

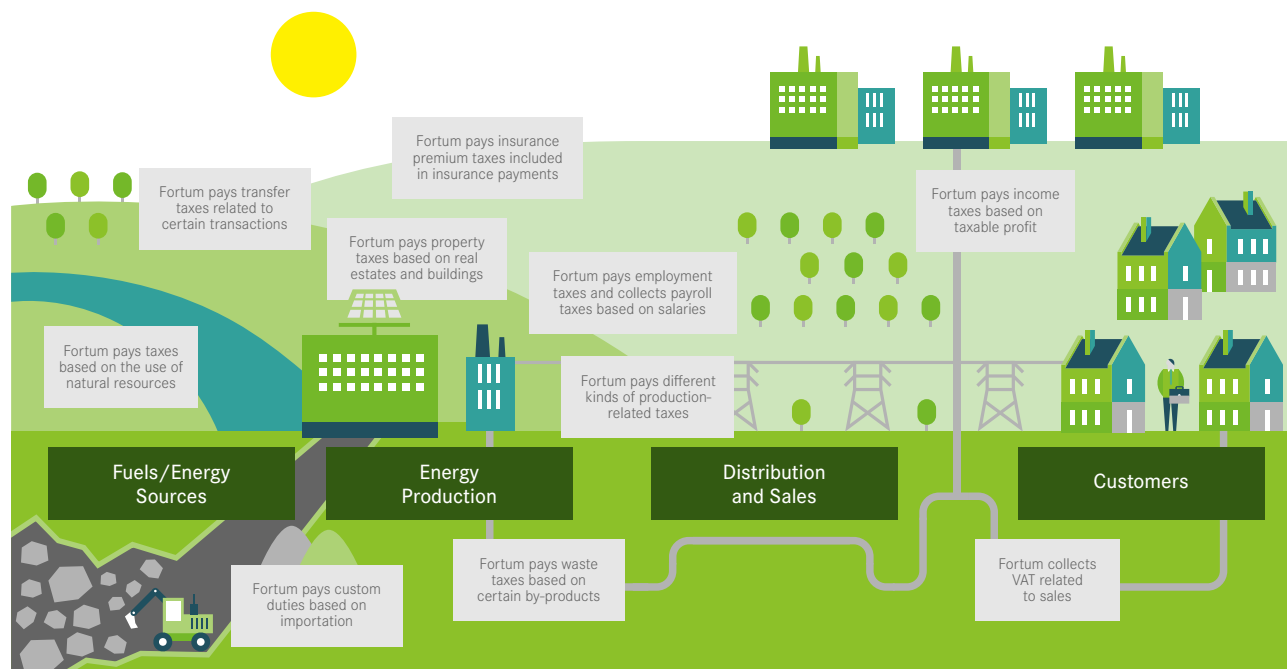
A nighttime photograph of a cityscape, likely Stockholm, featuring a bridge over water in the foreground and a prominent church spire in the background under a twilight sky.

# Tax footprint 2015

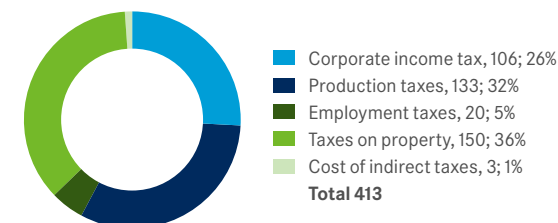
# Fortum as a tax payer

The total taxes we pay have a significant impact in our operating countries and in local communities. In addition to income taxes, we pay taxes related to production, employment and property. In many of our operating countries, these non-income-based taxes already account for a majority of the taxes borne. According to our policy, we pay the taxes in the country, where the revenue is generated, and in accordance with local legislation and regulations.

## Taxes cover the entire value chain



Taxes borne 2015, EUR million and %



For 2015, about half of Fortum's taxes borne (EUR 201 million of a total of EUR 413 million) relate to real estate tax and nuclear capacity tax in Sweden.

