



 **fortum**

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Tax Footprint 2019

Fortum as a tax payer 2019

Fortum has already for a number of years recognised the importance of transparency in explaining its tax position to all stakeholders in accessible ways. We began publicly reporting our total tax contribution in 2012. We have developed our reporting significantly since then. Reporting allows us to take steps in this work towards transparency both internally and externally. Our approach provides us also with a base to develop our way

of managing taxes, participate in discussions and public hearings as well as providing relevant information to investors, civil society organisations and also other stakeholders to promote fairer, more sustainable tax systems. This work is central not only to corporate responsibility, but to Fortum’s wider vision for a cleaner world.

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

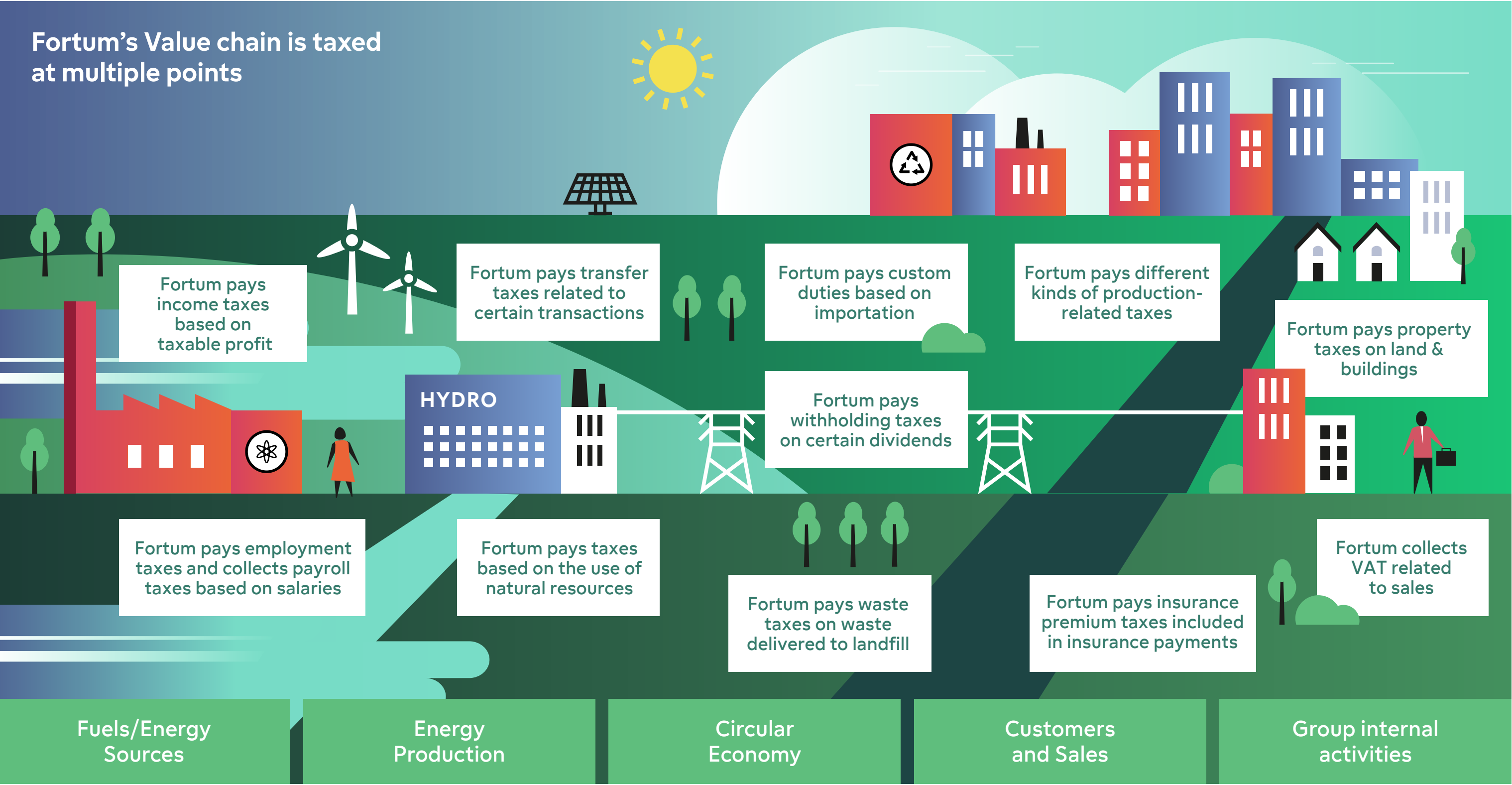
Our vision and value creation

Our vision, for a cleaner world, means material changes in the energy business but also in taxation even on a long-term basis. Low predictability of future tax systems is a serious challenge as the long-term investments in new power production are decided now and in the near future. For instance, in energy taxation the tax revenues are currently mainly based on the use of fossil fuels. When the world is becoming more decarbonized, these tax bases will disappear. Predictability in this aspect means an open discussion of the future tax systems already now.

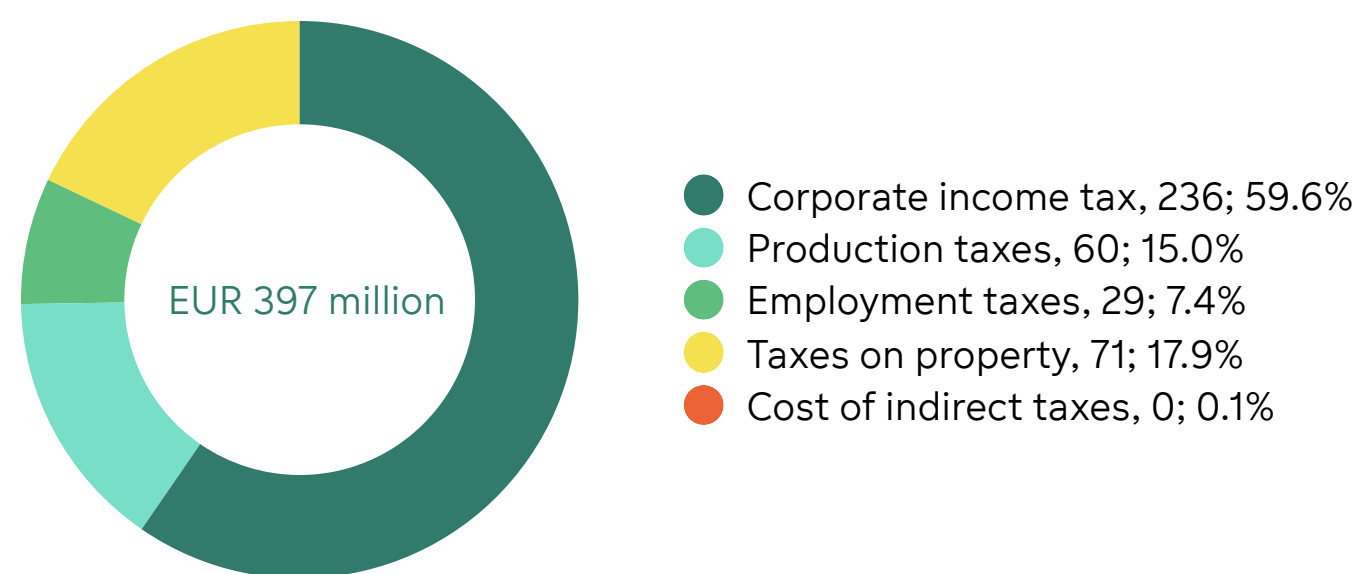
In order to understand the tax footprint that our business provides, it is important to describe Fortum’s Value chain and how taxation occurs on many occasions.

