Tax Footprint

2017

Fortum as a tax payer 2017

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

As set out in our tax policy below, 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.

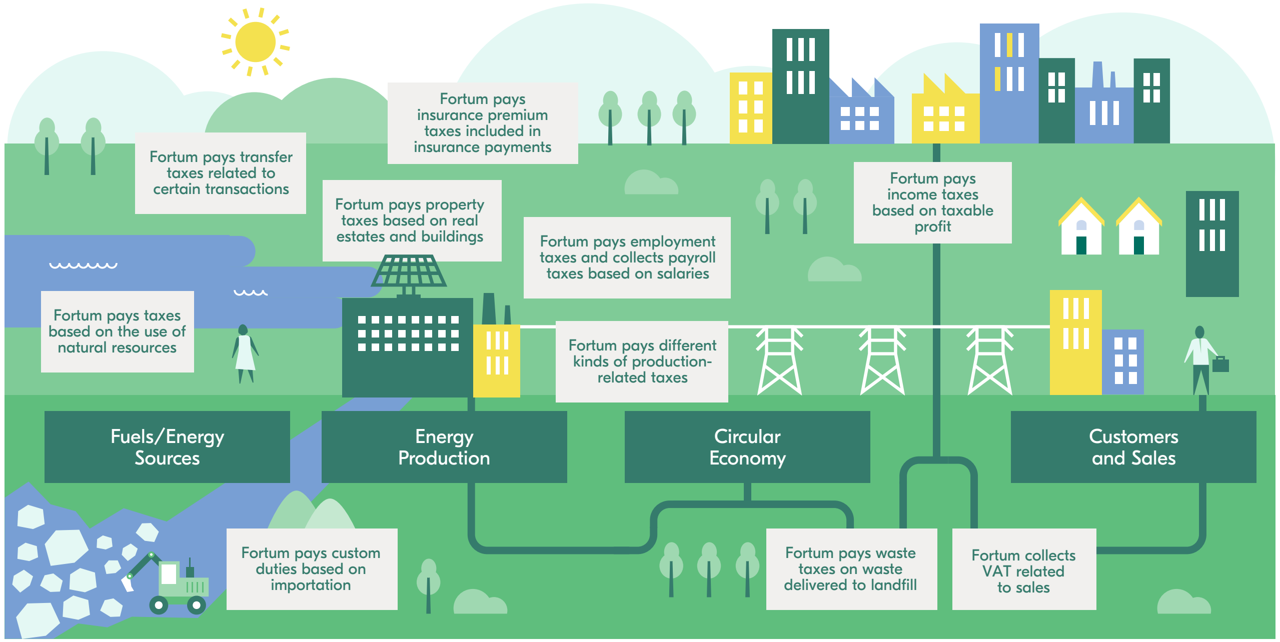
Taxation is always a consequence of business operations and is therefore always based on business decisions and needs. For us this means that there will always be tax impacts arising from the long lifetimes of our investments, from price levels which are set locally and from the efficiency of our financing. 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 2017, it was EUR 966 (2016: 741) million of which EUR 445 (2016: 365) million related to taxes borne and EUR 521 (2016: 376) million to taxes collected. Finland, Sweden and Russia are our biggest production countries. In 2017, the taxes borne in Finland were EUR 98 (2016: 101) million, in Sweden EUR 246 (2016: 201) million and in Russia EUR 38 (2016: 23) million.

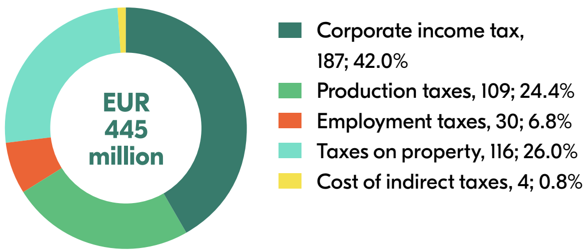
Taxes borne include corporate income taxes (excluding deferred taxes), production taxes, employment taxes, taxes on property, and the cost of indirect taxes. Taxes collected include VAT, payroll taxes, excise taxes and withholding taxes.

