fortum

Tax Footprint 2020

Executive summary

Fortum pays taxes according to tax legislation in its operating countries. Fortum's total tax contribution in 2020 was 665 MEUR in taxes borne and 1,059 MEUR in taxes collected. The main operating countries are Finland, Sweden, Russia and Germany.

Fortum is committed to responsible tax management. As taxation is always a consequence of business, our approach to tax strategy and planning is based on business needs. Taxes are just one factor that we take into consideration. Our business solutions are not driven by taxation. This ensures that our businesses can continue to invest, to operate flexibly and efficiently, and to safeguard returns to stakeholders.

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

Fortum has been disclosing its tax footprint since 2012. Our view is that this should be a normal part of business. Clearly communicating the principles and governance around tax matters, supported by sufficient data about our tax contribution, enables stakeholders to assess and understand the kind of taxpayer we are and our contribution to society. A lot of work has been done in 2020 to consolidate Uniper's figures with Fortum. Reporting our total tax contribution allows us to take steps towards transparency both internally and externally.

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

In this report we describe the value creation of our operations, we describe 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 outlines of our Board-approved tax principles, expanded information explaining tax disclosures in our financial statements, and information about our tax disputes.

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Fortum's tax principles

Fortum operates in the energy sector, which is characterised by long-term, capital-intensive investments. Even though our business is long term, it is subject to multiple rapid changes; climate targets and our new strategic fit require material changes to operations and compliance with a wide range of new tax regulation. Therefore, predictability and certainty are of great importance for us also in taxation. Our solution to these challenges is responsible tax management. For us, this means, first of all, that we respect the tax principles confirmed by Fortum's Board of Directors. Secondly, our strategic and operative targets are the starting point when planning and optimising taxes. Thirdly, we comply with the law and respect the purpose of the law. Finally, we assess the risks and uncertainties of our business and solutions. Responsible tax management should never create a major or even minor risk in any business operations, although tax or fiscal interest itself can be a risk for operations. Responsible tax management ensures that our businesses can continue to invest, to operate flexibly and efficiently, and to safeguard returns to our shareholders and other stakeholders.

Our approach to tax risk follows the same principles that apply to all other business risks. When making business decisions, we consider the materiality of any item as important, including tax consequences and the costs of effective risk mitigation actions. We comply with the rules, but material issues require even more attention in the decision-making process. We report our business income in line with local rules and requirements. We consider many aspects, including corporate social responsibility, reputation and financial impacts. We are especially aware of our reputation with a wider population of stakeholders. For this purpose, we are committed to responsible tax management.

Fortum tax principles are approved by Fortum Corporation's Board of Directors and published on Fortum's website: ▸ **Acting ethically and ensuring compliance**.

Tax strategy in brief

At the same time tax rules being under historical change, we are in transition to carbon free production and proceeding with Uniper co-operation.

We need to identify the valuable issues from the past and pick up the best practice to manage the new way of business activities. We co-operate internally and externally to raise up tax topics.

Being proactive and transparent will improve our procedures, financial flows and ability to reach predictability for business.

We will have our focus in business to ensure that tax and financing supports Fortum strategy, to reach out for the set targets.

OUR TAX PRINCIPLES CONTAIN THE FOLLOWING MAIN POINTS:

