SCOPE | Ratings

Nordkraft AS

Rating report

Issuer
BBB

Outlook
Negative

Short-term debt
S-3

Senior unsecured debt
BBB

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Related methodologies

General Corporate Rating Methodology, Feb 2025

European Utilities Rating Methodology, Jun 2025

Government Related Entities Methodology, Dec 2024

Table of content

Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
EBITDA interest cover	8.5x	6.0x	2.3x	3.7x
Debt/EBITDA	2.9x	4.3x	7.8x	5.5x
Free operating cash flow/debt	13%	-5%	-6%	-4%
Liquidity	>200%	57%	84%	87%

Rating sensitivities

Upside scenario for the rating and Outlook:

- Debt/EBITDA sustained below 5.0x, which could result in an Outlook revision to Stable

Downside scenarios for the rating and Outlook (individually):

- Debt/EBITDA not sustained below 5x
- Loss of government-related entity status (remote)

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

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Diversified business mix with a high share of regulated electricity distribution • Cost-efficient and environmentally friendly power generation portfolio based on hydropower (positive ESG factor) • Portfolio of investments in associates, which could be realised to achieve deleveraging • Government-related entity status, with majority ownership by Norwegian municipalities with capacity and willingness to provide financial support	• Weakening leverage and interest cover pressuring an already moderate financial risk profile • Merchant risk in power generation can adversely affect financials when power prices are low • High investments in electricity distribution likely to reduce deleveraging flexibility in the next years • Relatively small scale, with concentration in terms of assets and geography in a limited service territory

2. Rating Outlook

The **Negative Outlook** reflects the risk that credit metrics will remain under pressure as a consequence of potentially depressed power prices in the relevant price zone over a prolonged period. A rating downgrade could occur if leverage spikes significantly in 2025, as forecast, with no timely recovery to below 5x thereafter.

3. Corporate profile

Municipality-owned integrated utility in northern Norway

Nordkraft is a Norwegian utility company founded in 1910 and headquartered in Narvik. The company owns, develops and operates renewable energy generation, mainly hydro and wind, as well as electricity grids, with a primary focus on the Hålogaland area in northern Norway. It generates around 1 TWh of electricity yearly from 18 hydropower plants and serves 52,000 grid customers. It further operates third-party hydro and wind power plants across Norway and holds a portfolio of associated companies focused on renewable energy and digital infrastructure.

Nordkraft is 80.1% owned by nine Norwegian municipalities. Jamtkraft AB, which is a Swedish municipal-owned utility, is owning the remaining 19.9%.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
18 Aug 2025	Outlook change	BBB/Negative
19 Aug 2024	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	12.8x	8.5x	6.0x	2.3x	3.7x	4.1x
Debt/EBITDA	3.4x	2.9x	4.3x	7.8x	5.5x	4.8x
Free operating cash flow/debt	6%	13%	-5%	-6%	-4%	-2%
Liquidity	46%	>200%	57%	84%	87%	>200%
EBITDA						
Reported EBITDA[1]	546	929	461	260	405	495
add: operating lease payments	-	-	-	-	-	-
add: recurring dividends from associates	-	-	-	-	-	-
less: capitalised expenses	-	-	-	-	-	-
Other items (incl. one-offs)[2]	(6)	(315)	(1)	-	-	-
EBITDA	**540**	**614**	**460**	**260**	**405**	**495**
Funds from operations (FFO)						
EBITDA	540	614	460	260	405	495
less: interest	(42)	(72)	(76)	(112)	(111)	(120)
less: cash tax paid	(50)	(41)	(81)	(22)	-	(48)
Other non-operating charges before FFO	(47)	(45)	(20)	-	-	-
Funds from operations	**400**	**456**	**283**	**126**	**294**	**328**
Free operating cash flow (FOCF)						
Funds from operations	400	456	283	126	294	328
Change in working capital	(356)	54	(134)	-	-	-
Non-operating cash flow	0	-	11	-	-	-
less: capital expenditures (net)	71	(275)	(268)	(250)	(375)	(375)
less: lease amortisation	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Free operating cash flow	**116**	**235**	**(108)**	**(124)**	**(81)**	**(47)**
Interest						
Net cash interest per cash flow statement	37	65	70	105	104	113
add: interest component, operating leases	-	-	-	-	-	-
add: interest paid on hybrid debt	-	-	-	-	-	-
add: other items[3]	5	7	7	7	7	7
Interest	**42**	**72**	**76**	**112**	**111**	**120**
Debt						
Reported financial (senior) debt	2,080	2,100	2,500	2,500	2,725	2,875
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	-	-	-	-
less: cash and cash equivalents	(373)	(407)	(525)	(507)	(522)	(532)
add: non-accessible cash	49	7	3	3	3	3
add: pension adjustment	86	83	22	22	22	22
add: operating lease obligations	-	-	-	-	-	-
add: asset retirement obligations	-	-	-	-	-	-
add: other debt-like items	-	-	-	-	-	-
Debt	**1,842**	**1,782**	**2,000**	**2,018**	**2,227**	**2,368**

