

Fortum Oyj

The revision of the Outlook to Stable from Negative in June 2021 mainly reflects Fortum's good performance in 2020 despite the challenges brought about by the pandemic. It also reflects its progress in the integration with Uniper, material asset disposals and the group's strategic guidelines, which include financial commitments commensurate with the current rating as a key pillar.

The rating reflects Fortum's solid market positioning, focus on cash flow protection and moderate funds from operation (FFO) net leverage that Fitch Ratings forecasts until 2023. It also reflects the large exposure to merchant businesses, the significant role of thermal generation after Uniper's consolidation and a generous dividend policy.

Key Rating Drivers

Healthy 2020 Performance: Fortum achieved good results in 2020, considering the challenging market conditions. With Uniper consolidated from April 2020, the group reported EBITDA of around EUR2.4 billion.

Hedging in the Nordics proved effective, with achieved prices in the region down by 5% year-on-year, while the spot price declined by 72%. Fitch-defined net debt rose only by EUR1.1 billion to EUR6.1 billion, as the group's operating cash flow and EUR1.3 billion divestments compensated for a large part of the outflow related to the Uniper transaction. The resulting FFO net leverage of 2.7x was substantially lower than our expectations.

Focus on Deleveraging: The company is focusing on strengthening the balance sheet in 2021-2022. In this respect, Fortum has recently signed an agreement to sell its 50% stake in Stockholm Exergi to an investor consortium led by APG for approximately EUR 2.9 billion.

We also expect that the other activities under strategic review, including the district heating businesses in Poland and the consumer solution business, will eventually be sold. This implies a large cash-in for Fortum, bringing FFO net leverage well below our negative rating sensitivity of 3.0x for 'BBB' for the rating horizon until 2023.

Growth from Sustainable Activities: Fortum has indicated cumulative growth capex of EUR3 billion for 2021-2025, mainly focused on renewables, hydrogen and clean gas and environmental solutions. Our rating case does not include a material earnings contribution from these investments until 2023.

We understand that Fortum will retain flexibility in terms of the development model applied to renewables, opting for consolidation or sale of assets depending on strategic priorities and market conditions. We view a step-up of the investment plan as highly likely if the assets currently under strategic review are entirely sold.

Challenges from Energy Transition: The consolidation of Uniper has brought some challenges for the group, mainly related to the phase-out of coal and the management of a very large gas fleet. Uniper's coal fleet has a capacity of almost 8GW excluding Russia. Coal-fired electricity production represents around 12% of Fortum's total production and the group has committed to becoming carbon-neutral in European generation by 2035 at the latest and at a group level (i.e. mainly including Russia) by 2050.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 28 Jun 2021
Short-Term IDR	F2		Affirmed 28 Jun 2021

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Applicable Criteria

[Corporate Rating Criteria \(December 2020\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(April 2021\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(April 2021\)](#)

[Government-Related Entities Rating Criteria \(September 2020\)](#)

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The role of the gas fleet will remain important in the medium term, as decarbonisation gradually occurs. However, its profitability is subject to merchant risk, exacerbated by the recent high volatility in the commodities and CO₂ markets.

Gradually Evolving Business Mix: We estimate that around 50%-60% of Fortum's earnings is subject to merchant risk, with the remaining part quasi-regulated. The quasi-regulated portion includes a mix of activities, such as the capacity supply agreements (CSAs) in Russia, some capacity payments in the UK, the city solutions business (mainly waste and district heating) and other activities and services provided by Uniper.

We assign higher debt capacity to quasi-regulated activities related to renewables with long residual life of the incentives (or power purchase agreements) compared with most of Fortum's quasi-regulated activities. We expect the business mix to gradually change under the opposing pressures of expiring CSAs in Russia and additional renewables capacity.

Buyout of Uniper Minorities: Fortum currently owns 76.1% of Uniper and has committed to not buy out the minorities until the end of 2021. Based on the current market conditions, the buyout would imply a cash-out of around EUR2.7 billion, with an FFO benefit deriving from the absence of the dividend currently paid to Uniper's minorities (we assume around EUR170 million).