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

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

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

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

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

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

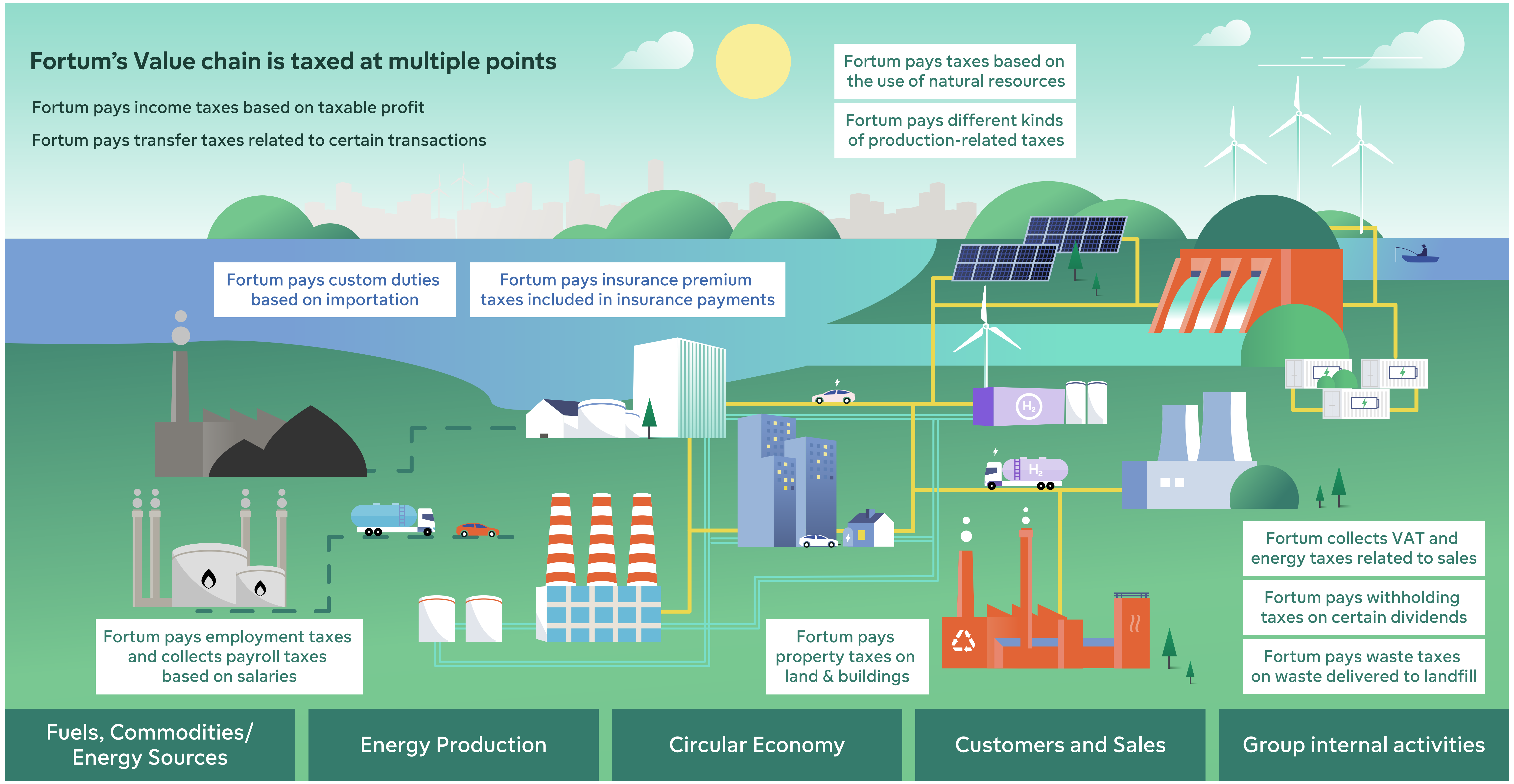
Fortum as a taxpayer – value creation

Our purpose – For a cleaner world – will result in and require material changes in the energy business as well as in taxation, even on a long-term basis. Low predictability of future tax systems is a serious challenge, as long-term investments in new power production are being decided now and in the near future. For instance, the tax revenues in energy taxation are currently based mainly on the use of fossil fuels. As the world becomes more decarbonised, these tax bases will disappear. In this respect, predictability means an open discussion of the future tax systems already now.

In order to understand the tax footprint of our business, it is important to describe Fortum's value chain and the many instances in which taxation occurs.

Fortum's strategy steers and positions its operations in local energy markets. Producing and selling energy – electricity, commodities and heat as well as recycling and waste solutions – is very much local. The key profit driver depends on investments and plant portfolios. All our tax contributions are local. More than 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 commodities trading, financing and service operations representing our international business operations. Whenever we have cross-border transactions, we respect the arm's length principle.

We are highlighting Fortum as a taxpayer and the basis for the taxes paid by Fortum. We hope that this report makes it easier to understand the importance of different elements of tax systems and illustrates Fortum's tax footprint.



Our tax and operating environment in 2020

Our purpose – 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. These principles are valuable in a world that is becoming more complex. Taxation should support the development of a decarbonised world – not create obstacles to business and new technologies.

The political and fiscal agenda in 2020 has been focused on tax transparency, improving international consistency, tax anti-avoidance, and actions against base erosion and profit shifting, which resulted in the implementation and proposal of several regulations and guidance. Due to the Covid-19 pandemic, governments have implemented different tax reliefs to help businesses survive. While Covid-19 challenged our business, it had only a minor impact on our business in 2020, we expect it to eventually impact both our profit and our tax burden.

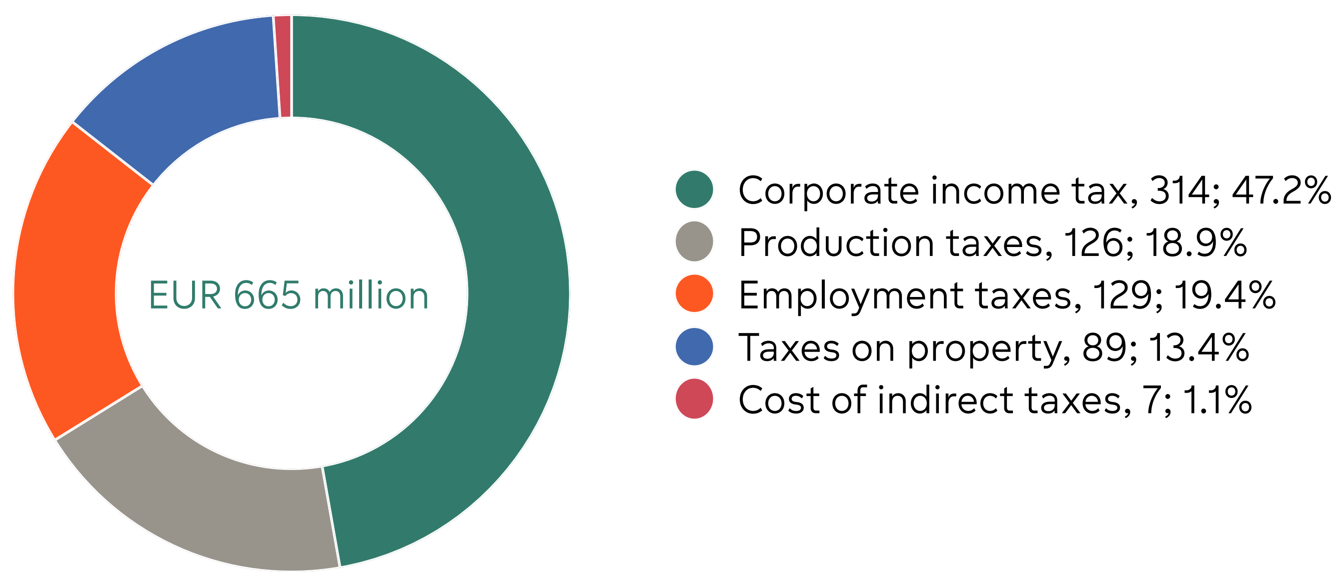
The tax environment has been driven by a number of new rules and regulations. We see that the OECD, EU and governments are continuing this work, not only due to the Covid-19 pandemic, but more due to changing business operations. We believe that responsible legislative work respects transparency, simplicity, predictability, certainty and proportionality. These fundamental principles ensure that different views and perspectives are taken into account, help to create legislation that is possible to comply with, and do not create obstacles for important values in the society, e.g. the work around climate change mitigation. In this respect, we want to highlight these aspects with a few examples:

Our total tax contribution reflects the extent and nature of the taxes Fortum pays. In 2020, it was EUR 1 724 (2019: 771) million, of which EUR 665 (2019: 397) million related to taxes borne and EUR 1,059 (2019: 374) million to taxes collected. Finland, Sweden, Russia and Germany are our biggest production countries. In 2020, taxes borne in Finland were EUR 91 (2019: 111) million, in Sweden EUR 118 (2019: 126) million, in Germany EUR 139 (2019: 0) million and in Russia EUR 126 (2019: 74) million.

