



**Institute for Energy Economics  
and Financial Analysis**

# **Fortum-Uniper: Finnish Taxpayers' Staggering Losses Were Predictable and Avoidable**

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## Key Findings

**Fortum's losses from Uniper are huge, reaching €5.8 billion in accounting losses alone. This equates to €1,700 per Finnish tax household or approximately 3 GW of onshore wind capacity.**

Overall, Fortum invested an excessive share of assets in Russia, and the company's narrative about unforeseeable losses is not compelling given the timeline of events.

With its financial firepower in 2017, Fortum missed an opportunity to become a leading European player in renewable energy. Instead, it doubled down on coal and gas power through Uniper.

IEEFA calls for stronger checks on executive management decisions at state-owned utilities. Major strategic investments should be approved by state powers, to protect long-term taxpayer interests.



## Executive Summary

Fortum is a Finnish energy utility, 51.2% owned by the Finnish government and historically focused on hydropower. Its core business is power and heat generation, and more recently it ventured into waste and recycling. The company was created in 1998 from the merger of Finnish oil refiner Neste Oyj and power company Imatran Voima Oy<sup>1</sup> (Neste Oil Corporation was demerged from Fortum in 2005<sup>2</sup>).

Historically based in Finland and Sweden, Fortum has in the last two decades established operations outside its core markets—in the Baltics, Poland, Norway, India and particularly Russia. Fortum's main power and heat generation acquisitions in Russia started in 2008. This move was controversial since it occurred just after Russia's 2008 aggression against Georgia. The company then operated combined heat and power plants in the Ural region and Siberia as well as hydropower plants in Karelia. While Fortum's Russian business came increasingly under international pressure after Russia's annexation of Crimea in 2014, the company maintained operations in the country.

As other international companies withdrew from Russia, Fortum doubled down on its strategy with the €7.2 billion purchase of Uniper, a German utility whose main assets were coal and gas power generation in Germany and Russia, representing the biggest acquisition in Fortum's history. After Russia cut gas exports to the European Union and gas spot prices soared, Uniper was on the brink of bankruptcy, leading Fortum to sell it to the German state for a €5.8 billion loss in September 2022.

In IEEFA's view, Fortum's exposure to Russia was too risky due to the international geopolitical context, and the losses from the Uniper investment were foreseeable. It is also concerning that a state company was able to make such a huge and high-risk investment without more government and parliamentary involvement.

## Background on Fortum's Investments in Russia

The catalyst of the Uniper debacle was Russia's full-scale invasion of Ukraine in February 2022 and the subsequent skyrocketing European gas prices that put the German utility on the verge of bankruptcy. However, focusing solely on this specific event to explain the catastrophic consequences of Fortum's investment in Uniper would be short-sighted. It makes sense to take a step back and put Fortum's financial risk exposure in Russia into perspective.

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<sup>1</sup> Mtvuutiset. [IVO-Neste Yhtymästä Fortum](#). June 1998.

<sup>2</sup> Fortum: [Separation and listing of Neste Oil Corporation](#). March 2005.

In 2008, Finnish state-owned energy company Fortum made a major move into Russia with an estimated €2.5 billion acquisition of a 93% stake in TGC-10,<sup>3</sup> a power and heat producer with gas and coal plants in the Ural region and Siberia. It's worth remembering the deal closed after Russia had invaded and occupied parts of Georgia in August 2008 in violation of international law.

Fortum made other investments in Russia, including the acquisition of a 25% stake in TGC-1, a hydro and thermal power generator in Karelia, bringing its total investment in the country to €6 billion (excluding the share of Uniper assets in Russia).<sup>4</sup> The newly created Russia business unit was a loss-making entity until 2010 and started to generate minor profits from 2011,<sup>5,6</sup> but quickly in 2014 the business was impacted by the Russian occupation of Crimea and invasion of Donbas.

Despite the Russian business unit's poor financial results and the increasingly volatile political environment, with Russia under heavy economic sanctions from the European Union (EU), Fortum took steps to pursue the acquisition of Uniper, whose thermal fleet already made it the largest foreign utility in Russia. In a context where other international companies were reducing or shutting down their business activities in Russia,<sup>7,8</sup> Fortum increased its presence in the country via Uniper. This move was not only politically risky but also, in IEEFA's opinion, a foreseeable financial disaster.

