

RATING ACTION COMMENTARY

Fitch Affirms TVO at 'BBB-/Stable

Fri 17 May, 2024 - 10:24 AM ET

Fitch Ratings - Milan - 17 May 2024: Fitch Ratings has affirmed Teollisuuden Voima Oyj's (TVO) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-'. The Outlook on the IDR is Stable Outlook. Fitch has also assigned its upcoming EUR600 million senior unsecured notes, issued under its EUR5.0 billion euro medium-term note programme, a final 'BBB-' rating. A full list of rating actions is below.

The affirmation reflects the positive operational performance of TVO's nuclear fleet, the solid average credit profile of its shareholders base as well as the start of progressive gross debt reduction from the EUR5.4 billion peak reached in May 2023.

On the other hand, faster-than-expected decline in energy prices and a lowered electricity production forecast due to certain limitations imposed by the transmission system operator (TSO) sensibly compress value-creation expectation for shareholders, while TVO continues to offer them baseload production. Our expectation of stable engagement from the shareholder base underpins the Stable Outlook.

KEY RATING DRIVERS

Satisfactory Operational Record for OL3: Apart from a five-week extension to planned maintenance, Olkiluoto 3 (OL3) operations proceeded satisfactorily and production in 2023 stood at almost 10.4TWh. We expect output at below 10 TWh in 2024 due to longer-than-expected outage, which together with 14-15 TWh of OL1/OL2, will satisfy around 30% of Finland's national supply.

Progressive Debt Reduction: We forecast adjusted net debt to steadily reduce to EUR4.7 billion in 2028 from EUR5.3 billion at end-2023. This is due to full cost coverage (including OL3) by shareholders from May 2023, including depreciation and financial charges, and limited maintenance investments of around EUR100 million- EUR150 million per year.

Based on our long-term estimates of cash investments and depreciation to be recovered from the shareholders under Mankala principles, gradual debt reduction should match the remaining average useful life of the assets that we estimate at around 36 years. If the asset life is extended (up to an additional 20 years) or if the asset capacity is expanded (up to an additional 160MW) for OL1 and OL2, we believe this balance between debt and asset life could also improve.

Reduced Value Creation Prospects: The improved equilibrium in Nordics energy markets is leading to faster-than-expected energy price normalisation around EUR40-EUR45/MWh for the Finnish area. This implies a reduction of the abnormally high shareholder value created by TVO in 2022-2023.

The benefits of access to reliable and stable nuclear production remain intact, but TVO's blended cost of production, including capital costs, is expected to rise to EUR35-EUR40/MWh for 2024-2028. This increase mainly stems from the capacity limits imposed on OL3 by the TSO, and reduced estimated future annual production on top of realised inflation, interest rate and uranium price pressures.

Solid Shareholder Credit Quality: TVO's position is a not-for-profit Finnish nuclear generator, producing at-cost electricity (including capital costs) for its five shareholders. Its largest shareholder (58.5%) is Pohjolan Voima Oyj, a not-for-profit electricity generator owned by a consortium of Finnish industrials (mainly pulp and paper companies UPM-Kymmene Oyj (through its 100 subsidiary UPM Energy Oy) and Stora Enso Oyj (BBB-/Stable)) and utilities. Its second-largest shareholder (with 25.8%) is Fortum Power & Heat Oy, a 100% subsidiary of Fortum Oyj (BBB/Stable).

Mankala Principles: TVO has no direct exposure to wholesale electricity prices or volumes, as its shareholders are at-cost off-takers of the electricity produced. If a shareholder fails to cover annual fixed costs and variable costs in proportion to their off-take, TVO would cut the supply and sell the electricity to another shareholder or at the Nord Pool exchange. The shareholders have a very long record of regular off-taking. Further, due to ceased imports from Russia, TVO's electricity production is essential for Finland's security of supply.

DERIVATION SUMMARY

As TVO is a not-for-profit company Fitch views traditional leverage or coverage ratios as less relevant for the ratings than for utilities operating on a fully commercial basis. Such ratios are weak compared with those of other European utilities focused on electricity generation such as Fortum Oyj, RWE AG (BBB+/Stable), Orsted A/S (BBB+/Stable) or Statkraft AS (A-/Stable- UCO).