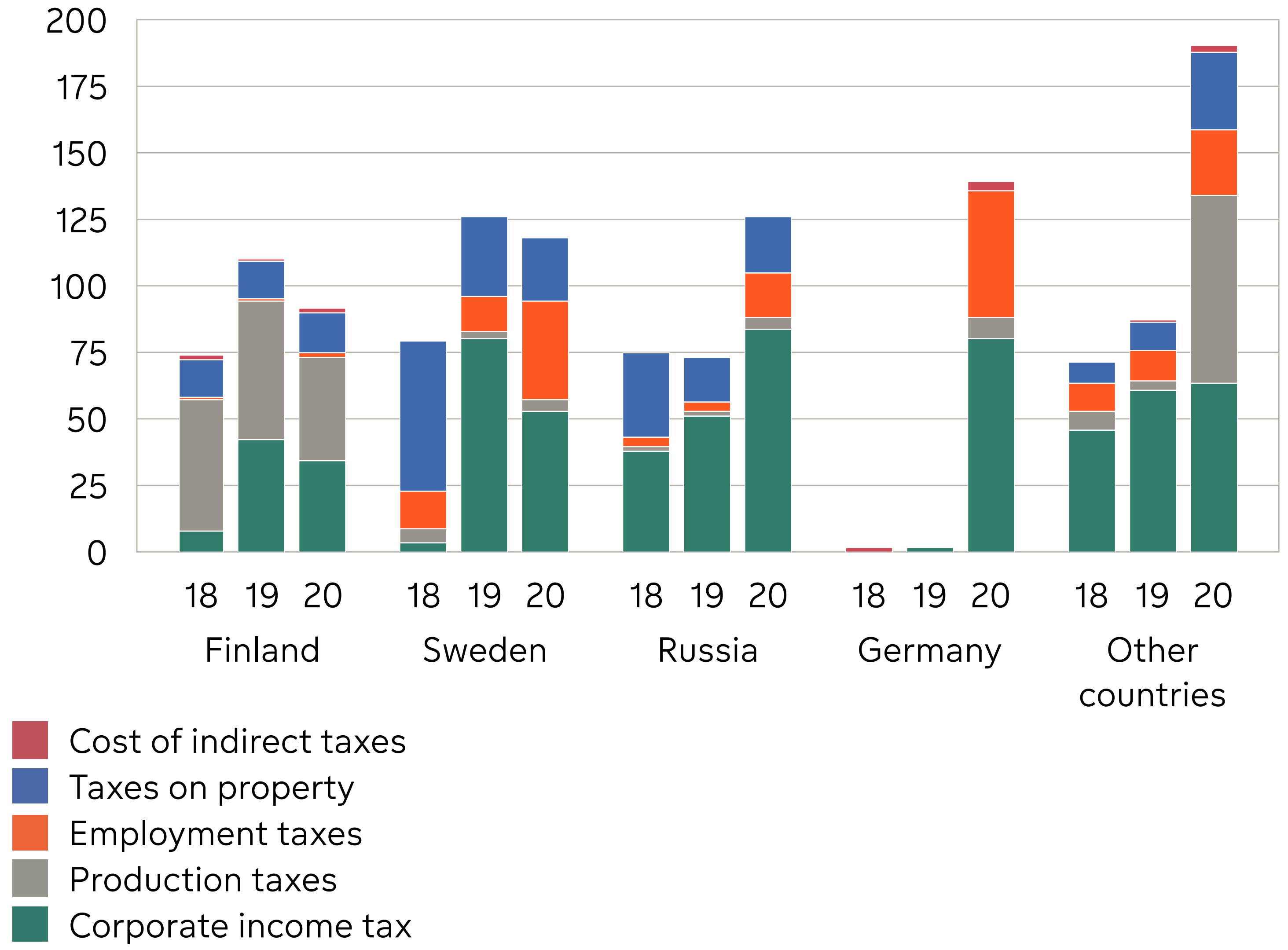
Taxes borne includes corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and the cost of indirect taxes.

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

Total taxes borne 2020, EUR million and %



Taxes borne by country, EUR million



New taxes related to specific targets

The climate and recycling targets have led to the creation of totally new taxes. One of the new taxes is the waste incineration tax in Sweden, which was implemented in spring 2020. Due to mismatches in the legislative work, the recycling of waste became subject to double taxation. Another example of new taxes is the plastic tax, the discussion and plans of which are ongoing at the national and EU level. The EU has also expressed its intention to start collecting an EU tax on plastic packaging waste. While the plastic tax aims to reduce the use of plastic, it does not support the recycling of plastic. Raw material from recycled plastic is not yet competitive. Plastic is still treated as waste.

Tax regulation that is created as a means to steer behaviour, i.e. not as a means to finance government, may have unintended consequences. Therefore, we wish legislators would be more transparent and proportional and make impact assessments to ensure targets are reached.

Energy Tax Directive (ETD)

The revision of the Energy Tax Directive is ongoing. In Fortum's view, the main building block of the revision should be to establish a clear approach on how energy products are to be taxed. A harmonised EU energy tax model based on clear systematics would greatly contribute to clarity and predictability and would make most of the exemptions set in the current ETD obsolete. In order to reach the climate targets cost efficiently, the revision should be done in a way that supports electrification and sector integration as they will play an important role in decarbonising societies, including industrial processes, transport and district heating.

Certainty and predictability – the EU Council Directive 2011/16 in relation to cross-border tax arrangements, known as DAC6

New regulation targeted to increase transparency and prevent aggressive tax planning imposes mandatory disclosure requirements for certain arrangements with an EU cross-border element where the arrangements fall within certain “hallmarks” defined in the directive. It mandates a reporting obligation.