Beyond the losses related to Uniper, Fortum had to write down losses for all its assets in Russia following the nationalisation of foreign entities by the Russian government in 2023.

In May this year, Fortum said the net cash loss of its so-called "Russian journey" was €2 billion.<sup>9</sup> Because the €2 billion figure does not include losses from the Uniper deal related to Russia, the figure underestimates Fortum's Russian losses and, in IEEFA's view, shareholders potentially may not perceive the scale of the losses.

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<sup>3</sup> Fortum. [Fortum discusses its capital expenditure and increases TGC-10 efficiency improvement target in Capital Markets Day](#). October 2008.

<sup>4</sup> Fortum. [Inside information: Fortum to fully write down its Russian assets and deconsolidate the Russia segment – publishes restated comparison figures](#). May 2023.

<sup>5</sup> Fortum. [Fortum Financials 2011](#).

<sup>6</sup> Seeking Alpha. [Fortum: Long-Term Strategic Decisions Prove Disastrous](#). September 2022.

<sup>7</sup> Enel. [Enel sells its entire 56.43% stake in PJSC Enel Russia](#). June 2022.

<sup>8</sup> Bloomberg. [Ford Closes Russian Plants as Putin's Market Loses Its Luster](#). March 2019.

<sup>9</sup> Fortum. [Inside information: Fortum to fully write down its Russian assets and deconsolidate the Russia segment – publishes restated comparison figures](#). May 2023.

## Fortum's Uniper Losses Resulted From Poor Strategic Divestments and Investment Decisions

The Uniper acquisition, which lasted from 2017 to 2022 when Fortum owned close to 80% of Uniper,<sup>10</sup> was preceded by a series of divestments.

After selling its Finnish power distribution network for €2.55 billion in 2014,<sup>11</sup> Fortum divested its highly profitable Swedish power distribution network for €6.6 billion a year later.<sup>12</sup> The Swedish unit posted operating sales of €634 million and profits of €235 million in 2015. The entity was not only highly profitable, but its income was also very stable since it was a regulated business. Fortum's argument to justify the divestment of this valuable division was the company's new full focus on combined power and heat generation, which was confirmed by former Fortum CFO Timo Karttinen in 2015.<sup>13</sup>

From 2015 to 2017, Fortum was sitting on a vast amount of cash and was coming under pressure by shareholders to reinvest the proceeds of the divestments in businesses that were equally as profitable as the power distribution networks.<sup>14</sup> Fortum being historically a hydropower plants operator, the company's investment focus was on hydro assets (existing or greenfield) complemented by some onshore wind developments in the Nordics.

During this time, we understand that Fortum was proposed several sizable investment opportunities in existing and greenfield hydro projects in the Baltics, Central Europe, the Balkans and Turkey. These acquisitions would have been consistent as extensions of Fortum's hydro expertise to continental Europe and would have had a lower risk profile for two reasons. First, due to the company's decades of experience in operating hydro plants, reducing significantly the operational risk; second, because reservoir hydro inherently has the potential to optimize production through value creation above spot market prices, eliminating to a large extent the market risk exposure (i.e. hold water when prices are low and turbine to sell power when prices are high). It is no coincidence that hydro power is the backbone of the most renewable power systems worldwide.<sup>15</sup>

<sup>10</sup> Fortum. [Stabilisation package for Fortum's subsidiary Uniper agreed with the German government](#). July 2022.

<sup>11</sup> Fortum. [Fortum completes divestment of its Finnish electricity distribution business](#). March 2014.

<sup>12</sup> Fortum. [Fortum concludes the divestment of its electricity distribution business by selling the Swedish business for approx. EUR 6.6 billion](#). March 2015.

<sup>13</sup> Financial Times. [Fortum sells Swedish power grid for €6.6bn](#). March 2015.

<sup>14</sup> Seeking Alpha. [Fortum: Long-Term Strategic Decisions Prove Disastrous](#). September 2022.

<sup>15</sup> CleanTechnica. [Some Good News: 10 Countries Generate Almost 100% Renewable Electricity](#). October 2021.

