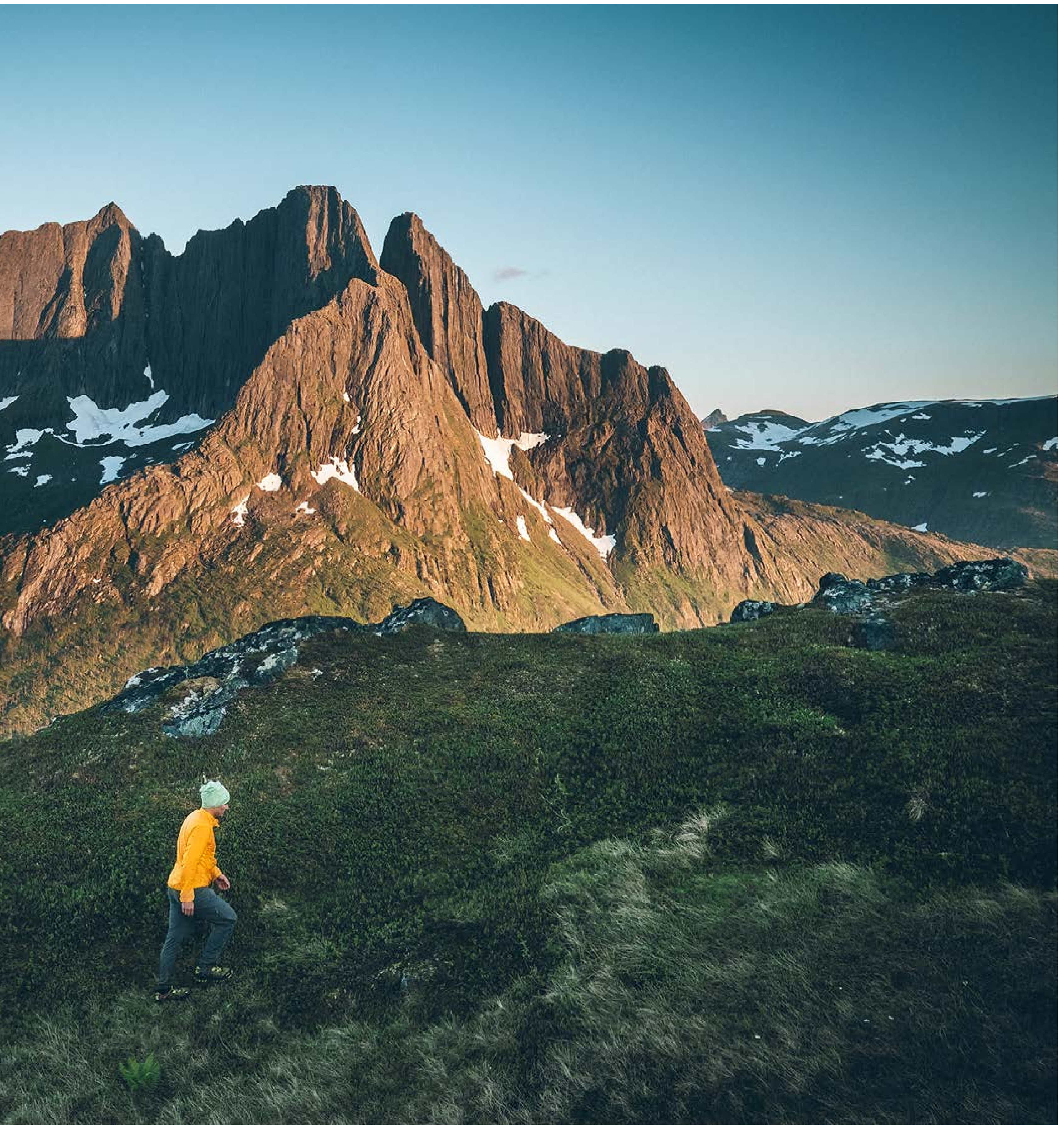
fortum

Tax Footprint 2021



Executive summary

Fortum pays taxes according to existing local tax legislation in its operating countries. Fortum's total tax contribution in 2021 was EUR 1,398 million in taxes borne and EUR 1,439 million in taxes collected. The main operating countries are Finland, Sweden, Russia, and Germany.

Fortum is committed to responsible tax management acting in line with the purpose of rules and regulation. This is crucial for our shareholders, the communities where we have our businesses, and our employees. Taxation is always a consequence of business; therefore, our approach to tax strategy and planning is based on business needs. Taxes are one factor that we need to take into consideration. Our business solutions are not driven by tax considerations, but supported by the Fortum Group Tax Team. Taking into account multiple stakeholders ensures that we have a license to operate, our businesses can continue to invest, our operations are efficient, and it safeguards returns to stakeholders.

Fortum operates in the energy sector, which is characterised by long-term, capital-intensive investments. Our climate commitment to drive the clean energy transition means that our business is changing. The tax system is also undergoing material changes. To reach our targets and to drive investments in clean energy, we believe that future tax legislation needs to be clear, predictable, and simple.

As the majority owner of Uniper, Fortum consolidated Uniper as a subsidiary as of 31 March 2020, and their total tax contribution is included in this report.

Our approach also provides us with a base upon which we can develop our way of managing taxes and participate in discussions and public hearings. We provide relevant information to investors, civil society organisations, and other stakeholders to promote fairer, more sustainable tax systems – as we are doing, for example, in connection with the new Energy Tax Directive. This work is central not only to our corporate responsibility, but also to Fortum's wider business purpose 'For a cleaner world'.

In this report we describe the value creation of our operations, and our current tax and operating environment, and we report our total tax contribution in our main operating countries, including those in which we have holding and finance companies. This report also includes the main points of our Board-approved tax principles, expanded information explaining tax disclosures in our financial statements, and information about our tax disputes.

How to read Fortum's Tax Footprint

Based on our ten-years' experience, different stakeholders have different needs and various standards for information. Our target is to help the reader understand Fortum's tax principles and our tax contribution. Despite that, some parts of our report correspond more to stakeholder-specific interests than other sections.
This report is primarily intended to benefit shareholders, investors, and governments. In addition, we believe:

- Tax authorities benefit by reading about our tax principles and governance, tax management, as well as risk assessment and internal controls
- Employees could be interested in the sections about our tax principles and governance, our operating environment, value chain, and total tax contribution
- The main focus for civil societies could be in our tax principles, governance, effective income tax rate reconciliation, country by country data, summary of low-taxed countries, and the list of our companies and countries.

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Fortum's 10th tax footprint report – highlights of our reporting journey

Fortum has disclosed its tax footprint since 2012. During the last decade, much has happened in our tax reporting partly due to legislative changes, but mostly because we seek to be open and transparent in our operations, especially when it comes to taxation.

Our first tax footprint report published in 2012 was a two-page report and, in fact, simply a section under Fortum's Sustainability report. Country-by-country reporting (CbCR) included six separate countries: Finland, Sweden, Russia, Norway, Poland and Estonia. In 2012, the report already included a list of companies operating under CFC (controlled foreign company) rules and information on tax appeals.

Today, ten years later, Fortum publishes this separate tax footprint report, and we have done so ever since 2015. Today's report includes important sections that explain the roles and responsibilities within our tax practice, the organisation related to tax topics and the tax policy approved by Fortum's Board of Directors. Moreover, in the current report CbCR includes all EU countries as well as non-EU countries that Fortum has operations in. On top of numbers on our total tax contribution, we have a narrative on each country explaining main outlines of the CbCR reporting as well as CFC information.

Fortum and taxation

Fortum's policy is to pay taxes on the earnings, production, employment and property of each of the Group's businesses in accordance with each country's local regulations.

Fortum operates in accordance with its shareholders' interests and takes into consideration taxation aspects:

- by supporting Fortum's overall strategy
- by ensuring that the management of tax issues is in line with prevailing laws and regulations
- by paying particular attention to communicating the required information transparently, accurately and at the correct time to tax authorities and investors

Fortum's goal is to handle tax issues in the most appropriate way rather than simply to minimise taxation. Taxation aspects are taken into account in decision making, and they can have an impact on, for example, the choice of a country for business operations. It is Fortum's policy to concentrate its corporate functions in EU countries and to avoid tax havens. Fortum has participations in two tax haven companies: for insurance-technical reasons, in the fully-owned captive insurance company in Guernsey; and in the Cayman Islands, a stake in the Nature Elements Asia Renewable Energy and Cleantech Fund L.P., which makes research and development investments. Fortum's earnings from both companies are subject to normal taxation in Finland.

In 2012, Fortum launched two tax appeals. In Sweden, a tax appeal was submitted regarding the right to deduct interest in computing taxable income, and in Belgium regarding taxation of a financing company. Decisions on the appeals are expected during 2015. More information is available in Financials 2012.

In 2012, Fortum's total tax rate was 29.0% (EUR 562 million). The share attributable to income taxes payable for Fortum's financial period was EUR 203 million.

Taxes borne in 2011-2012

	Finland		Sweden		Russia		Poland		Estonia		Norway		Other countries		Total	
EUR million	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Corporate income tax[1)]	97	105	93	154	1	-1	2	1	1	0	0	0	9	26	203	285
Production taxes	49	68	140	142	2	2	1	1	0	0	0	0	1	0	193	213
Employment taxes	4	3	28	27	4	3	1	1	1	1	2	2	1	2	41	39
Taxes on property	12	12	86	87	19	14	5	5	0	0	1	1	2	2	125	121
	162	**188**	**347**	**410**	**26**	**18**	**9**	**8**	**2**	**1**	**3**	**3**	**13**	**30**	**562**	**658**

[1)] Corporate income tax includes current taxes booked as cost for the year and adjustments to the previous year's current taxes. Excluding custom duties, insurance premium tax payments, VAT leakage, subsidies and pension related payments in social security fees.

Fortum's tax principles

Fortum operates in the energy sector, which is characterised by long-term, capital-intensive investments. Even though our business is long term, it is subject to multiple rapid changes; climate targets and our strategic priorities require material changes to operations and compliance with a wide range of new tax regulations. Therefore, predictability and certainty – also in taxation – are of great importance for us. Our solution to these challenges is responsible tax management. For us, this means, first, that we respect the tax principles confirmed by Fortum's Board of Directors. Secondly, our strategic and operative targets are the starting point when planning and optimising taxes. Thirdly, we comply with the law and respect the purpose of the law. Finally, we assess the risks and uncertainties of our business and solutions. Tax rules are complex and are not always clear. Responsible tax management should not create a risk in any business operations, although tax or fiscal interest itself can be a risk for operations. Responsible tax management ensures that our businesses can continue to invest, to operate flexibly and efficiently, and to safeguard returns for our shareholders and other stakeholders.

Our approach to tax risk follows the same principles that apply to all other business risks. When making business decisions, we consider the materiality of any item as important, including tax consequences and the costs of effective risk mitigation actions. We comply with the rules, but material issues require even more attention in the decision-making process. We report our business income in line with local rules and requirements. We consider many aspects, including taxes, in Environmental, Social and Governance (ESG) responsibilities, as well as reputational and financial impacts. We aim to create understanding between our operational and tax footprint. We are especially aware of our reputation with a wider population of stakeholders.

Fortum tax principles are approved by Fortum Corporation's Board of Directors and included in Fortum's Code of Conduct and published on Fortum's website ▸ **Fortum's tax principles**

Tax strategy in brief

Manage change | **Know your business** | **Be prepared** | **Report transparently**

Change is constant, but the energy transition and new policies increase the changes related to tax work. We need to be **prepared** for these changes. We do that by **respecting** the purpose of regulations and by seeking optimal, real business solutions rather than artificial solutions. We transparently **report** our business-supporting solutions and our **governance** to stakeholders so that key stakeholders can understand our solutions and position.

OUR TAX PRINCIPLES CONTAIN THE FOLLOWING MAIN POINTS:

COMPLIANCE – We have a consistent compliance process to ensure that regulations are followed in all parts of our operations and that the correct amount of tax is paid at the right time in the countries in which we operate.

BUSINESS STRUCTURE – We only use business structures that are driven by commercial considerations, are aligned with our business activity, and have genuine substance. We do not seek abusive tax results.