Fortum produces clean energy and solutions in multiple countries. Energy production - electricity and heat as well as recycling & waste solutions - is based on local operations in a number of countries. We invest in plants to operate in the local markets and we produce energy and provide services to local markets. The key profit driver is depending on investments and plant portfolios. Therefore, we pay more than 90% of our taxes borne in the countries where our production is. Paying taxes locally based on infrastructure, our tangible long-term assets are important as that gives us a license to invest and operate in those countries. The remaining part of taxes borne are paid in countries that support the investments by financing the investments in assets.

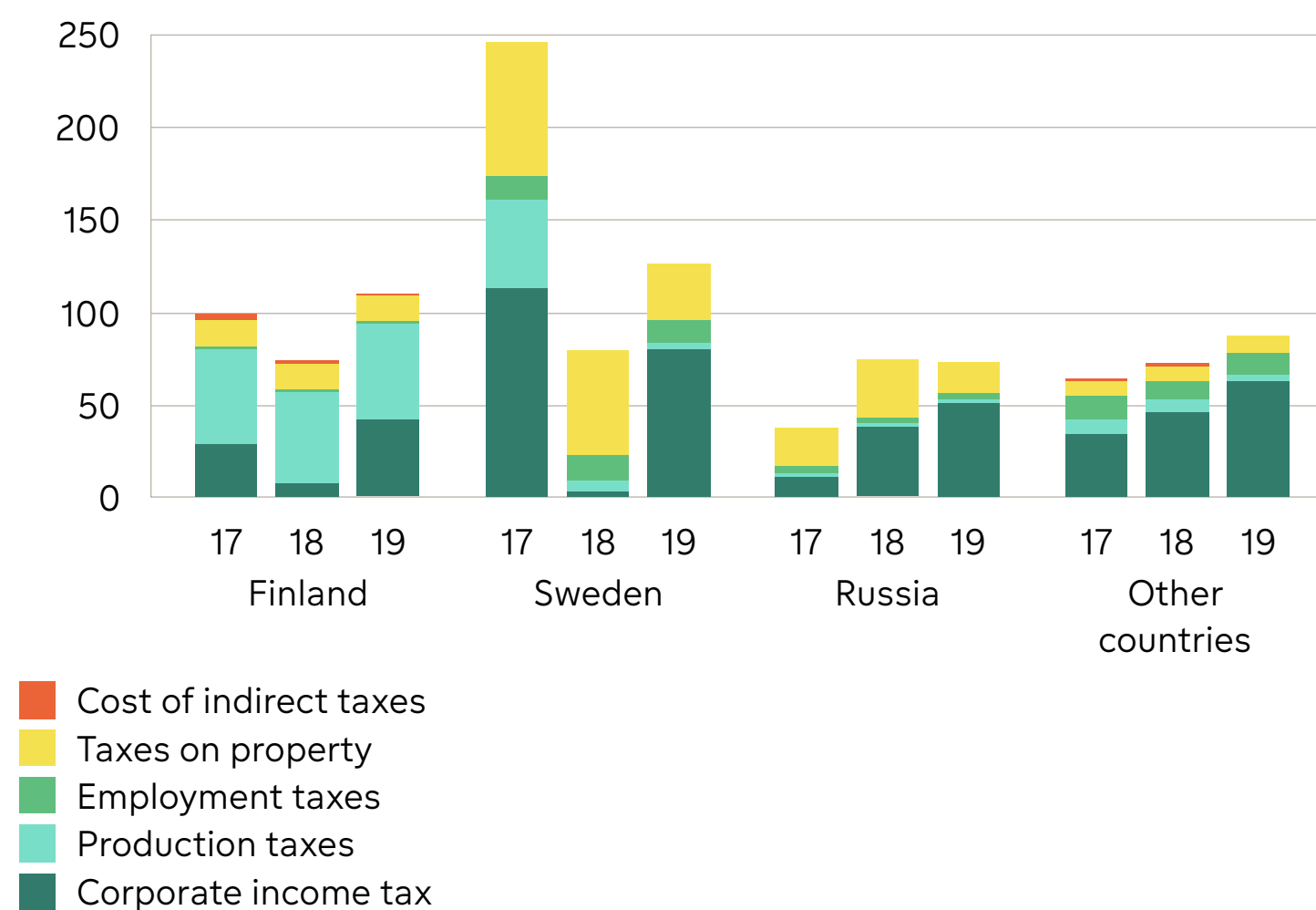
We are highlighting Fortum as a tax payer and the reasons behind Fortum’s operations resulting in such taxes as Fortum pays. We hope



Taxes borne 2019, EUR million and %



Taxes borne by country, EUR million



that by reading this report it would be easier to understand why different elements of tax systems are important and what Fortum's tax footprint is.

The extent and nature of the taxes Fortum pays is shown by our total tax contribution. In 2019, it was EUR 771 (2018: 703) million of which EUR 397 (2018: 299) million related to taxes borne and EUR 374 (2018: 404) million to taxes collected. Finland, Sweden and Russia are our biggest production countries. In 2019, the taxes borne in Finland were EUR 111 (2018: 73) million, in Sweden EUR 126 (2018: 78) million and in Russia EUR 74 (2018: 75) million.

