

Investment Stewardship

Vote Bulletin: Fortum Oyj

Company	Fortum Oyj (NASDAQ OMX Helsinki: FORTUM)
Market and Sector	Finland, Utilities
Meeting Date	23 November 2022
Key Resolutions ¹	Item 6: Approve Issuance of Shares for a Private Placement to Solidium Oy
Key Topics	Corporate strategy, climate risk
Board Recommendation	The board recommended shareholders vote FOR Item 6
BlackRock Vote	BlackRock voted FOR item 6

Overview

Fortum Oyj (Fortum) engages in the generation and sale of electricity and heat, the operation and maintenance of power plants and the provisions of other energy-related services. Fortum is based in Finland, and the Government of Finland currently has a nearly 51% stake in the company.²

BlackRock Investment Stewardship (BIS) engages with companies to provide a long-term investor perspective on corporate governance best practices and to better understand how company leadership identifies and manages the material risks and opportunities that we believe can impact their ability to deliver sustained financial performance for long-term investors like BlackRock's clients.

Our engagements with Fortum's leadership over the past several years have covered a range of topics, including sustainability reporting, corporate strategy and climate risk management.³

On November 23, 2022, Fortum held an Extraordinary General Meeting of Shareholders (EGM) to vote on a single item: to issue new shares (1.01% of the current number of shares in the company) for a private

¹ Fortum Oyj, "[Notice to the Extraordinary General Meeting of Share-holders of Fortum Corporation](#)", 26 September 2022.

² Finland's national climate change policy includes a plan to reduce greenhouse gas emissions by at least 80% by 2050 from the levels in 1990. In the medium-term, the Finnish government plans to reduce emissions by 60% by 2030 from a baseline of 1990, and achieve net zero emissions by 2035. See, Government of Finland, "[Finland's national climate change policy](#)", and Argus Media, "[Finland aims for net zero by 2035 in new climate act](#)", July 2022.

³ At Fortum's April 2020 annual general meeting (AGM), BIS did not support the discharge of the board and president due to our concerns about the company's acquisition of Uniper SE which seemed inconsistent with the company's stated [strategy](#) and the Finish government's climate policy.

placement to Solidium Oy (Solidium).^{4 5} In the notice of the EGM, Fortum identified the current complex geopolitical context of the Russian war in Ukraine as an important factor in this matter. According to the company, “Russia’s attack on Ukraine and the war Russia started has caused an energy crisis in Europe with significant impacts on Fortum and other energy market participants. Trading volumes on the Nordic power commodities exchange have decreased significantly and the Company needs to be prepared for great uncertainty on the markets and for a possible need to rapidly commit significant amounts of working capital for collateral requirements required by the EMIR regulatory framework. Alternative financing for the equivalent amount and with more favourable terms than the bridge financing arrangement was not available before the end of September due to the Company’s unresolved strategic matters.”⁶

Prior, in September 2022, Fortum announced that they and the Finnish government had agreed on a EUR 2.35 billion bridge financing arrangement for one year to ensure access to sufficient liquidity resources for potential collateral requirements on the Nordic commodities exchange, with the liquidity provided by Solidium. The share issuance is a condition of the transaction, and Solidium would receive the shares free of charge. As a consequence, the shares under control of the Finnish government would increase to 51.26% from the current 50.76%, correspondingly diluting the ownership of the other shareholders.⁷

One condition of the agreement was that Fortum draw the first tranche of EUR 350 million before September 30, 2022, which the company did on September 26. Solidium was therefore entitled to subscribe to the share issuance according to the bridge financing agreement, but that needed to be agreed upon during an EGM.⁸

Rationale for BlackRock’s vote

Item 6: Approve Issuance of Shares for a Private Placement to Solidium Oy (FOR)

BIS supported this transaction. The company stated that they would not otherwise have access to these funds, and therefore we believed it was in the best financial interests of our clients to support this proposal.

We supported the proposed transaction as it was clear that the company’s ability to deliver their long-term strategy would be enhanced by ensuring access to bridge financing, even though Fortum stated that they had sufficient liquidity in the situation and based on lower power prices at the time. There have been similar emergency liquidity loans in other markets, including Germany. In addition, we did not consider dilution by 1.01% of shares to be significant and/or detrimental to long-term shareholder interests.

We also believed it was important to consider the geopolitical context, whereby the Russian invasion of Ukraine not only created a humanitarian crisis, but also has intensified the mismatch in global energy supply and demand.

In addition, Fortum Oyj posted a total loss of EUR 9.679 billion in the first nine months of 2022, while net profit from continuing operations, excluding Uniper, was EUR 1.623 billion.⁹ On 21 September, Fortum announced

⁴ Fortum Oyj, “[PROPOSAL BY THE BOARD OF DIRECTORS ON A DIRECTED SHARE ISSUE WITHOUT PAYMENT](#)”.

⁵ Solidium is a holding company of the Finnish government whose purpose is “to strengthen and stabilize Finnish ownership in companies and to increase the value of its holdings in the long run.” Solidium Oy, “[We strengthen and stabilize Finnish ownership](#)”.

⁶ Fortum Oyj, “[Notice to the Extraordinary General Meeting of Share-holders of Fortum Corporation](#)”, 26 September 2022.

⁷ Please see previous footnote.

⁸ The conditions of the bridge financing are punitive. The facility has a margin of 10% for the first six months and 12% for the following six months. The effective annual interest cost including arrangement and commitment fees for the whole amount and duration would be 14.2%. Restrictions on management compensation apply. Executive members will not be entitled to short- or long-term incentives accumulated in 2022 and 2023 and their salaries will not be increased during 2022 or 2023. See “[PROPOSAL BY THE BOARD OF DIRECTORS ON A DIRECTED SHARE ISSUE WITHOUT PAYMENT](#)”.

⁹ Fortum Oyj, “[Fortum Interim Report, January-September 2022](#)”, page 37.

the intention to fully divest Uniper to the German state.¹⁰ Fortum stated that the role of natural gas in Europe had fundamentally changed since Russia invaded Ukraine, and so had the outlook for a natural gas-heavy portfolio such as Uniper's. The company made the case that state ownership was appropriate given the escalating energy crisis, at that time. In their view, government financial backing was necessary to enable Uniper to fulfil their role as a critical provider of energy supply security, which it was not certain they could do as a privately-owned company.¹¹

¹⁰ Fortum Oyj, "[Fortum to fully divest Uniper to the German State](#)", 21 September 2022. As of the 19 December 2022, Fortum concluded the sale of ownership in Uniper SE to the German State. See, Fortum Oyj, "[Fortum has completed the divestment of Uniper](#)", 21 December 2022.

¹¹ Fortum Oyj, "[Fortum Interim Report, January-September 2022](#)".

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹²

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹² As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.