

2 June 2020 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has downgraded the unsolicited corporate issuer and issue rating of Fortum Oyj to **BBB / stable**

Creditreform Rating (CRA) has downgraded the unsolicited corporate issuer rating of Fortum Oyj, as well as the unsolicited corporate issue rating of the long-term local currency senior unsecured notes issued by Fortum Oyj to BBB. Additionally, CRA has removed the rating supplement Watch NEW and replaced it with a stable outlook.

Analysts

Rudger van Mook
Lead Analyst
R.vanMook@creditreform-rating.de

Christina Sauerwein
Co-Analyst
C.Sauerwein@creditreform-rating.de

Neuss, Germany

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Expected deterioration in the financial key figures 2020 currently outweighs the positive scaling, synergy and diversification effects following the increased participation in Uniper SE.
- The effects of the COVID-19 pandemic and its negative impact on commodity prices have remained limited for Fortum Oyj.
- Uniper SE announced its new strategic direction and targets climate neutrality in 2035.
- Stable operating results for the business year 2019 and Q-1 2020.

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Fortum Oyj we have identified ESG factors with significant influence .

By acquiring the additional stake in Uniper SE, it has become a subsidiary instead of an associated company. 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. This weakens the Group's ESG profile with regard to (E) environment.

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:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Rating result

The current rating attests Fortum Oyj a highly satisfactory level of creditworthiness, which represents a low-to-medium default risk.

The downgrade from BBB+ to BBB follows the consolidation of Uniper SE into the financial statements of Fortum Oyj. We believe that the increase in leverage and expected deterioration for the 2020 financial key figures currently outweighs the positive scaling, synergy and diversification effects on the Group. Additionally, the business profile of Fortum has also deteriorated due to a stronger focus on fossil energy sources in the generation fleet of the German utility and the accompanied costs that will arise by phasing out coal and replacing generation capacity.

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.

Outlook

The one-year outlook of the rating is stable. Despite the current situation with the COVID-19 pandemic and its effect on commodity prices, we expect a stable development of the Group's core business. Furthermore, the Group has largely secured its energy sales on the Nord Pool market for the business year of 2020 reducing its exposure to falling energy prices.

At this point in time it is difficult to assess how long this pandemic, the recession and the subsequent recovery period will last. These events might have a negative effect on electricity demand and therefore the business development. Should our assessment of the current situation of the COVID-19 pandemic change then we might change the outlook for the corporate issuer rating.

Best-case scenario: BBB

In our best-case scenario for one year, we assume a rating of BBB. In this scenario, we assume that the impact of the COVID-19 pandemic remains limited and that the Company's financials will not deteriorate significantly due to the pandemic or the recession that follows.

Worst-case scenario: BBB-

In our worst-case scenario for one year, we assume a rating of BBB-. This could be the case if the lock-down measures tightened or were reinstated due to a second wave of COVID-19, which could exacerbate the severity and length of the subsequent recession in the Group's key markets.

Business development and outlook

During the business year of 2019 the Group generated revenues of EUR 5,447 million (2018: EUR 5,242 million), EBITDA of EUR 1,684 million (2018: EUR 1,674 million), EBIT of EUR 1,109 million (2018: EUR 1,138 million) and an EAT before transfer of EUR 1,507 million (2018: EUR 858 million). The increase in revenues was mainly due to the Generations (+16%) and City Solutions (+8%) segments which increased their revenue to EUR 2,141 million (2018: 1,842 million) and EUR 1,200 million (2018: EUR 1,110 million) respectively. The generation's segment total electricity production rose due to better conditions for the production of hydrological energy and an increase in nuclear volumes against 2018. Additionally, the achieved power price in the Generation segment rose by EUR 2.2 (+6%) driven by higher hedge prices. The revenue of the City Solutions' segment was higher mainly due to higher power sales volumes resulting from the new unit in Naantali, Finland and a rise in waste treatment sales.