TAX MANAGEMENT – We are committed to continuous development to ensure responsible tax management and sustainable principles.

TAX PLANNING – We respect the purpose of the law. We also respect the shareholders' interests and seek to eliminate double taxation.

RELATIONSHIPS WITH OTHERS – Fortum engages with governments and tax authorities to explain the impact their policies on tax and regulations have on us.

REPORTING TO STAKEHOLDERS – We are committed to ensuring that stakeholders are able to understand the important elements of our tax position and that the information provided in our tax reporting is fair and accurate.

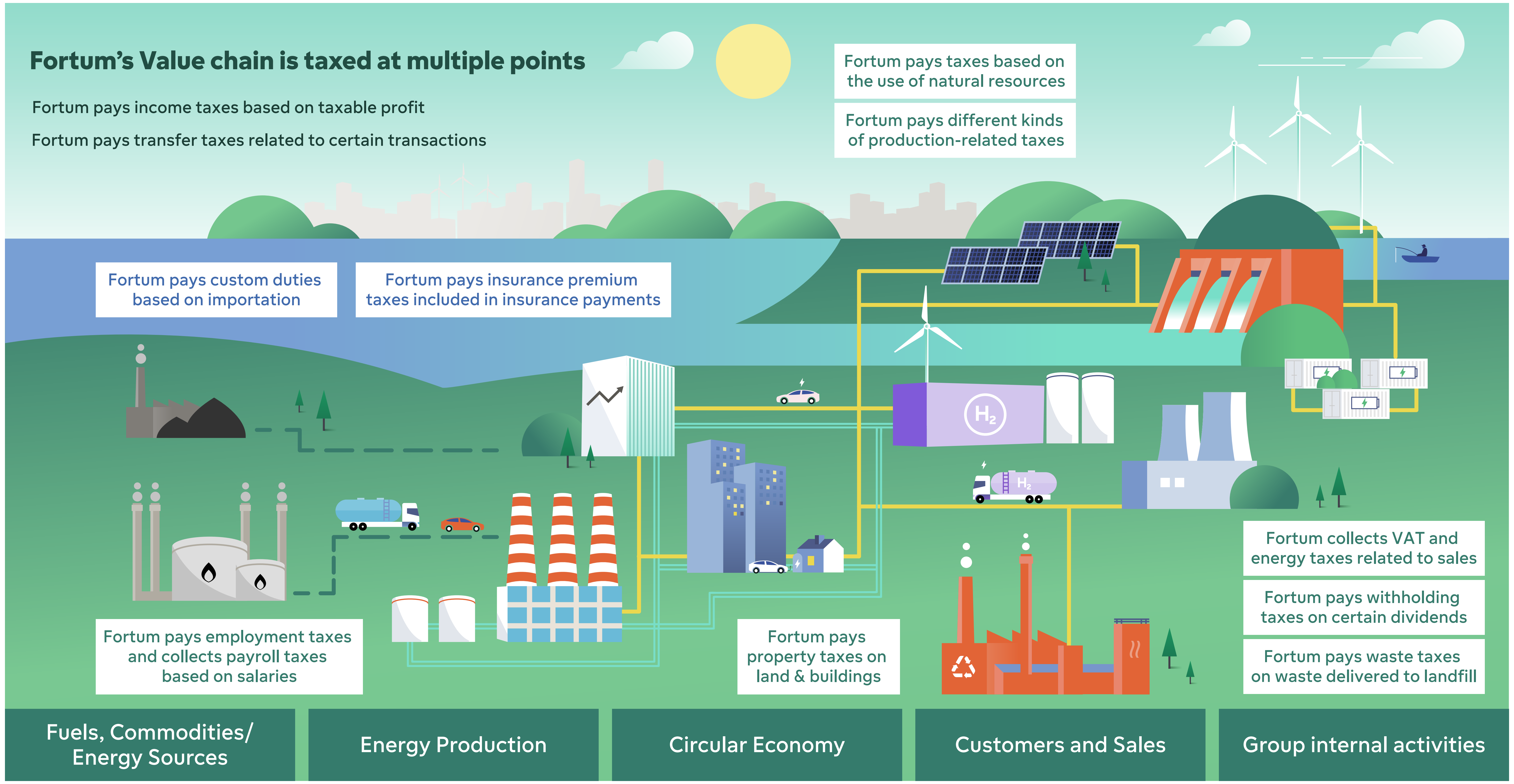
Fortum as a taxpayer – value creation

Fortum's value chain and tax footprint

One of the ways Fortum companies contribute to societies is by paying taxes in countries where we operate. We pay taxes at different points of our value chain. Both the value chain and value creation within the value chain are the basis for paying taxes. In order to illustrate the tax footprint of our business, the picture below shows Fortum's value chain and the many instances in which taxation occurs.

For international business, one of the tax questions is how tax payments are split between the different countries. For most taxes borne, it's obvious to which country the tax is to be paid. The corporate income taxes are dependent on profitability and how that country assesses taxable income, i.e. value creation. Therefore, it's crucial to properly recognise the Fortum functions participating in the business operations in order to define where profits are generated.

Generally, the Fortum Group strategy steers and positions its operations in local energy markets. Producing and selling energy – electricity, commodities, and heat, as well as recycling and waste solutions – is very much local. The key profit driver depends on investments and plant portfolios. All our tax contributions are local. More than 92% of our tax contribution is in countries where we have local production and assets related to production. The remaining part of taxes borne refers to local profits on commodities trading, financing, and service operations representing our international business operations. Whenever we have group internal cross-border transactions, we respect the arm's length principle.



Relationship between value chain, value creation, and tax contribution

Value creation in the business is the basis for paying taxes and the ability to pay taxes. Any excessive contribution to any stakeholder will weaken the financial position to invest, for example in the decarbonisation of power production. As value is created through business operations, the tax contribution, whether based on profits, asset values, used fuels, or something else, should be balanced.

The purpose of all business operations is to create value to ensure the financial strength to run operations. The level of value creation depends on the nature of the operations. For example, a power plant produces electricity, creating value for shareholders, customers, states, municipalities, employees etc. in the form of energy, and distributable funds but also through the tax on profits, employees, property, and fuels.

Taxes are paid on the value creation during operations; correspondingly, the cost of dismantling will impact value creation at the end of the lifetime through the ability to pay tax as tax bases will be depleted. As business is the origin of the tax contribution, poorly designed taxes may negatively impact not only value creation, but also the decarbonisation of power production. We believe that the design of tax rules should always be balanced with business interests to allow for the optimal value creation for all stakeholders.

A future angle is that the tax revenues for value chain in energy taxation of utilities are currently based mainly on the use of fossil fuels. As the world becomes more decarbonised, these tax bases will disappear, impacting also our contribution to our stakeholders. While the current rules are welcome to support the current transition to carbon neutral operations, we need to always be ready for when this will change.

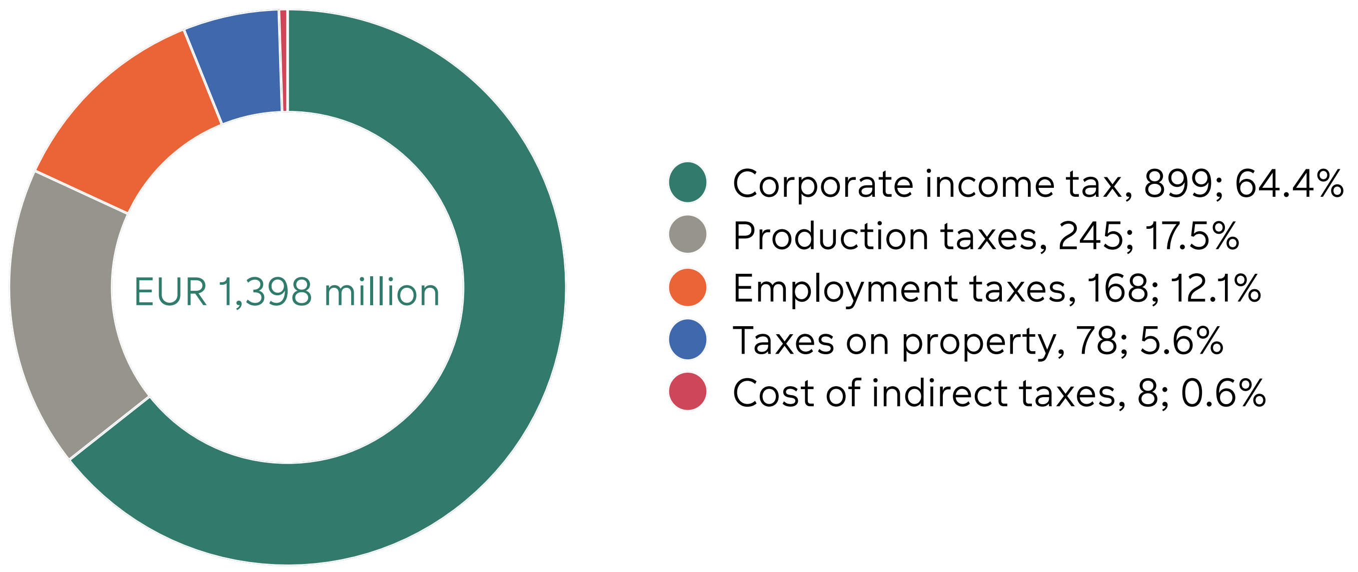
Understanding existing value chains is crucial in order to properly recognise the value created for tax purposes resulting in tax contributions. The traditional model of energy production is now supported with innovations and digital solutions, adjusting the core of the business model and the future value chain in the case of capital-intensive businesses. Meeting the climate targets will require new energy sources and will give rise to new technologies and solutions, like hydrogen. This means again substantial new investments and value creation on a long-term basis. This timing aspect has multiple taxing points across the whole lifetime of investments.

Our total tax contribution reflects the extent and nature of the taxes Fortum pays. In 2021, it was EUR 2,838 (2020: 1,724) million, of which EUR 1,398 (2020: 665) million related to taxes borne and EUR 1,439 (2020: 1,059) million to taxes collected. Finland, Sweden, Russia, and Germany are our biggest production countries. In 2021, taxes borne in Finland were EUR 169 (2020: 91) million, in Sweden EUR 154 (2020: 118) million, in Germany EUR 564 (2020: 139) million, and in Russia EUR 152 (2020: 126) million.