The new regulation requires setting up end-to-end processes and controls to enable identification, documentation, reporting and retention of the arrangements that are covered by the hallmarks.

The Directive creates a new, complex reporting obligation for international companies. Local implementation varies within the EU, so we, among other companies, need to understand multiple different approaches to this requirement. In some cases, a normal business transaction, such as the acquisition of a new business, may qualify as a reportable arrangement.

We see these rules as unbalanced and not proportional. This does not promote predictability. We hope that all countries will follow the pragmatic approach that Finnish tax authorities have taken; the identification of aggressive arrangements should be the target, not normal business transactions.

Consolidation of Uniper in 2020 changed our tax contribution.

Fortum acquired a 49.99% stake in Uniper in 2019. This acquisition impacted our tax contribution merely by increasing our funding costs and reducing our consolidated tax contribution; we reported our share of Uniper's profit after tax. In March 2020, we acquired more shares in Uniper, resulting in the financial consolidation of Uniper into Fortum. Our tax contribution in 2019 and 2020 are not comparable, as we report Uniper's tax contribution for the first time in 2020 and only for 9 months. Other impacts to our tax contribution are:

First, we report more taxes borne in Germany, Russia, Great Britain and Sweden as an impact of consolidation. The proportional share of taxes paid to Finland decreases, as Uniper has no operations in Finland and we have been selling some of the Finnish operations in recent years.

Secondly, if we are successful in our strategic target of improving profitability by acquiring Uniper, our taxes borne in Finland will not grow. Increased value and taxable income are created in countries other than Finland, i.e. in countries where Uniper has operations.

Thirdly, our taxes collected in Finland will increase if our group profits increase. As a result of our dividend policy, our dividend would increase and withholding taxes collected from the dividends in Finland would increase, respectively. Our Finnish tax footprint will shift from taxes borne to taxes collected (withholding tax on dividends).

Fortum's tax management

2020 has been year of changes for Fortum: our ownership in Uniper exceeded 50% and we are consolidating Uniper as a subsidiary as of March 31. Together with Uniper, we opened a productive discussion on a number of tax-related topics in order to build a good understanding of Fortum's new tax position, as required for consolidation.

Fortum's Tax Team has been supportive of Fortum's strategy to strengthen the Group balance sheet and financial position. Our focus in 2020 has been on divesting our non-core operations. In line with our 2019 action plan to mitigate identified risks, we have been simulating Fortum's tax position with respect to new tax law provisions to find the key focus areas and to clarify the roles and responsibilities within different parts of our organisations concerning tax work. We have participated in discussions through a number of teams, such as the B-Team, a non profit group of business leaders working to redefine the culture of accountability in business, to exchange views and with the aim to further improve responsible and transparent tax management and open leadership within the Tax Team.

Finally, we invested in new tax reporting solution that will go live in 2021. We aim to improve tax data that enables us to find efficiency in compliance and reporting and provides insights facilitating strategic business decisions.

