# Å Energi AS

## Kingdom of Norway, Utilities

## Rating composition

| Business risk profile | | |
|---|---|---|
| Industry risk profile | BBB- | **BBB+** |
| Competitive position | BBB+ | |
| **Financial risk profile** | | |
| Credit metrics | A- | **BBB+** |
| Cash flow generation | Good | |
| Liquidity | +/-0 notches | |
| **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** | | **A-** |

## Key metrics

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios*** | **2023** | **2024** | **2025E** | **2026E** |
| Scope-adjusted EBITDA interest cover | 25.5x | 12.7x | 7.6x | 7.5x |
| Scope-adjusted debt/EBITDA | 1.6x | 2.6x | 3.1x | 3.0x |
| Scope-adjusted free operating cash flow/debt | -26% | 9% | -1% | 2% |
| Liquidity | 122% | 64% | 57% | 174% |

## Rating sensitivities

**The upside scenario for the rating and Outlook:**

- Debt/EBITDA sustained below 2.0x

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

- Debt/EBITDA well above 3.0x on a sustained basis
- Loss of government-related entity status (remote)

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

Issuer
A-

Outlook
Stable

Short-term debt
S-1

Senior unsecured debt
A-

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### Related methodologies

General Corporate Rating Methodology, Feb 2025
European Utilities Rating Methodology, Jun 2024
Government Related Entities Rating Methodology, Dec 2024

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## 1. Key rating drivers

| Positive rating drivers | Negative rating drivers |
|---|---|
| • Diversified and vertically integrated operations across the utility value chain<br>• Cost-efficient, flexible and environmentally friendly hydropower generation (positive ESG factor)<br>• Exposure to fully regulated and monopolistic power distribution<br>• Good financial risk profile and access to external financing<br>• Government-related entity status: long-term and committed municipal owners with capacity and willingness to provide financial support if needed | • Exposure to industry-inherent merchant risks in non-regulated power generation<br>• Growing investments expected to put pressure on free operating cash flow (FOCF)<br>• Relatively inflexible dividend policy, which needs debt funding in periods with high investments<br>• Concentration of revenues in a single country, increasing vulnerability to regulatory and political risk or adverse weather conditions |

## 2. Rating Outlook

The **Stable Outlook** reflects our expectation that Å Energi will generate robust operating results that will support a debt/EBITDA of around 3.0x in the coming years through the company's investment and dividend plans, leaving some, albeit reduced, headroom to the negative rating trigger.

## 3. Corporate profile

Norwegian integrated utility company

Å Energi is one of the largest Norwegian utilities, with operations across the utility value chain and a main focus on south and southeast Norway. It is active in four main business segments: Hydroelectric Power, Network, Nordic Electricity Retailing and Other.

Diversified operations across the utility value chain

**Hydroelectric Power** is the third largest domestic power generator and generated 11.8 TWh of electricity in 2024. **Network** mostly consists of the ownership, maintenance and operation of power grids through the wholly owned subsidiary and third largest domestic power distributor Glitre Nett. The segment also includes Norgesnett through the 51% stake in Fredrikstad Energi (FEAS) acquired by Å Energi in November 2024. **Nordic Electricity Retailing** consists of downstream operations. These include energy management and trading focused on B2B through Entelios Norden and the smaller subsidiaries Å Strøm and Vibb, which focus on households. **Other** includes some district heating operations as well as the company's ownership in associates, e.g. the 25.4% stake in fiber infrastructure company Viken Fiber and the 49.9% stake in battery company Morrow Batteries.

Government-related entity status

We classify Å Energi as a government-related entity based on its ownership by public entities in Norway. The three largest owners are Statkraft (32.6%) through the holding company Statkraft Industrial Holding, Drammen municipality (13.4%) and the domestic municipal-owned utility company Vardar (12.9%). The remaining 41.1% is owned by 30 municipalities within the Agder and Buskerud counties.

