

Join the
change

Tax Footprint 2018



Fortum as a tax payer 2018

The energy sector, including Fortum, is in the middle of a transition. Global megatrends, such as climate change, emerging new technologies, digitalisation, changes in consumer behaviour, and questions regarding resource efficiency, are having a major impact on the energy sector

globally. Also, regulation is changing making it difficult to predict what rules are in place for the mid and long term future. These changes make it harder for Fortum to have the predictability that we need to be able to operate in this capital-intensive sector and to finance operations

in an efficient and safe manner. We therefore need to have as much predictability as possible in other areas such as tax.

Based on our tax principles, we aim to identify simple and cost-efficient solutions to manage our taxes in a sustainable manner. The goal is to ensure that our businesses can continue to invest, to operate flexibly and efficiently, and to safeguard returns to our shareholders.

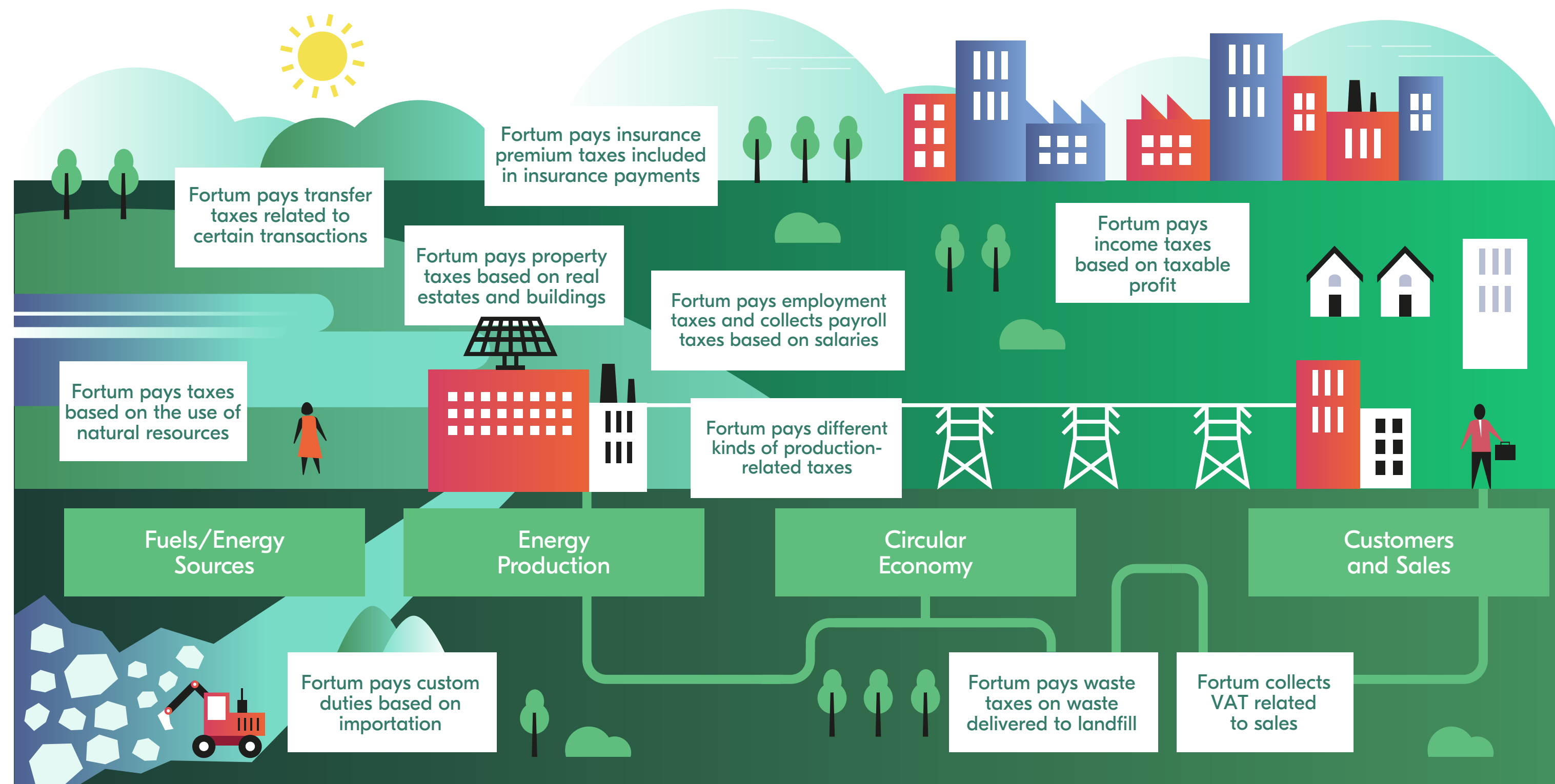
Fortum operates in more than 20 countries. The majority of our business is based on local fuels and energy sources, local production, local distribution of heat, and sale of energy to customers locally. Therefore our profits are typically generated locally and similarly the taxes are paid locally.

Taxation is always a consequence of business operations and is therefore always based on business decisions and needs. The main driver for taxes borne and allocation of taxes is profitability. For us, this means that there will always be tax impacts arising from the long lifetimes of our capital intensive investments, from price levels which are set locally and from the efficiency of our financing. It is important that we can operate and finance our businesses efficiently, carry out investments and manage financing risks in all the countries where we operate. Financing, which underpins all our operations, is one of the international aspects of Fortum's tax profile. Therefore predictability and stability of our operating environment are crucial for us.