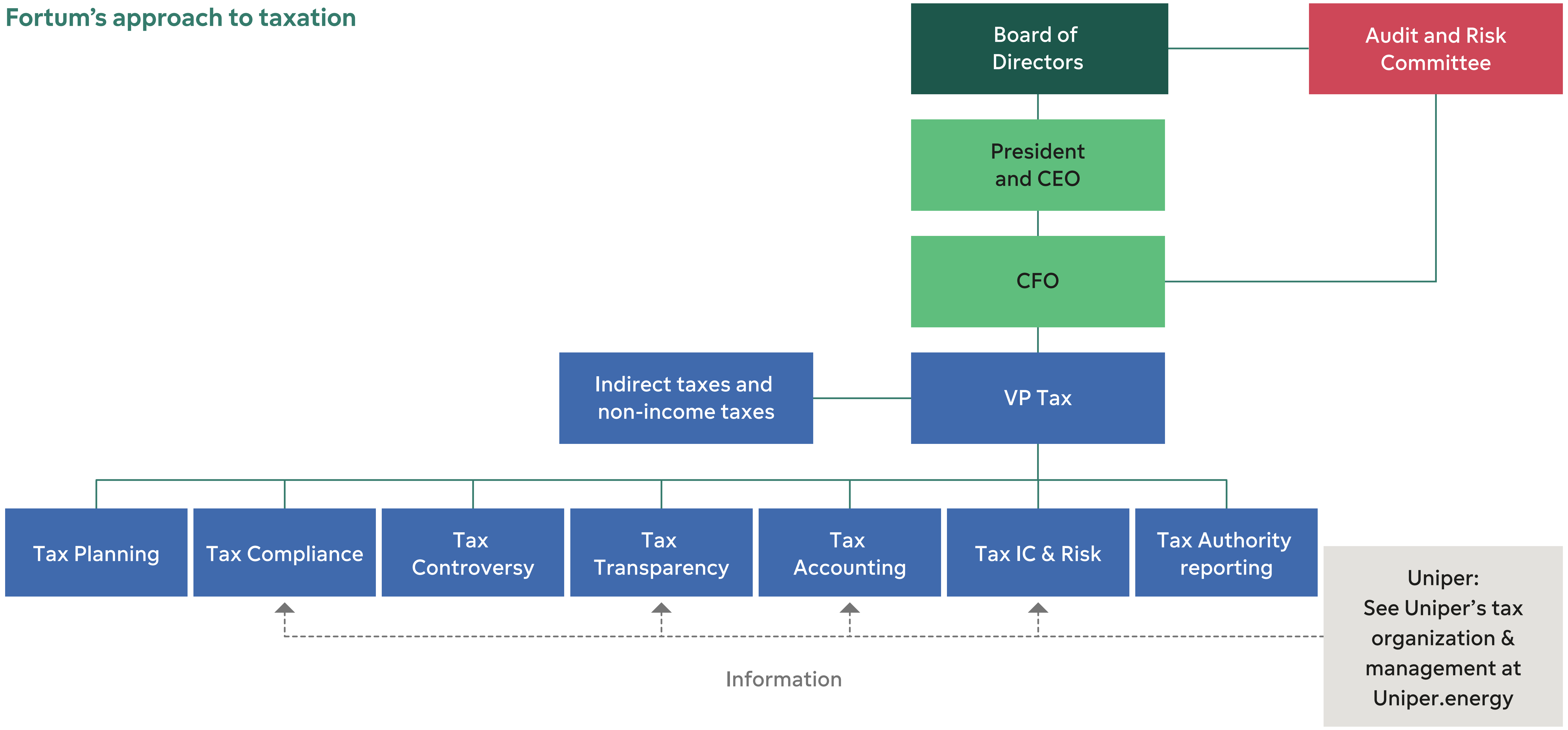
Fortum's approach to taxation

The Chief Financial Officer is accountable for tax governance and strategy. The Vice President of Taxation, who reports to the CFO, implements our tax principles and is responsible for ensuring that principles, and the procedures that support them, are in place, maintained and implemented in the same manner in all countries. The VP of Taxation is supported by a team of professionals, the Group Tax Team. The VP of Taxation is responsible for ensuring that the Group Tax Team has the adequate proficiency and experience to implement our principles appropriately. Tax issues, such as tax strategy, legal processes and tax-related risks, are followed on a regular basis by the Audit and Risk Committee of Fortum's Board of Directors.

Uniper SE, listed on the stock exchange in Germany, has been Fortum's consolidated subsidiary since March 2020. Uniper SE has its own tax organisation and principles, and it is publishing its own tax transparency report as of 2020 ▶ **uniper.energy**. Uniper SE respects Fortum's tax principles. Uniper SE's tax position is included in Fortum's Group financial information as of April 2020. In line with laws and regulations, Uniper SE is reporting all material information related to taxes to Fortum, ensuring proper consolidation to Fortum Group. Uniper's tax work is also audited independently.

Uniper's Group Tax has its own organisation with responsibility for Uniper SE's tax issues; it is organised under the CFO of Uniper SE. Uniper SE Group Tax delivers the information needed for consolidation to Fortum Group Tax.

Fortum's approach to taxation



Risk appetite in tax planning

Fortum's tax management is always initiated by business needs – either strategic or project – and driven by the principles of tax management. The purpose of tax planning is to ensure efficiency, certainty and predictability of how business is treated for tax purposes. Tax burden that creates an obstacle for business triggers the need to review the position through tax planning or communication and public discussions. In other words, tax planning compliant with the purpose of the laws is needed in some cases to solve the challenge for the business and its profitability. As tax is neither the major or even minor driver of our arrangements, our tax planning should not create any major risks to the business environment. On the contrary, our tax planning aims to create clarity and certainty for the business operations and the tax consequence arising from it.

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

Tax management can never eliminate all risks created by poor or unclear regulation.

Risk assessment

During the year we regularly assess uncertainties relating to the taxation of our existing and planned business. In our risk work, we cooperate with the business operations by using workshops, interviews and self-assessments as tools for this work. Our internal process concerning the business operations follow up to ensure that the main risk areas are under control and well managed. We report tax

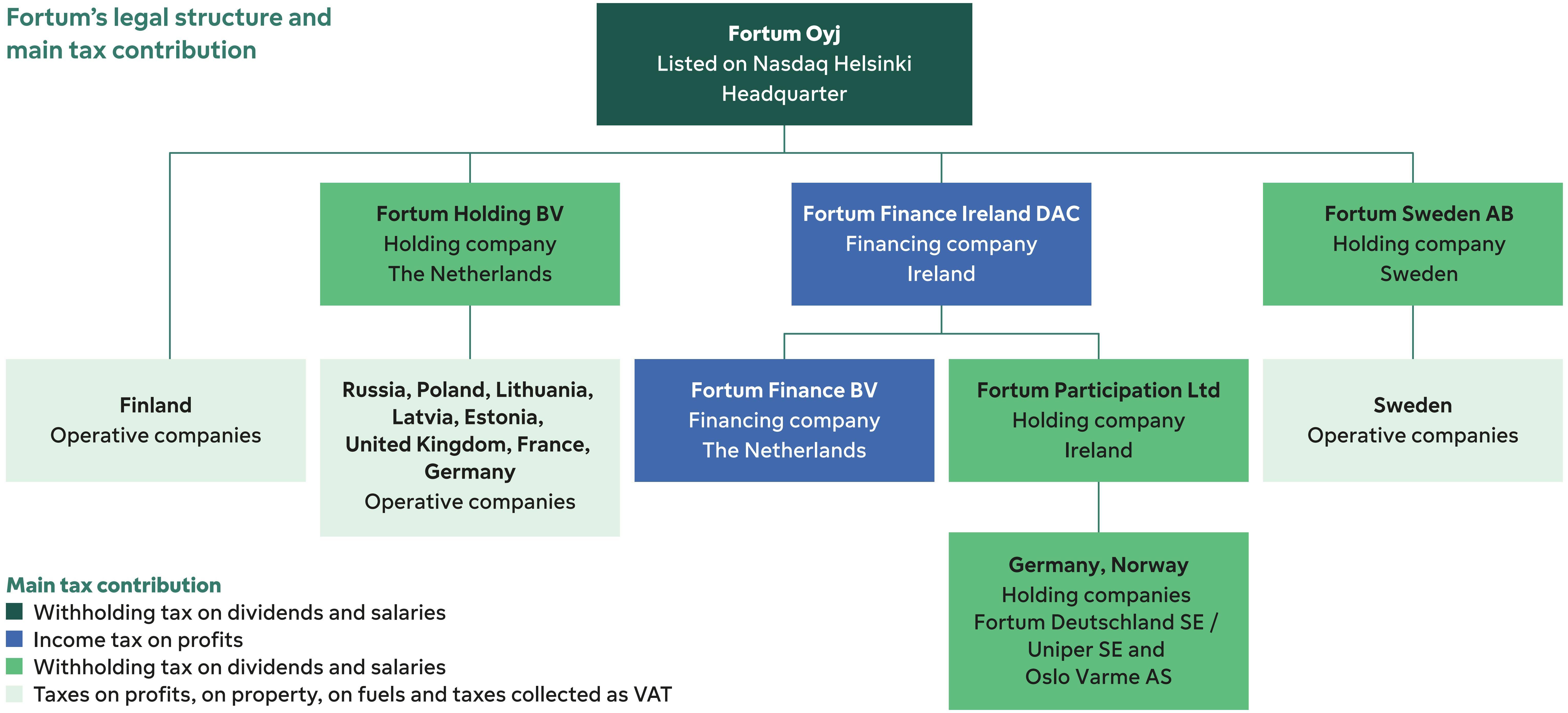
risks and the management and verification of them to the Audit and Risk Committee annually in line with our internal calendar and risk-related work. We have created internal controls with respect to our functions within the team. We also review tax-related responsibilities and accountabilities on an ongoing basis to ensure that all topics are managed and covered. We compile a yearly internal control review and report it internally to guarantee the validity and effectiveness of the controls. As audits are an assessment of our tax management, we respect the independency of auditors when engaging advisors.