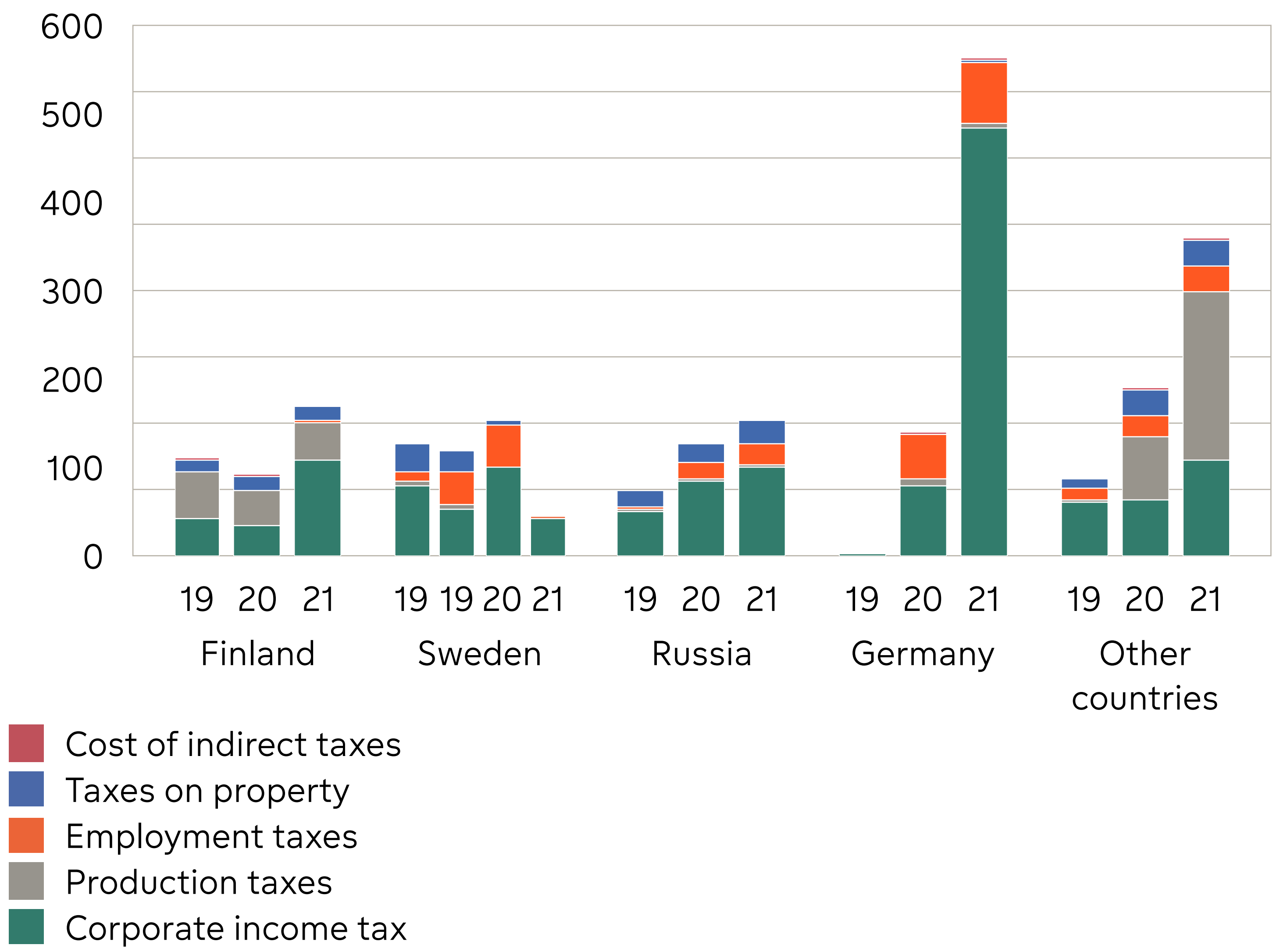
Taxes borne includes corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and the cost of indirect taxes.

Taxes collected includes VAT, payroll taxes, excise taxes, and withholding taxes. While income taxes are paid on taxable profit, Fortum also pays other taxes based on, for example, fuel usage, waste, production capacity, and the value of real estate. As a major part of our taxes are not based on profits, our total taxes borne in relation to our accounting profit (total tax rate) increases if the profit level decreases.

Total taxes borne 2021, EUR million and %



Taxes borne by country, EUR million



Value chain and tax contribution

Tax contribution always depends on the nature of the business, the operative footprint, i.e. value creation and value chain. The bigger the operative footprint we have in a country, the more we rely on the infrastructure and regulation of that country. Consequently, operations that don't require heavy assets and not a lot of personnel have a lighter operative footprint. The tax footprint of these operations is not comparable to that found in countries with production and thus they may only be paying income tax on their profits.

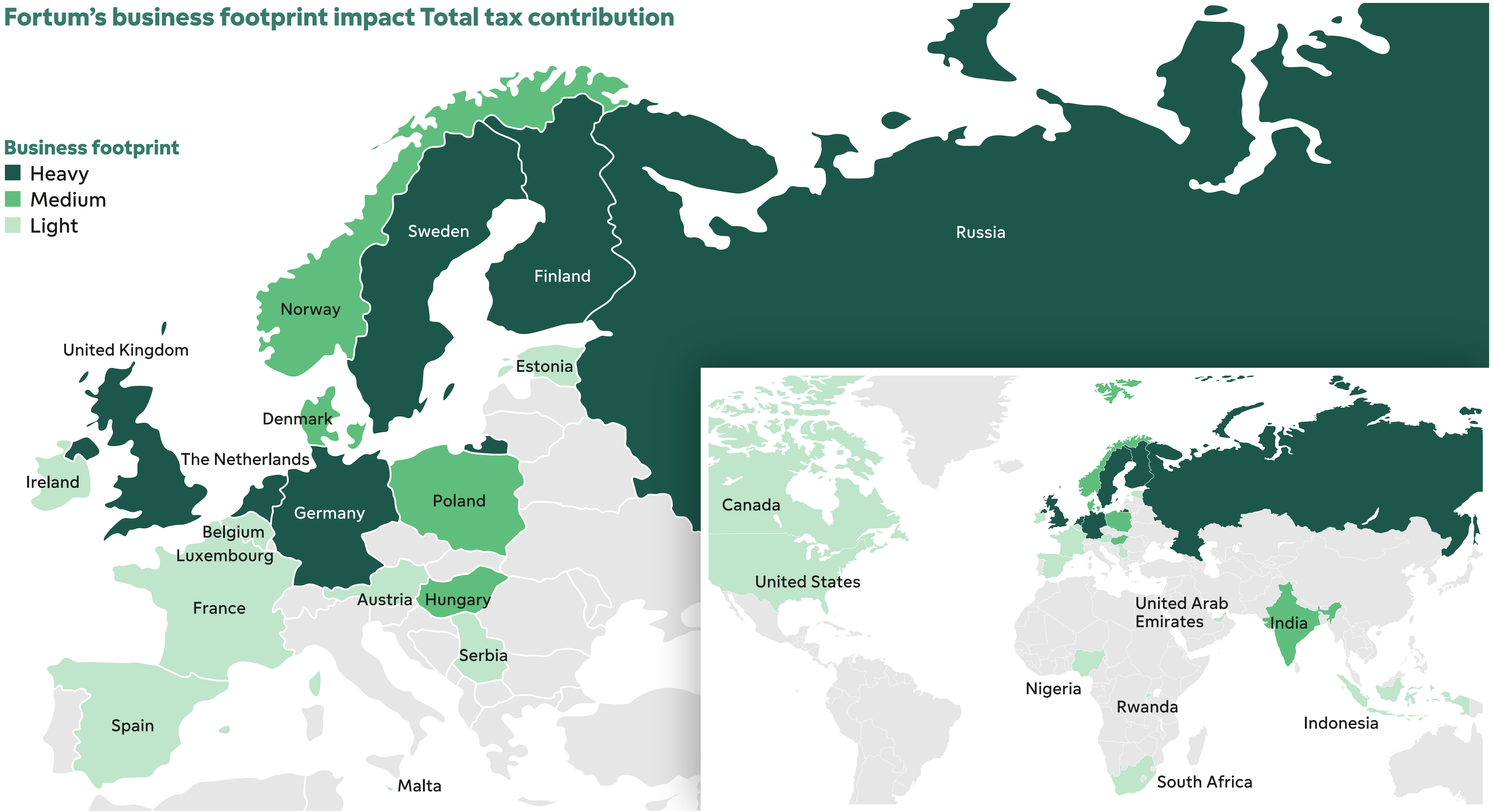
The level of income taxes as well as other taxes, i.e. the tax rate, is defined by each state. This makes it crucial to understand the nature of the operative footprint and put it in relation to the tax footprint. Total tax contribution is important, as corporate income tax, which all operations pay, refers only to profits (or losses) of an operation. We support the European Business Tax Forum (EBTF) initiative dedicated to raising the standards of the public tax debate and the focus on Total Tax Contribution including both taxes borne and taxes collected. **Read more about EBTF on https://ebtforum.org/ttc/**

The quality and scope of our tax footprint depends on our operational footprint, while the size of our tax footprint depends on the size of our operations. Businesses with a **heavy footprint** consist of production operations, resulting in taxes on profit, property, production, as well as other and multiple taxes collected. A **medium footprint** consists of service, sales, and trading operations with a wider customer base. A medium business footprint also creates VAT obligations on top of corporate income tax and salary withholding obligations. We consider businesses to have a **light footprint** if there is only limited number of customers and operations are not necessarily visible externally. These light footprint operations normally create mainly corporate income tax and salary withholding tax obligations.

The legal structure as such does not impact the tax footprint, other than the fact that nominal tax rates differ between countries. Fortum has companies in 30 countries.

The nature and footprint of our business is illustrated in the picture to the right:

Fortum's business footprint impact Total tax contribution



When considering the size of our tax footprint, we use materiality in our financial and country-by country-specific reporting. See our taxes borne and collected later in this document.

Fortum Group has a dividend policy ensuring a stable, sustainable, and increasing dividend over time. This compels us to find efficiencies and profitability. Total tax contribution are our share to the societies where we operate. Our ratio of dividend distribution in comparison to total tax contribution (including withholding taxes on our external dividends) was 133% in 2019, 61% in 2020, and 36% in 2021.

One of the purposes of our legal structure is to protect the Fortum Oyj balance sheet, ensure appropriate income flow to Fortum Oyj, and ensure efficient financing of our operations wherever they are located. When choosing the location, stability and predictability are key factors for us. For support operations, we prefer not only EU countries as our home market, but also euro-denominated countries. All our companies are listed in our Financial Statements.

For more details, see section Total taxes by country.

Our tax and operating environment in 2021

A good tax system is simple, clear, neutral, and transparent. These principles are valuable in a world that is becoming more complex. Taxation should support the development of a decarbonised world or, at a minimum, should be neutral; it shouldn't create obstacles to business operations, investments, and new technologies.

The political and fiscal agenda in 2021 has been continuously focused on tax transparency, improving international consistency, tax anti-avoidance, and actions against base erosion and profit shifting, which resulted in the proposal of new regulations. In addition, the long-awaited proposal for the revised EU Energy Tax Directive was published in July. We are pleased to see that the proposed Energy Tax Directive is connected to climate targets. Unfortunately, the proposed income tax rules are designed without regard to the challenges that climate policies create.

One example of the kind of complexities described above is the new transfer pricing case law relating to wind operations. The Danish tax authorities case law relates especially to operations that Fortum and Uniper have established joint organisations for European onshore wind and solar activities, the hydrogen business, and in Nordic hydro and physical trading optimisation. (**Read more on fortum.com**) Because of the new pending case law relating to taxation and transfer pricing of the wind power business, there is low-level predictability of how the wind business model should be taxed. Different countries seem to have inconsistent understanding of how the value of the operations should be shared. This causes uncertainties as to how the operations will be taxed in the coming years.

Meanwhile, as we are converting our operations to be cleaner, multiple changes are occurring in the business and in the tax interpretations. Several simultaneous changes make it difficult to understand the financial implications and to comply with tax regulations. It looks like tax policies are not aligned with climate policies.

The tax environment has been driven by several new rules and regulations. We see that the OECD, the EU, and governments are continuing this work and making progress in reforming the international tax system to reflect changing business operations. Moreover, in the recent transfer pricing case law, there have been new approaches to the traditional value creation that doesn't align with the business rationale for the transition to clean energy. For example, in one Danish case (case Orstedt), cash flow from the sale of shares of the project company was allocated mainly to Denmark, ignoring the value creation in the UK or the risks taken by the shareholder. We believe that responsible policy and legislative work respects transparency, simplicity, predictability, certainty and proportionality. These fundamental principles ensure that different views and perspectives are considered, help to create legislation that is possible to comply with, and do not create obstacles for important values in society, e.g., the efforts around climate change mitigation. **EU Communication – Business Taxation for the 21st Century**.

Deciding on capital-intensive, long-term investments is challenging without clarity of the future tax framework and tax consequences. For that reason, we have been actively involved in the discussion over the new tax proposal for Pillar II (minimum taxation) and changes to the OECD Model Tax Convention's Article 9 on deductibility of arm's length payments, the shape and structure of which are crucial to supporting industries at the centre of the energy transition towards carbon neutrality **link to EU Transparency Register – Fortum**.

Energy Tax Directive

The revision of the Energy Tax Directive (ETD) is ongoing. In Fortum's view, the main building block of the revision should be to establish a clear approach on how energy products are to be taxed. The EU Commission published a proposal for a new Energy Taxation Directive in July 2021, in which it proposes several needed changes to promote clean technologies, to foster investments in new and innovative green industry, and to facilitate the transition away from fossil fuels towards clean fuels. We believe that these changes will greatly support electrification and sector integration, as they will play an important role in decarbonising societies, including industrial processes, transport, and district heating. However, we would like to also see all CO_2-free production forms (such as nuclear) regarded as clean and crucial technologies still for a long time, and for Member States to support decarbonisation also with CO_2-free production forms.

