

Fortum Oyj

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 03 June 2019
Senior unsecured rating	BBB		Affirmed 03 June 2019
Click here for full list of ratings			

Financial Summary

(EURm)	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F
Gross Revenue	4,520	5,242	6,079	7,050
Operating EBITDA (Before Income from Associates)	1,275	1,524	1,608	1,642
Operating EBITDA Margin (%)	28.2	29.1	26.5	23.3
FFO Fixed-Charge Coverage (x)	5.0	8.5	8.8	9.9
FFO Adjusted Net Leverage (x)	1.2	3.5	3.5	3.3
Source: Fitch Ratings, Fitch Solutions				

The ratings reflect Fortum Oyj's strong and well-managed generation fleet and solid recent trading, driven by a supportive power price environment. In addition, hedging mitigates the impact of price volatility in the Nordic region. Fitch Ratings assumes higher Nord Pool prices compared with recent years and expects Fortum to apply high capex scrutiny in the medium term, to see positive free cash flow (FCF) and to remain within our rating sensitivities with moderate leverage headroom.

Discussions on cooperation between Fortum and Uniper are continuing. In our rating case we continue to treat Uniper as a financial investment and we believe that Uniper's control and full consolidation would likely affect Fortum's debt capacity, but not necessarily the ratings.

Key Rating Drivers

Evolving Business Mix: After the acquisition of Uniper's 49.99% stake in 2018, Fortum is focusing on the operational efficiency of generation assets, portfolio optimisation, investment in renewables and building options for new businesses. The latter includes waste-to-energy generation but also pure recycling, waste treatment and other related services to increase the contribution of non-power price-linked EBITDA. As for renewables, the company's target is to develop a multi-gigawatt portfolio in wind and solar, the recurring contribution of which to EBITDA will however be fairly limited in the medium term, due to the use of joint ventures and implementation of asset-rotation transactions.

Moderate Leverage Headroom: Main financial targets include a dividend pay-out of 50%-80% and net debt/EBITDA of around 2.5x (2018: 3.6x), consistent with our rating sensitivities. Management expects to reach its leverage target in two to three years, due mainly to decreasing capex from 2020 (the company guides EUR600 million-EUR650 million in 2019) and improving business performance linked to favourable prices and efficiencies. Our rating case, which includes more conservative margin assumptions, foresees average FCF of almost EUR100 million and a funds from operations (FFO)-adjusted net leverage of 3.3x on average for 2019-2023, with moderate headroom to our negative sensitivity of 3.8x.

Improving Relationship with Uniper: Based on our expectations, dividends received from Uniper should increase to an average of around 15% of Fortum's FFO in 2019-2023. We expect also greater cooperation between the two companies after the appointment of Uniper's top management from June 2019. At present, Fortum is prevented from increasing its stake above 50%, due to provisions of Russian law related to some Russian assets owned by Uniper. We do not include in our forecasts any change to Uniper's status as an associate of Fortum. We believe that a full consolidation of Uniper into Fortum's accounts would most likely lead to a downward revision of the group's debt capacity.

Solid Current Trading: Fortum's EBITDA grew 19.5% to EUR1.5 billion in 2018 and exceeded our expectations by roughly EUR100 million. This was mainly driven by generation on high power prices in the Nordic region, which has continued into 2019. Earnings in 'city solutions division grew due mainly to full-year consolidation of power group Hafslund ASA, in 2018. We expect Fortum's EBITDA of around EUR1.6 billion in 2019, on an improved hedging position in March 2019 (compared with a year ago), estimated healthy growth for generation, and more moderate growth for city and consumer solutions.

Nordic Power Prices to Ease: Cold and dry weather in the Nordic region, together with an increase in coal and CO2 prices, moved the Nord Pool area price up to EUR44/MWh in 2018. The continued increase in marginal cost of coal kept prices high at EUR47/MWh in 1Q19. Forward contract prices suggest a decline in prices over the next few years, albeit remaining above EUR30/MWh. Prices in the region will continue to be volatile given a large share of hydro in the generation mix and large temperature swings. Differentials between price areas could decrease, as further investments in transmission capacity support the availability of cheaper hydro across the region.