## 4. Rating history

| Date | Rating action/monitoring review | Issuer rating & Outlook |
|---|---|---|
| 10 Mar 2025 | Affirmation | A-/Stable |
| 16 May 2024 | Outlook change | A-/Stable |
| 5 Jun 2023 | Upgrade | A-/Positive |

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

| | | | | Scope estimates | | |
|---|---|---|---|---|---|---|
| **Scope credit ratios** | **2022** | **2023** | **2024** | **2025E** | **2026E** | **2027E** |
| EBITDA interest cover | 35.2x | 25.5x | 12.7x | 7.6x | 7.5x | 7.7x |
| Debt/EBITDA | 0.9x | 1.6x | 2.6x | 3.1x | 3.0x | 3.1x |
| Free operating cash flow/debt | 45% | -26% | 9% | -1% | 2% | -2% |
| Liquidity | >200% | 122% | 64% | 57% | 174% | 141% |
| **EBITDA** | | | | | | |
| Reported EBITDA | 2,553 | 13,743 | 8,969 | 6,841 | 7,372 | 7,526 |
| add: recurring dividends from associates | - | - | - | - | - | - |
| (Gain)/loss on asset disposals | - | - | (678) | - | - | - |
| Unrealised changes in value of energy and currency contracts | 4,496 | (5,317) | (1,769) | - | - | - |
| Other items (incl. one-offs) | - | - | - | - | - | - |
| **EBITDA** | **7,049** | **8,426** | **6,522** | **6,841** | **7,372** | **7,526** |
| **Funds from operations (FFO)** | | | | | | |
| EBITDA | 7,049 | 8,426 | 6,522 | 6,841 | 7,372 | 7,526 |
| less: interest | (200) | (330) | (512) | (901) | (983) | (975) |
| less: cash tax paid | (2,735) | (5,779) | (3,271) | (2,949) | (2,538) | (2,682) |
| Other non-operating charges before FFO[1] | 1,438 | (4,220) | (57) | - | - | - |
| **Funds from operations** | **5,552** | **(1,903)** | **2,682** | **2,991** | **3,851** | **3,870** |
| **Free operating cash flow (FOCF)** | | | | | | |
| Funds from operations | 5,552 | (1,903) | 2,682 | 2,991 | 3,851 | 3,870 |
| Change in working capital | (1,564) | 129 | 1,221 | - | - | - |
| Non-operating cash flow | - | - | - | - | - | - |
| less: capital expenditures (net) | (1,040) | (1,578) | (2,238) | (3,150) | (3,350) | (4,200) |
| less: lease amortisation | (46) | (82) | (95) | (95) | (95) | (95) |
| Other items | - | - | - | - | - | - |
| **Free operating cash flow** | **2,902** | **(3,434)** | **1,570** | **(254)** | **406** | **(425)** |
| **Interest** | | | | | | |
| Net cash interest per cash flow statement | 200 | 330 | 512 | 901 | 983 | 975 |
| add: other items | - | - | - | - | - | - |
| **Interest** | **200** | **330** | **512** | **901** | **983** | **975** |
| **Debt** | | | | | | |
| Reported financial (senior) debt | 10,912 | 13,390 | 17,224 | 22,394 | 23,066 | 24,676 |
| add: subordinated (hybrid) debt (net of equity credit) | - | - | - | - | - | - |
| add: shareholder loans (net of equity credit) | - | - | - | - | - | - |
| less: cash and cash equivalents | (4,430) | (104) | (357) | (1,053) | (1,068) | (1,056) |
| add: non-accessible cash | 15 | 9 | 12 | 12 | 12 | 12 |
| add: pension adjustment | - | - | - | - | - | - |
| add: asset retirement obligations | - | - | - | - | - | - |
| add: other debt-like items | - | - | - | - | - | - |
| **Debt** | **6,497** | **13,295** | **16,879** | **21,353** | **22,010** | **23,632** |

[1] Include mainly cash settlements of forward contracts and exchange traded futures related to the hedging activities of Nordic Electricity Retailing. They further include dividends from associates, which are not considered as material and recurring and thus excluded from EBITDA.

## 6. Environmental, social and governance (ESG) profile[2]

| 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

Hydropower exposure is a positive ESG factor

Å Energi's exposure to cost-efficient, flexible and environmentally friendly hydropower generation is a credit-positive ESG factor. We believe this results in low transition risks related to decarbonisation and is likely to support future power plant utilisation and the company's cash flow generation. Additionally, the requirement of at least two-thirds public ownership of large-scale hydropower in Norway underpins the company's government-related entity status.

Credit-neutral corporate governance and other ESG factors

We have not identified other company-specific ESG factors that are likely to have a substantial impact on credit risk. Å Energi continues to apply governance principles as recommended by Norwegian market standards.

[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+

Å Energi's good business risk profile reflects a blended industry risk of BBB- and a stronger competitive positioning of BBB+. The latter is based on its domestic position in Norway as the third largest power generator and second largest power distributor as well as its sizeable Nordic downstream business focused on the B2B market.