[1] Excludes profit and loss from associates.

[2] Gains and losses from asset disposals.

[3] Interest on pensions.

6. Environmental, social and governance (ESG) profile[4]

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

Environmentally friendly business model

Nordkraft has an environmentally friendly business model focused on renewable energy generation and electricity distribution.

Renewable energy generation is a credit-positive ESG factor

Nordkraft's renewable energy generation is a credit-positive ESG factor, with ownership of large hydropower plants with low operating costs, flexible capabilities and a clean carbon footprint, which results in low transition risks. The company's large hydropower plants, requiring at least two-thirds public ownership by law, also guarantee its long-term government-related entity status, limiting potential for privatisation.

Governance is credit-neutral

The company applies governance principles reflective of Norwegian market standards, which are credit neutral.

[4] 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

Unchanged business risk profile

Nordkraft's business risk profile continues to support the issuer rating. It is derived from a blended industry risk profile of A- and a weaker competitive positioning of BBB-. This reflects the company's regional nature and balanced exposure to electricity distribution as well as low-cost, environmentally friendly hydropower generation (positive ESG factor). The growing management of third-party power plants and its stakes in associated companies have a more limited impact on the company's business risk, given the smaller contributions these activities make to recurring cash earnings.

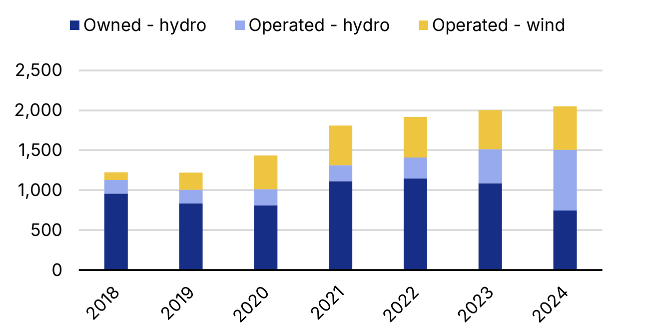
Blended industry risk profile

Our revised blended industry risk profile of A- (changed from BBB+) is based on Nordkraft's exposure to different utility segments with different industry fundamentals. The company's electricity distribution segment grew significantly in 2021-2022 through consolidation and is expected to contribute around 50% of EBITDA over time, albeit a higher share in the next years given the currently depressed power prices in northern Norway, reducing industry risks. The remaining EBITDA mainly comes from non-regulated power generation, which is more volatile and comes with higher industry risks.

Monopolistic and regulated environment in electricity distribution

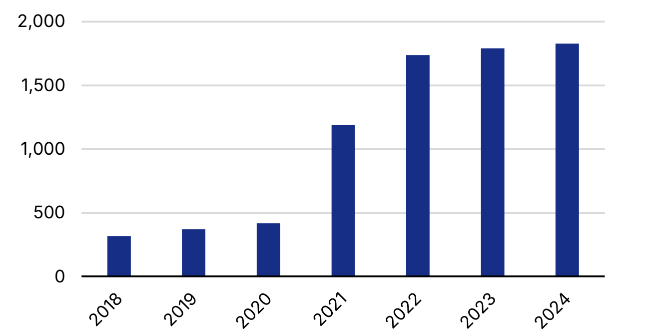
Nordkraft exposure to electricity distribution supports its market position, benefitting from a monopolistic and regulated environment in Norway. The regulation is expected to support an adequate cost recovery and return on capital through timely reflection in allowed revenues, generally with a time lag of up to two years in the case of differences between estimated and actual costs. We believe this helps to mitigate its small size as one of the 10-15 largest domestic electricity distributors.

