

Vardar AS

Kingdom of Norway, Utilities

Rating composition

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

Key metrics

Scope credit ratios*			Scope estimates	
	2023	2024	2025 E	2026 E
Scope-adjusted EBITDA interest cover	7.2x	8.9x	5.5x	5.8x
Scope-adjusted debt/EBITDA	2.4x	3.0x	3.1x	3.0x
Scope-adjusted free operating cash flow/debt	15%	16%	16%	17%
Liquidity	>200%	>200%	76%	No Short-term debt

Rating sensitivities

The upside scenario for the ratings and Outlook:

- Debt/EBITDA ratio of below 3.0x on a sustained basis

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

- Debt/EBITDA ratio of around 3.0x for a prolonged period
- The loss of government-related entity status (deemed remote)

*All credit metrics refer to Scope-adjusted figures.

Issuer

BBB+

Outlook

Negative

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

- Low-cost, environmentally friendly hydro and wind power generation (positive ESG factor)
- Robust and recurring dividend income from a 12.91% ownership stake in Å Energi
- Good financial risk profile with leverage of around 3x and strong internal financing capacity
- Low mandatory maintenance capex, providing financial flexibility
- High profitability as measured by the EBITDA margin and ROCE
- Long-term committed municipal owners with capacity and willingness to provide potential parent support

Negative rating drivers

- Exposure to volatile power prices for unhedged power generation volumes
- Small scale and high asset concentration in consolidated hydropower, wind power and district heating businesses
- Modest geographical diversification with most direct and indirect power generation located in regional markets exhibiting high price correlation

2. Rating Outlook

The Negative Outlook reflects our view that there is an increased risk of Vardar maintaining a debt/EBITDA ratio of around 3x for an extended period unless it acts in line with its financial policy to protect its credit profile, or unless power prices develop in line with our expectations. The Outlook also reflects our expectation that Vardar will maintain its core assets, including the Usta and Nes power plants, as well as its stake in Å Energi.

3. Corporate profile

Vardar is a Norwegian utility company owned by 19 municipalities within the former county of Buskerud. The company is mainly exposed to hydropower generation in southern Norway through its 2/7 share in the Usta and Nes power plants and recurring dividends from a 12.91% ownership stake in Å Energi. It is also involved in district heating, wind power and solar activities.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
28 Nov 2025	Outlook change	BBB+/Negative
28 Nov 2024	Affirmation	BBB+/Stable
21 Nov 2023	Initial rating	BBB+/Stable

5. Financial overview (financial data in NOK m)

Scope credit ratios	Scope estimates					
	2022	2023	2024	2025 E	2026 E	2027 E
Scope-adjusted EBITDA interest cover	24.8x	7.2x	8.9x	5.5x	5.8x	7.0x
Scope-adjusted debt/EBITDA	1.6x	2.4x	3.0x	3.1x	3.0x	2.4x
Scope-adjusted free operating cash flow/debt	48%	15%	16%	16%	17%	25%
Liquidity	>200%	>200%	>200%	76%	No ST Debt	159%
EBITDA						
EBITDA	641	329	238	227	256	255
add: recurring associate dividends received	96	209	284	229	160	200
less: capitalised expenses	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Scope-adjusted EBITDA	738	538	523	456	416	455
Funds from operations						
Scope-adjusted EBITDA	738	538	523	456	416	456
less: Scope-adjusted interest	(30)	(74)	(59)	(83)	(71)	(65)
less: cash tax paid	(93)	(224)	(123)	(101)	(70)	(66)
Other non-operating charges before FFO	(0)	15	(12)	-	-	-
Scope-adjusted Funds from operations (FFO)	615	254	329	272	274	325
Free operating cash flow						
Scope-adjusted Funds from operations	615	254	329	272	274	325
Change in working capital	(24)	(26)	(9)	4	1	(2)
Non-operating cash flow	-	-	-	-	-	-
less: capital expenditures (net)	(16)	(39)	(73)	(50)	(60)	(50)
less: lease amortisation	(2)	(2)	(2)	(2)	(2)	(2)
Other items	-	-	-	-	-	-
Scope-adjusted Free operating cash flow (FOCF)	574	188	246	224	214	272
Net cash interest paid						
Net cash interest per cash flow statement	26	70	54	79	67	60
add: interest component, operating leases	1	1	1	1	1	1
add: 50% of interest paid on hybrid debt	-	-	-	-	-	-
Change in other items ¹	2	3	3	3	3	3
Scope-adjusted Net cash interest paid	30	74	59	83	71	65
Debt						
Reported financial (senior) debt	858	857	1,082	1,141	1,141	1,266
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-	-
add: shareholder loans (net of equity credit)	508	508	508	508	508	508
less: cash and cash equivalents	(270)	(163)	(100)	(306)	(447)	(736)
add: non-accessible cash	63	36	38	38	38	38
add: pension adjustment	26	31	26	26	26	26
add: operating lease obligations	-	-	-	-	-	-
add: other debt-like items	-	-	-	-	-	-
Scope-adjusted debt (SaD)	1,185	1,269	1,553	1,406	1,265	1,102

