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Tax Footprint 2022

TAX FOOTPRINT 2022

CEO introduction

Planning for the unlikely demonstrated its worth

Assessing and preparing even for unlikely risk scenarios is an elementary part of business and the responsibility of any prudent management team. In 2022, risks that we had recognised, but deemed highly unlikely, realised within months: Russia started a full-blown war on Ukraine, made the decision to use natural gas as a weapon, and ended exports to Western-Europe after more than 50 years of reliable delivery. At the same time, Germany decided that gas importers may not pass on the cost of the energy war to customers, which caused immense financial losses to Uniper. These "black swan events" turned our operating environment upside-down and called for major changes in our strategic direction. However, thanks to the long term solution with the German State and risk mitigation actions taken in the past, we were able to contain the impact.

We have been building up risk mitigation already for years in the form of our legal set up. These actions may seem redundant when business is doing well, but in 2022 we were pleased that these steps had been taken. Our holding and finance companies protected the equity of Fortum Oyj, the ultimate parent company, allowing us time to re-build a strong parent company.

The geopolitical turmoil realised also uncertainties around taxation, such as treatment of extraordinary and uncoordinated proposals to counter the exceptionally high electricity prices, but thanks to our strong commitment to responsible tax management, we were prepared even for these changes. Our transparency has improved our awareness and it is, therefore, easier for us to adapt. Our approach to taxes will ensure also in the future that our stakeholders will see what and where our total tax contribution is.

We will continue to invest and be forerunners in responsible tax management. During difficult times, it gives us a sustainable framework to plan our current and future business and allows us also to participate in public discussion about future tax systems. This is crucially important as uncoordinated tax regulation will disturb competition and may even fail to reach its objectives. We believe that tax rules should be possible to comply with and proportional to their objective.

In this document, we explain the tax issues associated with these events. There are two key points we want to highlight.

The first is that our approach to our legal structure has focused on mitigating risk. That planning bore fruit in 2022 and protected the balance sheet of Fortum Oyj, allowing us to plan for the future from a strong position.

The second is that the challenges of 2022 were easier to face thanks to the clear principles we had established around our approach on taxation and tax transparency. During a time of great uncertainty, these foundations allowed us to respond with confidence.

Markus Rauramo
President and CEO

Executive summary

Fortum pays taxes according to existing local tax legislation in its operating countries. Fortum's total tax contribution in 2022 was EUR 537 million in taxes borne and EUR 674 million in taxes collected. The main operating countries changed during 2022, due to the divestment of Uniper. They are now Finland, Sweden, Russia, Norway and Poland.

Fortum is committed to responsible tax management in line with the purpose of rules and regulations. This is crucial for our stakeholders, such as 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 our strategy and business needs. Taxes are one of many factors that we need to take into consideration. Our business solutions are not driven by tax considerations, but are supported by the Fortum Group Tax Team through optimisation of our approach and the pursuit of predictability and certainty. Taking into account multiple stakeholders ensures that we have a license to operate, our businesses can continue to invest, and our operations are efficient; it also safeguards environmental, social, governmental and financial returns to stakeholders.

Fortum operates in the energy sector, which is characterised by long-term, capital-intensive investments. The Russian offensive on energy supplies to the EU and 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 in the changing world, we believe that future tax legislation needs to be clear, predictable and simple.

2022 was financially dramatic for Fortum. A number of events came together and resulted in the decisions to sell Uniper SE to the German Government, to initiate a controlled exit from Russia and to request support from the Finnish Government due to Nordic liquidity issues. The decision to pursue a controlled exit from Russia was made in May. The divestment process has progressed and is still ongoing, but any major divestment in the Russian energy sector requires an approval by the Russian Government Commission and the President. All of these decisions had financial consequences with a material negative net impact. As every business decision and transaction has tax consequences, even these losses have their own tax consequences, making our tax contribution more difficult to understand. As a result, we will present our financial and tax information in two streams: continuing operations representing the remaining consolidated Fortum Group which continues to include Russia, and discontinued operations representing Uniper.

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 OECD's Pillar 2 rules. This work is central not only to our corporate responsibility and commitment to responsible tax principles, but also to Fortum's wider business purpose 'For a cleaner world'.

In this report we describe the value creation of our operations, we portray 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.

The Purpose of Fortum's Tax Footprint

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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Our tax and operating environment in 2022

The Russian invasion of Ukraine in February 2022 has had a devastating impact on the people of Ukraine. It also dominated our business in 2022. The invasion led to the disruption of the global energy market with unprecedented volatility in the price of oil and gas. This resulted in two fundamental changes to our business: the divestment of Uniper SE and the initiation of Fortum's exit from Russia. It also changed the operating environment for our continuing business.

In this document, we address the key questions concerning the sale of shares in Uniper SE and the ongoing controlled exit from Russia. We explain the impact of these events on our continuing business, and we explain our approach to tax management.

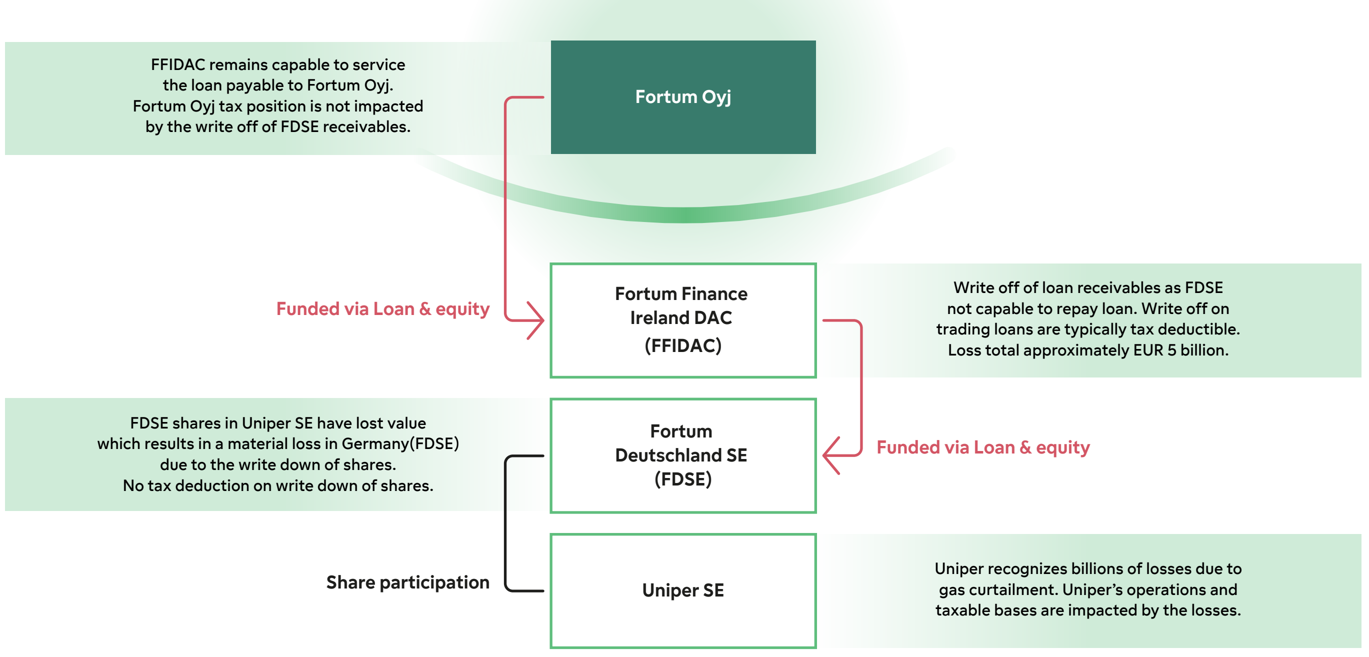
Divestment of Uniper and ongoing controlled exit from Russia

The decisions to sell Uniper and to initiate the exit from Russia were crucial to ensure the stability of Fortum's business, and its ability to make continuing tax contributions in Finland. However, these executed and planned divestments have had material financial impacts that are explained in our annual accounts. We have been asked the following questions about these transactions:

1. **Are the operating losses incurred by Uniper going to reduce tax payments in Finland?**
   Answer: No, they will not. The losses principally arise in Uniper and may be available for utilisation by Uniper in the future.

2. **Will the financial loss arising on the sale of Uniper reduce tax payments in Finland?**
   Answer: No, it will not reduce Fortum's tax payments in Finland. The sale ultimately generates a deductible loss for tax purposes in Ireland.

Risk mitigation for Fortum Oyj balance sheet has tax consequences



3. **Why does a loss arise in Ireland?**
   Answer: As we reported in our Tax Footprint 2018, when we acquired Uniper the potential impact of negative events was assessed and planned (see risk mitigation infographic above). To do so, we acquired Uniper by making loans and equity contributions from our existing Irish financing and holding companies. The loans, as a result of the decline in value of Uniper shares, will not be repaid. That generates a tax-deductible loss in Ireland.

4. **Will that loss in Ireland be utilised in the future?**
   Answer: Based on current law, tax losses can be carried forward for an indefinite period; we expect that the losses will be offset against future income that arises in Ireland.

5. **How much of that tax deductible loss in Ireland do you expect to be used in the future?**
   Answer: The loss in Ireland is in excess of EUR 5 billion. We expect our Irish operations to return to profitability in 2023 and to be profitable in the future. In line with IFRS, we have made an assessment of the tax losses we expect to be offset against foreseeable taxable profits and booked a deferred tax asset accordingly of EUR 706 million.

6. **Does the loss on the controlled exit from Russia reduce tax payments in Finland?**
   Answer: No. The impairment provision loss principally arises in the Netherlands and Sweden, as the intermediate holding companies, which does not generate a tax deductible loss, as it relates to a shareholding. An impairment loss also arises in Ireland on the financing of the acquisition, which generates a tax deductible loss in Ireland.

7. **Will the impact of the Uniper SE sale and the ongoing controlled exit from Russia reduce tax payments in any other country?**
   Answer: No. Currently there is no impact outside Ireland on Fortum's future tax payments. As the exit from Russia is ongoing, some impacts are still unknown.

8. **Given the amounts involved, how has Fortum managed its relationships with the tax authorities and administrations in the relevant countries?**
   Answer: We have been proactively engaged with the relevant tax administrations to ensure that our understanding of the tax legislation is correct.