Fortum and other energy companies need to make major investments in CO_2-free production in the coming years to ensure the alignment with the climate targets. Fortum sees that hydrogen will be one of the key solutions for decarbonising societies and has invested in several hydrogen projects in 2021. In the hydrogen value chain, there are several possibilities where the operators can be subject to energy taxation. Hydrogen has been proposed to be included in the scope of the Energy Tax Directive. For the investing companies, this would create important predictability for the profitability of the whole technology. Please see Fortum's position paper on energy taxation for an example of our contribution to safeguarding future business opportunities for CO_2-free production.

Fortum's tax contribution is changing: Consolidation of Uniper and our tax contribution

In 2019, we acquired a 49.99% stake in Uniper. This acquisition impacted our tax contribution merely by increasing our funding costs and reducing our consolidated tax contribution. At this time Uniper was not a consolidated entity however, we reported our share of Uniper's profit after tax in our results.

In March 2020, we acquired more shares in Uniper, resulting in the financial consolidation of Uniper into Fortum for the first time in 2020 and only for 9 months. Consequently, we also reported Uniper's tax contribution only for 9 months.

In 2021, Fortum consolidated Uniper's full-year tax contribution. As a result of these changes, our tax contributions and indicators in 2019, 2020, and 2021 are not comparable.

Changes in our operations impact our tax contribution:

Our tax contribution is different every year depending on changes in tax regulations, as well as on what operations we have, where we have operations, and the profitability of our operations. Currently, as a result of consolidating Uniper into Fortum, we report more taxes borne in Germany, Russia, Great Britain, and Sweden. The proportional share of taxes paid to Finland decreases, as Uniper has no operations in Finland, and we have been selling some of the Finnish operations in recent years. Secondly, if we are successful in our strategic target of improving profitability by acquiring a stake in Uniper, our taxes borne in Finland will not grow as a result of the Uniper acquisition. Instead, our taxes collected in Finland will increase. As a result of our dividend policy, our dividend would increase and withholding taxes collected on the dividends in Finland would increase. Our Finnish tax footprint will shift from taxes borne to taxes collected (withholding taxes on dividends).

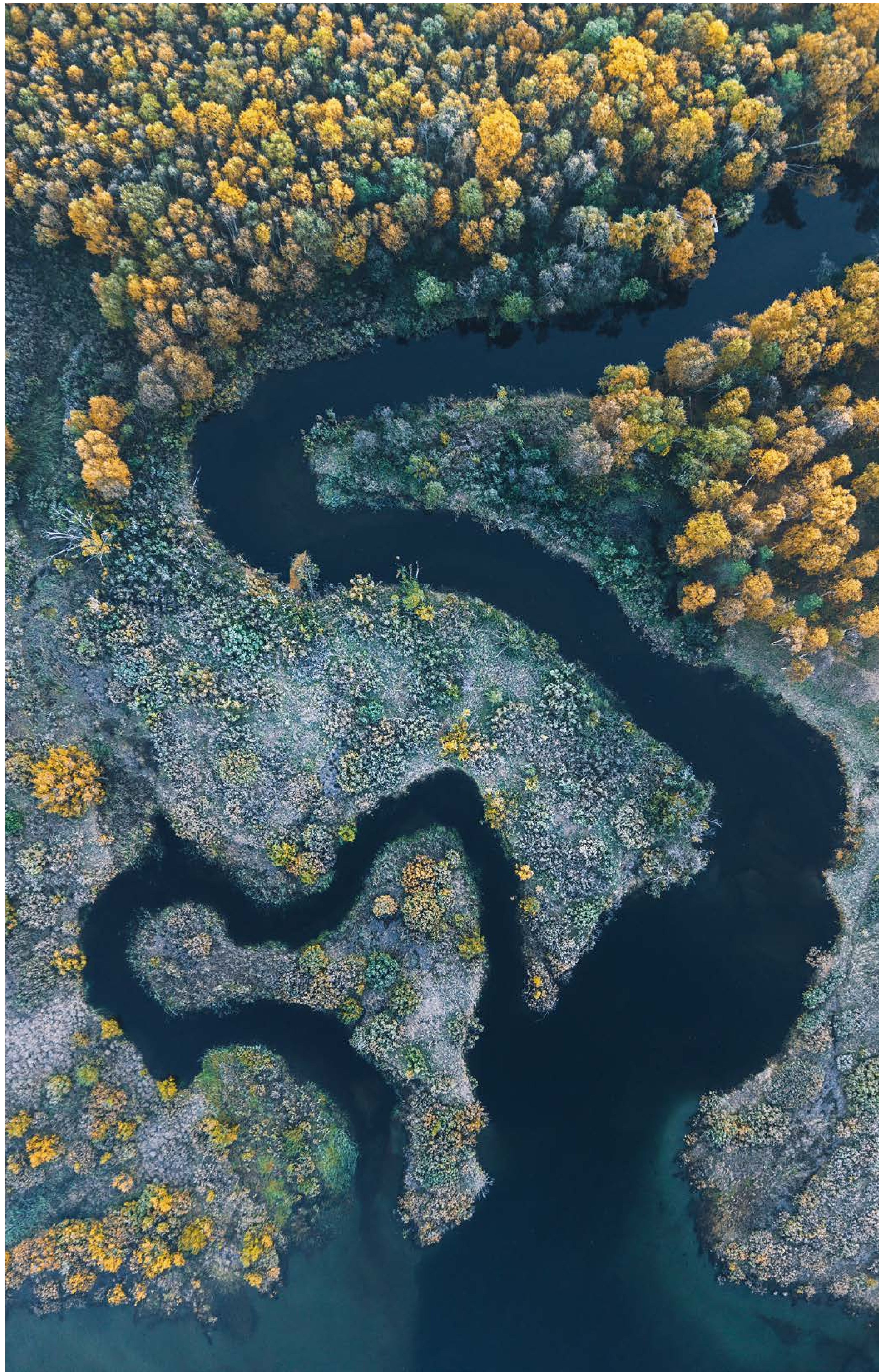
Fortum's tax management

Fortum is operatively organised through segments, divisions, and business areas. The legal set up is based on separate companies that include subsidiaries, associated companies, and joint ventures. Subsidiaries may include the operations of multiple segments, divisions, or business areas. They must comply with operative and legal governance in their decision making. For tax management, this means that all operations report and comply with operational authorities reviewing tax matters, for example in investment proposals or changes in operations. Tax contributions are made by legal entities. Legal entities, i.e. companies therefore have a key role in complying with tax rules and regulations. The Fortum Group Tax Team supports business operations by planning and advising the businesses and steering through operative and legal level guidelines, instructions, advice, and controls to ensure that we are in compliance with tax regulations.

All subsidiaries must follow Fortum Group Tax Team's instructions and guidelines. The Fortum Group Tax Team is supporting Fortum's strategy by looking for responsible tax planning and compliance solutions to strengthen the Group balance sheet and finances and by making sure that the main stakeholder views are considered. For us, responsible tax management means a strong connection with and support for business, ensuring compliance with rules, and respecting the purpose of the laws.

Our focus in 2021 has been to grow our carbon-neutral operations while divesting our non-core operations to fund this growth. In line with our 2020 action plan to mitigate identified risks, we have been simulating Fortum's tax position with respect to new tax law provisions to find the key focus areas and to clarify the roles and responsibilities within different parts of our organisations concerning tax work. We have participated in discussions through several teams, such as B Team, a non-profit group of business leaders working to redefine the culture of accountability in business, to exchange views and with the aim to further improve responsible and transparent tax management and open leadership within the Fortum Group Tax Team. As a result of this work, we implemented a new tax reporting solution, gained more insight in new tax laws and proposals, and developed a new Tax Governance document with a specific focus on internal controls and defining roles and responsibilities. We have also started a multilateral transfer pricing agreement procedure between three countries, in line with our transparency principle to reach out for predictability.

We support tax digitalisation and invest in new reporting solutions; for instance in 2021, we went live with a new tax reporting solution. We aim to improve tax data that enables us to find efficiency in compliance, reporting, and forecasting, and provides insights facilitating strategic business decisions. The Fortum Group Tax Team's cooperation with Fortum Business Technology offers us better resources to take the next steps in the area of digitalisation.



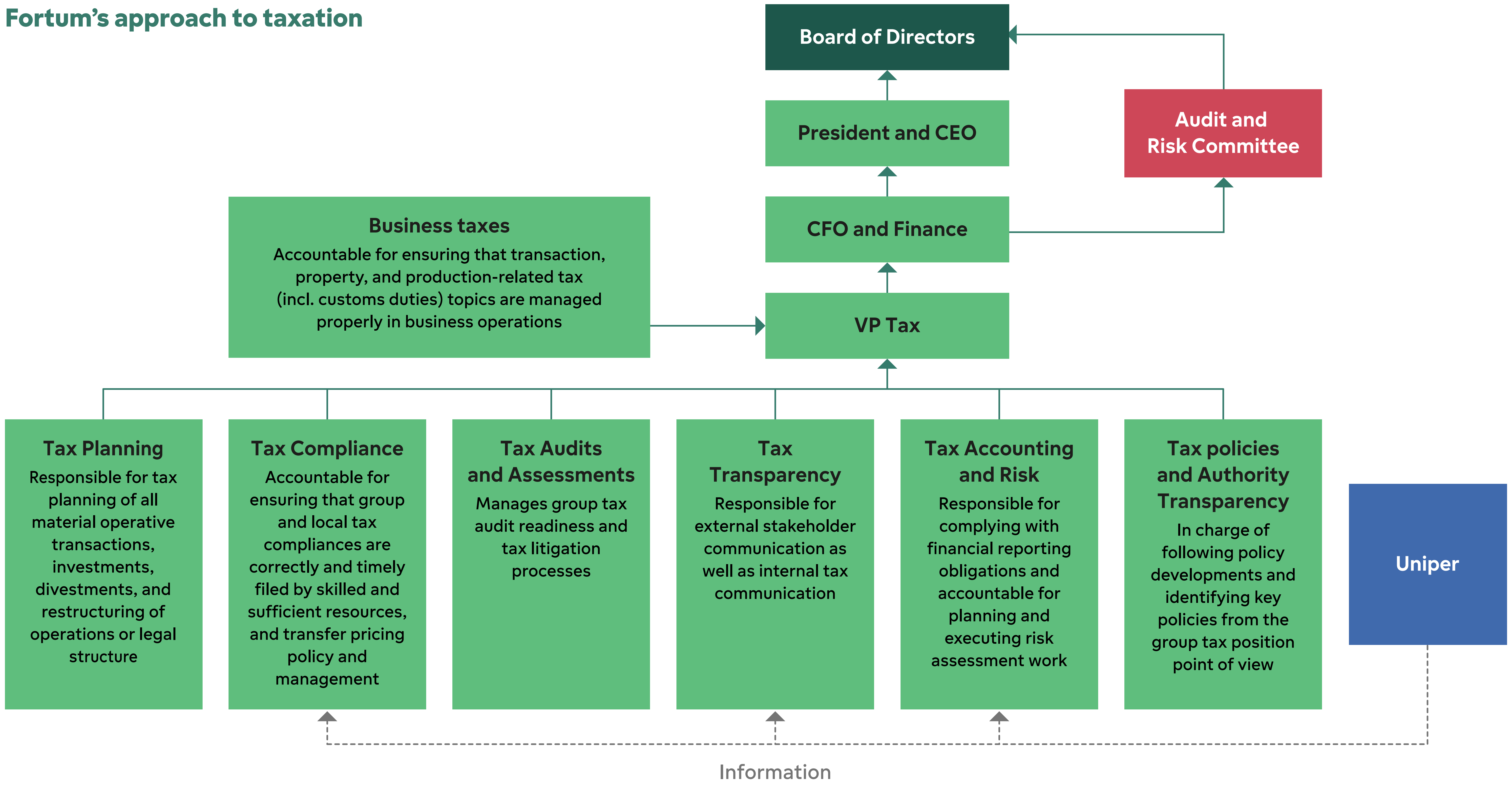
Tax governance

The Chief Financial Officer is accountable for tax governance and strategy. The Vice President of Taxation implements our tax principles and is responsible for ensuring that principles, and the procedures that support them, are in place, maintained, and implemented in the same manner in all countries.