While income taxes are paid on taxable profit, Fortum also pays other taxes based on, for example, fuel usage, waste, production capacity, and the value of real estate. As a major part of our taxes are not based on profits, our total taxes borne in relation to our accounting profit (total tax rate) will increase if the profit level decreases. With the current low electricity prices, these

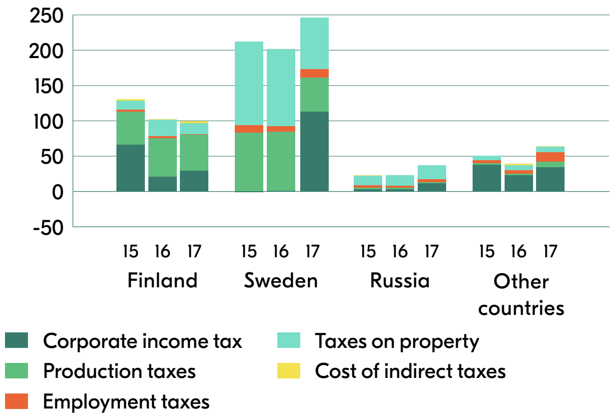
Taxes cover the entire value chain



Taxes borne 2017, EUR million and %



Taxes borne by country, EUR million



non-profit-based taxes account for a more significant share of costs of operations than before. Such a large tax burden, which is unrelated to profitability, can be a significant challenge to run an economically viable business.

Tax environment in 2017

The operating environment has been affected by the global macro economic problems and the related challenges to the public finances. In many of the our operating countries, taxes on the energy sector have been increasing in the past years. Combined with low electricity prices, high taxes threaten the profitability of utilities, including Fortum.

With this background, 2017 can partly be seen as a turning point for the energy sector. While some countries continued to increase tax rates especially for production and property taxes, Finland did not implement plans to increase real estate tax rate on power plants and Sweden decided on a staged alignment of the real estate tax rates for hydro operations with real estate tax rates for other electricity producers and industrial real estate by 2020. At the same time the capacity tax on nuclear power was completely abolished in Sweden from the beginning of 2018. The approach taken in Finland and Sweden was welcome as it makes the tax burden sustainable again.

Intense political interest in taxes and especially the focus on so-called aggressive tax planning has decreased the predictability and stability of all business operations. For example, the OECD's BEPS work, the EU Commission's anti-tax avoidance directive (ATAD), and the EU Accounting directive work are changing existing rules, policies and even fundamental aspects of taxation. In 2017, the developments in this area has been two-fold. Firstly, OECD has placed predictability high on its agenda. We appreciate this positive development and wish it to continue. Secondly, as the ATAD directive has been confirmed, which creates a minimum requirement for rules such as interest deductions, it lowers the predictability. These rules vary between countries and their impact can extend beyond combatting aggressive tax planning. Strong national interests in the area of taxation are often reflected both in the drafting of legislation and its interpretations, giving rise to further uncertainty. The EU's proposal for dispute resolution is a further positive development, but it will not tackle the matters at the heart of the uncertainty of the tax environment.

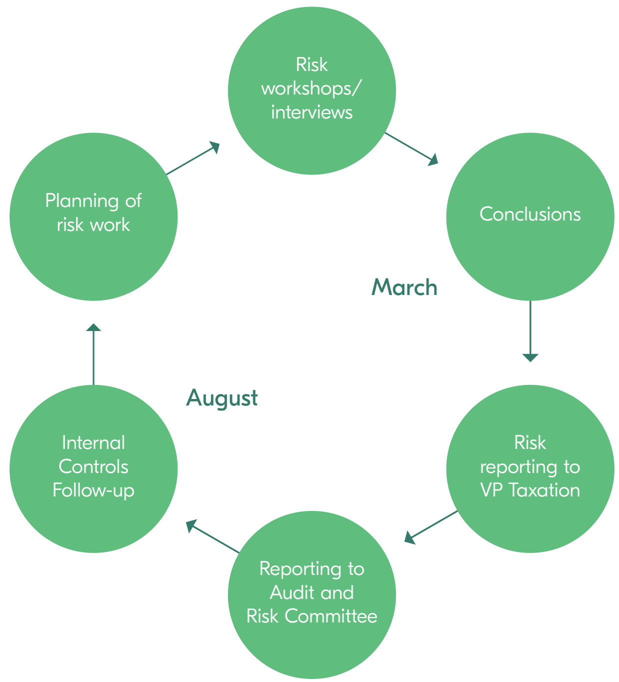
Taxes are high on the political agenda, putting pressure on governments to develop new legislation quickly, often without proper preparation and impact assessment. We are seeing hurriedly designed tax rules being in conflict with underlying fundamental legislative principles at the level of the EU and in individual Member States and we expect this to continue. For example, the Administrative Court in Stockholm made a bold decision in favour of Fortum in which it held that the real estate tax for hydro operations in Sweden created an unlawful negative state aid (i.e. the tax is in conflict with EU legislation) as it taxes the hydro power operations more heavily than other forms of power generation. The tax authorities have appealed this decision.