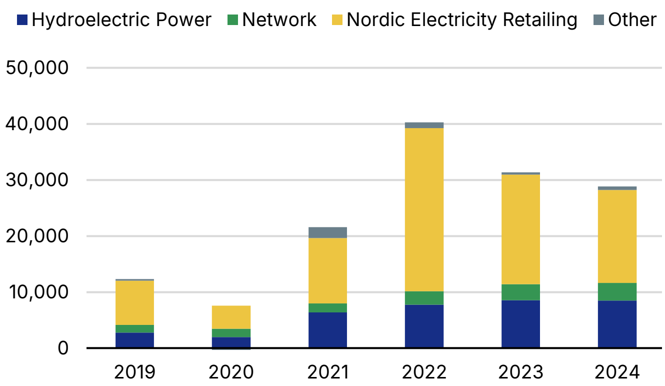
Good business risk profile

We have derived the blended industry risk based on normalised EBITDA contributions, which we estimate to be 75% from non-regulated power generation, 20% from power distribution and 5% from energy retail.

Blended industry risk profile

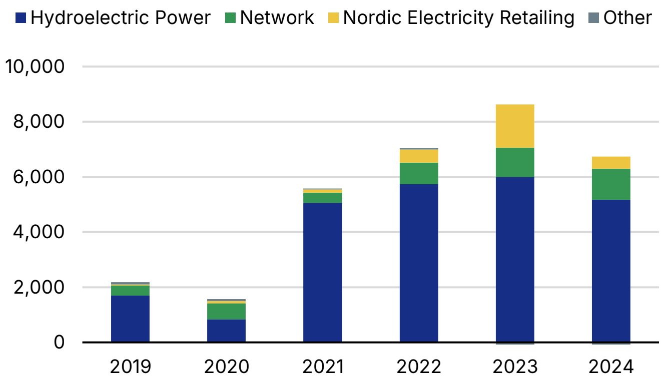
Hence, Å Energi's BBB- blended industry risk profile[3] remains constrained by its large exposure to non-regulated power generation through Hydroelectric Power, which makes its earnings dependent on volatile power prices. The company's activities in power distribution through Network and, to some extent, its energy retail through Nordic Electricty Retailing are exposed to lower industry risks.

**Figure 1: Revenues by segment, NOK m**




Sources: Å Energi, Scope

**Figure 2: EBITDA by segment, NOK m**




Sources: Å Energi, Scope

Å Energi is a sizeable Nordic power generator and the third largest in Norway. With an installed capacity of 2.4 GW and a generation volume of 11.8 TWh from 73 wholly or partially owned hydropower plants, it contributed around 7.5% of Norwegian power generation in 2024. The company is therefore an important domestic power generator, albeit less systemic than Nordic and European peers with incumbent or very significant volume shares in their relevant markets.

Third largest domestic power generator

Å Energi's power generation portfolio remain well-positioned. This is supported by its sole exposure to clean hydropower with low operating costs and access to hydro reservoirs with a storage capacity of 6.3 TWh, which enable the supply of peak-load capacity as well as grid balancing services. These characteristics should remain strengths amid the green transition and increasingly volatile power markets with continued growth of intermittent renewables like wind and solar.

Well-positioned power generation portfolio

The recent acquisition of an 85% stake in AS Saudefaldene (Saudefaldene) and a small power plant (Trælandsfoss) from Orkla ASA completed in April 2025 expand Å Energi's power generation portfolio. Saudefaldene operates seven power plants under a lease agreement with Statkraft, which runs through 2030. The assets are expected to increase Å Energi's annual generation volume, with around 1.6 TWh through 2030 before adjustments for delivery obligations to Statkraft under the lease agreement in Saudefaldene.

Acquisition of hydropower assets

Å Energi's market positioning benefit from the Network business area, given its monopolistic and regulated power distribution as the owner and operator of power grids. In 2024, it distributed 7.6 TWh of electricity to around 327,000 customers. The business area is expected to remain a source of predictable and considerable operating cash flows, supported by a transparent

Exposure to power distribution

[3] Based on Å Energi's exposure to three industry risk profiles according to our definitions: non-regulated power generation (BB), power distribution (AA) and energy retail (BBB).

regulatory system, which allows for timely cost coverage and an adequate return on invested capital.