A new tax governance document – Fortum Group Tax Governance – was developed by the VP of Taxation with input from various stakeholders within our Fortum Group Tax Team and the Fortum Executive Management team. The document aims to provide clarity on the roles and responsibilities of not only the Fortum Group Tax Team, but also the whole Fortum Group and Uniper Group in relation to tax management and related tasks, and it sets the scene for responsible tax management. The document details the internal controls and mandates that are in place regarding tax-related decisions and issues, and it summarises the role of the Board of Directors, the Audit & Risk Committee, and the Fortum Executive Management team. The main goal of the document is to allow us to work in an environment that is conducive to reporting taxes transparently, abiding by all laws and regulations, and meeting our ESG requirements. The document provides a more in-depth specification of the Fortum tax principles that were approved by the Board of Directors. ▸ **Link to summary of Fortum Group Tax Governance**.

The VP of Taxation is supported by a team of professionals, the Fortum Group Tax Team. The VP of Taxation is responsible for ensuring that the Fortum Group Tax Team has the adequate proficiency and experience to implement our principles appropriately. Tax issues, such as tax strategy, legal processes, and tax-related risks, are followed on a regular basis by the Audit and Risk Committee of Fortum's Board of Directors.

Fortum's approach to taxation



Uniper SE as a Fortum subsidiary

Fortum consists of a group of subsidiaries and associated companies, of which the Uniper SE Group is part of. As Uniper SE is listed on the stock exchange in Germany, it creates some exceptions to normal subsidiary approaches. Uniper SE has the obligation to arrange its tax management with respect to Fortum's tax principles and to operate under a de facto group principle. These exceptions are explained in this section.

Uniper SE has its own tax organisation and principles, and, as of 2020, it is publishing its own tax transparency report. Uniper SE's tax principles are similar to Fortum's tax principles. Uniper SE's tax position is included in Fortum's Group financial information as of April 2020. In line with laws and regulations, Uniper SE is reporting all material information related to taxes to Fortum, ensuring proper consolidation into Fortum Group. Uniper's tax work is also audited separately.

As a company, Uniper bears responsibility for its actions towards its shareholders and stakeholders. Global competition on different regional markets has led to organisational structures in Uniper that are separated from legal structures and are globally coordinated and optimised across national borders. By contrast, taxation is still primarily determined by the legal form of a company and national fiscal sovereignty. Against this background, the objective of Uniper Tax is to adequately and fully meet Uniper's tax obligations in a timely manner at all times and, at the same time, to make an optimum contribution to achieving business objectives. For that, Uniper Tax is integrated within the business, has a proper compliance culture and control environment in place, and is value orientated, managing also reputational risks for the Uniper Group.

Uniper Group Tax has its own organisation with responsibility for Uniper's tax issues; it is organised under the CFO of Uniper. Uniper Group Tax cooperates with the Fortum Group Tax Team and delivers the information needed for consolidation to Fortum Group Tax Team. Read more on **Uniper.energy**.

Risk appetite in tax planning

Fortum's tax management is always initiated by business needs – either strategic or project – and driven by the principles of tax management. The purpose of tax planning is to ensure efficiency, certainty, and predictability of how business is treated for tax purposes. A high tax burden may deter investments or business plans. In such case, the Group must engage tax planning into business planning or engage with government or policy makers regarding the need for change to mitigate the high tax burden. In this case, tax planning needs to be compliant with the purpose of the laws.

Tax planning combined with tax compliance is needed in some cases to clarify tax treatment and compliance obligations that may create a challenge for the business. Understanding tax treatment is important, but it is not a driver of our solutions. Therefore, our tax planning should not create any major risks to the business environment. On the contrary, our tax planning aims to create clarity and certainty for the business operations and the tax consequence arising from it.

A poor understanding or misinformation can sometimes result in tax assessments. We believe that timely and transparent information and communication are important factors in mitigating risk. That is why we are committed to transparency in our tax management, respecting the materiality principle to improve clarity of our communication.

Risk assessment

During the year we regularly assess uncertainties relating to the taxation of our existing and planned business. We consider this to be an important part of responsible tax management and contribution to our stakeholders. Our risk work is twofold; on one hand we assess operative proposals. Our main documented findings and risk mitigation proposals are discussed with the business that has initiated the operative proposal, as well as with the CFO, and the Fortum Executive Management team and Board of Directors as part of the decision material. Secondly, our risk work consists of self-assessments, cooperation with the business operations, and internally in the Fortum Group Tax Team by using workshops and interviews as tools for this work. Our internal process regarding the business operations follows up to ensure that the main risk areas are under control and well managed. We report our findings on tax risks, uncertainties, and mitigation plans, including verification of them, to the Audit and Risk Committee annually in line with our internal calendar and risk-related work.

Our Tax Governance guidelines define key internal controls and control methodology with respect to our functions within the team. We also review tax-related responsibilities and accountabilities on an ongoing basis to ensure that all topics are managed and addressed. We compile a yearly internal control review and report it internally to ensure the validity and effectiveness of the controls. As audits are an assessment of our tax management, we respect the independence of auditors when engaging advisors.

Our Group Tax Team manages tax-related uncertainties by targeting tax predictability for the business operations in all our operating countries. Risk assessments and internal controls are crucial when looking for predictability. The main uncertainties we identified in 2021 were:

1. New, unclear tax legislation increasing the tax burden and interpreted differently between countries, as well as a growing focus on transfer pricing. The main risk regarding these aspects is the trend of policy makers and tax authorities to protect the national tax base, which often results in opposing national views between countries and tax authorities, as well as in different tax treatment in cross-border transactions, i.e. multiple taxation of the same income.

2. Decarbonisation of our business will impact not only profitability, but also tax treatment, resulting in mismatches between regulations. Unclear existing and planned rules, as well as missing synchronisation between corporate income tax rules and climate policies, may result in double taxation and weaken the financial power to invest in new, clean energies, such as hydrogen and wind.

3. Strongly growing compliance burden. Due to financial constraints, it may be difficult to have sufficient resources to ensure compliance with all the newest regulations. Good examples of new compliance obligations include mandatory disclosure rules, the posted workers directive, and economic employer rules.

As risk mitigation actions, we have identified simplifying legal structures, improving data management, seeking strategic clearance from tax authorities when possible, revising our tax governance, further work on transparency and improving resources. As concrete examples of implementing risk mitigation, we have initiated a multilateral advanced pricing agreement procedure between three countries (as mentioned earlier), formalised tax governance guidance, simplification of internal financing legal set up, cooperation with Uniper tax, and reallocation of resources within the Fortum Group Tax Team.

Fortum Tax Culture

Fortum Group Tax Team Annual Bonus system

Fortum's Group Tax Team is part of Fortum's normal bonus systems both in relation to short-term (annual) and long-term (share-based) programs. Targets set are related to business support, such as renewable projects, process improvements, such as simplified closing processes, maintaining and improving clear roles on accountabilities, responsibilities, communication, and controls between functions, tax governance, development of transparency, and transactions strengthening Fortum's balance sheet. Bonuses are not connected to taxes borne, taxes collected, or effective tax rate.

Engaging advisors

Fortum has defined the process for engaging advisors in our Fortum Group Tax Governance guidelines. The main principles are that Fortum's advisors need to respect Fortum's Tax Principles and Supplier Code of Conduct. We don't engage tax advisors whose fees are success based. We aim to give our advisors all the relevant facts to ensure their capability to give us the best possible advice.

Compliance controls

We have controls to ensure compliance with existing regulations. In these controls, we may find weaknesses or, in the worst case, failures. If we identify weaknesses or failures, we will act accordingly to eliminate them. While we didn't identify any major failures in 2021, we did identify weaknesses. Actions to eliminate the weaknesses are already ongoing.

We identified a minor failure in a small business concerning our VAT procedures. The business had started all VAT compliance actions in line with plans but did not finalise them.

Actions we took in response to the failure:

We performed a detailed analysis of the failure; the business appointed people responsible for managing the process. An IT system was developed to manage the issue in the future, and the issue was discussed transparently with the respective tax authority and a solution was reached. We are honing our controls to better catch similar topics.

Self-assessment of B Team principles

Fortum is committed to B Team's tax principles (see bteam.org). Since making our commitment in 2018, we have worked to align with the B Team tax principles and to support their work. We have executed our first review of our alignment to the B Team tax principles. A summary of our main findings in the self-assessment follows:

We assessed different parts of the B Team principles of good tax governance. Even though we appraised most areas as green, i.e. on a good level, we regard responsible tax management, tax governance, and transparency to be issues that are under ongoing development. Therefore, we are making efforts to develop our tax approach to have a sharper focus on the most critical issues for Fortum.

Green = Function according to B-Team's principles

Yellow = Largely meet the B Team principles / Have made significant progress toward meeting B Team principles

Red = There are shortcomings to meet the B Team principles

Governance:
We assessed governance-related issues as green, but we recognise that mechanisms around employee awareness of and adherence to our tax strategy are not as good as they could be. Our aim is to improve our employee-targeted communication and to create tools that encourage employees to have an open dialogue with the Tax Team.

Compliance:
We assessed our processes concerning compliance as green with respect to self-assessment.

Structure:
We assessed structure-related issues as green, but we recognise that our tax principles extend to our relationships with employees, customers, and contractors, as third-party controls can be assessed as amber. We do have some processes to assess third parties, but they are not always systematic. We identified the need to consider third-party assessment and controls when entering cooperation with them.

Relationship with tax authorities:
We assessed issues related to our relationship with tax authorities as being in line with B Team principles. Equally, we identified that our efforts to build relationships of cooperative compliance are too narrow and limited to Finnish tax authorities. Our firm target is to initiate more a cooperative compliance approach with one or two main operative countries in the near future.

Incentives and supporting tax systems:
We assessed issues related to our incentives and supporting tax systems as being in line with B Team principles.

Transparency:
We assessed our transparency-related issues as mostly being in line with B Team principles. However, we assessed the overview of our structure and a brief explanation of the type and geographic scope of activities as unclear or reported in too many different parts of our financial reporting. To improve this, we are taking steps to describe our geographic scope and to provide an explanation of the types of entities in our tax footprint. Additionally, we assessed that we don't have a systematic reporting tool for financially material tax incentives if we were to have such incentives; consequently, we assessed this section as red. Even though we do not have such incentives, we need to agree with our internal stakeholders on how to report them to ensure that we can report them in our tax footprint. As a final improvement area, we considered that some parts of operations are disconnected from tax issues or we are not clear enough with our message in the area of advocacy approach. For this reason, we assessed this aspect as amber in light of B Team principles. Clarity and closer cooperation with public affairs naturally would be the improvement in this area.

Transparency register and tax matters

As we have discussions with policy makers and participate in public hearings, we are using Fortum's transparency identification. We trust that this makes our discussions more transparent regarding whom we have been communicating with and on what topic. In 2021, we participated in public hearings and discussions, such as public hearings in the OECD, as well as in discussion forums considering responsible tax management.

Fortum's tax contribution in 2021

The purpose of this section is to illustrate Fortum's total tax contribution. Our operations are steered by our Tax Principles, Code of Conduct, tax strategy, and governance. We believe that our way of doing business illustrates how taxes are managed responsibly. This section presents our country-by-country taxes borne and collected, key performance indicators that are important for measuring tax contribution in our business, operations in low-tax jurisdictions, and other factors that we think are important when measuring our tax contribution in financial terms.

Financial statement disclosures

We regularly follow developments in tax transparency reporting and update our information if the development changes the qualitative description of our business.

Fortum publishes tax information as part of its Financial Statements. Income taxes are included in the notes to the consolidated financial statements. The condensed part of it is presented below with necessary commentary. Please see Note 12 Income tax expense, and Note 28 Income taxes on the balance sheet for further information.