Impact on continuing business

The events of 2022 had widespread consequences for our business, communities, and other businesses in the countries where we operate. We expect the impacts to continue in 2023 as the controlled exit from Russia is ongoing and the energy markets are still volatile. For Fortum, the two most important issues have been the impact of much higher prices on the energy market – and the associated financial issues (primarily liquidity and capital requirement issues), and the EU's work to stabilise the energy market and reduce electricity prices.

Impact on energy markets

As has been widely reported, and is explained in our accounts, the increase in energy prices and volatility in the global energy market led to a requirement for Fortum to make very material guarantee payments to the Nordic commodities exchange Nasdaq to ensure the delivery of energy to our customers

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and maintain market stability; the requirement raised issues around liquidity and credibility. The need for greater liquidity is a reflection of how the global energy market is regulated. Improved market regulation would reduce the extreme financial and tax impacts. The markets' and the EU's current response to this, as detailed below, could bring the risk of increasing the electricity prices as their proposals may not manage the situation effectively, which further supports the need for stability in the energy markets.

EU policy

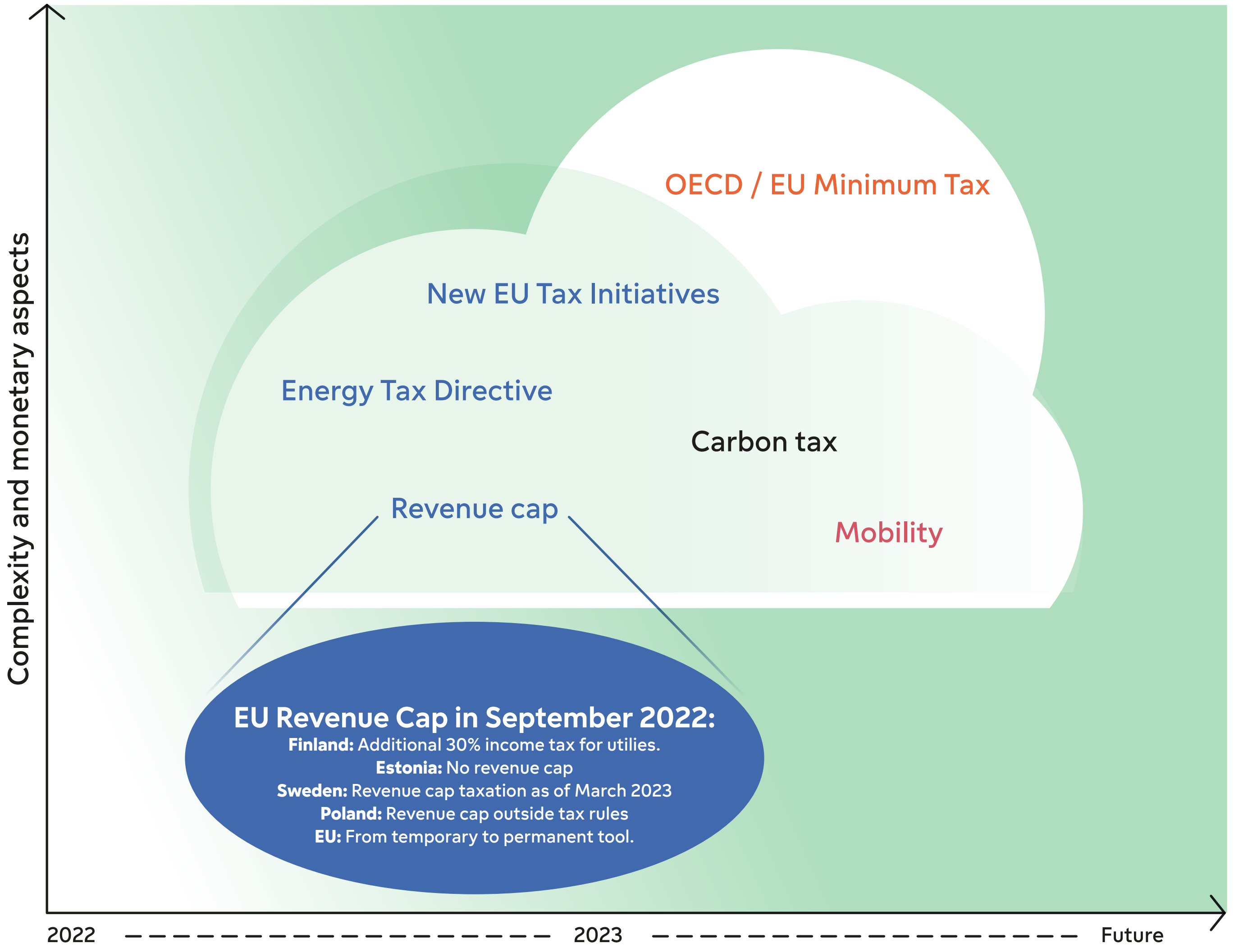
The EU has multiple new policies on its agenda. One of the urgent policies in 2022 was the understandable objective of reducing electricity's extreme prices and creating stability in the energy market. While we support these objectives, the measures introduced by the EU in September 2022 will not, in our view, have the desired results, as the regulation as presented fails to tackle the root cause of the problem. Higher taxes will produce greater short-term tax revenues but will not reduce electricity prices.

Clarity and predictability are key qualities of regulation. The speed with which the EU's September regulations were introduced is reflected in how effectively they have been implemented, as each Member State seems to have its own approach. Finland implemented an additional income tax method for 2023. Sweden is going to launch a revenue cap method as of March 2023, while Poland implemented a non-tax approach.

The combination of additional taxes on energy producers and a price cap is introduced in different forms around the EU; the speed with which the legislation was introduced has led to some unexpected consequences. The impact on producers varies considerably, so there is a risk that the objective is not met. While supporting the objective, we encourage the EU and national governments to promote a framework that minimises uncertainty, and enables us to plan the future of our business with confidence.

Aside from the so-called windfall tax solution by the EU, we are facing many new tax policies and regulations from the EU, the OECD, and from EU Member States in the coming years. They also have an impact on the predictability and certainty of our business, and on our ability to invest in the green

New tax regulations and existing compliance obligations increasing the risk of double taxation



High volume of new individual tax policies and regulations reduces predictability and certainty and makes compliance extremely complex. Our assessment of Finnish windfall tax, that implements EU revenue cap rules in Finland is that it will increase our comparable effective income tax rate to 21–24% (rate excluding Finnish windfall tax 20–22%). Read more: **https://www.fortum.com/media/2022/12/finnish-government-has-published-its-proposal-windfall-tax-law-fortum-assess-proposal**

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transition. Many of these proposals are unclear, overlap with existing rules and with each other, and create an additional compliance burden. Poor alignment may create conflicting impacts and unintended behaviour. Clear and predictable rules that are aligned with each other are important for our continuing operations. Our commitment to responsible tax management is firm and important. Equally, we encourage regulators and tax authorities to ensure that new regulations are responsible, transparent and sustainable.

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

Fortum is presenting 2022 data in two streams: 1) continuing operations, representing the remaining consolidated Fortum Group; and 2) discontinued operations, representing Uniper. Following this change, Uniper's tax payments are not included in the 2022 tax contribution data. Uniper's data was included for the full-year in 2021 and for nine months in 2020, which needs to be considered when looking at the comparative data.

Changes in our operations impact our tax contribution

Our tax contribution changes every year, reflecting where we have operations, the profitability of our business and external changes in tax regulation. The divestment of Uniper SE and the ongoing controlled exit from Russia have a material impact, which is the material losses in Ireland, Finland, Sweden, and Netherlands, as described previously. The data for 2021 includes Uniper's taxes borne, with the most material countries being Germany, Russia, Great Britain, and Sweden; this needs to be taken into account when comparing 2022 to 2021, and 2020.

We are committed to responsible tax principles, including the application of arm's length pricing, business-oriented planning and acting in line with the purpose of the law. In this context, we will optimise the future use of these losses in Ireland in balance with our business opportunities. We will report and pay our income taxes where profits are generated and where we have operations. Our tax contributions may fluctuate year on year owing to various factors, such as the level of investment or divestments, as well as to whether we make any acquisitions during the year.

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Fortum's tax principles

Fortum operates in the energy sector, which is characterised by long-term, capital-intensive investments. Making long-term investments requires stability and certainty. The widespread and often rapid pace of change in the tax regulatory environment can make our commitment to such investments more challenging, as it often leads to greater uncertainty and greater risk. We overcome these challenges by having robust and responsible tax management controls. Firstly, we respect the tax principles confirmed by Fortum's Board of Directors. Secondly, our strategic and operating objectives 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 not always clear. 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 we apply to all other business risks. When making business decisions, we consider the associated tax consequences and our ability to mitigate any risks. We comply with the rules and recognise that material issues require particular 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 work to ensure that our approach creates understanding between our operational and tax functions, and to support the development of the business while taking into account the views of our various stakeholders.

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

https://www.fortum.com/files/fortum-tax-governance-executive-summary/download?attachment

Tax strategy in brief

Manage change

Know your business

Be prepared

Report transparently

Change is constant, and all change has tax implications. Accordingly, we are always **preparing** for change. Given the changes in our situation, our **short-term** strategy is to **minimize losses** and **eliminate double taxation.** In the medium term, we aim to manage our deferred tax assets efficiently. And in the **long term,** we must **prepare** our tax strategy and financing for future growth. Since our operations are key to the functioning of society, we must make **additional efforts** in terms of **responsible** tax management in order to be a trusted partner. As part of that, we will strictly adhere to **our tax principles, improve our transparency,** and participate in **public discussions** to contribute to responsible tax legislation.

OUR TAX PRINCIPLES INCLUDE 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.

