

Rating object

Fortum Oyj
Long term local currency senior unsecured issues, issued by Fortum Oyj

Rating incl. outlook / watch

BBB / negative
BBB / negative

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

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

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Fortum Oyj	12.09.2022	12.09.2022	Until withdrawal
Long term local currency senior unsecured issues, issued by Fortum Oyj	12.09.2022	12.09.2022	Until withdrawal

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

Rating summary:

Creditreform Rating AG has affirmed the unsolicited corporate issuer, as well as unsolicited corporate issue rating of Fortum Oyj at **BBB**. The Watch NEW is withdrawn and replaced with a **negative** outlook. The negative outlook of Fortum's unsolicited corporate issue rating reflects the increased volatility and uncertainty in the energy markets and the current situation at Fortum's subsidiary Uniper SE, currently generating losses at an unprecedented and accelerating rate due to the Russian gas curtailments. The downward pressure caused by Uniper on Fortum's rating is currently limited as the stabilization package agreed upon between the German government, Fortum and Uniper limits the exposure of Fortum to the current situation at Uniper as there will most likely be no further cash-flows between the two companies in the near term. The German government is also prepared to offer further extraordinary financial support should losses directly related to the gas curtailments exceed EUR 7 billion. The close relationship to the German government and its willingness to continue to offer extraordinary financial support to Uniper is a stabilizing factor in the rating. The stabilization package is, however, still subject for approval by the European Commission, and could significantly alter the course of events at Uniper. No approval of the package would most likely result in a downgrade for Fortum Oyj. Additionally, if the volatility and uncertainty in the energy markets turn out to be long-term and will not be resolved the rating will also undergo a review for downgrade.

The extreme conditions under which Fortum and especially its subsidiary Uniper had to operate during the first six months of 2022 led to unprecedented losses. Fortum generated revenues of EUR 81,860 million (H1 2021: EUR 38,621 million), EBIT of EUR -11,557 million (H1 2021: EUR 505 million) and EAT of EUR -10,189 million (H1 2021: EUR 651 million). The significant losses suffered were predominantly due to the Uniper segment, which continues to be plagued by the effects of the Russian gas curtailments. Since 14 June, Gazprom has significantly reduced its deliveries of contracted gas volumes, forcing Uniper to source replacement volumes on the market at significantly higher prices without any possibility to pass on the higher costs. As the curtailments started on 14 June and varied between gas deliveries of 20% and 40% of the agreed amount the operating losses suffered as of 30 June were limited to EUR 403 million, but were increasing at an accelerating pace reaching EUR 3.8 billion by August 17. At the end of the half year, however, the overwhelming share of operating losses of EUR -11,557 million, stemmed from fair value changes in non-hedge accounted derivatives and provisions made for long-term gas contracts which were negatively impacted by the Russian gas curtailments. This includes EUR 6,500 million expected gas curtailment losses and includes a EUR 2,400 million provision for long-term gas contracts negatively impacted by Russian gas curtailments. Further negative effects were the impairments of EUR 320 million of Fortum's Russia segment, as well as EUR 656 million of impairments related to Uniper's subsidiary Unipro, and an impairment of approximately EUR 1,003 million on the outstanding loan receivable related to the Nord Stream 2 project company. It is noteworthy to point out that Fortum has not yet tested the goodwill relating to Uniper on its balance sheet for impairment, but will do so once the detailed terms and conditions of the stabilization package have been finalised.

The increasing losses due to the curtailed Russian gas supply are causing a surge in liquidity needs. For this reason, the German government amended the energy security act (EnSiG) on 8 July. On the same day, Uniper filed for government support under the newly adopted German energy legislation. Subsequently, on 22 July 2022 Fortum, Uniper and the German government agreed on a stabilization package. The stabilization package entails that the German state will take a 30% stake in Uniper SE by subscribing approximately 157 million new ordinary shares against a cash consideration of EUR 267 million and the issuance of a mandatory convertible bond of up to EUR 7.7 billion, which will be fully subscribed by the German government. Fortum, however, has the possibility to convert its existing and fully drawn shareholder loan of EUR 4 billion against a portion of a maximum of 70% of the mandatory convertible instruments subscribed by the German state in order to prevent further dilution of its holding in Uniper. The stake of Fortum in Uniper will decrease from 80% to approximately 56% after the German participation of 30% and could fall further should Fortum decide not to use its option to convert in the mandatory convertible instrument. Additionally, the KfW will increase its existing credit facility from EUR 2 billion to EUR 9 billion to provide further liquidity support. On 29 August Uniper published that it had fully drawn the EUR 9 billion KfW credit facility and that it requested an increase of an additional EUR 4 billion, increasing the facility to a total of EUR 13 billion in order

