

Fortum Tax Principles

Fortum's approach to taxation – our principles for responsible tax management

INTRODUCTION - Fortum operates in the energy sector which is characterized by long term capital-intensive investments. We aim to manage our taxes in a responsible manner in order to ensure that our businesses can continue to invest, operate flexibly and efficiently, and safeguard returns to our shareholders as well as contributions to societies where Fortum has operations or create value.

The purpose of this document is to describe Fortum's approach to taxation and the principles which steer the tax management in the group¹.

GOVERNANCE – Fortum commits to responsible tax management governed by Tax Principles which have been approved by the Fortum Oyj Board of Directors. The Chief Financial Officer (CFO) is accountable for Fortum Tax Principles, legal cases, tax related risks and Tax Strategy. Tax related legal cases and tax related risks are reported on regular basis to Audit and Risk Committee. Finally Tax Strategy is approved by Audit and Risk Committee. Taxes and tax related matters are analysed regularly within business cases presented to the Board of Directors as one factor.

The VP Group Tax keeps the CFO and Fortum Leadership Team (FLT) informed of any tax related issues impacting Fortum, implements our tax principles and is responsible for ensuring that guidance and procedures, which support them, are in place, maintained and implemented in the same manner in all countries. The VP Group Tax is supported by a team of professionals in the Group Tax Team. The VP Group Tax is responsible for ensuring that the Group Tax Team has the adequate proficiency and experience to implement our principles appropriately.

During the year, we regularly run key controls to ensure compliance with tax regulation and assess also the uncertainties relating to taxation in our business. We report possible tax risks and how they are managed and assured annually to the Audit and Risk Committee in line with our internal annual Tax clock and risk related work. We present an action plan how to mitigate the risks. Our Group Tax Team manages tax related uncertainties by targeting predictability in the taxes for the business operations in all our operating countries.

Fortum Code of Conduct² is fully applicable to all parts of tax work and defines how we do business at Fortum and it is embedded in our values. As part of our commitment, we are not using our auditors for

¹ Some countries require that tax policy or principles are approved by the board. Fortum Group regards these principles and governance approved by Fortum Oyj board of directors to comply with its duty under paragraph 16(2), Schedule 19, Finance Act 2016 for the year ended 31 December 2018 (UK).

² Link to Code of Conduct: <https://www.fortum.com/about-us/our-company/values/code-conduct>

any tax advice. Also, when using advisers for tax planning, compliance or controversy purposes, we do not accept success-based fees which would be solely intended to reduce Fortum's tax liability. Our advisers have to commit to comply with Fortum Tax Principles when advising us in relation to all tax topics.

TAX PLANNING – Tax planning is part of our business planning contributing value to shareholders and societies. Our aim with tax planning is to ensure predictability of our business and its tax treatment to optimize our tax payments in relation to business profitability and financial strength. This means that we pay taxes where the profits are generated and operations conducted. Avoiding double taxation is in the core of planning as is respecting the purpose of the law. Tax planning is closely connected to Fortum strategy and Fortum values.

TAX RISK PROFILE – We follow the normal Fortum business risk appetite in all our tax work. This means that we have a responsible approach to tax risk management. Although tax regulation may be unclear and lacking predictability, tax management is intended to manage this risk. Therefore, we are following a “more likely than not” approach in all our tax work. A more likely than not approach means we examine the outcome of all possibilities to make correct decisions and to ensure compliance with both the letter and the purpose of the law. We have comprehensive risk identification and mitigation processes in place that are run regularly.

COMPLIANCE - We have a consistent compliance process including internal controls 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. We respect existing regulations, such as market-based pricing of internal transactions (the arm's length principle) and comply with reporting obligations such as mandatory disclosure rules. In unclear cases we discuss with tax authorities or seek advice from experts to clarify interpretations. We pay special attention to the correctness and transparency of our tax returns and reports, and we discuss our positions with tax authorities.

BUSINESS STRUCTURE - We will only use business structures that are driven by commercial considerations, are aligned with business activity, support our fundamental financial positions and have genuine substance. We don't seek abusive tax results and have a process to eliminate tax fraud.

To support our strategy and dividend policy, Fortum's legal structure is designed to mitigate various financial risks in our operations, to ensure sound and efficient financing of operations and investments, and to safeguard the parent company's financial strength and dividend distribution capability in accordance with Fortum's dividend policy. This means that Fortum Group's legal structure is always planned in line with Fortum business strategy with risk shields to protect Fortum Oyj equity by the adequate use of holding and finance companies located in EU countries where the operating environment is the most predictable, transparent and fits for the purpose to meet the business objectives. Taxes resulting from Fortum's operations are, however, paid in the country where the revenue is generated independently of the ownership structure.

We do not utilize

- companies incorporated in jurisdictions which do not levy any corporate income tax on companies, or, that are low tax jurisdictions; and
- which don't exchange information between authorities; or
- are by other means within the EU definition of a tax haven,

as a means of reducing the Group's tax liabilities. In case our operation is located in such a jurisdiction for operative purposes, we report annually in our tax footprint our companies incorporated in low tax jurisdictions or regarded as controlled foreign companies, the purpose of the company and their tax treatment. Furthermore, we don't use hybrid entities, instruments or artificial structures to lower the group's tax burden.

RELATIONSHIPS WITH OTHERS - Fortum engages with governments and tax authorities to explain the impact of their tax policy and regulations on us. Moreover, we discuss with various organizations, such as industry groups, local governments, academics and EU bodies, the law proposals and regulations which are relevant for us to actively promote responsible taxation. When there are adverse consequences to our ability to run our businesses efficiently and to invest, we will initiate a dialogue and explain this to governments and administrations. We respect Fortum's Business Ethics guidelines for advocating in all our tax advocacy work. We strive for effective collaboration with authorities to clarify existing rules, so that we can respond to potential challenges in a timely manner and avoid surprises.

REPORTING TO STAKEHOLDERS - In Fortum's tax reporting we are committed to ensure that stakeholders are able to understand the important elements of both our tax position, tax contribution as well as strategies and that the information provided is fair and accurate. We aim for continuity in our reporting. We follow actively new requirements set for reporting taxes transparently as well as seek for assurance of our key reports. We promote responsible tax management by being transparent and engaging with independent bodies to assess us and our public reporting.

We report our tax position and related issues transparently as a part of our financial reporting and other communication. Our tax communication includes information about our business, legal set up, country by country information concerning our total tax position, key transactions as well as our legal processes concerning tax. We use a materiality threshold in our tax report to improve the clarity of our reporting.