Key tax indicators, %

	2021	2020	2019
Effective income tax rate	60.7%	15.7%	12.8%
Comparable effective income tax rate	24.2%	24.1%	22.0%
Weighted applicable tax rate	141.9%	22.1%	23.6%

Fortum's Group effective income tax rate, according to the income statement, was 60.7% (2020: 15.7%). The tax rate is mainly impacted by the share of profits from associates and joint ventures that are recorded based on Fortum's share of profits after tax, and, therefore, their tax impact is not visible in Fortum's income statement.

Other material items affecting the effective income tax rate are one-time tax-exempt capital gains and losses, other items affecting comparability, tax rate changes, and other major one-time tax effects. The comparable effective income tax rate is presented to better reflect the Group's tax position when comparing the current period to previous periods. Items affecting comparability are not included in the comparable effective income tax rate. The comparable effective income tax rate for 2021 was 24.2% (2020: 24.1%). In 2021, Fortum introduced Comparable net profit APM, which resulted in recalculation of the comparable effective income tax rate. 2020 and 2019 comparative has been recalculated accordingly.

The table above explains the difference between the statutory income tax rate in Finland compared to the rate at which Fortum is taxed on its profit before income tax. The effective income tax rate and comparable effective income tax rate reflect the income tax expense recognised in the income statement, including changes in deferred taxes.

Income tax expense

EUR million	2021	%	2020	%	2019	%
Profit before tax	**-289**		**2,199**		**1,728**	
Profits from associated companies and joint ventures	-192		-656		-744	
Tax exempt capital gains or losses	-2,670		-558		-7	
Other items affecting comparability	5,651		255		66	
Profit before income tax decreased by profits from associated companies and joint ventures and items affecting comparability	**2,501**		**1,240**		**1,044**	
Tax calculated at nominal Finnish income tax rate	- 500	20.0%	-248	20.0%	-209	20.0%
Differences in tax rates	-93	3.7%	-21	1.7%	8	- 0.8%
Tax exempt income and other non deductable expenses	-5	0.2%	20	- 1.6%	-16	1.6%
Tax effects of changes in value and non-recognition of deferred taxes	-34	1.4%	-22	1.8%	6	- 0.5%
Adjustments recognised for taxes of prior periods	32	- 1.3%	3	- 0.2%	-3	0.3%
Taxes related to dividend distributions	-13	0.5%	-19	1.5%	-17	1.7%
Other items	8	- 0.3%	-11	0.9%	0	- 0.0%
Comparable effective income tax rate	**-605**	**24.2%**	**-299**	**24.1%**	**-231**	**22.1%**
Tax rate changes	30		4		-3	
Taxes on other items affecting comparability	-833		86		13	
Other major one time tax effects	1,583		-135		0	
Income tax expense	**175**		**-344**		**-221**	

Deferred taxes on the balance sheet

Deferred taxes illustrate timing differences between the treatment of costs under accounting and tax rules. The timing differences give rise to deferred tax assets and liabilities, the most significant of which are below.

EUR million	1 Jan 2021	Change 2021	31 Dec 2021
Intangible assets	-241	41	-200
Property, plant and equipment and right-of-use assets	-1,228	-323	-1,551
Pension obligations	542	-274	268
Provisions	1,273	385	1,658
Derivative financial instruments	-63	1,539	1,476
Tax losses and tax credits carry-forward	168	-22	146
Other	-312	-164	-476
Net deferred tax liability	**138**	**1,184**	**1,321**

Fortum historically had a material deferred tax liability, owing to its investments in non-current assets. These assets are depreciated more rapidly for tax than for accounting purposes, resulting in lower current tax payments at the start of an asset's lifetime and higher tax payments at the end of its lifetime. This difference results in a deferred tax liability. Through the acquisition of Uniper, Fortum now has significant deferred tax assets related to provisions and derivative financial instruments. Deferred tax assets on derivative financial instruments increased during 2021 due to decrease in the net fair value of the unrealised commodity derivatives caused by high commodity market prices.

Total taxes

Taxes borne indicate different taxes that Fortum pays for the period. In 2021, Fortum's taxes borne were EUR 1,398 (2020: 665) million. Taxes borne includes corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and the cost of indirect taxes. Production taxes include also taxes on production and on property, paid through purchased electricity from associated companies.

The total tax rate indicates the burden on the Fortum Group's profit before these taxes borne. When the pre-tax profit is close to nil or negative, the total tax rate does not illustrate the tax contribution in an informative way.

Total taxes, %

	2021	2020	2019
Total tax rate	662.3%	26.1%	21.0%

Fortum administers and collects different taxes on behalf of governments and authorities. Such taxes include VAT, excise taxes on power consumed by customers, payroll taxes, and withholding taxes. The amount of taxes collected by Fortum in 2021 was EUR 1,439 (2020: 1,059) million.

Total taxes by country

In line with the 2021 guidelines of the Ownership Steering Department of the Finnish Prime Minister's Office for majority state-owned companies, Fortum has selected key indicators that reflect the nature of its business operations and the related tax. As Fortum's operations are capital-intensive and have a long lifetime, the net assets, being stated capital and accumulated earnings, have been selected as the best determinant of our value creation in each country. Our operations are not labour-intensive, nor is revenue the most relevant base for a value creation indicator. Therefore, for our operations, the table below presents assets used in operations along with taxes borne and taxes collected for the eleven most significant countries of operation. To ensure a good understanding of our value creation, we also present interest-bearing loan receivables, as financing is crucial for the success of our operations. We trust this is the best determinant of value creation for our operations.

Total taxes in Fortum main countries

Financial year 2021 was exceptional. Meanwhile our comparable operating profit was a record high, total profit including items affecting comparability was actually a loss (negative), see Fortum Financial statement 2021. Fortum total tax rate for 2021 was 662,3% which illustrates the relation between Fortum's taxes borne in relation to profit before tax, increased by taxes borne in operating profit. Taxes included in operating profit are production taxes, employment taxes, taxes on property and cost of indirect taxes. There are three **main drivers** behind the increase in the total tax rate. 1) The high effective income tax rate of 60.7% which is impacted by the **material profit and loss variances** between the countries and the relationship between taxable income and the IFRS profit before taxes, which has materially differed in 2021. 2) Fortum and Uniper's operations **have not met the criteria for fiscal consolidation** except in the UK, therefore not allowing the offsetting of profits and losses within a country for taxable income purposes. 3) The **increase in production and related taxes** in 2021. These drivers combined with the negative profits result in the high total tax rate.

Finland

In 2021, the overall profitability in Finland (excluding tax-exempt capital gains) increased significantly following higher achieved prices in Generation power production. Consequently, the positive result was somewhat offset by the negative result in the electricity sales business in Consumer solutions due to high electricity purchase costs combined with volatility of market prices and reduction of the number of customers. The effective tax rate of 2021 was 19.3% compared to the statutory rate of 20% impacted by minor tax-exempt dividends and tax-exempt income in share of profits in associates and joint ventures.

As consolidated taxable income developed positively, our taxes borne in Finland for 2021 was EUR 169 million (2020: 91), which increased mainly due to higher income taxes borne.

The production taxes in Finland in 2021 increased due to an exceptionally cold Quarter 4 of the year which increased the demand for heat. At the same time the high electricity prices accelerated the electricity production and the usage of natural gas.

Rules for withholding tax on dividends paid to non-Finnish shareholders were changed for 2021. The requirements set for applying tax treaty rates were amended, impacting taxes collected, resulting in higher withholding taxes on dividends paid by Fortum Oyj as there was no certainty what documentation would be sufficient for applying lower applicable tax rates.

Sweden

In 2021, the overall profitability in Sweden increased significantly mainly due to the tax-exempt capital gain of approximately EUR 2.4 billion from the sale of its 50% ownership in the Swedish district heating and cooling company Stockholm Exergi Holding. The profit before tax was also impacted by changes in fair values of non-hedge-accounted derivatives.

Effective tax rate of 2021 was -2.8%, compared to the statutory rate of 20.6 %, impacted by the tax-exempt capital gain and by the fact the Swedish Fortum consists of two separate income tax consolidation groups. Both taxes borne and profit before taxes were also impacted 2021 by full year consolidation of Uniper's operations compared to previous year 9 month.

Property taxes for 2021 were EUR 6 million (2020: 24). The reason why paid property tax decreases significantly 2021 refers to refunds according to the Swedish property tax process. All the refunds are of similar background. Refunds were paid to the nuclear power plants in Oskarshamn and relate to property tax reductions for previous years.

Germany

Fortum's German operations profitability developed negatively in 2021 and the profit before tax was EUR -3,186 million (2020: 269). In contrast to the profit before tax, corporate income taxes have increased materially in Germany in comparison to earlier years. Since the second half of 2021, extreme market developments let to an increase in the taxable income in Germany. One of the main drivers for the difference between profit before taxes and taxable income is the tax treatment of unrealized derivative results compared to the IFRS treatment. Foreign withholding taxes, included in corporate income taxes, are on a similar level to prior years. As a consequence out of these effects, our income taxes borne in Germany for 2021 was EUR 485 million (2020: 80). Effective income tax rate was 3.8% (2020: 37.1%) which includes items outside our comparable profit, such as effects on derivatives. Tax effects of changes in value and non-recognition of deferred taxes during 2021 reduced the effective income tax rate. The differences between effective income tax rate and comparable effective income tax rate is explained more on Fortum Group level in Fortum's tax contribution in 2021 section.

Country by country information

Countries of operations

European union

EUR million	Finland 2021	Finland 2020	Finland 2019	Sweden 2021	Sweden 2020	Sweden 2019	Germany 2021	Germany 2020	Germany 2019	Austria 2021	Austria 2020	Austria 2019	Belgium 2021	Belgium 2020	Belgium 2019	Denmark 2021	Denmark 2020	Denmark 2019
Profit before tax	561	1,088	303	2,195	-66	383	-3,186	269	592	7	131	-	16	34	26	0	0	-7
Stated capital [1]	6,531	6,702	6,740	6,295	6,564	3,284	55,682	55,904	1,002	0	0	-	920	920	920	38	38	44
Accumulated earnings [1]	7,137	6,279	5,707	3,928	1,566	2,694	16,686	14,816	138	0	0	-	83	69	38	50	52	42
Number of employees	2,377	2,370	2,234	1,755	1,752	985	4,906	4,925	68	1	1	-	3	2	2	187	192	194
Assets used in operations [2]	4,158	3,808	4,130	10 920	10,728	4,125	3,714	3,833	5	0	0	-	0	0	0	110	118	118
Interest bearing loan receivables [2, 3]	6,322	4,555	2,553	1,616	1,358	710	11,357	4,976	0	0	938	-	795	889	1,025	0	0	0
Effective income tax rate	19.2%	6.0%	18.7%	-2.8%	-79.0%	19.4%	3.8%	37.1%	0.2%	-9.7%	0.0%	-	23.6%	25.4%	29.7%	0.0%	-66.0%	7.8%
Total tax contribution	364	231	224	205	213	192	1,448	683	1	-1	0	-	5	4	3	11	12	13
Total tax rate	27.1%	7.9%	29.8%	6.8%	N/A	29.3%	N/A	42.4%	0.0%	N/A	0.0%	-	14.8%	10.5%	11.8%	104.0%	127.1%	N/A
Taxes borne																		
Corporate income tax	107	34	42	100	53	80	485	80	2	-1	0	-	2	3	3	0	1	2
Production taxes	43	39	52	1	4	3	5	8	0	0	0	-	0	0	0	3	3	2
Employment taxes	3	2	1	46	37	13	67	48	0	0	0	-	0	0	0	0	0	0
Taxes on property	15	15	14	6	24	30	3	0	0	0	0	-	0	0	0	0	0	0
Cost of indirect taxes	1	2	1	0	0	0	4	3	-2	0	0	-	0	0	0	0	0	0
Total taxes borne	**169**	**91**	**111**	**154**	**118**	**126**	**564**	**139**	**0**	**-1**	**0**	**-**	**2**	**4**	**3**	**3**	**4**	**5**
Taxes collected																		
Net VAT	57	20	13	3	56	49	385	126	1	0	0	-	3	0	0	3	3	3
Sales VAT	1,730	718	562	738	598	341	16,277	7,171	2	0	2	-	3	0	0	13	13	13
VAT on Purchases	1,674	699	549	735	542	292	15,893	7,045	1	9	9	-	0	0	0	10	9	10
Payroll taxes	51	50	47	48	40	17	214	175	0	0	0	-	0	0	0	5	4	4
Excise taxes	0	1	1	0	0	0	285	243	0	0	0	-	0	0	0	0	0	0
Withholding taxes	87	70	52	0	0	0	0	0	0	0	0	-	0	0	0	0	0	0
Total taxes collected	**195**	**140**	**113**	**51**	**96**	**66**	**884**	**544**	**1**	**0**	**0**	**-**	**3**	**0**	**0**	**7**	**8**	**8**

1) In line with country by country reporting requirements, we have chosen to disclose the stated capital and accumulated earnings per country. The data in the overall table is based on the consolidated group position per country however these lines differ as the basis is the sum of the legal entities per country. This better reflects the position of the country's equity.
2) Group internal eliminations between the countries are not included.
3) Including cash collaterals.