Taxes borne include corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and the cost of indirect taxes. Taxes collected include 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) will increase if the profit level decreases.

Tax environment in 2019

The tax environment has been changing constantly and more than before. Already constant changes create a challenge for us. As we are, and will continue investing in new power production and circular economy, we need to understand what the tax impacts will be on our future operations and financials. Another challenge is to understand what it takes to comply with the new regulations.

The political agenda has been more focused on base erosion and profit shifting (BEPS) resulting in attempts to eliminate tax avoidance and aggressive tax planning rather than solving challenges in energy taxation. This work has been headed by OECD and EU. BEPS work resulted in multiple action plans that are now being implemented in local legislation and tax treaties. EU has boosted new regulations with multiple new rules. The new rules are now being implemented.

We understand that Fortum is not in the focus of the new rules. Nevertheless, we are also affected by the new rules in the form of a materially increased compliance liability. The political focus is, in the end

of the day, quite narrowly focusing on tax avoidance and aggressive tax planning. Implementation of the new rules is widely impacting all operations independently of the principles used. As the wording is often unnecessarily wide and unclear, the new regulations have decreased predictability and certainty of how business is treated, tax included. The risk of double taxation is increasing due to unclear regulations. This is crucial as predictability is key for investing in new businesses. We encourage regulators to make proper impact assessments, open public hearings and consider carefully the scope and wording of the new rules to promote predictability and certainty.

Against this background we appreciate the Finnish tax authorities' efforts to create clarity and predictability by having enhanced discussions with us. We promote actions taken by the Finnish tax authorities in this sense to have robust conversations with authorities of different tax matters. We strive to understand their perspective. Sometimes the mutual understanding is that we disagree, but even that is good to be able to agree.

Currently the focus in taxation has diverged from operative business in the energy sector. While the climate change is the key focus of Fortum and other utilities requiring material investments, the political agenda is contradictory in this area. Where the focus in energy taxation is to create incentives for new non-emitting technologies, the focus in income tax issues is contradictory due to the simultaneous implementation of agreed actions, such as limiting interest deduction or in aggressive tax planning. The latest OECD work, which is trying to solve challenges and is driving for totally new rules for all businesses is another example. We promote OECD's efforts in arranging public hearings for this work. True and open discussions are important when developing new rules. However, when drafting new rules with aggressive tax planning in focus, the consequences and impacts to businesses like ours are often unknown resulting in lost predictability. We recommend that when creating these new rules, that impacts to investments and climate change would be considered.

Our vision – for a cleaner world, means material changes in taxation even on a long-term basis. A good tax system is simple, clear, neutral and transparent. When the world is becoming complex, these principles

are valuable. Taxation should support the development of a decarbonized world – not create obstacles for the business and new technologies.

Fortum’s tax management in 2019

2019 has been an active year for us in many angles. We have received a number of court decisions, both positive and negative. The nature of the court cases is shifting from appealing for tax assessments into defending Fortum’s financial position questioning the legitimacy of decisions and rules based on overriding, fundamental rules.

We have also simplified our legal structure and made efforts to ensure compliance with legislation. Fortum’s Tax Team has participated in finance trainings, created a new role to organise appropriate reporting required by mandatory disclosure rules and a number of people have been in exchange in other positions to get a better perspective for tax work. We have been developing our communication with tax authorities. Finally, Fortum joined The B Team’s tax program as our targets are aligned with The B Team’s targets (read more: ▶ www.bteam.org). We think that this will offer us an opportunity to develop not only our, but also other companies’ way to manage taxes in a sustainable manner.

Fortum’s approach to taxation

Fortum operates in the energy sector which is characterised by long term capital-intensive investments. We aim to manage our taxes in a sustainable manner in order to ensure that our businesses can continue to invest, to operate flexibly and efficiently, and to safeguard returns to our shareholders. The way taxes are managed should never create the main or one of the main risks in any business operations even though tax or fiscal interest itself can be a risk for the operations.

Our approach to tax risk follows the same principles that apply to all other business risks. When making decisions on tax, we consider the materiality of any item important, as well as the costs of effective risk mitigation actions. We comply with the rules, but material issues require even more attention.

We consider corporate social responsibility, reputation as well as purely financial impacts. We are especially aware of our reputation with the wider population of stakeholders in matters related to tax.

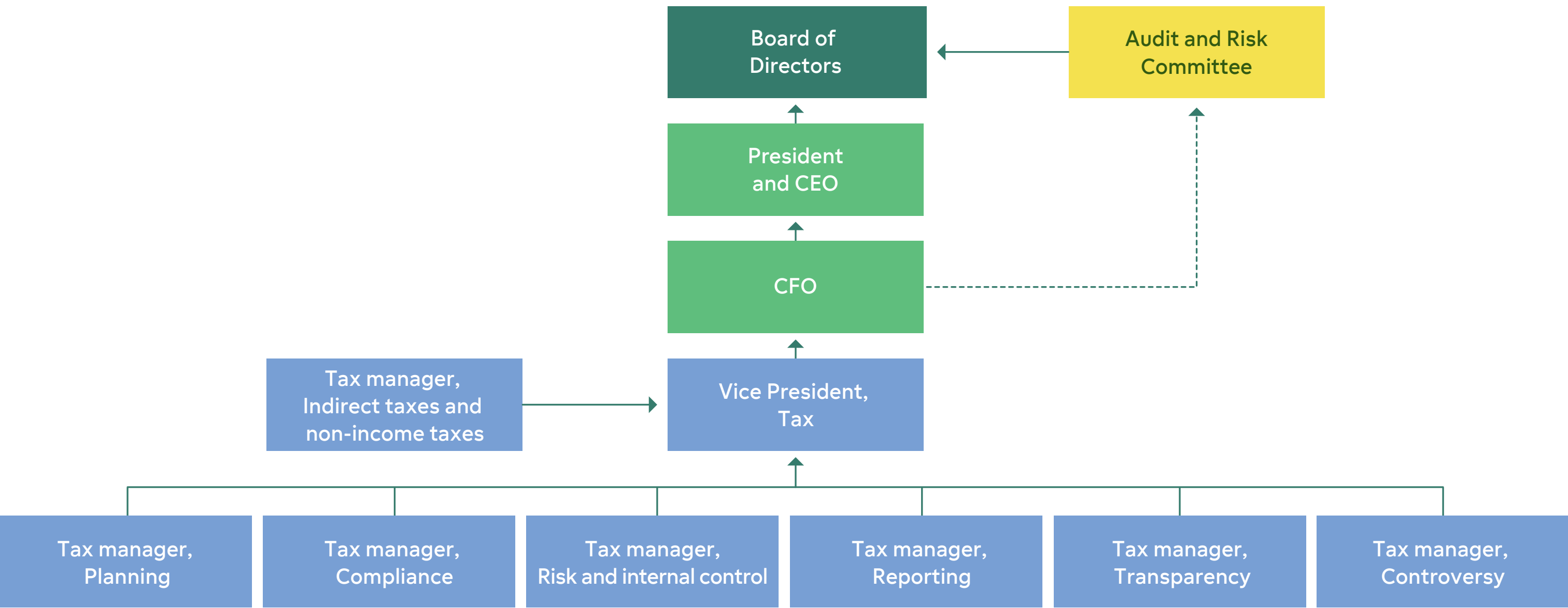
Fortum has tax principles which have been approved by the Fortum Oyj Board of Directors and contains the following main points:

- 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 will only use business structures that are driven by commercial considerations, are aligned with business activity and have genuine substance. We do not seek abusive tax results.
- RELATIONSHIPS WITH OTHERS** – Fortum engages with governments and tax authorities to explain the impact of their tax policy and regulations on us.
- REPORTING TO STAKEHOLDERS** – In Fortum’s tax reporting we are committed to ensuring that Stakeholders are able to understand the important elements of our tax position and that the information provided is fair and accurate.

These principles are published on Fortum’s internet pages

▶ Fortum’s tax principles.

The Chief Financial Officer is accountable for tax governance and strategy. The Vice President of Tax, who reports to the CFO, implements our tax principles and is responsible for ensuring that principles and procedures which support them are in place, maintained and implemented in the same manner in all countries. The VP of Tax is supported by a team of professionals, the Corporate Tax Team. The VP of 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.



During the year we regularly assess the uncertainties relating to taxation in our business. We co-operate with business operations in our risk work and use workshops, interviews and self assessments as tools for this work. 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 have created internal controls with respect to our functions within the team. A yearly internal control review is done to guarantee that the controls are still valid and effective.

We present an action plan of 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.

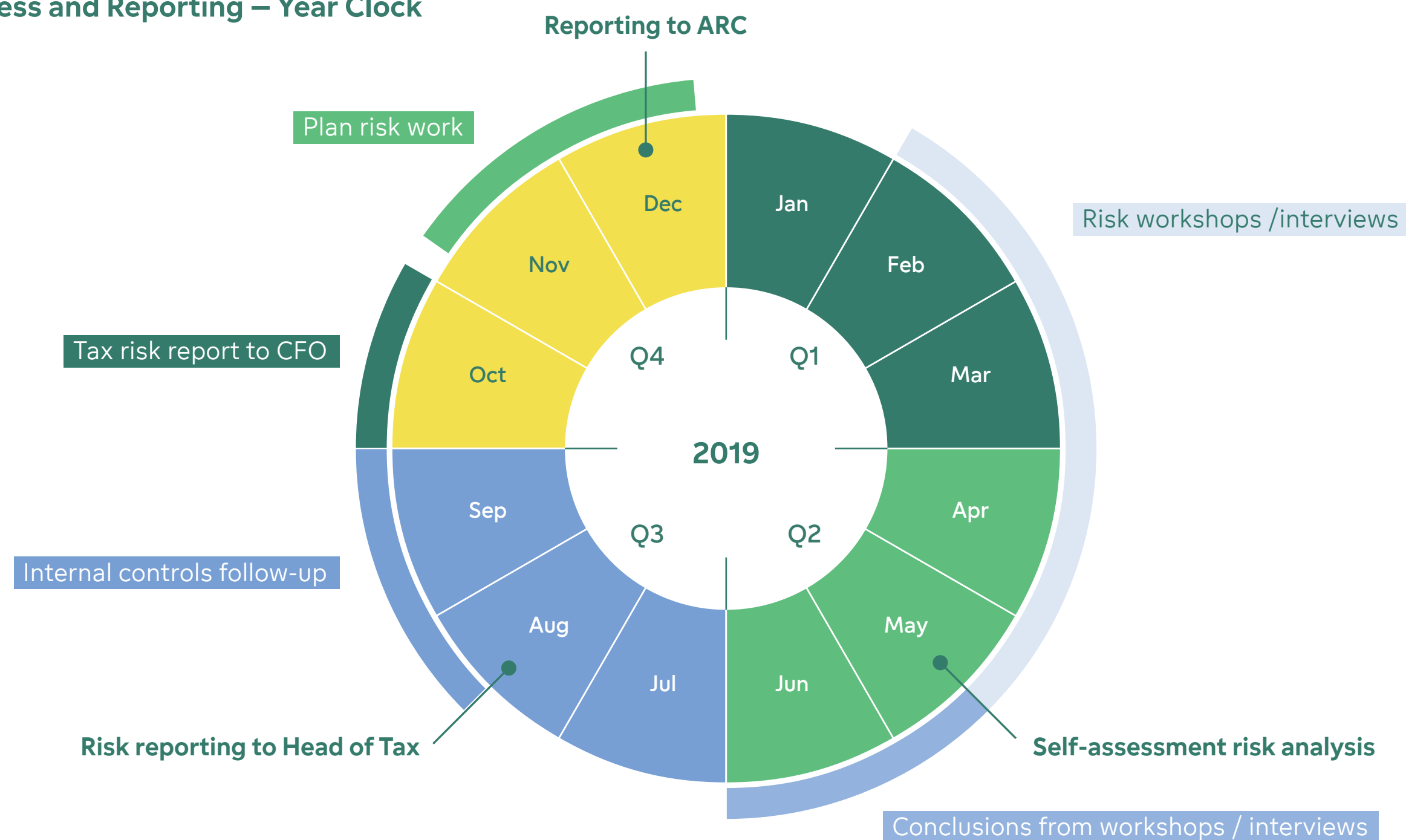
For 2019, the main uncertainties were identified to be changing unclear tax legislation and heavy compliance obligations. Due to unclarity and wide scope, double taxation is possible based on non-deductibility of costs meanwhile the income is taxed and in addition high withholding taxes. As risk mitigation actions, we have identified simplifying legal structures, improved data management, seeking strategic clearance

from tax authorities, improved transparency and outsourcing of some compliance duties. Fortum code of conduct is fully applicable to all parts of tax work.