Figure 1: Generation from owned and operated power plants, GWh



Source: Nordkraft, Scope

Figure 2: Grid capital, NOK m



Source: Nordkraft, Scope

Small but competitive power generation portfolio

Nordkraft owns 18 hydropower plants with a mean annual generation of around 1 TWh and installed capacity of about 290 MW. It covers less than 1% of Norwegian electricity supply, although a greater share in its regional market in northern Norway (NO4). The company's power plants benefit from low operating costs, a clean carbon footprint, and flexibility from water reservoir capacity, which we expect will ensure their long-term competitiveness.

Industry-inherent merchant risks

Nordkraft's generation output is fully exposed to industry-inherent merchant risks, with highly volatile achievable power prices. This constrains our business risk profile assessment. The company has no hedging at present, either through financial contracts or bilateral agreements, which reduces visibility on cash flows.

Diversification supported by exposure to non-correlated utility segments

Overall diversification is moderate. Exposure to non-correlated utility segments supports diversification. However, a limited geographical presence and customer outreach, together with asset concentration, constrain our assessment.

Asset concentration risk in power generation

Over 60% of generation capacity comes from the three largest power plant exposures, including the recently increased stake in Kobbelv to 17.5% from 15.225% through the acquisition of Lunds Energi Norge AS in 2024. The company's largest power plant, Sørfjord, represents around 25% of capacity, and the three largest represents more than 60%. The reliance on a small number of assets means that a standstill in one or several of the larger assets could materially impact Nordkraft's operations and financial situation.

Limited geographical diversification

Nordkraft's geographical diversification is mainly limited to the NO4 pricing area. This exposes the company to regional developments such as weather conditions, supply and demand dynamics, and regulatory amendments. This is a credit weakness compared to peers operating across geographies.

Good profitability

Nordkraft's overall profitability is good but moderately volatile. Profitability remains supported by the company's low-cost hydropower generation and more stable electricity distribution, which have supported an EBITDA margin above 40% and return on capital employed of around 10% in recent years. At the same time, profitability is diluted by other activities, such as the management of third-party power generation.

Reduced EBITDA in 2024

In 2024, Nordkraft's EBITDA was NOK 460m, down from NOK 614m in 2023. The decrease was due to reduced earnings in hydropower generation, as performance in 2023 was above average, and achievable power prices in H2 2024 were negatively impacted by exceptionally strong hydrology.

Weak EBITDA in 2025 to recover in 2026-2027

We forecast EBITDA of around NOK 260m in 2025, with an increase to about NOK 400m in 2026 and roughly NOK 500m in 2027. The weak EBITDA in 2025 is mainly due to low achievable power prices in Nordkraft's regional market, NO4, caused by an exceptionally strong hydrological balance, which has persisted since H2 2024, as well as mild weather, and transmission bottlenecks, resulting in excess electricity supply. This impact is exemplified by the year-to-date market price in the NO4 price zone of around NOK 60/MWh, as compared to NOK 270/MWh in 2024 and NOK 342/MWh in 2023. We have also assumed a lower EBITDA in the electricity distribution segment in 2025, as the company benefitted from NOK 81m of excess regulatory revenues in 2024, which are non-recurring.

The significant earnings impact from the currently adversely low achievable prices in NO4 illustrates Nordkraft's low geographical diversification and its reliance on regional developments.

Realisation of Aker Narvik following data centre agreement

On 29 July 2025, Aker, Nscale and OpenAI announced an agreement to construct a data centre on the Kvandal site developed by Aker Narvik, enabling Nordkraft to realise its 20% stake in Aker Narvik. The data centre is planned to consume 20 MW by end-2026 in the initial phase, and thereafter expand to 230 MW, corresponding to the current capacity of the Kvandal site, with potential to later add 290 MW. It would therefore also be a new source of regional electricity demand, and a long-term supportive development for Nordkraft's business and service territory if materialising.

