

2016

Annual Report

POHJOLAN VOIMA
PRODUCES
SUSTAINABLE
FINNISH ENERGY



POHJOLAN
VOIMA

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Pohjolan Voima – responsible operations throughout the energy revolution

“We are currently experiencing an energy revolution that will irreversibly change the fundamentals of our energy system. The production volume of renewable energy will clearly increase, and this increase is being speeded up by a variety of support schemes. Wholesale electricity price has dropped and price fluctuations are high. Investments in new electricity production on market terms have ceased. Old and unprofitable power plants are closed down at a quickening pace: the era of condensing power plants that produce electricity will soon be behind us. The next electricity production method to face the profitability challenge will be combined heat and power. The risk of a shortage of power will increase and compromise our energy security. The outlook of the energy industry is unclear.”

The above is a quotation from my last year’s review. The description is still accurate, and there has been no change for the better. January 2016 saw an all-time peak in electricity consumption in Finland, which we were able to weather thanks to full-scale import of electricity, made possible by the fact that Russia was celebrating an extended religious holiday. The debate about the adequacy of power generation gained momentum in 2016, and doubts of whether the current electricity market is able to secure adequate power have become more frequent.

Pohjolan Voima closely monitored the state of its operating environment in 2016, and continued the development of its operations in the areas of hydropower, thermal power and nuclear power, as well as the improvement of its competitiveness. This will help us retain our ability to respond to future challenges.

The Kollaja project ended, restoration of migratory fish proceeded

Our hydropower company’s production rate reached the excellent level of 2.0 TWh. The hydropower plants are in good condition and their efficiency is excellent due to the recent renovations. Renovation of the automation systems of the Isohaara power plant on the Kemijoki river was launched in 2016. Earlier, we renovated the Melo power plant on Kokemäenjoki river and the Iijoki power plants. The Harjavalta hydropower plant, partially owned by PVO’s hydropower company, commissioned a new generator.

In autumn 2016, the Finnish government announced that it will not begin the revision of the Rapids Protection Act. The decision destroyed PVO-Vesivoima's ability to go forward with the Kollaja project, which aimed at building a reservoir of flood water to be used in load-following power production.

Cooperation to restore migratory fish continued on the Iijoki river within a waterway vision project launched by the Oulu Regional Council, and on the Kemijoki river within the migratory fish project coordinated by the Regional Council of Lapland. I believe that the broad-based cooperation and the variety of methods applied will lead to good results.

Investments in joint production, condensing power plants in long-time reserve

PVO's combined heat and power plants produce district heat and process steam for local industry and communities, and also electricity. Laanilan Voima, based in Oulu, invested in a power distribution system and the improved reliability of the Pyroflow boiler. Porin Prosessivoima carried out full revision of the turbine and converted the back-up boiler from an oil-based system to burn natural gas instead. Hämeenkyrön Voima invested in a reception system for recycled fuel. The Kristiinankaupunki and Pori Tahkoluoto coal-fired condensing power plants continued in the long-term reserve. We aim to find appropriate utilisation methods for these power plants, still technically feasible, for example in power reserve.

Olkiluoto 3 proceeded to commissioning phase and Posiva launched construction

The Olkiluoto nuclear power plant produces reliable domestic base-load power at world-class capacity factors. Work on the OL3 plant unit advanced, and the commissioning stage of the construction project began. In April 2016, TVO submitted the OL3 operating license application to the Ministry of Employment and the Economy.

Posiva began the construction of a final repository for spent nuclear fuel. Posiva also founded the subsidiary Posiva Solutions, which will offer the repository expertise accumulated within the company as a specialist service on the international market. Posiva signed the first service agreements with the Finnish Fennovoima and SÚRAO, a Czech radioactive waste disposal organisation.

Responsibility means continuous development

Our responsibility programme includes the selection of annual targets for development. We developed the transparency of fuel chain tracking for the peat, biomass and recycled fuel acquired for thermal power production. We provided more detailed rules for our social influence. We also launched an effort to improve our NGO operation, and I hope to achieve concrete cooperation and dialogue during this year. The personnel and a group of partners of Pohjolan Voima participated in an online training programme to learn more about responsibility and responsible operating practices.

Return to market-based approach

The current electricity market with energy-based pricing is irrevocably broken. The current model does not guarantee sufficient capacity or delivery reliability during peak consumption, during any failures or under other special circumstances. Decision-makers have also seen the seriousness of the situation. According to a survey carried out in early 2016 by the request of Pohjolan Voima, Finnish energy industry decision-makers are aware of the crisis of the system, resulting from inconsistent regulation and support systems.

Restoration of a market-based energy system is the biggest challenge of our operating environment. Market-based operations cannot be returned merely by adjusting the current system. Instead, thorough consideration of a new model for the electricity market is necessary. We must evaluate for example the power-based market, which has been adopted or is being planned in some European countries.

Joint resources – with skill, with courage, together

Pohjolan Voima effectively supplies electricity and heat for its shareholders at cost price. In this way, we secure the success of our customers, and our operations indirectly create jobs and wellbeing for society as a whole. We succeeded well in this task in 2016, considering the major challenges found in the operating environment. I wish to warmly thank our employees, shareholders and partners.

Joint resources are the basis from which we tackle any future challenges – with skill, with courage, together.

Lauri Virkkunen

President and CEO, Pohjolan Voima Oy



Production in 2016

In 2016, Pohjolan Voima's electricity production was 12.4 TWh*. Our share of all electricity produced in Finland was approximately 19%. Heat production totalled 4.3 TWh.

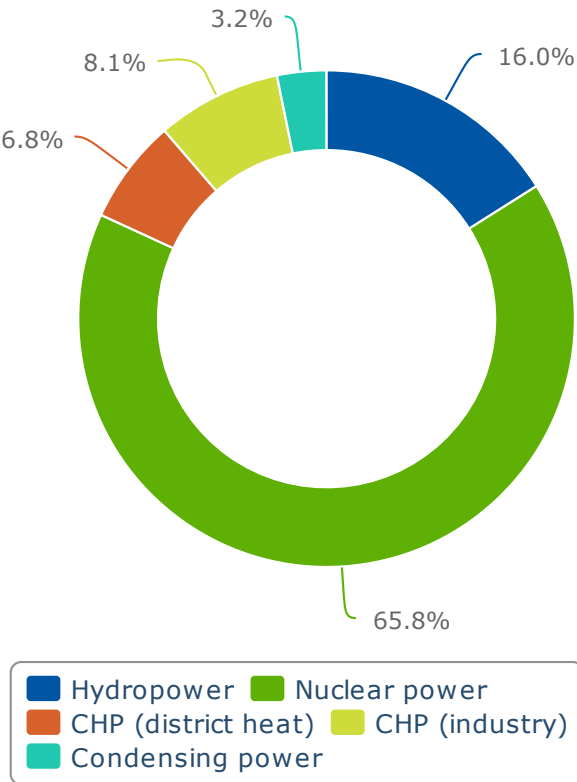
Pohjolan Voima's total electricity production capacity was 2,645 MW at the end of 2016. Its share of Finland's total electricity production capacity was about 16%. Heat production capacity was 1,563 MW. The total electricity production capacity includes the capacity of PVO-Lämpövoima Oy's condensing power plants (477 MW), which are no longer in production operation.

*In this production review, Pohjolan Voima's volumes of electricity and heat production are shown in accordance with Pohjolan Voima's shares in power plants, which is why they differ from the Group figures given in the financial statements.

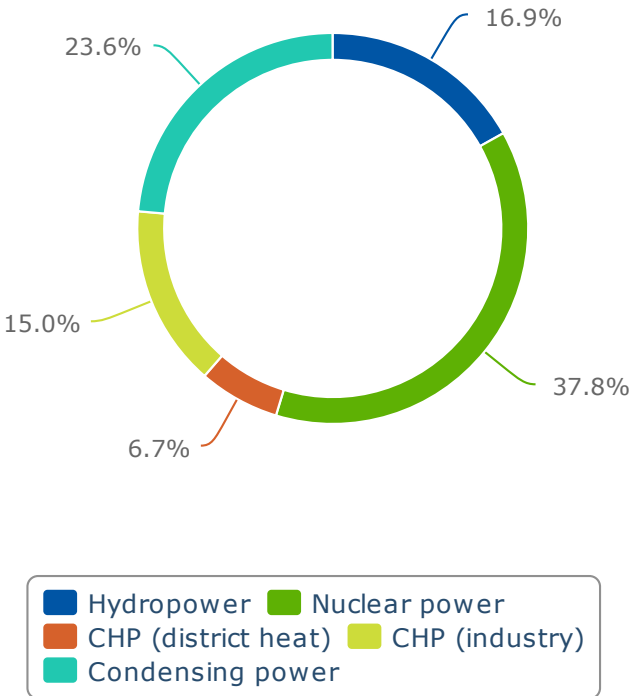
See also [Pohjolan Voima's production capacity on 31 December 2016](#)

Finland's electricity consumption in 2016 was 85.1 TWh. Finnish electricity production totalled 66.1 TWh, while net imports into Finland amounted to a record volume of 19.0 TWh. In 2016, power consumption in Finland increased by 3.1% from the previous year. Industrial power consumption increased by 1.6% and the power consumption of other sectors by 4.6% from the previous year. Approximately half of the increase in total consumption can be explained by the higher need for heating when compared to the previous year.

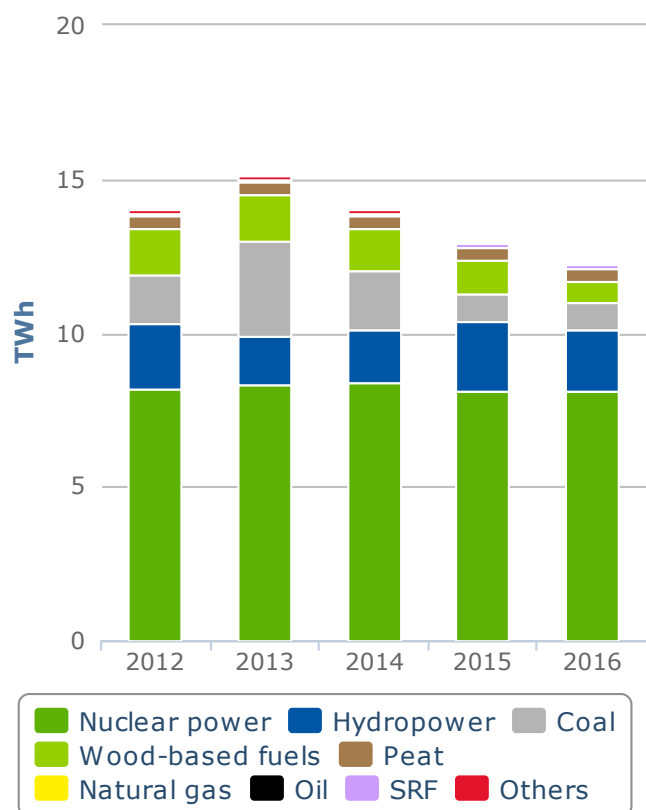
Pohjolan Voima's electricity production in 2016, 12.4 TWh



Pohjolan Voima's electricity production capacity on 31 December 2016, 2645 MW



Pohjolan Voima's electricity production, by energy source in 2012 - 2016, TWh



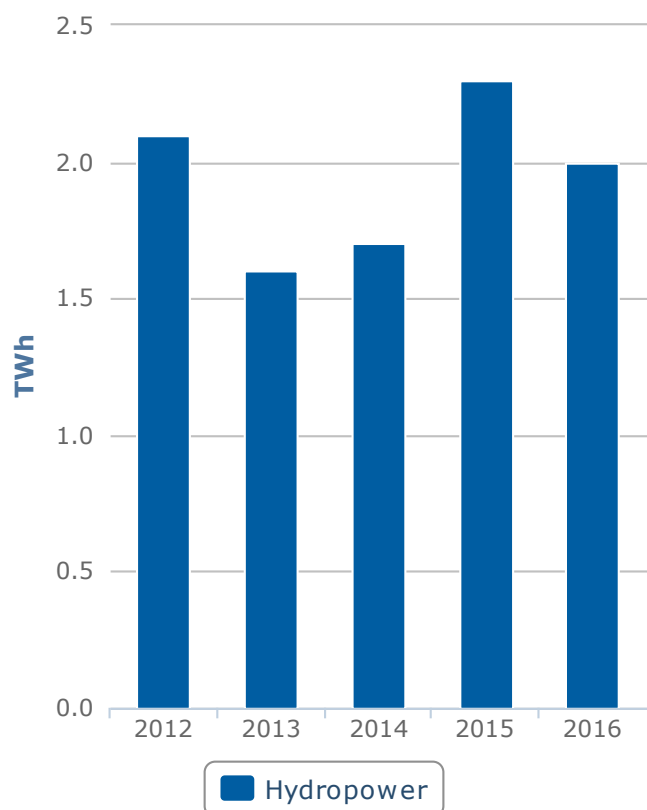
Pohjolan Voima stopped its wind power production in 2011.

