

21 July 2021 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Fortum Oyj at BBB. The Outlook remains stable.

Creditreform Rating (CRA) has confirmed the ratings of 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 rating of long-term local currency senior unsecured notes issued by Fortum Oyj at BBB. The outlook remains stable. For more information on the earlier development of the unsolicited corporate issuer and issue ratings of Fortum Oyj, please see previous rating updates and reports published on our website.

Current relevant factors for the rating

The following factors were of specific importance for the rating assessment:

- Increased leverage and heavier reliance on fossil fuels following Uniper consolidation currently still outweighs positive scaling and diversification effects.
- Operating development in 2020 deteriorated due to worsened market conditions and abnormally high temperatures.
- Operating development during the first quarter of 2021 improved significantly due to higher realized power prices and generally improved market and weather conditions.
- Portfolio restructuring is progressing, and is leading to significant tax-exempt capital gains in both 2020 and 2021.

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.

By acquiring the additional stake in Uniper SE in 2020, 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, which weakens its ESG-profile. However, during the business year 2020 both Fortum and Uniper updated their strategy and are now 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. Fortum is targeting complete carbon neutrality in all operations by 2050 (Scope 1, 2, 3)

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 result

The current unsolicited corporate issuer rating attests Fortum Oyj a highly satisfactory level of creditworthiness, representing a low to medium default risk. Fortum has significantly improved its scale and diversification profile following the consolidation of Uniper SE. However, the deterioration in the structured financial key ratio analysis currently still outweighs the positive scaling, diversification and possible synergy effects. As the deterioration of the structured financial key figures was already taken into account during our last rating update this does not have a further negative effect.

Analysts

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

Sabrina Mascher de Lima
Co-Analyst
S.Mascher@creditreform-rating.de

Neuss, Deutschland

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.

Due to worsened market and weather conditions the Company's operating performance deteriorated during 2020 against prior years. The COVID-19 pandemic negatively affected demand and significantly affected power prices, but as the Group hedges most of its power production, the lower market prices only had a limited effect on realized power prices. Higher than usual temperatures as well as negative currency developments against the Ruble also negatively impacted the Group's performance during the last year. Due to the consolidation of Uniper as well as some non-recurring effects, the Group managed to generate a better annual result. Additionally, all operating segments showed an improvement during the first quarter of 2021 against the performance of 2020 due to improved market and weather conditions.

In general, we believe that Fortum has developed well over the past year. With worsened market conditions affecting the Group only to a limited extent. The integration of Uniper has almost doubled EBITDA generation and increased its diversification profile. The sale of its interest in Exergi will further improve its balance sheet, and, according to its strategy, the Company will continue to focus on balance sheet strengthening measures during the business years 2021 and 2022.

Outlook

The one-year outlook is stable. This is mainly based on the fact that market conditions have stabilized, a solid performance during the first quarter of 2020 and that Fortum has hedged a significant amount of its estimated Nordic power sales for 2021 and also 2022, which significantly reduces exposure to market conditions. Additionally, the Group is progressing with the execution of portfolio restructuring and strategic measures to strengthen the balance sheet, improving both its annual result, balance sheet as well as creating financial headroom for additional investments.

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, that the Group's leverage increases again due to lower than expected capital gains from divestments and that it will reach out to capital markets to finance its investments thereby deteriorating its credit metrics.

Business development and outlook

During the 2020 business year Fortum generated revenues of EUR 49,015 million (2019: EUR 5,447 million), EBITDA of EUR 2,689 million (2019: EUR 1,693 million), EBIT of EUR 1,599 million (2019: EUR 1,118 million) and EAT of EUR 1,823 million (2019: EUR 1,482 million). The increase on all levels in the profit and loss account is mainly explained by the consolidation of Uniper SE and its subsidiaries from 1 April 2020 onwards following the acquisition of an additional interest. During 2020 and before the effects of consolidation, Uniper contributed EUR 469 million as an at-equity invested company containing results from 1 October 2019 to 31 March 2020, as it reported with a three month time lag.

Table 1: Financials of Fortum Oyj | Source: Fortum Oyj Annual report 2020, standardized by CRA

Fortum Oyj Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IAS, Group)	CRA standardized figures ¹	
	2019	2020
Sales (million EUR)	5,447	49,015
EBITDA (million EUR)	1,693	2,689
EBIT (million EUR)	1,118	1,599
EAT (million EUR)	1,507	1,855
EAT after transfer (million EUR)	1,482	1,823
Total assets (million EUR)	22,745	55,810
Equity ratio (%)	59.27	26.03
Capital lock-up period (days)	21.17	53.07
Short-term capital lock-up (%)	24.23	25.38
Net total debt / EBITDA adj. (factor)	4,50	14.49
Ratio of interest expenses to total debt (%)	1.80	0.41
Return on Investment (%)	7.21	3.42

Adjusted by non-recurring effects, most operating segments showed a deterioration in earnings against the prior year. In the generation segment, performance was adversely impacted by the longer than planned nuclear outages and lower realized power prices, which was in part offset by higher hydro volumes, leading to a decrease in revenues and operating profit of 6% and 9%, respectively. The losses remained relatively small due to the effective hedge measures against fluctuations in power prices caused by the COVID-19 pandemic.