8. Financial risk profile: BB+

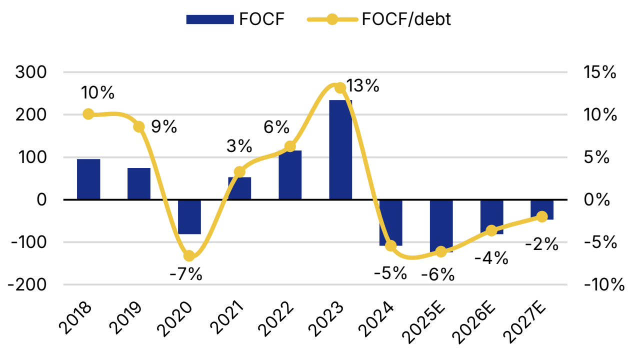
Moderate credit metrics and cash flow generation

The financial risk profile reflects moderate credit metrics and cash flow generation. Our financial projections are mainly based on weak results in 2025 and a market normalisation in 2026-2027, with the NO4 power price reverting to around NOK 300/MWh from around NOK 100/MWh in 2025. We expect capex to be around NOK 250m in 2025 and then increase to an average of about NOK 375m yearly in 2026-2027, with the majority earmarked for electricity grid developments and the remainder for maintenance and upgrades of power plants. Combined with higher net interest payable, we expect this to result in negative FOCF in the next few years. Cash proceeds from the announced realisation of the 20% stake in Aker Narvik is expected to cover some of the financing needs stemming from the negative FOCF and anticipated shareholder remuneration. Still, we expect debt to increase to above NOK 2,300m at end-2027, from NOK 2,000m at end-2024.

Shareholder remuneration

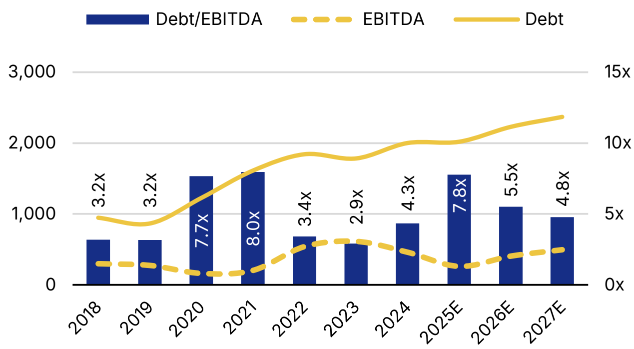
We have assumed shareholder remuneration of about NOK 250m over 2025-2027, which constrains deleveraging. The company has paid an extraordinary dividend of NOK 45m in 2025 and may decide to distribute parts of the proceeds from the realisation of the 20% stake in Aker Narvik. We further believe the company is likely to pay ordinary dividends in the next years given its current policy, subject to a recovery in achievable power prices.

Figure 3: FOCF (NOK m, LHS) and cash flow cover (RHS)



Source: Nordkraft, Scope estimates

Figure 4: EBITDA and debt (NOK m, LHS) and leverage (RHS)



Source: Nordkraft, Scope estimates

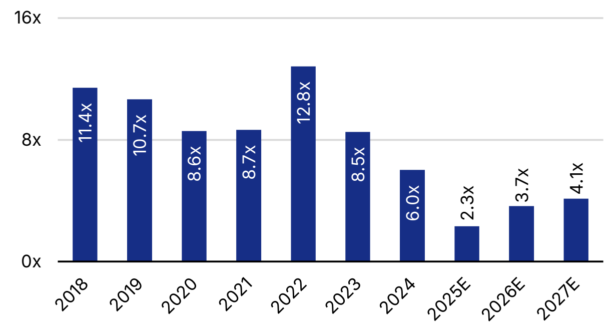
Based on these expectations, we believe leverage – as measured by debt/EBITDA – is likely to peak at around 8x at end-2025 before gradually recovering to below 5x at end-2027, as compared to 4.3x in 2024. At the same time, interest cover is likely to weaken to around 2x in 2025 from 6x in 2024 and to recover to around 4x in 2027. Cash flow generation, defined by FOCF/debt, is expected to remain negative in a range of 0% and -6%.