Excellent year for hydropower production

Pohjolan Voima partially or fully owns a total of 12 hydropower plants located along the Iijoki, Kemijoki, Kokemäenjoki and Tengeliönjoki rivers. The combined electricity generation capacity of these plants is 528 MW, of which Pohjolan Voima's share is 447 MW. PVO's hydropower capacity increased by 4 MW when our associate company Länsi-Suomen Voima launched its new power plant unit in Harjavalta in September.

In 2016, a total of 2.0 TWh of electricity was produced using hydropower, which is approximately 0.3 TWh more than on an average water year. The above-average production rate was achieved due to the rain received in the first half of the year and in the summer, and the high availability of the power plants.

Pohjolan Voima's hydropower production in 2012 - 2016, TWh



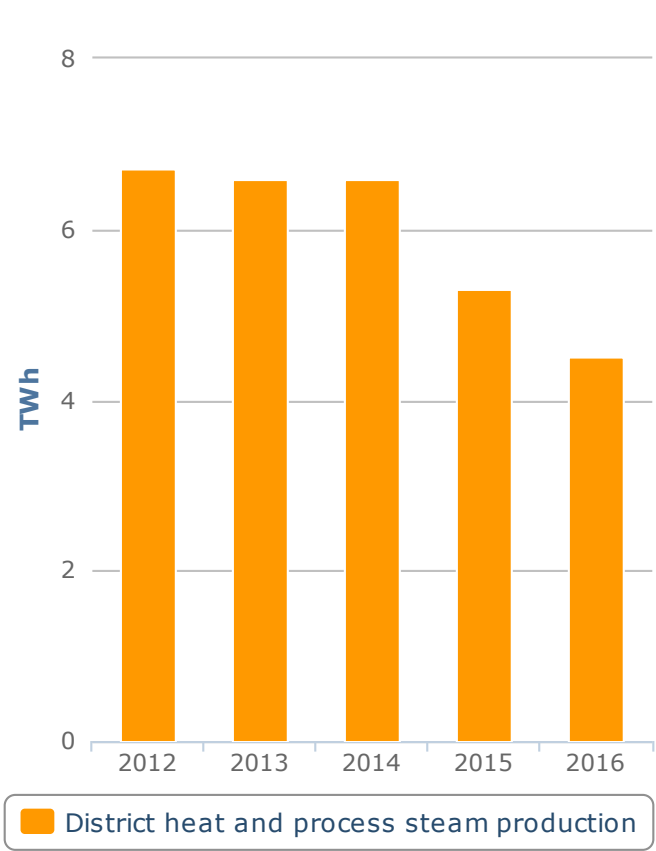
Changes in heat production

In its thermal power production, Pohjolan Voima's total capacity is 1,198 MW, of which 575 MW is combined heat and power production and 623 MW is condensing power production. The condensing power production capacity includes PVO-Lämpövoima Oy's condensing power plants (477 MW), which are no longer in production operation.

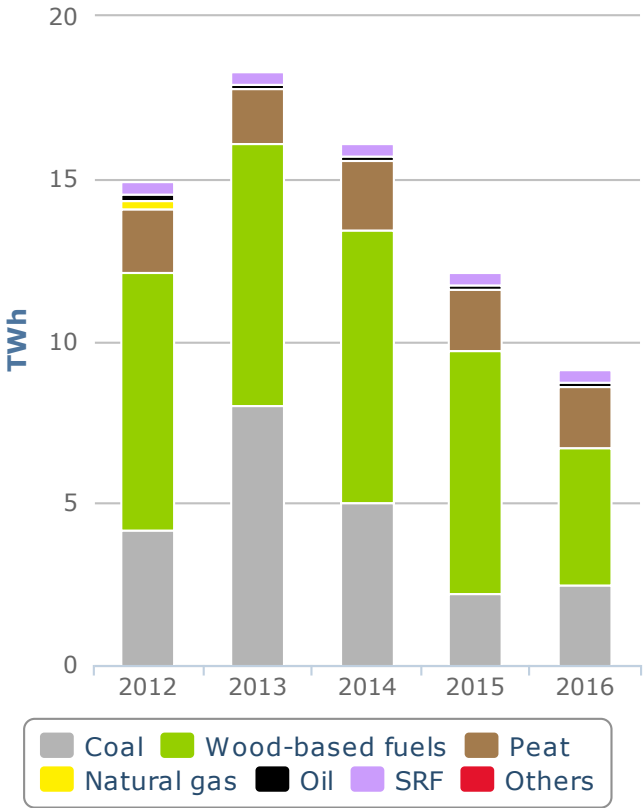
Combined heat and power plants produce district heat and process steam for local industry and communities, as well as electricity. In 2016, the heat output of the combined heat and power plants was 4.3 TWh (compared to 5.3 TWh in 2015) and the electricity output was 1.8 TWh (2.1 TWh). The most important reason behind the lower production output was Pohjolan Voima's divestment of three subsidiaries that own bioenergy plants. Condensing power plants produced 0.4 TWh of electricity (0.4 TWh).

In 2016, thermal power plants consumed 2.5 TWh of coal, 4.2 TWh of wood-based fuels, 1.9 TWh of peat and 0.4 TWh of recycled fuel. Oil and natural gas are used as start and backup fuels.

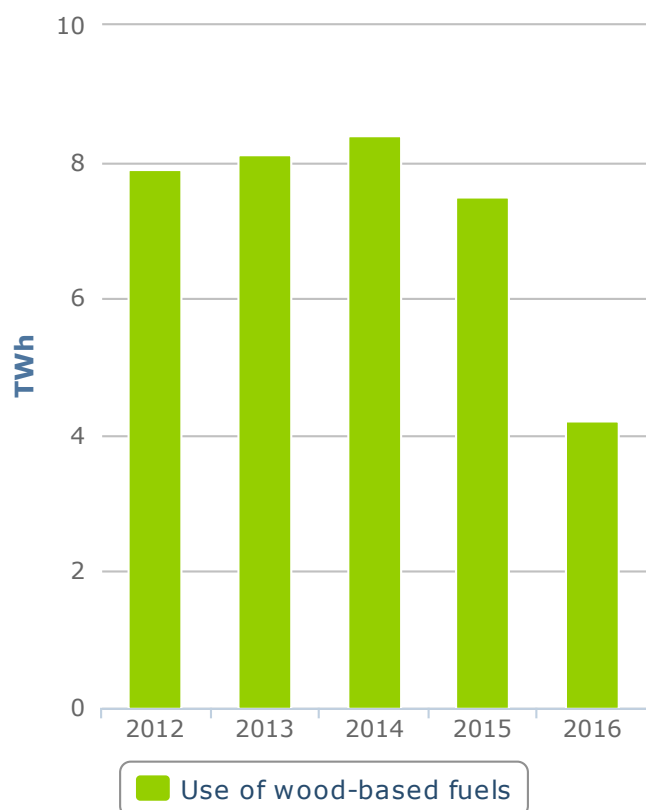
Pohjolan Voima's district heat and process steam production in 2012 - 2016, TWh



Pohjolan Voima's fuels in heat and electricity production in 2012 - 2016, TWh



Pohjolan Voima's use of wood-based fuels in 2012 - 2016, TWh



*The use of wood-based fuels was lower due to Pohjolan Voima's divestment of three subsidiaries that own bioenergy plants.

Good nuclear power production year

Teollisuuden Voima Oyj (TVO), a joint venture partially owned by Pohjolan Voima, operates a nuclear power plant in Olkiluoto, Eurajoki. The combined output of the nuclear power plant's two plant units is 1,760 MW.

The Olkiluoto nuclear power plant had a good production year. In 2016, 14.4 TWh of electricity was generated at Olkiluoto. Pohjolan Voima's share of the production amounted to 8.1 TWh. The capacity factor of the plant units was 93.0%.

Read more at <http://www.tvoy.fi/home2016>



Responsibility

Responsible operations are part of Pohjolan Voima's strategic outlook. For Pohjolan Voima, responsibility means the responsible management of financial, social and environmental matters. Our responsible operations are guided by the [responsibility policies](#) approved by our Board of Directors.

Our responsibility programme, or the action programme to develop responsible corporate operations, describes the current state of factors of major importance to Pohjolan Voima's business operations and to its stakeholders, as well as the needs for development and monitoring of these factors. The responsibility programme is updated on an annual basis.

Ten major responsibility factors for Pohjolan Voima

The responsibility programme includes ten factors that have been identified as important and have been placed under monitoring. Development measures have been established for some of these factors.

Visit our website to read more about our responsibility programme and responsible operations.

[Read more](#)

Development of selected responsibility focus areas

Each year, we select focus areas for the development of responsibility. In 2016, we focused on the following projects:

- improved traceability of the fuel chains
- cooperation with NGOs
- promotion of responsible operation methods among the personnel
- further specification of our rules for social influence.

Traceability of fuel chains

In 2016, we developed the transparency of fuel chains for the peat, biomass and recycled fuel acquired for heat production. We complemented the fuel supply contract materials to better fulfil the requirements that we have set for responsible operations within the fuel purchase process.

We clarified and further specified the definition of traceability and the differences in the purchase processes for various fuels as the basis of responsibility. As a new factor, we identified the need to develop the traceability of fuel transportation in areas such as emission classification for the transportation vehicles. We also audited peat suppliers during the year, and launched audits of biomass suppliers with the objective of supporting responsible operations. In 2017, we will continue audits for the suppliers of all three fuels.

An additional challenge is introduced by issues related to the sustainability criteria applied to biomass. The development project will continue and expand in 2017 to cover the development of responsible operations throughout the value chain. At the same time, the project will be extended from thermal power to hydropower operations and the responsibility of partners in this area.

Cooperation with NGOs

Cooperation with NGOs was introduced as an area for development in responsible corporate operations in 2016. Pohjolan Voima's power generation methods include several aspects that are of interest to NGOs. These aspects include the impact of hydropower on fishery, the use of peat and coal as fuels in thermal power plants, and the utilisation of nuclear power.

Pohjolan Voima's contacts with NGOs have been sporadic. In 2016, we carried out a survey of which NGOs are the most relevant for our operations, and exchanged experiences of NGO cooperation with our customers. The project will continue in 2017 with the objective of achieving concrete cooperation with NGOs under various themes.

Online training on responsibility

The whole personnel and a group of our closest partners participated in an online training programme to learn more about responsibility and responsible operating practices. All Pohjolan Voima employees are expected to comply with our Code of Conduct and the related guidelines. The objective of the online training was to help the personnel and other people working for Pohjolan Voima to identify the everyday situations that require responsible choices, and to deepen the understanding of responsibility and good business practices. Training of Pohjolan Voima employees will continue to be a part of securing the responsibility and regulatory compliance of our operations.

Detailed rules for social influence

Pohjolan Voima's social influence is guided by the group's Code of Conduct, which also includes ethical guidelines. As Pohjolan Voima engages in active dialogue with decision-makers, we considered it necessary to update our rules for social influence in 2016. During the update process, we examined the written procedures of various organisations and companies and compared them to Pohjolan Voima's written procedures.

We found that our current Code of Conduct also comprises the main issues related to social influence. With social influence in mind, however, the Code of Conduct was updated with references to the open expression of challenges, and behaviour in cases of conflicting interests. The group's Board of Directors has confirmed the updated Code of Conduct, which has been published on the company's [website](#). We also updated our hospitality guideline. Implementation of the updated procedures within our organisation continues.

Appropriate management and improvement of HR and environmental matters are an important part of responsible operations

As part of our responsibility efforts, we apply best practices in our environmental, energy efficiency and occupational health and safety operations, and we strive to continuously improve them.



Responsible improvement of energy efficiency

Each production company of Pohjolan Voima sets its own energy efficiency goals. Objectives for 2016 included that each production company implement three energy efficiency improvement measures during the year.

Our power plants have certified energy efficiency systems and most of the production companies have signed voluntary energy efficiency agreements. Porin Prosessivoima was the first energy producer to join the new energy efficiency agreement for the period 2017–2025.

[Read more about our energy efficiency improvements](#)

Read more about our [responsibility work in HR](#) and [environmental matters](#) in our annual report



Personnel

The changes in the operating environment of energy companies as well as the state of the electricity market reflect on the operations and personnel of Pohjolan Voima. Our personnel have demonstrated solid ability to change, professional competence and commitment in the midst of upheavals. According to the results of a personnel survey, commitment to the work is at a high level, and the personnel feel that their contribution is important.

The principles of our Personnel Policy are based on Pohjolan Voima's values – skilfully, boldly, together – and responsible operating practices. Personnel development focuses on the improvement of management and supervisor work, and the ability to carry personal responsibility.

The adjustment of operations carried out in 2016 due to changes in the operating environment and the state of the electricity market aimed at improving the efficiency of Pohjolan Voima's operating model and achieving cost savings. Objectives of the effort also included maintaining the company's ability to develop its business operations in the future. During the adjustment of operations, reorganisation of personnel was carried out in the mother company and in other companies within the Group.

Systematic development of key competencies

In connection with the 2016 strategy update, we examined our strategic competence requirements until 2020. We updated our strategic competencies and defined the key competencies for our business and support operations. At the same time, we created a personnel and resource planning model that takes synergy benefits into account.

The focus of common personnel training was on management and business competence, responsibility, information systems and the role of social media in our communications. The average number of annual training days remained at the same level, and the personnel participated in approximately four days of training during the year.



