

# Fortum's Annual Report 2014

Fortum is an energy company highly committed to sustainability. We strive to respond to the needs of our customers by generating, selling and distributing low-carbon electricity and heat and by offering energy-sector expert services.

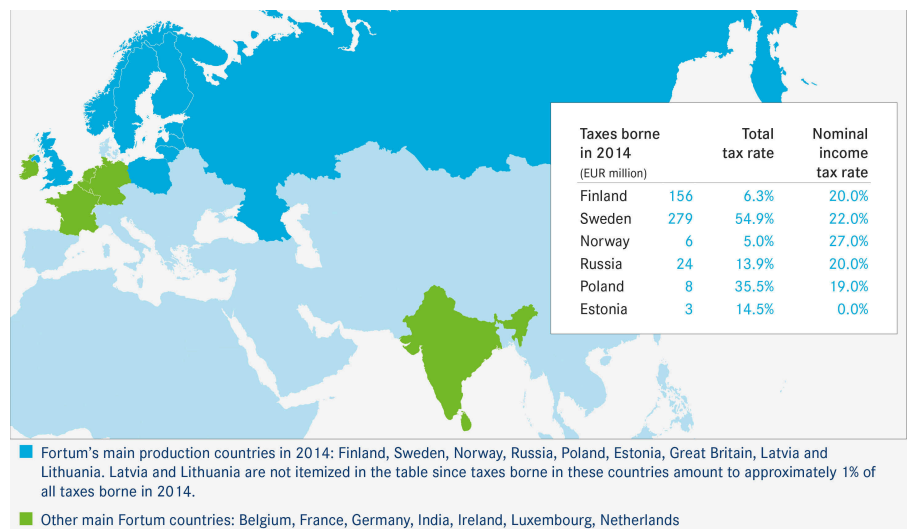
## Fortum as a tax payer

Fortum's policy is to pay taxes on the production, employment, property and earnings of its businesses in the operating country in question and in compliance with local regulations.

We have published our tax footprint as part of our annual reporting since 2012. We aim to communicate about our operations and its impacts in an open and consistent manner with our stakeholders. We also continuously develop our tax footprint reporting.

The Finnish State is the majority shareholder in Fortum, with a 50.8% stake. In October 2014, the Ownership Steering Department of the Prime Minister's Office published guidelines on the country-specific tax reporting of State-majority-owned companies. For 2014, we report the country-specific key indicators required by the Ownership Steering Department as part of our financial statements. [See also](#) note 14 Income tax expense. This section focuses on Fortum's role as a tax payer.

We operate internationally, but the taxes are always paid locally. As an international company operating in a capital-intensive sector, it is important to us that we can effectively operate and finance our operations and investments, like new power plant construction projects, in different countries. At the same time, we need manage financing risks. Because taxes are a consequence of business activities, we pay taxes in the country where our business operations are located. Taxes are paid in each operating country in accordance with the local regulations.



“ For every EUR 1 of corporate tax, Fortum pays EUR 1.59 other taxes.”

### Tax environment

Fortum has operations in more than 15 countries. In addition to income taxes, we pay taxes related to production, employment and property. Our investments are long-term, so we hope for long-term predictability in e.g. energy production-related taxes. The total taxes we pay have a significant impact in our operating countries and in local communities.

Economic instability has decreased the predictability of taxation, and the tax environment has become tighter in all our operating countries. The focus of taxation is shifting from income taxes to other taxes. Income tax rates have decreased in Finland

and Sweden and in some of our other operating countries. Meanwhile, for example, property taxes have increased, particularly in Sweden. There are discussions under way in Sweden to also increase the tax rate on nuclear power capacity. In Finland, the Government revoked in the end of the year its 2013 decision to levy a tax on hydro, nuclear and wind power plants built prior to 2004 (the so-called windfall tax). The decision took effect in January 2015.

At an international level, the OECD and EU create new recommendations and regulations, often making tax predictability more difficult. Likewise, the interpretation of national regulations can suddenly change, creating challenges for Fortum in the taxation of operations and the related earnings.