Sizeable downstream volumes

Å Energi supplied 29.1 TWh of electricity in its downstream operations in 2024, mainly to B2B customers, with a low-risk strategy pertaining to hedging power price exposure in customer contracts.

Fairly diversified business model but geographically concentrated

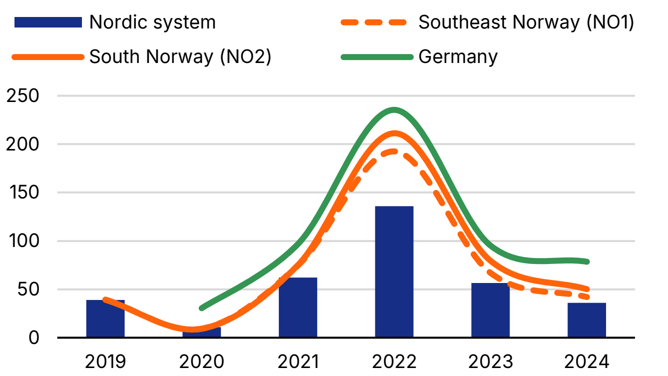
The company is fairly diversified with exposure to several non-correlated utility operations, albeit with some bias towards non-regulated power generation. However, diversification is constrained by geographical concentration in south and southeast Norway, which heightens exposure to event risks (e.g. regulatory changes or adverse weather) compared to peers with operations in different countries.

Pricing risk in power generation

In terms of pricing risk in power generation, Å Energi's power plants are concentrated in Norway's NO1 and NO2 pricing areas, with around 25% located in NO1 and 75% in NO2. This regional concentration is partly mitigated by interconnection across other domestic and Nordic regional markets and to mainland Europe and the UK, extending the geographical outreach in terms of pricing risk in power generation to other markets.

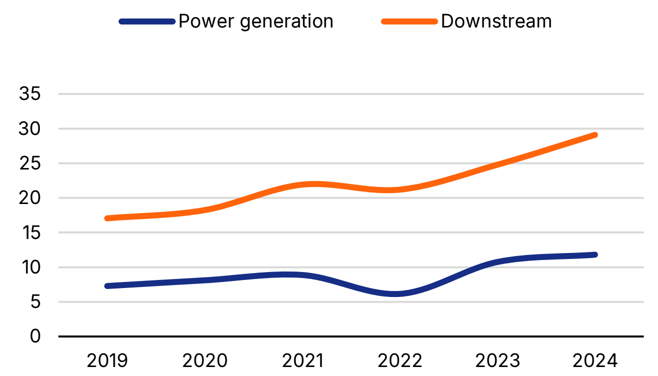
Å Energi is also managing some of its pricing risk through long-term contracts and financial hedging. However, industry-inherent merchant risks remain a key business risk constraint, as financial hedging does not protect the company from extended periods with low power prices.

**Figure 3: Power prices in south and southeast Norway versus the Nordic system price and Germany, EUR/MWh**




Sources: Nordpool, Scope

**Figure 4: Å Energi's power generation and downstream volumes, TWh**




Sources: Å Energi, Scope

Solid profitability

Profitability remains solid and continues to be supported by cost-efficient hydropower generation. This is exemplified by the EBITDA margin for the company's combined upstream and midstream exposure and the return on capital employed, which we estimate to average around 50% and 15% respectively.

Lower power prices reduces EBITDA

In 2024, Å Energi's EBITDA was NOK 6,522m, down from NOK 8,426m in 2023. The decrease from 2023 was mainly driven by normalising earnings in Nordic Electricity Retailing in addition to lower power prices in south and southeast Norway, which reduced the contribution from Hydroelectric Power.

Growth investments accretive to earnings

We forecast EBITDA ranging between NOK 6.8bn and NOK 7.5bn per year in 2025-2027. This is based on the NO2 power price remaining at around NOK 600/MWh (2024: NOK 582/MWh) and EBITDA growth in Glitre Nett amid the current capex plan. It further reflects expected earnings contributions from the FEAS acquisition and the recent acquisition of hydropower assets from Orkla.

Increasing capex

Å Energi's capex rose 41% in 2024 to NOK 2.2bn and remain focused on its core business in power distribution and hydropower generation. The company's most recent guidance from April 2025 states a capex expectation of NOK 15bn for the 2025-2029 period, of which half is expected to be reinvestments. The distribution of capex is disclosed as 34% in Hydroelectric Power, 62% in Network and 3% in other areas. We think Å Energi's updated capex expectation is adequately reflected in our forecast, which includes between NOK 10bn and NOK 11bn of total capex over the 2025-2027 period.