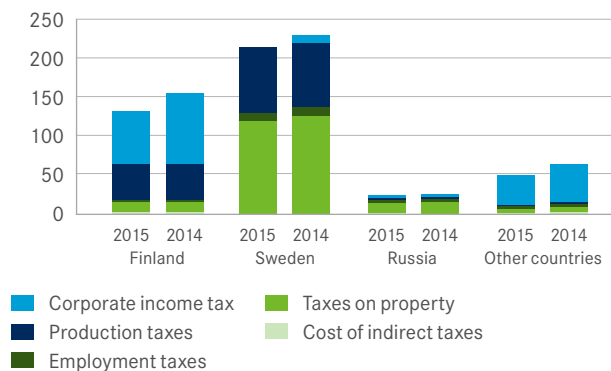
Taxation is always a consequence of business operations and is therefore always based on business decisions and needs. It is important that we can efficiently operate and finance our businesses, carry out investments and manage financing risks in all countries where we operate. At the same time, we want to guarantee that taxes are paid on time in each country of operations.

In line with our tax policy, our aim is to identify simple and cost-efficient solutions to manage taxes in a sustainable manner. The goal is to enable continued investments, flexible and efficient operations, as well as to safeguard returns to our shareholders.

Fortum pays and collects different taxes over the long lifetime of its investments. Fortum's total tax contribution in 2015 was EUR 765 million of which EUR 413 million related to taxes borne and EUR 352 million to taxes collected. Taxes borne include corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property and 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.

## Taxes borne by country, EUR million



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. With the currently low electricity prices, these non-profit based taxes account for a more significant share of costs in operations than before. The Fortum Group was in a loss position in 2015, but it still had a significant total tax burden.

In Sweden for example, our business did not show profit due to the low power prices and the negative impact on the net profit arising from the majority owner E.ON's decision to close the co-owned OKG nuclear units 1 and 2. Nevertheless, Fortum's total taxes borne remained at a high level.

## Key tax indicators, %

	2015	2014	2013
Effective income tax rate	25.4	11.6	14.3
Weighted applicable tax rate	20.2	21.0	22.4
Comparable effective income tax rate	23.5	18.0	17.8
<b>Total tax rate</b>	<b>N/A</b>	<b>30.0</b>	<b>35.1</b>
Comparable total tax rate	N/A	41.9	41.2

The effective income tax rate and comparable effective income tax rate reflect the income tax expense recognised in the income statement including change in deferred taxes. When the pre-

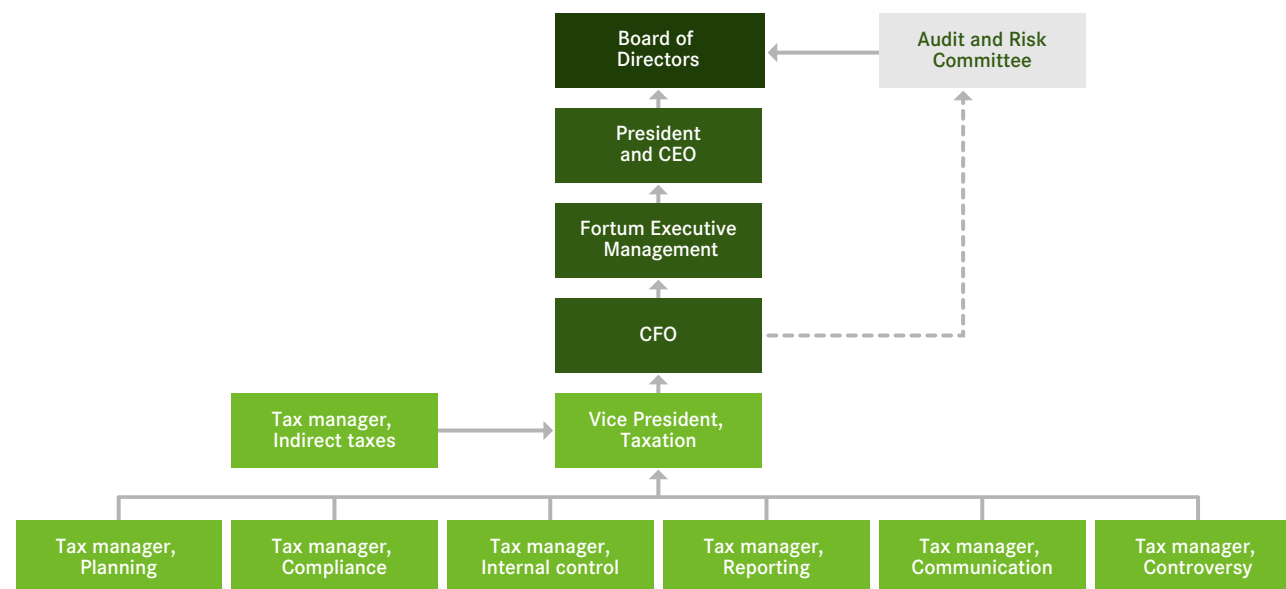
tax profit is close to null or negative, the total tax rate does not illustrate the tax contribution in an informative way. Therefore we use "not applicable" for total tax rate in 2015.