The Russia segment was plagued by lower demand and power prices stemming from overall weaker economic activity following the COVID-19 restrictions in Russia and lower oil production due to decisions made by OPEC+. Additionally, negative currency exchange rate developments of the Ruble against the Euro caused a significant reduction in earnings. Revenues also declined in the city solutions segment, mainly as a result of higher than normal temperatures in the Nordics, causing lower heat sales volumes, as well as lower heat and electricity prices and weaker performance in the recycling and waste business. To some extent, the reduction in heat sales volumes was also caused by the divestments in the Joensuu and Järvenpää heating businesses. In the Consumer Solutions segment revenues dropped by 31%, mainly due to price fluctuations, but also due to a decline in sales volume. Operating profit however, increased significantly due to higher margins from value-added services and higher sales margins.

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.

Table 2: The development of business of Fortum Oyj | Source: Annual Report 2020, reported information

In EUR million	Revenues		EBIT	
December 31	2020	2019	2020	2019
Generation	2,006	2,141	711	780
Russia	929	1,071	252	317
City Solutions	1,075	1,200	775	127
Consumer Solutions	1,267	1,835	129	20
Uniper	44,514	-	29	-
Other operations	140	115	-298	-126
Netting of Nordpool transactions	-317	-529		
Eliminations	-598	-387		
Total	49,015	5,447	1,599	1,118

The segment Uniper generated revenues of EUR 44,514 million and EBIT of EUR 29 million from April to December 2020 compared to its reported full year pre-consolidated revenues of EUR 50,967 million (2019: EUR 65,804 million), EBITDA of EUR 2,608 (2019: EUR 1,637 million) and EBIT of EUR 560 million (2019: EUR 858 million). The reason for the relatively large discrepancy between Uniper's full year EBIT and the EBIT reported by the Uniper segment is mainly caused by a strong Q1-2020, which is not accounted for in the P&L-statement as a consolidated company but rather as an at-equity investment. Uniper's consolidation in Fortum's financial statements started on 1 April 2020.

The lower revenues of Uniper were mainly the result of lower power and gas market prices throughout the year, as contracts involving physical settlement have to be reported at the spot rate applicable at the settlement date. The difference between the spot price and the contractually hedged price is then reported for in operating income in the P&L statement. It is important to point out that a drop in power sales, driven by lower demand, also affected revenues. EBIT of Uniper was negatively impacted by non-recurring items of EUR 706 million related to fair-value changes of non-hedge accounted derivatives and EUR 376 million to income from reversals of temporary reductions in current assets and adjustments in provisions.

Overall, non-recurring effects had a positive influence on the Group's operating profit in 2020 of EUR 255 million. Particularly the sale of the Joensuu and Järvenpää district heating businesses in the City Solutions segment led to an increase in operating profit of EUR 722 million due to a tax-exempt capital gain. The segment Uniper SE only had a limited positive influence on the Group's operating profit, due to the non-recurring effects described above.

The consolidation of Uniper SE into the financial statements of Fortum Oyj had a large impact on Fortum's financial statements. The adjusted balance sheet almost doubled its size and amounted to EUR 55,810 in 2020 (2019: 22,745 million). The main balance sheet changes are in PP&E (EUR 9,632 million) with additional power generation, storage and other facilities, a significant increase in financial instruments (EUR 22,210 million) related to commodity derivatives, and a rise in trade and other receivables (EUR 7,236 million). As a result, the standard financial key ratio analysis has significantly deteriorated in 2020. At the end of 2020, adjusted equity increased to EUR 14,529 million (2019: EUR 13,481 million), mostly explained by higher non-controlling interest of EUR 2,430 million following the consolidation of Uniper. However, as assets increased disproportionately to equity, the equity ratio fell by half and stood at 26.03% in 2020 (2019: 59.27%). Net total debt / EBITDA adj. increased to 14.49 (2019: 4.50) and is also caused by

the significant increase in liabilities, particularly by derivative financial instruments and provisions. It is noteworthy that net financial debt / EBITDA adj. has improved despite an increase in indebtedness by EUR 3,974 million to EUR 10,662 million (2019: EUR 6,694 million) due to increased EBITDA generation following the Uniper consolidation.

The Group's scale and diversification improved following the consolidation of Uniper SE. However, Uniper's generation capacity is much more reliant on fossil fuels thus worsening the energy mix of the Group. In December 2020, Fortum communicated that it had updated its strategy and targets CO2 neutrality by 2035 and aims to halve its coal generation capacity to 5GW by 2025. According to the investor presentation of 1 July 2021, Fortum wants to invest an additional EUR 3 billion during the period of 2021 – 2025 to accelerate the improvement of the Group's clean energy mix. The degree to which Fortum will be able to successfully implement the new strategy will depend on its operating performance and portfolio restructuring.

