

Investment Stewardship Group

Voting Bulletin: Fortum Oyj

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental, social, and governance factors that potentially have material economic, operational or reputational ramifications for the company. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) provide information around our engagement with the issuer.

Company	Fortum Oyj
Meeting Date	23 rd April 2020
Market	Finland
Resolutions	Item 9: Approve Discharge of Board and President Item 14: Reelect the board of directors Item 20: Shareholder proposal “Include Paris Agreement 1.5-degree Celsius Target in Articles of Association”
Board recommendation	Item 9: FOR Item 14: FOR Item 20: AGAINST
BlackRock Vote	Item 9: AGAINST Item 14: FOR Item 20: ABSTAINED

Overview

Fortum Oyj (“Fortum”) is a company engaged in the generation and sale of electricity and heat, operation and maintenance of power plant and energy-related services. Fortum is listed in Finland; the Government of Finland has a 51% stake in the company.

Fortum recently acquired a majority stake in Uniper, increasing its stake in the company from 49.9% to 70%. Upon closing of the complete agreement, the transaction will substantially increase the company’s exposure to

coal-fired power generation due to Uniper’s portfolio. More than 30% of the combined capacity is expected to be based on coal¹. Consequently, this transaction will significantly increase the company’s carbon intensity.

Due to these concerns, the World Wildlife Fund (WWF) Finland submitted a climate risk shareholder proposal for voting consideration at Fortum’s 2020 annual meeting, asking the company to “Include Paris Agreement 1.5-degree Celsius Target in Articles of Association”.

We recently engaged with Fortum to better understand the background of the transaction and the company’s perspective on the WWF shareholder proposal. The company provided useful context about the intricacies of the shareholder proposal but did not entirely alleviate our concerns about the company’s overarching direction of travel.

We note that Fortum recently published a sustainability report addressing all the pillars of the TCFD (Task Force on Climate-related Financial Disclosures) framework.

We look forward to seeing how these transparency commitments evolve with the expected integration of Uniper. We also note that Fortum’s carbon-free generation will increase in absolute terms as a result of the transaction and that Uniper has announced a plan to phase out more than half of its German coal-fired power production².

Rationale for BlackRock vote

Item 9: Approve Discharge of Board and President (AGAINST)

We believe that the board’s decision to significantly increase the carbon intensity of the portfolio with the phased acquisition of Uniper is at odds with the direction of travel in the industry and the goals of the Paris Agreement, and brings uncertainties about the future financial risk profile of the company. The decision by the board to significantly increase its exposure to coal energy generation calls into question the board’s integration of climate risks into its corporate strategy. Our vote against the discharge reflects these concerns.

Coal fired power generation is significantly carbon intensive, becoming less and less economically viable, and highly exposed to regulation because of its environmental impacts. With the acceleration of the global energy transition, we do not believe that the long-term economic or investment rationale justifies continued investment in this sector.

Item 14: Reelect the board of directors (FOR)

We believe voting against the bundled election of the board of directors would be disruptive and not in the best interest of shareholders. The discharge is a more appropriate mechanism to express our concerns.

Item 20: Include Paris Agreement 1.5-degree Celsius Target in Articles of Association (ABSTAINED)

The shareholder proposal tabled by WWF Finland asks for the inclusion of the 1.5-degree target in the Articles of Association.

We share the concerns of the proponent about the substance of the matter. We believe that the resolution addresses a material issue but that the modification of the Articles of Association is prescriptive, not the most suitable tool to address climate related matters and could have unclear and far reaching consequences for both the company and its shareholders.

¹Fortum investor presentation March 2020, p. 16 available at https://www.fortum.com/sites/g/files/rkxjap146/files/investor-documents/fortum_investor_presentation_march_2020.pdf

²Fortum 2019 Sustainability Report, p. 57, available at https://www.fortum.com/sites/g/files/rkxjap146/files/investor-documents/fortum_sustainability_2019_2.pdf

Moreover, we recognize that a binding commitment such as this one would be challenging to implement in a period of integration with Uniper. It would require a swift and radical change in the business model of the company, and its achievement would depend on decisions including the exact timing of the phase-out of coal in Germany that are not entirely in the control of the management of Fortum.

Until the integration of Uniper is complete, Fortum has neither the visibility nor the operational control required to set meaningful long-term targets based on science for the combined group. Moreover, we note that in any case, Fortum has committed to reassess the feasibility to set science-based emissions reduction targets for the combined portfolios once the two companies' strategies have been aligned. Fortum's goal is to have this work completed by the end of 2020.

Summary

Based on our assessment of company leadership from our analysis and engagement, BIS chose to withhold support for management on certain key issues, specifically by: (1) voting against the discharge of the board due to concerns relating to its corporate strategy to significantly increase its exposure to coal and (2) abstaining on the shareholder proposal asking the company to amend its Articles of Association to include a 1.5-degree target.

BIS voted in favor of all other management proposals³.

³ Full list of resolutions available at <https://www.fortum.com/media/2020/02/notice-annual-general-meeting-shareholders-fortum-corporation-2020>