to ensure short term liquidity. Further details of the stabilization package, including the equity measures, are currently being worked out in more detail. The German government also plans to introduce a cost pass through mechanism that will cover 90% of losses resulting from the higher costs of sourcing replacement volumes of the Russian gas curtailments from 1 October 2022. Additionally, the German government is willing to provide further government support if the accumulated net operating losses exceed EUR 7 billion due to continuing gas curtailments.

The stabilization package is still subject to regulatory approvals, such as the approval of state aid from the European Commission and the approval of Uniper shareholders. Fortum's current exposure consist of a provided shareholder loan of EUR 4 billion and a parent company guarantee of EUR 4 billion. The stabilization package is stabilizing the situation both at Uniper as well as Fortum as the current exposure of Fortum is limited and is not likely to increase in the near term as there will be no need for cash-flows between Fortum and Uniper in the near term. A negative outcome with regard to the approval of the stabilization package approval would cause a going concern risk for Uniper and would completely change the current situation. The decision by Gazprom to completely halt gas deliveries again increased the rate at which Uniper is generating losses and we do not consider it unlikely that Uniper will require further extraordinary government support.

Fortum, as well as Uniper, with its Russian subsidiary Unipro, are still aiming for a controlled exit from the Russian market. They are currently looking for potential divestments, which take time to complete and are often subject to regulatory approvals. No further investments will be made in Russia and existing contracts with Russia will not be renewed. Fortum adjusted by the Uniper segment and Russian impairments showed more or less showed stable performance and performed even slightly better due to the higher achieved electricity prices which was slightly offset by the relatively high hedge rate. On September 6 Fortum announced that it had signed a bridge financing arrangement with the Finnish state to cover collateral needs in the Nordic power commodity market. The loan is EUR 2.35 billion in total and should only be used as a large resort and cannot be used to cover any collateral needs for Uniper. The liquidity facility will remain effective for one year and the first tranche of a minimum of EUR 350 million must be drawn latest on 30 September 2022 in order for the arrangement to remain effective. According to Fortum it has sufficient liquidity to meet the current collateral needs.

Primary key rating drivers:

- + Stabilization package stabilizes the current situation at Fortum's subsidiary Uniper and limits the exposure for Fortum
- + Stabilization package brings back stability in a difficult market environment

- Russian gas curtailments continue to cause significant operating losses and increase liquidity for sourcing replacement volumes
- Significant impairments on Russian assets, and Nordstream 2 loan
- Increased volatility in energy markets

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.

Please see our ESG analysis in the rating update published on 28 January 2022, which is available on our website.

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

Rating scenarios:

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

Best-case scenario: BBB

In our best-case scenario for one year, we assume a rating of BBB. This scenario reflects the current situation surrounding Fortum's subsidiary Uniper and the volatility and general uncertainty in the energy markets, which continue to be a negative factor in our rating assessment. The aforementioned factors make it unlikely that the rating will be adjusted upwards within a time horizon of a year.

Worst-case scenario: BB+

In our worst-case scenario for one year, we assume a rating of BB+. This scenario reflects a situation where the stabilization package will not be approved and the volatility in the energy markets continue to be present. Leading to further significant liquidity problems, which continue to weigh on Fortum's financials.

Analysts / Person approving (PAC):

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Initial rating:

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

Status of solicitation and information basis:

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

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

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.4	01.07.2022
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

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

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

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

No ancillary services in the regulatory sense were carried out for this rating object.

Rules on the presentation of credit ratings and rating outlooks

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

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.

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