Fortum's approach to taxation — our tax policy

Fortum's tax policy is based on the fact that taxes should be handled as part of the business process and tax management supports the corporate strategy. Therefore, taxes are managed based on Fortum Group's operating strategy with a focus especially on the protection of the parent company's dividend distribution capability, in order to meet our dividend policy. Currently the main focus has been on growth through mergers and acquisitions including strong focus on positive cash flow. These corporate level targets also steer the tax strategy with focus on ensuring the correct taxes being paid where and when they should be. Taxes are managed through actions within the normal business processes and control points.

Tax planning is managed to support business efficiency and profitability in order to create and protect shareholder value, while respecting existing regulations. This ensures that we appropriately assess, report and pay our taxes to the tax authorities to the benefit of our stakeholders and wider society.

We always operate within the law and on the basis of being open and transparent with tax authorities in all the jurisdictions where we operate. We also follow guidelines set out by the Ownership Steering Department in the Finnish Prime Minister's Office. Predictability and transparency of both international and local legislation as well as interpretations and decisions by tax authorities on all levels are critical to us, as all our investments have



a long lifetime and our operations are capital intensive. We respect existing regulations, such as market-based pricing of internal transactions (the arm's length principle). 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.

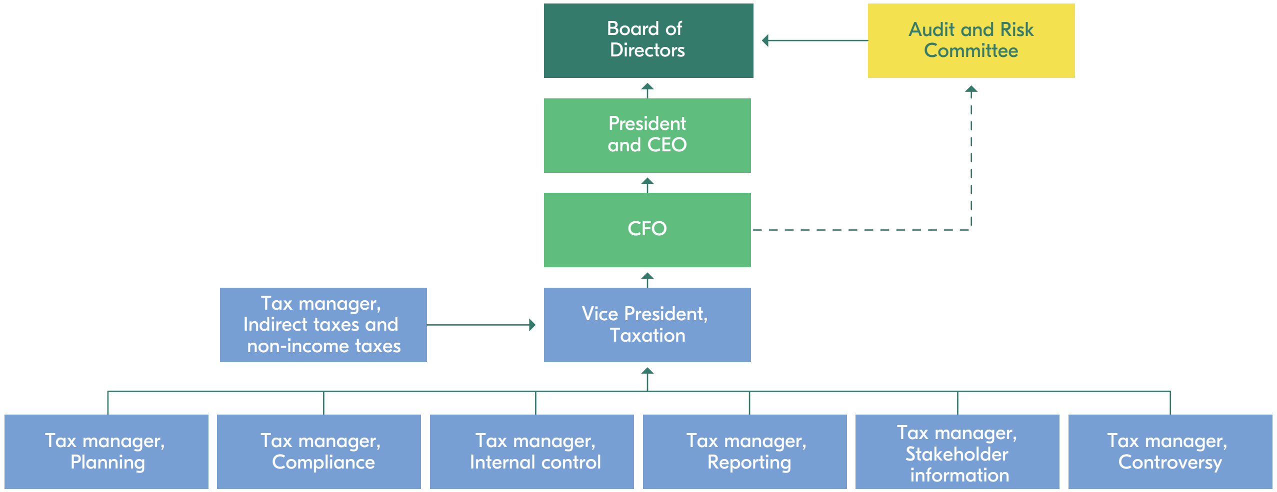
Tax risk management – During the year we regularly assess the uncertainties relating to taxation in our business. We report tax risks and how they are managed and assured annually to the Audit and Risk Committee in line with our internal calendar and risk-related work.