We annually present a risk-mitigation action plan. Our Corporate Tax Team manages tax-related uncertainties by targeting tax predictability for the business operations in all our operating countries. The main uncertainties identified for 2020 were the changing and unclear tax legislation as well as heavy compliance obligations, with a particular focus on mandatory disclosure rules. Due to the lack of clarity and the wide scope of tax legislation, non-compliance with reporting obligations is possible. Unclear rules as well as lack of actual harmonisation of the newest EU rules may result in double taxation, if costs are not deductible, income is taxed and in addition withholding taxes are high. We have also identified that new rules and new countries create challenges in the allocation of responsibilities. As risk mitigation actions, we have identified simplifying legal structures, improving data management, seeking strategic clearance from tax authorities, improving transparency, improving resources and reviewing accountabilities and responsibilities. Fortum's Code of Conduct is fully applicable to all parts of our tax work.

Tax Team bonus system

Fortum's Group Tax Team is part of Fortum's normal bonus systems. Targets set are related to process improvements, such as new tax reporting systems, the automation of tasks, cooperation with Uniper, development of transparency, and transactions strengthening Fortum's balance sheet. Bonuses are not connected to taxes borne or taxes collected.

Fortum's legal structure and main tax contribution



Our legal structure and tax contribution

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.

In the recent tax management debate, the Netherlands and Ireland have also been mentioned as low tax jurisdictions. We pay taxes in each of these countries of operation based on local standard rules and normal tax rates applicable to all taxpayers: the Netherlands 25% and Ireland 12.5%. Fortum's subsidiary companies are listed by country in Note 39 Subsidiaries by segment on 31 December 2020 in the Financial Statements.

Tax reporting

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

Financial statement disclosures

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

Fortum publishes tax information as part of its financial statements. Income taxes 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 presented below, with some commentary to explain some of the drivers of the numbers. See Note 12 Income tax expense and Note 27 Income taxes on the balance sheet, for further information.

Key tax indicators, %

	2020	2019	2018
Effective income tax rate	15.7%	12.8%	17.5%
Comparable effective income tax rate	23.8%	22.0%	21.1%
Weighted applicable tax rate	22.1%	23.6%	19.4%

Fortum's total effective income tax rate, according to the income statement, was 15.7% (2019: 12.8%). 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, other items affecting comparability, tax rate changes and other major one-time tax effects. The comparable effective income tax rate is presented to better reflect the Group's total 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 2020 was 23.8% (2019: 22.0%).

The table below explains the difference between the statutory income tax rate in Finland compared to the rate at which Fortum is taxed on its profit before income tax. The comparable effective income tax rate is calculated as income tax expense minus effects from tax rate changes, taxes on items affecting comparability and major one-time tax effects divided by Profit before income tax decreased by profits from associated companies and joint ventures and by items affecting comparability (which include tax exempt capital gains or losses). The effective income tax rate and comparable effective income tax rate reflect the income tax expense recognised in the income statement including changes in deferred taxes.

Income tax expense

EUR million	2020	%	2019	%	2018	%
Profit before tax	**2,199**		**1,728**		**1,040**	
Profits from associated companies and joint ventures	-656		-744		-38	
Tax exempt capital gains or losses	-558		-7		-72	
Other items affecting comparability	303		80		-124	
Profit before income tax decreased by profits from associated companies and joint ventures and items affecting comparability	**1,288**		**1,057**		**806**	
Tax calculated at nominal Finnish income tax rate	-258	20.0%	-211	20.0%	-161	20.0%
Differences in tax rates	-16	1.3%	9	-0.8%	3	-0.4%
Tax exempt income and other non deductable expenses Income not subject to tax	21	-1.7%	-15	1.4%	-5	0.6%
Tax effects of changes in value and non-recognition of deferred taxes	-22	1.7%	6	-0.5%	8	-1.0%
Adjustments recognised for taxes of prior periods	3	-0.2%	-3	0.3%	0	-
Taxes related to dividend distributions	-24	1.8%	-17	1.6%	-14	1.8%
Other items	-11	0.9%	1	-0.0%	-1	0.1%
Comparable effective income tax rate	**-307**	**23.8%**	**-232**	**22.0%**	**-170**	**21.1%**
Tax rate changes	4		-3		17	
Taxes on other items affecting comparability	93		14		-28	
Other major one time tax effects	-135				0	
Income tax expense	**-344**		**-221**		**-181**	

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.

EUR million	1 Jan 2020	Change 2020	31 Dec 2020
Intangible assets	-104	-137	-241
Property, plant and equipment and right-of-use assets	-823	-405	-1,228
Pension obligations	25	517	542
Provisions	-17	1,290	1,273
Derivative financial instruments	33	-96	-63
Tax losses and tax credits carry-forward	63	105	168
Other	36	-348	-312
Net deferred tax liability	**-788**	**926**	**138**

The change in deferred taxes included EUR 579 million from the acquisition of Uniper at 31 March 2020, the largest impact being to provisions. Fortum historically had a material deferred tax liability owing to its investments in non-current assets. These assets are depreciated more rapidly for tax than for accounting purposes resulting in lower current tax payments at the start of an asset's lifetime and higher tax payments at the end of its lifetime. This difference results in a deferred tax liability. This position has changed with the acquisition of Uniper who historically has a material deferred tax asset owing to its operations.

