154 | 9,226 |
| add: recurring dividends from associates | 450 | 1,196 | 719 | 500 | 525 | 550 |
| Other items (incl. one-offs) | - | - | - | - | - | - |
| **EBITDA** | **20,256** | **14,167** | **10,103** | **10,217** | **9,679** | **9,776** |
| **Funds from operations (FFO)** | | | | | | |
| EBITDA | 20,256 | 14,167 | 10,103 | 10,217 | 9,679 | 9,776 |
| less: interest | (549) | (700) | (714) | (897) | (867) | (871) |
| less: cash tax paid | (4,701) | (13,838) | (7,117) | (4,972) | (4,812) | (4,505) |
| Funds from operations | **15,006** | **(371)** | **2,272** | **4,348** | **3,999** | **4,399** |
| **Free operating cash flow (FOCF)** | | | | | | |
| Funds from operations | 15,006 | (371) | 2,272 | 4,348 | 3,999 | 4,399 |
| Change in working capital | (527) | 162 | 60 | 11 | 11 | (3) |
| Non-operating cash flow | (2,806) | 3,238 | 1,032 | - | - | - |
| less: capital expenditures (net)[2] | (870) | (1,217) | (1,502) | (1,658) | (1,870) | (1,730) |
| less: lease amortisation | (34) | (53) | (58) | (58) | (58) | (58) |
| **Free operating cash flow** | **10,769** | **1,759** | **1,804** | **2,643** | **2,082** | **2,608** |
| **Interest** | | | | | | |
| Net cash interest per cash flow statement | 549 | 700 | 714 | 897 | 867 | 871 |
| **Interest** | **549** | **700** | **714** | **897** | **867** | **871** |
| **Debt** | | | | | | |
| Reported financial (senior) debt | 16,029 | 15,363 | 17,770 | 19,570 | 19,570 | 19,570 |
| add: shareholder loans[3] | 7,339 | 5,422 | 5,422 | 5,422 | 5,422 | 5,422 |
| less: cash and cash equivalents | (13,497) | (10,239) | (8,306) | (7,257) | (6,949) | (7,323) |
| add: non-accessible cash | 558 | 337 | 282 | 282 | 282 | 282 |
| add: pension adjustment[4] | - | - | - | - | - | - |
| add: asset retirement obligations | - | - | - | - | - | - |
| add: other debt-like items | - | - | - | - | - | - |
| **Debt** | **10,429** | **10,883** | **15,168** | **18,017** | **18,325** | **17,951** |

[1] Reported EBITDA under our definitions does not include 'Profit/loss from associates and joint ventures' and 'Gains/losses on hedging contracts'.

[2] Capital expenditures do not reflect cash outflows for acquisitions, which Scope does not include within the free operation cash flow.

[3] Scope-adjusted debt fully takes into account Hafslund's exposure to subordinated shareholder loans.

[4] No adjustments for pension obligations given a constant overfunding of outstanding pensions.

## 6. Environmental, social and governance (ESG) profile[5]

| Environment | Social | Governance |
|---|---|---|
| Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency) | Labour management | Management and supervision (supervisory boards and key person risk) |
| Efficiencies (e.g. in production) | Health and safety (e.g. staff and customers) | Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate) |
| Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables) | Clients and supply chain (geographical/product diversification) | Corporate structure (complexity) |
| Physical risks (e.g. business/asset vulnerability, diversification) | Regulatory and reputational risks | Stakeholder management (shareholder payouts and respect for creditor interests) |

ESG factors: credit-positive credit-negative credit-neutral

Cheap and clean electricity generation

As a producer of clean hydroelectric power and to increasing extent also from other renewable sources, Hafslund's business model is per se focused on sustainability, thereby fulfilling the UN's SDG #7 (Affordable and clean energy). This is signalled by the company's far below average carbon intensity as displayed by a specific carbon intensity of less than 20gCO2e/kWh (resource management). Such position i) rules out transition risks and ii) ensures high utilisation factors of its hydro power generation portfolio and very strong position in the merit order, high margins, robust cash flow generation and less headwinds from regulation or political interference. Moreover, the exposure to hydropower generation guarantees the consistent status as a government-related entity.