## 8. Financial risk profile: BBB+

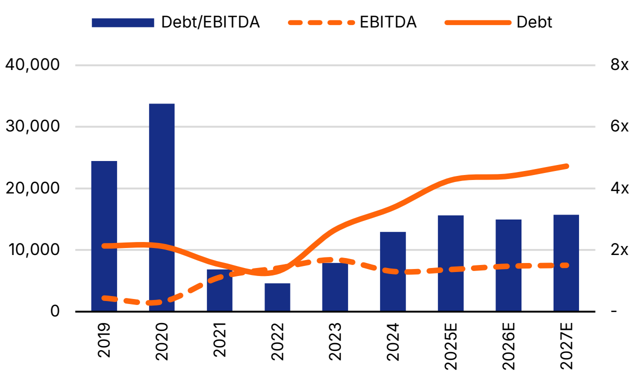
Financial risk profile revised to BBB+ from A-

Å Energi's financial risk profile has been revised downwards by one notch to BBB+ from A-. This reflects weaker credit metrics, with forecasted leverage of around 3.0x over the next years. We previously expected leverage to remain between 2.0x and 2.5x in 2025-2026.

Increasing debt amid discretionary spending

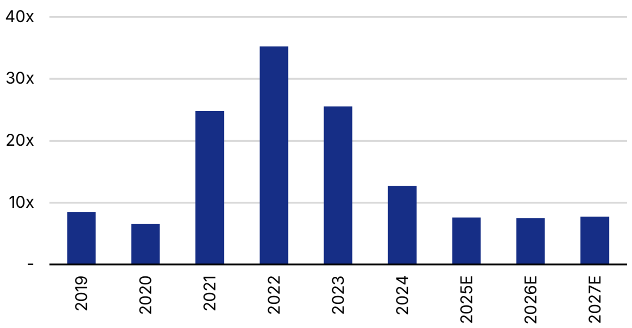
The expected weakening of credit metrics is mainly due to increasing debt amid higher discretionary spending on acquisitions and extraordinary shareholder remuneration than in our May 2024 forecast. This is exemplified by the debt increase to NOK 16,879m at end-2024 from NOK 13,295m at YE 2023 following the FEAS acquisition and the payment of an extraordinary dividend of NOK 1,000m in December 2024. We further expect operating cash flow to be largely utilised for capex in 2025-2027 with cash flow cover (FOCF/debt) expected to be around break-even. We therefore anticipate that the acquisition of hydropower assets from Orkla and the maintenance of the dividend policy will require external financing.

**Figure 5: Leverage (rhs) and EBITDA and debt (NOK m, lhs)**




Sources: Å Energi, Scope estimates

**Figure 6: EBITDA/interest cover**

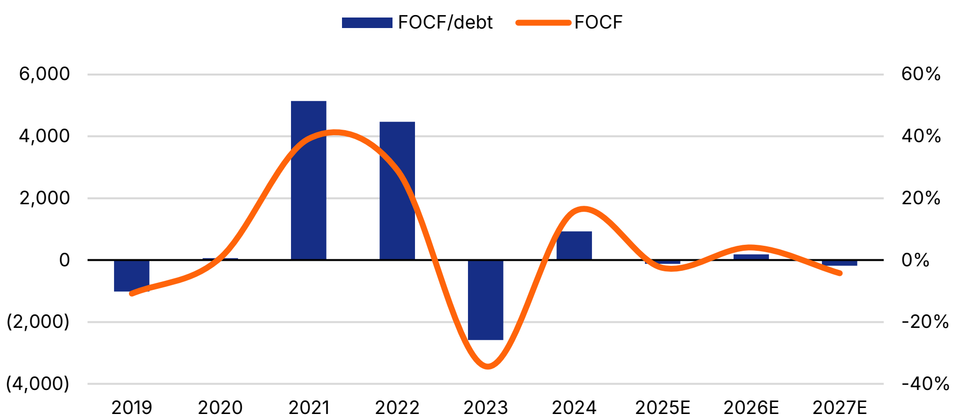



Sources: Å Energi, Scope estimates

Expected weakening of credit metrics

As a result, we expect that Å Energi's leverage (debt/EBITDA) could increase to around 3x in the coming years from 2.6x at end-2024, and that interest cover may weaken to below 10x from 12.7x in 2024. The expected weakening of credit metrics has reduced ratings headroom, with potential downward ratings pressure if leverage rises to around 3.5x or above on a sustained basis.