Quality and transparency from processes

PVO-Vesivoima carried out a process specification project in 2016. Processes related to customer and business management, the delivery of energy and asset management were discussed in joint workshops, producing detailed and transparent descriptions of workflows and clarifying the duties between hydropower personnel and other units. Targets for development were also identified to improve everyday tasks. The new detailed process descriptions are in place from the beginning of 2017. The roles of the personnel were also updated to correspond to the process-oriented work in an organisation of specialists.

Responsibility is part of the everyday work

Responsible operations are part of Pohjolan Voima's strategic outlook, corporate culture and everyday work. Pohjolan Voima's responsibility programme describes the current state of factors of major importance to Pohjolan Voima's business operations and to its stakeholders, as well as the needs for development and monitoring of these factors.

One of the development areas identified as important include good business practices and responsibility. We have set the objective of making good business practices an essential part of the everyday work of all Pohjolan Voima employees. We will also communicate this effort to our customers and stakeholders. As part of the implementation process, the entire personnel completed an online training programme on the aspects of good business practices and competition law.

Safety at work is measured by monitoring indicators such as the number and frequency of accidents and the number of safety and environmental observations. Pohjolan Voima's accident frequency was 9.3 in 2016, and 1,082 observations were submitted.

Developing an interactive corporate culture

Our theme for well-being at work has been the development of an interactive corporate culture. To promote this objective, we have improved our internal communications model and developed the way personnel surveys are conducted. In addition to receiving feedback from the personnel, we will conduct an evaluation of our management practices as part of the personnel survey.

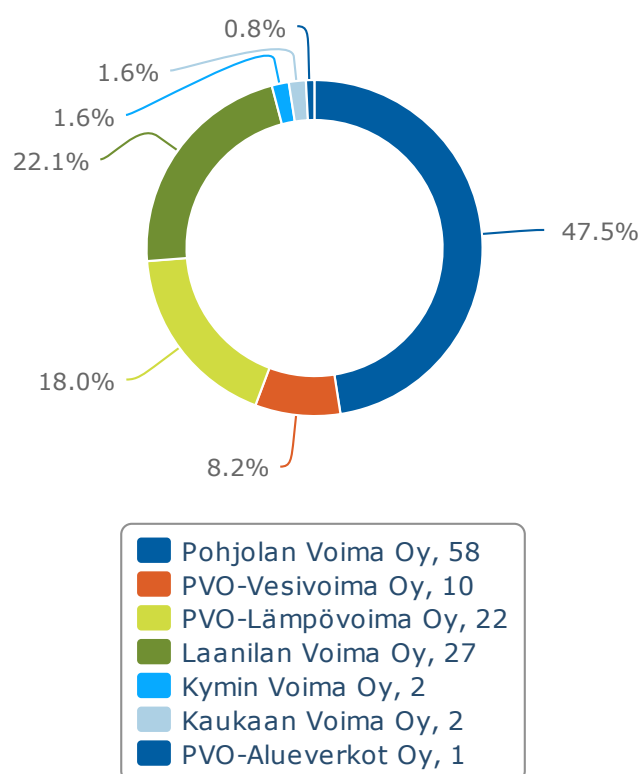
Key personnel figures in 2016

At the end of 2016, the number of our personnel was 123 (2015: 182), of which one employee was non-permanent (2015: 3 non-permanent employees). The number of personnel reduced by approximately 32% compared to the previous year. The number of workers was reduced by 26 from 2015, and the number of office employees by 33.

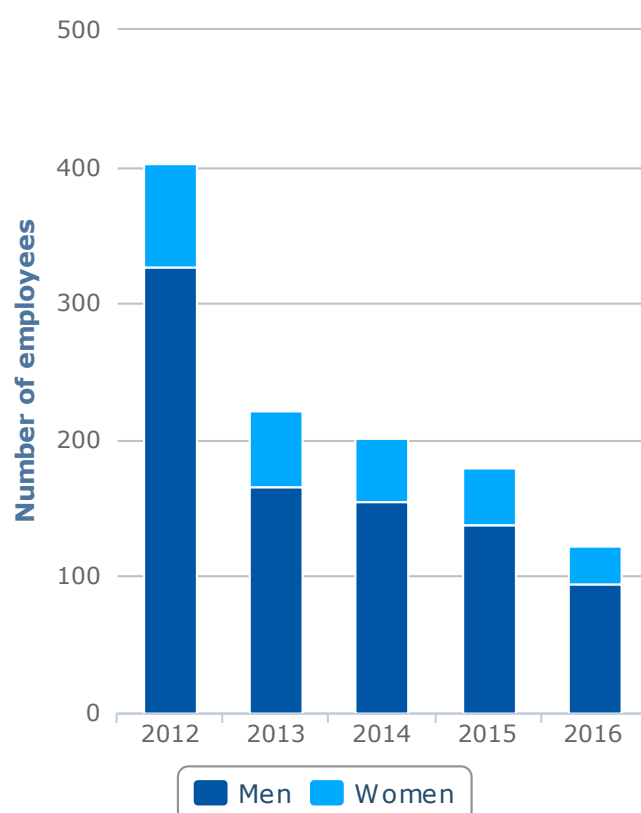
An important change to the number of personnel was brought about by the decision to end the production operations of the Kristiinankaupunki and Pori Tahkoluoto power plants of PVO-Lämpövoima at the beginning of 2016. Following the decision, most of the employment relationships in the company have ended apart from continuing maintenance work and asset management tasks.

The prevailing working time arrangement is full-time work. 5.7% of employees were part-time workers. The company employed a total of seven summer employees in 2016. In 2016, 23% (2015: 22.9%) of permanent staff were women. The average age of the personnel in permanent employment was 45 (46) years. The total turnover of staff in 2016 was 18.2% (6.7%).

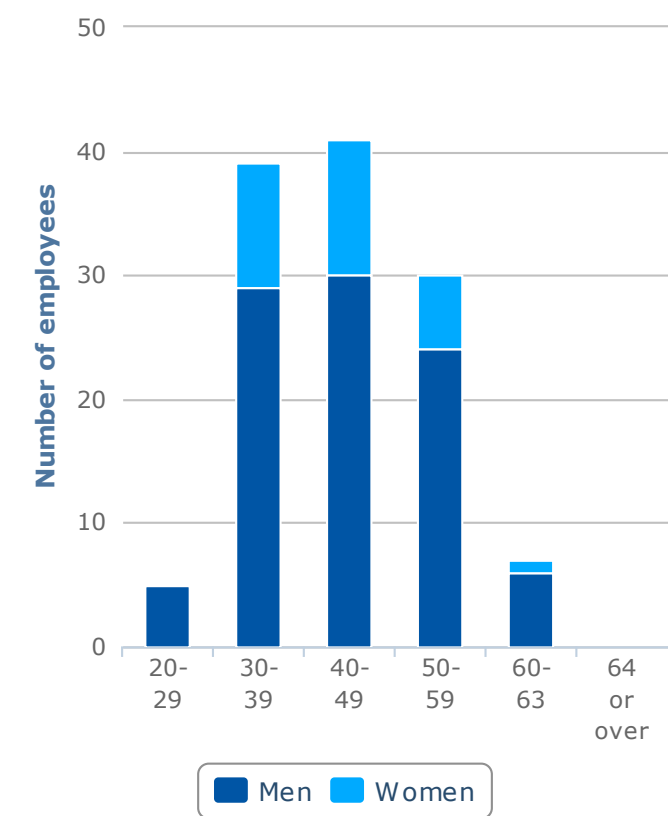
Number of personnel by Group companies on 31 Dec 2016, in permanent employment, total 122



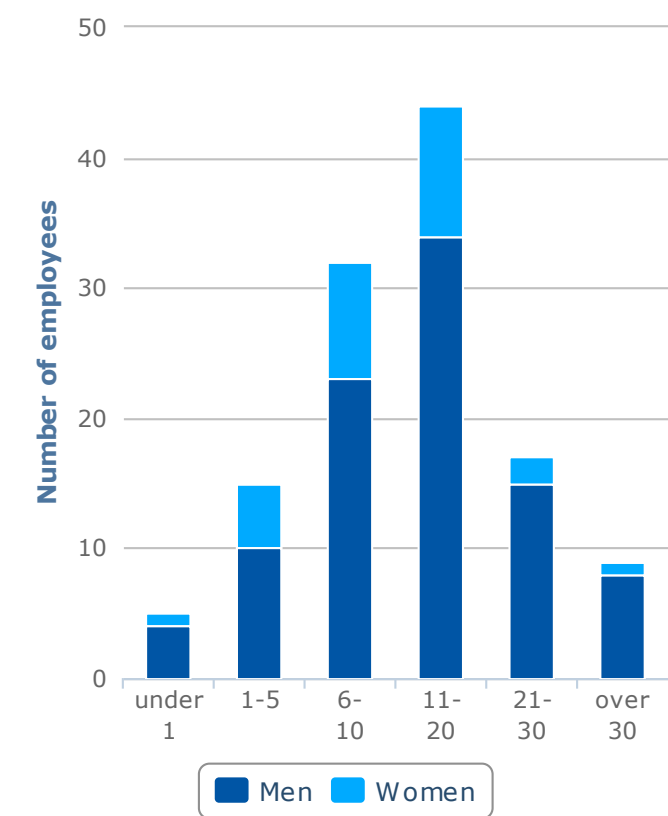
Number of personnel on 31 Dec in 2012 - 2016, in permanent employment



Breakdown of personnel by age on 31 Dec 2016, in permanent employment



Years of employment on 31 Dec 2016, in permanent employment





Environment

Pohjolan Voima's work to mitigate any environmental impacts is guided by the group's environmental policy. The environmental policy dictates the identification and investigation of the environmental impact and risks as well as the natural values related to our operations, and the opportunities for improving the efficiency of the production and utilisation of energy. When preparing impact assessments, we take into account the entire life cycle of the power plant, from project planning to decommissioning. We are committed to improving energy efficiency within all our energy production modes and at all of our facilities.

Environmental management systems certified in accordance with ISO 14001 are in use in the majority of Pohjolan Voima's production companies, which helps ensure achievement of environmental objectives and continuous improvement of operations. Five of our power plants certified their environmental systems in accordance with the new ISO 14001:2015 standard in 2016. Most of our production companies are committed to the energy efficiency systems ETJ+ or ISO 50001. Furthermore, the environmental management system of TVO (a joint venture of Pohjolan Voima) is EMAS registered.

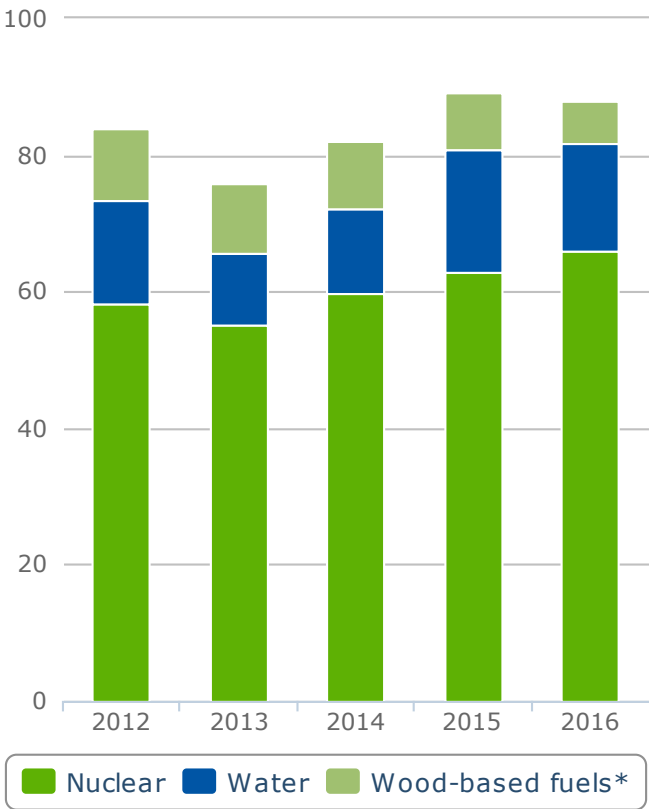
Read more about [responsibility](#) in our annual report.

Proportion of carbon-neutral production nearly 90%

The share of carbon-neutral energy sources in Pohjolan Voima's electricity production amounted to 88% in 2016 (2015: 89%). Electricity production forms in Pohjolan Voima's portfolio that are considered to be carbon-neutral are the emission-free hydropower and nuclear power and the electricity generated with wood-based fuels in thermal power plants. In recent years, the proportion of carbon-neutral energy sources has reached a new higher level due to the decreased use of coal in electricity production, and the good production levels of hydropower.

Carbon-neutral sources of Pohjolan Voima's electricity production in 2012 - 2016, per cent

*Wood-based fuels are carbondioxide-emission neutral.



Long-term management of the aquatic environment and cooperation to restore migratory fish

Hydropower production has regional and local impacts on waterways and fish stocks. In order to fulfil its obligation to sustain the fish stocks of the Kemijoki and Iijoki waterways and the sea area, PVO-Vesivoima stocked in total around 2.7 million fry in 2016. Of these, 0.9 million fry were stocked in the Kemijoki sea and river area. The amount comprised 17 per cent of the total of 5.2 million fry that were stocked together with Kemijoki Oy.



