

Rating object

Fortum Oyj
Long Term Local Currency Senior unsecured issues of Fortum Oyj

Rating incl. outlook / watch

BBB / stabil
BBB / stabil

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Fortum Oyj	28.01.2022	31.01.2022	Until withdrawal of the rating
Long Term Local Currency Senior unsecured issues of Fortum Oyj	28.01.2022	31.01.2022	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has affirmed the unsolicited, public corporate issuer rating of Fortum Oyj, hereinafter also referred to as "Fortum" or "the Group", as well as the unsolicited corporate issue ratings of the long-term local-currency senior-unsecured notes issued by Fortum Oyj, at **BBB with stable** outlook.

The current rating result reflects the acquisition of Uniper SE in 2020 and its subsequent consolidation into the financial statements of Fortum Oyj, which improved the Group's scope and diversification but deteriorated the Group's financial profile, the divestures made of non-core assets throughout the year, improving the Group's liquidity and net financial leverage, and the improved operating performance due to better market dynamics. During the first three quarters of the 2021 business year, power generation volumes improved considerably in all of Fortum's markets, predominantly due to economic recovery in 2021, as well as comparably colder weather during the first months in 2021. The high price environment on the European and Russian commodity markets also had a positive influence on the Group's performance. However, the 146% price increase had a limited positive effect on overall results, as Fortum uses cash-flow hedges for the majority of its energy sales.

In the nine months up to September 2021 realized revenue amounted to EUR 63,322 million (9M20: EUR 27,736 million) and operating profit and net profit to EUR -2,600 million (9M 2020: EUR 1,141 million) and -1,117 million (9M 2020: EUR 1,444 million) respectively. The profit and loss statement was subject to a high degree of non-operating and non-recurring events, as well as fair value changes. The significant changes in profit and loss are partially explained by the consolidation of Uniper SE from Q1 2020, as well as the increased market prices of electricity and gas and the trading activities of Uniper. The majority of the changes are caused by the Uniper segment, which generates a large share of its revenues from energy trading for which it uses financial instruments to hedge cash-flows. These contract revenues have to be recognized at spot price on settlement, rather than the originally hedged contract price, leading to significantly higher revenues due to the high spot price environment. Additionally, fair value changes of the derivatives have led to a net non-operating loss of EUR -6,558 million in the first three quarters of 2021 leading to an operating profit of EUR -2,600 million. These issues are only temporary and will resolve over time with the settlement of forward contracts.

The loss suffered by fair value changes of financial instruments was partially offset by capital gains of EUR 2,686 million from the sale of its 50% participation in Stockholm Exergi Holding AB, the sale of the district heating business in the Baltics and from the sale of eight small hydropower plants in Sweden. Adjusted by all non-recurring events, Fortum improved its operating result by EUR 1,050 to EUR 1,466 million in the nine months up to September 2021 (9M 2020: EUR 416 million) due to better market dynamics. As a result FFO improved significantly to EUR 2,972 million in the same period (9M 2020: EUR 1,294 million). During the first three quarters of 2021 the Group invested EUR 849 million in capital expenditure and EUR 270 million in the acquisition of shares, which mainly related to the acquisition of Uniper shares. Adjusted by non-recurring events, such as proceeds of divestures and margin requirements the Group's cash-flow after investments would have stood at EUR EUR 2,169 million, indicating that the Group had sufficient headroom to finance its investments, as well as pay out dividends of EUR 1,140 million out of operations.

The increasing commodity prices led to significantly higher margin requirements for its derivatives, which put additional strain on cash flow. In the first nine months of 2021, higher margin requirements led to a net cash-outflow of EUR 2,883 million, causing additional pressure on liquidity needs. Despite the additional pressure, liquidity remained strong with cash holdings totaling EUR 6,236 million, and undrawn committed credit facilities amounting to EUR 3,689 million). However, as commodity prices have continued to increase, Uniper announced on 4 January that it was forced to take on additional financing measures to cover the additional cash needs due to higher margin requirements from its derivative instruments. In light of this fact, Fortum made an intra-group financing credit facility of EUR 8 billion available for Uniper. Uniper also arranged a

further EUR 2 billion credit facility with the KfW, to provide its liquidity position with some additional headroom. The margin requirements will be returned to Uniper, when the underlying positions go into delivery, or when prices normalize.

Net financial debt stood at EUR 7,031 million (2020: EUR 8,884 million), and when adjusted by margin requirements net financial debt stood at EUR 2,126 million (2020: EUR 7,023 million). The main reason for this reduction is the cash inflow of EUR 3,748 million following divestures made during the first three quarters in 2021. Equity decreased due to the negative net income, as well as the cash dividend of EUR 1,139 million. Overall, we believe that the Group showed steady development, aided by strong market dynamics, which improved operating performance but also caused significant fair value adjustments relating to its financial instruments, which temporarily affected the Group's financial statements and increased liquidity needs of Fortum's subsidiary Uniper. As of 30 September 2021 Fortum's generation segment hedged approximately 65% of Nordic power sales at EUR 32 per MWh for 2022, and Uniper hedged approximately 85% of its estimated 2022 Nordic power sales at EUR 22 per MWh.

Primary key rating drivers:

- + Portfolio restructuring is progressing and is leading to significant tax-exempt capital gains in 2021
- + Strong linkage to the Finnish government has a positive effect on Fortum's unsolicited corporate issuer rating
- + Reported leverage, as measured by net financial debt /EBITDA is currently clearly below the Group's target of <2.0 times and is expected to improve further
- + Exposure to volatility of power prices is limited due to a successful hedging strategy; considerable amount of energy sales have already been hedged for 2022
- + Improved market conditions have led to a better operating result and cash-flow generation

- Relatively high dividend payout ratio
- Reported negative operating result due to negative net fair value changes in financial instruments
- Increased liquidity needs due to ongoing high commodity price environment, increasing margin requirements

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Fortum Oyj we have not identified any ESG factor with significant influence.

The acquisition of an additional stake in Uniper SE in 2020 has slightly deteriorated the Group's ESG profile as the generation fleet of Uniper SE is more dependent on fossil fuels and therefore has a larger carbon footprint than the stand-alone fleet of Fortum Oyj. However, both Fortum and Uniper are targeting CO2 neutrality in European generation by 2035 (scope 1 and 2), with a strong focus on phasing out coal over the next couple of years and is committed to reduce scope 1 and 2 emissions by at least 50% by 2030. Additionally, Fortum is targeting complete carbon neutrality in all operations by 2050 (Scope 1, 2, 3) and aims to reduce scope 3 emissions by 35% by 2035 at the latest against the base year 2021.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: BBB+

In our best-case scenario for one year, we assume a rating of BBB+. In this scenario we assume that market and weather conditions continue to improve and that Fortum continues to successfully integrate Uniper into the Group. Further planned portfolio restructuring will significantly improve the structured financial analysis, thereby significantly improving Fortum's credit metrics.

Worst-case scenario: BBB-

In our worst-case scenario for one year, we assume a rating of BBB-. In this scenario we assume that market and weather conditions deteriorate significantly, thereby reducing performance, ultimately leading to significantly worsened operating results and cash-flow, which will lead to an increase in indebtedness.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Fortum Oyj	Initialrating	11.04.2019	25.04.2019	15.10.2019	BBB / stabil
LT LC Senior Unsecured Issues issued by Fortum Oyj	Initialrating	11.04.2019	25.04.2019	15.10.2019	BBB / stabil

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating¹ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

¹ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

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In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA [website](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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