This transaction would be largely negative for the company's credit ratios, and we expect it to be done only with mitigation measures and consistently with the commitment to preserve the current rating.

Financial Summary

Fortum Oyj

(EURm)	Dec 19	Dec 20	Dec 21F	Dec 22F
Gross revenue	5,447	49,015	49,995	50,995
FFO margin (%)	30.6	4.4	3.8	2.9
FFO fixed-charge coverage (x)	9.3	7.3	6.1	5.1
FFO adjusted leverage (x)	3.7	4.5	3.3	4.1
FFO net leverage (x)	2.8	2.7	2.1	2.0

F - Forecast

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Fortum's closest peers are Statkraft AS (BBB+/Stable, including one notch uplift reflecting government links) and RWE AG (BBB+/Stable). The group's debt capacity at 'BBB' is 0.5x lower than both peers (3.0x vs. 3.5x). Statkraft has a similar share of quasi-regulated business, but benefits from a substantially cleaner asset base dominated by low-cost hydro. RWE has a higher share of quasi-regulated business (50%-60%), but is also significantly reliant on thermal generation, like Fortum.

Other power generation companies (gencos) mostly focused on renewables, like ERG S.p.A. (BBB-/Stable) and Orsted A/S (BBB+/Stable), benefit from the higher revenue visibility of this business (generally through auctions or power purchase agreements) and have higher debt capacity than Fortum (negative sensitivity at 'BBB' is 3.4x for ERG, 3.5x at 'BBB+' for Orsted).

Navigator Peer Comparison

Issuer	Business profile										Financial profile			
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Revenues Predictability	Market and Competitive Position	Asset Base and Operations	Counterparty and Commodity Exposure	Profitability	Financial Structure	Financial Flexibility				
Alperia SpA	BBB/Sta	bbb+	bbb	bbb-	bbb	bbb+	bbb+	bbb+	bbb	a-				
ERG S.p.A.	BBB-/Sta	bbb+	a-	bbb	bbb+	bbb+	bbb	bbb	bbb-	a-				
Fortum Oyj	BBB/Sta	aa-	a-	bbb-	bbb	bbb	bbb	bbb	bbb	bbb+				
Orsted A/S	BBB+/Sta	aa	a-	bbb+	bbb+	a-	bbb+	bbb-	bbb	bbb+				
RWE AG	BBB+/Sta	aa	a-	bbb-	bbb+	bbb	bbb+	bbb-	bbb+	a				
Statkraft AS	BBB+/Sta	aa	a-	bb	bbb	a-	bbb-	a-	bbb	a-				

Source: Fitch Ratings.

Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

Name	IDR/Outlook	Business profile										Financial profile			
		Operating Environment	Management and Corporate Governance	Revenues Predictability	Market and Competitive Position	Asset Base and Operations	Counterparty and Commodity Exposure	Profitability	Financial Structure	Financial Flexibility					
Alperia SpA	BBB/Sta	1.0	0.0	-1.0	0.0	1.0	1.0	-2.0	0.0	2.0					
ERG S.p.A.	BBB-/Sta	2.0	3.0	1.0	2.0	2.0	1.0	1.0	0.0	3.0					
Fortum Oyj	BBB/Sta	5.0	2.0	-1.0	0.0	0.0	0.0	0.0	0.0	1.0					
Orsted A/S	BBB+/Sta	5.0	1.0	0.0	0.0	1.0	0.0	-2.0	-1.0	0.0					
RWE AG	BBB+/Sta	5.0	1.0	-2.0	0.0	-1.0	0.0	-2.0	0.0	2.0					
Statkraft AS	BBB+/Sta	5.0	1.0	-4.0	-1.0	1.0	-2.0	1.0	-1.0	1.0					

Source: Fitch Ratings.