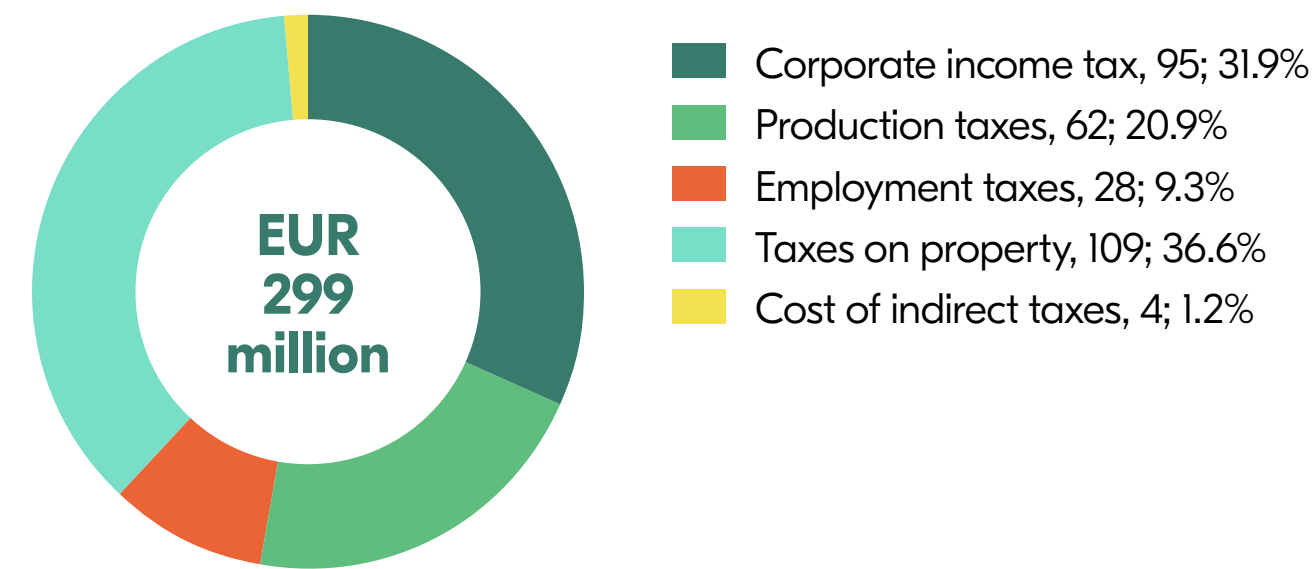
The extent and nature of the taxes Fortum pays is shown by our total tax contribution. In 2018, it was EUR 703 (2017: 966) million of which EUR 299 (2017: 445) million related to taxes borne and EUR 404 (2017: 521) million to taxes collected. Finland, Sweden and Russia are our biggest production countries. In 2018, the taxes borne in Finland were EUR 73 (2017: 98) million, in Sweden EUR 78 (2017: 246) million and in Russia EUR 75 (2017: 38) 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.

Taxes cover the entire value chain



Taxes borne 2018, EUR million and %



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.