Growth areas focused on sustainability

Hafslund focusses its growth projects on other sustainable areas such as wind (e.g. the acquired Tonstad onshore wind park), solar, electric charging and carbon capture (product innovation). More than 90% of annual capex are related to taxonomy-eligible activities.

Heat business aiming at circular economy, supplemented by carbon capture facilities over the long term

Moreover, Hafslund's exposure to the generation of district heating and cooling is primarily based on waste incineration which promotes a circular economy. Over the next few years, the company will build (together with Aker Solutions and SLB Capturi) one of the world's first climate-positive waste incineration plant with the development of carbon capture and storage abilities. Albeit weighing on annual capex over the next few years with a total of about NOK 4.3bn (out of up to NOK 9.5bn related to the whole project), such project will further strengthen the company's ESG profile (beyond 2029 when the facility is expected to be completed), providing carbon negative end-treatment of residual waste (resource management and product innovation).

Very strong ESG rating

We acknowledge Hafslund's well-integrated ESG framework and ambitions, including publications of green financing reports. The company has received an ESG Second Party Opinion from Standard&Poor's, attaining a 'Dark Green Rating' (highest possible outcome). The company has issued multiple green bonds, with proceeds used exclusively for low-carbon solutions and climate change adaption. All projects take into account environmental concerns, social impacts, landowners and potential local resistance.

No issues on Governance

The company applies market standard Governance Principles. We did not observe any negative credit-relevant factors pertaining to Corporate Governance.

[5] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

## 7. Business risk profile: BBB+

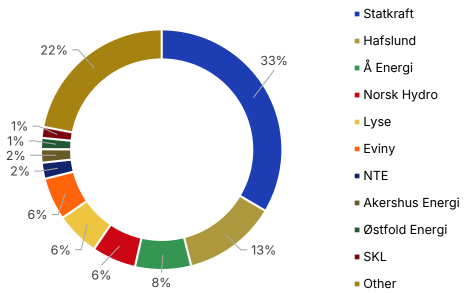
Business risk profile remains the weaker link of Hafslund's issuer rating

Hafslund's business risk profile is considered good, but overall a rating constraining factor, mainly due to diversification effects and the company's high exposure to industry-inherent risks related to the production of electricity from unregulated generation capacity which primarily determines our assessment of the utility's blended industry risk profile at BB+.

Leading electricity generator in Norway with a low-cost and low-carbon generation capacity

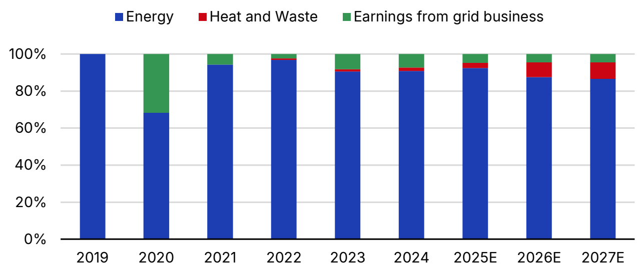
Hafslund's business risk profile remains underpinned by a strong competitive position in the Nordic utility sector. The company benefits from its leading role in Norwegian power generation, contributing 10–15% of national electricity consumption through its predominantly hydro-based portfolio (Figure 1), which ensures a highly favourable position in the merit order system (positive ESG factor related to resource management). Hafslund's carbon intensity is well below average at <20 $gCO_2e/kWh$, supporting strong environmental credentials and fostering strong resource management and product innovation.

**Figure 1: Estimated market shares in Norwegian electricity generation 2024**




Source: Scope Research

**Figure 2: Relative segment split[6]**




Source: Hafslund, Scope estimates

Credit-supportive cash flow diversity related to grid operations and district heating/cooling

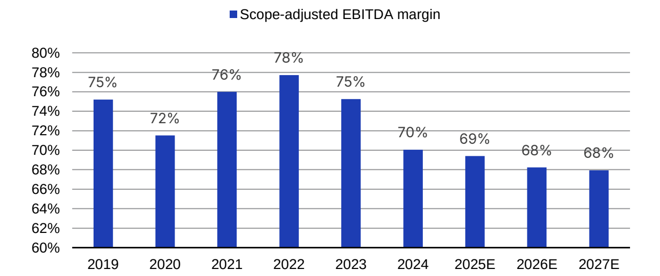
The utility's operating profile is bolstered by robust cash flows from a 50% stake in Norway's largest distribution grid operator Eidsiva Energi AS (rated A-/Stable), and further enhanced by the robust cash flows from Celsio, Norway's largest district heating company (positive ESG factor related to resource management, circular economy and product innovation). These regulated or quasi-regulated businesses contribute to 10–15% of recurring earnings and help offset the volatility of unregulated power generation (Figure 2).