Worse positioned than IDR (Red), In line with IDR (Blue), Better positioned than IDR (Light Blue)

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- FFO net leverage under 1.5x on a sustained basis, assuming an unchanged business profile

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- FFO net leverage above 3.0x on a sustained basis, FFO interest coverage below 5.0x on a sustained basis
- Significant deterioration of the political, economic or regulatory environment in Russia or significant structural decline in Nord Pool power prices

Liquidity and Debt Structure

Adequate Liquidity: Fortum's liquidity position was EUR7.3 billion at end-December 2020, mainly including:

- EUR1.9 billion cash and cash equivalents
- EUR363 million deposits and commercial papers with maturity over three months
- Around EUR5 billion committed undrawn credit lines (out of which EUR1.45 billion matures in November 2021 and EUR1.75 billion matures in June 2023).

Fortum's EUR1.3 billion short-term maturities as of end-December 2020, as well as major repayments due in 2022 and 2023 (EUR3 billion and EUR1.1 billion, respectively) can be fully covered by the liquid assets.

ESG Considerations

Fortum Oyj has an ESG Relevance Score of '4' for Energy Management due to increased share of coal-fired power generation subject to ETS and commodities price, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturities

Fortum Oyj – Liquidity Analysis

(EURm)	2021F	2022F	2023F
Available liquidity^a			
Beginning cash balance	2,307	2,341	171
Rating-case FCF after acquisitions and divestitures	1,319	886	-447
Total liquidity uses (B)	-1,285	-3,055	-1,120
Liquidity calculation			
Ending cash balance (A+B)	2,341	171	-1,396
Revolver availability	3,650	3,650	1,900
Ending liquidity	5,991	3,821	504
Liquidity score (x)	5.7	2.3	1.5

F – Forecast

^a Available liquidity excludes non-current securities, margin receivables and collateral arrangement securities.

Source: Fitch Ratings, Fitch Solutions, Fortum Oyj

Scheduled debt maturities ^b (EURm)	Original 31 December 2020
2021	1,285
2022	3,055
2023	1,120
2024	320
2025	20
Thereafter	3,375
Total	9,175

^b Excludes margin liabilities and collateral arrangement liabilities

Source: Fitch Ratings, Fitch Solutions, Fortum Oyj

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer

- Power price assumptions considered for Fortum and Uniper based on forward prices and hedging levels of 1Q21
- Group EBITDA averaging EUR2.4 billion in 2021-2023 (including full-year Uniper consolidation)
- Annual capex of around EUR1.3 billion
- Dividend payments remaining around EUR1 billion based on the announced dividend policy.
- Cash-in for disposals of EUR4.5 billion in 2021-2022, related to announced divestments and companies set under strategic review.