We have a consistent compliance process to ensure that regulations are followed in all parts of our operations. Accountabilities and responsibilities are agreed and followed within the organisations involved in tax matters. We ensure that tax returns are filed, and correct amount of tax is paid at the right time in the countries in which we operate. We follow existing regulations, such as market-based pricing of internal transactions (the arm's length principle). In unclear cases we discuss with tax authorities or seek advice from experts to clarify interpretations. We pay attention to the accuracy and transparency of our tax returns, and we discuss our positions with tax authorities.

We will only use business structures that are driven by commercial considerations, are aligned with business activities and have genuine substance. We do not seek abusive tax results. 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. We do not utilise companies incorporated in "tax havens" – which we define as jurisdictions which do not levy any corporate income tax on companies or low tax jurisdictions – as a means of reducing the Group's tax liabilities. We report annually in our tax footprint, our companies incorporated in "tax havens", 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.

Tax Risk Process and Reporting – Year Clock



Risk appetite for tax planning

Fortum's tax management is always initiated by business needs, either strategic or project driven. The purpose of tax planning is to ensure efficiency, certainty and predictability of how business is treated for tax purposes. High tax burden, that creates an obstacle for the business, may initiate a need to review the position by tax planning or communication and public discussions. In other words, in some cases tax planning, complying with the purpose of the laws, is needed to solve the challenge for the business. As tax is not the main driver or one of the main drivers for any arrangement, tax planning itself should not create the main or one of the main risks in any business arrangement

Fortum engages with governments and tax authorities to explain the impact of their tax policy and regulations on us. Moreover, we also discuss with various organisations, such as industry groups and EU bodies, in order to help them develop the regulations which are relevant for us. When there are adverse consequences to our ability to run our businesses effectively and to invest, we will initiate a dialogue and explain this to governments. 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.

In Fortum's tax reporting we are committed to ensuring that stakeholders can understand the important elements of our tax position and that the information provided is fair and accurate. We report our tax position transparently as a part of our financial reporting. Our tax report includes information about our business, country by country information concerning our total tax position as well as our legal processes concerning tax. We use a materiality threshold in our tax report to improve the clarity of our reporting.

Tax team bonus system

Fortum corporate tax team is part of Forum's normal bonus systems. Targets set are related to process improvements, such as clarifying end to end processes, and support to operations to take taxes into account earlier. In 2019, the main targets were the support to the Uniper transaction, development of risk identification and accounting related tax issues. Bonuses are not connected to taxes borne or taxes collected.

When is tax planning especially needed?

- Tax cost is extraordinary high being more than profits generated
- Risk of double taxation
- Materiality of a transaction
- Any change in operational structure or set up

How to do tax planning? Take into account:

- Topics set in tax principles taken into account
- Operative background and facts respected and considered
- Tax related risks reviewed
- Existing rules analysed, understood and assessed

When risk is acceptable for tax planning?

- Minimum more likely than not that tax treatment is in line with applicable tax legislations

What is not acceptable for tax planning?

- Use tax incentives that are not based on law and equally applicable for tax payers
- Incorporate any new entity without business purpose or capability to carry on business
- Artificial arrangements and non arm's length pricing

Case | Acquisitions in capital intensive business and the need of hedging and securitisation

Dividend policy is crucial for Fortum. We need to take action to protect the parent company's balance sheet and ensure that the parent company is capable of complying with the dividend policy. Therefore, we use entities to hedge business income flows. This is possible as these entities have both the financial strength and capability to manage their operative risks. Experienced key personnel is important when considering active management of these risks.

This means that Fortum Group's legal structure is planned with risk shields to protect Fortum Oyj by appropriate use of holding and finance companies. Our entities are 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. All the entities have the same purpose. Taxes are, however, paid in the country where the revenue is generated independently of the ownership structure.

In acquisitions, special attention to organise and manage the risks concerning the investment is crucial. The holding and financing set up of any acquisition is crucial as they will create and manage hedging and securing of Fortum Oyj's dividend capacity. By owning shares through holding companies these risks can be shielded efficiently from the parent company, Fortum Oyj. Simultaneously tax exemption of dividend income, based on locally taxed earnings, can be maintained. This method used

by most of the countries ensure that the income is being taxed once, not twice or more.

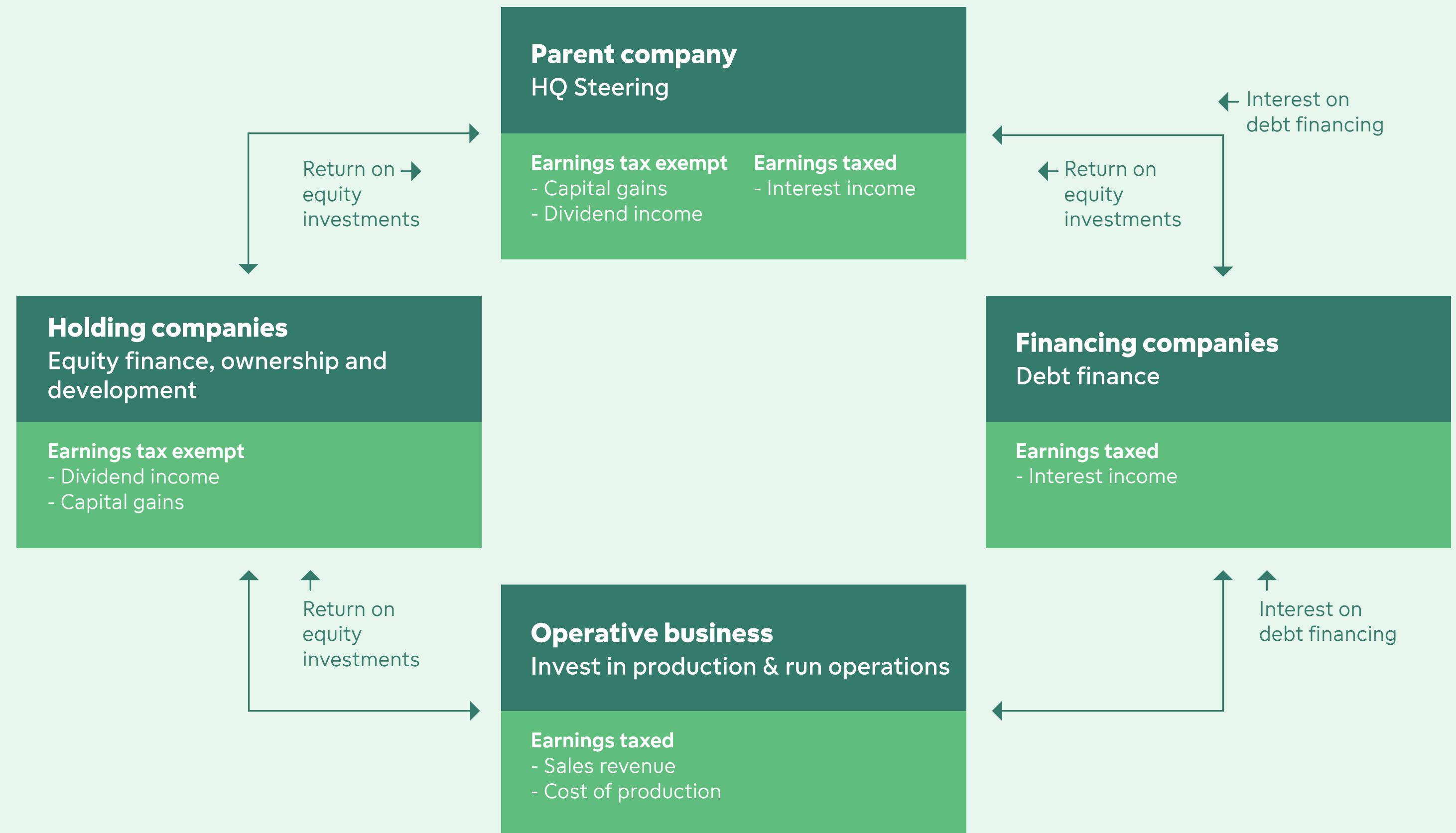
Operative companies make investments in tangible assets and run the operations. They are the cornerstone of Fortum's value creation. Operative companies also have the main part of taxes borne, either income taxes, production taxes or taxes on property. Risks related to operations impact not necessarily the operative companies, but also especially companies owning and financing them.