Consistently strong operating profitability

Hafslund's strategic location in southeastern Norway, combined with solid reservoir capacity (covering 50% of annual production) and its low-cost hydro operations, supports high utilisation and achievement of attractive market prices. This supports Hafslund's continuously strong operating profitability which remains a core credit strength, with a consistently solid Scope-adjusted EBITDA margin of above 60% at the group level and a ROCE of 15% on average (Figures 3 and 4). Although a growing share of earnings from the lower-margin district heating as well as retreating energy prices could dilute group margin slightly, we expect profitability measures to remain above 60% and 10%, respectively, in the medium term.

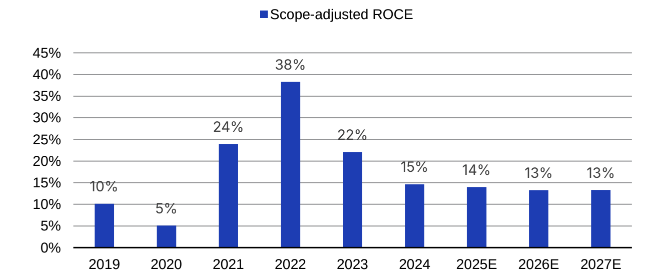
[6] Based on EBIT for electricity and heat & waste business and dividend income for the grids business.

**Figure 3: Very strong Scope-adjusted EBITDA margin**




Source: Hafslund, Scope estimates

**Figure 4: Solid but more volatile return on capital employed (Scope-adjusted ROCE)**




Source: Hafslund, Scope estimates

Geographical outreach, concentration risks and high exposure to industry-inherent risk remain rating constraints

Nevertheless, Hafslund's business risks remain important, given the company's high dependency on non-controllable external factors, such as volatile power prices in the relevant pricing zones, and its limited hedging activities. Furthermore, the company's focus on the Norwegian market restricts its geographical diversification. The concentration of its largest power generation assets across its portfolio of over 80 power plants also creates credit risks, which are gradually decreasing as the company expands its power generation portfolio through organic growth and bolt-on acquisitions of power generation capacities.

## 8. Financial risk profile: A

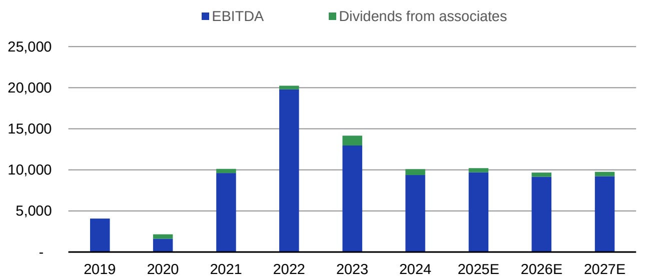
Improved financial risk profile

We believe that Hafslund's credit metrics and cash flow generation have settled at a sustained level which warrant an improved assessment of its financial risk profile. This is supported by a sustainably low leverage, very strong interest coverage and improved free operating cash flow compared to our projections under the previous rating case.