Forecasted credit metrics remains moderate…

Consequently, we see an increased risk that credit metrics will be weaker than expected in the next few years, despite scaled-back net investment levels. We previously expected leverage of around 4x and interest cover of roughly 5x in 2025-2026.

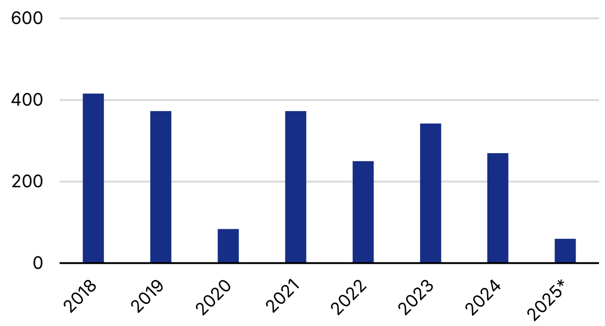
…but weaker than previously expected

Figure 5: EBITDA/interest cover



Source: Nordkraft, Scope estimates

Figure 6: Average NO4 power price, spot, NOK/MWh



*Year-to-date price as of 6 August.
Source: Nordkraft, Epex Spot, Scope

Liquidity is adequate. This reflects Nordkraft's available cash and cash equivalents of NOK 522m at end-2024. It also reflects our view that the company has adequate access to external financing to cover refinancing and expected negative FOCF, given its sustainable business model, as well as presence in domestic capital markets and established banking relationships.

Adequate liquidity

At year-end 2024, the company's gross debt comprised NOK 1,500m of bank loans and NOK 1,000m of bonds. The next major debt maturity is a NOK 500m loan maturing in September 2025, which the company plans to refinance with a similar loan. We also expect the company to renew its NOK 100m overdraft facility and NOK 400m revolving credit facility, both maturing in September 2025, as these have historically been rolled annually. The two credit lines are excluded from our liquidity calculation given their short-term nature with tenors that are not exceeding 12 months.

The company's bank loans have financial covenants requiring a minimum equity ratio of 35% and interest coverage (EBITDA/net interest expenses) above 2.0x. The covenants are measured quarterly. We believe that banks would remain supportive in the event of temporary breaches caused by power price fluctuations.

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

	2024	2025	2026	2027
Unrestricted cash (t-1)	401	522	504	520
Open committed credit lines (t-1)	-	-	-	-
FOCF (t)	(108)	(124)	(81)	(47)
Short-term debt (t-1)	600	500	500	-
Liquidity	**57%**	**84%**	**87%**	**>200%**

Source: Nordkraft, Scope estimates

9. Supplementary rating drivers: +1 notch

One-notch uplift to the standalone credit assessment

The issuer rating incorporates a one-notch uplift to the standalone credit assessment of BBB-, reflecting the company's status as a government-related entity. We have applied a bottom-up rating approach under the framework outlined in our Government Related Entities Methodology. The one-notch uplift is based on the 80.1% public ownership by the Norwegian municipalities that largely constitute Nordkraft's service territory. We assess the anticipated capacity to provide a credit uplift as 'high', as we believe the public sponsors' credit quality is materially higher than Nordkraft's standalone credit assessment, and the public sponsors' willingness to provide exceptional financial support as 'medium'. The one-notch uplift is in line with other Norwegian utilities rated by us with majority ownership by one or more municipalities but no explicit guarantees on their debt or financial support.

Financial policy is credit-neutral

The company's financial policy is credit neutral and already reflected in the financial risk profile through our projections. This is based on our view that Nordkraft will maintain an approach to discretionary investments and shareholder remuneration largely in line with its previous risk appetite.

10. Debt ratings

Senior unsecured debt rating: BBB

We have affirmed the senior unsecured debt rating at BBB, in line with the issuer rating.

Short-term debt rating: S-3

We have also affirmed the short-term debt rating at S-3 based on the BBB/Negative issuer rating. We expect Nordkraft's presence in domestic capital markets and its banking relationships to provide adequate access to external financing. The lower of the two possible short-term debt ratings is mainly driven by the company's worse-than-adequate liquidity cover and the Negative Outlook.

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