Good year in transporting river lampreys

The transport of river lamprey past dams and power stations was successful, even though the plans were not fully realised. 80,000 river lampreys were transported in the Iijoki river; the minimum required is 60,000 specimens. In the Kemijoki river, the joint obligation of PVO-Vesivoima and Kemijoki Oy is 100,000 specimens; the total was 122,000 transported river lampreys. The obligations are evened out between years; in good years, the number transported exceeds the obligation. Due to repeated transport deficit, the catching operations at the Isohaara power plant have been intensified. The results from new catching locations and methods have been encouraging.

In 2016, inspections in compliance with the Dam Safety Act, to be held every five years, took place at the Raasakka dam. In addition to the obligatory aquatic environment management work, we engage in voluntary environmental management within cooperation projects and participate in monitoring and research of the aquatic environment.

A depression was observed in the retaining earth dam of the Melo power plant. The depression has been filled and the dam has been strengthened by concrete and bentonite grout. Repair and monitoring of the earth dam has been carried out in cooperation with fire safety authorities and dam specialists. The dam repairs have not affected the environment or the power generation operations at the power plant. The improvement of the dam continues.

Ijoen otva project – for Iijoki river, together

Pohjolan Voima's hydropower company PVO-Vesivoima participates in a three-year Iijoki waterway vision project, called Ijoen otva, together with the municipalities in the area. The project was launched at the end of 2015 under the administration of the Oulu Regional Council. The main objectives of the project include achieving a shared vision of the waterway and the promotion and implementation of measures to restore migratory fish and to increase the value of the river.

A key project to restore migratory fish was prepared in 2016 within the Iijoen otva project. The key project includes a stocking programme, downward migration solutions for young salmon and trout, transportation over dams, measures to be carried out in the old channels of Raasakka and Maalismaa, and the fishway at Raasakka. Many stakeholders in the river region are represented in the Iijoen otva committee to prepare the project.

Cooperation committee to revive migratory fish stocks in the Kemijoki river

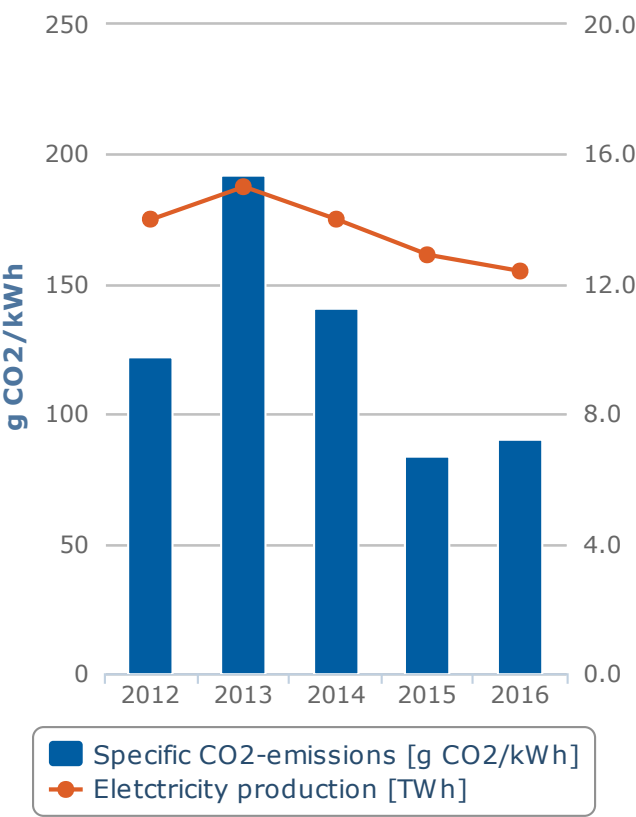
PVO-Vesivoima participates in a regional cooperation committee coordinated by the Regional Council of Lapland to steer the preparation of an action plan to revive the migratory fish stocks in the Kemijoki and Ounasjoki water systems. The committee also prepares projects in order to submit applications for funds within government key projects. The action plan preparation work, which will take 18 months, is funded by Kemijoki Oy and PVO-Vesivoima Oy.

Emissions from thermal power going down

Pohjolan Voima's thermal power plants use wood fuel, peat, coal and refuse-derived fuels as primary fuels and some natural gas and oil as auxiliary fuels. The most significant environmental impact of thermal power production concerns the atmosphere. The power plants' emissions into the air vary according to the fuel and the production volumes of electricity and thermal power.

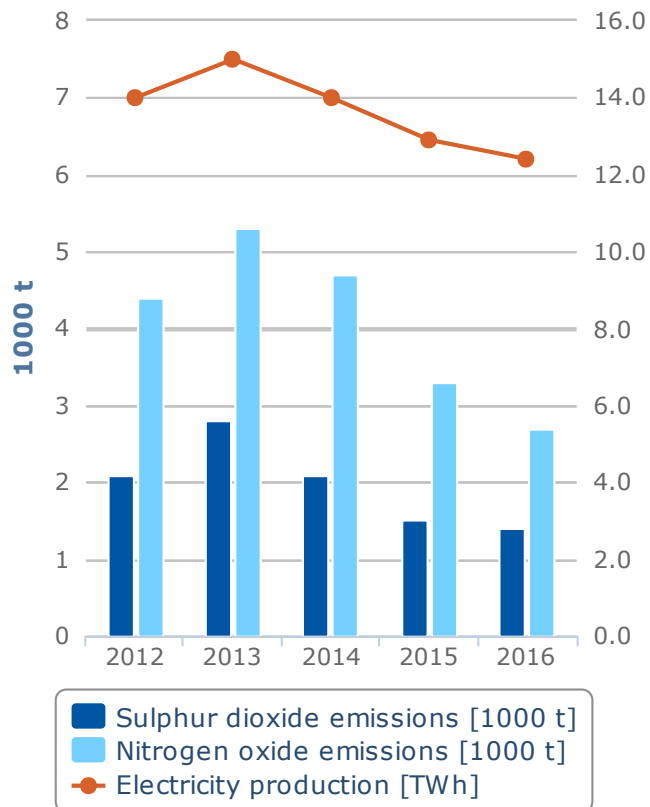
Carbon dioxide emissions from thermal power production were 1.6 million tonnes in 2016. The carbon dioxide emissions were lower in the previous year mainly due to the lower volume of coal that was used. In 2016, the characteristic carbon dioxide emissions from electricity production were 90g CO₂/kWh.

Pohjolan Voima's specific carbon dioxide emissions from electricity production in 2012 - 2016

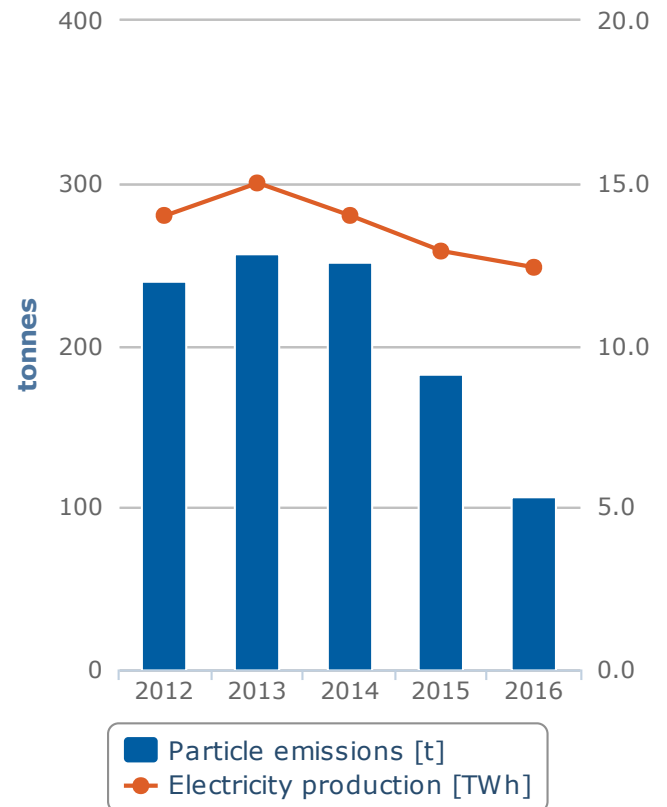


Other emissions into the air decreased to some extent in comparison to the previous year. Sulphur dioxide emissions were 1.4 thousand tonnes, nitrogen oxide emissions were 2.7 thousand tonnes and particle emissions were 0.1 thousand tonnes.

Acidifying emissions from Pohjolan Voima's electricity and heat production in 2012 - 2016



Particle emissions from Pohjolan Voima's heat and electricity production in 2012 - 2016



The Industrial Emissions (IE) Directive, which entered into force in January 2011, poses a major challenge to the future of thermal power production. In Finland, the directive has been enforced through the upgrade of the Environmental Protection Act and some related decrees. The Directive establishes rigorous requirements on power plants' emissions into the air. These requirements have been applied to existing power plants since the beginning of 2016.

Some of the power plants of Pohjolan Voima are included in the national IE Directive transition plan approved by the European Commission in spring 2014. The transition plan allows the committed power plants some flexibility in the adoption of the new rigorous emission limits, with the transition period ending in June 2020.

Cutting nitrogen oxide (NOx) emissions is a major challenge to many Pohjolan Voima's boilers. Furthermore, the IE Directive establishes that BAT conclusions made on the basis of the Best Available Techniques reference documents will become binding. The EU is currently updating the reference document on best available techniques for large combustion plants (LCP-BREF). Based on the draft reference document, the emission limits are expected to become more stringent.

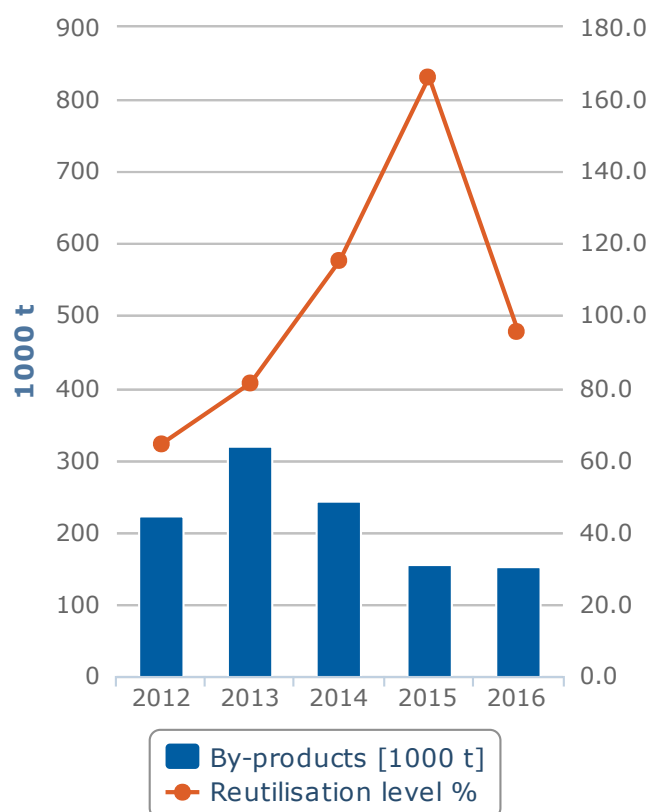
Pohjolan Voima is investigating the possibilities of achieving the emission limits in a financially and technically feasible manner. It has been estimated that the reference document will be published in the second half of 2017, and the power plants will have four years to adapt to the new tighter emission limits.

Utilisation of by-products at a good level

A total of 152 thousand tonnes of fly ash, bottom ash and gypsum were produced; fly ash and gypsum as by-products from flue gas cleaning in the context of the power plants' combustion process. Of this volume, 96% was reutilised in earth construction, the construction industry or as forest fertiliser in 2016. Nearly all the generated by-products have been utilised. In previous years, the utilisation rate has been more than 100% due to the utilisation of by-products from interim storage accumulated earlier.

Our aim is to reuse a maximum share of the by-products of thermal power production as raw material that could replace non-renewable natural resources, such as rock and stone.

Usage of by-products and reutilisation levels in 2012 - 2016



Nuclear power production complied with environmental permits

The operations of the Olkiluoto nuclear power plant units owned by TVO, a joint venture partially owned by Pohjolan Voima, complied with the company's environmental policy, environmental permits and environmental management system. The cleaning efficiency value for biological oxygen demand at the sanitary water treatment plant fell slightly short of the limit on one occasion. The limits set for the annual average cleaning efficiency value were, however, achieved.

The greatest environmental impact of the Olkiluoto nuclear power plant results from the heat released into the sea via cooling waters; any other environmental effects are negligible. Radioactive emissions into the air and water were below the limits set by authorities.

In December, the Southern Finland Regional State Administrative Agency issued decisions on the revision of environmental permit regulations for Olkiluoto. The decisions concern the content of the environmental permit and the water permit applied to the discharge of cooling water.

Read more at www.tvo.fi



Investments

We actively seek, design and implement responsible energy solutions to respond to any challenges that may arise at our power plants in the future. We continuously develop our existing capacity and manage the entire lifecycle of our power plants. In this millennium, we have invested €4 billion in carbon-neutral hydropower, thermal power and nuclear power. Of this, renewable energy accounts for €1.6 billion. The share of our carbon-neutral production will increase to 90% within the next few years.