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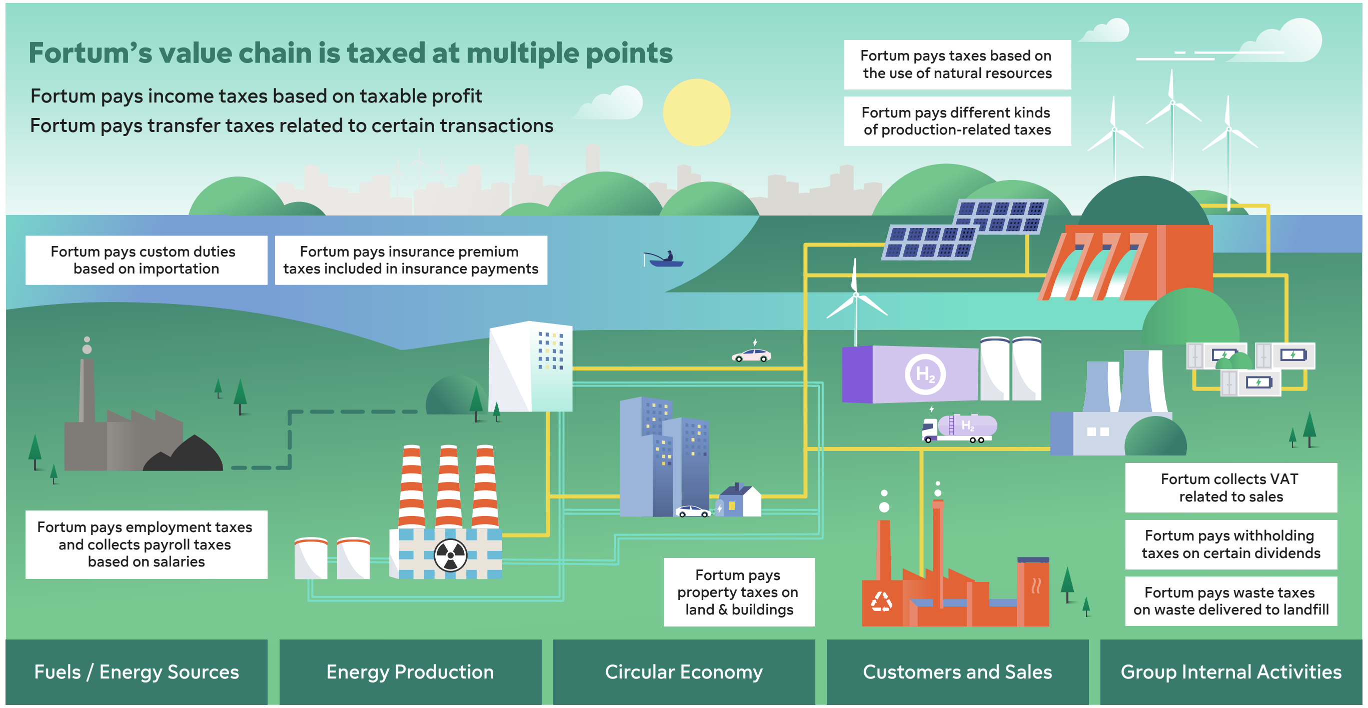
Fortum as a taxpayer – value creation

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 beside shows Fortum's value chain and the many instances in which taxation occurs.

The Fortum Group strategy is to manage its operations in local energy markets effectively. Producing and selling energy – electricity, commodities and heat – as well as recycling and waste solutions are inherently local activities. Our ability to make profit depends on our investment decisions and our existing power plants and facilities. Proper recognition of the functions participating in the business operations is crucial in order to define where profits are generated.

The key profit driver depends on investments and plant portfolios, such as hydro, solar, nuclear, wind and so on. All our tax contributions are local. More than 98% 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 financing and service operations representing our international business operations.



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Relationship between value chain, value creation, and tax contribution

Our investment in production plants generates power to be used by families and businesses, and the importance of sustainable power production has never been more important. The investment also generates value in the long-term for our various stakeholders, such as shareholders, but equally also for customers, states, municipalities, employees and so on, which in turn drives tax liabilities where we are engaged in business. Those taxes, whether based on profits, asset values, fuel usage or something else, need to reflect the cash generated by the business; so when the tax environment is changed, it is crucial that it does not undermine future investment decisions. As business is the origin of the tax contribution, inadequately designed taxes can negatively impact not only future 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 good understanding of the existing value chains by policy makers and business is crucial in order to properly recognise the value created, which leads to tax contributions. This is valid independently, whether talking about taxes on existing or assumed exceptional profits in the form of windfall taxes as well as new forms of businesses. The traditional model of energy production is now supported with innovations and digital solutions, which changes the core 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 the use of hydrogen. This will require substantial new investments and a tax regime that supports it on a long-term basis. This timing aspect has multiple taxing points across the whole lifetime of investments.

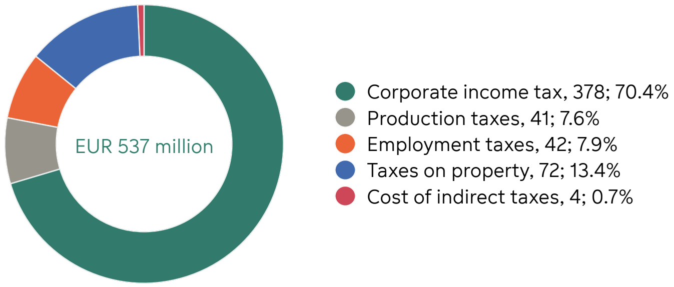
Value creation in the business is the basis for paying taxes and the ability to pay taxes

Our total **tax contribution** in 2022, was EUR 1,211 (2021: 2,838) million, of which EUR 537 (2021: 1,398) million related to taxes borne and EUR 674 (2021: 1,439) million to taxes collected. Finland, Sweden, Russia, and Germany were our biggest production countries. In 2022, taxes borne in Finland were EUR 276 (2021: 169) million, in Sweden EUR 156 (2021: 154) million, in Germany EUR 0 (2021: 564) million, and in Russia EUR 59 (2021: 152) million. The comparative figures noted above for 2021 were inclusive of Uniper data.

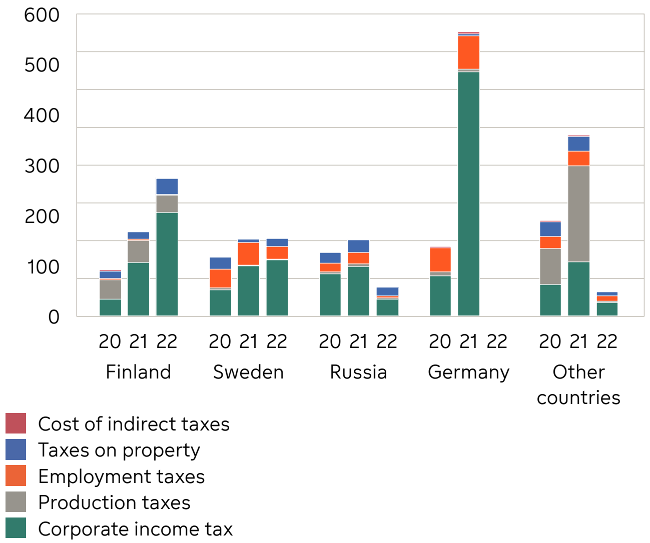
Taxes borne includes corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and the cost of indirect taxes.

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 2022, EUR million and %



Taxes borne by country, EUR million



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Value chain and tax contribution

Our tax contribution reflects the nature of our business. As a general rule, the larger our operating footprint is, the more value we create and the more we contribute to local communities in taxes, and therefore have a heavy tax footprint.

Correspondingly, operations that have a lighter footprint tend to have a lighter tax footprint, but they are not necessarily comparable. It is important to note that Fortum pays a variety of different taxes, and our overall contribution goes beyond corporate income tax; in particular, we pay significant amounts in labour and property taxes.

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/**

We do not engage in artificial corporate structuring for the purposes of lowering our tax liabilities. Our tax contributions may vary by country, reflecting differing headline tax rates and other reliefs and incentives that we may take advantage of where appropriate. In 2022, Fortum had operations in 20 countries. In the previous year, including Uniper, we operated in 30 countries. 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.

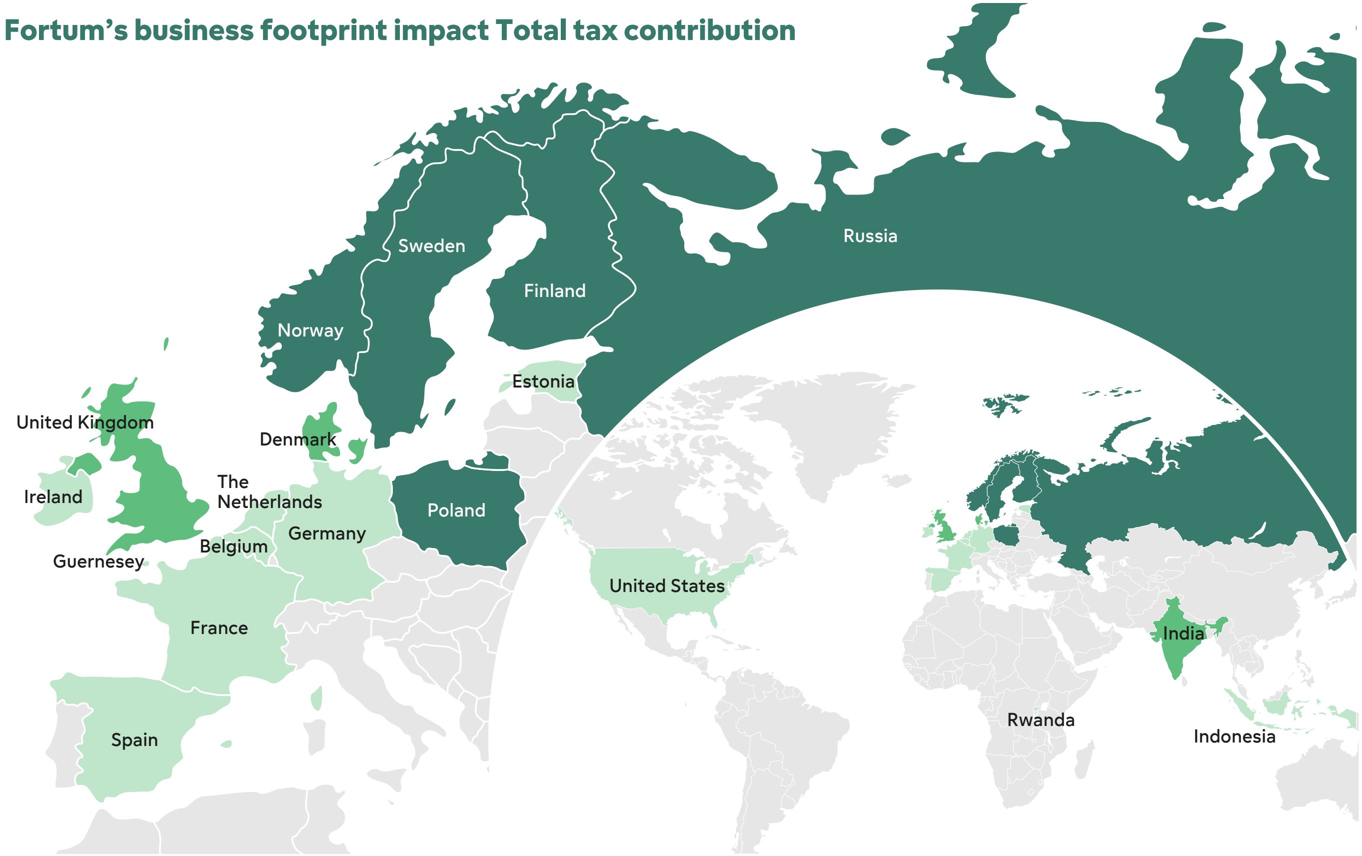
The legal structure as such does not impact the tax footprint, other than the fact that nominal tax rates differ between countries. You can find country-specific information about our operations on our website: **https://www.fortum.com/about-us/our-company/fortum-worldwide/country-fact-sheets**. The nature and footprint of our business is illustrated in the picture to the right.