**Figure 7: Cash flow cover (rhs) and FOCF (NOK m, lhs)**




Sources: Å Energi, Scope estimates

Å Energi's cash flow is impacted by a time lag in Norway's taxation (taxes incurred are paid in the subsequent year) and the hedging activities[4] of Nordic Electricity Retailing. Both contributed to highly negative FOCF in 2023 amid surging power prices in 2022 and the subsequent normalisation. Our forecast reflects less impact from these timing effects than in recent years given our assumption of power prices similar to 2024 levels.

Timing effects contributing to volatile FOCF

Å Energi's cash flow is negatively impacted by a high tax burden in Hydroelectric Power due to the resource rent tax on large-scale Norwegian hydropower assets.

High tax burden due to resource rent tax

We view Å Energi's liquidity as adequate. This is primarily driven by good access to external financing, as evidenced by regular financing with banks and in the domestic bond market. We believe this will help the company to cover its cash uses despite relatively weak liquidity ratios of below 110%.

Adequate liquidity

As of April 2025, Å Energi had an undrawn multi-year backstop facility of NOK 2,000m for refinancing purposes. It also had another NOK 2,000m of undrawn credit facilities, which we have assumed will not remain available for short-term debt coverage and negative FOCF.

**Table 1. Liquidity sources and uses, NOK m**

| | 2024 | 2025E | 2026E |
|---|---|---|---|
| Unrestricted cash (t-1) | 95 | 345 | 1,041 |
| Open committed credit lines (t-1) | 2,000 | 2,000 | 2,000 |
| FOCF (t) | 1,570 | (254) | 406 |
| Short-term debt (t-1) | 5,706 | 3,830 | 1,978 |
| **Liquidity** | **64%** | **57%** | **174%** |

Sources: Å Energi, Scope estimates

## 9. Supplementary rating drivers: +1 notch

Å Energi's financial policy is neutral for the issuer rating. The company is committed to maintaining a rating of at least BBB+. This gives comfort that management will take measures to preserve credit metrics if needed to avoid a significant rating deterioration.

Credit-neutral financial policy

Å Energi makes substantial dividend payouts. The company's fairly inflexible policy targets ordinary payouts of 70% of the majorities' share of net income. The payouts are based on the net income from two years back with adjustments for certain extraordinary items. The dividend policy gives visibility on future ordinary payouts and is considered in our financial projections. We also note that shareholders of the former Agder Energi will in 2025 receive NOK 367m as the final of three extraordinary dividends agreed as part of the merger with Glitre Energi in 2022.

Shareholder remuneration

In December 2024, the company paid a NOK 1,000m extraordinary dividend, indicating some appetite for debt-financed shareholder remuneration on top of the ordinary policy. However, we consider the payment to be a one-off thus far and note that it did not jeopardise the company's stated rating commitment.

Å Energi's issuer rating incorporates a one-notch uplift to the standalone credit assessment of BBB+ due to the company's government-related entity status. We applied a bottom-up approach using the framework outlined in our methodology for government-related entities with our analysis focused on the ultimate majority ownership by municipalities. We assess the municipalities' capacity to provide financial support as 'high', because we believe their credit quality is materially higher than Å Energi's standalone credit assessment. We assess the municipalities' willingness to provide support as 'medium' supported by the strategic importance of the company's assets and services. This reflects Å Energi's responsibility to own, maintain and operate power grids located in the geographic area of its municipality owners as well as its large-scale hydropower assets that must be at least two-thirds publicly owned in accordance with Norwegian law.

One-notch uplift based on government-related entity status

[4] Futures used to hedge customer contracts are settled daily, while customer contracts are settled at delivery.

The rating uplift for government-related entity status is restricted to one notch. This is in line with other Scope-rated Norwegian utilities with majority or full municipal ownership but no explicit guarantees on their debt or financial support.

## 10. Debt ratings

Senior unsecured debt is rated A-, the same level as the issuer rating.

Senior unsecured debt rating: A-

The S-1 short-term debt rating is based on Å Energi's underlying A-/Stable issuer rating. It also reflects the company's better-than-adequate access to bank and capital markets financing, which makes its worse-than-adequate short-term debt coverage less worrisome.

Short-term debt rating: S-1

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