¹ Pension interest adjustment

6. Environmental, social and governance (ESG) profile²

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

Vardar's business model is focused on sustainability as it is mainly exposed to the production of clean hydroelectric power through directly and indirectly owned hydropower plants. As a result, the company holds a favourable position in the EU taxonomy. This should support future cash flow generation and reduce the risk of headwinds from regulation and political interference relating to sustainability matters. In addition, its exposure to hydropower generation (direct and indirect) and electricity distribution (indirect only) guarantees its continued status as a GRE.

Business model built around sustainable energy generation

Vardar focuses its growth investments on sustainable areas, including wind power and solar, as well as other areas supporting its overall sustainability target of contributing to reduced greenhouse gas emissions.

Investments focused on reducing greenhouse gas emissions

Vardar applies governance principles as recommended by Norwegian market standards. No negative credit-relevant factors pertaining to corporate governance were observed.

² 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-

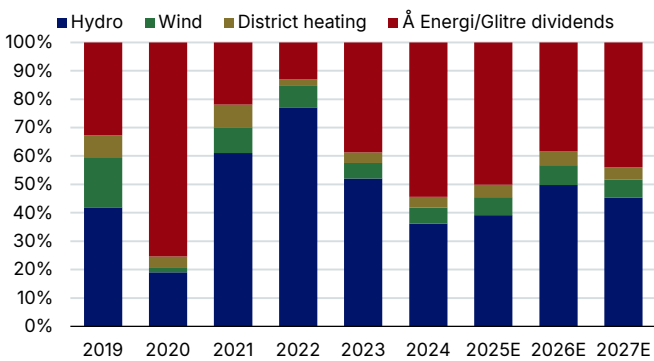
Vardar's business risk profile reflects its main exposure to low-cost and environmentally friendly hydropower generation, which wind power and district heating activities supplement. The assessment is constrained by the small scale and high asset concentration of directly owned generation activities, but we see this as partially balanced by the company's 12.91% ownership of Å Energi.

Exposure to low-cost, but volatile hydropower generation

We expect recurring dividend income from Å Energi to comprise a large share of operating cash flow. This is underpinned by Å Energi's strong credit profile (rated A-/Stable) and dividend policy of paying out 70% of results over time. We also view the joint ownership agreement with Drammen Municipality positively. This agreement enables Vardar to independently veto changes to Å Energi's dividend policy and core business composition.

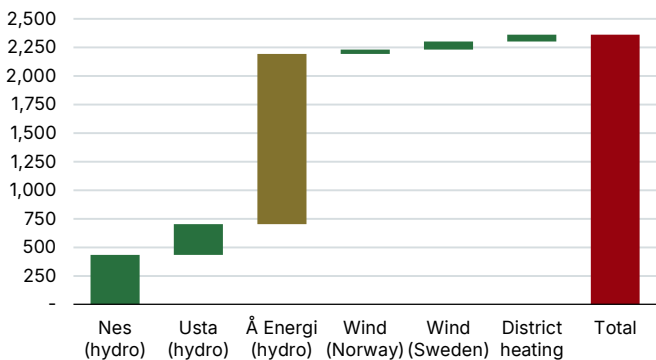
Dividend from Å Energi a stabilising factor

Figure 1: Estimated split of EBITDA by segment



Sources: Vardar, Scope estimates

Figure 2: Directly and indirectly owned energy generation based on mean annual output, Vardar's share (GWh)



Sources: Vardar, Scope

Vardar's hydropower generation, both directly and indirectly owned, is favourably positioned in the merit order system due to its low marginal production costs. This is a more important factor for the market position of a power utility than volumes. The Usta and Nes power plants, as well as Å Energi, both have a significant water reservoir capacity, accounting for around 55% of their mean annual output. This is considered a positive credit rating factor as it enables the supply of electricity during periods of constrained supply, such as peak-load hours or when there is limited output from intermittent energy sources. It also reduces exposure to volume risk in dry hydrological years compared to peers with mainly run-of-river power plants.