	Finland	Sweden	Germany	Austria	Belgium	Denmark
Business activities	Businesses with production, service, sales, and trading operations with a wider customer base. Holding and financing activities.	Businesses of production, service and sales operations with a wider customer base. Holding activities.	Businesses with production, service, sales, and trading operations with a wider customer base.	Energy storage.	Financing activities.	Businesses with production, service and sales operations.
Name of parent company/companies	Fortum Oyj	Fortum Sweden AB	Fortum Deutschland SE, Uniper SE	-	-	Fortum Waste Solutions A/S
Names of main companies with operations	Fortum Power and Heat Oy, Fortum Markets Oy	Fortum Sverige AB, Fortum Markets AB, Sydkraft AB, Fortum Waste Solutions AB	Uniper SE, Uniper Kraftwerke GmbH, Uniper Global Commodities SE	Permanent Establishment	Fortum Finance Ireland, Belgian Branch	Fortum Waste Solutions OW A/S
Comments by country	In 2021, the overall profitability in Finland increased significantly and consequently taxes borne increased mainly due to higher income taxes. Production taxes in 2021 increased due to an exceptionally cold Quarter 4 of the year which increased the demand for heat.	The effective tax rate is impacted by large one-time tax exempt capital gains and changes in fair values of non-hedge accounted derivatives. Property taxes lowered based on material refunds for previous years in accordance with the Swedish property tax process.	The profit before tax is impacted by changes in fair values of non-hedge accounted derivatives. Payments of real estate transfer tax amounting EUR 7.4 million in 2021 are netted against prior year provisions and not visible in the current year property taxes borne.	-	The loan portfolio in Belgium has stayed stable in 2021 with slightly declining income and taxes.	Danish profitability is low meanwhile total tax contributions are stable.

Countries of operations

European union

EUR million	Hungary 2021	Hungary 2020	Hungary 2019	Ireland 2021	Ireland 2020	Ireland 2019	Malta 2021	Malta 2020	Malta 2019
Profit before tax	-138	59	-	95	78	81	11	20	-
Stated capital [1]	91	232	-	12,913	12,913	12,222	362	359	-
Accumulated earnings [1]	-84	-164	-	661	450	377	-14	-11	-
Number of employees	33	30	-	4	4	4	10	10	-
Assets used in operations [2]	105	32	-	5	0	55	0	0	-
Interest bearing loan receivables [2, 3]	0	39	-	10,904	8,725	7,183	165	167	-
Effective income tax rate	42.4%	12.5%	-	12.6%	13.8%	12.9%	34.9%	8.0%	-
Total tax contribution	26	11	-	11	11	9	0	2	-
Total tax rate	N/A	23.0%	-	11.5%	14.0%	7.1%	0,0%	8.0%	-
Taxes borne									
Corporate income tax	22	13	-	11	11	9	0	2	-
Production taxes	1	1	-	0	0	0	0	0	-
Employment taxes	0	0	-	0	0	0	0	0	-
Taxes on property	0	0	-	0	0	0	0	0	-
Cost of indirect taxes	0	0	-	0	0	0	0	0	-
Total taxes borne	**23**	**14**	**-**	**11**	**11**	**9**	**0**	**2**	**-**
Taxes collected									
Net VAT	0	0	-	0	0	0	0	0	-
Sales VAT	276	116	-	0	0	0	0	0	-
VAT on Purchases	314	125	-	0	0	0	0	0	-
Payroll taxes	0	0	-	0	0	0	0	0	-
Excise taxes	3	-3	-	0	0	0	0	0	-
Withholding taxes	0	0	-	0	0	0	0	0	-
Total taxes collected	**3**	**-3**	**-**	**0**	**0**	**0**	**0**	**0**	**-**

EUR million	Netherlands 2021	Netherlands 2020	Netherlands 2019	Poland 2021	Poland 2020	Poland 2019	Other EU Countries 2021	Other EU Countries 2020	Other EU Countries 2019
Profit before tax	-70	153	-17	366	35	-25	15	-20	33
Stated capital [1]	7,391	7,759	6,507	374	374	401	1	124	119
Accumulated earnings [1]	209	-324	483	297	15	-6	-5	147	138
Number of employees	335	344	7	594	583	560	92	360	365
Assets used in operations [2]	329	319	11	725	672	671	8	328	336
Interest bearing loan receivables [2, 3]	6,095	5,948	5,130	15	3	23	0	0	0
Effective income tax rate	153.4%	8.1%	-63.6%	19.0%	21.2%	9.5%	3.3%	48.3%	-27.1%
Total tax contribution	116	45	21	28	53	27	2	14	22
Total tax rate	N/A	15.8%	N/A	4.8%	30.6%	N/A	4.8%	-20.6%	17.3%
Taxes borne									
Corporate income tax	22	12	19	9	5	6	0	2	4
Production taxes	10	5	0	0	0	0	0	0	0
Employment taxes	8	6	0	2	1	1	0	2	2
Taxes on property	2	3	0	7	7	6	0	0	0
Cost of indirect taxes	1	1	0	0	0	0	0	0	0
Total taxes borne	**42**	**27**	**20**	**18**	**13**	**14**	**1**	**4**	**6**
Taxes collected									
Net VAT	44	0	0	0	31	6	1	7	12
Sales VAT	626	286	0	252	204	198	3	29	37
VAT on Purchases	582	296	0	272	173	196	2	22	24
Payroll taxes	16	13	0	4	4	4	1	3	3
Excise taxes	14	4	0	5	4	3	0	0	0
Withholding taxes	0	1	0	1	1	1	0	0	0
Total taxes collected	**74**	**18**	**1**	**10**	**40**	**13**	**1**	**10**	**16**

1) In line with country by country reporting requirements, we have chosen to disclose the stated capital and accumulated earnings per country. The data in the overall table is based on the consolidated group position per country however these lines differ as the basis is the sum of the legal entities per country. This better reflects the position of the country's equity.
2) Group internal eliminations between the countries are not included.
3) Including cash collaterals.

	Hungary	Ireland	Malta	Netherlands	Poland	Other EU Countries
Business activities	Businesses with production and sales.	Holding and financing activities. Businesses with service operations and growing number of customers.	Insurance activities.	Businesses of production and sales operations, holding and financing activities.	Businesses of production, distribution, service and sales operations.	-
Name of parent company/companies	-	Fortum Finance Ireland DAC	Ergon Holdings Ltd	Fortum Holding BV	Fortum Power and Heat Polska Sp. z o.o.	-
Names of main companies with operations	Uniper Hungary Energetikai Kft	Fortum Finance Ireland DAC	Ergon Insurance Ltd	Uniper Benelux NV, Fortum Finance BV (Fortum Finance Ireland DAC Dutch Branch as of Jan 2022)	Fortum Marketing and Sales Polska S.A.	-
Comments by country	Profit before tax is impacted by changes in fair values of non-hedge accounted derivatives. Taxes borne increased mainly 2021 due to 12 month full year consolidation of Uniper's operations compared to previous year 9 month.	Income is taxed at normal 12.5% tax rate. Ireland has foreign branches and subsidiaries, and is taxed in Ireland on its worldwide profits, including dividends received, with an offsetting credit for taxes paid by the branch or subsidiary. These credits eliminate double taxation equally with a general exemption method used by most of the other countries.	Malta has a corporate income tax rate of 0%, however, the earnings from these companies are subject to normal taxation in Germany, as required under EU CFC requirements.	Profit before tax is impacted by changes in fair values of non-hedge accounted derivatives. The effective tax rate was primary impacted by the tax-exempt capital gain from the sale of businesses in the Baltics. Corporate income tax includes withholding taxes on dividends.	Polish profitability is volatile meanwhile taxes borne are stable.	Mainly refers to Estonia, France, Guernsey and Spain.

Countries of operations

Non European union

EUR million	Norway 2021	Norway 2020	Norway 2019	Russia 2021	Russia 2020	Russia 2019	United Arab Emirates 2021	United Arab Emirates 2020	United Arab Emirates 2019
Profit before tax	57	9	53	455	404	312	-40	45	-
Stated capital [1]	489	598	629	1,228	-1,009	1,050	137	160	-
Accumulated earnings [1]	262	720	728	2,052	4,540	612	-23	-17	-
Number of employees	607	587	660	6,894	7,466	2,955	17	19	-
Assets used in operations [2]	1,711	1,237	1,605	3,727	3,973	2,630	92	70	-
Interest bearing loan receivables [2, 3]	0	0	1	29	8	0	0	63	-
Effective income tax rate	22.6%	51.4%	25.3%	19.1%	23.7%	18.3%	0.0%	0.0%	-
Total tax contribution	33	56	74	331	276	182	0	0	-
Total tax rate	29.5%	107.4%	47.5%	29.9%	28.3%	22.1%	0.0%	0.0%	-
Taxes borne									
Corporate income tax	11	11	20	99	84	51	0	0	-
Production taxes	0	0	0	5	4	2	0	0	-
Employment taxes	7	6	7	23	17	3	0	0	-
Taxes on property	1	2	2	25	21	17	0	0	-
Cost of indirect taxes	0	0	0	0	0	0	0	0	-
Total taxes borne	**19**	**19**	**30**	**152**	**126**	**74**	**0**	**0**	**-**
Taxes collected									
Net VAT	0	24	24	152	128	101	0	0	-
Sales VAT	544	159	368	490	411	311	0	0	-
VAT on Purchases	571	135	344	338	283	210	0	0	-
Payroll taxes	14	13	19	16	14	7	0	0	-
Excise taxes	0	0	0	0	0	0	0	0	-
Withholding taxes	0	0	0	10	7	0	0	0	-
Total taxes collected	**14**	**37**	**44**	**178**	**150**	**108**	**0**	**0**	**-**

EUR million	United Kingdom 2021	United Kingdom 2020	United Kingdom 2019	USA 2021	USA 2020	USA 2019	Other Non EU Countries 2021	Other Non EU Countries 2020	Other Non EU Countries 2019
Profit before tax	-824	-44	0	221	-38	-5	-31	41	-2
Stated capital [1]	110	-569	23	134	97	31	16	34	34
Accumulated earnings [1]	392	1,260	-7	35	-133	-7	-13	4	8
Number of employees	1,067	1,047	75	80	66	0	178	175	82
Assets used in operations [2]	1,199	771	12	75	48	19	11	262	167
Interest bearing loan receivables [2, 3]	176	1	0	17	8	0	45	38	31
Effective income tax rate	21.8%	19.3%	9.8%	24.2%	33.3%	0.0%	-12.9%	22.3%	-50.0%
Total tax contribution	258	108	4	36	7	0	10	6	3
Total tax rate	N/A	199.9%	53.4%	13.7%	N/A	0.0%	N/A	4.1%	N/A
Taxes borne									
Corporate income tax	0	0	0	29	4	0	1	1	1
Production taxes	177	62	0	0	0	0	0	0	0
Employment taxes	11	8	0	1	0	0	0	0	0
Taxes on property	19	16	0	0	1	0	0	0	0
Cost of indirect taxes	2	1	0	0	0	0	0	0	0
Total taxes borne	**209**	**88**	**1**	**31**	**5**	**0**	**1**	**2**	**1**
Taxes collected									
Net VAT	0	0	1	0	0	0	8	2	0
Sales VAT	1,361	344	2	0	0	0	10	3	2
VAT on Purchases	1,338	368	0	0	0	0	2	1	5
Payroll taxes	26	20	2	3	2	0	1	1	1
Excise taxes	0	0	0	3	0	0	0	0	0
Withholding taxes	0	0	0	0	0	0	0	1	1
Total taxes collected	**49**	**20**	**3**	**6**	**2**	**0**	**10**	**5**	**1**

1) In line with country by country reporting requirements, we have chosen to disclose the stated capital and accumulated earnings per country. The data in the overall table is based on the consolidated group position per country however these lines differ as the basis is the sum of the legal entities per country. This better reflects the position of the country's equity.
2) Group internal eliminations between the countries are not included.
3) Including cash collaterals.

