

Statement by Board of Directors on shareholder WWF Finland’s proposal to amend Fortum’s Articles of Association

Fortum published its notice to the 2020 Annual General Meeting of shareholders on 6 February 2020. Agenda item 20 in the notice included Fortum shareholder MaaIlman Luonnon Säätiö, World Wide Fund for Nature, Suomen rahasto sr’s (WWF Finland) proposal to amend Fortum’s Articles of Association. The shareholder has proposed that the target of the Paris Agreement is to be included in Fortum’s Articles of Association by adding a new article 17. Accordingly, the number of the current article 17 would be changed to article 18. The wording of the proposed new Article 17 is as follows:

“The Board of Directors shall assess the climate risks of the operations and set up a scheduled science-based plan for aligning the operations of the Company and the group with the Paris Agreement maximum warming limit of 1.5 degrees Celsius. Climate risks, the alignment plan and its implementation shall be reported annually, for the first time at the Annual General Meeting in 2021.”

After careful review and consideration, the Board of Directors recommends that the shareholder proposal be rejected at the Annual General Meeting and, in addition, respectfully states the following:

According to supplementary material provided by WWF Finland to the Board of Directors, taking the Paris agreement fully into account and adjusting business operations to the 1.5 degree Celsius target, requires ending the use of coal with little exception by 2031 in the OECD countries and Russia. The proposal also includes an inbuilt requirement that Fortum is to adopt the so-called Science Based Targets initiative (SBTi) framework to be used to steer the company’s strategy, operations, and emission reductions. The SBTi aligned targets comprise the entire production fleet, not only the use of coal.

More than 80% of Fortum’s emissions come from Russia, where energy production still very heavily relies on fossil fuels. Fortum’s production fleet in Russia is mainly gas-fired and is the newest and most efficient amongst its peer group. The company has already reduced its specific CO₂ emissions in Russia by 20% since 2009. In addition, Fortum is the biggest investor in renewables, especially wind, in Russia. However, the SBTi approved target must cover at least 95% of a company’s direct and indirect greenhouse gas emissions, and large scale reduction in using fossil fuels – natural gas in particular – would not be possible in Russia in the short term.

Due to its investment in Uniper, Fortum is in the middle of a transition and does not yet have the visibility required to set long-term targets in line with the SBTi (minimum of 5 years and a maximum of 15 years) for the combined portfolios of Fortum and Uniper. A common strategy and aligned operations are a prerequisite for common goals and setting standalone targets for Fortum would not be appropriate at this point.

Furthermore, Fortum believes that nuclear energy and carbon sink technologies such as carbon capture and storage (CCS) and carbon capture and usage (CCU) play a key role in achieving carbon neutrality. This view is in line with the International Energy Agency’s (IEA) Energy

Technology Perspectives scenario. SBTi is expected to publish industry-specific 1.5-degree guidelines for energy companies, based on the IEA's updated 1.5-degree Energy Technology Perspectives scenario. Fortum looks forward to this guidance before it can finally assess the suitability or unsuitability of SBTi approved target for its business.

Most importantly, the Board of Directors notes that amending Fortum's Articles of Association, as detailed in WWF Finland's cover letter attached to the proposal, in supplementary materials provided by WWF Finland, and in discussions held between the company and WWF Finland, would mean a deviation from the company's purpose to generate profits to its shareholders in the long-term, as required by the Limited Liability Companies Act, towards a direction of a non-profit organisation.

Finally, consistent work for a cleaner world is at the core of everything Fortum does and its strategy is built on the premise that Fortum will succeed in a decarbonised society. The Board of Directors considers that repeating similar targets or committing to a specific framework such as the SBTi in the Articles of Association is not necessary or customary. The feasibility to set emissions reduction targets based on science for the combined portfolios of Fortum and Uniper will be evaluated once the two companies' strategies have been aligned. Fortum's goal is to have this work completed by the end of 2020.

Espoo, 24 February 2020

Fortum Corporation
Board of Directors