Steady Contribution from Russia: Fortum's activities in Russia contribute around 25% to group EBITDA, based on our projections. Installed power capacity is almost 5GW, while heat capacity contributes an additional 8.6GW. Long-term capacity supply agreements (CSA) mainly sustain EBITDA in Russia, which underpins stability of results and partially offsets risks related to the weaker Russian operating environment and FX. Capacity income in Russia is the main source of quasi-regulated income for Fortum at 15%-20% of EBITDA. Fortum also operates some renewables plants in Russia (70MW) and has a 50/50 joint venture with a total pipeline of more than 1,800MW of CSA-backed wind capacity.

No Impact from GRE: Fortum is 50.8%-owned by Finland (AA+/Positive). We assess all factors under our [Government-Related Entities Rating Criteria](#) as 'weak' or 'moderate', resulting in no uplift to Fortum's ratings.

Rating Derivation Relative to Peers

Rating Derivation Versus Peers	
Peer Comparison	<p>Compared with the wider top European utilities peer group, Fortum's share of regulated and contracted income is among the lowest; however, this is to some extent offset by Fortum's good-quality fleet of mainly hydro and nuclear plants with high historical load factors, particularly in Finland. Among Nordic peers, Statkraft AS (BBB+/Stable) benefits from its long-term contracts and low-cost hydro asset base as well as a one-notch uplift for sovereign support. Vattenfall AB (WD; affirmed at BBB+/Stable before rating withdrawal) is more integrated through its regulated network operations (representing almost 30% of EBITDA), placing its rating one notch above Fortum's. Furthermore, about a quarter of Fortum's earnings are generated in Russia, which we see as increasing Fortum's business risk relative to Nordic peers'.</p> <p>Based on our assessment of Fortum's strong financial flexibility and adequate financial structure, the higher of the two Short-Term Issuer Default Ratings (IDRs) mapping to the current Long-Term IDR has now been assigned. Any material weakening in financial flexibility, financial structure or operating environment conditions could lead to the assignment of the lower of the two Short-Term IDRs corresponding to the current Long-Term IDR.</p>
Parent/Subsidiary Linkage	GRE Criteria is applicable with no impact on the ratings.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	None.
Source: Fitch Ratings	

Navigator Peer Comparison

Issuer		Business profile							Financial profile					
Name	IDR/Outlook	Operating Environment		Management and Corporate Governance		Position and Cash Flow Profile		Regulation	Market Trends and Risks	Asset Base and Operations		Profitability and Cash Flow	Financial Structure	Financial Flexibility
Fortum Oyj	BBB-/Sta	aa-	■	a-	■	bbb-	■	a	■	bbb	■	bbb+	■	■
Statkraft AS	BBB+/Sta	aa	■	a-	■	bbb-	■	a-	■	bbb	■	a-	■	■
Orsted A/S	BBB-/Sta	aa	■	a-	■	bbb+	■	a	■	bbb	■	bbb+	■	■
Source: Fitch Ratings														
Importance ■ Higher ■ Moderate ■ Lower														

Issuer		Business profile							Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility	
Fortum Oyj	BBB-/Sta	5.0	2.0	-1.0	3.0	0.0	1.0	0.0	0.0	1.0	
Statkraft AS	BBB-/Sta	5.0	1.0	-2.0	1.0	-1.0	1.0	-2.0	-1.0	0.0	
Orsted A/S	BBB-/Sta	5.0	1.0	0.0	2.0	-1.0	0.0	-2.0	2.0	-1.0	
Source: Fitch Ratings				Worse positioned than IDR			In line with IDR			Better positioned than IDR	

Rating Sensitivities

Rating Upside Is Limited Due to Risks Related to the Integration of the Uniper Business and the Incremental Debt Related to the Acquisition. However, Developments That May, Individually or Collectively, Lead to Positive Rating Action Are

- FFO adjusted net leverage below 3.0x and FFO fixed-charge cover above 6.0x, all on a sustained basis

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- FFO adjusted net leverage above 3.8x on a sustained basis
- FFO fixed-charge cover below 4.0x on a sustained basis
- Significant deterioration of the political, economic or regulatory environment in Russia
- Significant structural decline in Nord Pool power prices
- Control and full consolidation of Uniper, which could lead to a tightening of our rating sensitivities

Liquidity and Debt Structure

Adequate Liquidity: Fortum's reported cash and short-term investments totalled EUR1.7 billion at end-March 2019 and with committed unused credit lines of EUR1.8 billion (maturing in June 2023), total available liquidity was a strong EUR3.5 billion. This compares with short-term maturities of EUR821 million at end-March 2019 and dividends of EUR977 million paid out in early April 2019. In February 2019, Fortum issued EUR2.5 billion of new bonds with coupons around 2%.