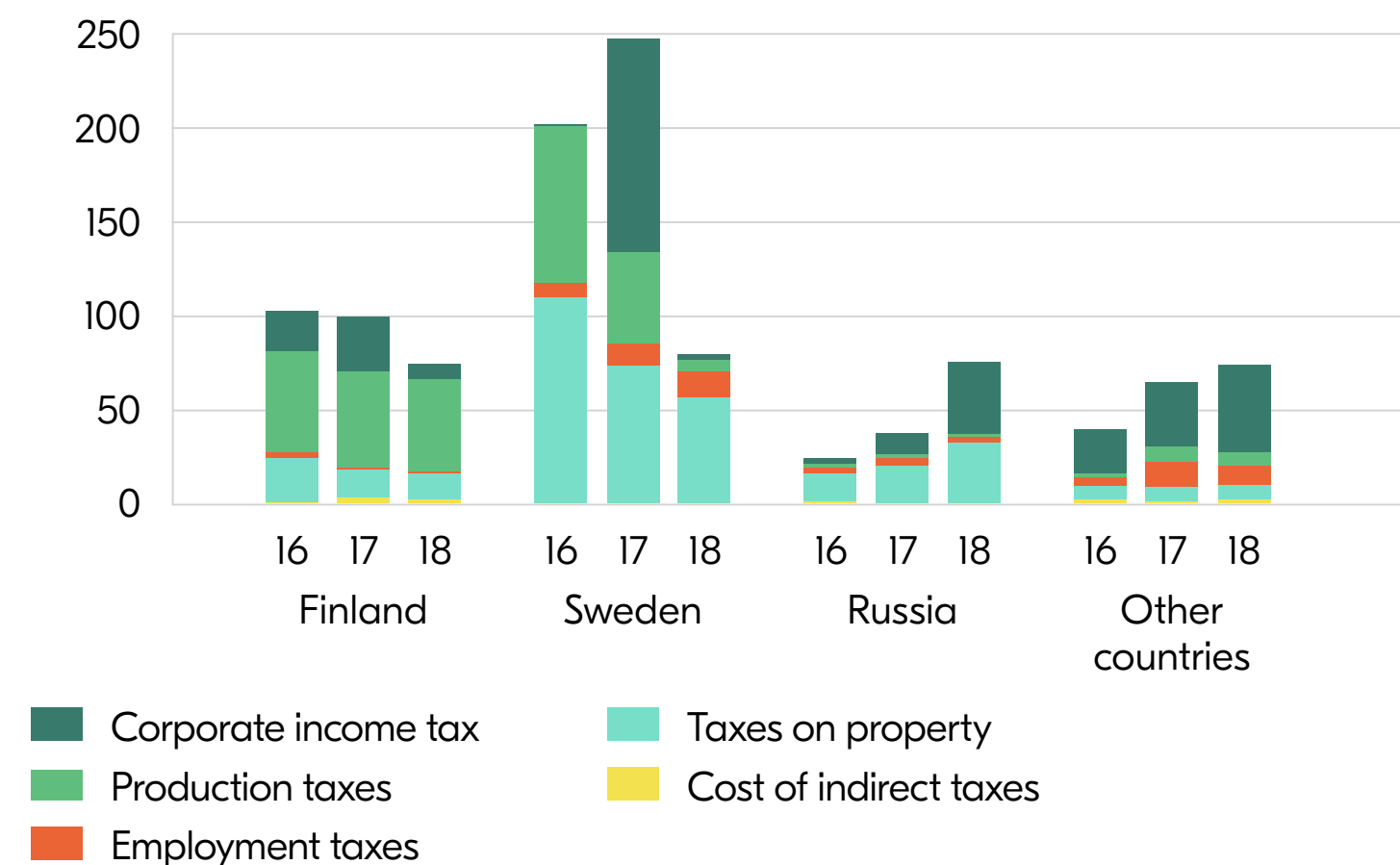
Tax environment in 2018

The operating environment has been affected by the global macro economic problems, trends and related challenges to the public finances. One trend is the increased amount of tax rules which

the OECD and EU have generated. The new rules are concentrating on tax aspects and leaving the operative environment in the background. This is especially challenging for capital intensive industries. An example of a new rule is limitation of interest deductibility of financing. Cost of equity for business is higher than debt financing, new rules increase cost of financing and limit investment capabilities. The balance between fiscal and operational interests is disturbed.

2018 can partly be seen as a turning point for the energy sector as the profits were increasing. While few countries continued to increase taxes especially for production and property taxes, Sweden

Taxes borne by country, EUR million



Case | Low predictability in Sweden

Fortum invests in sustainable production. These investments need to be financed. Financing, especially group internal financing, has been in focus and often assumed as aggressive tax planning. This has resulted in speedily drafted unclear laws. Tax authorities have actively assessed financing with narrow interpretation of the jurisprudence. For us this means lost predictability. Tax authorities assessments since 2011 have resulted in appeals. The legal process is still open for tax years 2009–2012. The legal processes for tax years 2013–2016 were closed in late 2018 when Fortum received positive decisions confirming that Fortum’s financing is not aggressive tax planning and allowing Fortum to deduct the interest costs. Instead of knowing the tax treatment prior to any investment, tax treatment is cleared five years after the fiscal year and nine or ten years later than that after the actual investment decision.

Uncertainty over the tax treatment regarding investments can take ten years.



continued to lower real estate taxes for hydro power. At the same time the capacity tax on nuclear power was completely abolished in Sweden. The approach taken in Sweden was welcome as it makes the tax burden sustainable again.

Intense political interest in taxes and especially the focus on aggressive tax planning has generated a number of new rules and proposals. The focus of these new rules and proposals is in tax revenue. Work against aggressive tax behaviour is important but if the focus is solely on aggressive tax planning, normal business operations and needs may be ignored. In a sustainable tax system, both fiscal and operative interests should be respected to create a balance between these two interests. In this area the EU has an important role.