In 2017, with its financial firepower, Fortum had the following two strategic investment decision options:

- Build a strong and coherent portfolio of existing and greenfield hydro plants in Central and Southern Europe, hence creating operational synergies. By adding such plants to its Nordic fleet, Fortum had the opportunity to become Europe's number-one hydro asset owner and operator and the continent's least carbon-emitting utility.
- Acquire a mid- to large-size European utility with different technologies than in its power mix.

Fortum went for the second option, which could have been defensible if the target utility's core business was in line with Fortum's strategic goal of engaging its customers and society to "join the change for a cleaner world," as per the company's slogan.<sup>16</sup> However, Fortum invested existing cash and committed credit facilities to acquire Uniper.<sup>17</sup>

Uniper was already the result of E.ON splitting into two entities: E.ON dedicated to renewables and smart grids, and Uniper hosting the coal and gas legacy assets. Uniper's portfolio was mostly made up of coal- and gas-fired power generation in Germany and Russia, with the German gas power plants running on imported Russian pipeline gas. A small fraction of Uniper's portfolio was made up of hydro plants and participation in three nuclear plants in Sweden.

Fortum argued that the decision to acquire Uniper was motivated by the synergies with its hydro and nuclear plants in Sweden complemented by Uniper's expertise in flexible generation and commodity trading.<sup>18</sup> While this part of the deal made sense, it was a very small fraction of the acquisition. Fortum's commitment to shareholders was to divest the bulk of Uniper post-acquisition, including thermal generation in Germany and Russia. It seemed to be a very complex deal and a high price to pay to gain access to a few hydro plants in Sweden.

Given the high risk of investing in fossil fuel plants in Germany, which could have soon become loss-making, and other plants already under international sanctions in Russia, investors [raised concerns](#) about the deal.<sup>19</sup> Climate activists also warned that the acquisition went completely against Fortum's ambitions to "go green."<sup>20,21</sup> During the acquisition period, Fortum was repeatedly criticised in the Finnish media for acquiring coal and gas assets.<sup>22</sup> Despite the opposition, the deal went through, and in March 2020 Fortum gained ownership of 73.4% of Uniper.

From 2020 to 2022, the two companies tried to create synergies and merge their business units. This consolidation was short-lived. With Uniper importing most of its gas by pipeline from Russia, the start of the war in Ukraine quickly led to deep financial troubles for the company. Trying to survive the

<sup>16</sup> Fortum. [Fortum agrees to acquire majority in Uniper to improve stability and accelerate realisation of strategy](#). October 2019.

<sup>17</sup> Ibid.

<sup>18</sup> Fortum. [Fortum signs agreement with E.ON](#). September 2017.

<sup>19</sup> Fortum. [Fortum's Interim Report January-September 2018](#). October 2018.

<sup>20</sup> Yle. [Fortum/Uniper among Europe's worst polluters, say NGOs](#). April 2019.

<sup>21</sup> Greenpeace. [Greenpeace to Finland's energy giant Fortum: "Walk the talk on climate"](#). October 2019.

<sup>22</sup> Helsinki Times. [Fortum's plans to take over Uniper met with criticism](#). September 2017.

unprecedented high gas price environment in 2022, Uniper finally had to be bailed out by the German state in the summer of 2022.<sup>23</sup> Fortum sold its ownership in Uniper in September 2022 to the German state for a mere €500 million, after having paid €7.2 billion two years earlier.<sup>24</sup>

The Uniper investment resulted in a €5.8 billion loss for Fortum. This figure is arguably conservative since the actual loss in book value was €6.7 billion, but Fortum deducts from the losses €900 million in cash flow received from Uniper during its ownership.<sup>25</sup> This does not account for any operational investments in Uniper or increased interest costs during the same period.

This stated loss of €5.8 billion can be measured against the metrics below:

**Table 1: Fortum Uniper Losses Against Various Indicators**

Metric	Value
Finnish GDP in 2022	€261.6 billion
Finnish GDP growth in 2022	€5.34 billion
Fortum book value losses (over two years)	€5.8 billion
<i>As a percentage of Finnish GDP in 2022</i>	<i>2.2%</i>
<i>As a percentage of Finnish GDP growth in 2022</i>	<i>108.6%</i>
<i>Equivalent in onshore wind deployment (based on a conservative capital expenditure assumption of €1,900/kW)</i>	<i>3 GW</i>
<b>Fortum loss per tax household</b>	<b>€1,700</b>

Sources: For GDP: World Bank. [GDP \(constant 2015 US\\$\) - Finland](#); For onshore wind capital expenditure: International Renewable Energy Agency. [Renewable power generation costs in 2022](#).