## Tax policy and tax management

According to our tax policy, tax management supports businesses and aims to improve business opportunities. Predictability and transparency of both national and local legislation as well as interpretations and decisions by tax authorities on all levels are critical to us as our operations are capital intensive and every investment has a long lifetime. We respect existing regulations, such as marked-based pricing in internal transactions (the arm's length principle). Based on this policy, we pay taxes in the country where our business operations are located and where the value added is generated, in accordance with the local regulations.

Our Corporate Tax Team manages and mitigates tax-related uncertainties by creating predictability for business operations in all our operating countries. In unclear cases, we seek preliminary rulings from tax authorities, we pay special attention to tax declarations and transfer pricing documentation, and we protect our rights through legal measures, if needed. 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.

The Corporate Tax Team is also responsible for instructing the business units and providing them a control framework and risk assessments in all taxation-related matters. The tax team reports to the CFO. Furthermore, tax issues, such as tax strategy, legal processes and risks are followed on a regular basis in the Audit and Risk Committee of Fortum's Board of Directors. The chart below presents the different tax functions within the Corporate Tax Team.



## Fortum's tax reporting

We have published our tax footprint as part of our annual reporting since 2012. As the Finnish state is the majority shareholder in Fortum, we apply in our tax reporting the 2014 guidelines of the Ownership Steering Department of the Prime Minister's Office for state-majority-owned companies.

Open, transparent and consistent communications guide also our tax footprint reporting. To create the best possible understanding of us as a tax payer and of the impact of taxes on our business and on the societies we operate in, we report both our effective tax rate and total tax rate. In line with the 2014 tax reporting guidelines to the state-owned companies in Finland, we apply the principle of materiality in our tax footprint reporting, i.e. we publish tax information on the most significant countries, and more detailed information about taxation in Finland, Sweden and Russia. Furthermore, we publish information about our companies registered in countries that are considered by the EU, the OECD and the Global Forum to be tax havens. We disclose all significant tax-related decisions concerning, for example, tax audits and appeals.

Fortum's auditor Authorised Public Accountant Deloitte & Touche Oy audits the tax reporting that is presented as a part of Fortum's financial statements.

In Finland and Sweden, our biggest production countries, we are big tax payers. In 2015, the taxes borne in Finland were EUR 130 (2014: 152) million and in Sweden EUR 210 (2014: 226) million.

Fortum completed the divestment of its electricity distribution business in June 2015. As there were no electricity distribution operations left, Distribution segment has been treated as discontinued operations. The information presented in this report is for continuing operations and comparative period information for 2014 has been restated accordingly. See further information in the Financial Statements note 14, Discontinued operations.

### Demanding tax environment in 2015

- Record-low electricity prices combined with increasing non-profit related taxes
- Real estate and production taxes became one of the biggest cost items for power production

- Cost increased due to the heavy compliance burden and changing interpretations of tax laws by tax authorities

The staggering global macroeconomy and the subsequent crises in public funding have urged many of Fortum's operating countries to increase their energy sector taxation, as part of the wider shift from income taxes to other taxes. While the corporate income tax rates have decreased, for example, in Finland and Sweden, real-estate taxes and production-related taxes are significant.

The demanding tax environment together with the decreasing electricity prices are eroding the energy companies' competitiveness and ability to invest in the existing and new generation. This is particularly the case with nuclear and hydro energy production in Sweden.

