Østfold Energi AS

Kingdom of Norway, Utilities

Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios*	2023	2024	2025E	2026E
Scope-adjusted EBITDA interest cover	Net interest income	53x	55x	39x
Scope-adjusted debt/EBITDA	Net cash	0.3x	0.3x	0.4x
Scope-adjusted free operating cash flow/debt	Net cash	-45%	45%	63%
Liquidity	No ST Debt	No ST Debt	176%	No ST Debt

Rating sensitivities

The upside scenario for the rating and Outlook:

- A sustained net cash position and increased diversification

The downside scenarios for the rating and Outlook (individually):

- Sustained deterioration of leverage by debt/EBITDA above 2.5x (remote)
- Loss of government-related entity status (remote)

*All credit metrics refer to Scope-adjusted figures.

Issuer

BBB+

Outlook

Stable

Short-term debt

S-2

Senior unsecured debt

BBB+

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Related methodologies

General Corporate Rating Methodology, Feb 2025

European Utilities Rating Methodology, Jun 2025

Government Related Entity Rating Methodology, Sep 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Environmentally friendly and cost-efficient hydropower generation portfolio (positive ESG factor) with sizeable reservoirs • Strong financial risk profile with low leverage and good internal financing capacity • Profitability and efficiency supporting the business risk profile with EBITDA margin projected to remain well above 60% • Defined hedging policy dampening merchant risks in the short term • Committed long-term municipal owners likely to provide support if needed	• Exposure to industry-inherent volatility in non-regulated power generation • Asset concentration risk with two power plants generating most of the electricity, partly mitigated by insurance that covers property damage and two-year standstills • Low diversification by utility segment and regional pricing market • Majority of cash flows expected to fund investments and maintenance of dividend policy

2. Rating Outlook

The **Stable Outlook** reflects Scope's expectation that Østfold Energi will keep credit metrics strong, with debt/EBITDA remaining between 0.5x and 1.5x in the next few years, amid the higher-than-historical investments and moderate power prices.

3. Corporate profile

Østfold Energi is a Norwegian utility focused on sustainable energy generation. Its main activity is hydropower generation in western Norway where it owns and operates mostly flexible hydro plants. It is also engaged in district heating, wind and solar activities, and owns 50% of Siso Energi, which is a hydropower company owning two plants in northern Norway.

The company is owned by Østfold county municipality (45%) and 13 municipalities within or in proximity to Østfold.

Municipal owned utility company

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
13 Nov 2025	Affirmation	BBB+/Stable
15 Nov 2024	Affirmation	BBB+/Stable
10 Nov 2023	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	171x	Net interest income	53x	55x	38x	45x
Debt/EBITDA	Net cash	Net cash	0.3x	0.3x	0.4x	0.4x
Free operating cash flow/debt	Net cash	Net cash	-45%	45%	64%	39%
Liquidity	629%	No ST debt	No ST debt	176%	No ST Debt	No ST Debt
EBITDA						
Reported EBITDA	2,101	1,218	717	745	659	691
add: recurring dividends from associates	72	4	16	16	16	16
less: capitalised expenses	-	-	-	-	-	-
Other items (incl. one-offs)	(29)	17	13	-	-	-
EBITDA	**2,144**	**1,240**	**746**	**761**	**675**	**707**
Funds from operations (FFO)						
EBITDA	2,144	1,240	746	761	675	707
less: interest	(13)	3	(14)	(14)	(18)	(15)
less: cash tax paid	(432)	(1,388)	(651)	(277)	(247)	(377)
Other non-operating charges before FFO	-	-	-	-	-	-
Funds from operations	**1,699**	**(145)**	**80**	**470**	**411**	**314**
Free operating cash flow (FOCF)						
Funds from operations	1,699	(145)	80	470	411	314
Change in working capital	20	(80)	48	1	(2)	1
Non-operating cash flow	130	(159)	(30)	-	-	-
less: capital expenditures (net)	(184)	(134)	(208)	(350)	(250)	(200)
less: lease amortisation	(4)	(5)	(5)	(5)	(5)	(5)
Other items	-	-	-	-	-	-
Free operating cash flow	**1,661**	**(522)**	**(115)**	**116**	**154**	**110**
Interest						
Net cash interest per cash flow statement	10	(6)	11	11	15	13
add: 50% of interest paid on hybrid debt	-	-	-	-	-	-
add: other items	2	3	3	3	3	3
Interest	**13**	**(3)**	**14**	**14**	**18**	**15**
Debt						
Reported financial (senior) debt	425	426	428	528	528	528
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	-	-	-	-
less: cash and cash equivalents	(1,700)	(721)	(218)	(322)	(333)	(293)
add: non-accessible cash	52	32	30	30	30	30
add: pension adjustment	48	44	18	18	18	18
add: asset retirement obligations	-	-	-	-	-	-
add: other debt-like items	-	-	-	-	-	-
Debt	**(1,175)**	**(219)**	**258**	**254**	**243**	**283**