Financial Data

Fortum Oyj

(EURm)	Historical			Forecast		
	Dec 18	Dec 19	Dec 20	Dec 21	Dec 22	Dec 23
Summary income statement						
Gross revenue	5,242	5,447	49,015	49,995	50,995	52,015
Revenue growth (%)	16.0	3.9	799.9	2.0	2.0	2.0
Operating EBITDA (before income from associates)	1,524	1,745	2,538	2,872	2,257	2,129
Operating EBITDA margin (%)	29.1	32.0	5.2	5.7	4.4	4.1
Operating EBITDAR	1,547	1,765	2,670	3,057	2,442	2,314
Operating EBITDAR margin (%)	29.5	32.4	5.4	6.1	4.8	4.4
Operating EBIT	988	1,170	1,571	1,632	1,146	963
Operating EBIT margin (%)	18.8	21.5	3.2	3.3	2.2	1.9
Gross interest expense	-148	-167	-161	-185	-163	-136
Pretax income (including associate income/loss)	1,040	1,708	2,199	1,622	1,150	1,078
Summary balance sheet						
Readily available cash and equivalents	564	1,609	3,871	1,489	2,730	2,534
Total debt with equity credit	6,093	6,612	9,938	5,880	5,868	6,363
Total adjusted debt with equity credit	6,277	6,772	10,994	7,360	7,348	7,843
Net debt	5,529	5,003	6,067	4,391	3,138	3,828
Summary cash flow statement						
Operating EBITDA	1,524	1,745	2,538	2,872	2,257	2,129
Cash interest paid	-171	-177	-199	-185	-163	-136
Cash tax	-94	-165	-267	-345	-196	-171
Dividends received less dividends paid to minorities (inflow/(out)flow)	61	216	-39	-58	-79	-87
Other items before FFO	131	21	55	-407	-386	-379
Funds flow from operations	1,474	1,669	2,134	1,902	1,485	1,495
FFO margin (%)	28.1	30.6	4.4	3.8	2.9	2.9
Change in working capital	-670	323	137	-71	11	70
Cash flow from operations (Fitch defined)	804	1,992	2,271	1,831	1,496	1,565
Total non-operating/nonrecurring cash flow	0	0	0			
Capex	-579	-802	-1,101			
Capital intensity (capex/revenue) (%)	11.0	14.7	2.2			
Common dividends	-977	-977	-977			
Free cash flow	-752	213	193			
Net acquisitions and divestitures	-3,791	88	-541			
Other investing and financing cash flow items	-81	390	-1,392	-77	0	0
Net debt proceeds	1,313	160	2,392	-4,058	-12	494
Net equity proceeds	0	0	0	0	0	0
Total change in cash	-3,311	851	652	-2,382	1,241	-196
Leverage ratios						
Total net debt with equity credit/operating EBITDA (x)	3.5	2.6	2.4	1.6	1.4	1.9
Total adjusted debt/operating EBITDAR (x)	3.9	3.4	4.2	2.5	3.1	3.5
Total adjusted net debt/operating EBITDAR (x)	3.6	2.6	2.7	2.0	2.0	2.4
Total debt with equity credit/operating EBITDA (x)	3.8	3.4	4.0	2.1	2.7	3.1
FFO adjusted leverage (x)	3.8	3.7	4.5	3.3	4.1	4.7
FFO adjusted net leverage (x)	3.5	2.8	2.9	2.6	2.6	3.2
FFO leverage (x)	3.8	3.6	4.3	2.9	3.7	4.3
FFO net leverage (x)	3.4	2.8	2.7	2.1	2.0	2.6
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-5,347	-1,691	-2,619	-78	-243	-2,255
Free cash flow after acquisitions and divestitures	-4,543	301	-348	1,753	1,253	-690
Free cash flow margin (after net acquisitions) (%)	-86.7	5.5	-0.7	3.5	2.5	-1.3
Coverage ratios						
FFO interest coverage (x)	9.5	10.3	11.5	11.1	9.8	11.0
FFO fixed-charge coverage (x)	8.5	9.3	7.3	6.1	5.1	5.2
Operating EBITDAR/interest paid + rents (x)	8.3	10.1	7.9	8.1	6.8	6.9
Operating EBITDA/interest paid (x)	9.3	11.1	12.6	15.2	13.3	15.0
Additional metrics						
CFO-capex/total debt with equity credit (%)	3.7	18.0	11.8	4.2	4.6	5.4
CFO-capex/total net debt with equity credit (%)	4.1	23.8	19.3	5.6	8.5	9.0