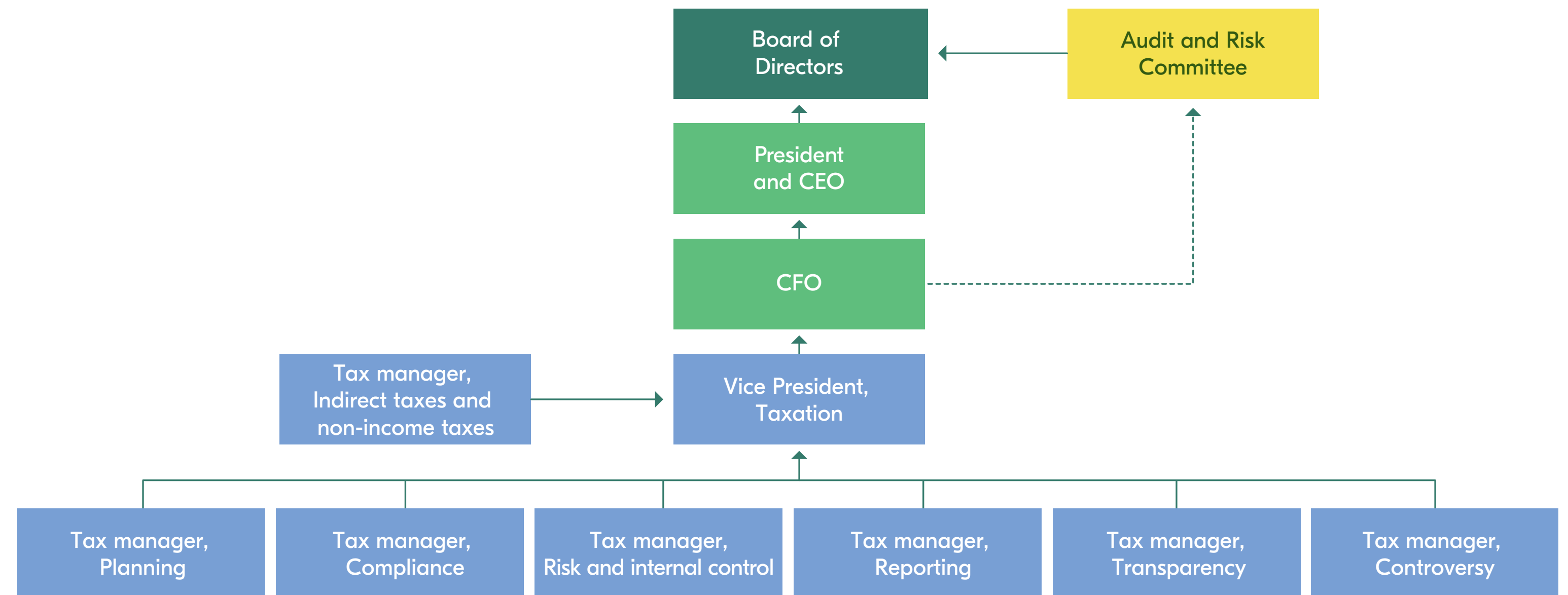
Fortum’s approach to taxation – our tax principles

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.

Governance – Fortum has tax principles which have been approved by the Fortum Oyj Board of Directors. These principles are published on Fortum’s internet pages. 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 procedures which 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 Corporate Tax Team. The VP of Taxation 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 report tax risks and how they are managed and assured annually to the Audit and Risk Committee in line with our



internal calendar and risk-related work. We present an action plan 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 2018, the main uncertainties were identified to be changing tax legislation, with low level of harmonisation and unbalance between national fiscal and business interests resulting in lowered predictability as well as increased compliance obligations. As risk mitigation actions, we have identified simplifying legal structures, seeking strategic clearance from tax authorities, improved transparency, and technical solutions for compliance purposes. We have also identified, that Fortum as a shareholder is, due to new requirements set in Finnish CFC legislation (so called Controlled Foreign Company law), unable to comply with all the new tax compliance rules on reporting CFC income.

This applies to the associated companies and joint ventures in which Fortum has, due to other pre-emptory legislation, limited access to the information needed to comply with these rules. Fortum has discussed this issue with Finnish tax authorities and is acting jointly with them to find a reasonable solution to the problem.

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

Compliance – We have a consistent compliance process to ensure that regulations are followed in all parts of our operations and that the correct amount of tax is paid at the right time in the countries in which we operate. We respect existing regulations, such as market-based pricing of internal transactions (the arm’s length principle). In unclear cases we discuss with tax authorities or seek advice from experts to clarify interpretations. We pay special attention to the accuracy and

transparency of our tax returns, and we discuss our positions with tax authorities.

Business structure – We will only use business structures that are driven by commercial considerations, are aligned with business 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. 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 located in EU countries, in countries where the operating environment is the most predictable. Our Finnish operations are owned through the parent company, our Swedish operations by our Swedish holding company and our operations in other countries mainly by our Dutch and Irish holding companies. The taxes are, however, paid in the country where the revenue is generated independently of the ownership structure.

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.

Relationship with others – 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 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.