Total taxes

Taxes borne indicate different taxes that Fortum pays for the period. In 2020, Fortum's taxes borne were EUR 665 (2019: 397) million. Taxes borne include 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 taxes borne by Fortum from its profit before these taxes. When the pre-tax profit is close to nil or negative, the total tax rate does not illustrate the tax contributionin an informative way.

Total taxes, %

	2020	2019	2018
Total tax rate	26.1%	21.0%	24.0%

Fortum administers and collects different taxes on behalf of governments and authorities. Such taxes include VAT, excise taxes on power consumed by customers, payroll taxes and withholding taxes. The amount of taxes collected by Fortum was EUR 1,059 (2019: 374) million.

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

In line with the 2020 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 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

	Finland			Sweden			Russia		
EUR million	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Taxes borne									
Corporate income tax	34	42	8	53	80	3	84	51	38
Production taxes	39	52	49	4	3	6	4	2	2
Employment taxes	2	1	1	37	13	14	17	3	3
Taxes on property	15	14	14	24	30	56	21	17	32
Cost of indirect taxes	2	1	2	0	0	0	0	0	0
Total taxes borne	**91**	**111**	**73**	**118**	**126**	**78**	**126**	**74**	**75**
Assets used in operations [1]	3,808	4,130	4,589	10,728	4,125	4,202	3,973	2,630	2,408
Interest bearing loan receivables [1,2]	4,555	2,553	2,932	1,358	710	742	22	8	0
Number of employees	2,370	2,234	2,238	1,752	985	981	7,466	2,955	2,941
Profit before tax	1,088	303	113	-66	383	396	404	312	261
Effective income tax rate	6.0%	18.7%	22.7%	-79.0%	19.4%	19.3%	23.7%	18.3%	18.7%
Total tax rate	7.9%	29.8%	41.0%	N/A	29.3%	16.6%	28.3%	22.1%	25.3%
Taxes collected									
Net VAT	20	13	1	56	49	5	128	101	87
Sales VAT	718	562	323	598	341	310	411	311	281
VAT on Purchases	699	549	322	542	292	305	283	210	194
Payroll taxes	50	47	44	40	17	17	14	7	7
Excise taxes	1	1	1	0	0	24	0	0	0
Withholding taxes	70	52	55	0	0	0	7	0	0
Total taxes collected	**140**	**113**	**113**	**96**	**66**	**46**	**150**	**108**	**94**
Comments by country	Effective tax rate is impacted by large one-time tax exempt capital gains from the sale of district heating operations in Joensuu and Järvenpää. As sale of district heating operations has decreased Fortum's tax base in Finland, taxes borne are lowered.			Both income taxes and profit before tax impacted by combination of consolidation of Uniper, business typical volatility and maintenace breaks. Property taxes continued to be lowered based on the Swedish parliament's decision to gradually reduce this tax in 2017. This had also a positive impact on profitability.			Both taxes borne and profit before taxes increased mainly due to consolidation of Uniper's operations.		

	Germany			Norway			Poland		
EUR million	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Taxes borne									
Corporate income tax	80	2	0	11	20	16	5	6	6
Production taxes	8	0	0	0	0	0	0	0	0
Employment taxes	48	0	0	6	7	5	1	1	1
Taxes on property	0	0	0	2	2	2	7	6	6
Cost of indirect taxes	3	-2	2	0	0	0	0	0	0
Total taxes borne	**139**	**0**	**2**	**19**	**30**	**23**	**13**	**14**	**13**
Assets used in operations [1]	3,833	5	24	1,267	1,605	1,622	672	671	645
Interest bearing loan receivables [1,2]	4,976	0	0	0	1	1	3	23	13
Number of employees	4,925	68	56	587	660	667	583	560	754
Profit before tax	269	592	-6	9	53	37	35	-25	15
Effective income tax rate	37.1%	0.2%	5.2%	51.4%	25.3%	5.2%	21.2%	9.5%	37.9%
Total tax rate	42.4%	0.0%	N/A	107.4%	47.5%	51.5%	30.6%	N/A	57.6%
Taxes collected									
Net VAT	126	1	1	24	24	102	31	6	0
Sales VAT	7,171	2	1	159	368	238	204	198	154
VAT on Purchases	7,045	1	0	135	344	135	173	192	155
Payroll taxes	175	0	0	13	19	15	4	4	4
Excise taxes	243	0	0	0	0	0	4	3	1
Withholding taxes	0	0	0	0	0	0	1	1	1
Total taxes collected	**544**	**1**	**1**	**37**	**44**	**117**	**40**	**13**	**5**
Comments by country	Consolidation of Uniper as from Q2/2020 has material impact to Fortum's total tax in Germany. Main drivers for the taxable income are developments in the commodities and generation business. The current tax expense reflects the profitable operations.			Profitability has been lowered in Norway compared to 2019, resulting in decreased income taxes. Other taxes borne remain stable.			Polish profitability is volatile meanwhile taxes borne are stable. Comparabilty between years is complex as non-deductible items in 2019 changed effective tax rate.		