6. Environmental, social and governance (ESG) profile[1]

Environment		Social	Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	credit-positive	Labour management	Management and supervision (supervisory boards and key person risk)	credit-neutral
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)	credit-neutral
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)	credit-neutral
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)	credit-neutral

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

Resource management supports future cash flows

Our assessment of a credit-positive environmental driver relates to Østfold Energi's main exposure to clean and cost-efficient hydropower generation. This limits transition and stranded asset risks and should support future cash flow through the high utilisation factors of its power plants.

The company's large-scale hydropower generation also underpins its government-related entity status, as those assets are required to have at least two-thirds public ownership. The company invests to supplement its core hydropower business with other types of sustainable energy generation such as wind and solar capacities, carbon capture as well as district heating.

Østfold Energi applies governance principles as recommended by Norwegian market standards, and we observe no credit-relevant factors pertaining to corporate governance.

[1] 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-

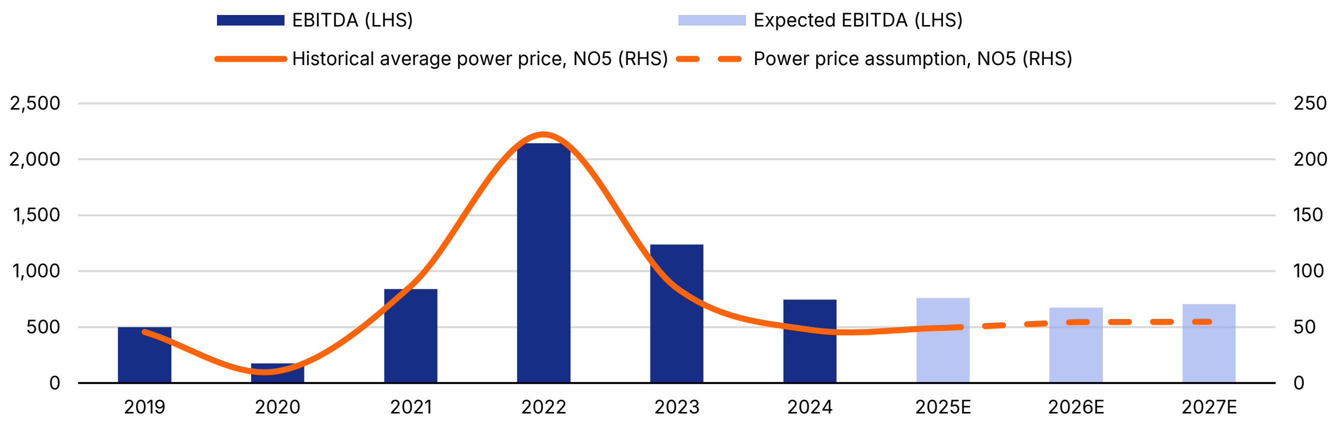
The business risk profile remains supported by the company's competitive power generation portfolio of cost-efficient and flexible hydropower plants, supporting good market positioning and strong profitability. Challenges include low diversification, small size, and dependence on external market developments with the significant exposure to industry-inherent volatility.

Flexible hydropower portfolio supports business risk profile

Østfold Energi's EBITDA is mainly derived from hydropower generation and is significantly exposed to fluctuating market prices in relevant regional markets, predominantly in western Norway (NO5 pricing region), which are inherently volatile. Our assessment of the industry risk is therefore viewed in light of the current dominant (non-regulated) hydropower production at BB.