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

Fortum Group has a dividend policy to have a payout ratio of 60–90% of comparable earnings per share. This compels us to find efficiencies and profitability. Total tax contribution is our contribution 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 61% in 2020, 36% in 2021 and 67% in 2022.

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 the Total taxes by country section.

Fortum's business footprint impact Total tax contribution



Business footprint

- **Heavy:** Production operations, resulting in taxes on profit, property, production, as well as other multiple taxes collected such as VAT, payroll, and withholding taxes.
- **Medium:** Services, sales, and trading operations with a wider customer base. VAT obligations on top of corporate income tax, and salary withholding obligations.
- **Light:** Limited number of customers and operations, mainly corporate income tax, and salary withholding tax obligations.

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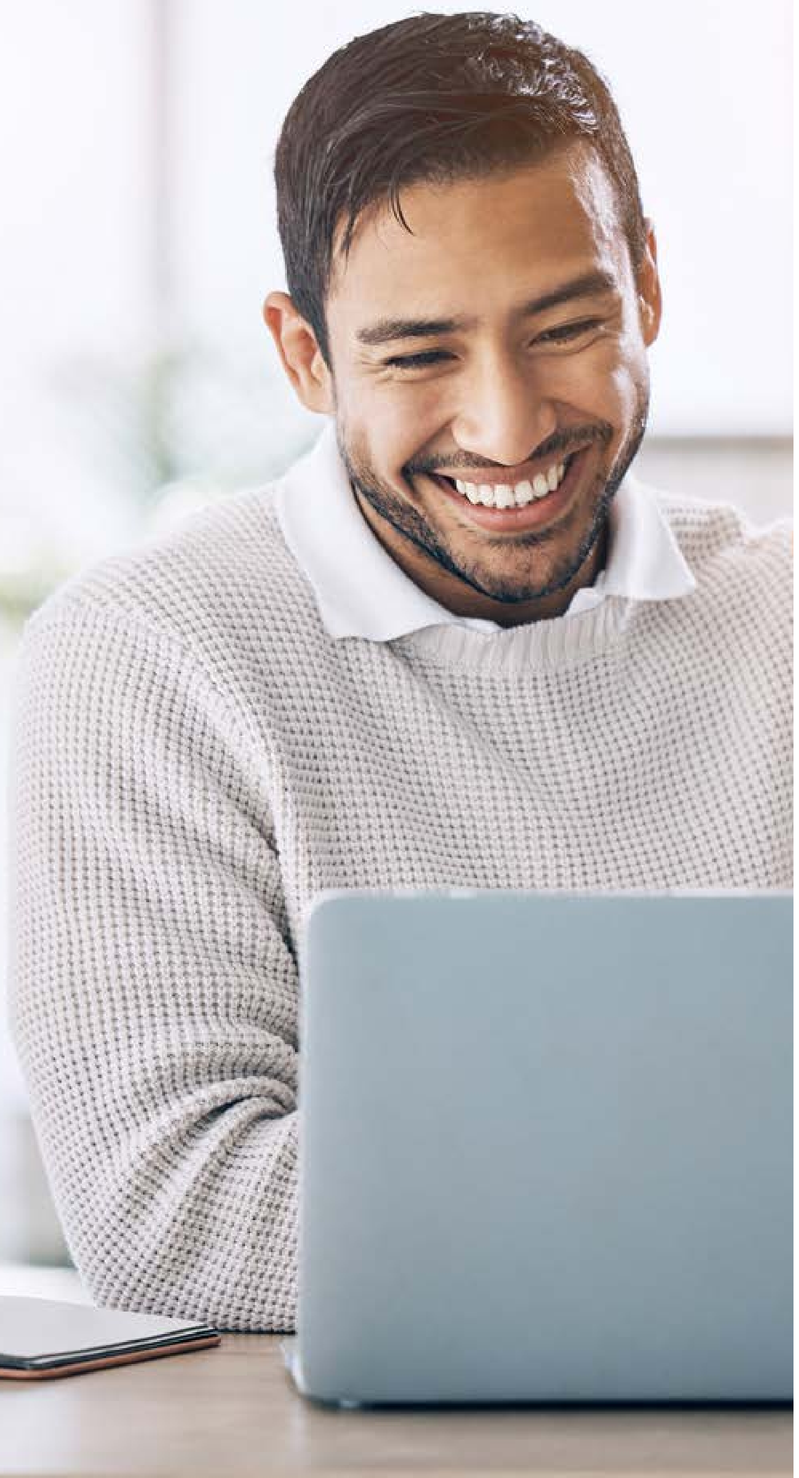

Fortum's tax management

Fortum is operatively organised through segments 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 or business areas. They must comply with operating and legal governance in their decision making. For tax management, this means that all operations report and comply with the relevant operational management boards concerning 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 operating and legal guidelines, instructions, advice, and controls to ensure that we are in compliance with tax regulations.

All subsidiaries must follow the Fortum Group Tax Team's instructions and guidelines. As tax is a consequence of business, these instructions and guidelines, when applicable, are also included in a number of corporate policies, instructions, and guidelines.

The Fortum Group Tax Team supports Fortum's strategy by identifying 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 our business, ensuring compliance with rules, and respecting the purpose of the laws.

The key objectives underpinning our approach to responsible tax management are predictability and certainty. This can be difficult in a regulatory environment that is often subject to change. That's why we follow a 'more likely than not' approach to responsible tax management. By planning and optimising taxes in line with our tax principles and the purpose of tax laws, we are more likely to achieve our strategic and operational objectives. Transparency and proactive tax risk management are key cornerstones in our aim of reaching predictability and efficiency.

2022 has been an extraordinary year – a year with high losses driven by our divestment of Uniper and our ongoing controlled exit from Russia. These extraordinary events and the associated impairment losses have otherwise masked a strong performance with good profitability in our core business, which has been driven by high energy prices, however all impairments are not visible on the Group consolidated level. This has consequently had an impact on our tax position. Our responsible tax management principles have provided us with a strong and sustainable framework as we have navigated our way through unprecedented events and issues.

After the announcement of the planned divestments of our Russian operations and Uniper, our overall focus has changed. Accordingly we have updated our Tax Strategy. We will review our current Tax Strategy with the revised Fortum Group strategy launched on 2nd March 2023 and adjust as necessary. This is crucial to ensure our tax strategy is aligned with the wider business strategy as Fortum transitions into a new period.

We developed our Tax Governance principles by setting up our Tax Management Team. We believe that this will ensure greater commitment to our Board-approved Tax Principles and Tax Governance.

We support tax digitalisation and aim to improve tax data that enables us to find efficiency in compliance, reporting and forecasting, and provides insights facilitating strategic business decisions. We developed our organisation during 2022 to improve our capability to support material transactions and to improve tax assurance. 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. In 2022 we initiated the implementation of a new transfer pricing tool to improve our transfer pricing documentation management and preparation.

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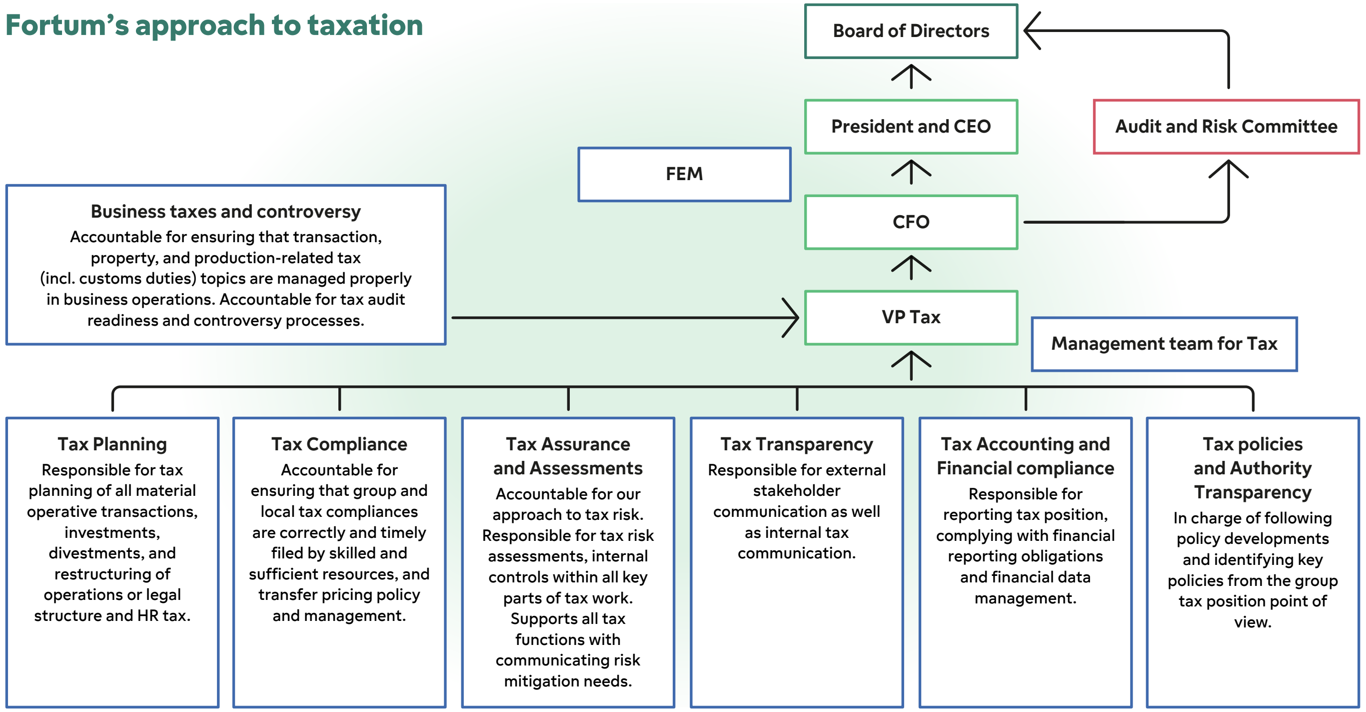
Tax governance