Our most important investment project is Olkiluoto 3 by TVO, currently in the testing phase. In hydropower operations, we have launched the modernisation of the automation systems at the Isohaara power plant. Länsi-Suomen Voima, partially owned by Pohjolan Voima, has built a new power plant unit at the Harjavalta hydropower plant. In thermal power, we invested in solutions to improve the competitiveness and efficiency of the energy production at our plants, reducing emissions at the same time.

Visit our website [to read more about our investments in energy efficiency.](#)

Modernisation of automation at Isohaara hydropower plant has begun

The automation systems of the Isohaara hydropower plant on the Kemijoki river are replaced in 2016 and 2017. The project involves the automation systems of generators 3 and 4 at Vallitunsaari in Isohaara, which date back to the early 1990s. The modernisation project will secure the production and control capacity of the power plant in the generation of renewable Finnish load-following power, and will also result in more efficient monitoring of the equipment.



More efficient hydropower production through modernisation

Modernisation of the automation at the Isohaara hydropower plant will improve the efficiency of production operations and provide new opportunities for remote maintenance work.

Visit our website to read more about the modernisation of the automation systems at Isohaara.

[Read more](#)

Preparations of the Kollaja project ended

We discontinued the preparation of the Kollaja project after a decision by the Finnish government in September 2016 that the Rapids Protection Act will not be revised. We had proposed updates to the Rapids Protection Act to allow the construction of power plants at existing dams, as well as building the Kollaja reservoir and power plant in Pudasjärvi under strict criteria.

We had been preparing the Kollaja project for several years. The project would have increased the volume of available load-following capacity by 100 MW, which would have constituted a major proportion of the domestic load-following capacity needed in Finland in the near future. The project would also have been an important addition to the economy of the Oulu region. The effects of the project were investigated and the project was developed on the basis of extensive and ground-breaking research and surveys. Based on the research results, the project could have been implemented while also respecting the natural values and protecting the rapids and habitats of fish.

New power plant unit commissioned at the Harjavalta hydropower plant

A new power plant unit was commissioned at the Harjavalta hydropower plant of Länsi-Suomen Voima, partially owned by Pohjolan Voima, in September.

The new unit is part of a considerable renovation project currently in progress at the power plant. The project includes the construction of a new generation and the overhaul of the two existing lines between 2013 and 2017. After the completion of the project, the total output of the power plant will be 110 MW, which means a 10% increase for the annual production volume.

Investment in the use of recycled fuel as supplementary fuel in Hämeenkyrö

Hämeenkyrön Voima invested in a reception system for recycled fuel at its biopower plant. The use of recycled fuel as a supplementary fuel for the power plant began at the end of 2016. Wood-based fuels will remain the power plant's primary fuels.

The new reception system for recycled fuel and the more precise flue gas emission measurement equipment were completed late in 2016. The investment will decrease total emissions from the plant. The increased share of supplementary fuel will improve the competitiveness of the power plant.

The biopower plant of Hämeenkyrön Voima produces process heat for the Kyro mill of Metsä Board Oyj, district heating for the customers of the Leppäkosken sähkö power utility, and electricity for both of these.



Did you know: What is recycled fuel (SRF)?

High-quality recycled fuel purchased from regional producers consists of separately collected and sorted waste from trade and industry as well as wood from demolished buildings, which is well suited for energy production.

Recycled fuel is used as supplementary fuel at the Hämeenkyrö biopower plant. Wood-based fuels are the power plant's primary fuels.

Heat exchanger installed by Kymin Voima to increase the production of district heat from biofuels

A new heat exchanger was added to the district heating system at the biopower plant of Kymin Voima at the beginning of 2016. The investment will allow the power plant to produce an increased volume of district heating energy in the winter. It also improves the reliability of district heat delivery.

The increased district heat production capacity of the Kymin Voima biopower plant reduces the emissions of the region's district heating systems, as it replaces fossil natural gas with wood-based fuels and peat.

The power output of the new heat exchanger is 75 MW. The Kymin Voima biopower plant produces process steam for the UPM Kymi mill and district heat for KSS Energia, as well as electricity.

Flexible and cost-effective generation

"The heat exchanger provides an opportunity to produce heat in a flexible and cost-effective manner. The new heat exchanger also makes it possible to produce district heat independently of the turbine, which means that district heat production will also be possible during turbine maintenance," says CEO **Antti Rainio** of Kymin Voima Oy.

Investment in LNG as back-up fuel for Porin Prosessivoima's power plant

Porin Prosessivoima invested in oil boiler modification at its power plant in the Kaanaa industrial area in Pori. The modification allowed replacing the heavy fuel oil, previously used as the back-up fuel at the plant, with liquefied natural gas (LNG) in July. Wood-based fuels will remain the primary fuel of the biopower plant.

The change of back-up fuel to adopt LNG will reduce emissions from the plant and improve the efficiency of the power plant.

A full revision was also completed for the power plant's turbine during the annual maintenance outage.

The bioenergy plant of Porin Prosessivoima generates energy for the industry in the Kaanaa and Pihlava districts of Pori, and district heat for Pori Energia Oy's district heating network.

The 6 kV switching station replaced at Laanilan Voima's power plant

Laanilan Voima Oy will replace the 6 kV switching station at its bioenergy plant, located in the Laanila industrial district in Oulu, in 2016–2017. The replacement will help secure the availability of the power plant and the power distribution in the area. "The investment is part of the systematic maintenance programme of the power plant.

We will also invest in the continued reliability of the Pyroflow boiler for example by replacing boiling and heat transfer surfaces. The work also included modernisation of the solid fuel supply system and improvement of combustion control. The investments improved the control of the boiler, reduced flue gas emissions and increased the efficiency of the plant.

Laanila biopower plant produces heat and electricity for companies in the Laanila industrial district in Oulu and for Oulun Energia. The employees of Laanilan Voima also maintain Oulun Energia's Laanila eco power plant.

TVO prepares for the renewal of the operating licenses for OL1 and OL2

TVO continued the preparations for the renewal of the operating licenses for OL1 and OL2 by carrying out plant modification projects to further improve the safety of the plant units during possible but unlikely accident conditions where several safety systems would be lost simultaneously. TVO submitted an application for operating licenses for OL1 and OL2 to the Ministry of Employment and the Economy on 26 January 2017, to be subjected to the Finnish government for a final decision. The operating license being applied for will extend to 2038. The currently valid 20-year operating license must be renewed by the end of 2018.

Olkiluoto 3 EPR proceeds towards commissioning

In 2016, the Olkiluoto 3 EPR plant unit continued to prepare for production operations. Most of the construction works for the plant unit have been completed. The installation of the electrical systems, the instrumentation and control system (I&C), and mechanical systems is still in progress. The plant supplier began the test operation of the operating automation systems in January, and the testing of process systems in April. TVO submitted the plant unit's operating license application to the Ministry of Employment and the Economy in April. TVO expects to receive the operating license in the first half of 2018. According to the plant supplier's schedule, regular production operations will begin at the plant unit late in 2018.

The number of personnel at the construction site was approximately 2,000 at the end of the period under review. Safety at the site remained at a good level.

Read more at the [TVO website](#).

Posiva began the construction of a final repository for spent nuclear fuel

Posiva Oy will manage the final disposal of the spent nuclear fuel generated at its owners' power plants, TVO's Olkiluoto NPP and Fortum's Loviisa NPP. The repository is located at Olkiluoto.

Posiva was the first in the world to begin the construction of a final repository for spent nuclear fuel after the Finnish Radiation and Nuclear Safety Authority (STUK) issued a decision to allow the work under the construction license to begin.

Posiva's subsidiary Posiva Solutions, established in 2016, focuses on selling the know-how and consultation services based on the experience accumulated in the planning, research and development of the final disposal of spent nuclear fuel. In June, Posiva Solutions signed a service agreement on providing specialist services in the area of final disposal of spent nuclear fuel to Fennovoima. In October, a service agreement was signed with SÚRAO, a Czech radioactive waste disposal organization.

Read more at the [Posiva website](#).

Financial statements 2016

Key figures (IFRS) of Pohjolan Voima Group 2016

IFRS	2016*	2015*	2014	2013	2012
Turnover, € million	512	573	643	722	838
Operating result, € million	-4	-3	3	23	10
Net interest-bearing liabilities € million	881	873	920	1 017	1 083
As percentage of turnover, %	172	152	143	141	129
Equity ratio, %	40	42	41	42	35
Total assets, € million	2166	2296	2595	2577	2 398
Investments, € million	11	18	19	24	36
Average number of personnel	149	199	217	270	454

*Includes continuing and discontinued operations.

The Annual Report of the Board of Directors and the Financial Statements

Read more on the Annual Report of the Board of Directors and the Financial Statements at our online-annual report. They are also available in pdf-format. You can download the entire annual report or include selected pages into a pdf-document at the [Download center](#).

▸ Annual report by the Board of Directors

Financial Statements 2016

- Consolidated statement of comprehensive income
- Consolidated balance sheet
- Consolidated statement of cash flows
- Consolidated statement of changes in equity
- Notes to the consolidated financial statements
- Parent company financial statements (FAS)
- Board of Directors' dividend proposal
- Auditor's Report

Annual Report by the Board of Directors 2016

Operating environment

In 2016, electricity consumption in Finland was 85.1 TWh (82.5 TWh in 2015). Finnish electricity production totalled 66.1 (66.2) TWh, while net imports into Finland amounted to a record volume of 19.0 (16.3) TWh. Imported electricity covered 22.3% (19.8%) of Finnish electricity consumption. Most of the imported electricity came from Sweden. In 2016, power consumption in Finland increased by 3.1% from the previous year. Industrial power consumption increased by 1.6% and the power consumption of other sectors by 4.6% from the previous year. Approximately half of the increase in total consumption can be explained by the higher need for heating when compared to the previous year.

Nord Pool Spot trade amounted to 505 TWh (489 TWh). The annual average system price was €26.91 (€20.98) per MWh, while the annual average of the Finnish area price was €32.45 (€29.66) per MWh. The low water levels in Sweden, the increased fuel prices and the increased consumption resulted in higher prices of electricity in the Nordic countries.

The EUA emission allowance price remained low throughout the year and varied between €3.87 and €8.33.

Changes to the subsidiary system for wood chip-fuelled production and a lower taxation level for peat entered into force on 1 March 2016.

The Finnish Parliament has begun the processing of a national energy and climate strategy to 2030. The financial investments necessary for the implementation of the strategy are expected to be discussed by the government in spring 2017. In the future, investment support for renewable energy will be primarily targeted at the commercialisation of new technology and at the effort sharing sector. In combined heat and power production, wood chip fuel and the by-products of forest industry take priority. Legislation on forbidding the use of coal in heat and power production is currently being prepared. The prohibition would not be applied to exceptional situations or situations with relevance to security of supply.

The Emissions Trading Directive is currently under review by the European Parliament and the Council, and a decision is expected early in 2017. Open issues include the emission reduction factor, taking into account the Paris 5-year reviews, gradual decrease of free allocation, the impact on the market stability reserve, free distribution of district heating, and controlling the impact of overlapping control measures. Possible inclusion of waste burning operations into emissions trading is also being discussed.

In November 2016, the European Commission published a clean energy package (the Winter Package). The processing of the proposals contained in the package is beginning in the European Parliament and the Council. The most important sections of the Winter Package include: recast of the Renewable Energy Directive which includes a proposal for sustainability criteria for biomass, revision of the Energy Efficiency Directive and an electricity market section including a recast of electricity market regulation and directive as well as the ACER regulation, and a proposal for a regulation on risk-preparedness in the electricity market.

The agreement negotiated at the 2015 United Nations Climate Change Conference in Paris entered into force in November 2016 after ratification by over 90 countries. The agreement covered 66 per cent of global emissions.

Pohjolan Voima's heat and power production

In 2016, Pohjolan Voima's total electricity supply was 13.4 (14.1) TWh. The Group's own electricity production accounted for 12.8 (13.3) TWh, of which the parent company's supplies to its shareholders were 12.4 (12.9) TWh. The subsidiaries supplied 0.5 (0.4) TWh to their other shareholders. Purchases from the Nordic electricity markets were 0.5 (0.8) TWh, and sales amounted to 0.5 (0.4) TWh. Heat deliveries were 5.5 (6.3) TWh.

Nuclear power made up 60.8% (57.4%) of the electricity supply. Teollisuuden Voima's Olkiluoto nuclear power plant generated 14.4 (14.3) TWh of electricity, of which Pohjolan Voima obtained 8.1 (8.1) TWh in accordance with its shareholding. The joint capacity factor of the Olkiluoto plant units was 93.0% (93.0%).

Hydropower accounted for 2.0 (2.3) TWh, or 14.8% (16.3%), of the electricity supply. The overall production volume of hydropower decreased from the previous year's record numbers, but remained at an excellent level due to the rain received in the first half of the year and in the summer.

Pohjolan Voima produced 0.4 (0.4) TWh of condensing power, which represented 3.0% (2.8%) of the electricity supply. A total of 2.3 (2.5) TWh of electricity was generated by combined heat and power (CHP) plants. The change in the production volume of combined heat and power plants was brought about by the divestment of Keravan Lämpövoima Oy, Järvi-Suomen Voima Oy and Wisapower Oy in 2015.