Inherent market volatility

Figure 1: Østfold Energi's EBITDA vs historical average power prices and assumed[2] power prices, NO5 (øre/KWh)

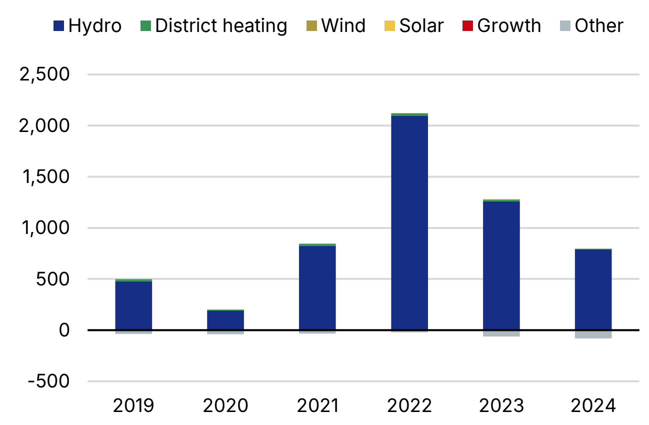


Source: Scope estimates, Nordpool, Østfold Energi

Like for industry risk, Østfold Energi's competitive positioning reflects its hydropower generation activity given the limited EBITDA from other segments. Its annual mean hydropower generation is about 1.6 TWh in western Norway from its directly owned hydro plants. It also owns 50% of Siso Energi, which operates two hydro plants in northern Norway and is expected to generate around 1.1 TWh yearly under normal market conditions on a 100% basis. The company's wind and solar activities have yet to yield a significant return in terms of its topline, and district heating also has a low share of recurring earnings.

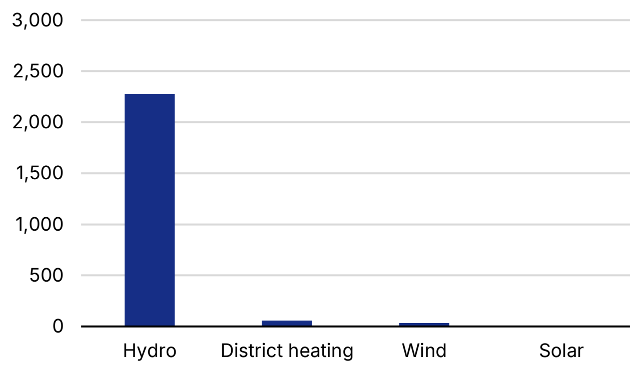
Hydroelectricity is the main source of EBITDA

Figure 2: EBITDA by business area (NOK m)



Source: Østfold Energi, Scope

Figure 3: Energy generation by source, 2024*



*Includes Siso Energi (Siso and Lakshola power plants), which is not consolidated on the issuer's statements, of which the company's generated share is 484 GWh in 2024.

Source: Østfold Energi, Scope

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[2] Scope's assumptions for future power prices in the NO5 area in NOK.

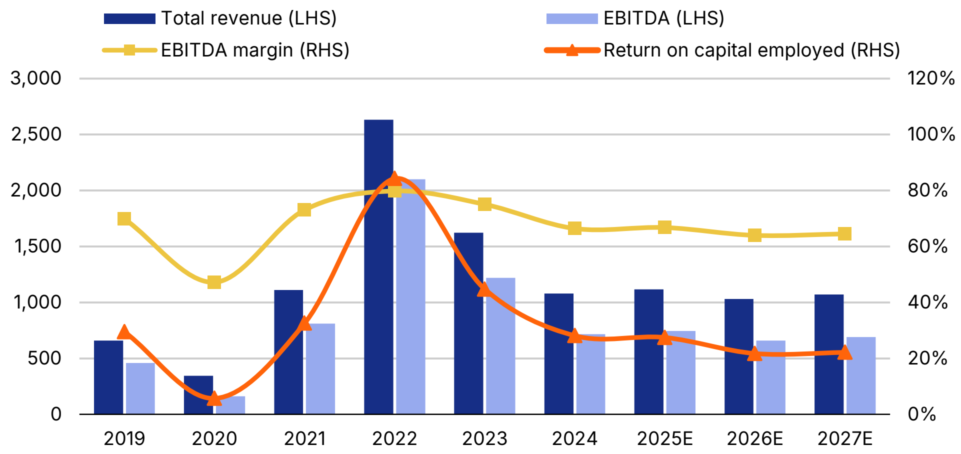
Solid profitability and efficiency

Despite the issuer's small size, covering only a modest share of domestic electricity supply, the company benefits from its predominant exposure to environmentally friendly, cost-efficient and flexible hydropower assets.

This exposure supports a favourable position for its power generation portfolio in the merit order, with high utilisation of power plants and low transition risks for hydro power versus carbon-intensive generation. Østfold Energi's hydro power plants have reservoirs that can store around 50% of annual mean generation, enabling the company to optimise generation through the demand cycle and create value from higher short-term market volatility.