The Chief Financial Officer is accountable for tax governance and strategy. The Vice President (VP) of Taxation implements our tax principles and is responsible for ensuring that those principles, and the procedures that support them, are in place, maintained and implemented in the same manner across all countries. 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. The Fortum Group Tax Management Team supports the VP of Taxation in implementing our tax strategy and principles. Tax issues, such as tax strategy, legal processes and tax-related risks, are monitored on a regular basis by the Audit and Risk Committee of Fortum's Board of Directors.

At Fortum we have formalised good tax governance principles. This is evidenced by our commitment to transparency and the B Team's Responsible Tax Principles. You can find Fortum's tax governance principles and framework in our Tax Governance document. The document aims to provide clarity on the roles and responsibilities 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 and Risk Committee, and Fortum Executive Management. 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. Our participation in the European Business Tax Forum and the B Team discussions provides a platform for improving.

- **Fortum's Tax Governance principles: https://www.fortum.com/files/fortum-tax-governance-executive-summary/download?attachment**
- **Tax Governance best practises paper where Fortum have been contributing to: https://ebtforum.org/good-tax-governance/**

Fortum's approach to taxation



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Risk appetite concerning tax planning

Fortum's tax management is always initiated by business needs – either strategic, project or political – and driven by the principles of tax management. Taxes are an essential part of business planning. It is paramount that Fortum's tax planning is aligned with and supports our wider business strategy. The purpose of tax planning is to ensure efficiency, certainty and predictability of how our business is treated for tax purposes. A high tax burden may deter investments or business plans, as tax implications are an important element – but not a key driver – of investment decisions. In some cases, the Group must engage tax planning with business planning, which is always compliant with the purpose of the laws. On occasion, we may also engage with governments, policy makers, and other stakeholders on the development of effective tax legislation and balanced tax regimes.

Tax planning combined with tax compliance is needed in some cases to clarify the correct tax treatment and the compliance obligations that may create a challenge for the business. Understanding tax treatment is important, but uncertainty does not prevent us from implementing solutions. Therefore, our tax planning should not create any major risks to the business. On the contrary, our tax planning aims to create clarity and certainty for the business operations and the tax consequences arising from it. This means that we strictly apply a 'more likely than not' approach to any tax issue.

Tax law can be complex and is often open to differing interpretations. At times, we may interpret those laws differently than the tax authorities, which can result in additional tax assessments. We believe that the timely and transparent exchange of information and communication are important factors in mitigating risk. That is why greater transparency is a key part of our responsible tax management.

Risk assessment

During the year we regularly assess uncertainties relating to the taxation of our existing and future businesses. We consider this to be an important part of responsible tax management and our commitment to our stakeholders. Our risk review is twofold: Firstly, we assess operating proposals. Our main findings and the associated risk mitigation proposals are discussed with the business that has initiated the proposal, as well as with the CFO, Fortum Executive Management and the Board of Directors as part of the decision process. Secondly, our work on risk mitigation consists of self-assessments, cooperation with the business operations, and internally in the Fortum Group Tax Team through the use of workshops and interviews. Our internal process follows up with the business operations 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 their verification, to the Audit and Risk Committee annually in line with our internal calendar and risk-related work.

Reporting identified uncertainties and risks

Our Tax Governance guidelines define the key internal controls and the underlying methodology we have in place with respect to our functions within the team. We review tax-related responsibilities and accountabilities on an ongoing basis to ensure that all topics are managed and addressed in a timely manner. Our internal tax controls are also reviewed and updated annually – or, if needed sooner, following relevant business or tax developments. This is to ensure the validity and effectiveness of the controls in identifying uncertainties and other tax risks. We respect the independence of external auditors and advisors and engage with any and all recommendations made in relation to the management of our tax risks.

Regular risk assessments and robust internal tax controls are crucial in helping us achieve our business objectives. For the benefit of our stakeholders and as part of our commitment to greater transparency, we have outlined the main uncertainties identified in 2022:

1. Curtailment of gas supply, volatility in gas and electricity prices, and energy system deficiencies have created exceptional consequences for our business and our tax profile with a long-term impact and a significant degree of uncertainty.
2. New and unclear tax legislation increases the tax burden and is interpreted differently between countries. The main risks are poor alignment between policies, creating double taxation and unintended outcomes. We see an increased risk of a tax burden that is higher than intended.
3. Decarbonisation of our business not only impacts our profitability, it also generates uncertainty, as the tax treatment is unclear and may be inadequately aligned with the overall policy objective. Greater complexity and inadequately drafted legislation make it difficult to comply with and understand. New compliance obligations include the global minimum tax, EU-initiated windfall taxes, the posted workers directive and the economic employer rules.

As risk mitigation actions, we have identified:

- Active discussion with policy makers
- Participation in public hearings
- Taking a proactive approach to our tax position and the uncertainties we identify
- Further simplification of our legal structure
- Improved internal information and collaboration on tax issues
- 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:

- Created a management team for tax matters in order to have a sharper focus on key issues
- Incorporated an assurance function within the tax organisation
- Formalised tax governance guidance
- Simplified the legal set up of our internal financing structure
- Reallocated resources within the Fortum Group Tax Team

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Fortum tax culture

Fortum Group Tax Team annual bonus system

The Fortum 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 the effective tax rate.

Engaging advisors

Fortum's process for engaging advisors is defined in our Fortum Group Tax Governance guidelines. The main principles are that Fortum's advisors must comply with Fortum's Tax Principles and Supplier Code of Conduct. We do not engage tax advisors whose fees are success based. We aim to give our advisors all the relevant facts they need to give us the best possible advice.

Compliance controls

Overall, Fortum Group files hundreds of tax returns covering direct and indirect taxes as well as the various information filing requests that are required by tax authorities, such as financial statements, CBCR notifications and so on. As mentioned above, we have invested heavily in digital systems that support us in filing tax returns to ensure accuracy and efficiency. We ensure that our personnel have the correct skills and knowledge as well as sufficient time to file all returns before their deadlines, and to make the correct payments to authorities on time.

We have controls in place 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 did not identify any major failures in 2022, we did identify weaknesses. Actions to eliminate the weaknesses are already ongoing.

We identified a weakness in our speed at completing some compliance-related documents. In response to this weakness, we performed a detailed analysis of the causes, and we allocated resources from the operating business and from the Fortum Group Tax Team to take responsibility for managing the process in the future. A digital solution was also 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 improving our controls to identify similar topics more effectively.

Reporting material related party transactions

We continually monitor developments around both the mandatory and voluntary disclosures that may affect Fortum. With that in mind and in line with OECD principles on Corporate Governance, we have chosen to report on extraordinary and material internal Group transactions.

The main events in 2022 were:

- Fortum Finance BV, a Dutch finance company, was merged into Fortum Finance Ireland DAC as of January 2022. This merger was done to consolidate the Group's financing operations and create an internal bank with a strong balance sheet.
- A shareholder loan from Fortum Finance Ireland DAC to Uniper SE as well as a parent company guarantee from Fortum Oyj to Uniper SE. Fortum reported this financial support in January 2022. The later part of 2022 was coloured by the exceptional realisation of material negative events which resulted in the extension of the financial support until eventually the stabilisation package with the German Government was agreed. This included the divestment of all Uniper SE shares, repayment of the loan to Fortum Finance Ireland DAC and a partial release of the parent company guarantee in late December 2022.
- As a consequence of this, Fortum Deutschland SE lost the main part of its value and the ability to repay the loans in full to Fortum Finance Ireland DAC. Therefore, Fortum Finance Ireland DAC has made a bad debt provision on its remaining trading loan assets, i.e. the loan receivables from Fortum Deutschland SE.
- The ongoing controlled exit of Russia has also resulted in a bad debt provision in Fortum Finance Ireland DAC on its loan receivable from Fortum 1 AB. This loan was used to acquire PAO Fortum shares.
- Fortum Oyj's balance sheet was strengthened by restructuring the Swedish holding operations.
- The Finnish Government, the main shareholder in Fortum Oyj, offered financial support for Fortum's liquidity challenges. The loan was provided by Solidium at a total interest rate of 14.2% (link to press release). As the interest rate is exceptional for Fortum, we need to assess the arm's length nature for tax purposes. **Read the whole release at https://www.fortum.com/media/2022/09/fortum-has-signed-bridge-financing-arrangement-finnish-state-cover-collateral-needs-nordic-power-commodity-market**

Self-assessment of the B Team Responsible Tax Principles

Fortum is committed to the B Team's Responsible Tax Principles. **Read more at bteam.org**. Since making our commitment in 2018, we have worked to align with the B Team tax principles and support their work. For the benefit of our stakeholders, we have carried out a 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 assessed most areas as green, i.e. compliant, we regard responsible tax management, tax governance, and transparency to be areas that are under ongoing further development, so we highlight this as partially amber. Therefore, we are making efforts to develop our tax approach to have a sharper focus on the most critical issues for Fortum. In 2022, we made efforts in relation to our relationships with tax authorities.