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

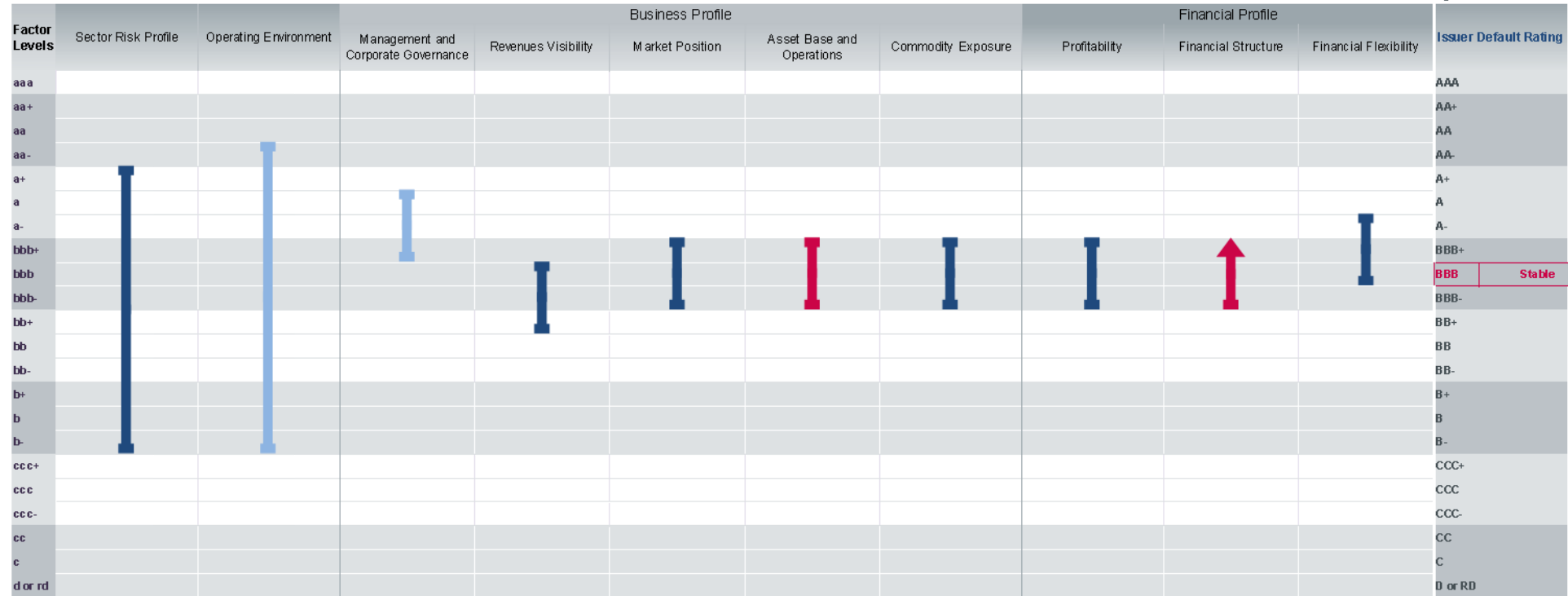
Ratings Navigator

FitchRatings

Fortum Oyj

ESG Relevance: 

Corporates Ratings Navigator
Global Electricity Generation



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		↑	Positive
■	Higher Importance	↓	Negative
■	Average Importance	↕	Evolving
■	Lower Importance	□	Stable

Operating Environment

aa	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
aa-	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Revenues Visibility

bbb+	Contracted Position	bb	Moderate visibility under PPAs or incentives with short to medium (3 years) term residual life, w/ manageable merchant risk, 50% to 80% contracted or incentivised.
bbb	Contract Renewal Risk	bb	Moderate re-contracting prospects with weaker contractual terms.
bbb-	System / Capacity Payments	bbb	Less transparent or shorter duration market pricing structures with some risk of political interference proving medium term price visibility for power generators.
bb+	Degree of Supply Integration	bb	Below average supply integration or high competitive pressure in retail operations.
bb	Resource Predictability	bbb	Stable and predictable capacity factor.

Asset Base and Operations

a-	Asset Quality and Diversity	bbb	Good single asset quality or partial diversification by geography and/or generation source.
bbb+	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations. Balanced generation between clean and thermal sources; medium carbon exposure.
bbb	Capital and Technological Intensity of Capex	bbb	Moderate reinvestments requirements in established technologies.
bbb-			
bb+			

Profitability

a-	Free Cash Flow	bbb	Structurally neutral to slightly negative FCF across the investment cycle.
bbb+	Cash Flow Predictability	bb	Lower stability and predictability of cash flow relative to peers.
bbb			
bbb-			
bb+			