### Key tax indicators in 2014

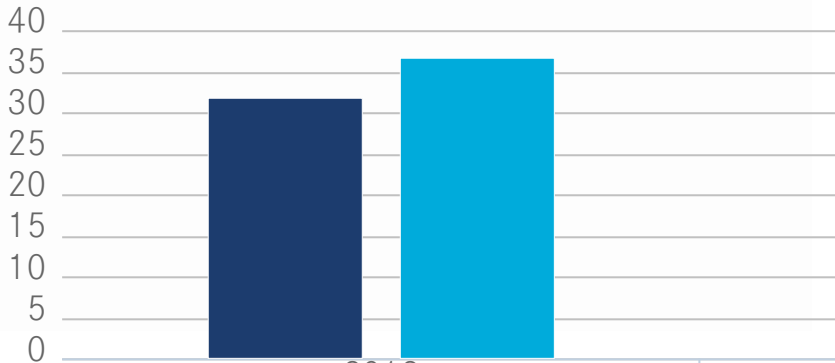
In 2014, Fortum's total tax rate was 14.3% (2013: 31.8%). The total tax rate indicates the share of taxes borne on Fortum's pre-tax earnings for the financial period. Taxes borne

Total tax rate excluding the share of profit from associated companies and joint ventures and tax exempt capital gains

Total taxes borne

Profit before tax + Taxes borne in operating profit - tax exempt capital gains - associated companies and joint ventures share of profits

Total tax rate, %



for the financial period totalled EUR 525 (2013: 558) million. One-time tax exempt capital gains on the sale of subsidiaries, mainly in Finland, Norway and Great Britain, reduced the total tax rate in 2014. Capital gains from the divestment of these companies totalled EUR 2.2 billion. The total tax rate, excluding the share of profits from associated companies and joint ventures and tax exempt capital gains, was 38.2% (2013: 36.6%).

Changes to the income tax rate and the restructuring of Fortum's operations can cause big fluctuations in the effective income tax rate on an annual level. Fortum's effective income tax rate in 2014 was 5.9% (2013: 13.3%).

In our biggest production countries, Finland and Sweden, we are among the biggest tax payers. In Finland, taxes borne was EUR 156 (2013: 174) million for the financial period, and in Sweden EUR 279 (2013: 297) million.

### Management of tax issues

We aim to manage and mitigate tax-related uncertainties. In our operating countries we seek preliminary rulings from tax authorities, we pay special attention to tax declarations and to transfer pricing documentation, and we strive to protect our rights also through legal measures. Our goal is to manage tax issues so that collaboration with authorities is as effective as possible, potential challenges can be responded to in time and surprises avoided.

Taxation is always a consequence of business operations, so tax solutions too must be based on business needs. We support Fortum's operations by managing tax issues in a sustainable manner and by identifying simple and cost-efficient solutions. This way, we aim to ensure that we pay the appropriate taxes in all our operating countries on time. Fortum's Corporate Tax function is responsible also for instructing and guiding the business units in all taxation-related matters in line with the agreed principles that the business units must follow.

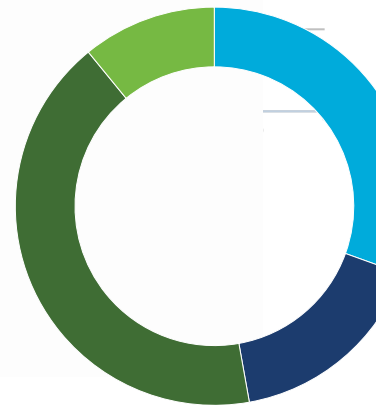
We regularly assess the compliance with regulations and guidelines. The key findings and actions related to tax issues and tax risks are reported annually to the Audit and Risk Committee of Fortum's Board of Directors. Tax-related uncertainties are assessed annually in accordance with the Group's tax principles.

The risk analysis done in 2014 indicated that, in particular, business mobility and the related risk of permanent establishment as well as increasing issues related to non-income and indirect taxes create uncertainty in the management of tax issues. To mitigate risks, we aim to integrate tax issues as part of the business processes and to raise management's awareness of them. Consequently, the handling of tax issues in 2014 was reorganised to provide better business support.