Tax avoidance practices of some multinational companies received negative publicity, and the debate about tax management has intensified in many countries. Governments and organisations, such as the OECD, have focused on preventing aggressive income tax planning and non-taxation. One of the key initiatives is OECD's BEPS (base erosion and profit shifting) project, which aims to provide governments with new measures

### Taxation erodes the competitiveness of power production in Sweden

Today, the taxation of both hydropower and nuclear power in Sweden is significantly higher than that of other fossil or renewable energy production forms. With the current historically low energy spot prices, the tough taxation can make new investments – even into existing hydro or nuclear power plants – virtually impossible.

In hydropower, the real estate tax is based on the power production volumes and price for a past 6-year period – not on the actual technical value of the property. For example, the current real-estate taxes are determined by the production volumes and prices from the 2006–2011 period. Consequently,

the tax is more like a progressive income tax that is based on a higher income made years ago.

Currently, the real-estate tax rate for hydro-power plants in Sweden is at 2.8%. With the current low electricity spot prices, the market price of power per MWh has at times been lower than the tax per MWh. At the same time, the value of the real estate has not changed. Real estate taxes for hydro power plants may be up to 10 to 12 times higher than for other generation forms, such as wind and solar.

The tax burden for nuclear power production has also been increasing: the Swedish Government decided to increase the tax on installed nuclear capacity by 17% as of August 2015. The impact

of the increase on Fortum is approximately EUR 15 million annually. Nuclear power is the only generation technology subject to such a specific capacity tax.

In Sweden, currently the total tax contribution in relation to gross value added for Fortum is approximately twice as high as for the whole country.

The total tax burden for a country or a company can be illustrated by comparing the total tax contribution to the economic activity, measured by gross value added. Gross value added for Fortum measures the gross economic value generated by the company. It is measured as EBITDA + wages and other employee benefits.

and rules for international taxation. BEPS implementation will begin 2017. Although Fortum agrees with the goals of the BEPS project, we recognise that it will significantly increase the compliance costs of multinational companies.

One concerning phenomenon is the variable interpretations of tax laws by the tax authorities, which can lead to double or even triple taxation. To avoid confusion and to improve predictability, the tax authorities' processes and actions should be transparent and clear. This would make it easier to provide the required information on time – and also decrease the currently high controversy costs.

## Risk assessment in 2015

We regularly assess the uncertainties related to taxation in our business and report them annually to the Board of Directors. The risk analysis done in 2015 indicated that, in particular, the new compliance burden around transfer pricing as well as the internal controls need more focus in the future. To mitigate risks, we aim to make tax issues and especially compliance issues as an integral part of the business processes, improve communication around taxes and to raise management's awareness of them.

## Legal structure and intra-group financing

Fortum's legal structure is designed to mitigate various financial risks, 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. Our financing and holding operations are located in the EU area, in countries where the operating environment is predictable. This means, for example, the transparency in tax authorities' decisions and interpretations in general, as well as fast processes to provide binding preliminary rulings in specific unclear cases.

Our Finnish operations are held by the parent company, our Swedish operations by our Swedish holding company and our operations in other countries mainly by our Dutch holding company. The taxes are, however, paid in the country where the revenue is generated. We are constantly developing our legal structure. In 2015, we decreased the number of subsidiaries and initiated a plan to close our Luxembourg financing entities.

### Internal financing in support of business

For an international company operating in a capital-intensive sector, it is important that we can effectively operate and finance our operations and make investments, such as new power plant construction projects, in different countries.

Fortum has centralised external financing to the parent company. This makes it possible to save on interest expenses and to simplify and save in collateral arrangements. Centralised external financing also improves the parent company's creditworthiness and thereby lowers the Group's financing costs.

The Group's Finance functions and entities are responsible for arranging internal financing for our companies in various operating countries. The financing entities manage their operations with their own resources and are taxed according to local rules.

The terms for intra-Group loans are determined on market terms. The interest rate on intra-Group loans corresponds to external interest rate levels in the markets where Fortum has business, and it varies over time following the changes in the external financial market.

Related to our financing activities, we pay the appropriate taxes in all our operating countries in line with OECD transfer pricing guidelines and local rules. The purpose of transfer pricing rules is to ensure the correct allocation of taxable income in different countries.