The competitive power generation portfolio continues to provide strong profitability and efficiency, as indicated by our forecasted EBITDA margin of around 65% and return on capital employed of roughly 20%, assuming a NO5 power price of around NOK 500/MWh. This remains a key business risk profile strength.

Figure 4: Revenue, EBITDA (NOKm), EBITDA margin, and return on capital employed (%)



Source: Scope estimates, Østfold Energi

Limited diversification and heavy reliance on two hydro plants

Diversification is moderate, which constrains the business risk profile assessment. In addition to limited segment and geographical diversification, the issuer has asset concentration risk as around 90% of its mean annual generation comes from its two largest power plants, Borgund and Naddvik. This reliance means a standstill of even one plant could materially impact operations and financial performance. For such adverse scenarios, insurance covers property damage and a standstill of up to two years. Moreover, there are no cumulative standstill risks as the two power plants operate independently of each other and rely on different watercourses.

Østfold Energi's cash flow has benefited from regular dividends from associated companies, such as wind development company Zephyr which contributed NOK 202m over the years 2018 to 2024. We expect a modest dividend from associated companies in the coming years.

The company has a defined hedging policy that provides some cash flow visibility in the medium term through fixed prices on volumes and bilateral power purchase agreements with industry players to cushion volatility but faces significant price risk on a sustained basis.

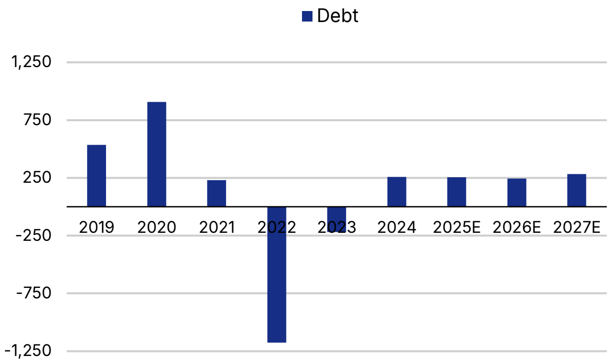
8. Financial risk profile: A

Financial risk profile lifts the rating

The financial risk profile and credit metrics remain strong, supported by low leverage and high interest coverage for the forecast period, which translates into a good credit quality and protection from market downturns.

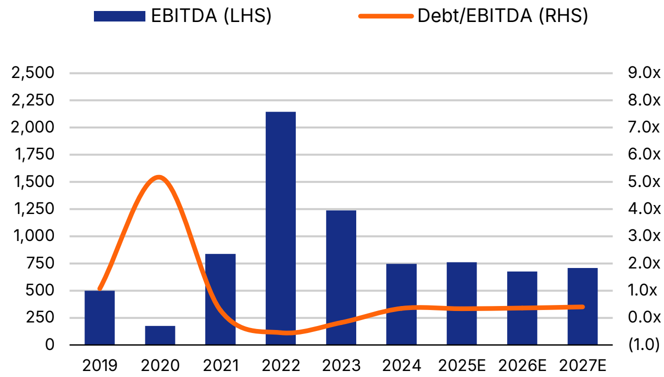
Østfold Energi's gross debt increased slightly in 2025 by NOK 100m to NOK 500m following its latest bond issuance in July. The proceeds were used to refinance the sole outstanding bond maturing in August and to finance the construction of the Gravdalen winter hydropower plant, which will be completed in 2026. Leverage as measured by debt/EBITDA is close to net cash and is expected to remain low for the forecasted period at between 0.3x and 0.5x.

Figure 5: Debt (NOKm)



Source: Østfold Energi, Scope estimates

Figure 6: EBITDA (NOKm) and debt/EBITDA (x)



Source: Østfold Energi, Scope estimates

Very strong interest cover

EBITDA interest cover remains solid. This is thanks to debt levels staying low, even with the aforementioned slight increase in 2025. The higher interest burden from the increased debt is expected to be counterbalanced by lower interest rates projected towards 2028[3]. We forecast debt protection to be 35x-55x in the forecasted period.

Cash flow over the cycle is good, although in comparison to the strong credit metrics of leverage and interest cover, cash flow generation is what holds back the overall strong financial risk profile.