Electricity supply (GWh)	2012	2013	2014	2015	2016
Nuclear power	8,165	8,296	8,372	8,086	8,136
Hydropower	2,143	1,566	1,745	2,297	1,983
CHP	3,266	3,502	3,254	2,533	2,313
Condensing power	995	2,193	1,200	388	396
Purchases	5,613	673	753	790	545
Total	20,182	16,229	15,324	14,094	13,373

Investments

The total investments of the Pohjolan Voima Group, excluding financial investments and the purchase of emission allowances, amounted to €11.2 (18.1) million.

Laanilan Voima invested a total of €3.0 million in a power distribution system and the improved reliability of the Pyroflow boiler. Porin Prosessivoima (PPV) carried out full revision of the turbine and converted the back-up boiler from an oil-based system to burn natural gas instead. PPV's investments totalled €3.0 million. Hämeenkyrön Voima invested €1.8 million on a reception system for recycled fuel. The Group's remaining investments were made in replacements and renovations.

Between 2004 and 2016, Pohjolan Voima has invested a total of €720.6 (720.6) million in the new OL3 nuclear power plant that is currently under construction. The investments are based on the OL3 financing plan, according to which the equity required for the investment is accumulated along with the progress of the project.

Research and development

Research and development expenditure was €0.1 million (2015: €0.3 million and 2014: €0.4 million).

Research and development efforts focused on issues such as investigating technological options for meeting the increasingly stringent emission restrictions of the Industrial Emissions Directive.

Personnel

The average number of employees working for the Group was 149 (2015: 199 and 2014: 217), including discontinued functions. The Group's salaries and fees for the financial period, including discontinued functions, totalled €13.8 million (2015: €16.3 million and 2014: €15.4 million).

The average number of employees working for the parent company was 65 (in 2015: 83 and 2014: 95). The Group's salaries and fees for the financial period totalled €6.1 million (2015: €6.8 million and 2014: €7.9 million).

The average age of the personnel in permanent employment was 45 (46) years.

Environment

Environmental management systems certified in accordance with ISO 14001 are in use in the majority of Pohjolan Voima's production companies, which helps ensure achievement of environmental objectives and continuous improvement of operations. Five of our power plants certified their environmental systems in accordance with the new ISO 14001:2015 standard in 2016. Most of our production companies are also committed to the energy efficiency systems ETJ+ or ISO 50001. Furthermore, the environmental management system of TVO (a joint venture of Pohjolan Voima) is EMAS registered.

A depression was observed in the retaining earth dam of the Melo power plant. The depression has since been filled and the dam has been strengthened by grouting. Repair and monitoring of the earth dam has been carried out in cooperation with fire safety authorities and dam specialists. The dam repairs have not affected the environment or the power generation operations at the power plant. The improvement of the dam continues.

Water levels were regulated and hydropower plants operated in compliance with the permit conditions. In order to sustain the fish stocks in the Kemijoki and Iijoki rivers and the sea area, 2.7 (2.8) million fry were stocked. The stocking was carried out almost according to plan. There is a deficit in the number of river lampreys transported past dams and power stations in both the Kemijoki and the Iijoki rivers. The river lamprey catching plans were not completely realised, but more river lampreys than the obligatory amount were still transported.

PVO-Vesivoima participated in a three-year waterway vision project together with municipalities of the Iijoki region. The project was launched by the Oulu Regional Council in late 2015. PVO-Vesivoima also participated in a regional cooperation committee coordinated by the Regional Council of Lapland to steer the preparation of an action plan to revive the migratory fish stocks in the Kemijoki water system. The committee also prepares projects in order to submit applications for funds within government key projects. The action plan work is scheduled to last 1.5 years.

All the thermal power plants operated by the Group fall within the sphere of the Emissions Trading Act. Carbon dioxide emissions from internally produced electricity and heat 1.6 (1.5) million tonnes. The Notes to the Financial Statements only report the CO₂ emissions of the subsidiaries, which amounted to 0.7 (0.7) million tonnes. These figures do not include the emissions of 0.0 (0.2) million tonnes from PVO-Lämpövoima, which is reported as a discontinued function. Other emissions into the air decreased. Sulphur dioxide emissions were 1.4 (1.5) thousand tonnes, nitrogen oxide emissions 2.7 (3.3) thousand tonnes and particle emissions 0.1 (0.2) thousand tonnes.

The new limits for emissions into the air, set out in the Industrial Emissions (IE) Directive, entered into force in Finland at the beginning of 2016. For the majority of the Group's power plants, the most difficult issue is the reduction of nitrogen oxide (NOx) emissions, and studies are being conducted on the available technical solutions. Some facilities of Pohjolan Voima are included in the national IE Directive transition plan approved by the European Commission on 10 March 2014. The transition plan provides some flexibility for the adoption of the new emission limits. The transition period is from 1 January 2016 to 30 June 2020. During this period, the total sulphur dioxide, nitrogen oxide and particle emissions in tonnes as well as percentages will be monitored.

Appeals submitted by Kymin Voima and Laanilan Voima with regard to the 2015 environmental permit decisions are currently being processed by the Vaasa Administrative Court. An appeal submitted by Kaukaan Voima is being processed by the Supreme Administrative Court.

Pohjolan Voima and its subsidiaries, associated companies and joint ventures are not aware of having any known environmental liabilities that have not been covered. Pohjolan Voima's more detailed environmental information is published on the company's website at www.pohjolanvoima.fi. Teollisuuden Voima provides information on the environmental issues related to nuclear power generation on its website at www.tvo.fi and in a separate corporate social responsibility report.

Risk management

The aim of risk management is to ensure realisation of the strategy and achievement of the business goals, as well as to safeguard continuity and disturbance-free operations. Risk management takes place in line with the Group's risk management policy. The risk management complies with a distributed operating model.

Risks that may jeopardise the attainment of objectives are estimated and measures for their management are defined. The significance of risks is estimated as a sum of the likelihood of occurrence and impact, not an estimate of the impact in euros.

All Pohjolan Voima companies are covered for risks of damage through measures related to maintenance, occupational safety, adequate training provided to the personnel and other necessary measures, as well as through insurance in line with the Group's insurance policy.

Most significant risks and uncertainties

The Group's most significant risks are connected with the completion of the OL3 project of Pohjolan Voima's joint venture Teollisuuden Voima. The original plan was to begin commercial electricity production at the plant unit in late April 2009, but the completion of the plant unit has been delayed. In September 2014, Teollisuuden Voima received an updated schedule from the plant supplier. It stated that regular electricity production will start in late 2018. The delay gives rise to additional costs and losses, for which TVO has demanded compensation from the turnkey plant supplier in an arbitration procedure in compliance with the rules of the International Chamber of Commerce (ICC).

Changes in Group structure

On 29 December 2016, Pohjolan Voima and Kokkolan Energia Oy signed a deed of sale on selling the entire share capital of Pohjolan Voima's subsidiary Kokkolan Voima Oy to Kokkolan Energia. Ownership of the shares was transferred on 31 December 2016.

Finances

Pohjolan Voima operates on an “at-cost” basis. Shareholders pay the fixed costs in accordance with their ownership share, irrespective of whether they have used their capacity or energy share, as well as variable costs according to the energy supplied. As a result of this operating principle, it is irrelevant to present any financial key indicators to understand the companies’ business, financial status or result.

The aims and risks of Pohjolan Voima’s financing operations have been defined in the financing policy approved by the parent company’s Board of Directors. The financing risks of Pohjolan Voima’s business operations relate to liquidity, market and credit risks. The management of financing risks has been discussed in Note 3 (Management of financing risks) to the consolidated financial statements.

The parent company has secured its liquidity with a €300 (€300) million standby credit agreement, of which €300 (€300) million were available at the end of the year. The agreement will remain valid until June 2021, and includes an extension option of one year. For short-term funding, the Group was able to rely on domestic commercial paper programmes of €300 (300) million, of which €190 (€183) million was unused. The Group’s liquidity is good. Net interest-bearing liabilities at the end of the year stood at €880.8 (€872.7) million. There were no liabilities involving an exchange risk.

At the end of the year, the Group had an equity ratio of 39.8% (41.7%).

The consolidated result of the continuing functions was €507.0 (€499.7) million.

The operations of PVO-Lämpövoima Oy, which was closed down in 2015, have been reported in the Group’s financial statements as discontinued operations.

The consolidated result for the financial period was -17.1 (-13.3) million euros. The loss for the financial year was due to the results from associated companies.

Share capital and share issues

No share issues took place during the financial year.

The company decreased the number of series C shares from 7,107,592 to 2,224,498, and the new number was registered on 25 May 2016. After the decrease, a total of €50.0 million was paid to shareholders from the share capital fund for C series as returned capital.

The company decreased the number of series M shares from 1,736,679 to 307,707, and the new number was registered on 25 May 2016. After the decrease, a total of €13.6 million was paid to shareholders from the share capital fund for M series as returned capital.

By a decision of the general meeting, €4.8 million of capital was returned to the K1 series shareholder from the share capital fund and €2.5 million from the reserve for invested non-restricted equity in December 2016.

Table: Pohjolan Voima Oy shareholders (general shareholding)

Shareholder	Shareholding, % 31/12/2015	Shareholding, % 31/12/2016
EPV Energia Oy	6.419	5.462
Etelä-Suomen Voima Oy	1.858	1.434
Helen Oy	0.849	0.598
Ilmarinen Mutual Pension Insurance Company	3.884	1.872
Kemira Oyj (incl. Neliapila pension foundation)	4.346	4.984
Kokkolan Energia Oy	2.328	2.409
Kymppivoima Oy	9.333	5.765
Metsä Group (Metsäliitto. Metsä Fibre. Metsä Board Oyj)	3.013	3.644
Myllykoski Oyj*)	0.874	0.61
Oulun Energia Oy	1.744	0.926
Outokumpu Oyj	0.081	0.098
Oy Perhonjoki Ab	2.298	2.183
Town of Pori	1.755	1.412
Rautaruukki Oyj	0.064	0.078
Stora Enso Oyj	15.17	15.544
UPM Energy Oy*)	0	47.346
UPM Paper ENA Oy*)	0	3.533
UPM-Kymmene Oyj*)	42.825	0
Vantaan Energia Oy	0.314	0.221
Yara Suomi Oy (incl. pension foundation)	1.550	1.881
Pohjolan Voima Oy**)	1.295	0

*) The company is part of the UPM-Kymmene Group.

**) The H series shares were purchased from the shareholders on 22 December 2015 and cancellation of the shares was pending on 31 December 2015. The shares were cancelled on 5 January 2016.

Management

The Annual General Meeting of 22/03/2016 elected the following members to the Board of Directors: Tapio Korpeinen, Executive Vice President (UPM-Kymmene Corporation); Seppo Parvi, Chief Financial Officer (Stora Enso Oyj); Hannu Anttila, Executive Vice President, Strategy (Metsä Group); Jukka Hakkila, Group General Counsel (Kemira Oyj); Anders Renvall, Managing Director (Kymppivoima Oy); Tapani Sointu, Vice President (UPM-Kymmene Corporation); Rami Vuola, President & CEO (EPV Energia Oy); Markku Vartia, Director, Energy Business (Vantaan Energia Oy) and Kari Hannus, Deputy Mayor (City of Pori).

At the Board meeting on 22/03/2016, Tapio Korpeinen was elected Chairman of the Board and Seppo Parvi was elected Deputy Chairman. The Board of Directors convened 12 (15) times in 2016. Lauri Virkkunen, M.Sc. (Eng.), M.Sc. (Econ.) acted as the company's President and CEO.

Major legal actions pending

In 2012, TVO filed a claim and a rejoinder in the arbitration procedure compliant with the rules of the International Chamber of Commerce (ICC) on the delay of the construction of the OL3 plant unit and the related costs. In July 2015, TVO updated its estimated costs and losses that now amount to approximately €2.6 billion until December 2018. The compensation demand updated by the plant supplier in February 2016 amounted to approximately €3.52 billion.

The court of arbitration issued a final and binding partial decision in November 2016. The partial decision applied to issues concerning the early stages of the dispute, including the schedule, licensing and licensability, and system design. In the partial decision, the majority of the issues were decided in favour of TVO, and the majority of the plant supplier's claims regarding these issues were rejected. The monetary claims made by the parties were not addressed in the partial decision. The arbitration proceedings are still ongoing, and other partial decisions are expected before the final decision, where the court of arbitration will define the compensation obligations of the parties.

TVO considers its claims to be well justified, and has found the plant supplier's claims to be without justification. The content of the partial decision confirms this view.

In September 2016, TVO filed an application with the Nanterre Commercial Court in France because TVO has not received detailed information from Areva on the reorganisation of Areva's business operations and the impact of the reorganisation on the OL3 project. The objective in filing the application is to receive speedy confirmation of all the necessary financial and other resources, with particular regard to expertise on EPR technology, are being directed to the finalisation of the OL3 project and ensuring its long-term operation, and that the plant supplier Areva-Siemens will fulfil all its obligations and responsibilities under the plant delivery contract.

By virtue of the plant delivery contract, the companies included in the plant supplier consortium (AREVA GmbH, AREVA NP SAS and Siemens AG) share the responsibility for meeting the contractual obligations.