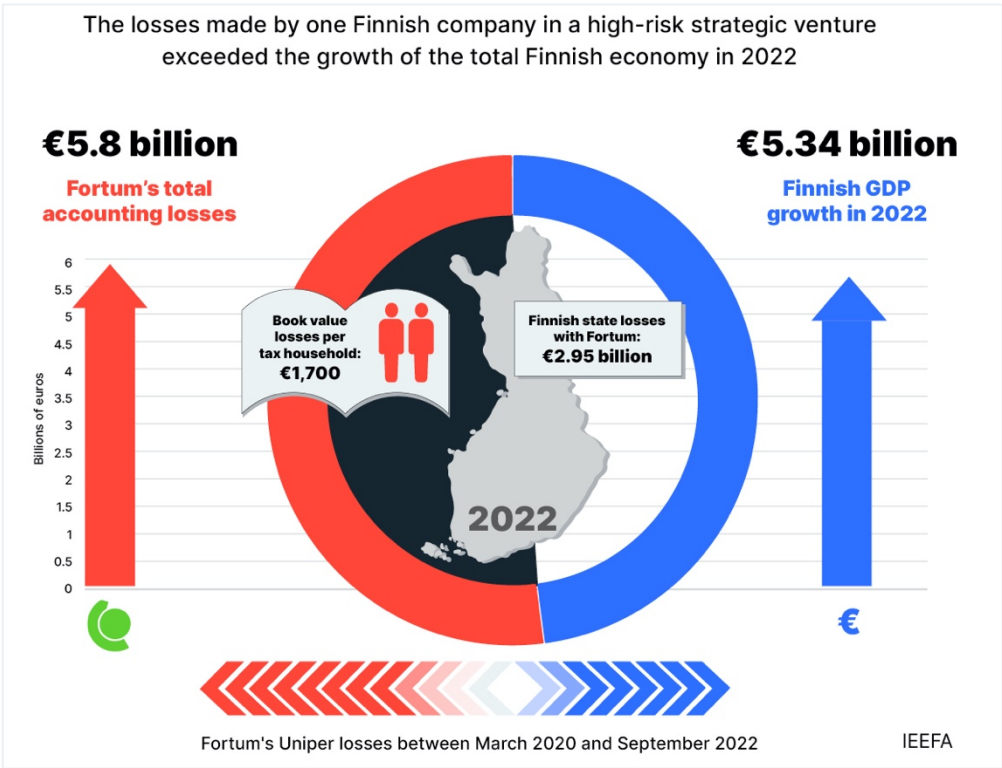
<sup>23</sup> Deutsche Welle. [Germany finalizes bailout of energy firm Uniper](#). July 2022.

<sup>24</sup> Fortum. [Fortum publishes restated comparison figures to reflect the divestment of Uniper](#). October 2022.

<sup>25</sup> Ibid.