Our self-assessment was reviewed by a fellow B Team member.

Transparency register and tax matters

We have discussions with policy makers and we participate in public hearings. To be transparent of our contribution to regulation we comply with our Public Affairs policies and also refer to our transparency identification number, when applicable. We trust that this makes our discussions more transparent regarding whom we have been communicating with and on what topic. In 2022, we participated in public hearings and discussions, such as in the OECD concerning good tax governance and the EU on global minimum tax and the DEBRA proposal, and at national levels on economic employer legislation, as well as windfall tax regulation (Finland). We also participated in the launch of the B Team, EBTF and TEC's 'Best practices for good tax governance' white paper. **Read more at https://ebtforum.org/good-tax-governance/**

Self-assessment

Function	Assessment	Conclusion
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.
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 with clear enough definitions for financially material tax incentives. Consequently, we assessed this section as amber. 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.

- Compliant
- Compliant but room for improvement
- Not compliant

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Fortum's tax contribution in 2022

This section presents Fortum's total tax contribution. We also highlight the taxes we pay on a country-by-country basis, supplemented with other key performance indicators that offer different views and ways of measuring our overall contribution. Our operations are governed 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.

Financial statements 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. As a result of the deconsolidation of Uniper, Uniper is reported as discontinued operations and in the Financial Statements 2022, comparative data in the consolidated income statement and related notes has been restated to exclude Uniper. We have not restated the country-by-country information and as such the compartives for 2021 and 2020 include Uniper figures. The consolidated financial statements include a disclosure on income tax expense. 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, %

	2022	2021 as restated	2021	2020
Effective income tax rate	-122.1%	7.5%	60.7%	15.7%
Comparable effective income tax rate	22.4%	22.2%	24.2%	24.1%
Weighted applicable tax rate	9.4%	20.2%	141.9%	22.7%

Income tax expense

EUR million	2022	%	2021 as restated	%	2021	%	2020	%
Profit before tax	**455**		**4,332**		**-289**		**2,199**	
Profits from associated companies and joint ventures	629		-168		-192		-656	
Tax exempt capital gains or losses in items affecting comparability	-772		-2,673		-2,670		-558	
Other items affecting comparability	1,713		-189		5,651		255	
Profit before income tax decreased by profits from associated companies and joint ventures and items affecting comparability	**2,025**		**1,302**		**2,501**		**1,240**	
Tax calculated at nominal Finnish income tax rate	-405	20.0%	- 260	20.0%	-500	20.0%	-248	20.0%
Differences in tax rates	12	-0.6%	15	- 1.2%	-93	3.7%	-21	1.7%
Tax exempt income and other non deductable expenses	0	-0.0%	1	- 0.1%	-5	0.2%	20	- 1.6%
Tax effects of changes in value and non-recognition of deferred taxes	-41	2.0%	-30	2.3%	-34	1.4%	-22	1.8%
Adjustments recognised for taxes of prior periods	3	-0.1%	3	- 0.3%	32	- 1.3%	3	- 0.2%
Taxes related to dividend distributions	0	0.0%	-12	0.9%	-13	0.5%	-19	1.5%
Other items	-22	1.1%	-6	0.5%	8	- 0.3%	-11	0.9%
Comparable effective income tax rate	**-453**	**22.4%**	**-290**	**22.2%**	**-605**	**24.2%**	**-299**	**24.1%**
Tax rate changes	0		-1		30		4	
Taxes on other items affecting comparability	263		-34		-833		86	
Other major one time tax effects	746		0		1,583		-135	
Income tax expense	**556**		**-325**		**175**		**-344**	

Fortum Group's effective income tax rate, according to the income statement, was -122.1% (2021: 60.7%, restated: 7.5%). The tax rate is mainly impacted by the increased deferred tax asset on tax loss carry forward in Ireland as a consequence of the disposal of Uniper SE and write down of Russian assets and 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, changes in value and non-recognition of deferred taxes, 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 2022 was 22.4% (2021: 24.2%, restated: 22.2%).

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 comparable 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.

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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 2022	Change 2022	31 Dec 2022
Intangible assets	-200	146	-54
Property, plant and equipment, and right-of-use assets	-1,551	1,021	-530
Pension obligations	268	-271	-3
Provisions	1,658	-1,677	-19
Derivative financial instruments	1,476	-887	589
Tax losses and tax credits carry-forward	146	605	751
Other	-476	524	48
Net deferred tax asset	**1,321**	**-539**	**782**

Fortum historically before the acquisition of Uniper, had a material deferred tax liability, owing to its investments in non-current assets. These assets are depreciated more rapidly for tax purposes 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. Fortum now remains in a total deferred tax asset position due to significant deferred tax assets related to tax loss carry forwards (mainly in Ireland) and derivative financial instruments. Deferred tax assets on derivative financial instruments increased during 2022 due to a decrease in the net fair value of the unrealised commodity derivatives caused by high commodity market prices. More information on deferred taxes can be found in the Financial Statements 2022.

Total taxes

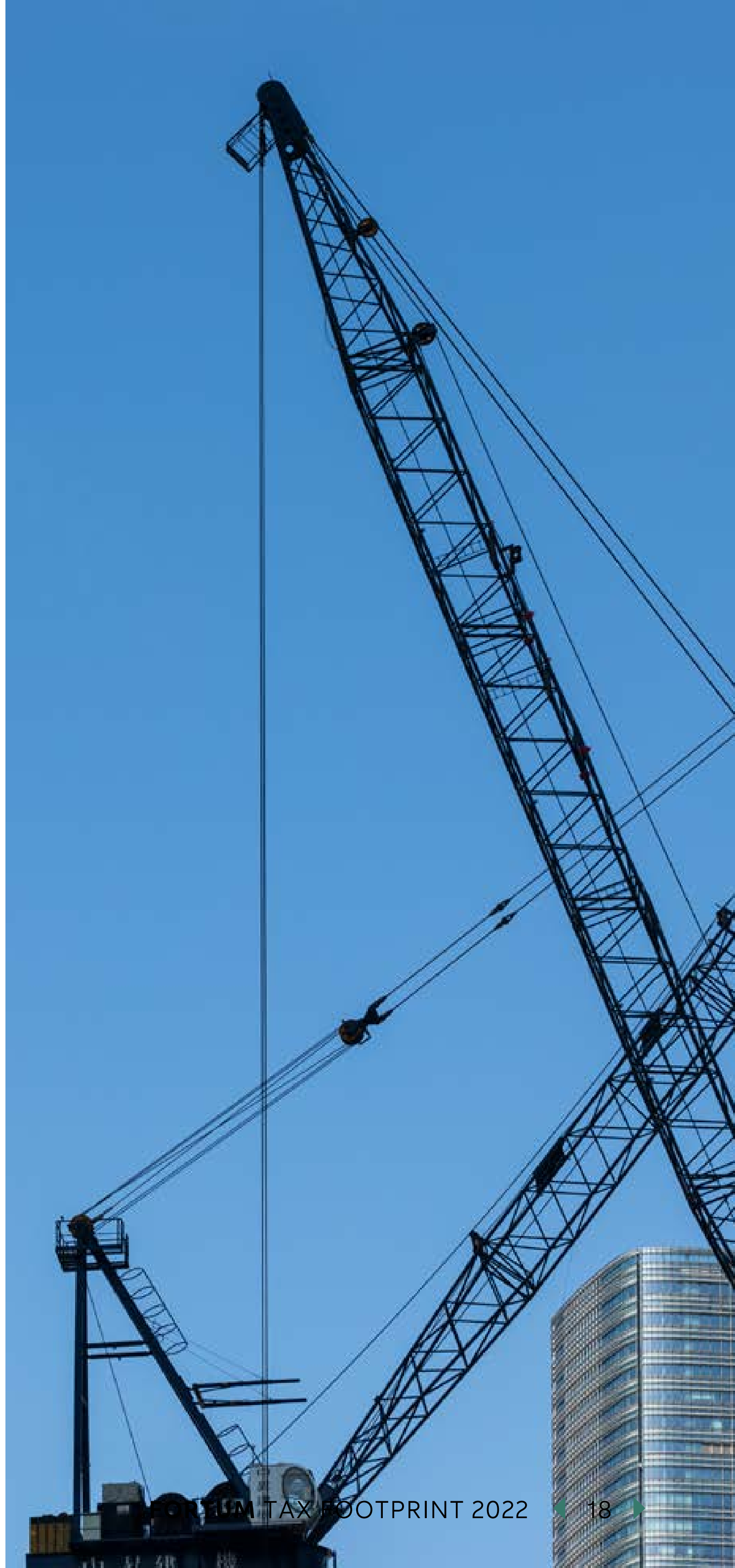
Taxes borne indicate different taxes that Fortum pays for the period. In 2022, Fortum's taxes borne were EUR 537 (2021: 1,398) million. Taxes borne includes corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and the cost of indirect taxes. Production 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 which occurred in 2021, the total tax rate does not illustrate the tax contribution in an informative way.

Total taxes, %

	2022	2021 as restated	2021	2020
Total tax rate	87.4%	10.7%	662.3%	26.1%

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 2022 was EUR 674 (2021: 1,439) million.



Total taxes by country

In line with the new 2022 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 tables on pages 21–23 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. Again, you can find country-specific information about our operations on our website: **https://www.fortum.com/about-us/our-company/fortum-worldwide/country-fact-sheets**.

During 2023, we will publish for the first time, Public Country by Country information in line with the EU Directive. While this is not mandatory yet, we have done this early adoption to illustrate our strong commitment to our tax and transparency principles. This information differs from the tables below due to different accounting standards applied in the approaches. The Tax Footprint aims to show the Group consolidated position, while public country-by-country is the sum of the legal entities within a country before consolidation adjustments.

Countries of interest

The financial year 2022 was exceptional. While comparable operating profit was record high, total profit including items affecting comparability were much lower, mainly due to the impacts discussed at the beginning of this report. Fortum's total tax rate for 2022 was 87.4% (2021: 662.3%, restated: 10.7%), which illustrates 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 the cost of indirect taxes. There are two main drivers behind the increase in the total tax rate compared with the 2021 restated rate: Firstly, while the comparable operating profits increased in 2022, the items affecting comparability, such as tax exempt capital gains, impairment provisions and valuation changes of derivatives were vastly different. The variance year on year is a negative impact in excess of EUR 3 billion, leading to a reduced profit in 2022, and increased total tax rate as these items do not impact on taxes borne. Secondly, the increase in taxes borne across all taxes, particularly property taxes, combined with the lower profit of 2022, result in a higher total tax rate.