Fortum Group needs to have a corporate legal structure that provides the necessary flexibility to deal with negative events. Financing and holding companies independently bear the risks associated with their operations and so protect Fortum Oyj's, the parent company's, distributable funds as losses from financing operations and other negative events are primarily booked and managed in holding and finance companies.

Each finance company has its own local personnel capable of executing financing operations in all relevant aspects. Fortum finance companies have their own offices for their operations. Each finance company carries their own risks independently from other group companies and from any other business operation. Financing companies fund our commercial financing needs such as acquisitions and investments in capital intensive power and heat production.

Fortum operates internationally and, therefore, our international financing operations are located in EU countries with stable operating environments and predictable taxation. We have financing companies in the Netherlands and Ireland. We pay taxes in each of these countries of operation based on local rules and normal tax rates applied to our tax base in these countries: the Netherlands 25% and Ireland 12.5%.

General principles how income is taxed



Financial statement disclosures

Fortum publishes tax information as part of its financial statements. Income taxes and deferred taxes in the balance sheet are included and explained in the tax notes to the financial statements. The most relevant parts of these tax notes are reproduced below, with some commentary to explain some of the drivers of the numbers. See Note 13 Income tax expense and Note 28 Income taxes on the balance sheet for further information.

Key tax indicators, %

	2019	2018	2017
Effective income tax rate	12.8%	17.5%	20.6%
Comparable effective income tax rate	22.4%	22.0%	18.8%
Weighted applicable tax rate	23.6%	19.4%	21.7%

The effective income tax rate according to the income statement was 12.8% (2018: 17.5%). The tax rate used in the income statement is always impacted by the fact that the share of profits from associates and joint ventures is recorded based on Fortum’s share of profits after tax.

Other major items affecting the effective income tax rate are one-time tax-exempt capital gains and losses, tax rate changes and 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 2019 was 22.4% (2018: 22.0%). The table below explains the difference between the statutory tax rate in Finland compared to the rate at which Fortum is taxed on its profit before income tax. This is then

decreased by profits from associated companies and joint ventures and by tax exempt capital gains or losses as per the tax charge on the income statements excluding tax rate changes and major one-time tax effects. 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. When the pre-tax profit is close to nil or negative, the total tax rate does not illustrate the tax contribution in an informative way.

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 for Fortum are explained below.

Income tax expense

EUR million	2019	%	2018	%	2017	%
Profit before tax	1,728		1,040		1,111	
Profits from associated companies and joint ventures	-744		-38		-148	
Tax exempt capital gains or losses	-9		-100		-323	
Profit before income tax decreased by profits from associated companies and joint ventures and by tax exempt capital gains or losses	976		901		641	
Income tax at nominal rate	-195	20.0%	-180	20.0%	-128	20.0%
Differences in tax rates and regulations	10	-1.0%	2	-0.2%	21	-3.2%
Income not subject to tax	0	0.0%	1	-0.1%	0	-0.0%
Expenses not deductible for tax purposes	-8	0.8%	-13	1.5%	-3	0.4%
Changes in tax valuation allowance related to not recognised tax losses	-5	0.5%	10	-1.1%	-2	0.2%
Adjustments recognised for taxes of prior periods	-3	0.3%	0	-	-2	0.4%
Taxes related to dividend distributions	-17	1.8%	-14	1.6%	-10	1.6%
Other items	1	-0.1%	-3	0.3%	3	-0.5%
Comparable effective income tax rate	-218	22.4%	-198	22.0%	-121	18.8%
Tax rate changes	-3		17		6	
Other major one-time tax effects			0		-115	
Income tax expense	-221		-181		-229	

EUR million	1 Jan 2019	Change 2019	31 Dec 2019
Intangible assets	-106	2	-104
Property, plant and equipment	-788	-35	-823
Pension obligations	20	6	25
Provisions	-15	-2	-17
Derivative financial instruments	169	-137	33
Tax losses and tax credits carry-forward	70	-8	63
Other	-1	37	36
Net deferred tax liability	-651	-137	-788

The change in deferred taxes in 2019 is mainly related to the change in derivative financial instruments through other comprehensive income.

Total taxes

Taxes borne indicate different taxes that Fortum pays for the period. In 2019, Fortum’s taxes borne were EUR 397 (2018: 299) million. Taxes borne include corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property and 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 taxes borne by Fortum from its profit before these taxes. The total tax rate and total comparable tax rate (excluding the share of profits from associates and joint ventures and tax-exempt capital gains):

Total taxes, %

	2019	2018	2017
Total tax rate	21.0%	24.0%	32.5%
Comparable Total tax rate	34.9%	27.0%	48.1%

Fortum administers and collects different taxes on behalf of governments and authorities. Such taxes include VAT, and excise taxes on power consumed by customers, payroll taxes and withholding taxes. The amount of taxes collected by Fortum was EUR 374 (2018: 404) million.