**Figure 1: Fortum’s Uniper Losses Versus Finnish GDP Growth in 2022**

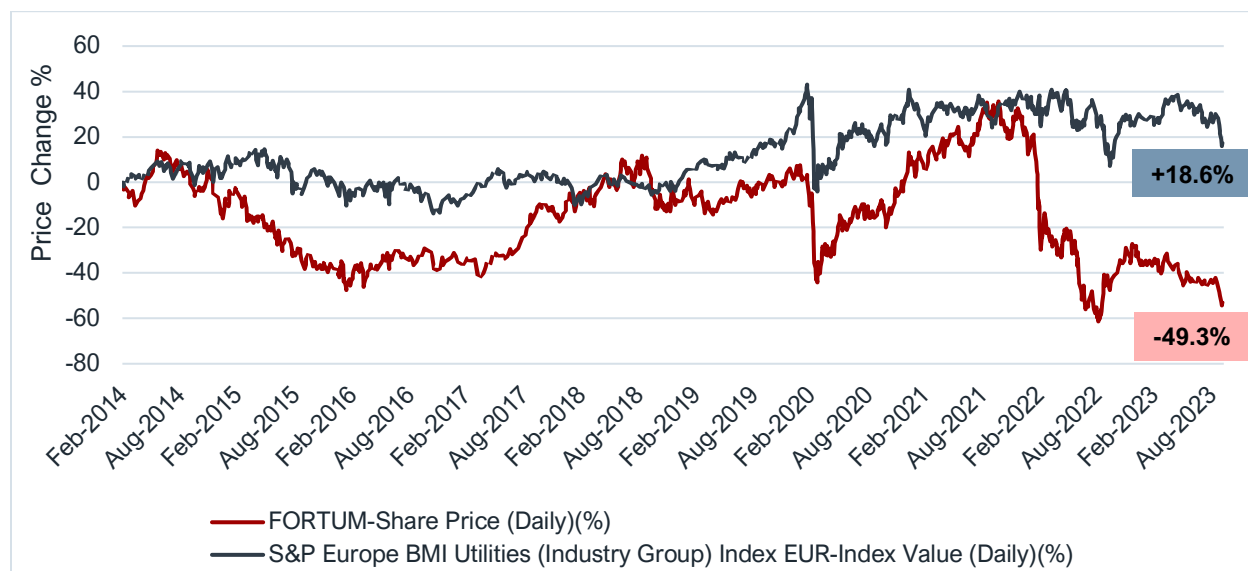


Source: Fortum, World Bank, Statistics Finland, Statista.

## Beyond Investment Losses: Stock Depreciation, Market Value Destruction

Beyond the book value losses directly imputable to the Uniper transaction, a large share of Fortum's stock market value collapse, in IEEFA's view, may well be attributable to Uniper.

**Figure 2: Fortum Oyj Share Price vs. S&P Europe BMI Utilities (Industry Group) Index EU, Since February 2014**

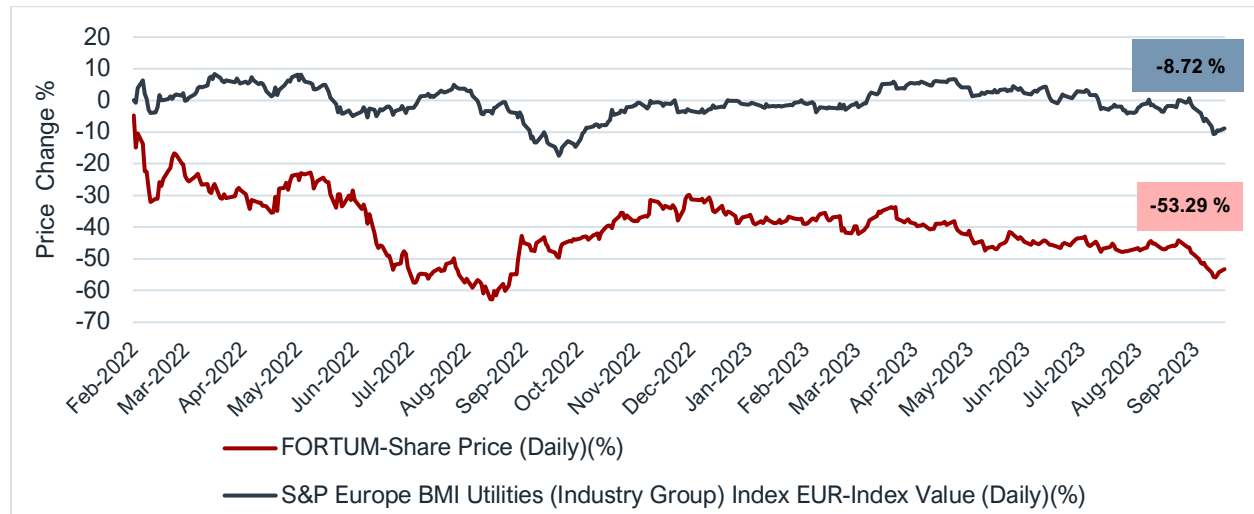


Source: S&P.