Finland 2022

In 2022, the energy crisis in Europe affected the Nordic power market significantly. Our achieved power prices in Generation power production increased by 40% as a result of the very successful physical and financial optimisation and higher spot prices. In the Heating & Cooling business, taxable income was affected by higher fossil fuel and CO_2 emission allowance prices as well as a change in the fuel mix, partly offset by higher power prices. Meanwhile, in the retail electricity market, high electricity prices, coupled with increased sales margins improved Fortum's profitability in Finland and increased taxable income despite energy demands and overall energy consumption being significantly lowered. The higher prices also had a material impact on net VAT collected.

In addition, high power prices have caused liquidity issues and required material guarantee payments based on Nasdaq rules. Due to these challenges, Fortum received emergency financing from the Finnish State. As the difference between the hedged power price and extremely high spot prices had a negative impact in Fortum Power and Heat Oy's equity during 2022 (due to IFRS accounting treatment), the equity had to be strengthened. Interest bearing capital loans in excess of EUR 4 billion were granted from Ireland to Finland. Due to the nature of these agreements, under IFRS and Finnish company law, they are reported in equity.

In 2022, the profit before taxes remained stable compared to 2021, while taxable income almost doubled mainly due to the electricity derivatives that had different tax treatment compared to the accounting treatment. This led to higher corporate income tax borne amounting to EUR 206 (2021: 107) million. Accordingly, deferred tax assets on the derivatives were accounted for as well.

The use of natural gas decreased dramatically due to the availability challenges and increased prices. The gas was replaced with other fuels, which led to increased production taxes in Finland.

Property taxes from associated companies EUR 16 (2021: 14) million have been reported for the first time as a part of property taxes. For 2021 and 2020 those have been reported under production taxes. In Finland the property taxes from fully owned companies have stayed on the same level compared to the previous years, but the property taxes from associated companies have increased due to the launch of Olkiluoto 3 nuclear power plant.

The divestment of Uniper, followed by the high volume of losses in Fortum Group overall, did not have any impact on taxes in Finland. The main tax impacts are in Ireland (please see separate chapter).

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Sweden 2022

In 2020 and 2021, Sweden data included Uniper which had a material impact on the comparability figures year on year. In 2022, our data include Fortum excluding Uniper. The divestment of Uniper did not have any impact on taxes in Sweden.

In 2022, taxable income in Fortum's Swedish companies developed positively, mainly due to achieved power prices resulting in a corporate income tax expense of EUR 112 (2021: 100) million. The increased electricity sale and purchase prices have also had a material impact in taxes collected in output and input VAT.

The effective tax rate was 28.2%, mainly impacted by the share of profit of associates and joint ventures. The low negative rate for 2021 was mainly driven by the tax exempt capital gain realised in the divestment of Stockholm Exergi Holding, and the inclusion of Uniper data.

Property taxes from associated companies in the amount of EUR 2 (2021: -9 (refund), 2020: 2) million were included under taxes on property category for the first time in 2022 (in 2021 and 2020, they were included in production taxes). Property taxes returned to a normal level in 2022, as in 2021 the property taxes included refunds received related to the Oskarshamn and Forsmark nuclear power plants.

Employment taxes in Fortum's Swedish companies mainly increased due to a one-time special payroll tax coming from the pension related liabilities transferred from Fortum's pension fund (dissolved in 2022) to insurance in Alecta. In addition, there were approximately 180 employees more in Fortum Sverige AB during 2022 that re-joined Uniper in the end of the year.

Ireland 2022

Ireland plays a key role in Fortum group financing activities. The Irish companies have foreign branches in Belgium and in the Netherlands, and foreign subsidiaries, and is taxed in Ireland on its worldwide profits, including dividends received. As previously mentioned, significant tax-deductible losses of EUR 6 billion have been realised in the Irish legal entities as a result of the Uniper divestment and Russia related write downs. As these transactions are related party transactions, they are eliminated in the group books which is why the Irish profit before tax is positive in the tables below. The impact of the losses, however, can be seen in the accumulated earnings. A deferred tax asset of EUR 706 million has been recorded in Ireland on the current year tax loss. Taxes borne are negative for 2022, as the current year loss can be carried back to the previous accounting year, resulting in a refund of the corporate income taxes borne of 2021. This together with tax exempt capital gains of EUR 639 million from the divestment of Fortum Oslo Varme AS explains the negative effective income tax rate and total tax rate in 2022. Another reason for low other taxes borne was that finance operations are lean in terms of assets and employees meanwhile having material impacts in profit before taxes.

During 2022, interest bearing capital loans in excess of EUR 4 billion were granted from Ireland to Finland. Due to the nature of these agreements, they were reported in equity under IFRS. This had the effect of reducing the stated capital in Ireland.

Germany 2022

On 21 September 2022, Fortum, the German Government, and Uniper SE signed an agreement in principle that will allow the German State to take full control of Uniper. Consequently, Uniper was deconsolidated and presented as discontinued operation on 30 September 2022. In Uniper operations, Germany was the biggest contributor in their consolidated results. Accordingly, our tax data of 2022 includes Fortum without Uniper that is materially less in comparison to 2021.

The divestment of Uniper SE resulted in tax exempt capital loss together with a material unrecognised deferred tax asset on interest carried forward explains the low effective income tax rate and total tax contribution in 2022.

Country by country information

Countries of operations

European union

	Finland			Sweden [4]			Germany [4]			Belgium [4]			Denmark		
EUR million	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**
Profit before tax	592	561	1,088	583	2,195	-66	-110	-3,186	269	43	16	34	10	0	0
Stated capital [1]	12,533	6,531	6,702	1,828	6,295	6,564	1,602	55,682	55,904	920	920	920	31	38	38
Accumulated earnings [1]	7,874	7,137	6,279	7,065	3,928	1,566	-6,274	16,686	14,816	114	83	69	65	50	52
Number of employees [2]	2,529	2,377	2,370	914	1,755	1,752	24	4,906	4,925	3	3	2	172	187	192
Assets used in operations [2]	4,499	4,158	3,808	4,207	10,920	10,728	3	3,714	3,833	0	0	0	99	110	118
Interest bearing loan receivables [2,3]	8,428	6,322	4,555	691	1,616	1,358	0	11,357	4,976	101	795	889	0	0	0
Effective income tax rate	19.7%	19.2%	6.0%	28.2%	-2.8%	-79.0%	0.2%	3.8%	37.1%	27.6%	23.6%	25.4%	21.1%	0.0%	-66.0%
Total tax contribution	586	364	231	367	205	213	0	1,448	683	12	5	4	9	11	12
Total tax rate	41.7%	27.1%	7.9%	24.8%	6.8%	N/A	0.2%	N/A	42.4%	27.8%	14.8%	10.5%	31.2%	104.0%	127.1%
Taxes borne															
Corporate income tax	206	107	34	112	100	53	-1	485	80	12	2	3	1	0	1
Production taxes	34	43	39	1	1	4	0	5	8	0	0	0	3	3	3
Employment taxes	2	3	2	26	46	37	0	67	48	0	0	0	0	0	0
Taxes on property	31	15	15	16	6	24	0	3	0	0	0	0	0	0	0
Cost of indirect taxes	2	1	2	0	0	0	0	4	3	0	0	0	0	0	0
Total taxes borne	**276**	**169**	**91**	**156**	**154**	**118**	**0**	**564**	**139**	**12**	**2**	**4**	**4**	**3**	**4**
Taxes collected															
Net VAT	162	57	20	190	3	56	0	385	126	0	3	0	0	3	3
Sales VAT	1,327	1,730	718	813	738	598	0	16,277	7,171	0	3	0	10	13	13
VAT on Purchases	1,165	1,674	699	624	735	542	1	15,893	7,045	0	0	0	11	10	9
Payroll taxes	51	51	50	22	48	40	0	214	175	0	0	0	5	5	4
Excise taxes	0	0	1	0	0	0	0	285	243	0	0	0	0	0	0
Withholding taxes	97	87	70	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes collected	**310**	**195**	**140**	**212**	**51**	**96**	**0**	**884**	**544**	**0**	**3**	**0**	**5**	**7**	**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.

4) The prior data for these countries include Uniper, and as a result the 2022 data is not comparable to 2021 and 2020.

	Finland	Sweden	Germany	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 of production operations, holding activities, sales	Financing activities.	Businesses with production, service andsales operations.
Name of parent company/companies	Fortum Oyj	Fortum Power AB	Fortum Deutschland SE	Fortum Finance Ireland DAC	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, Fortum Waste Solutions AB	Fortum Service Deutschland SE	Fortum Finance Ireland DAC, Belgium Branch	Fortum Waste Solutions A/S
Comments by country	Extremely high powerprices resulted in a hedging loss that had negative impact on equity an PBT. Fortum Power and Heat Oy's stated capital was increased to compensate the loss. Please see more details separately.	High power prices increased Net VAT. Please see more details separately.	Please see more details separately.	In 2022, the major part of profit before taxes came from the interest received on the tax cases of 2009–2012 which ruled in favour of Fortum. Accordingly, corporate income taxes borne increased.	The high total tax rate in previous years was driven by the low profits. The total tax contribution has remained stable despite the fluctuation in profits.