Financial Flexibility

a	Financial Discipline	bbb	Less conservative policy, but generally applied consistently.
a-	Liquidity	a	Very comfortable liquidity; no need to use external financing in the next 12 months even under a severe stress scenario. Well spread debt maturity schedule. Diversified sources of funding.
bbb+	FFO Interest Coverage	a	5.5x
bbb	DSCR	n.a.	
bbb-	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

a+	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

Market Position

a-	Supply/Demand Dynamics	bb	Lower certainty outlook for prices. Potential price volatility from bulky capacity/demand expansion in system.
bbb+	Competitive Position	bbb	Efficient generation with recurrent merit dispatch.
bbb	Relative Size and Scale	bbb	Larger scale operations in an overall generation asset base or company supplies more than 20% of electricity to the systems where it operates or strong competitive position in a localized market.
bbb-			
bb+			

Commodity Exposure

a-	Counterparty Risk	bbb	Diversified, medium counterparty risk or weighted average credit quality of actual and potential off-takers is in line with 'BBB' rating. Single 'BBB' rated off-taker under well-structured PPA.
bbb+	Costs Pass-Through and Supply Mix	bbb	Limited exposure to changes in commodity costs with ability to pass cost changes to end users. Low variable costs and moderate flexibility/certain of supply.
bbb	Hedging Strategy	bbb	Portfolio/cash flow smoothing effects from extensive contractual hedge.
bbb-			
bb+			

Financial Structure

a-	FFO Leverage	bbb	3.5x
bbb+	FFO Net Leverage	bbb	3.0x
bbb	Total Debt With Equity Credit/Operating EBITDA	bbb	3.3x
bbb-			
bb+			

Credit-Relevant ESG Derivation

				Overall ESG
Fortum Oyj has 1 ESG rating driver and 11 ESG potential rating drivers				
key driver	0	issues	5	
driver	1	issues	4	
potential driver	11	issues	3	
not a rating driver	2	issues	2	
	0	issues	1	

- ➔ Fuel use to generate energy and serve load
- ➔ Emissions from operations
- ➔ Impact of waste from operations
- ➔ Plants' and networks' exposure to extreme weather
- ➔ Product affordability and access
- ➔ Quality and safety of products and services; data security

Showing top 6 issues

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Fortum Oyj has 1 ESG rating driver and 11 ESG potential rating drivers

- ➔ Fortum Oyj has exposure to energy productivity risk which, in combination with other factors, impacts the rating.
- ➔ Fortum Oyj has exposure to emissions regulatory risk but this has very low impact on the rating.
- ➔ Fortum Oyj has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Fortum Oyj has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Fortum Oyj has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Fortum Oyj has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

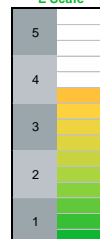
Overall ESG Scale

Category	Count	Issues	Score
key driver	0	issues	5
driver	1	issues	4
potential driver	11	issues	3
not a rating driver	2	issues	2
	0	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	3	Emissions from operations	Asset Base and Operations
Energy Management	4	Fuel use to generate energy and serve load	Asset Base and Operations; Counterparty and Commodity Exposure; Profitability
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants, also effluent management	Asset Base and Operations; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Profitability
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Profitability

E Scale



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

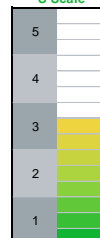
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Asset Base and Operations; Revenues Predictability; Profitability
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Asset Base and Operations
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Asset Base and Operations; Profitability
Employee Wellbeing	2	Worker safety and accident prevention	Asset Base and Operations
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Revenues Predictability; Profitability; Financial Structure

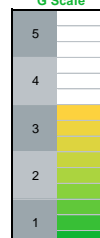
S Scale



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance; Financial Structure
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance; Counterparty and Commodity Exposure
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale

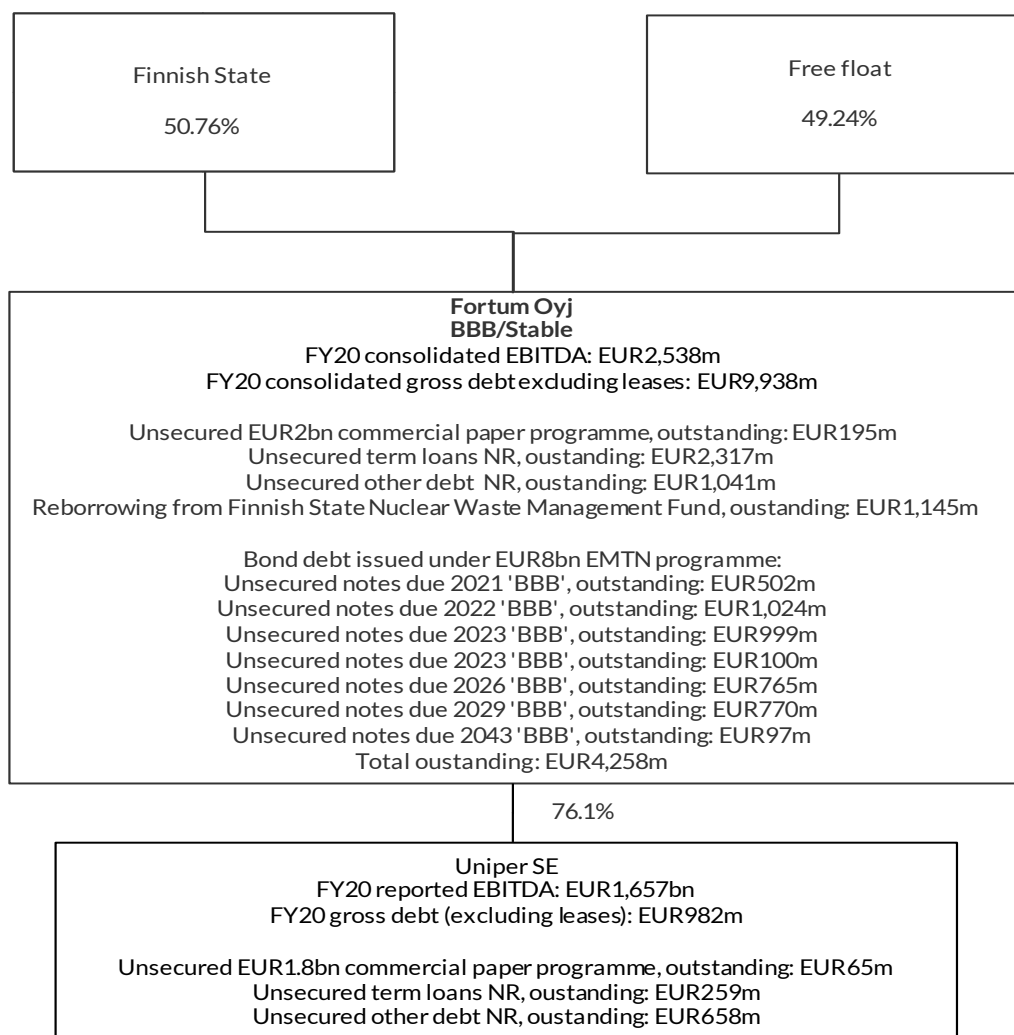


CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Note: FY20 = financial year ending December 2020.
Source: Fitch Ratings, Fitch Solutions, Fortum Oyj, as of December 2020

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (EURm)	FFO margin (%)	FFO Fixed-Charge Coverage (x)	FFO adjusted leverage (x)	FFO net leverage (x)
Fortum Oyj	BBB						
	BBB	2020	49,015	4.4	7.3	4.5	2.7
	BBB	2019	5,447	30.6	9.3	3.7	2.8
Orsted A/S	BBB	2018	5,242	28.1	8.5	3.8	3.4
	BBB+						
	BBB+	2019	9,429	13.7	3.7	4.2	2.0
Statkraft AS	BBB+	2018	10,125	13.0	4.1	3.4	0.8
	BBB+	2017	8,042	12.0	3.2	4.5	1.0
	BBB+						
ERG S.p.A.	BBB+	2020	3,165	27.0	13.7	3.2	2.5
	BBB+	2019	4,408	24.5	9.9	2.8	1.3
	BBB+	2018	5,762	30.0	13.5	2.1	0.7
RWE AG	BBB-						
	BBB-	2020	996	39.4	7.3	4.8	3.1
	BBB-	2019	1,044	38.1	6.6	4.6	3.1
RWE AG	BBB-	2018	1,046	37.2	5.9	4.7	3.0
	BBB+						
	BBB	2020	13,688	22.7	8.2	1.3	-1.9
RWE AG	BBB	2019	13,125	12.8	5.7	2.8	-1.0
	BBB	2018	12,288	3.7	2.1	6.0	-7.8