The proceeds were used to repay a bridge facility drawn for the Uniper transaction, and to repay a EUR750 million 6% coupon bond in February. This should lower Fortum's interest expenses, and we project FCF to be positive over the next four years.

Liquidity and Debt Maturity Scenario with No Refinancing

Available Liquidity (EURm.)	2019F	2020F	2021F	2022F
Beginning Cash Balance	564	368	503	13
Rating Case FCF After Acquisitions and Divestitures	140	168	27	115
EUR2.5bn new issue	2,500			
Total Available Liquidity (A)	3,204	536	530	128
Liquidity Uses				
Debt Maturities	-1,086	-33	-517	-1,042
Repayment of bridge facility	-1,750			
Total Liquidity Uses (B)	-2,836	-33	-517	-1,042
Liquidity Calculation				
Ending Cash Balance (A+B)	368	503	13	-914
Revolver Availability	1,800	1,800	1,800	1,800
Ending Liquidity	2,168	2,303	1,813	886
Liquidity Score	2.3	70.8	4.5	1.8

Source: Fitch Ratings, Fitch Solutions, Fortum

Scheduled Debt Maturities	Original
Statement Date	31 December 2018
2019	1,086
2020	33
2021	2,267
2022	1,042
2023	100
Thereafter	1,565
Total	6,093

Source: Fitch Ratings, Fitch Solutions, Fortum

Key Assumptions

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

- 75% of 2019 volumes hedged at EUR32/MWh, 55% of 2020 volumes at EUR31/MWh and 20% of 2021 volumes at EUR31/MWh
- Power prices based on Nord Pool forwards, with a EUR3/MWh premium on Finland area prices in 2019, and premium declining to EUR2.6/MWh by 2023 for unhedged volumes
- In Russia, capacity payments on a declining trend
- RUB/EUR rate of around 80
- Moderate growth at city and consumer solutions, driven by growth in waste/recycling and other value-added services
- Capex as per management's guidance for 2019, before gradually declining towards maintenance capex levels
- Dividends stable at EUR977 million per year

Financial Data

(EURm)	Historical			Forecast		
	Dec 2016	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F
Summary Income Statement						
Gross Revenue	3,632	4,520	5,242	6,079	7,050	8,177
Revenue Growth (%)	5.0	24.4	16.0	16.0	16.0	16.0
Operating EBITDA (Before Income from Associates)	1,015	1,275	1,524	1,608	1,642	1,649
Operating EBITDA Margin (%)	27.9	28.2	29.1	26.5	23.3	20.2
Operating EBITDAR	1,030	1,308	1,547	1,632	1,666	1,673
Operating EBITDAR Margin (%)	28.4	28.9	29.5	26.8	23.6	20.5
Operating EBIT	644	811	988	1,051	1,050	1,055
Operating EBIT Margin (%)	17.7	17.9	18.8	17.3	14.9	12.9
Gross Interest Expense	-185	-180	-148	-159	-144	-144
Pretax Income (Including Associate Income/Loss)	594	1,111	1,040	1,213	1,303	1,399
Summary Balance Sheet						
Readily Available Cash and Equivalents	4,972	3,790	564	404	491	489
Total Debt with Equity Credit	5,107	4,885	6,093	5,757	5,724	5,707
Total Adjusted Debt with Equity Credit	5,227	5,149	6,277	5,945	5,915	5,902
Net Debt	135	1,095	5,529	5,353	5,233	5,218
Summary Cash Flow Statement						
Operating EBITDA	1,015	1,275	1,524	1,608	1,642	1,649
Cash Interest Paid	-214	-187	-171	-159	-144	-144
Cash Tax	-216	-83	-94	-244	-248	-266
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	54	58	61	210	250	300
Other Items Before FFO	45	-187	131	0	0	0
Funds Flow from Operations	723	911	1,474	1,416	1,500	1,539
FFO Margin (%)	19.9	20.2	28.1	23.3	21.3	18.8
Change in Working Capital	-102	81	-670	500	100	0
Cash Flow from Operations (Fitch Defined)	621	992	804	1,916	1,600	1,539
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-599	-657	-579			
Capital Intensity (Capex/Revenue) (%)	16.5	14.5	11.0			
Common Dividends	-977	-977	-977			
Free Cash Flow	-955	-642	-752			
Net Acquisitions and Divestitures	-646	-223	-3,791			
Other Investing and Financing Cash Flow Items	-447	46	-81	36	-48	-12
Net Debt Proceeds	-999	-440	1,313	-336	-33	-17
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	-3,047	-1,259	-3,311	-161	87	-2
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-2,222	-1,857	-5,347	-1,776	-1,432	-1,512