1) Group internal eliminations between the countries are not included

2) Including cash collaterals

EUR million	The Netherlands 2020	The Netherlands 2019	The Netherlands 2018	Hungary 2020	Hungary 2019	Hungary 2018
Taxes borne						
Corporate income tax	12	19	8	13	0	0
Production taxes	5	0	0	1	0	0
Employment taxes	6	0	0	0	0	0
Taxes on property	3	0	0	0	0	0
Cost of indirect taxes	1	0	0	0	0	0
Total taxes borne	**27**	**20**	**7**	**14**	**0**	**0**
Assets used in operations [1]	319	11	14	32	0	0
Interest bearing loan receivables [1, 2]	5,948	5,130	6,423	33	0	0
Number of employees	344	7	8	30	0	0
Profit before tax	153	-17	13	59	0	0
Effective income tax rate	8.1%	-63.6%	73.9%	12.5%	0.0%	0.0%
Total tax rate	15.8%	N/A	60.1%	23.0%	0.0%	0.0%
Taxes collected						
Net VAT	0	0	0	0	0	0
Sales VAT	286	0	2	116	0	0
VAT on Purchases	296	0	2	125	0	0
Payroll taxes	13	0	0	0	0	0
Excise taxes	4	0	0	-3	0	0
Withholding taxes	1	0	0	0	0	0
Total taxes collected	**18**	**1**	**0**	**-3**	**0**	**0**
Comments by country	Total tax contribution increased mainly to consolidation of Uniper operations as of Q2 / 2020. Profit before tax increased due to Uniper consolidation and some tax exempt capital gains. The taxes borne 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 at normal rate.			Both taxes borne and profit increased due to consolidatoin Uniper's operations in Hungary as from Q2/2020.		

EUR million	USA 2020	USA 2019	USA 2018	Ireland 2020	Ireland 2019	Ireland 2018
Taxes borne						
Corporate income tax	4	0	0	11	6	9
Production taxes	0	0	0	0	0	0
Employment taxes	0	0	0	0	0	0
Taxes on property	1	0	0	0	0	0
Cost of indirect taxes	0	0	0	0	0	0
Total taxes borne	**5**	**0**	**0**	**11**	**6**	**9**
Assets used in operations [1]	48	19	0	0	55	53
Interest bearing loan receivables [1, 2]	8	0	0	8,725	7,183	10,445
Number of employees	66	0	0	4	4	4
Profit before tax	-38	-5	-2	78	81	152
Effective income tax rate	33.3%	0.0%	0.0%	13.8%	12.9%	7.6%
Total tax rate	N/A	0.0%	0.0%	14.0%	7.1%	6.2%
Taxes collected						
Net VAT	0	0	0	0	0	0
Sales VAT	0	0	0	0	0	1
VAT on Purchases	0	0	0	0	0	1
Payroll taxes	2	0	0	0	0	0
Excise taxes	0	0	0	0	0	0
Withholding taxes	0	0	0	0	0	0
Total taxes collected	**2**	**0**	**0**	**0**	**0**	**0**
Comments by country	Taxes borne increased mainly due to consolidatoin Uniper's operations in the USA as from Q2/2020.			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.		

EUR million	Great Britain 2020	Great Britain 2019	Great Britain 2018	Other countries 2020	Other countries 2019	Other countries 2018
Taxes borne						
Corporate income tax	0	0	0	9	10	8
Production taxes	62	0	0	3	2	6
Employment taxes	8	0	0	3	2	2
Taxes on property	16	0	0	0	0	0
Cost of indirect taxes	1	0	0	0	0	0
Total taxes borne	**88**	**1**	**0**	**15**	**15**	**17**
Assets used in operations [1]	771	12	1	778	637	516
Interest bearing loan receivables [1, 2]	1	0	4	1,157	1,056	1,067
Number of employees	1,047	75	27	759	643	610
Profit before tax	-44	0	-1	251	50	61
Effective income tax rate	19.3%	9.8%	63.3%	3.7%	-0.5%	4.4%
Total tax rate	199.9%	53.4%	43.4%	5.9%	27.0%	23.9%
Taxes collected						
Net VAT	0	1	1	5	12	14
Sales VAT	344	2	1	43	52	46
VAT on Purchases	368	0	0	38	49	31
Payroll taxes	20	2	1	10	8	8
Excise taxes	0	0	0	0	0	0
Withholding taxes	0	0	0	2	1	0
Total taxes collected	**20**	**3**	**1**	**16**	**25**	**24**
Comments by country	Tax contribution increased mainly due to consolidation of Uniper UK operations as of Q2/2020.			Mainly refers to Latvia, Lithuania, India, Belgium, Estonia, Denmark, France, Guernsey, Spain, Rwanda, United Arab Emirates, Malta, Canada and Austria.		

1) Group internal eliminations between the countries are not included

2) Including cash collaterals

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 2020 we paid EUR 43 (2019: 44) million in employer's statutory pension contributions. We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2021 Annual General Meeting that a dividend of EUR 995 (2020: 977) million be paid for 2020. The Finnish State's share of this would be about EUR 505 (496) million.

Ongoing tax appeals

Fortum had ongoing tax audits during 2020. Based on earlier audits, Fortum has received income tax assessments in Belgium for the years 2008–2012. In previous years, Fortum has appealed all assessments received. Based on legal analysis, no provision has been accounted for in the financial statements related to Belgium 2008–2012 tax audits.

In Sweden, Fortum filed in 2018 a summons application to the District Court of Stockholm in which damages are claimed from the Swedish state. Secondly, Fortum has ongoing tax appeals in Swedish courts relating to the hydro property tax. Through an appeal process, Fortum has 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 2009–2016 and includes several legal arguments for the claim.

For more information, see Note 36 Legal actions and official proceedings in the Financial Statements.

Information about companies registered in so-called low tax jurisdictions

Fortum has a few companies in countries considered as so-called low tax jurisdictions. All of these companies have been incorporated for business reasons, and not to take advantage of tax benefits. Fortum has a fully owned captive insurance company in Guernsey, 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.

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

Fortum's earnings from controlled foreign companies (CFCs) are subject to normal taxation in Finland. The taxes borne on these operations were EUR 659 thousand in 2020.

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 effective income tax rate	Income tax expense minus effects from tax rate changes, taxes on items affecting comparability and major one-time tax effects divided by Profit before income tax decreased by profits from associated companies and joint ventures and by items affecting comparability.
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. Taxes included in operating profit are production taxes, employment taxes, taxes on property and cost of indirect taxes.
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 and assets from fair valuations of derivatives used for hedging future cash flows).