Taxes borne, %



Taxes collected, %



### Internal financing in support of business

External financing may be needed for the construction of new power plants and for maintenance investments in existing plants. We have centralised our external financing to the Group's parent company. The Group's Finance functions and entities are also responsible for arranging internal financing for our different companies in our countries of operations. This typically consists of equity or loan financing. The terms for intra-Group loans are determined on the basis of market terms. Typically, the interest rate on an intra-Group loan in, for example, Nordic countries was 1-5% in 2014, which corresponds to external interest rate levels. Related to our financing activities, we pay the appropriate taxes in all our operating countries in line with OECD guidelines. See also note 14 Income tax expense.

Our international financing operations are, as usual, located in EU countries with stable operating environment and predictable taxation.

## Other payments to and from 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 2014, we paid EUR 46 (2013: 51) million in employer's statutory pension contributions. On the other hand, the public-sector subsidies (worth over EUR 0.5 million) we received for production, investments, R&D and other matters totalled EUR 3 (2013: 8) million. These figures exclude the free emission allowances and electricity certificates received.

We are also a significant dividend payer. Fortum's Board of Directors proposes to the 2015 Annual General Meeting that a total amount of dividend of EUR 1,155 (2014: 977) million be paid for 2014. The Finnish State's share of this would be about EUR 586 (2014: 496) million.

Taxes borne by country and type in 2014, %



## Tax reporting transparency

We aim for increased transparency in tax reporting and an increased understanding of our tax position. We collect and report tax-related information is reported on time and correctly to tax authorities, shareholders and other stakeholders. We openly communicate all important tax-related decisions

The purpose of transfer pricing rules is to ensure the allocation of income to the function in different countries for tax purposes. Our policy is to apply arm's length transfer pricing principles according to OECD guidelines in all intra-Group (product, service and financing) transactions. We document these transactions in line with the existing regulations.

- [Corporate income tax](#)
- [Deferred income taxes](#)
- [Subsidiaries by segment](#)
- [Ongoing tax appeals](#)
- [Corporate relations](#)

## Taxes borne in 2013-2014

EUR million	Finland		Sweden		Russia		Poland		Estonia		Norway		Netherlands		Other countries		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Corporate income tax <sup>1)</sup>	93	105	57	54	3	-1	1	1	2	1	4	2	32	31	12	11	203	203
Production taxes <sup>2)</sup>	45	51	82	93	2	2	1	1	0	0	0	0	0	0	0	1	131	150
Employment taxes	3	3	16	19	4	5	1	1	1	1	1	2	0	0	2	2	28	32
Taxes on property	13	13	124	131	15	19	5	5	0	0	1	1	0	0	1	2	159	170
Cost of indirect	2	2	0	0	0	0	0	0	0	0	1	0	1	1	0	0	4	4

taxes																		
<b>Total</b>	156	174	279	297	24	25	8	8	3	2	6	5	33	31	16	16	525	558

Excluding custom duties

- 1) Corporate income tax includes current taxes booked as cost for the year and adjustments to the previous year's current taxes.
- 2) Production taxes include also taxes on production and property paid through electricity purchased from associated companies.

**Taxes collected in 2013-2014**

EUR million	Finland		Sweden		Russia		Poland		Estonia		Norway		Netherlands		Other countries		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Sales VAT	352	455	553	574	311	370	51	49	20	19	32	56	1	1	33	48	1,353	1,572
VAT on Purchases	323	403	463	481	303	373	40	35	18	14	21	35	1	0	24	43	1,192	1,385
Net VAT <sup>1)</sup>	29	52	90	93	9	0	11	14	2	5	11	21	0	1	8	5	161	190
Payroll taxes	45	52	23	25	9	11	3	3	2	0	2	3	0	0	4	5	88	98
Excise taxes	54	158	149	173	0	0	0	0	0	0	17	35	0	0	1	2	221	369
Withholding taxes	57	42	0	0	0	0	0	1	0	0	0	0	0	0	0	0	57	43
<b>Total</b>	<b>184</b>	<b>304</b>	<b>261</b>	<b>291</b>	<b>18</b>	<b>11</b>	<b>15</b>	<b>18</b>	<b>4</b>	<b>5</b>	<b>30</b>	<b>59</b>	<b>0</b>	<b>1</b>	<b>14</b>	<b>12</b>	<b>527</b>	<b>700</b>

1) If net VAT is negative, included as zero.