Free Cash Flow After Acquisitions and Divestitures	-1,601	-865	-4,543	140	168	27
Free Cash Flow Margin (After Net Acquisitions) (%)	-44.1	-19.1	-86.7	2.3	2.4	0.3
Coverage Ratios						
FFO Interest Coverage (x)	4.2	5.7	9.5	9.9	11.4	11.7
FFO Fixed-Charge Coverage (x)	4.0	5.0	8.5	8.8	9.9	10.2
Operating EBITDAR/Interest Paid + Rents (x)	4.7	6.2	8.3	10.1	11.4	11.7
Operating EBITDA/Interest Paid (x)	5.0	7.1	9.3	11.5	13.1	13.6
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	4.8	3.8	3.9	3.2	3.1	3.0
Total Adjusted Net Debt/Operating EBITDAR (x)	0.2	1.0	3.6	3.0	2.8	2.7
Total Debt with Equity Credit/Operating EBITDA (x)	4.8	3.7	3.8	3.2	3.0	2.9
FFO Adjusted Leverage (x)	5.7	4.7	3.8	3.7	3.5	3.5
FFO Adjusted Net Leverage (x)	0.3	1.2	3.5	3.5	3.3	3.2
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

EMEA Utilities

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Business Profile Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Profile Financial Structure	Financial Flexibility	Issuer Default Rating	
aaa											AAA	
aa+											AA+	
aa											AA	
aa-											AA-	
a+											A+	
a											A	
a-											A-	
bbb+											BBB+	
bbb											BBB	Stable
bbb-											BBB-	
bb+											BB+	
bb											BB	
bb-											BB-	
b+											B+	
b											B	
b-											B-	
ccc+											CCC+	
ccc											CCC	
ccc-											CCC-	
cc											CC	
c											C	
d or rd											D or RD	

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 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+			

Position and Cash Flow Profile

bbb+	Market Presence and Integration	bbb	Top-tier position in at least one market. Partially integrated (typically including generation, distribution and supply).
bbb	Earnings from Regulated Network Assets	b	Minimal EBITDA comes from high-quality regulated networks or quasi-regulated assets.
bbb-	Quasi-Regulated Earnings	bbb	10%-20% of EBITDA comes from quasi-regulated assets or from long-term contracted sales with creditworthy counterparties.
bb+			
bb			

Market Trends and Risks

a-	Fundamental Market Trends	bbb	Markets with emerging structural challenges.
bbb+	Generation and Supply Positioning	bbb	Average position in the merit order; short term hedging. Generation largely balanced with medium position in supply and services.
bbb	Customer Base and Counterparty Risk	a	Economy of area served provides structurally stable background; low counterparty risk; high collection rates for supply operations.
bbb-			
bb+			

Profitability and Cash Flow

a-	Free Cashflow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb+	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb			
bbb-			
bb+			

Financial Flexibility

a	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
a-	Liquidity	a	Very comfortable liquidity. Well-spread debt maturity schedule. Diversified sources of funding.
bbb+	FFO Fixed Charge Cover	a	5.0x
bbb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bbb-			

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 checks and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure has some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	a	High-quality and timely financial reporting.
bbb			

Regulation

aa-	Regulatory Framework and Policy Risk	a	Transparent frameworks with strong track record and multi-year predictable tariffs set by independent regulators; little political risk.
a+	Cost Recovery and Risk Exposure	n.a.	
a			
a-			
bbb+			

Asset Base and Operations

a	Asset Quality	a	High asset quality likely to benefit opex and capex requirements compared with peers.
a-	Asset Diversity	bbb	Partial diversification by geography, generation source, supplied product.
bbb+	Carbon Exposure	bbb	Energy production balanced between clean and thermal sources; medium carbon exposure (< 450gCO ₂ /kWh).
bbb			
bbb-			