# Taxes in the notes of the financial statements

Fortum publishes tax information also as part of the financial statements. Income taxes and deferred taxes in the balance sheet are specified and explained in the tax notes of the financial statements. Below is presented the most relevant parts of the tax notes.

The table below explains the difference between the theoretical enacted tax rate in Finland compared to the tax rate on the income statement.

## Income taxes expense

EUR million	2015	%	2014	%
Profit before tax	-305		1,232	
Tax calculated at nominal Finnish tax rate	61	20.0	-246	20.0
Differences in tax rates and regulations	23	7.6	12	-0.9
Income not subject to tax	1	0.2	0	0.0
Tax exempt capital gains	2	0.7	64	-5.2
Expenses not deductible for tax purposes	-2	-0.6	-2	0.1
Share of profit of associated companies and joint ventures	5	1.7	33	-2.7
Taxes related to dividend distributions	-7	-2.2	-3	0.3
Changes in tax valuation allowance related to not recognised tax losses	-1	-0.4	0	0.0
Other items	-1	-0.4	5	-0.4
Adjustments recognised for taxes of prior periods	-3	-1.1	-6	0.5
<b>Income tax expense</b>	<b>78</b>	<b>25.4</b>	<b>-143</b>	<b>11.6</b>

The effective income tax rate according to the income statement was 25.4% (11.6%). The tax rate used in the income statement is always impacted by the fact that the share of profits of associates and joint ventures is recorded based on Fortum's share of profits after tax. Comparable effective income tax rate for 2015, excluding the impact of share of profits of associated companies and joint ventures as well as non-taxable capital gains, was 23.5% (2014: 18.0%).

## Deferred taxes in balance sheet

EUR million	1 Jan 2015	Change	31 Dec 2015
Property, plant and equipment	-1,150	599	-551
Pension obligations	28	-17	11
Provisions	1	13	14
Derivative financial instruments	-40	-2	-42
Tax losses and tax credits carry-forward	70	76	146
Other	30	-12	18
<b>Net deferred tax liability</b>	<b>-1,061</b>	<b>658</b>	<b>-404</b>

Deferred tax assets and liabilities from acquisitions, and disposals in 2015 relate to the sale of Swedish electricity distribution business. Also during 2015 Swedish entities released a big part of the deferred tax liability related to property, plants and equipment. Additionally, deferred tax asset was recognized for the taxable loss in Sweden, which was mainly due to the write-down related to early closure of O1 and O2 nuclear units in Oskarshamn. This deferred tax asset can be used against future profits.

## Key tax indicators

Fortum has selected key indicators that reflect the nature of the industry and the related tax. Fortum's operations are capital-intensive and have a long lifetime; one of the most important key indicators for the industry is return on net assets. Our operations are not labour-intensive, nor is revenue the most relevant base for a tax indicator. Therefore we use *total taxes borne in relation to segment assets by location*. This illustrates the portion of the return on segment assets created by the company that is allocated to governments as tax.

## Total taxes borne in relation to segment assets by locations, %

	2015	2014	2013
Finland	3.8	4.6	4.0
Sweden	5.4	4.0	4.0
Russia	1.0	1.0	0.7
Other countries	7.3	8.6	6.2

## Country-by-country taxation

Fortum reports taxes borne and taxes collected for seven of its most significant countries of operation. In addition, more detailed information is provided for our biggest countries of operations, Finland, Sweden and Russia (see the previous page).

## 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 2015 we paid EUR 39 (2014: 43) million in employer's statutory pension contributions.

We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2016 Annual General Meeting that a dividend of EUR 977 million (2015: 1,155) be paid for 2015. The Finnish State's share of this would be about EUR 496 (586) million.

## Ongoing tax appeals

Fortum had several tax audits ongoing during 2015. Fortum received income tax assessments in Sweden for the years 2009-2013, in Finland regarding the year 2007 and in Belgium for the years 2008 - 2012. Fortum has appealed all assessments received. Based on legal analyses, no provision has been accounted for in the financial statements related to the tax audits.

In January 2016 Fortum received in Belgium a favorable decision from the Court of Appeal in which the Court disagreed with the tax authorities' interpretation and the tax assessment for 2008 was nullified. Fortum's appeals concerning 2009-2011 are still pending and Fortum expects the remaining years to follow the decision from the Court of Appeal for 2008.

