

December 2020

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

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, to operate flexibly and efficiently, and to 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 has tax principles which have been approved by the Fortum Oyj Board of Directors. The Chief Financial Officer (CFO) is accountable for tax governance and tax strategy. The Vice President Taxation, who reports to the CFO, 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 Tax is supported by a team of professionals in the Corporate Tax Team. The VP Tax is responsible for ensuring that the Corporate 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. Tax and tax related matters are analyzed in normal business cases presented to the Board of Directors as one factor.

During the year we regularly assess also the uncertainties relating to taxation in our business. We report tax risks and how they are managed and assured annually to the Audit and Risk Committee in line with our internal calendar and risk-related work. We present an action plan how to mitigate the risks. Our Corporate Tax Team manages tax-related uncertainties by targeting predictability in the taxes for the business operations in all our operating countries.

Fortum code of conduct is fully applicable to all parts of tax work.

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).

TAX PLANNING – Our aim with tax planning is to ensure predictability of our business and its tax treatment to optimize our tax payments in relation with business profitability and financial strength. This means that we pay tax on our profits where the profits are generated. Equally avoiding double taxation is in the core of planning. In our planning we respect the purpose of the law. Tax planning is closely connected to Fortum strategy and Fortum values.

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. 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 planned with risk shields to Fortum Oyj by appropriate use of holding and finance companies located in EU countries, in countries where the operating environment is the most predictable. Our Finnish operations are owned through the parent company, our Swedish operations by our Swedish holding company and our operations in other countries mainly by our Dutch and Irish holding companies. The 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 as a means of reducing the Group's tax liabilities. In case our operation is located in such a low tax

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 and EU bodies, the law proposals and regulations which are relevant for us to 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 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 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.