Reservoir capacity allows for a higher value extraction of its hydropower

Overall, diversification is moderate. Income streams from district heating and wind power generation (around 10% of EBITDA) mitigate the high concentration of consolidated energy generation on the Usta and Nes power plants to some extent. Additionally, the company benefits from substantial dividend income from its stake in Å Energi. These dividends reflect the cash flow generated by a diverse portfolio of 73 hydropower plants, as well as power distribution and energy retail activities. In terms of pricing risk, the company operates primarily in southern Norway within the NO1, NO2 and NO5 bidding zones, where power prices are highly correlated. However, the concentration in bidding zones with correlated prices is partially mitigated by interconnectors to other countries, including the UK and continental Europe from the NO2 bidding zone. This gives southern Norway more exposure to electricity prices in other markets.

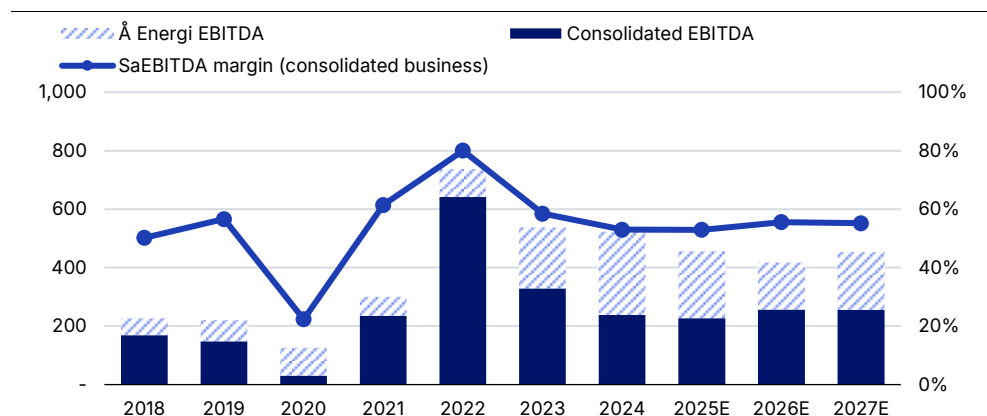
Moderate diversification, with wind and district heating mitigating the high concentration in Vardar's hydro portfolio

Vardar's business risk profile is characterised by strong profitability and efficiency, driven by low-cost hydropower and wind power generation. The consolidated group EBITDA margin is expected to remain at around 55%, with relatively low volatility thanks to a relatively low-cost base that is somewhat dependent on volume. However, return on capital employed is more volatile as it has no revenue component, which illustrates the exposure of absolute EBITDA to achieved power

Strong profitability and efficiency

prices. This has been accounted for when interpreting the level versus peers with more depreciated balance sheets.

Figure 3: Consolidated EBITDA (NOK m, LHS) and Scope-adjusted EBITDA margin (RHS)



Sources: Vardar, Scope estimates

8. Financial risk profile: BBB+

The financial risk profile supports the company's standalone credit assessment. Overall, the financial risk profile indicates manageable, albeit increased, indebtedness and robust FOCF. Combined with low mandatory maintenance capital expenditure, this results in good financial flexibility.

We positively note the two-year time lag in Å Energi's payout policy, whereby the dividend paid in year (t) is based on the result in year (t-2). This makes Vardar's credit metrics less correlated with power prices in a given year. It also provides high visibility of forecasted dividend income up to 2027.

Dividend mechanism from Å Energi provides high visibility

With regard to adjustments and the calculation of credit metrics, Scope-adjusted EBITDA is adjusted for recurring dividends received from Å Energi. Additionally, debt fully accounts for the NOK 508m subordinated loan from Buskerud municipality. Although the loan is subordinated to other outstanding debt and operating costs, it does not qualify as hybrid debt as it has a defined maturity date of 2031 and there are no interest deferrals or conversion or replacement rights.

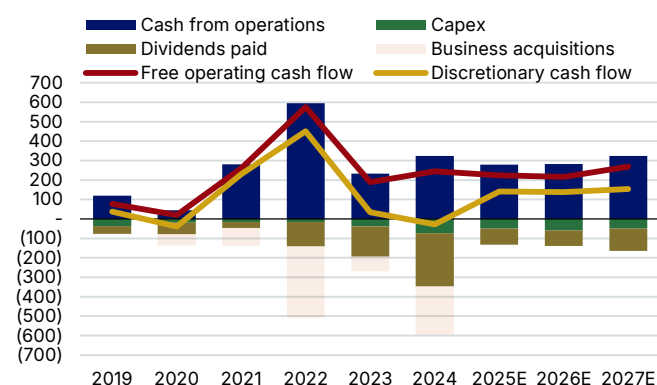
We are assuming continued power prices of around EUR 47/MWh in southern Norway for 2026/27, in line with projections last year (i.e. the NO1, NO2 and NO5 bidding zones). Recent analysis by various bodies, including Statnett, indicates that the pricing environment will remain supportive beyond 2027. In addition, the rating case assumes:

- (i) Hydropower generation volumes are in line with the annual mean production, with 65 GWh per annum available for purchase through secondary concession power rights.
- (ii) Estimated dividend income from Å Energi is aligned with Scope's own forecast for Å Energi's dividend (rated A-/Stable) for 2026 based on 2024 results of between NOK 150-170m and for 2027 based on 2025 expected result of NOK 190-210m in 2027 (midpoints used).
- (iii) Yearly EBITDA contributions from district heating and wind power generation of NOK 25m and NOK 60m, respectively.
- (iv) Capex of around NOK 50-60m per annum.
- (v) Discretionary spending will be adapted to the level of FOCF.
- (vi) No dividends from associated companies such as Zephyr, Solcellespesialisten and Sunly.
- (vii) Dividends paid by Vardar at 50% of adjusted net profit, between 80-120m per annum.

Scope-adjusted EBITDA is expected to be between NOK 420m and 460m from 2025 to 2027, including annual dividends of between NOK 160m and 229m from Å Energi. This should support positive FOCF, even in a less favourable pricing environment, thanks to the low mandatory capital expenditure of around NOK 50-60m per year. With the FOCF/debt ratio expected to average around 20% in 2025-2027 and 15% across the cycle, we consider the company's internal financing capacity to be a key strength in its financial risk profile.

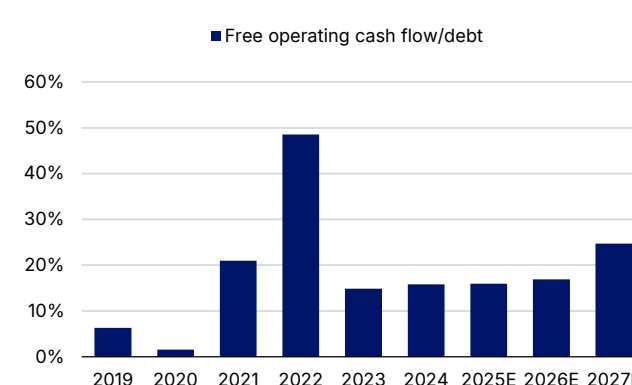
High internal financing capacity

Figure 4: Cash flow profile (NOK m)



Sources: Vardar, Scope estimates

Figure 5: Internal financing capacity (%)



Sources: Vardar, Scope estimates

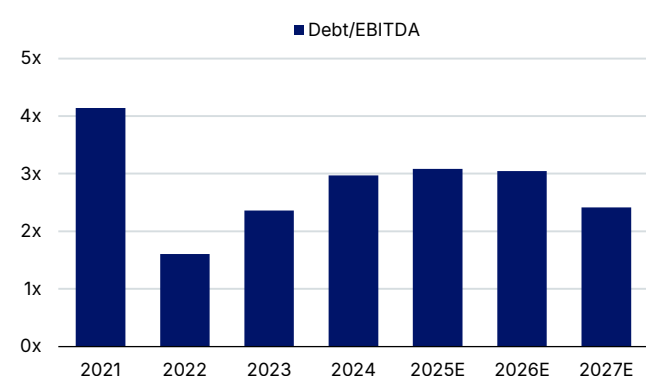
In the absence of dividend payouts and growth investments, the company's high deleveraging capacity is viewed positively, as it provides financial planning flexibility and enables Vardar to adapt its level of cash outflows if needed. We expect the company to use this flexibility to reduce net debt to around the pre-Wind Park acquisition level of NOK 1.2 bn over our base case horizon.

Though electricity prices have been stronger than anticipated in 2025, the long-term price curve and the long-term outlook remain unchanged, with a somewhat elevated price curve. Vardar's leverage, as measured by the Scope-adjusted debt/EBITDA ratio, increased to 3.0x by the end of 2024 due to the acquisition of the Västaby wind farm in Sweden being funded by debt. We expect leverage to remain at around 3x throughout 2025-26. This is due to lower expected electricity prices and lower dividend income from Å Energi than in 2024 (based on the strong performance in 2022), despite continued strong cash flows that allow for a reduction in net debt. We expect the company to reduce its leverage ratio to around 2.5x in 2027, benefiting from an increased dividend from Å Energi based on its strong operating performance in 2025.

