

Credit Rating Announcement

13 November 2025

Scope affirms BBB+/Stable issuer rating of Østfold Energi AS

The rating is supported by the issuer's hydropower reservoir utilization and strong credit metrics. Exposure to power price volatility and limited diversification constrains the rating.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) has today affirmed Østfold Energi AS' BBB+/Stable issuer rating. Scope has also affirmed the senior unsecured debt rating at BBB+ and the short-term debt rating at S-2.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business risk profile: BBB- (unchanged). Østfold Energi's business risk profile reflects its main operations of environmentally friendly and low-cost hydropower production (ESG factor: positive). However, the company's heavy reliance on hydropower generation, albeit highly profitable, together with limited geographical diversification leaves it vulnerable to price volatility which constrains the rating.

Østfold Energi supplies slightly more than 1% of the electricity in Norway, primarily through hydropower production in the western part of the country, with the addition of district heating in the east and a part-owned company operating two hydroelectric plants in the north. These sources produced 2.4 TWh of energy in 2024. While small in terms of volumes, the company's power generation portfolio remains competitive, supported by its merit order position, low costs of generation and a clean carbon footprint.

The company has limited geographical and horizontal diversification, with the vast majority of EBITDA coming from its hydro facilities in western Norway and the NO5 price area. Further, its two largest hydro facilities, Borgund and Naddvik, both in the NO5 region, account for around 90%¹ of its mean annual hydro production, revealing asset and cash flow concentration risks. Dependence on precipitation in the region is not a major rating constraint as the company can store around 50% of annual mean generation in water reservoirs. In addition, the high share of hydro in Norway's energy mix creates a negative correlation between volumes and power prices.

Mitigating the weaker diversification is the price contagion from adjacent price areas connected to Europe,

elevating prices and short-term arbitrage opportunities for power producers in western Norway (NO5) with significant reservoirs. This enables Østfold Energi to create value from higher short-term market volatility. The company's high EBITDA margin* reflects this ability, averaging 68% since 2019, also supported by low operating costs of current power plants. Scope assumes the EBITDA margin to remain a solid 65% in the forecast period (until 2027), which is a key strength of the business risk profile.

Financial risk profile: A (unchanged). The financial risk profile is driven by strong credit metrics supported by good cash flow generation from hydropower production.

Scope expects leverage as measured by debt/EBITDA to remain low at 0.3x-0.5x in 2025-2027 given the current capex and debt levels. Scope assumes power prices to normalise to around NOK 500/MWh, indicating a return to a more moderate EBITDA of NOK ~700m. The price premium, assumed at 20% for 2025 and 7% for 2026-2027, can be achieved through production planning and short-term opportunities granted by connections with nearby price regions and the utilization of their water reservoir capacity, which adds flexibility in production volume. Protecting its cash flows, the company hedges a share of its production through fixed prices on volumes and bilateral power purchase agreements with industry players short-term to cushion volatility. However, this will not secure cash flows over time. Østfold Energi's investment plans, estimated at around NOK 800m for the next three years, are not expected to necessitate further indebtedness than their current NOK 500m outstanding bond as of November 2025. Scope does not expect the need for any further debt in the forecast period, and the internal funding capability and low leverage leaves headroom for potential debt-financed investments if required and underscores the company's investment grade credit quality.

Østfold Energi's debt protection as measured by EBITDA interest cover remains very strong. This is thanks to its low debt level, even with the NOK 100m increase in 2025. Higher interest burden follows this debt uptake but can eventually be counterbalanced by the lower interest rates projected towards 2028². Scope forecasts interest cover to consistently exceed 30x in the next few years and remain supportive of the strong credit metrics.

Cash flow has been burdened by above-average capex in recent years, largely from the construction of the new hydropower plant, Gravdalen, which is expected to be completed in 2026 and add around 60 GWh in volume from 2027. Cash flow generation is assumed to normalise after the very profitable years of 2022 and 2023 caused by spot prices spiking, reaching a yearly average of around NOK 2,000/MWh in 2022. Scope expects free operating cash flow of about NOK 100m-150m through the forecast period 2025-2027 (negative NOK 115m in 2024, primarily due to increased taxes from the high net result the previous year), translating into free operating cash flow/debt of 40%-60%. Despite the pressure exerted by the highest investment levels since 2013, Scope expects internal cash flow to remain positive across the cycle.

Liquidity: adequate (unchanged). The only outstanding debt, excluding lease liabilities of around NOK 28m, is a NOK 500m bond issued in July 2025 with maturity in July 2028, whose proceeds were used to refinance an outstanding NOK 400m bond. The company renewed its bank agreement in February 2025, which includes a three-year NOK 400m revolving credit facility and one-year rolling NOK 400m overdraft facility. Combined with expected positive free operating cash flow and available cash, these sources provide ample liquidity, as there are no further debt maturities in 2025-2027.

Supplementary rating drivers: +1 notch (unchanged). The issuer rating incorporates a one-notch uplift for parent support to the standalone credit assessment of BBB, resulting in a final issuer rating of BBB+. Scope continues to apply a bottom-up approach using the framework outlined in its Government Related Entities Methodology, reflecting an assessment of the municipal owners' ability to provide a credit uplift and their willingness to give financial support if needed. The rating uplift is in line with other Scope-rated Norwegian utilities with majority or full public ownership but no explicit guarantees on their debt or financial support.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating sensitivities

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.

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

1. A sustained net cash position and increased diversification

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

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

Debt ratings

Scope has affirmed the BBB+ rating on senior unsecured debt issued by Østfold Energi AS, in line with the issuer rating.

Scope has affirmed the rating on the short-term debt issued by Østfold Energi at S-2. The rating is based on the underlying BBB+/Stable issuer rating and reflects the better-than-adequate liquidity cover.

Environmental, social and governance (ESG) factors

Østfold Energi's business model is mainly exposed to clean and cost-efficient hydropower generation, which is a positive ESG factor.

The company's ESG goals include providing more clean energy to society, managing public resources sensibly and achieving climate neutrality in all operations. As well as maintaining and developing existing hydropower plants, the company plans to continue investing in district heating, offshore wind and solar renewables, with the aim of improving profitability in these areas. The company's large-scale hydropower generation also underpins its status as a government-related entity, as these assets require at least two-thirds public ownership.

All rating actions and rated entities

Østfold Energi AS

Issuer rating: BBB+/Stable, affirmation

Short-term debt rating: S-2, affirmation

Senior unsecured debt rating: BBB+, affirmation

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

1. As at June 2025, excluding non-consolidated company Siso Energi, with power plants Siso and Lakshola.
2. Current central bank interest rate by Norges Bank in Norway is 4%, with projections towards 3.2% in 2028.

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (General Corporate Rating Methodology, 14 February 2025; European Utilities Rating Methodology, 17 June 2025; Government Related Entities Rating Methodology, 3 September 2025), are available on scoperatings.com/governance-and-policies/rating-governance/methodologies.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): registers.esma.europa.eu/cerep-publication/. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on scoperatings.com/governance-and-policies/rating-governance/methodologies.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

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Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings and/or Outlook were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.

Lead analyst: Eirik Loevdal Tollefsen, Associate Director

Person responsible for approval of the Credit Ratings: Thomas Faeh, Executive Director

The Credit Ratings/Outlook were first released by Scope Ratings on 10 November 2023. The Credit Ratings/Outlook were last updated on 15 November 2024.

Potential conflicts

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