Sufficient comfort about major rating-relevant parameters that impact credit metrics

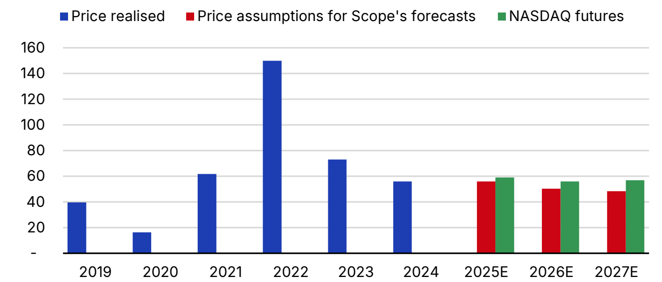
While we have been hesitant to grant a stronger assessment to the utility's financial risk profile over the last two years due to the limited visibility on sustained above-average electricity prices in the relevant price zones, as well as Hafslund's ambitious medium- to long-term investment programme, we have become confident that the company will maintain strong financials even under stress scenarios. We are also reassured by the company's financial policy and its flexibility to execute investments. Our forecasts incorporate significant haircuts to the longer-term price curve for electricity prices in the relevant price zone, as well as the projected dividend income from Hafslund's stake in Eidsiva (Figures 5 and 6).

**Figure 5: EBITDA expected to settle at a solid level (NOK m) …**




Source: Hafslund, Scope estimates

**Figure 6: … supported by continued above-average power prices (øre/kWh)[7]**




Source: Hafslund, NASDAQ, Scope estimates

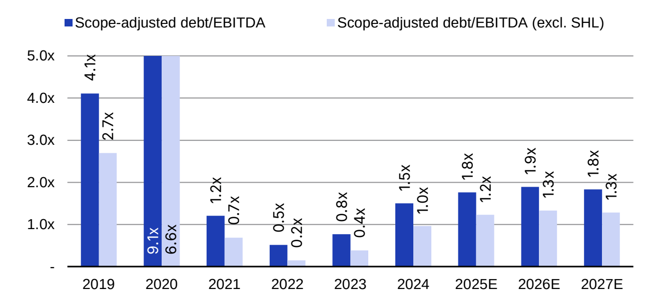
Sustained leverage below 2.0x

The company's leverage, as measured by debt/EBITDA, has consistently remained at a low level over the past three years, trending between 0.5x and 1.5x. This reflects strong operational performance and effective deleveraging, aided by solid cash accruals since the debt peak in 2020.

[7] Scope's price assumptions are 10% lower on average than compared to the futures price level for electricity sold in the NO1 price zone.

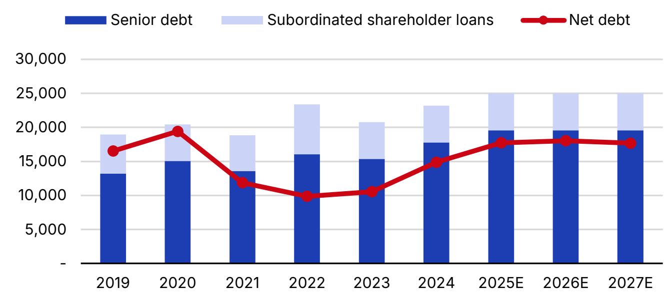
We strike that leverage is very solid when considering the company significant exposure to subordinated shareholder loans which account for around 25% of total debt. Updated forecasts based on a conservative power price curve (48–55 øre/kWh), the impact from recent acquisitions of power plants, and the company's capex plan over the next few years, which we regard as less extensive as in 2024, support a projected leverage range of 1.8x–1.9x for 2025 to 2027 (Figure 7). This reflects stable debt for 2025 to 2027 at a level of around NOK 18bn (increased following the acquisition of several power plants from Orkla ASA) and an annual EBITDA settling within a range of NOK 9.6bn to 10.2bn (Figures 5 and 8). Our sensitivity analysis confirms the robustness of this projection, with leverage remaining below 2.0x even under further stressed price scenarios.