During 2020 Fortum made gross investments of EUR 4,941 million, including the acquisition of the additional interest in Uniper. Capital expenditure investments amounted to EUR 1,135 million (2019: EUR 713 million). Throughout the year Fortum generated cash flow after investments of EUR 415 million (2019: EUR 1,457 million), and was heavily affected by the acquisition of an additional interest in Uniper (EUR -1,801 million), the divestment of business (EUR + 1,244 million), in particular the district heating business in Joensuu and Järvenpää. Adjusted by these events the cash-flow after investments would have improved significantly, but this has mostly to do with the consolidation of Uniper. During the business year of 2021 Fortum foresees investments of EUR 1,400 million, of which 50% is to be allocated to growth investments and the other half to maintenance.

During the first quarter of 2021 Fortum generated revenues of EUR 21,493 million (2019: EUR 1,357 million), reported EBIT of EUR 1,345 million (2019: EUR 603 million) and EAT of EUR 1,310 million (2019: EUR 938 million). The main difference in revenue and operating profit is due to the consolidation of Uniper. However, it is worth noting that all operating segments had a stronger performance than the prior year due to higher realized power prices as well as improved market and weather conditions in general. Operating profit was positively affected by non-recurring items of EUR 174 million. Primarily due to fair value changes in non-hedge derivatives (EUR 165 million) and a tax exempt capital gain (EUR 50 million) due to the sale of eight small hydro power plants in Sweden.

On 20 March 2021, Fortum announced that it had signed an agreement to sell its district heating business in the Baltics for a total consideration of EUR 800 million. Fortum expects to record a tax-exempt capital gain of approximately EUR 240 million and expects the deal to close in the second quarter of 2021. Additionally, Fortum announced on 30 June 2021 that it had sold its 50% share of Exergi, its Swedish district heating and cooling company for a total consideration of EUR 2.9 billion and is expected to realize a tax-exempt capital gain of EUR 2.4 billion. Fortum expects the transaction to close before the end of 2021. It also placed its consumer solutions under strategic review, which means that it is also looking at the possibility to divest a share of its interest. These divestitures are part of Fortum's strategy to restructure its portfolio of assets.

As of the end of March 2021, Fortum had a good liquidity position with a positive working capital and a total liquidity position of EUR 7,408, of which EUR 2,308 million in cash and cash equivalents and EUR 5,100 million in committed credit lines. In general, we believe that the Group has developed well over the past year. The integration of Uniper has almost doubled EBITDA generation and increased diversification. The sale of its interest in Exergi will improve its balance sheet, and, according to its strategy, Fortum will continue to focus on balance sheet strength

during the business years 2021 and 2022. We expect a continuation of solid performance during the current business year as market and weather conditions have improved against the prior year and the Company has hedged most of its foreseen Nordic power generation both on the level of Fortum and Uniper.

Issue Rating

Issue Rating Details

The rating objects of this issue rating are exclusively the long-term issues, denominated in euros, issued by 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 15 April 2021. 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.

Corporate Issue Rating Result

We have provided the debt securities issued by Fortum Oyj with a rating of BBB. The rating is based on the corporate rating of Fortum Oyj. Other types of debt instruments or issues denominated in other currencies by the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 3: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Fortum (Issuer)	21.07.2021	BBB / stable
Long-Term Local-Currency Senior-Unsecured Issues	21.07.2021	BBB / stable

Table 4: Overview of Euro Medium Note program | Source: Fortum Oyj, Base Prospectus dated 21 November 2018

Overview 2021 EMTN Program			
Volume	EUR 8,000,000,000	Maturity	Depending on the respective bond
Issuer	Fortum Oyj	Coupon	Depending on the respective bond
Arranger	City Group	Currency	Depending on the respective bond
Credit Enhancement	None	ISIN	Depending on the respective bond

All future LT LC senior unsecured Notes issued by Fortum Oyj which have similar conditions to the current EMTN program, are denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN program. Notes issued under the program in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Appendix

Rating history

The rating history is available under:

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

Table 5: Corporate issuer rating of Fortum Oyj | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Update	21.07.2021	23.07.2021	Withdrawal of the rating	BBB / stable
Initial Rating	11.04.2019	25.04.2019	10.10.2019	BBB+ / stable

Table 6: LT LC senior unsecured issues by Fortum Oyj | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Update	21.07.2021	23.07.2021	Withdrawal of the rating	BBB / stable
Initial rating	11.04.2019	25.04.2019	10.10.2019	BBB+ / stable

Regulatory requirements

The rating² was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. 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

² 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.

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

The documents submitted 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
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

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
Sabrina Mascher de Lima	Analyst	S.Mascher@creditreform-rating.de

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

Name	Function	Mail-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 21 July 2021, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 21 July 2021. 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](#).

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](#).

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

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
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: Dr. Hartmut Bechtold

HR Neuss B 10522