Elevated leverage at 3x, expected to reduce to 2.5x in 2027

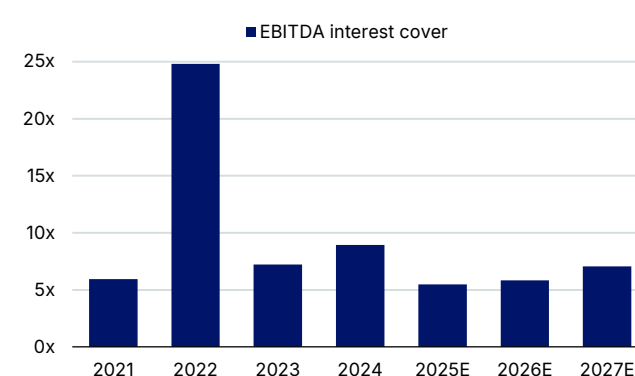
Dividends from Å Energi are expected to account for around 40-50% of Scope-adjusted EBITDA in the years ahead. Consequently, Vardar's leverage ratio is comparatively less exposed to taxation than that of other Norwegian utilities with a larger proportion of directly owned hydropower plants. This factor was considered in our peer comparisons.

Figure 6: Leverage (x)



Sources: Vardar, Scope estimates

Figure 7: Interest cover (x)



Sources: Vardar, Scope estimates

Interest coverage is expected to drop to 5.5x in 2025 from 8.9x in 2024 due to lower EBITDA and higher interest costs. However, we expect this metric to improve again to 7x in 2027 thanks to recent refinancing at favourable levels, an expected gradual tapering of the interest curve, and lowered debt levels, all of which support the positive trend. Consequently, interest coverage remains supportive of the financial risk profile.

Good interest cover

Liquidity is adequate, with no debt maturities until mid-2027 when a NOK 475m bank facility needs to be refinanced. In May 2025 Vardar refinanced its only outstanding capital market debt of NOK 440m with a bank facility over NOK 500m. At the end of 2024, available liquidity included unrestricted cash of NOK 62m and NOK 50m of undrawn committed credit lines (since increased to NOK 75m). Liquidity is further supported by a positive forecast FOCF of over NOK 200m per annum.

Adequate liquidity

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

	2024	2025 E	2026 E
Unrestricted cash (t-1)	127	62	268
Open committed credit lines (t-1)	50	50	75
FOCF (t)	246	224	214
Short-term debt (t-1)	1	441	-
Liquidity	>200%	76%	No ST Debt

Source: Scope estimates

We anticipate the company will be able to maintain good headroom under its financial covenants , which include: i) adjusted equity to be at least 150% of external interest-bearing debt, ii) cash and cash equivalents to exceed next year's interest cost, and iii) operating cash flow adjusted for next year's dividend payout to exceed next year's interest cost (t+1).

9. Supplementary rating drivers: +/- 0 notches

We do not anticipate any credit impact from the financial policy. The company's dividend policy is to pay out 50% of net profit, adjusted for significant non-cash items, provided that financial robustness is maintained. We also believe that the company will make financial decisions aimed at maintaining an investment-grade credit rating, even though it has no publicly stated targets for credit ratios or rating commitments.

No impact from financial policy

In terms of structure, we positively note the company's formal agreement with Drammen Municipality to exercise joint ownership of Å Energi. This gives both Vardar and Drammen greater influence over major decisions relating to dividend policy and the composition of the core business.

Joint ownership with Drammen municipality for stakes in Å Energi

The issuer rating incorporates a one-notch uplift to the standalone credit assessment of BBB, reflecting the company's GRE status and leading to an issuer rating of BBB+. We applied the bottom-up approach, using the framework outlined in Scope's Government-Related Entities Methodology. Our conclusion that the rating should be uplifted by one notch reflects the public sponsor's 'high' capacity and 'medium' willingness to provide support. In addition to Vardar's importance to the policy objectives of its owners, we note that, by law, hydropower generation assets in Norway must be at least two-thirds state- or municipality-owned. This rating uplift aligns with that of other Scope-rated Norwegian utilities with majority or full public ownership, which have no explicit guarantees on their debt or financial support.

A one-notch uplift granted for parent support

10. Debt ratings

Senior unsecured debt is rated BBB+, the same level as the issuer rating.

Senior unsecured debt rating:
BBB+

The short-term debt rating of S-2 reflects the underlying BBB+/Negative issuer rating and adequate liquidity, in addition to good access to external funding from banks and debt capital markets.

Short-term debt rating: S-2

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