TVO has not recorded any receivables or provisions on the basis of claims presented in the arbitration proceedings.

Events after the end of the financial period

On 26 January 2017, TVO submitted a new application for operating licenses for OL1 and OL2 with the Ministry of Employment and the Economy, to be subjected to the Finnish government for a final decision. The operating license being applied will extend to 2038. The currently valid 20-year operating license must be renewed by the end of 2018.

After the reporting period, in January 2017, the EU Commission made a conditional decision on the state aid. TVO requires that the restructuring respects the completion of the OL3 EPR project within the current schedule and that all liabilities of the plant contract are respected.

The shares of PVO-Alueverkko Oy owned by Powest Oy, which is part of the Group, were divested. Ownership of the shares was transferred on 31 January 2017. At the same time, Pohjolan Voima, PVO-Lämpövoima and PVO-Vesivoima sold their ownerships in power grids. The arrangements created a significant sales profit for Powest.

A fire took place at the Kaanaa industrial district in Pori on 30 January 2017, causing major damage to industries that use steam produced by Porin Prosessivoima. Steam deliveries to the Kaanaa industrial district have been interrupted until further notice. Survey of the damages resulting from the fire has begun. The length of the interruption to steam deliveries to the Kaanaa industrial district is not known.

In January 2017, PVO-Lämpövoima offered the Kristiinankaupunki and Pori Tahkoluoto coal-fired power plants for the next period of the power reserve system from 1 July 2017 to 30 June 2020. By the decision of the Finnish Energy Authority on 20 February 2017, neither of the power plants was selected. The power plants are currently in long-term reserve, and investigation of liquidation options continues. In financial statements, these power plants are valued according to the principle of lowest value.

Fortum Power and Heat Oy's Meri-Pori unit was approved for the power reserve system. The effects of the arrangement on the use of TVO's share of Meri-Pori will be established.

Future outlook

Teollisuuden Voima continues the implementation of the OL3 EPR nuclear power plant project and preparations for production operations as well as supporting the plant supplier in the completion of the project. The construction work for the plant unit has been for the most part completed. The installation of electrical systems, automation systems and mechanical components continues. In April 2016, TVO submitted the OL3 operating license application to the Ministry of Employment and the Economy. The government will decide on granting the operating license based on a proposal by the Ministry of Employment and the Economy. TVO expects to receive the operating license in the first half of 2018.

Posiva Oy has proceeded from the planning phase of the spent nuclear fuel disposal project to the concept and cost optimisation phase. The municipality of Eurajoki granted a building permit for a final repository for spent nuclear fuel in May 2016. Excavation of the foundations for an encapsulation plant began in December.

Posiva Solutions Oy, a subsidiary fully owned by Posiva, was founded in June 2016. The subsidiary focuses on selling the know-how and consultation services based on the experience accumulated in the planning, research and development of the final disposal of spent nuclear fuel.

Chairpersons of the main parties in the Finnish government, Sipilä, Soini and Orpo, decided on 15 September 2016 that the preconditions for a revision of the Rapids Protection Act do not exist. After the decision, the preparation of the Kollaja project was ended, and no resources for a relaunch of the project will be maintained.

The action plan included in the government programme contains the key project Nature policy based on trust and fairness (Luontopolitiikkaa luottamuksella ja reiluin keinoin). One of the actions included in this project is the revitalisation of migratory and endangered fish stocks by implementing a fishway strategy at selected pilot sites. It is expected that the Iijoki and Kemijoki projects could be included in the list of pilot sites which receive funding from the government key project.

Conclusions on the best available techniques for large combustion plants are expected in the first quarter of 2017. The conclusions would then enter into force late in 2017. Plant operations must comply with the related requirements within four years of this. Preparation of national guidelines began at the beginning of 2017. The document applies to 11 power plants of Pohjolan Voima, a total of 21 boilers. Pohjolan Voima continues the assessment of investment needs and prepares for the necessary licensing processes.

Proposal of the Board of Directors regarding the distribution of profits

The parent company's distributable funds on 31 December 2016 totalled €281,045,222.03, of which net profit for the financial period accounted for €-5,144,766.45. The Board of Directors proposes to the Annual General Meeting that the loss for the financial year be transferred to the retained earnings account and that no dividends be distributed.

FINANCIAL STATEMENTS 2016 (IFRS)

Consolidated statement of comprehensive income

1 000 €	Note	1.1. - 31.12.2016	1.1. - 31.12.2015
Continuing operations			
Sales	6	507 020	499 746
Other operating income	7	10 114	50 523
Materials and services	8	-400 716	-383 262
Personnel expenses	9	-11 340	-12 228
Depreciation, amortisation and impairment	10	-40 479	-39 884
Other operating expenses	11,12	-56 117	-93 082
Share of (loss)/profit of associates and joint ventures	13	-11 991	-740
Operating profit or loss		-3 509	21 073
Finance income	14	3 145	8 213
Finance costs	14	-15 879	-17 317
Finance costs - net		-12 734	-9 104
Profit before income tax		-16 243	11 969
Income tax expense	15	0	-59
Profit for the year from continuing operations		-16 243	11 910
Discontinued operations			
Profit/loss from discontinued operations		-859	-25 187
Profit for the year		-17 102	-13 277
Other comprehensive income:			
Items, that may be reclassified later to profit or loss			
Share of other comprehensive income of associates			
Cash flow hedging of the sold joint venture			
Changes in the fair value of available-for-sale financial assets	18	-217	-13 689
Cash flow hedging	18	-4 380	11 643
Other comprehensive income for the year		-4 597	-2 046
Total comprehensive income for the year		-21 699	-15 323
Profit attributable to:			
Owners of the parent		-17 491	-14 167
Non-controlling interest		389	890
		-17 102	-13 277
Total comprehensive income attributable to:			
Owners of the parent		-22 088	-16 213
Non-controlling interest		389	890
		-21 699	-15 323

Consolidated balance sheet

1 000 €	Note	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Intangible assets	16	283 920	288 270
Property, plant and equipment	17	564 446	601 767
Investments in associated companies and joint ventures	18	758 984	775 572
Available-for-sale financial assets	19	586	586
Loans and other receivables	20	324 291	342 621
Non-current assets total		1 932 227	2 008 816
Current assets			
Inventories	22	8 040	14 949
Trade and other receivables	20	152 097	164 028
Cash and cash equivalents	21	50 821	79 550
Current assets total		210 958	258 527
Assets held for sale	23	23 254	28 651
Total assets		2 166 439	2 295 994
Equity			
Equity attributable to owners of the parent	24		
Share capital		64 108	64 108
Share issue		49 305	49 305
Share premium		220 292	288 683
Reserve for invested non-restricted equity		286 190	297 894
Revaluation reserve		2 910	7 507
Retained earnings		198 039	206 347
Total		820 844	913 844
Non-controlling interests		41 035	43 175
Total equity		861 879	957 019
LIABILITIES			
Non-current liabilities			
Provisions	25	3 889	4 826
Deferred tax liabilities	26	843	853
Borrowings	27	1 084 562	1 053 437
Other non-current liabilities	27,29	3 626	3 359
Non-current liabilities total		1 092 920	1 062 475
Current liabilities			
Borrowings	27	138 339	213 636
Trade and other payables	28	72 742	62 864
Current liabilities total		211 081	276 500
Liabilities related to assets held for sale	23	559	0
Total liabilities		1 304 560	1 338 975
Total equity and liabilities		2 166 439	2 295 994

CONSOLIDATED STATEMENT OF CASH FLOWS

1 000 €	Note	2016	2015
Cash flows from operating activities			
Profit for the year		-16 243	11 910
Adjustments to the profit for the year	5	65 571	41 593
Change in net working capital	5	41 446	-15 093
Interest paid and other financial expenses		-15 219	-17 463
Interest received		2 996	3 372
Income tax paid		-57	-236
Net cash generated from operating activities		78 494	24 083
Cash flows from investing activities			
Purchases of intangible assets and property, plant and equipment (PPE)	16,17	-9 760	-19 346
Proceeds from sales of intangible assets and PPE	16,17	25 718	637
Proceeds from sales of available-for-sale financial assets	16,17	0	85
Proceeds from sale of subsidiaries	4	7 645	51 677
Equity refunds received		0	3 900
Loan repayments	20	1 941	45 091
Loans granted	20	-4	-60 425
Proceeds (+) or repayments (-) of short term investments		-73	-56
Dividends received		2	1
Net cash used in investing activities		25 469	21 564
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	24	0	62 934
Equity refunds received	23,24	-70 913	0
Acquisition of own shares	23,24	0	-50 789
Proceeds from borrowings	27,23	23 223	217 699
Repayments of borrowings	27,23	-22 520	-69 735
Repayment of finance leases	27,23	-13 572	-12 046
Proceeds (+) or repayments (-) of current liabilities	20,21	-39 534	-183 408
Dividends paid		-2 530	-632
Net cash used in financing activities		-125 846	-35 977
Net (decrease)/increase in cash and cash equivalents		-21 883	9 670
Cash and cash equivalents at beginning of year			
Change in cash and cash equivalents		77 155	77 340
Cash and cash equivalents of subsidiaries sold		-21 883	9 670
Cash and cash equivalents of subsidiaries sold		-2 406	-9 855
Cash and cash equivalents at end of year, continuing operations		52 866	77 155
Cash and cash equivalents, discontinued operations		-2 045	2 395
Cash and cash equivalents at end of year	21	50 821	79 550

Consolidated statement of changes in equity

1 000 €	Note	Share capital	Share issue	Share premium	Fair value reserve	Reserve for invested non-restricted equity	Equity loans	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interest	Total equity
Balance at 1.1.2015		64 912	109 537	336 778	9 553	243 347	35 109	214 017	1 013 253	51 373	1 064 626
Comprehensive income											
Profit or loss								-14 167	-14 167	890	-13 277
Other comprehensive income:											
Cash flow hedges					11 643				11 643		11 643
Changes in the fair value of available-for-sale financial assets					-13 689				-13 689		-13 689
Total comprehensive income for the year		0	0	0	-2 046	0	0	-14 167	-16 213	890	-15 323
Transactions with owners											
Proceeds from shares issued	24	1 890	-60 232			61 044			2 702		2 702
Transfer to retained earnings						-6 497		6 497	0		0
Non-controlling interest of a liquidated and sold group companies									0	-8 456	-8 456
Acquisition and annulment of own shares		-741		-6 251		-43 797			-50 789		-50 789
Transfer to reserve for invested non-restricted equity		-1 953		-41 844		43 797			0		0
Repayment of equity loans	24						-35 109		-35 109		-35 109
Purchase of own shares from non-controlling interest	4	0		0		0		0	0		0
Transactions with owners total		-804	-60 232	-48 095	0	54 547	-35 109	6 497	-83 196	-8 456	-91 652
Dividends to non-controlling interest									0	-632	-632
Balance at 31.12.2015		64 108	49 305	288 683	7 507	297 894	0	206 347	913 844	43 175	957 019
Balance at 1.1.2016		64 108	49 305	288 683	7 507	297 894	0	206 347	913 844	43 175	957 019
Comprehensive income											
Profit or loss								-17 491	-17 491	389	-17 102
Other comprehensive income:											
Cash flow hedges					-4 380				-4 380		-4 380
Changes in the fair value of available-for-sale financial assets					-217				-217		-217
Total comprehensive income for the year		0	0	0	-4 597	0	0	-17 491	-22 088	389	-21 699
Transactions with owners											
Transfer to retained earnings	24					-9 183		9 183	0		0
Transfer to reserve for invested non-restricted equity				-18 391		18 391			0		0
Refund of reserves	24			-50 000		-20 912			-70 912		-70 912
Transactions with owners total		0	0	-68 391	0	-11 704	0	9 183	-70 912	0	-70 912
Dividends to non-controlling interest									0	-2 529	-2 529
Balance at 31.12.2016		64 108	49 305	220 292	2 910	286 190	0	198 039	820 844	41 035	861 879

Equity loans are recognized initially at fair value including transaction costs. The equity loans do not have a maturity date, and the debtor can repay the loan at will in one or several tranches. The debtor's Board of Directors can decide that relating interest will not be paid for a certain period. Unpaid interest does not accumulate to the next period.

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Notes to the consolidated financial statements

1 Summary of significant accounting policies

General information

Pohjolan Voima Oy (PVO) is a Finnish private limited liability company with domicile in Helsinki, Finland. Pohjolan Voima Oy and its subsidiaries form together the Pohjolan Voima Group.

Pohjolan Voima Group is a privately owned energy group. The production capacity of the Group consists of 28 power plants in 15 different locations. Energy is generated by hydropower, nuclear power and thermal power.

Copies of the consolidated financial statements can be obtained from www.pohjolanvoima.fi or from PVO's head offices, Töölönkatu 4, 00100 Helsinki, Finland.

These consolidated financial statements were approved for issue by PVO's Board of Directors on 28 February 2017, however, according to Finnish Limited Liability Companies Act the shareholders can edit or reject these financial statements at the annual general meeting.

Basis of preparation

The consolidated financial statements of Pohjola Voima Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The IAS and IFRS standards as well as and IFRIC and SIC Interpretations valid as at 31 December 2016 have been used in preparation of the financial statements. The consolidated financial statements also comply with the Finnish Accounting Act and Limited Liability Companies Act.