### Total taxes borne

EUR million	Finland		Sweden		Russia		Poland		Estonia		Belgium		Netherlands		Other countries		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Corporate income tax	66	89	-1	9	3	3	2	1	2	2	13	4	19	32	1	10	106	149
Production taxes	46	45	83	82	2	2	1	1	0	0	0	0	0	0	0	1	133	131
Employment taxes	3	3	10	11	4	4	1	1	1	1	0	0	0	0	2	2	20	22
Taxes on property	13	13	118	124	13	15	5	5	0	0	0	0	0	0	0	1	150	158
Cost of indirect taxes	2	2	0	0	1	0	0	0	0	0	0	0	0	1	0	1	3	4
<b>Total taxes borne</b>	<b>130</b>	<b>152</b>	<b>210</b>	<b>226</b>	<b>23</b>	<b>24</b>	<b>10</b>	<b>8</b>	<b>3</b>	<b>3</b>	<b>13</b>	<b>4</b>	<b>20</b>	<b>33</b>	<b>4</b>	<b>15</b>	<b>413</b>	<b>464</b>
Total tax rate, %	59.9	24.9	-	82.4	11.8	13.9	43.6	35.5	30.8	14.5	11.1	6.1	26.4	24.7	5.6	6.0	-	30.0

### Total taxes collected

EUR million	Finland		Sweden		Russia		Poland		Estonia		Belgium		Netherlands		Other countries		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net VAT	15	11	0	0	22	9	9	11	5	2	0	0	0	0	9	10	61	44
Sales VAT	31	323	344	355	244	311	51	51	19	20	0	0	2	1	27	50	997	1,112
VAT on Purchases	295	311	527	378	222	303	42	40	13	18	0	0	3	1	18	40	1,121	1,091
Payroll taxes	43	44	13	16	8	9	3	3	2	2	0	0	0	0	4	5	73	78
Excise taxes	7	6	151	149	0	0	0	0	0	0	0	0	0	0	0	1	158	156
Withholding taxes	59	57	0	0	0	0	0	0	0	0	0	0	0	0	0	0	60	57
<b>Total taxes collected</b>	<b>125</b>	<b>118</b>	<b>163</b>	<b>164</b>	<b>30</b>	<b>18</b>	<b>12</b>	<b>15</b>	<b>7</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>17</b>	<b>352</b>	<b>336</b>

## Information about companies registered in countries considered to be tax havens

The EU, the OECD and the Global Forum have established a blacklist 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.

Fortum operates internationally and, therefore, our international financing operations are located in EU countries with stable operating environments and predictable taxation. Fortum has financing and leasing companies in Belgium, Holland, Luxembourg and Ireland. In the recent tax management debate, Luxembourg 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%, Luxembourg 29%, Belgium 33.99% and Ireland 12.5%). All our companies are listed by country in the Financial Statements in note 43, Subsidiaries by segment.

# 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 in respect of taxable profits of an accounting period, as defined in the International Financial Reporting Standard IAS12.
Deferred tax	The corporate income tax due in respect of temporary differences between accounting values and tax bases, as defined in the International Financial Reporting Standard IAS12.
Effective income tax rate	$\frac{\text{Income tax expense}}{\text{Profit before income tax}}$
Comparable effective income tax rate	$\frac{\text{Income tax expense} - \text{effects from tax rate changes}}{\text{Profit before income tax decreased by profits from associated companies and joint ventures and tax exempt capital gains or losses}}$
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 a 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, value added 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 in respect of 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.
Tax 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	$\frac{\text{Taxes borne}}{\text{Profit before income tax increased by taxes borne in operating profit}}$
Comparable total tax rate	$\frac{\text{Taxes borne}}{\text{Profit before income tax increased by taxes borne in operating profit and decreased by profits from associated companies and joint ventures and by tax exempt capital gains or losses}}$
Taxes borne in relation to segment assets by location	$\frac{\text{Taxes borne by location}}{\text{Segment assets by location}}$
Other payments to the public sector	Other compulsory tax-like payments to the public sector, payments that are not compensation for goods or services received.