	Norway	Russia	United Arab Emirates	United Kingdom	USA	Other Non EU Countries
Business activities	Businesses of sales, production, service operations and distribution of district heating.	Businesses of production operations and sales of electricity and heat.	Oil processing, trading activities and service operations.	Businesses of production service and sales operations.	Trading operations	-
Name of parent company/companies	Fortum Forvaltning AS	PAO Fortum, PAO Unipro	-	IVO Energy Ltd	-	-
Names of main companies with operations	Fortum Oslo Varme AS, Fortum Markets AS, Fortum Strøm AS	PAO Fortum, PAO Unipro	Uniper Energy DMCC, Uniper Energy Fujairah FZ	Uniper UK Limited, Fortum O&M UK Limited.	Uniper Global Commodities North America LLC, Valo Ventures I LP Fund	-
Comments by country	Profit before tax is impacted by typical business volatility. Taxes borne remain stable.	Both taxes borne and profit before taxes increased mainly in 2021 due to a full year consolidation of Uniper's operations compared to the previous year of 9 months.	Earnings are affected by typical business volatility and companies in the United Arab Emirates are not subject to corporation tax, as it does not have a respective tax system.	Profit before tax is impacted by changes in fair values of non-hedge accounted derivatives. Production taxes borne increased mainly 2021 due to extraordinary usage of fuels.	Both income taxes borne and profit before tax are impacted by increased operational business activities.	Mainly refers to India, Rwanda and Canada.

Other payments to the public sector

In addition to taxes borne and taxes collected, we make other compulsory tax-like payments to the public sector, payments that are not compensation for goods or services received. For example, in 2021 we paid EUR 47 (2020: 43) million in employer statutory pension contributions. We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2022 Annual General Meeting that a dividend of EUR 1,013 (2021: 995) million be paid for 2021. The Finnish State's share of this would be about EUR 514 (505) million.

Ongoing tax appeals

Fortum had ongoing tax audits during 2021. Based on earlier audits, Fortum has received income tax assessments in Belgium for the years 2008–2012. In previous years, Fortum has appealed all assessments received. Based on legal analysis, no provision has been accounted for in the financial statements related to the Belgium 2008–2012 tax audits.

In Sweden, Fortum filed a summons application to the District Court of Stockholm in 2018 in which damages are claimed from the Swedish State. Secondly, Fortum has had ongoing tax appeals in Swedish courts and EU Commission relating to the hydro property tax. In February 2022, Fortum did not get leave to appeal to the Supreme Administrative Court in Sweden.

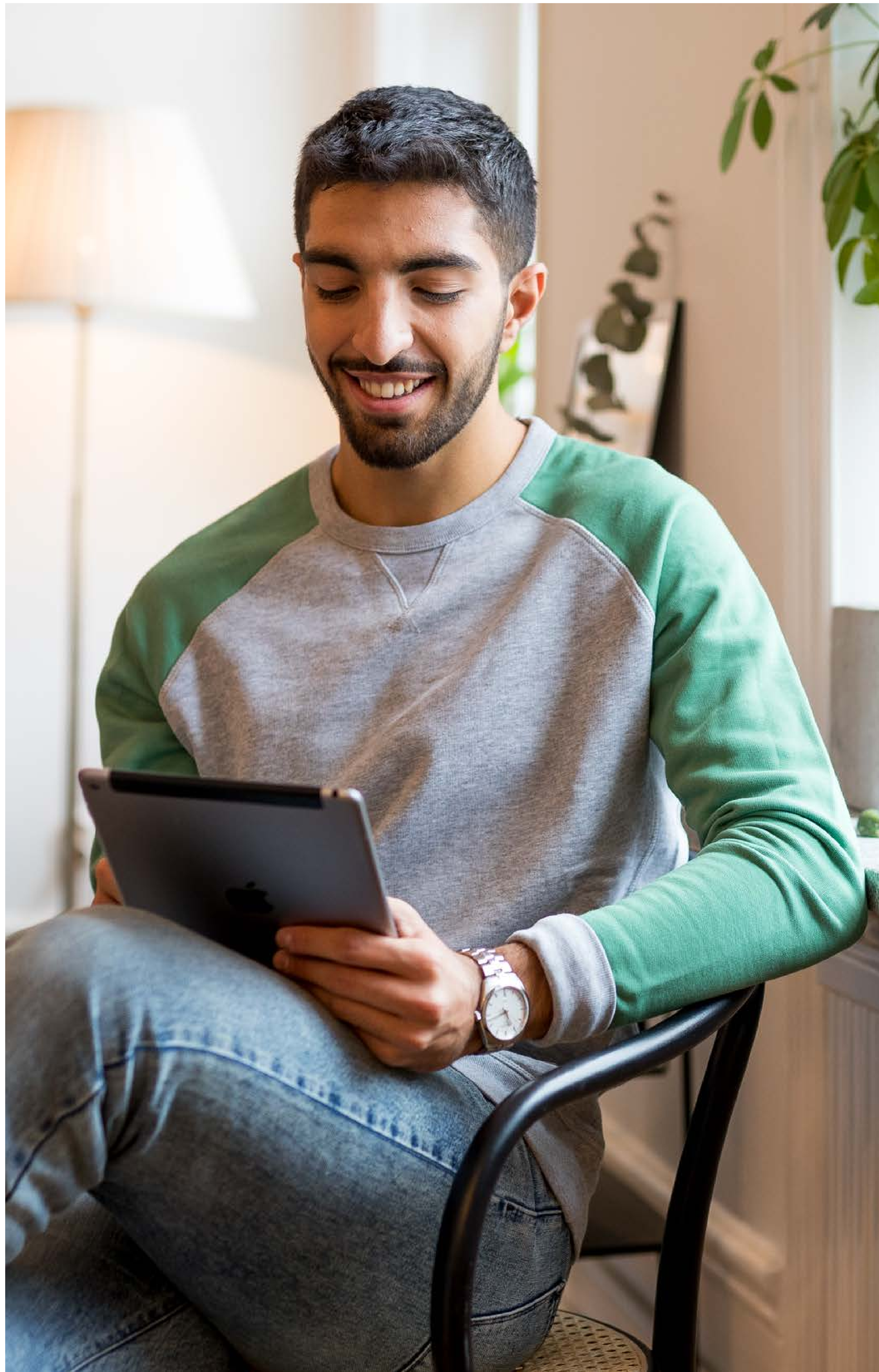
For more information, see Note 37 Legal actions and official proceedings in the Financial Statements.

Information about companies registered in so-called low tax jurisdictions

Fortum has a few companies in countries considered as so-called low-tax jurisdictions. All these companies have been incorporated for business reasons, and not to take advantage of tax benefits. Fortum has a fully owned captive insurance company in Guernsey. It also has a stake in Nature Elements Asia Renewable Energy and Cleantech Fund L.P., which makes research and development investments and is located in the Cayman Islands.

Uniper, a subsidiary of Fortum, has a fully owned captive insurance company and a holding company in Malta, for insurance reasons. Uniper's earnings from the companies are subject to normal taxation in Germany. Uniper has two legal entities in the United Arab Emirates (UAE) relating to oil processing and trading activities. In addition, Uniper has set up a fully owned service company in the UAE. All entities are set up for business reasons, and with local assets and staff. Uniper's earnings from the UAE companies are not subject to corporate income tax, as UAE does not have a respective tax system.

Fortum's earnings from controlled foreign companies (CFCs) are subject to normal taxation in Finland. The taxes borne on these operations were EUR 270 thousand in 2021.



Key terms and definitions

Term	Definition
Corporate income tax	All taxes that are based on the taxable profits of a company and temporary differences between accounting values and tax bases, as defined in the International Financial Reporting Standard IAS12.
Current tax	The corporate income tax due with respect to taxable profits of an accounting period, as defined in the International Financial Reporting Standard IAS12.
Deferred tax	The corporate income tax due with respect to temporary differences between accounting values and tax bases, as defined in the International Financial Reporting Standard IAS12.
Effective income tax rate	Income tax expense, divided by profit before income tax.
Comparable income tax expense	Income tax expense excluding taxes on items affecting comparability, adjustments to finance costs – net, tax rate changes and other onetime adjustments.
Comparable effective income tax rate	Comparable income tax expense divided by Comparable profit before income tax excluding share of profit/loss from associated companies and joint ventures.
Weighted average applicable income tax rate	Sum of the proportionately weighted share of profits before taxes of each Group operating country, multiplied by the with an applicable nominal tax rate of the respective countries.
The Group / Fortum Group	Fortum Oyj and its subsidiaries and Fortum Group associated companies and joint ventures.
Indirect tax	Tax that is required to be paid to a government by one person or company at the expense of another person or company.
Profit before income tax	Accounting profit for a period before deduction of corporate income taxes.
Comparable profit before income tax	Comparable operating profit, +/- comparable share of profit/loss of associates and joint ventures, +/- comparable finance costs net.
Tax	Any amount of money required to be paid to a government without receiving any services, whether by law or by agreement, including, without limitation, corporate income taxes, production taxes, property taxes, employment taxes, sales taxes, asset transfer tax, and any other required payments.
Taxes borne	Taxes that a company is obliged to pay to a government, directly or indirectly, on that company's own behalf with respect to an accounting period. Taxes borne includes corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and cost of indirect taxes. Production taxes include also taxes paid through electricity purchased from associated companies.
Taxes collected	Tax that a company is obliged to pay to a government on behalf of another person or a company. Taxes collected includes VAT, and excise taxes on power consumed by customers, payroll taxes, and withholding taxes.
Total tax contribution	Sum of taxes borne and taxes collected. Total tax contribution is a measure of the contribution it has made to the public finances in the year.
Total tax rate	Taxes borne, divided by profit before tax, increased by taxes borne in operating profit. Taxes included in operating profit are production taxes, employment taxes, taxes on property and cost of indirect taxes.
Other payments to and from the public sector	Other compulsory tax-like payments to the public sector, payments that are not compensation for goods or services received.
Assets used in operations	Non-interest bearing assets plus interest- bearing assets related to the Nuclear Waste Fund (non-interest-bearing assets do not include finance-related items, taxes, and assets from fair valuations of derivatives used for hedging future cash flows).

Links

Content	Link
Fortum Tax Principles	https://www.fortum.com/media/26398/download
Fortum Code of Conduct	https://www.fortum.com/about-us/our-company/values/code-conduct
Summary of Fortum Group Tax Governance	https://www.fortum.com/files/fortum-tax-governance-executive-summary/download?attachment
European Business Tax Forum (EBTF)	https://ebtforum.org/ttc/
Fortum and Uniper reach first milestones in strategic “One Team” cooperation	https://www.fortum.com/media/2021/05/fortum-and-uniper-reaching-first-milestones-strategic-one-team-cooperation
EU Communication – Business Taxation for the 21st Century	https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2430
EU Transparency Register – Fortum	https://ec.europa.eu/transparencyregister/public/consultation/displaylobbyist.do?id=03501997362-71

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