The Group's EBIT declined by two percent in comparison to 2018. The slight decline was primarily caused by fair value changes of financial derivatives and by capital gains of EUR 102 million in 2018. When adjusted by non-recurring events the Group's EBIT improved by 21% to EUR 1,191 million. The comparative improvement in the result was especially driven by strong performance in the Generations segment (+ EUR 166 million), the Russia segment (+ EUR 45 million) and the Consumer Solutions segments (+ EUR 23 million), partially offset by City Solutions (- EUR 14 million) and Other Operations (- EUR 20 million) segments. The EAT improved significantly due to the net income from participating interests EUR 744 million (2018: EUR 38 million), of which EUR 632 million was attributable to Uniper SE. The share of Uniper's profit include the fourth quarter 2018 and the first three quarters of 2019 as well as the impact of the reinstatement of the UK capacity market at the end of October 2019, which had been temporarily suspended in 2018 by the European Union court of justice. EUR 392 million of the Uniper profits were non-operating results.

On 8 October 2019, Fortum entered into an agreement with Elliot Management Corporation and Knight Vinke Energy Advisors Limited to acquire a further 20.5% stake in Uniper SE, which

was at the time still subject to several regulatory approvals. On 26 March 2020 the Group published that the transfer of the first tranche had been completed and that it held an interest of 69.6% of Uniper SE. The deal for the second tranche closed on 8 May 2020 representing 3.84% of the shares and voting rights raised the interest in Uniper SE to 73.4%. The consolidation of Uniper SE in the financial statements of Fortum Oyj, starting from 31 March 2020, will almost double the Group's EBITDA generation. However, we expect a deterioration of the financial key figures as the consolidation will significantly increase the Group's leverage as a whole. Fortum has communicated that it will not implement a control or profit/loss agreement before the end of 2021.

Table 1: Financials of Fortum Oyj | Source: Fortum Oyj Annual report 2019, standardized by CRA

Fortum Oyj	CRA standardized figures ¹	
Selected key figures of the financial statement analysis	2018	2019
Basis: Annual accounts and report of 31.3. (IAS, Group)		
Sales (million EUR)	5,242	5,447
EBITDA (million EUR)	1,674	1,684
EBIT (million EUR)	1,138	1,109
EAT (million EUR)	858	1,507
EAT after transfer (million EUR)	843	1,482
Total assets (million EUR)	22,389	22,745
Equity ratio (%)	57.07	59.27
Capital lock-up period (days)	23.26	21.17
Short-term capital lock-up (%)	48.30	27.52
Net total debt / EBITDA adj. (factor)	6.05	5.27
Ratio of interest expenses to total debt (%)	1.54	1.80
Return on Investment (%)	4.44	7.18

The initial investment of 49.99% was acquired for a total consideration of EUR 3.7 billion, of which EUR 1.95 billion was financed with own cash reserves and a bridge loan of EUR 1.75 billion. In February 2019 the bridge loan was refinanced by several bond issues with total proceeds of EUR 2.5 billion with different maturities. The Group paid an additional EUR 2.6 billion for the first and second tranche, raising the total investment in Uniper SE to EUR 6.5 billion. To finance the transaction Fortum drew a EUR 2 billion loan under the credit facility for the first tranche, and the second tranche was paid by an additional loan of EUR 428 million, the rest was paid by own resources.

Uniper SE announced on 10 March 2020 that it targets climate neutrality in 2035 for its power generation fleet. The Group already published in January 2020 that it wants to phase out its coal fired electricity production by shutting down three hard coal production facilities with a capacity

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

of 1,500 MW by the end of 2022 and another two stations with a total capacity of 1,400 MW by the end of 2025. Uniper has announced that it will invest around EUR 1.2 billion until 2022 in predominantly green projects.

During the first three months of the financial year 2020 we did not see a decline in the power demand in either the Nordic region or Russia. The pandemic did substantially affect the Nordic power prices during the first quarter. The average spot price on the Nordic power market was EUR 15.4/MWh or 67% lower than in the same period in 2019. The impact on the Group's revenues and results however, remained limited as the Group reduced its exposure by hedging its electricity sales in the Generation segment. The realized electricity price was EUR 4.4/MWh or 11% lower than the spot price last year. The generation segment hedged approximately 85% of its sales at EUR 33/MWh in 2020 and approximately 50% in 2021 at EUR 34/MWh. The Uniper SE segment, as of the end of Q-1 2020 hedged 100% of its German energy sales against EUR 46/MWh and 95% of its Nordic sales against EUR 28/MWh.