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

Fitch Adjustments and Reconciliation Table for Fortum Oyj

(EURm)	Notes and Formulas	Reported Values	Sum of Adjustments	Other Adjustments	Adjusted Values
31 December 2020					
Income Statement Summary					
Revenue		49,015			49,015
Operating EBITDAR		2,320	350	350	2,670
Operating EBITDAR After Associates and Minorities	(a)	2,281	350	350	2,631
Operating Lease Expense	(b)	0	132	132	132
Operating EBITDA	(c)	2,320	218	218	2,538
Operating EBITDA After Associates and Minorities	(d) = (a-b)	2,281	218	218	2,499
Operating EBIT	(e)	1,230	341	341	1,571
Debt and Cash Summary					
Total Debt with Equity Credit	(f)	10,662	-724	-724	9,938
Lease-Equivalent Debt	(g)	0	1,056	1,056	1,056
Other Off-Balance-Sheet Debt	(h)	0			0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	10,662	332	332	10,994
Readily Available Cash and Equivalents	(j)	2,307	1,564	1,564	3,871
Not Readily Available Cash and Equivalents		0			0
Cash Flow Summary					
Operating EBITDA After Associates and Minorities	(d) = (a-b)	2,281	218	218	2,499
Preferred Dividends (Paid)	(k)	0			0
Interest Received	(l)	46			46
Interest (Paid)	(m)	-208	9	9	-199
Cash Tax (Paid)		-267			-267
Other Items Before FFO		405	-350	-350	55
Funds from Operations (FFO)	(n)	2,257	-123	-123	2,134
Change in Working Capital (Fitch-Defined)		137			137
Cash Flow from Operations (CFO)	(o)	2,394	-123	-123	2,271
Non-Operating/Nonrecurring Cash Flow		0			0
Capital (Expenditures)	(p)	-2,902			-2,902
Common Dividends (Paid)		-977			-977
Free Cash Flow (FCF)		-1,485	-123	-123	-1,608
Gross Leverage (x)					
Total Adjusted Debt/Operating EBITDAR ^a	(i/a)	4.7			4.2
FFO Adjusted Leverage	(i)/(n-m-l-k+b)	4.4			4.5
FFO Leverage	(i-g)/(n-m-l-k)	4.4			4.3
Total Debt with Equity Credit/Operating EBITDA ^a	(i-g)/d	4.7			4.0
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	-4.8%			-6.3%
Net Leverage (x)					
Total Adjusted Net Debt/Operating EBITDAR ^a	(i-j)/a	3.7			2.7
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	3.5			2.9
FFO Net Leverage	(i-g-j)/(n-m-l-k)	3.5			2.7
Total Net Debt with Equity Credit/Operating EBITDA ^a	(i-g-j)/d	3.7			2.4
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	-6.1%			-10.4%
Coverage (x)					
Operating EBITDA/(Interest Paid + Lease Expense) ^a	a/(-m+b)	11.0			7.9
Operating EBITDA/Interest Paid ^a	d/(-m)	11.0			12.6
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	11.6			7.3
FFO Interest Coverage	(n-l-m-k)/(-m-k)	11.6			11.5

^aEBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, Fortum Oyj

Note: Fitch adjusts the financial data to treat Fortum's margining asset and liabilities as cash and financial debt, respectively. This choice considers the high quality of the clearing house counterparty and the artificial volatility of cash flows and net debt that would derive from considering these items as working capital. This adjustment reduces FY20 net debt by around EUR800 million, with a reduction in FFO net leverage of around 0.4x.

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