Fitch rates Finnish electricity generation companies operating under the Mankala principle using the same analytical framework of utilities operating in a commercial environment as underlined by Fitch Corporate Rating Criteria and the key peer comparators described in its Global Electricity Generation: Ratings Navigator Companion.

However, we place more emphasis on the links with the shareholders and the value creation for them due to Mankala companies' specific features, such as the not-for-profit business model. We consider company-specific traits, such as asset base and concentration, market position, strategic importance, and the legal and regulatory framework in the same way for typical electricity utilities. We also assess the consistency between the cash flow received from the shareholders, the outstanding debt and the residual life of the asset base.

KEY ASSUMPTIONS

- Fitch calculates projected EBITDA and credit ratios as it would for profit-making utilities, assuming that TVO is able to sell its electricity output at market prices instead of at cost. This measures the incentive for shareholders to maintain their at-cost offtakes, as well as the dividend that would be paid as a share of profits
- Production cost of TVO at EUR35/MWh-EUR40/MWh
- Finnish area prices averaging around EUR45/MWh in 2024-2028
- Electricity production at about 25 TWh for 2024-2025, before rising by 1-2 TWh a year to 2028

RATING SENSITIVITIES

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

- Solid record of OL3 operations together with a satisfactory medium- to long-term power price environment sustaining value creation for TVO shareholders, progressive debt reduction that is consistent with the remaining average useful life of the assets, combined with unchanged credit quality or support from shareholders

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

- Significant technical issues leading to additional costs for TVO, if not covered by shareholders
- TVO's production costs significantly exceeding Finnish area prices on a sustained basis, leading to value destruction for TVO shareholders
- Evidence of weaker credit quality or support from shareholders or structural changes in the Mankala principle undermining the strength of shareholder support
- Adverse regulatory or fiscal changes
- Deterioration in operating performance, safety issues and significantly reduced liquidity reserves

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Cash and cash equivalents at end-2023 were EUR288 million. TVO also had committed undrawn credit facilities of EUR1 billion maturing in 2026. Available liquidity is sufficient to meet TVO's operating needs, capex and cumulative debt repayments of under EUR0.4 billion in 2024.

As OL3 commenced production in 2023 and shareholders started to fully cover costs (including interest costs and asset depreciation), we expect total debt to gradually decline.

ISSUER PROFILE

TVO has OL1, OL2 and OL3 nuclear power plants with more than 3GW capacity in its key assets, covering around 30% of all electricity consumed in Finland.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating

decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Teollisuuden Voima Oyj (TVO)	LT IDR	BBB- Rating Outlook Stable		BBB- Rating Outlook Stable
	Affirmed			
	ST IDR	F3	Affirmed	F3
senior unsecured	LT	BBB-	New Rating	
senior unsecured	LT	BBB-	Affirmed	BBB-

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Nicolò Meroni

Director

Primary Rating Analyst

+39 02 9475 8265

nicolo.meroni@fitchratings.com

Fitch Ratings Ireland Limited Sede Secondaria Italiana

Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8 Milan 20123

Denise Spiteri

Associate Director

Secondary Rating Analyst

+44 20 3530 2215

denise.spiteri@fitchratings.com

Antonio Totaro

Senior Director

Committee Chairperson

+39 02 9475 8280

antonio.totaro@fitchratings.com

MEDIA CONTACTS

Isobel Burke

London

+44 20 3530 1499

isobel.burke@thefitchgroup.com

Stefano Bravi

Milan

+39 02 9475 8030

stefano.bravi@fitchratings.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 13 Oct 2023\)](#)
(including rating assumption sensitivity)

[Corporate Rating Criteria \(pub. 03 Nov 2023\)](#) (including rating assumption sensitivity)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 03 Nov 2023\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Teollisuuden Voima Oyj (TVO)

EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings

and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole

discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.