The risk analysis in 2017 identified particular risks that require mitigation. These included low levels of predictability due to the implementation of certain ATAD rules, developments in the Finnish real-estate tax, tax leakage on acquisitions and the late involvement of the tax department in some investment projects. To mitigate these risks, we aim to make tax issues, an integral part of our business processes, to improve communication around taxes and further develop analysis on our tax position and raise management's awareness of them.

Our Corporate Tax Team manages and mitigates tax-related uncertainties by targeting predictability in the taxes for the business operations in all our operating countries. This means that in unclear cases we discuss with tax authorities or seek advice from experts to clarify interpretations. We pay special attention to the correctness and transparency of our tax returns, and we discuss our positions with tax authorities.

Tax governance – The Vice President Taxation implements our tax approach and is responsible for ensuring that policies and procedures which support the tax approach are in place, maintained and implemented in the same manner in all countries. Furthermore, the VP Taxation is responsible for ensuring that the Corporate Tax Team has the proficiency and experience to implement our approach appropriately.

The VP Taxation reports to the CFO. Furthermore, 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. The chart on this page presents the different tax functions within the Corporate Tax Team.



Transparency and relationships with governments – 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 have published our tax footprint as part of our annual reporting since 2012. In our tax reporting we apply the 2017 guidelines of the Ownership Steering Department of the Finnish Prime Minister's Office for majority state-owned companies as the Finnish state is the majority shareholder in Fortum. 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.

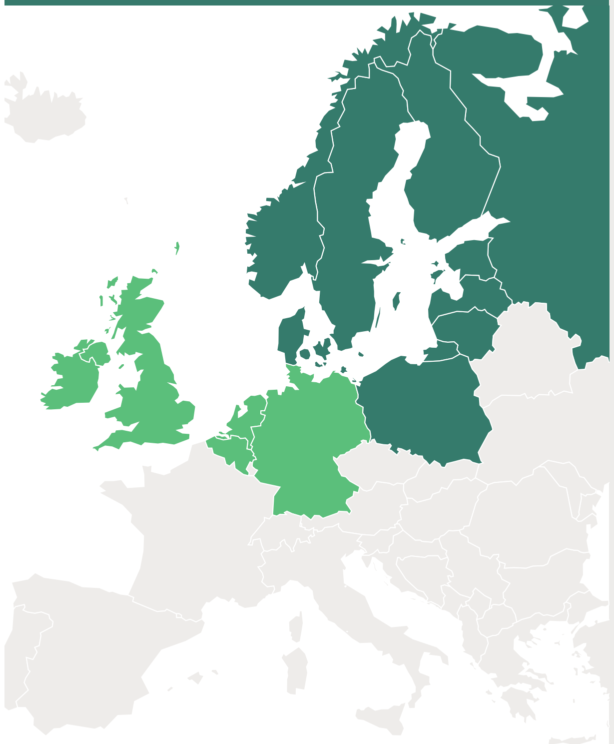
We believe that transparency is crucial both for our external and internal stakeholders. Open, transparent and consistent communication guides our tax footprint reporting. To create the best possible understanding of us as a tax payer and of the impact of taxes on our business and on the societies we operate in, we continue to develop our tax footprint report.

At Fortum, we recognise the demands of our stakeholders for more information on taxes and our disclosures reflect this. We report both our effective tax rate and total tax rate. In line with the 2017 tax reporting guidelines for state-owned companies in Finland, we apply the principle of materiality in our financial reporting, i.e. we publish tax information on the most significant countries, and we publish more detailed information about taxation for the majority of the countries in which Fortum operates in this report. 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.

Legal structure and intra-group financing

To support our strategy and dividend policy, Fortum's legal structure is designed to mitigate various financial risks in our operations, ensure sound and efficient financing of operations and investments, and safeguard the parent company's financial strength and dividend distribution capability in accordance with Fortum's dividend policy. The financing and holding of our operations is located in the EU area, 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.

Case | **Acquisitions and ownership restructuring**



Fortum's main production countries in 2017: 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. We explain below the commercial reasons for such companies, how they operate and their relationship to our core business operations.

In 2017, Fortum acquired wind power generation companies in Norway and restructured its ownership of the Norwegian energy company Hafslund. Fortum's income from the local operations, for example wind power in northern Norway and heating operations in Oslo is taxed in Norway.

In order to increase its heating and power generation capacity, which in turn leads to more income and more tax revenue for Norway, Fortum has to invest.