**Figure 7: Strong leverage metrics projected for the next few years**




Source: Hafslund, Scope estimates

**Figure 8: Sideways debt development in 2025 to 2027 (NOK m)**

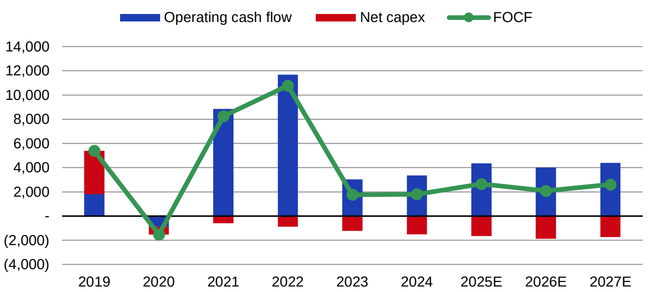



Source: Hafslund, Scope estimates

Solid internal funding capacity for its investment programme

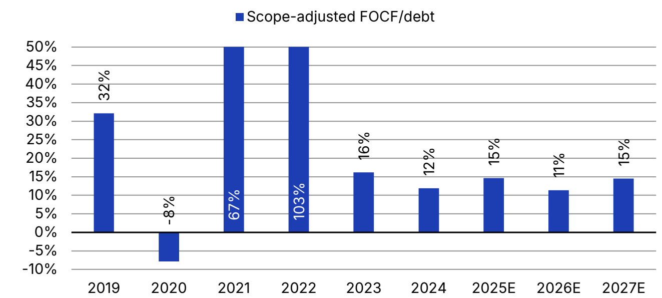
Our improved view of Hafslund's ability to fund its investment programme primarily through internal sources, such as operating cash flow, supports the maintenance of a stable net indebtedness and the overall financial risk profile. Unlike the previous rating case, we project that Hafslund will consistently generate positive FOCF within a range of NOK 2.0bn to NOK 2.6bn over the next few years, leading to a consistently positive cash flow cover (Figures 9 and 10). This is based on greater transparency regarding operating cash flow, stemming from the current power price curve, as well as the company's less extensive investment programme in the coming years. We expect the latter to average around NOK 1.75bn per annum over the next three years, compared to an average of NOK 2.1bn per annum in the previous rating case. Although FOCF remains somewhat volatile due to tax timing effects and the cyclical nature of energy markets, Hafslund's improved capex coverage indicates that its debt profile will likely be more robust and stable in the future.

**Figure 9: Consistently positive FOCF projected (NOK m) …**




Source: Hafslund, Scope estimates

**Figure 10: … retaining solid cash flow cover ratios**

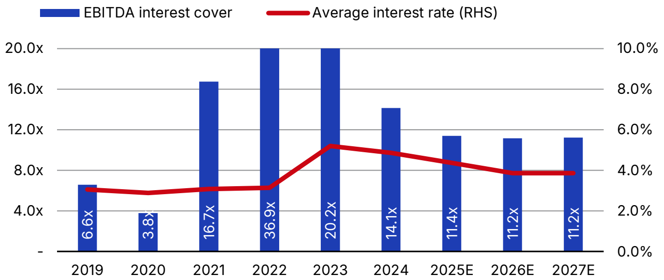



Source: Hafslund, Scope estimates

Consistently strong debt protection

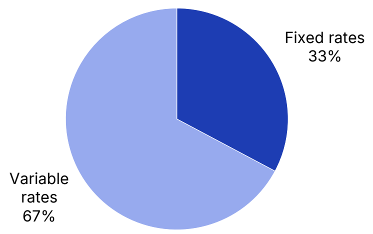
Debt protection remains strong, with EBITDA/interest coverage forecast to stay within 10x–15x, supported by Hafslund's robust operating performance and its solid cash buffer and considerable interest income, that somewhat mitigate the company's significant exposure to floating-rate debt (Figures 11 and 12).

**Figure 11: Solid debt protection**




Source: Hafslund, Scope estimates

**Figure 12: Significant exposure to unhedged floating-rate debt at YE 2024 (senior unsecured debt exposure)**

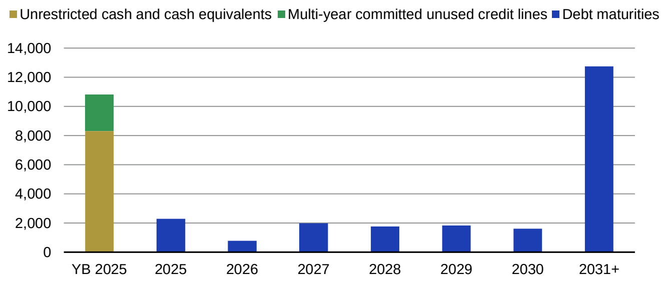



Source: Hafslund, Scope

The liquidity profile remains very strong as signalled by liquidity ratios consistently standing above 200%. This is supported by a balanced debt maturity profile (Figure 13), a substantial cash buffer of NOK 10.3bn at end-Q1 2025, access to a committed credit facility of NOK 4.0bn and expected positive FOCF. Hafslund's liquidity is further supported by strong access to diverse funding sources, such as bonds, bank loans, private placements, commercial paper and shareholder loans, which reinforces its (re)financing flexibility (Figure 14).