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Countries of operations

European union

	Ireland			Netherlands [4]			Poland			Other EU Countries [4]		
EUR million	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**	**2022**	**2021**	**2020**
Profit before tax	754	95	78	214	-70	153	-209	366	35	-1	-105	190
Stated capital [1]	8,258	12,913	12,913	6,378	7,391	7,759	379	374	374	1	454	715
Accumulated earnings [1]	-7,107	661	450	-477	209	-324	117	297	15	-6	-102	-28
Number of employees	5	4	4	10	335	344	635	594	583	81	136	401
Assets used in operations [2]	7	5	0	12	329	319	822	725	672	11	113	360
Interest bearing loan receivables [2, 3]	11,134	10,904	8,725	3,451	6,095	5,948	5	15	3	0	165	201
Effective income tax rate	-94.8%	12.6%	13.8%	7.9%	153.4%	8.1%	20.2%	19.0%	21.2%	0.0%	52.3%	-0.7%
Total tax contribution	-10	11	11	5	116	45	29	28	53	1	-19	20
Total tax rate	N/A	11.5%	14.0%	2.3%	N/A	15.8%	N/A	4.8%	30.6%	N/A	N/A	10.0%
Taxes borne												
Corporate income tax	-11	11	11	5	22	12	7	9	5	0	21	16
Production taxes	0	0	0	0	10	5	0	0	0	0	1	1
Employment taxes	0	0	0	0	8	6	2	2	1	1	1	2
Taxes on property	0	0	0	0	2	3	7	7	7	0	0	0
Cost of indirect taxes	0	0	0	0	1	1	0	0	0	0	0	0
Total taxes borne	**-11**	**11**	**11**	**5**	**42**	**27**	**16**	**18**	**13**	**1**	**23**	**19**
Taxes collected												
Net VAT	0	0	0	0	44	0	0	0	31	0	0	0
Sales VAT	0	0	0	1	626	286	121	252	204	9	278	147
VAT on Purchases	0	0	0	1	582	296	191	272	173	11	325	154
Payroll taxes	0	0	0	0	16	13	5	4	4	0	1	4
Excise taxes	0	0	0	0	14	4	6	5	4	0	3	-3
Withholding taxes	0	0	0	0	0	1	3	1	1	0	0	0
Total taxes collected	**1**	**0**	**0**	**1**	**74**	**18**	**14**	**10**	**40**	**1**	**4**	**1**

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2) Group internal eliminations between the countries are not included.

3) Including cash collaterals.

4) The prior data for these countries include Uniper, and as a result the 2022 data is not comparable to 2021 and 2020.

	Ireland	Netherlands	Poland	Other EU Countries
Business activities	Holding and financing activities. Businesses with service operations and growing number of customers.	Holding and financing activities.	Businesses of production, distribution, service and sales operations.	
Name of parent company/companies	Fortum Finance Ireland DAC	Fortum Holding BV	Fortum Power and Heat Polska Sp. z o.o.	
Names of main companies with operations	Fortum Finance Ireland DAC	Fortum Finance Ireland DAC, Dutch Branch		
Comments by country	Please see more details separately.	The profits are derived from finance and holdings operations. Holding operations are mainly tax excempt activities, which resulted in a low corporate income tax borne. Holding and finance operations are lean in terms of assets and employees but create high profits. This results in a low total tax rate.	In 2022, negative profit before tax was impacted by the fair value changes in derivatives which does not impact taxes borne or collected. Total tax contribution stays stable. This combined with the loss results in a negative total tax rate.	Mainly refers to Estonia, France and Spain.

Countries of operations

Non European union

EUR million	Norway			Russia 4)			United Kingdom 4)			USA 4)			India			Other Non EU Countries 4)		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
Profit before tax	33	57	9	-1,437	455	404	-10	-824	-44	-4	221	-38	-4	1	-1	0	-72	87
Stated capital 1)	325	489	598	965	1,228	-1,009	12	110	-569	106	134	97	16	9	30	1	144	164
Accumulated earnings 1)	213	262	720	390	2,052	4,540	-15	392	1,260	-19	35	-133	-6	-6	-15	28	-30	3
Number of employees	395	607	587	2,724	6,894	7,466	76	1,067	1,047	0	80	66	68	73	73	75	122	121
Assets used in operations 2)	881	1,711	1,267	1,614	3,727	3,973	7	1,199	771	86	75	48	5	6	249	6	97	83
Interest bearing loan receivables 2, 3)	0	0	0	2	29	22	5	176	1	0	17	8	0	0	0	29	45	101
Effective income tax rate	9.9%	22.6%	51.4%	7.9%	19.1%	23.7%	-0.5%	21.8%	19.3%	0.0%	24.2%	33.3%	-0.5%	-12.5%	-7.5%	11.0%	-5.7%	10.4%
Total tax contribution	36	33	56	163	331	276	7	258	108	0	36	7	2	1	3	3	10	2
Total tax rate	46.0%	29.5%	107.2%	N/A	29.9%	28.3%	N/A	N/A	199.9%	0.0%	13.7%	N/A	N/A	0.0%	0.0%	N/A	N/A	0.0%
Taxes borne																		
Corporate income tax	11	11	11	34	99	84	0	0	0	0	29	4	0	0	0	1	1	1
Production taxes	0	0	0	3	5	4	0	177	62	0	0	0	0	0	0	0	0	0
Employment taxes	6	7	6	4	23	17	1	11	8	0	1	0	0	0	0	0	0	0
Taxes on property	1	1	2	17	25	21	0	19	16	0	0	1	0	0	0	0	0	0
Cost of indirect taxes	1	0	0	0	0	0	0	2	1	0	0	0	0	0	0	0	0	0
Total taxes borne	**18**	**19**	**19**	**59**	**152**	**126**	**1**	**209**	**88**	**0**	**31**	**5**	**0**	**0**	**0**	**1**	**1**	**0**
Taxes collected																		
Net VAT	6	0	24	96	152	128	0	0	0	0	0	0	0	0	1	0	8	1
Sales VAT	894	544	159	319	490	411	5	1,361	344	0	0	0	1	1	2	1	9	1
VAT on Purchases	888	571	135	223	338	283	1	1,338	368	0	0	0	0	1	1	1	1	0
Payroll taxes	11	14	13	8	16	14	2	26	20	0	3	2	1	1	1	1	0	0
Excise taxes	0	0	0	0	0	0	0	0	0	0	3	0	0	0	0	0	0	0
Withholding taxes	0	0	0	0	10	7	0	0	0	0	0	0	0	0	1	0	0	0
Total taxes collected	**17**	**14**	**37**	**104**	**178**	**150**	**6**	**49**	**20**	**0**	**6**	**2**	**2**	**1**	**3**	**2**	**9**	**2**

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3) Including cash collaterals.

4) The prior data for these countries include Uniper, and as a result the 2022 data is not comparable to 2021 and 2020.

	Norway	Russia	United Kingdom	USA	India	Other Non EU Countries
Business activities	Businesses of production operations, holding activities, sales	Businesses of production operations, holding activities, sales	Businesses of production operations, holding activities, sales		Business of energy production activities	
Name of parent company/companies	Fortum Forvaltning AS	PAO Fortum	IVO Energy Ltd	Fortum Holding BV	Fortum Holding BV	
Names of main companies with operations	Fortum Consumer Solutions AS, Fortum Hedging AS	PAO Fortum	Fortum O&M UK Ltd	Valo Ventures I LP Fund	Fortum India Private Ltd	
Comments by country	Profit before tax, and all the other key indicators shown above was impacted by the divestment of the Nowegian heat company - Fortum Oslo Varme AS in 2022. The effective income tax rate is lower in 2022 mainly due to the tax exempt sale of Fortum Recharge AS and tax exempt compensation claims received in a legal dispute. Despite these divestments and reduced profits the taxes borne reamined at the same level, resulting in an increased total tax rate.	In 2022, following the ongoing controlled exit from Russia, the losses was mainly driven by impairment charges while the operations were still profitable. That impacted accordingly corporate income taxes and total tax contribution overall.	In 2022, O&M operations were profitable. We were engaged in an ongoing R&D project and in the early phases of building of waste to energy plants, resulting in negative profits. The total tax rate was impacted by the loss and unrecognised deferred tax assets.	Fortum has a limited partnership in the USA for investing in external start-ups on a wider geographical scale. Operations have been loss making. Accordingly, no taxes born and collected.	Operations in India are mainly the building of Solar Power parks. This business is capital intesive and expect to incur losses In the early years. As a result, taxes borne are low which imapct the total tax xontribution and tax rate. The low effective tax rate is also driven by unrecognised deferred tax assets on losses.	Mainly refers to Guernsey, Rwanda and Switzerland.

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Information on Discontinued Operations

During 2022, Fortum divested Uniper SE. Accordingly, Uniper is now reported as discontinued operations in the Group Financial Statements for 2022, and with effect from 30th September 2022, the accounting data of Uniper is no longer included in the continuing the Fortum Group results.

EUR million	Uniper
Profit from discontinued operations	-17,383
Of which relates to:	
Taxes borne	332
Taxes collected	1,132
Effective income tax rate	34.98%
Total tax contribution	1,463
Total tax rate	**-1.94%**

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 2022 we paid EUR 52 (2021: 47) million in employer statutory pension contributions. We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2023 Annual General Meeting that a dividend of EUR 817 (2022: 1,013) million be paid for 2022. The Finnish State's share of this would be about EUR 419 (514) million.

Ongoing tax appeals

Fortum had ongoing tax audits during 2022. Based on earlier audits, Fortum has received income tax assessments in Belgium for the years 2008–2012. In previous years, Fortum appealed all assessments received; in 2022, Fortum received the final assessment for the years 2009–2012 in our favor, with the 2008 year still being assessed. This positive assessment for 2009–2012 became final, as tax authorities did not appeal the court decision. In September, Fortum received a tax repayment for these years, totalling EUR 77 million, which also resulted in an interest income of EUR 26 million on the prepaid tax. Based on a legal analysis, no provision has been accounted for in the financial statements related to the Belgium 2008 tax audits and the prepaid tax is recorded as a receivable.

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. Fortum filed a new complaint to the EU Commission and requested the Commission to analyse if the Swedish Supreme Administrative Court complies with EU law, as the Court does not refer relevant cases to the EU Courts.

For more information, see Note 37 'Legal actions and official proceedings' in Fortum Financials 2022.

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 such as insurance regulation related reasons, 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.

Fortum's earnings from controlled foreign companies (CFCs) are subject to normal taxation in Finland. The taxes borne on these operations were EUR 113 thousand in 2022.

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 one-time adjustments.
Comparable effective income tax rate	Comparable income tax expense divided by Comparable profit before income tax excluding comparable 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 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.
Windfall tax	A tax levied on an unforeseen or unexpectedly large profit, especially one regarded to be excessive or unfairly obtained.
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).

Contacts:

- **tax.transparency@fortum.com**