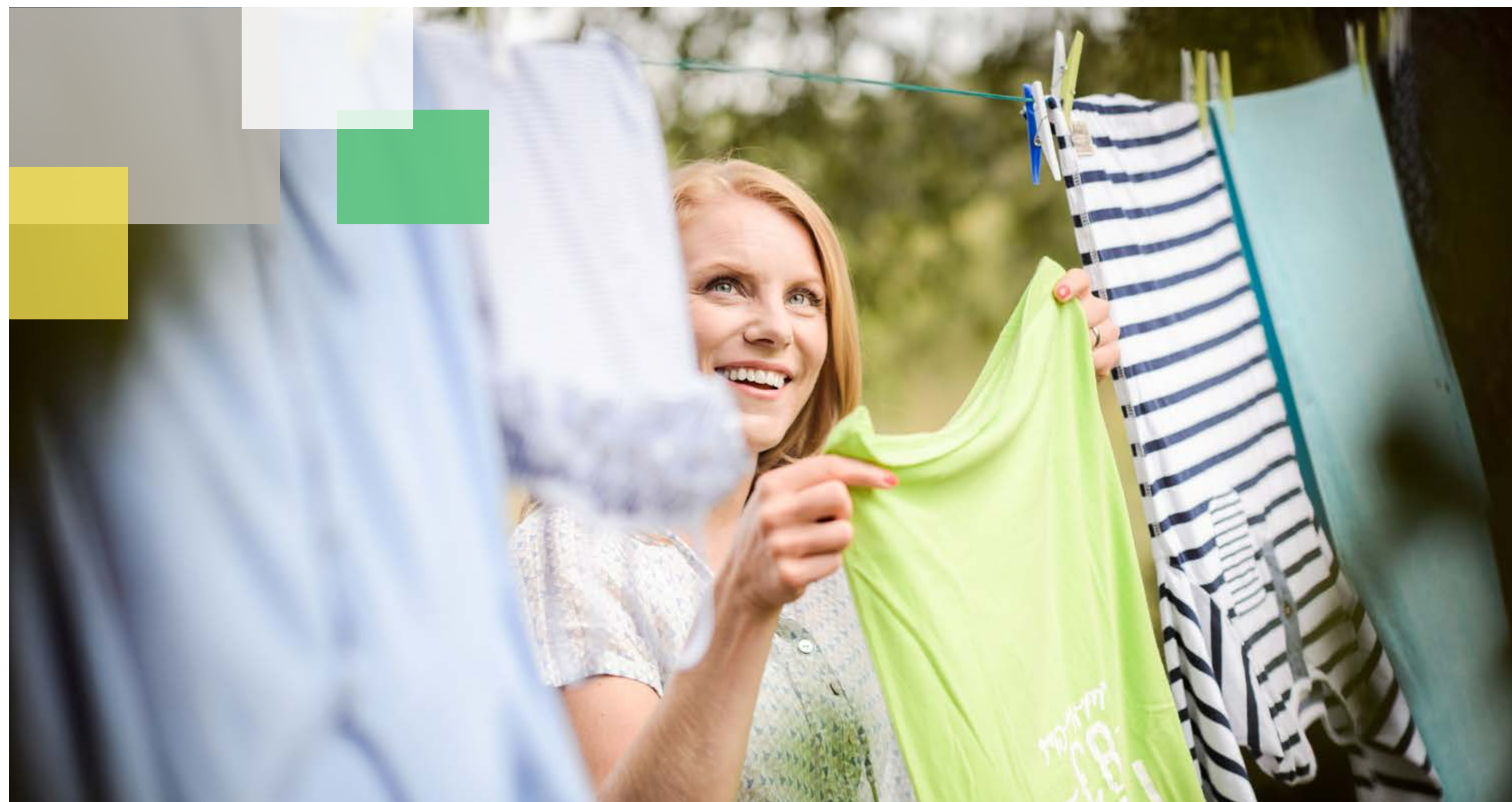
We strive for effective collaboration with authorities to clarify existing rules, so that we can respond to potential challenges in a timely manner and avoid surprises.

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.

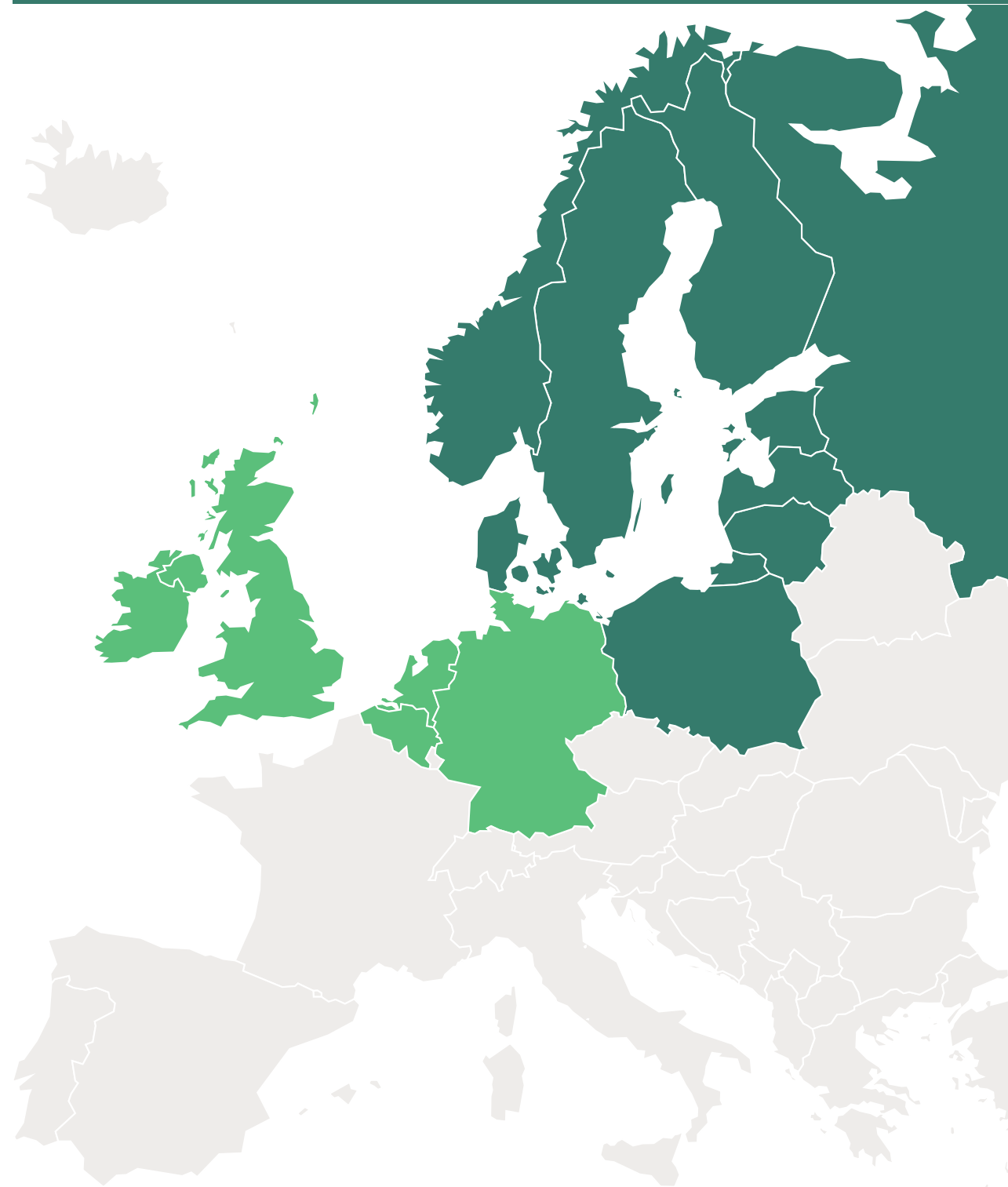
We report our tax position transparently as a part of our financial reporting. Our tax report includes information about our business, country by country information concerning our total tax position as well