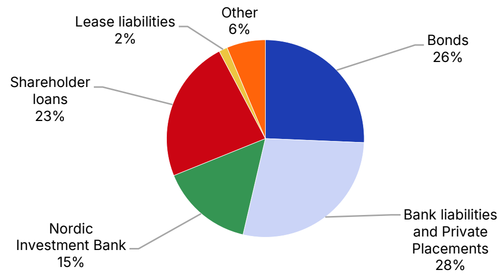
Adequate liquidity and well-balanced maturity schedule

**Figure 13: Debt maturity schedule at YE 2024 (in NOK m)[8,9]**




Source: Hafslund, Scope

**Figure 14: Well-diversified debt funding structure as of YE 2024**




Source: Hafslund, Scope

**Table 1. Liquidity sources and uses (in NOK m)**

| | 2025E | 2026E | 2027E |
|---|---|---|---|
| Unrestricted cash (t-1) | 8,024 | 6,975 | 6,667 |
| Open committed credit lines (t-1) | 2,500[9] | 4,000[9] | 4,000 |
| FOCF (t) | 2,643 | 2,082 | 2,608 |
| Short-term debt (t-1)[8] | 2,294 | 784 | 1,980 |
| **Liquidity** | **>200%** | **>200%** | **>200%** |

Source: Hafslund, Scope estimates

[8] Maturity profile does not consider the NOK 2,075m subordinated loan from CCS Finansiering AS as an ordinary short-term debt position in 2025. While the loan has been classified as a short-term debt position at the company's 2024 balance sheet due the debtor's right claim for payment of an extraordinary instalment, the loan will likely mature in 2042.

[9] Hafslund's credit facility has been increased in the course of 2025.

## 9. Supplementary rating drivers: +1 notch

One-notch uplift to the standalone credit assessment

The rating continues to incorporate a one-notch uplift to the standalone credit assessment of A-, resulting in an A issuer rating. This follows the framework set out in our rating methodology for government-related entities with a bottom-up rating approach, reflecting a conservative assessment of the capacity of the public sponsor (the City of Oslo, which is the 100% shareholder) to provide a credit uplift and its willingness to provide financial support if needed (something that is deemed highly remote). We deem the public sponsor's creditworthiness to be higher than Hafslund's standalone credit assessment, signalling a 'medium' capacity for a credit uplift. We assess the public sponsor's willingness to be 'medium', given Hafslund's primary exposure to hydropower generation assets, which need to be in the hands of public authorities. Overall, the rating uplift is restricted to just one notch, in line with other Scope-rated Norwegian utilities with majority or full public ownership but no explicit guarantees on their debt or financial support.

Prudent financial policy

Although Hafslund's financial policy is considered to have no impact on the rating, we recognise that it contributes to a consistently strong financial risk profile. Hafslund remains focused on retaining a solid investment-grade rating and actively monitors the quantitative and qualitative factors affecting its creditworthiness. We emphasise in particular the utility's public commitment to maintaining an FFO/debt ratio of over 20% over time, which provides reassurance that the company will manage its capex and shareholder remuneration in a way that will not endanger the rating. Based on our forecasts, we expect the FFO/debt ratio to exceed the target by a significant margin over the next few years.

## 10. Debt ratings

The rated debt is issued by Hafslund AS. Senior unsecured bonds display standard bond documentation, including pari passu and negative pledge.

Senior unsecured debt rating: A

Following the upgrade of the underlying issuer rating, we have also upgraded the rating for senior unsecured debt to A from A-.

Short-term debt rating: S-1

The short-term debt rating has been affirmed at S-1 which is based on the underlying A/Stable issuer rating and the utility's consistently robust short-term debt coverage, as well as strong access to external funding from banks and debt capital markets.

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