The chart above shows that Fortum's stock value is down 49.3% since 1 March 2014 (the beginning of Russia's occupation of Crimea), while the European utility sector is up 18.6% during the same timeframe. While Fortum's stock curve largely followed the same trend as the sector until early 2022 (albeit underperforming mostly due to its Russian business), a sharp drop and decorrelation to the sector subsequently occurs, coinciding with Uniper and Fortum's activities in Russia.

The divergence is particularly striking during the period following the start of the war on 24 February 2022: Fortum's stock value is down 53.3%, while that of the European utility sector is down 8.7%.

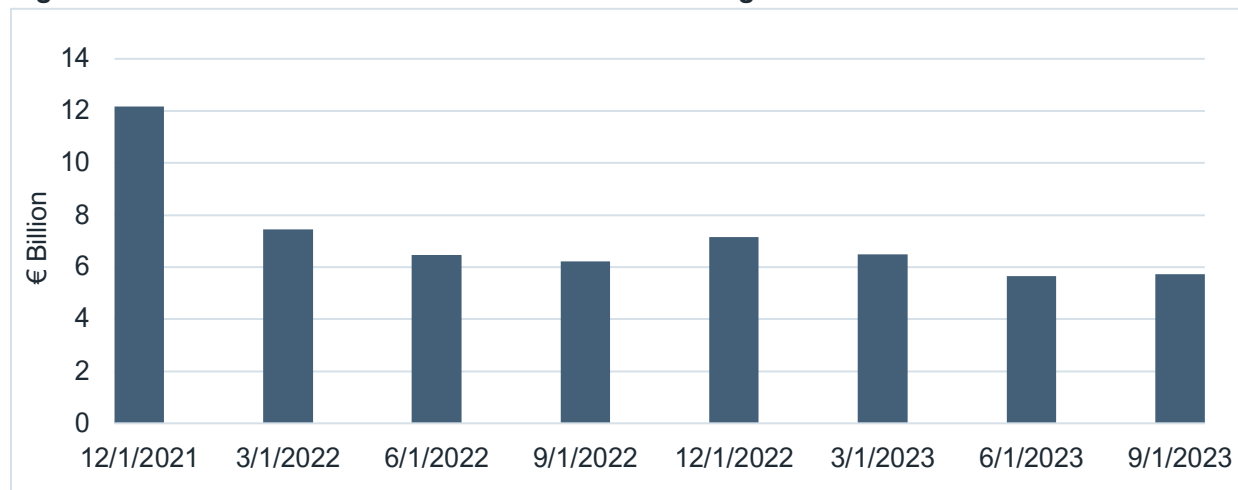
**Figure 3: Fortum Oyj share price vs. S&P Europe BMI Utilities (Industry Group) Index EUR (since February 2022)**



Source: S&P.

With the Finnish state owning 51.2% of Fortum, the company's market value losses have cost the country's taxpayers €6.45 billion since 1 January 2022, or €1,349 per taxpayer (as of 1 September 2023).

**Figure 4: Market Value of Finnish State's Fortum Holdings**



Source: S&P.

## Fortum CEO's Narrative About Unforeseeable Losses Related to Uniper Is Not Compelling, Given the Timeline of Events

In an interview with Finnish newspaper Helsingin Sanomat dated 2 March 2023, Fortum CEO Markus Rauramo declared the following about the Uniper acquisition: "Looking back, what was not prepared for was the fact that Russia would start a war of aggression and stop exporting gas, which it had been doing up until that point for 50 years. It was something that was beyond our ability to judge."<sup>26</sup>

It would be fair to recall the historical facts listed previously to reframe Rauramo's statement. After invading Georgia in 2008, supporting separatists in Donbas and occupying Crimea in 2014, Russia was placed under heavy international financial sanctions. Several countries, including the U.S., requested that construction of the Nord Stream 2 gas pipeline be suspended.

With the facts known above, the outcome that Russia would start a war and stop exporting gas as a retaliation weapon was, in IEEFA's view, a foreseeable scenario.