Fortum’s tax indicators and country-by-country taxation

In line with the 2019 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 have been selected as the best determinant of our value creation in each country. Our operations are not labour-intensive, nor is revenue the most relevant base for a value creation indicator. Therefore, for our operations, the table below presents assets used in operations along with taxes borne and taxes collected for the eleven of the 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.

Countries of operations

EUR million	Finland			Sweden			Russia			Poland			Estonia			Norway		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Taxes borne																		
Corporate income tax	42	8	29	80	3	113	51	38	11	6	6	9	4	2	1	20	16	1
Production taxes	52	49	51	3	6	48	2	2	2	0	0	1	0	0	0	0	0	0
Employment taxes	1	1	1	13	14	12	3	3	4	1	1	1	1	1	1	7	5	9
Taxes on property	14	14	15	30	56	73	17	32	20	6	6	6	0	0	0	2	2	2
Cost of indirect taxes	1	2	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes borne	111	73	98	126	78	246	74	75	38	14	13	17	5	3	3	30	23	12
Assets used in operations ¹⁾	4,130	4,589	3,882	4,125	4,202	4,304	2,630	2,408	2,812	671	645	559	185	195	193	1,605	1,622	1,533
Interest bearing loan receivables ¹⁾²⁾	2,553	2,932	549	710	742	779	8	0	0	23	13	3	0	0	0	1	1	28
Number of employees	2,234	2,238	2,165	985	981	968	2,955	2,941	3,494	560	754	827	188	203	207	660	667	654
Effective income tax rate	18.7%	22.7%	23.4%	19.4%	19.3%	61.3%	18.3%	18.7%	20.1%	9.5%	37.9%	71.7%	-39.5%	16.9%	13.7%	25.3%	5.2%	-0.7%
Total tax rate	29.8%	41.0%	67.6%	29.3%	16.6%	66.0%	22.1%	25.3%	12.7%	-88.3%	57.6%	88.4%	20.3%	11.7%	11.9%	47.5%	51.5%	3.0%
Taxes collected																		
Net VAT	13	14	1	49	5	7	101	87	76	6	0	0	5	5	5	24	102	56
Sales VAT	562	459	323	341	310	325	311	281	290	198	154	129	19	20	19	368	238	109
VAT on Purchases	549	444	322	292	305	317	210	194	215	192	155	131	14	15	13	344	135	52
Payroll taxes	47	44	44	17	17	18	7	7	8	4	4	3	1	2	2	19	15	7
Excise taxes	1	1	1	0	24	208	0	0	0	3	1	3	0	0	0	0	0	0
Withholding taxes	52	54	55	0	0	0	0	0	0	1	1	1	0	0	0	0	0	0
Total taxes collected	113	113	101	66	46	233	108	94	84	13	5	7	7	7	8	44	117	64

1) Group internal eliminations between the countries are not included

2) Including cash collaterals

EUR million	Denmark			The Netherlands			Ireland			Belgium			Germany			Other countries		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Taxes borne																		
Corporate income tax	2	2	2	19	8	-8	6	9	10	3	4	18	2	0	0	2	0	1
Production taxes	2	6	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Employment taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1
Taxes on property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of indirect taxes	0	0	0	0	0	0	0	0	0	0	0	0	-2	2	0	0	0	0
Total taxes borne	5	8	8	20	7	-8	6	9	10	3	4	19	0	2	1	3	2	2
Assets used in operations ¹⁾	118	119	125	11	14	16	55	53	68	0	0	0	5	24	0	365	203	384
Interest bearing loan receivables ¹⁾²⁾	0	0	0	5,130	6,423	6,715	7,183	10,445	9,558	1,025	1,040	1,573	0	0	0	31	31	44
Number of employees	194	178	178	7	8	8	4	4	3	2	2	2	68	56	35	334	254	244
Effective income tax rate	7.8%	54.5%	24.4%	-63.6%	73.9%	18.9%	12.9%	7.6%	13.0%	29.7%	-12.5%	13.2%	0.2%	5.2%	36.1%	37.2%	19.8%	N/A
Total tax rate	N/A	117.0%	99.3%	N/A	60.1%	5.9%	7.1%	6.2%	9.3%	11.8%	13.3%	13.6%	0.0%	N/A	59.7%	56.3%	20.9%	109.2%
Taxes collected																		
Net VAT	3	5	7	0	0	0	0	0	0	0	0	0	1	1	1	5	6	5
Sales VAT	13	12	13	0	2	3	0	1	0	0	0	0	2	1	1	21	15	12
VAT on Purchases	10	8	6	0	2	3	0	1	12	0	0	0	1	0	0	16	9	7
Payroll taxes	4	4	8	0	0	0	0	0	0	0	0	0	0	0	0	4	3	3
Excise taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Withholding taxes	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0	0
Total taxes collected	8	9	14	1	0	1	0	0	0	0	0	0	1	1	1	13	10	8

1) Group internal eliminations between the countries are not included
2) Including cash collaterals

Comments by country

Finland: Both profit and taxable income improved with no one-time impacts compared to 2018 and 2017 and now reflecting the size of Fortum’s domestic energy operations in relation to foreign energy operations. Financial income has been stable in Finland 2019. Production taxes have increased due to one time impacts and increased coal tax rate.

Sweden: Profitability in Sweden has been stable during 2019 with increased income taxes borne. The main fluctuations between the years for income taxes borne relate to paid or received taxes on income tax

disputes for the years 2009–2013. Property taxes continued to be lowered based on the Swedish parliament’s decision to gradually reduce this tax in 2017, which also had a positive impact on profitability.

Russia: Increase of corporate income taxes refer to good profitability in Russia and lowered tax depreciations. Tax depreciations are done in the beginning of production assets economical lifetime and resulting in less depreciations in the later years use of the assets. Taxes on property decreased due to regional regulative changes. For 2019, movable property is excluded in the tax base of property taxes, which resulted in a decrease compared to 2018 when it was included in the tax base.

Poland: Negative tax rate is due to an operative loss of Polish operations meanwhile taxable income is still positive. Non-deductible costs increased due to changed income tax legislation in 2018.