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 and support to operations. In 2018 the main targets were support to the Uniper transaction, development of risk identification and accounting related tax issues. Bonuses are not connected to tax borne nor taxes collected.



Case | Acquisitions and ownership restructuring



■ Fortum's main production countries in 2018: Finland, Sweden, Denmark, Russia, Poland, Norway, Estonia, Lithuania and Latvia

■ Other main Fortum countries: India, Ireland, Germany, the Netherlands, Great Britain and Belgium

Within Fortum Group, there are a number of active holding and finance companies. The purpose of these companies is to protect the parent company from financial risks concerning investments in subsidiaries and operations and to maintain Fortum Oyj's capability to fulfil its dividend policy.

In June 2018, Fortum settled its voluntary Public Takeover Offer (PTO) for the outstanding shares of Uniper SE. In the PTO, Fortum acquired altogether 47.12% of the share capital and the voting rights of Uniper SE. This acquisition is the largest acquisition for Fortum in its history. Due to the size of this acquisition, special attention to organise the acquisition and to manage the risks concerning this investment were crucial. The holding and financing set up of this acquisition was crucial in this sense. By owning shares through holding companies these risks can be shielded efficiently from the parent company, Fortum Oyj. Simultaneously tax exemption of dividend income can be maintained. By owning Uniper shares through Irish and German holding companies risk mitigation and an efficient dividend route to Fortum Oyj could be reached.

An example illustrating shielding risk from Fortum Oyj is the granting of debt to the Irish and German holding companies. This resulted in an improved financial position for Fortum Oyj. Both the interests as well as equity levels have been set at arm's length level. More detailed information is available in [▶ the public tender offer documentation](#).

As in other material investments, tax issues were taken up in the decision process by the management team and board as one part of the investment decision.

Why do you have separate financing and holding companies? Why is Fortum Oyj not financing and owning operations directly from the parent company Fortum Oyj?

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 in holding and finance companies.

How are Fortum finance entities taxed?

Each financing company is taxed on its profits from financing operations based on normal local standards and rules. Interest income is taxable income in our finance companies. Netherlands taxes profits at 25% and Ireland at 12.5%. Financing companies distribute part of their profits to Fortum Oyj.

Why does Fortum have a finance company in Ireland as you don't have any other operations there?

Ireland has stable and predictable legislation concerning financing and holding operations. Ireland also offers a favourable statutory tax rate of 12.5%.

How are financing operations managed?

Each finance company has its own local personnel capable of executing financing operations. 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.

Why was Uniper acquired through Ireland?

Owning Uniper through Ireland is effective risk mitigation as financing costs and risk on write downs are in practical terms primarily in Fortum Finance Ireland DAC, not in Fortum Oyj. The selected set up is also tax efficient ensuring shareholder value. As Fortum Oyj's profit is higher and risks lower, Fortum Oyj can execute safely its dividend policy. Tax treatment of dividend is though neutral independently how Uniper would be owned.

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 in balance sheet for further information.

The effective income tax rate according to the income statement was 17.5% (2017: 20.6%). 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.

Income tax expense

EUR million	2018	%	2017	%	2016	%
Profit before tax	1,040		1,111		595	
Profits from associated companies and joint ventures	-38		-148		-131	
Tax exempt capital gains or losses	-100		-323		-13	
Profit before income tax decreased by profits from associated companies and joint ventures and by tax exempt capital gains or losses	901		641		451	
Income tax at nominal rate	-180	20.0%	-128	20.0%	-90	20.0%
Differences in tax rates and regulations	2	-0.2%	21	-3.2%	21	-4.6%
Income not subject to tax	1	-0.1%	0	-0.0%	0	-
Expenses not deductible for tax purposes	-13	1.5%	-3	0.4%	-5	1.1%
Changes in tax valuation allowance related to not recognised tax losses	10	-1.1%	-2	0.2%	-6	1.4%
Adjustments recognised for taxes of prior periods	0	-	-2	0.4%	-2	0.4%
Taxes related to dividend distributions	-14	1.6%	-10	1.6%	-8	1.8%
Other items	-3	0.3%	3	-0.5%	0	0.0%
Comparable effective income tax rate	-198	22.0%	-121	18.8%	-90	20.0%
Tax rate changes	17		6		0	
Other major one time tax effects	0		-115		0	
Income tax expense	-181		-229		-90	