Such investments in Norway require financing, at least in part through borrowing from group finance companies. The interest paid by the company making the investment gives rise to taxable income for the group finance entity that lends the money and receives the interest. The finance entities independently manages its own financial position including setting the interest rate for the loans. These interests are set at arm's length, and so reflects the costs that would be incurred if the investment company were to borrow from an external bank.

Why do you have separate financing and holding companies?

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.

Could you finance and hold operations directly from the parent company Fortum Oyj?

Finance and holding companies protect Fortum Oyj from losses. Having direct financing or holding would not give the necessary flexibility to protect Fortum Oyj from these losses.

Is Fortum avoiding taxes by having separate financing entities?

Each financing company is taxed on its profits from financing operations based on normal local standards and rules. Netherlands taxes profits at 25% and Ireland at 12.5%. Financing companies regularly 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 favorable statutory tax rate of 12.5%.

Do the financing companies have artificial operations?

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

Is Finland losing tax revenue as a result of Fortum's separate holding and finance companies?

No, as these companies protect the parent company's distributable reserves, they also protect the Finnish tax base from losses. An example of this is the losses that arose in the Dutch finance company in 2017, not in Finland.

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 12 Income tax expense and ▶ Note 27 Income taxes in balance sheet for further information.

The effective income tax rate according to the income statement was 20.6% (2016: 15.2%). The tax rate used in the income statement is always impacted by the fact that the share of profits from associates and joint ventures is recorded based on Fortum's share of profits after tax. Other major items affecting the effective income tax rate are one-time tax exempt capital gains and losses, tax rate changes and major one-time tax effects.

The comparable effective income tax rate is presented to better reflect the Group's tax position when comparing the current period to previous periods. Items affecting comparability are not included in the comparable effective income tax rate. The comparable effective income tax rate for 2017 was 18.8% (2016: 20.0%). The table below explains the difference between the statutory tax rate in Finland compared to the rate at which Fortum is taxed on its profit before income tax 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 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.

Income tax expense

EUR million	2017	%	2016	%	2015	%
Profit before tax	**1,111**		**595**		**-305**	
Profits from associated companies and joint ventures	-148		-131		-20	
Tax exempt capital gains or losses	-323		-13		-6	
Profit before income tax decreased by profits from associated companies and joint ventures and by tax exempt capital gains or losses	**641**		**451**		**-331**	
Income tax at nominal rate	-128	20.0%	-90	20.0%	66	20.0%
Differences in tax rates and regulations	21	-3.2%	21	-4.6%	25	7.6%
Income not subject to tax	0	-0.0%	0	-	1	0.2%
Expenses not deductible for tax purposes	-3	0.4%	-5	1.1%	-2	-0.6%
Changes in tax valuation allowance related to not recognised tax losses	-2	0.2%	-6	1.4%	-1	-0.3%
Adjustments recognised for taxes of prior periods	-2	0.4%	-2	0.4%	-3	-1.0%
Taxes related to dividend distributions	-10	1.6%	-8	1.8%	-7	-2.0%
Other items	3	-0.5%	0	0.0%	-1	-0.4%
Comparable effective income tax rate	**-121**	**18.8%**	**-90**	**20.0%**	**78**	**23.5%**
Tax rate changes	6		0		0	
Other major one time tax effects	-115					
Income tax expense	**-229**		**-90**		**78**	

The one-time tax-free capital gain in 2017 mainly relates to the restructuring of the ownership in Hafslund. The other major one-time tax effect relates to Fortum booking a tax cost of EUR 115 million because of the unfavorable decisions from the Administrative Court of Appeal in Sweden relating to the income tax assessments for 2009—2012.

Key tax indicators, %

	2017	2016	2015
Effective income tax rate	20.6%	15.2%	25.4%
Weighted applicable tax rate	21.7%	20.2%	20.2%
Comparable effective income tax rate	18.8%	20.0%	23.5%
Total tax rate	32.5%	40.0%	n/a
Comparable total tax rate	48.1%	47.5%	n/a

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 2017	Change 2017	31 Dec 2017
Intangible assets	-12	-89	-101
Property, plant and equipment	-717	-88	-806
Pension obligations	14	7	21
Provisions	20	-12	7
Derivative financial instruments	36	-1	35
Tax losses and tax credits carry-forward	100	16	116
Other	8	-28	-20
Net deferred tax liability	**-550**	**-196**	**-747**

Deferred tax liabilities in 2017 mainly relate to property, plants and equipment in Finland, Sweden and Russia. The deferred tax asset relating to tax losses and tax credits carry forwards increased net in 2017 mainly because of the additional taxable losses in the Netherlands partly offset by the usage of losses carry forwards in Russia.