Internal cash flow enough to fund needs in the medium term

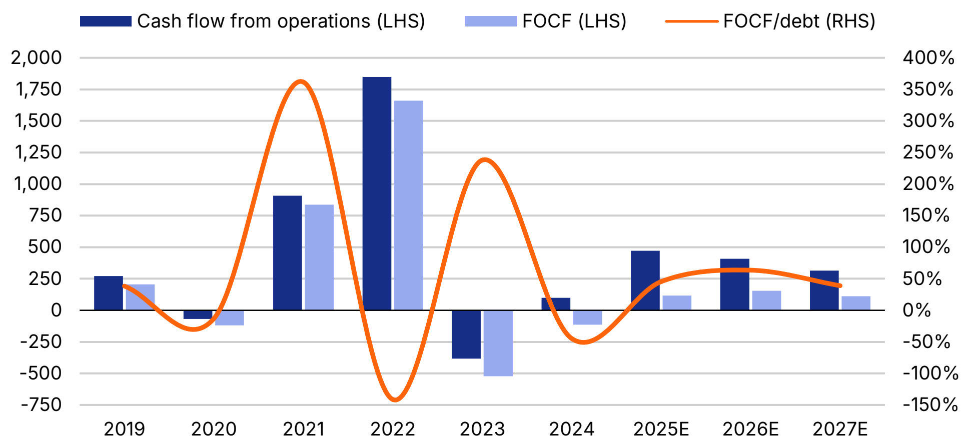
Cash flow generation is expected to normalise after the very profitable years of 2022 and 2023, when power prices reached abnormal highs. As at year-end 2024, FOCF was negative at NOK 115m, mainly from lower power prices of NOK 550/MWh, but we expect an improvement to NOK 116m by the end of 2025 on the back of higher volumes produced so far in 2025, higher prices achieved and lower tax payables of NOK 277m (2024: NOK 651m).

We expect around NOK 800m in investments in the next three years, which are the highest levels in recent years. Despite these levels, we estimate FOCF to remain at around NOK 100m-150m, highlighting the limited need for additional external funding. This is largely because the new Gravdalen winter hydropower plant will increase power production by around 60 GW from 2027. Investments in such power plants are tax-deductible under the Norwegian resource tax[4] regime, which will dampen taxes payable and improve cash flow for the forecast period significantly.

[3] Current central bank interest rate by Norges Bank in Norway is 4%, with current projections towards 3.2% in 2028.

[4] The resource rent tax for large-scale hydropower was changed to a cash flow tax with effect from 2021.

Figure 7: Cash flow from operations, FOCF (NOKm) and FOCF/debt (%)



Source: Østfold Energi, Scope estimates

Comfortable liquidity

Østfold Energi has good headroom in terms of liquidity, with a three-year NOK 400m revolving credit facility and a one-year rolling NOK 400m overdraft (excluded from liquidity calculations). The only outstanding gross debt, excluding lease liabilities, is the NOK 500m bond issued in July 2025 with maturity in July 2028. Combined with expected positive free operating flow and available cash, these sources provide ample liquidity, as there are no further debt maturities in 2025-2027.

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

	2024	2025E	2026E
Unrestricted cash (t-1)	689	188	292
Open committed credit lines (t-1)	250	400	400
FOCF (t)	(115)	116	154
Short-term debt (t-1)	-	400	-
Liquidity	**No refinancing needs**	**176%**	**No refinancing needs**

Source: Østfold Energi, Scope estimates

9. Supplementary rating drivers: +1 notch

Investment grade rating target

Østfold Energi's financial policy has no credit impact beyond that reflected in our assessment of the financial risk profile. The company's dividend policy stipulates a payout ratio of 65% of the preceding year's net profit and a goal of maintaining an investment grade credit rating of at least BBB-. This rating goal is reflected in the conservative debt levels both historically and forecasted.

One-notch uplift to BBB+ from ultimate owners' support

The issuer rating incorporates a one-notch uplift to BBB+ from the standalone credit assessment of BBB considering the company's status as a government-related entity. We have applied the bottom-up approach using the framework outlined in our Government Related Entities Methodology. The conclusion of a one-notch uplift reflects the public sponsor's 'high' capacity and 'medium' willingness to provide support. In addition to some importance for the policy objectives of its owners, we note that Østfold Energi's large hydropower plants are required to be at least two-thirds owned by the state or municipalities. The rating uplift is in line with other Norwegian utilities rated by us with majority or full public ownership but no explicit guarantees on their debt or financial support.

10. Debt ratings

We have affirmed the instrument rating of BBB+ on senior unsecured debt, in line with the issuer rating.

Senior unsecured debt rating: BBB+

The affirmed S-2 short-term debt rating is based on the underlying BBB+/Stable issuer rating, better than adequate short-term debt coverage and adequate access to bank and capital markets financing.

Short-term debt rating: S-2

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