Estonia: Undistributed corporate profits are tax exempt. The taxation of profits is postponed until the profits are distributed as dividends.

Norway: Profitability has continued to improve in Norway in 2019, resulting in increased income taxes. The restructuring of Hafslund was done in August 2017. Prior to the restructuring, Hafslund was an associated company, which had an impact on effective tax rate. From 2018, Hafslund was included with full year impact.

Denmark: Tax rates were mainly impacted by low profitability and high non-income related taxes.

The Netherlands: The taxes borne for 2019 and 2018 include withholding tax paid at their source on dividends received, mainly dividends from Russia. Capital gains and dividends are tax exempted meanwhile financing related income is taxed normally. The Dutch taxable income consisted of taxable profit of net interest income and one-time negative impact on currencies. The Dutch financing operations were loss-making in 2017 resulting in a loss carry forward. The loss may be carried forward and used to offset taxable profits in the future.

Ireland: Irish taxable income in 2019 was impacted by low market interest rates, decreased loan portfolio and increased interest costs paid. Income is taxed at normal 12.5% tax rate. Also, dividend income is taxed at the rate of 12.5% with an offsetting credit for income taxes paid by dividend distributor. This credit eliminates double taxation equally with a general exemption method used by most of the other countries.

Belgium: The loan portfolio in Belgium has stayed stable in 2019 resulting in steady income and taxes. The Belgium company was merged into Fortum Finance Ireland DAC in 2019 creating a permanent establishment in Belgium. In 2018, the nominal tax rate was lowered, and the so-called notional interest deduction has been abolished.

Germany: Fortum owns altogether 49.99% of Uniper SE at the end of 2019. The impact of Uniper's result is accounted for as profit/loss after tax in the Share of profit from associates and joint ventures. Taxes that Uniper SE paid are not included in Fortum taxes borne based on normal accounting standards. Uniper SE and its subsidiaries have paid taxes as any other company in line with tax regulations in the operative countries.

Other: Mainly refers to Latvia, Lithuania, India and Great Britain.

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 2019 we paid EUR 44 (2018: 43) million in employer's statutory pension contributions. We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2020 Annual General Meeting that a dividend

of EUR 977 (2019: 977) million be paid for 2019. The Finnish State's share of this would be about EUR 496 (496) million.

Ongoing tax appeals

Fortum had tax audits ongoing during 2019. Based on these and earlier audits, Fortum has received income tax assessments in Sweden for the years 2009–2015 and Belgium for the years 2008–2012. Fortum has appealed all assessments received.

In recent years, the tax treatment of interest costs has received much attention both locally and internationally. This has led to uncertainty in defining the correct tax treatment for interest, even in traditional businesses and investments. These unclear and changing rules, combined with even fewer clear interpretations and a lack of advance rulings on tax treatment, results in an increased likelihood of tax assessments and costly controversy processes.

In Sweden, Fortum has in 2018 filed a summons application to the District Court of Stockholm in which damages are claimed from the Swedish state. It relates to the unfavourable decision of the Administrative Court of Appeal and the decision of the Swedish Supreme Administrative Court not to grant leave to appeal to Fortum with respect to the interest deduction cases for to the years 2009–2012. There are strong grounds to argue that the decisions of the Administrative Court of Appeal and the Supreme Administrative Court violate EU law and fundamental rights under EU law.

Fortum has ongoing tax appeals in Swedish courts relating to hydro property tax. Fortum has through an appeal process claimed that the property tax rate for hydropower plants shall be lowered to the normal 0.5 percent of the tax assessment value. The case concerns the years 2009–2014 and includes several legal arguments for the claim including state aid arguments. Fortum did not receive a permission to appeal from the Supreme Administrative Court in this matter. As the Administrative Courts have handled only the arguments concerning state aid, the case has now been transferred back to the first level Administrative Court concerning the other legal arguments. Fortum has in 2018 filed a complaint to the EU commission regarding the Swedish property tax for hydro power plants regarding 2017 and prior years. Fortum has asked the



commission to investigate whether the Swedish legislation regarding the property tax for hydropower plants and the Swedish court decisions are in line with EU state aid rules.

In Belgium, the Supreme Court in 2019 annulled the decision of the Court of Appeal of Antwerp relating to the income tax year 2008 and referred the case back to the Court of Appeal of Ghent for full retrial. Based on legal analyses, no provision has been accounted for in the financial statements relating to 2008–2012 tax audits.

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

Information about companies registered in countries considered to be tax havens

The EU, the OECD and the Global Forum have established a list of countries considered to be tax havens. Fortum has a fully-owned captive insurance company in Guernsey, for insurance reasons; 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 both companies are subject to normal taxation in Finland. The taxes borne on these operations were EUR 171 thousand in 2019.

Fortum operates internationally and, therefore, our international financing operations are located in EU countries with stable operating environments and predictable taxation. We have financing and leasing companies in the Netherlands and Ireland. In the recent tax management debate, the Netherlands and Ireland have also been mentioned as tax havens. We pay taxes in each of these countries of operation based on local standard rules available for all taxpayers and normal tax rates: the Netherlands 25% and Ireland 12.5%. Fortum’s subsidiary companies are listed by country in Note 40 Subsidiaries by segment on 31 December 2019 in the Financial Statements.

Fortum tax footprint – Key terms

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 effective income tax rate	Income tax expense minus effects from tax rate changes and major one-time tax effects divided by Profit before income tax decreased by profits from associated companies and joint ventures and by tax exempt capital gains or losses.
Weighted average applicable income tax rate	Sum of the proportionately weighted share of profits before taxes of each group operating country multiplied with an applicable nominal tax rate of the respective countries.
The Group / Fortum Group	Fortum Oyj and its subsidiaries and Fortum Group associated companies and joint ventures.
Indirect tax	Tax that is required to be paid to a government by one person or company at the expense of another person or company.
Profit before tax	Accounting profit for a period before deducting a charge for corporate income taxes.
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 tax, 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 include 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 include VAT, and excise taxes on power consumed by customers, payroll taxes and withholding taxes.
Total tax rate	Taxes borne divided by profit before tax increased by taxes borne in operating profit.
Comparable total tax rate	Taxes borne divided by profit before tax increased by taxes borne in operating profit and decreased by profits from associated companies and joint ventures and by tax exempt capital gains or losses.
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, participations in associates and joint ventures and assets from fair valuations of derivatives used for hedging future cash flows).