Key tax indicators, %

	2018	2017	2016
Effective income tax rate	17.5%	20.6%	15.2%
Weighted applicable tax rate	19.4%	21.7%	20.2%
Comparable effective income tax rate	22.0%	18.8%	20.0%
Total tax rate	24.0%	32.5%	40.0%
Comparable total tax rate	27.0%	48.1%	47.5%

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 2018 was 22.0% (2017: 18.8%). 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 in 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 2018	Change 2018	31 Dec 2018
Intangible assets	-101	-5	-106
Property, plant and equipment	-806	18	-788
Pension obligations	21	-2	20
Provisions	7	-22	-15
Derivative financial instruments	35	133	169
Tax losses and tax credits carry-forward	116	-46	70
Other	-20	19	-1
Net deferred tax liability	-747	96	-651

The change in deferred taxes in 2018 is mainly related to the change in derivative financial instruments through other comprehensive income. The deferred tax related to tax loss carry-forwards decreased mainly because of the use of losses carry-forwards in Russia and Sweden.



Case | Tax losses and timing of income taxes paid

If a company's income is less than costs, it makes tax losses that cannot be utilised in the period in which they arise. The loss may be carried forward and used to offset taxable profits in the future. A concrete example of tax losses is the Dutch financing operations which were loss-making in 2017 due to lower interest margins and a one-off realisation of financial risks in its loan portfolio; this gave rise to significant losses that will only be utilised once the Dutch operations return to profit.

As taxes are not repaid in the case of losses, losses create a receivable for the company. This receivable is identified as a deferred tax asset (or reduction of deferred tax liability) in the balance sheet. In years in which the tax loss is utilised, the company will have taxable profits, but will pay no tax, as the losses from previous years are used to offset the taxable profits arising in the current year. The tax contribution of Fortum with its capital intensive businesses should be considered over a longer period of years rather than over one year.

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

In line with the 2018 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 has 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		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Taxes borne																		
Corporate income tax	8	29	21	3	113	1	38	11	3	6	9	4	2	1	1	16	1	0
Production taxes ¹⁾	49	51	54	6	48	83	2	2	2	0	1	1	0	0	0	0	0	0
Employment taxes	1	1	3	14	12	8	3	4	3	1	1	1	1	1	1	5	9	0
Taxes on property	14	15	23	56	73	109	32	20	15	6	6	6	0	0	0	2	2	0
Cost of indirect taxes	2	3	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0
Total taxes borne	73	98	101	78	246	201	75	38	23	13	17	12	3	3	2	23	12	0
Assets used in operations ²⁾	4,589	3,882	3,958	4,202	4,304	4,341	2,408	2,812	2,967	645	559	513	195	193	196	1,622	1,533	27
Interest bearing loan receivables ^{2) 3)}	2,932	549	522	742	779	860	0	0	0	13	3	2	0	0	0	1	28	0
Number of employees	2,238	2,165	2,029	981	968	724	2,941	3,494	3,745	754	827	894	203	207	201	667	654	43
Effective income tax rate	22.7%	23.4%	34.5%	19.3%	61.3%	-20.9%	18.7%	20.1%	19.1%	37.9%	71.7%	15.0%	16.9%	13.7%	28.1%	5.2%	-0.7%	0.0%
Total tax rate	41.0%	67.6%	72.6%	16.6%	66.0%	81.8%	25.3%	12.7%	10.5%	57.6%	88.4%	34.8%	11.7%	11.9%	18.2%	51.5%	3.0%	0.8%
Taxes collected																		
Net VAT	14	1	13	5	7	0	87	76	48	0	0	18	5	5	5	102	56	0
Sales VAT	459	323	351	310	325	292	281	290	240	154	129	105	20	19	18	238	109	12
VAT on Purchases	444	322	338	305	317	309	194	215	192	155	131	87	15	13	13	135	52	14
Payroll taxes	44	44	42	17	18	12	7	8	7	4	3	3	2	2	2	15	7	1
Excise taxes	1	1	4	24	208	152	0	0	0	1	3	2	0	0	0	0	0	0
Withholding taxes	54	55	53	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0
Total taxes collected	113	101	112	46	233	165	94	84	55	5	7	23	7	8	7	117	64	1

1) Taxes on property in Finland 2016 include EUR 9 million asset transfer tax (tax on transfer of shares and real estate)