Case | **Tax losses and timing of income taxes paid**

If a company has poor profitability, it may make tax losses that cannot be utilised in the period in which they arise, but can be carried forward and used to offset taxable profits in the future. A concrete example of tax losses is the one-time write-down of the two reactors at the Oskarshamn nuclear power plant in Sweden during 2015; this gave rise to significant losses that will only be utilised once the Swedish operations return to profit. It may take many years to fully utilise the losses. The future benefit of these losses is booked 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 2017 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

	Finland			Sweden			Russia			Poland			Estonia			Norway		
EUR million	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Taxes borne																		
Corporate income tax	29	21	66	113	1	-1	11	3	3	9	4	2	1	1	2	1	0	1
Production taxes [1)]	51	54	46	48	83	83	2	2	2	1	1	1	0	0	0	0	0	0
Employment taxes	1	3	3	12	8	10	4	3	4	1	1	1	1	1	1	9	0	0
Taxes on property	15	23	13	73	109	118	20	15	13	6	6	5	0	0	0	2	0	0
Cost of indirect taxes	3	1	2	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0
Total taxes borne	**98**	**101**	**130**	**246**	**201**	**210**	**38**	**23**	**23**	**17**	**12**	**10**	**3**	**2**	**3**	**12**	**0**	**1**
Assets used in operations [2)]	3,882	3,958	3,051	4,304	4,341	4,559	2,812	2,967	2,347	559	513	350	193	196	196	1,533	27	11
Interest bearing loan receivables [2) 3)]	549	522	862	779	860	775	0	0	0	3	2	0	0	0	0	28	0	0
Number of employees	2,165	2,029	1,959	968	724	618	3,494	3,745	4,126	827	894	586	207	201	214	654	43	41
Effective income tax rate	23.4%	34.5%	20.2%	61.3%	-20.9%	21.1%	20.1%	19.1%	18.9%	71.7%	15.0%	22.1%	13.7%	28.1%	30.9%	-0.7%	0.0%	2.1%
Total tax rate	67.6%	72.6%	59.9%	66.0%	81.8%	n/a	12.7%	10.5%	11.8%	88.4%	34.8%	43.6%	11.9%	18.2%	30.8%	3.0%	0.8%	2.8%
Taxes collected																		
Net VAT	1	13	15	7	0	0	76	48	22	0	18	9	5	5	5	56	0	2
Sales VAT	323	351	311	325	292	344	290	240	244	129	105	51	19	18	19	109	12	12
VAT on Purchases	322	338	295	317	309	527	215	192	222	131	87	42	13	13	13	52	14	10
Payroll taxes	44	42	43	18	12	13	8	7	8	3	3	3	2	2	2	7	1	1
Excise taxes	1	4	7	208	152	151	0	0	0	3	2	0	0	0	0	0	0	0
Withholding taxes	55	53	59	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0
Total taxes collected	**101**	**112**	**125**	**233**	**165**	**163**	**84**	**55**	**30**	**7**	**23**	**12**	**8**	**7**	**7**	**64**	**1**	**3**