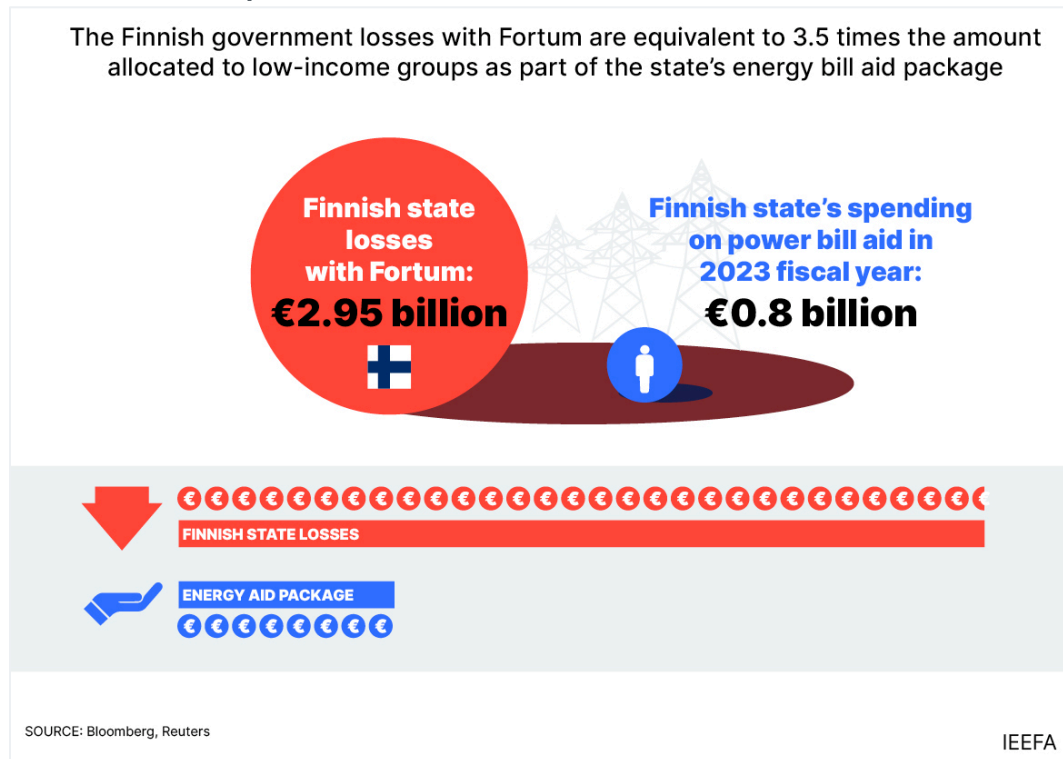
## More Leadership Accountability Needed in State-owned Utilities

As mentioned, Fortum is 51.2% owned by the Finnish state, making it the state's second-largest holding in a private company after Neste Oyj. Strategic investment decisions impact both private shareholders and Finland's citizens.

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<sup>26</sup> Helsingin Sanomat. [Fortumin Rauramo ei kokenut Uniper-julkisuutta "lainkaan raskaaksi" ja pitää osaa kritiikistä jopa aiheellisena.](#) March 2023.

**Figure 5: Finnish Government's Fortum Debacle: Losses Overshadow Aid Allocated to Low-income Groups**



Fortum's executive management embarked on a very risky investment with Uniper—from a political and market point of view—that impacted the financial and energy interests of Finnish taxpayers. While private investors expect volatility and losses when investing in equities, state ownership of this scale demands steady and non-volatile returns.

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In IEEFA's view, there was a lack of checks at the parliamentary and government level. The correct course of action should have been to consult Finnish executive and legislative powers, and the company management's sense of accountability should have driven them to avoid such a gamble.

A central issue is that there was, and still is, insufficient accountability for the CEOs of Fortum, even though it is a state-owned company: Pekka Lundmark, who was CEO of Fortum when it acquired Uniper, is now CEO of Nokia, and former Fortum CFO Markus Rauramo is now the company's CEO and is still in this position despite his leading role in the €5.8 billion loss.

To ensure that mistakes from Fortum's Uniper debacle are not repeated elsewhere, an EU-wide mechanism should be considered to ensure that certain strategic investment decisions are approved by both parliament and government. There should also be proper accountability checks for CEOs of state-owned companies, for example with losses exceeding a certain percentage of the company's book value triggering a motion of confidence vote by parliament.

## About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. [www.ieefa.org](http://www.ieefa.org)

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Arjun previously worked in energy technology investment banking at Alexa Capital and Jefferies in London. He holds a Master's degree in Engineering from the University of Cambridge.

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