Financial Structure

a-	Lease Adjusted FFO Gross Leverage	bbb	5.0x
bbb+	Lease Adjusted FFO Net Leverage	bbb	4.5x
bbb			
bbb-			
bb+			

Credit-Relevant ESG Derivation

				Overall ESG	
Fortum Oyj has 12 ESG potential rating drivers				key driver	0 issues
➡	Emissions from operations	driver	0 issues	5	
➡	Fuel use to generate energy	driver	0 issues	4	
➡	Impact of waste from operations	potential driver	12 issues	3	
➡	Plants' and networks' exposure to extreme weather	potential driver	12 issues	3	
➡	Product affordability and access	not a rating driver	2 issues	2	
➡	Quality and safety of products and services; data security	not a rating driver	0 issues	1	
Showing top 6 issues					

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

Credit-Relevant ESG Derivation

Fortum Oyj has 12 ESG potential rating drivers

- Fortum Oyj has exposure to emissions regulatory risk but this has very low impact on the rating.
- Fortum Oyj has exposure to energy productivity 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.

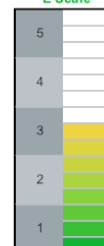
Showing top 6 issues

Overall ESG Scale				
key driver	0	issues	5	
driver	0	issues	4	
potential driver	12	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; Profitability and Cash Flow
Energy Management	3	Fuel use to generate energy	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants; effluent management	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Profitability and Cash Flow
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Profitability and Cash Flow

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 left-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.

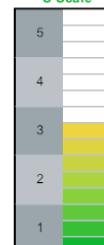
The **Credit-Relevant ESG Derivation** table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Social (S)

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

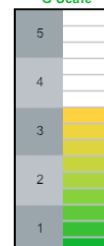
S Scale



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
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
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale

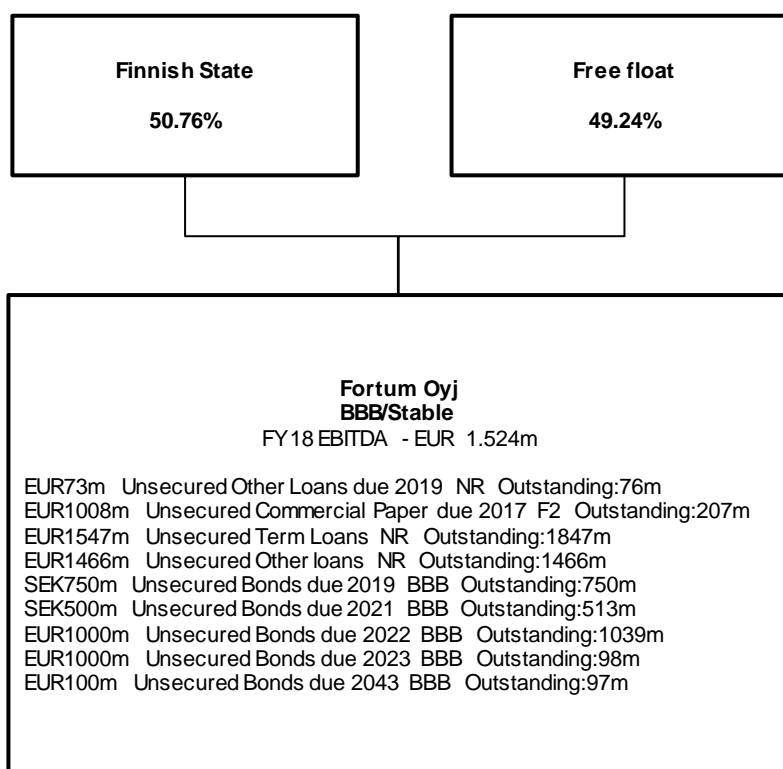


CREDIT-RELEVANT ESG SCALE

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



Source: Fitch Ratings, Fitch Solutions, Fortum, as at December 2018

Peer Financial Summary

Company	IDR	Financial Statement Date	Operating EBITDA (Before Income From Associates) (EURm)	Funds Flow from Operations (EURm)	Free Cash Flow (EURm)	FFO Fixed-Charge Coverage (x)	FFO Adjusted Net Leverage (x)
Fortum Oyj	BBB						
		2020F	1,642	1,500	168	9.9	3.3
		2019F	1,608	1,416	140	8.8	3.5
	BBB	2018	1,524	1,474	-752	8.5	3.5
	BBB+	2017	1,275	911	-642	5.0	1.2
Statkraft AS	BBB+						
		2020F	1,669	1,056	-570	9.3	2.3
		2019F	1,960	1,212	-753	9.5	1.6
	BBB+	2018	1,928	1,729	381	13.5	0.8
	BBB+	2017	1,555	979	176	6.7	2.6
Vattenfall AB	WD						
	BBB+	2018	3,315	2,018	1,399	5.9	2.8
	BBB+	2017	3,543	2,658	475	5.3	2.7
Orsted A/S	BBB+						
		2020F	2,009	1,140	-925	4.5	1.6
		2019F	1,922	1,530	-396	5.6	1.1
	BBB+	2018	1,810	1,318	-1,201	4.1	1.2
	BBB+	2017	1,601	968	-2,729	3.2	1.6

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(EUR Millions, As reported)	31 Dec 2018
Income Statement Summary	
Operating EBITDA	1,524
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	61
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	1,585
+ Operating Lease Expense Treated as Capitalised (h)	23
= Operating EBITDAR after Associates and Minorities (j)	1,608
Debt & Cash Summary	
Total Debt with Equity Credit (l)	6,093
+ Lease-Equivalent Debt	184
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	6,277
Readily Available Cash [Fitch-Defined]	564
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	564
Total Adjusted Net Debt (b)	5,713
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	23
+ Interest (Paid) (d)	-171
= Net Finance Charge (e)	-148
Funds From Operations [FFO] (c)	1,474
+ Change in Working Capital [Fitch-Defined]	-670
= Cash Flow from Operations [CFO] (n)	804
Capital Expenditures (m)	-579
Multiple applied to Capitalised Leases	8.0
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	3.9
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	3.8
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	3.8
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	3.6
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	3.5
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	24.6
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	8.3
Op. EBITDA / Interest Paid* [x] (k/(-d))	9.3
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	8.5
<i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	9.5
<i>(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDA/R after Dividends to Associates and Minorities	
Source: Fitch Ratings, Fitch Solutions, Fortum	

Fitch Adjustment Reconciliation

	Reported Values 31 Dec 18	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Cash Adjustment	Lease Adjustment	Adjusted Values
EURm						
Income Statement Summary						
Revenue	5,242	0				5,242
Operating EBITDAR	1,524	23			23	1,547
Operating EBITDAR after Associates and Minorities	1,524	84	61		23	1,608
Operating Lease Expense	0	23			23	23
Operating EBITDA	1,524	0				1,524
Operating EBITDA after Associates and Minorities	1,524	61	61			1,585
Operating EBIT	988	0				988
Debt & Cash Summary						
Total Debt With Equity Credit	6,093	0				6,093
Total Adjusted Debt With Equity Credit	6,093	184			184	6,277
Lease-Equivalent Debt	0	184			184	184
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	584	-20		-20		564
Not Readily Available Cash & Equivalents	0	20		20		20
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0				0
Interest Received	23	0				23
Interest (Paid)	-171	0				-171
Funds From Operations [FFO]	1,413	61	61			1,474
Change in Working Capital [Fitch-Defined]	-670	0				-670
Cash Flow from Operations [CFO]	743	61	61			804
Non-Operating/Non-Recurring Cash Flow	0	0				0
Capital (Expenditures)	-579	0				-579
Common Dividends (Paid)	-977	0				-977
Free Cash Flow [FCF]	-813	61	61			-752
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	4.0					3.9
FFO Adjusted Leverage [x]	3.9					3.8
Total Debt With Equity Credit / Op. EBITDA* [x]	4.0					3.8
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	3.6					3.6
FFO Adjusted Net Leverage [x]	3.5					3.5
Total Net Debt / (CFO - Capex) [x]	33.6					24.6
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	8.9					8.3
Op. EBITDA / Interest Paid* [x]	8.9					9.3
FFO Fixed Charge Coverage [x]	9.1					8.5
FFO Interest Coverage [x]	9.1					9.5
*EBITDA/R after Dividends to Associates and Minorities						
Source: Fitch Ratings, Fitch Solutions, Fortum						

Related Research & Criteria

[Fitch Affirms Fortum at 'BBB'; Outlook Stable \(June 2019\)](#)

[Corporate Rating Criteria \(February 2019\)](#)

[Government-Related Entities Rating Criteria \(March 2019\)](#)

[Corporates Notching and Recovery Ratings Criteria \(March 2018\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

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