The revenue in Q-1 2020 fell to EUR 1,357 million (Q1 2019: 1,690 million), mainly caused by the lower Nordic power prices (especially in the consumer solutions segment) and the divestment in Joensuu district heating business. The Group's EBIT of EUR 592 million (Q-1 2019: EUR 358 million) was positively impacted by the divestment of the Joensuu district heating business, causing a sales gain of EUR 431 million, which was partially offset by a non-recurring cash income statement of EUR -222 million related to Uniper becoming a subsidiary. The comparable EBIT was 4% lower than the prior year, caused by lower spot prices and a decrease of 29% in heat sales in the City Solutions segment due to relatively warm weather, and the sale of Joensuu district heating. The EBT came in at EUR 1,014 million (Q-1 2019: EUR 424 million). This increase is mainly explained by the high share of profits of associates and joint ventures (EUR 479 million). The Uniper profits (EUR 469 million) include both the results of Q-4 2019 and Q-1 2020. The effects of COVID-19 have also remained limited for Uniper, which had an operatively strong Q-1 and confirmed its outlook for 2020 despite the COVID-19 pandemic.

The liquidity position of the Group was sufficient at the end of Q-1 2020. The Group disposed over EUR 4,081 million cash and cash equivalents and a current ratio of 1.26. It is however to be noted that these figures are before dividend distributions of EUR 977 million. The dividend was paid out on 5 May, 2020.

The negative effects stemming from the COVID-19 crisis seems to be limited. The Group is able to reduce its exposure to power prices through effective hedging strategies. However, we cannot rule out a decline in demand, as we expect a recession to follow the pandemic and the lockdown measures implemented. Additionally, the consolidation of Uniper SE weighs negatively on the Group's financials as the leverage increased considerably we expect a deterioration in the Group's financial key figures for the financial year 2020.

The unsolicited corporate Issue ratings of Fortum have been assigned a BBB. Their creditworthiness is largely based on Fortum's unsolicited corporate issuer rating. The rating objects of this issue rating are exclusively the long-term issues, denominated in euros, issued Fortum Oyj and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued under the EMTN program with their latest prospectus from 21 November 2018. This EMTN program amounts to EUR 8 billion. The notes under the EMTN program have been issued on an unsubordinated basis, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision and a cross default mechanism.

Appendix

Rating history

The rating history is available under:

<https://www.creditreform-rating.de/de/ratings/published-ratings/>

Table 2: Corporate issuer rating of Fortum Oyj | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial Rating	11.04.2019	25.04.2019	10.10.2019	BBB+ / stable

Table 4: LT LC senior unsecured issues by Fortum Oyj | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial Rating	11.04.2019	25.04.2019	10.10.2019	BBB+ / stable

Regulatory requirements

The present rating is an unsolicited rating in the regulatory sense. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://www.creditreform-rating.de/pub/media/global/page_document/Rating_Methodology_Corporate_Ratings_2.3.pdf
Government-related Companies	1.0	19.04.2017	https://www.creditreform-rating.de/pub/media/global/page_document/Rating_Methodology_Government-Related_Companies.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://www.creditreform-rating.de/pub/media/global/page_document/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://www.creditreform-rating.de/pub/media/global/page_document/CRAG_Rating_Criteria_and_Definitions_v1_3_01-2018.pdf

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Rudger van Mook	Lead analyst	R.vanMook@creditreform-rating.de
Christina Sauerwein	Analyst	C.Sauerwein@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Artur Kapica	PAC	A.Kapica@creditreform-rating.de

On 2 June 2020, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 2 June 2020. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for 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:

<https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html>

Conflict of interests

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.

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.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

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: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

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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Creditreform Rating AG

Contact information

Creditreform Rating AG

Hellersbergstraße 11
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Prof. Dr. Helmut Rödl

HR Neuss B 10522