2) Group internal eliminations between the countries are not included

3) Including cash collaterals

EUR million	Denmark			The Netherlands			Ireland			Belgium			Germany			Other countries		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Taxes borne																		
Corporate income tax	2	2	1	8	-8	8	9	10	4	4	18	6	0	0	0	0	1	0
Production taxes ¹⁾	6	6	1	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	2
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	1	0	0	0	0	0	0	2	0	0	0	0	0
Total taxes borne	8	8	2	7	-8	9	9	10	4	4	19	6	2	1	1	2	2	2
Assets used in operations ²⁾	119	125	131	14	16	8	53	68	0	0	0	0	24	0	0	203	384	293
Interest bearing loan receivables ^{2) 3)}	0	0	11	6,423	6,715	9,442	10,445	9,558	9,827	1,040	1,573	2,069	0	0	6	31	44	45
Number of employees	178	178	181	8	8	10	4	3	2	2	2	2	56	35	35	254	244	242
Effective income tax rate	54.5%	24.4%	-19.1%	73.9%	18.9%	46.7%	7.6%	13.0%	1.6%	-12.5%	13.2%	24.8%	5.2%	36.1%	30.9%	19.8%	N/A	208.9%
Total tax rate	117.0%	99.3%	74.5%	60.1%	5.9%	31.8%	6.2%	9.3%	3.8%	13.3%	13.6%	9.8%	N/A	59.7%	90.2%	20.9%	109.2%	51.4%
Taxes collected																		
Net VAT	5	7	2	0	0	0	0	0	0	0	0	0	1	1	1	6	5	7
Sales VAT	12	13	5	2	3	0	1	0	0	0	0	0	1	1	1	15	12	14
VAT on Purchases	8	6	2	2	3	1	1	12	0	0	0	0	0	0	0	9	7	7
Payroll taxes	4	8	1	0	0	0	0	0	0	0	0	0	0	0	0	3	3	2
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	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes collected	9	14	3	0	1	0	0	0	0	0	0	0	1	1	1	10	8	9

1) Taxes on property in Finland 2016 include EUR 9 million asset transfer tax (tax on transfer of shares and real estate)

2) Group internal eliminations between the countries are not included

3) Including cash collaterals

Comments by country

Finland: Both profit and taxable income on operations remain on low level for 2018 and consequently low amounts of corporate income tax. The taxable income was negatively impacted among others mainly by the volatility in timing differences and the one-time effect from the default of a Nasdaq Commodities' default fund member.

Sweden: Profitability has improved in Sweden during 2018. The property and production taxes were reduced based on Swedish parliament's decision to gradually reduce these taxes in 2017, which positively impacts both profitability and total tax rate in 2018.

Russia: Taxes on property were increased by tax rate changes and extension of tax base. For 2018, also movable property is included in tax base of property taxes.

Poland: Non-deductible costs increased due to new income tax legislation. This leads to high tax rates.

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

Norway: Profitability has improved in Norway during 2018 resulting in an increase in 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 2018 include withholding tax paid at their source on dividends received. Capital gains and dividends are tax exempted meanwhile financing related income is taxed normally. The Dutch financing operations were loss-making in 2017, but making a low profit in 2018. The loss may be carried forward and used to offset taxable profits in the future.

Ireland: Large one-time tax-free capital gain from the sale of 10% stake in Hafslund Produksjon AS decreased the effective tax rate. Financing related income is included normally in taxable income taxed at 12.5%.

Belgium: In 2018 the nominal tax rate is lowered and the so called notional interest deduction has been abolished.

Germany: Fortum acquired altogether 49.99% of Uniper SE in 2018. The impact of Uniper's result will be 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.

Other: Operations in Luxembourg were closed in 2018.

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 2018 we paid EUR 43 (2017: 43) million in employer's statutory pension contributions.

We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2019 Annual General Meeting that a dividend of EUR 977 (2018: 977) million be paid for 2018. The Finnish State's share of this would be about EUR 496 (496) million.

Ongoing tax appeals

Fortum had tax audits ongoing during 2018. 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 less clear interpretations and a lack of advance rulings on tax treatment, results

in an increased likelihood of tax assessments and costly controversy processes. This has especially occurred in Sweden in the last 10 years.

In Sweden, Fortum has received a positive decision from the Administrative Court of Appeal in Stockholm in October 2018 relating to the income tax assessment for the year 2013. The decision was favourable to Fortum. The Administrative Court of Appeal confirmed that Fortum had sufficient business reasons for the loans and accepted Fortum's appeal. The cases regarding the year 2014 and the year 2015 followed with positive decision from the Administrative Court in November 2018.

Contrary to this decision and regarding the same financing needs in Sweden, the Swedish Supreme Administrative Court decided in March 2018 not to grant leave to appeal to Fortum with respect to the interest deduction cases relating to the years 2009–2012. The unfavourable decision of the Administrative Court of Appeal from June 2017 therefore remains in force.

Sweden has been an example of how lack of clarity in tax legislation and changes in the interpretation of tax rules can result in a long delay between a transaction taking place and its tax treatment being agreed with the relevant tax authority.

Fortum has received a negative decision from the Administrative Court of Appeal in Stockholm in June 2018 relating to hydro property tax for years 2009–2014 in Sweden. According to the decision the property tax rate on hydro power (that is higher than the tax on other types of electricity production) does not comprise unlawful state aid (i.e. the tax law is against EU legislation) and the property tax shall not be set to 0.5 percent of the tax assessment value. The disputed amount for the five years totalled EUR 50 million. The decision is contrary to the Administrative Court's earlier decision. In November 2018, Fortum's leave to appeal to the Supreme Administrative Court was denied.

In Belgium, based on legal analyses, no provision has been accounted for in the financial statements relating to 2008–2012 tax audits.

See **▶ Note 37** Legal actions and official proceedings for more information.



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 314 thousand in 2018.

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 Ireland, the Netherlands and Belgium. 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 rules and normal tax rates: the Netherlands 25%, Belgium 29.58% and Ireland 12.5%. Fortum's subsidiary companies are listed by country in [▶ Note 40](#), Subsidiaries by segment, of the consolidated 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).