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			Luxembourg			Other countries		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Taxes borne																		
Corporate income tax	2	1	0	-8	8	19	10	4	0	18	6	13	0	0	0	1	0	0
Production taxes [1)]	6	1	0	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	2	2	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	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes borne	**8**	**2**	**0**	**-8**	**9**	**20**	**10**	**4**	**0**	**19**	**6**	**13**	**0**	**0**	**0**	**3**	**3**	**3**
Assets used in operations [2)]	125	131	0	16	8	6	68	0	0	0	0	0	0	0	0	384	291	266
Interest bearing loan receivables [2) 3)]	0	11	0	6,715	9,442	9,804	9,558	9,827	6,478	1,573	2,069	947	2	2	3,024	42	49	53
Number of employees	178	181	0	8	10	5	3	2	2	2	2	2	1	1	1	278	276	281
Effective income tax rate	24.4%	-19.1%	0.0%	18.9%	46.7%	30.8%	13.0%	1.6%	-36.6%	13.2%	24.8%	28.0%	-7.4%	50.0%	45.5%	-386.4%	182.2%	7.5%
Total tax rate	**99.3%**	**74.5%**	**0.0%**	**5.9%**	**31.8%**	**26.4%**	**9.3%**	**3.8%**	**0.4%**	**13.6%**	**9.8%**	**11.1%**	**n/a**	**52.8%**	**48.6%**	**85.5%**	**51.2%**	**26.9%**
Taxes collected																		
Net VAT	7	2	0	0	0	0	0	0	0	0	0	0	0	0	0	6	7	7
Sales VAT	13	5	0	3	0	2	0	0	0	0	0	0	0	0	0	13	15	15
VAT on Purchases	6	2	0	3	1	3	12	0	0	0	0	0	0	0	0	7	8	8
Payroll taxes	8	1	0	0	0	0	0	0	0	0	0	0	0	0	0	3	2	5
Excise taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0
Withholding taxes	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes collected	**14**	**3**	**0**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**9**	**10**	**13**

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: Low electricity prices have resulted in low levels of profit and consequently in lower amounts of corporate income tax in 2017.

Sweden: Income taxes increased in 2017 as a one-off mainly due to unfavorable decision from the Administrative Court of Appeal in Stockholm in relation to year 2009–2012 (See ▸ **Note 36** Legal actions and official proceedings). The level of property and production taxes are slightly reduced due to the Swedish parliament's decision to gradually reduce these taxes.

Russia: Taxes on property were increased by tax rate changes. The tax depreciation on investments in new power and heat plants result in low corporate income taxes borne. The fact that more income tax will be paid in the later years of an asset's life is recognised by booking a deferred tax liability in the balance sheet.

Poland: Income taxes have increased due to the one time effect of the sale of the gas infrastructure company DUON Dystrybucja.

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

Norway: At the beginning of August 2017, Fortum made the restructuring of ownership in Hafslund that increased our presence in the Norwegian heat and retail markets.

Denmark: Taxes increased mainly by Fortum entering into the waste solution business during 2016.

The Netherlands: The Dutch financing operations were loss-making in 2017 due to lower interest margins and a one-off realisation of financial risks in its loan portfolio.

Ireland: Income is taxed at normal 12.5% tax rate.

Belgium: The effective tax rate is lowered from the nominal rate due to so called notional interest deduction based on Belgium law.

Luxembourg: Our activities in Luxembourg are minimal and are estimated to be closed within 2018.

The table above reflects the current challenging power and financial markets as well as the tax environment. The high total tax rates in Sweden and Finland reflect lower profits in those countries, driven by the current price of power and the significant amount of taxes that are not based on profits. We have organised the financing of our operations so that it also protects our capability to distribute dividends. This simultaneously also protects the tax base in Finland.

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 2017 we paid EUR 43 (2016: 38) million in employer's statutory pension contributions.

We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2018 Annual General Meeting that a dividend of EUR 977 (2017: 977) million be paid for 2017. The Finnish State's share of this would be about EUR 496 (496) million.

Ongoing tax appeals

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 had several tax audits ongoing during 2017. 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. Based on legal analyses, no provision has been accounted for in the financial statements related to Sweden 2013–2015 and Belgium 2008–2012 tax audits.

Fortum has received a positive decision from the Stockholm Administrative Court in June 2017 relating to hydro property tax 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) comprises unlawful state aid (i.e. the tax law is against EU legislation) and the property tax shall be set to 0.5 percent of the tax assessment value. The disputed amount for the five years totalled EUR 52 million. The Swedish Tax Authority has appealed the decision and the case is pending before the Administrative Court of Appeal in Sweden. The decision is expected in 2018.

See ▸Note 36 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 were negative and are subject to normal taxation in Finland. The taxes borne on these operations were EUR null in 2017.

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 33.99% (29.58% from 2018) and Ireland 12.5%. Fortum's subsidiary companies are listed by country in the ▸Note 40, Subsidiaries by segment, of the consolidated financial statement.

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.
Tax 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.
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	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 and assets from fair valuations of derivatives used for hedging future cash flows).