All amounts in the consolidated financial statements are presented in thousands of Euros.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting principles. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in section

"critical judgements in applying the entity's accounting policies and critical estimations and assumptions".

Cost-price principle

According to the Articles of Association of PVO, the Group supplies electricity and heat at cost price to the shareholders which means that it delivers the electricity it has produced or procured to its shareholders in proportion to their shareholdings in each series. The operating model of PVO is also called the "Mankala principle". The name is derived from a ruling issued by the Supreme Administrative Court in the 1960s, constituting a precedent. In this ruling, the shareholders of a company called Oy Mankala Ab were found not to have received taxable income when Mankala generated and supplied them with electricity at a price lower than the market price and the shareholders covered the company's costs on the basis of its Articles of Association.

Each of the shareholders of each series bears their share of the variable and fixed annual costs as specified in the company's legal documents. Parent company administrative costs are covered by a fixed yearly fee as defined by the company's legal documents.

In accordance with PVO's Articles of Association, each shareholder's share of the liability for the annual costs will always be limited to the amount corresponding to the proportion of its shareholding to all shares belonging to the same series, and another shareholder's failure will not increase the shareholder's liability based on shareholding. The shareholders are liable for costs specified in the Articles of Association paragraph 4.

Consolidation

Subsidiaries

The consolidated financial statements include Pohjolan Voima Oy and all its subsidiaries. Subsidiaries are those entities over which the Group has control. The Group has control over an entity if it has power over the entity; it is exposed or has rights to variable returns from its involvement with the entity and has the ability to use its power to affect the amount of its returns from the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances, distributions of profit and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless they relate to an impairment.

Associated companies and joint arrangements

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint arrangements are either joint operations or joint ventures. A joint venture is a contractual joint arrangement whereby the Group together with one or more parties has undertaken an economic activity that is subject to joint control and whereby The Group with other parties has rights to the net assets of the joint arrangement.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group's investment in associates and joint ventures includes goodwill identified at acquisition, net of any accumulated impairment losses. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests

The profit or loss for the period attributable to owners of the parent and non-controlling interest is disclosed in the statement of comprehensive income. Non-controlling interests are identified separately from the equity of the owners of the parent company in the statement of changes in equity.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that any amounts previously recognised in other comprehensive income are recognized as part of the gain or loss on sale.

Foreign currency translation

The functional and presentation currency of the parent company and all of the subsidiaries, associates and joint ventures is the euro. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated at the closing rate at the date of that balance sheet.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses relating to operations are included on the relevant line items above operating income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. Translation differences on non-monetary financial assets and liabilities held at cost are translated using the exchange rates prevailing at the dates of the transactions. There are no non-monetary financial assets or liabilities held at fair value denominated in foreign currencies.

Revenue recognition

The Group's energy operations are based on cost price. Sales of expert services relating to energy operations are not based on cost price. Revenues are based on the consideration received for delivered energy or provided services. All revenues are presented net of value-added taxes. Revenues are recognised, as follows:

Energy revenues and other revenues

Revenue for energy is recognised at the time of delivery. Revenue is recognised based on the delivered quantities. Service revenue mainly consists of administration, operating, maintenance and network service revenues. Revenue for services is recognised in the financial period when services have been rendered.

Other income

Revenue from activities outside the normal operations is reported in Other income. This includes recurring items such as rental income and non-recurring items such as gains on sale of property, plant and equipment. Rental income is recognised on a straight-line basis over the period of the lease agreement. The gain on sale of property, plant and equipment is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Research and development costs

Research and development costs are expensed as incurred and included in other operating expenses, except when the development costs are expected to generate probable future economic benefits. In this case the costs are recorded as intangible assets and amortised over their useful lives. There are no development costs currently in the consolidated financial statements that fulfil the criteria for recognition as an intangible asset.

Interest income and dividends

Interest income is recognised using the effective interest method. Dividends are recorded when the right to receive payment is established.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, unless they are directly attributable to construction of a power plant, in which case they are capitalized as a part of the cost of the asset.

Income taxes

PVO delivers electricity and heating to its shareholders at cost price. The shareholders are delivered a proportionate share of the energy generated or procured by PVO according to their proportionate ownership in the various series of shares. Based on the cost based pricing the Group does not pay any taxes on its energy related operations, therefore the Group does recognise any deferred tax assets or liabilities on these operations.

Income taxes and deferred taxes are recognised, on the other hand, on the services provided by the Group.

The tax expense for the period comprises current tax, relating to the current period and any adjustments made to taxes for the previous financial period, and deferred taxes. The current income tax charge is calculated on the basis of the tax laws enacted. The taxes for the current period are adjusted if necessary by the taxes related to the previous period.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or from the undistributed profits of the subsidiaries if it is not probable that the temporary difference will reverse in the foreseeable future. The most significant temporary differences for the Group arise from the depreciation of property, plant and equipment, losses carried forward and the fair valuation of assets at acquisition.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Intangible assets

Intangible assets are carried at historical cost, less government grants received, accumulated amortisation and impairment. Historical cost includes all costs directly attributable to the acquisition of the intangible asset. Intangible assets with a finite useful life are amortised using the straight-line method over the following estimated useful lives:

Computer software	3-10 years
Other intangible assets	5-10 years

No amortisation is recorded for goodwill and other intangible assets with infinite useful lives, instead these assets are tested annually for impairment. Intangible assets having infinite useful lives are water rights that have an infinite useful life based on the Water Act and certain utilisation rights for transmission roads and land based on the Act on the Redemption of Immoveable Property and Special Rights.

Emission allowances

Carbon dioxide (CO₂) emission allowances are included in the intangible assets. Emission allowances are recognised at cost, whether received free of charge or acquired from a third party. Emission allowances received free of charge are, in other words, recorded at zero. A short term liability is recognised to cover the obligation to return emission allowances. To the extent that Group already holds allowances to meet the obligation the liability is measured at the carrying amount of those allowances. Any shortfall of allowances held over the obligation is valued at the current market value of allowances. Emission right and the related liability are derecognised when they are returned to cover the obligation or when they are sold. Emission allowances are not amortised. The cost of the provision is recognised in the statement of comprehensive income within materials and services. Gains from sales of emission rights are presented in Other income.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less government grants received, less accumulated depreciation and any accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Borrowing costs directly attributable to the acquisition or construction of assets that necessarily take a substantial amount of time to get ready for their intended use are capitalised as part of the cost of the related asset. Additionally, the cost of an item of property, plant and equipment includes the discounted estimated cost of its dismantlement, removal or restoration.

Land and water areas are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. The costs for dismantling a power plant are depreciated over the estimated useful life of the specific power plant.

Depreciation is calculated using the straight-line method based on the estimated useful lives, as follows:

Hydropower plant buildings, structures and machinery	40-80 years
Condensing power plant buildings, structures and machinery	5-25 years
Co-generation (electricity and heating) power plant buildings, structures and machinery	4-35 years
Transmission network	10-45 years
Other buildings and structures	10-25 years
Other machinery and equipment	3-20 years
Other tangible assets	3-40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate to reflect the changes in estimated future economic benefits associated with the assets'.

If the asset consists of different components, which have different estimated useful lives, each component is recognised as a separate asset. Replaced components are capitalized and any possible remaining carrying value of the replaced component is derecognised. In other cases subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably.

Annual repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Power plant modernization and improvements are recognised in the asset's carrying amount or recognised as a separate asset, as appropriate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income or other operating expenses in the statement of comprehensive income.

Depreciation on assets classified as held for sale, according to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", is ceased.

Government Grants

Grants from the government, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and are recognised as income by reducing the depreciation charge of the asset they relate to. Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. These grants are presented in other operating income.

Inventories

Inventories are stated at cost. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventory comprises raw materials and other direct costs. Inventories are always stated at cost as the energy generation operations are conducted based on cost price and therefore the cost of inventory is always equal to its' net realizable value.

Leases

Leases, Group as lessee

Finance leasing

Property, plant and equipment leases in which a significant portion of the risks and rewards of ownership are transferred by the lessor to the Group are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The corresponding rental obligations, net of finance charges, are included in other current and non-current liabilities. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term. If the leaseback is an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any profit or loss is recognised immediately. IAS 39 is applied for the collateralized financial liabilities that are resulted from sale and leaseback transactions that do not contain a lease in substance. The liability is amortised at cost, each lease payment is allocated between the liability and finance charges according to the effective interest method.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Rental income from operating lease contracts, where the Group acts as the lessor, are recorded in other operating income on a straight line basis over the period of the lease.

Leases, the Group as lessor

Leases of property, plant and equipment where the Group has transferred substantially all the risks and rewards of ownership to the lessee are classified as finance leases. The lease income is recorded as a receivable at its present value. The interest element of the lease income is recorded to the comprehensive statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the asset for each period.

Operating leases of property, plant and equipment, where the Group acts as the lessor, are included in the property, plant and equipment in the balance sheet. These assets are, in the same way as assets in Group's own use, depreciated over their useful life. Rental income is recorded on a straight line basis over the period of the lease.

Arrangements' containing a lease agreement

The Group has entered into arrangements that do not take the legal form of a lease but conveys a right to use an asset in return for a payment of series of payments and therefore contains a lease. In order to determine if the arrangement includes a finance lease component or other lease agreement the criteria in IFRIC 4 'Determining whether an Arrangement contains a Lease' is used. Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and
- (b) the arrangement conveys a right to use the asset.

If the arrangement includes a lease IAS 17 is applied to determine whether it is an operating or financial lease as described above. Other elements of the arrangement are recognised according to the relevant standards.

Impairment of non-financial assets

The individual assets' carrying values are reviewed at each closing date to determine whether there is any indication of impairment. If there is an indication of impairment the asset is tested for impairment. Goodwill, assets that have an indefinite useful life and intangible assets in progress are not subject to amortisation and are tested annually for impairment regardless of there is indication of impairment or not. Impairment for assets excluding goodwill is assessed at the cash-generating unit (CGU) level, which is the smallest identifiable Group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or Groups of assets. Goodwill is tested for impairment at the level at which it is monitored by management which may be an individual CGU or Groups of CGUs but is not tested at a level higher than an operating segment.

An asset's recoverable amount is the higher of a cash-generating unit's fair value less costs to sell and its value in use. Value in use is the estimated discounted future cash flows expected to be provided by the asset or Group of assets. The discount rates used are pre-tax and reflect current market assessments of the time value of money and specific risks relating to the relevant asset or Group of assets.

Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment is recognised immediately in the statement of comprehensive income. Impairment arising from a goodwill impairment test is allocated first to goodwill and any excess thereafter rateably over the other assets in the CGU. Assets other than goodwill that suffered an impairment charge are reviewed for possible reversal of the impairment if the estimates used in the calculation of the recoverable amount have changed. A reversal of an impairment loss shall not exceed the carrying amount (net of amortisation or depreciation) that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses on goodwill are never reversed.

Financial assets and financial liabilities

Purchases and sales of financial assets and liabilities are recognised on the trade-date at fair value. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. The classification is determined at initial recognition and depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or initially designated in this category. Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives held by the Group are classified as financial assets at fair value through profit or loss, as hedge accounting is not applied by the Group. Derivatives in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. When the derivatives have a negative value they are classified as financial liabilities held for trading. Liabilities in this category are classified as current liabilities if expected to be settled within 12 months; otherwise, they are classified as non-current. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held for sale. The Group's loans and receivables comprise 'trade and loan receivables'. Loans and receivables are subsequently carried at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Trade receivables are recorded at cost which corresponds to their fair value. Loans granted, which have a maturity date, are measured at amortised cost using the effective interest method. Loans lacking a maturity date are valued at cost.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are initially recognised at fair value plus transaction costs and are subsequently valued at fair value. Unquoted securities for which fair value cannot be measured reliably are measured at cost. Changes in the unrealized fair value of available-for-sale financial assets are recognised in other comprehensive income. Changes in fair value are recognised in the statement of comprehensive income when the asset is sold or when it has been impaired. The available-for-sale financial assets held by the Group comprise unquoted securities valued at cost. There is no active market for the securities and PVO has no intention to dispose of these securities.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Impairment of financial assets

The Group assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred in the statement of comprehensive income only if there is objective evidence of impairment. If, in a subsequent period, the fair value of an available-for-sale financial asset increases, the impairment loss of an equity instrument is not reversed through the consolidated statement of comprehensive income. The Group recognises an impairment of trade receivables if there is objective evidence that the receivable will not be paid in full.

Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Derivative instruments are recognised as financial liabilities at fair value through profit or loss. These are recognised similarly as financial assets at fair value through profit or loss. They are included in non-current liabilities unless the liability is settled within 12 months of the end of the reporting period.

Derivative instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is hedge accounted.

Teollisuuden Voima Oyj (TVO), a joint venture of the Group, is consolidated using the equity method, see Associates companies and joint arrangements under the Notes to the Financial statements. TVO uses derivative instruments to hedge the foreign currency exchange rate risk in fuel purchases as well as the foreign currency risk and interest rate risk in borrowings denominated in foreign currencies. Hedge accounting according to IAS 39 is applied to foreign currency forward contracts and cross currency swap contracts hedging foreign currency risk in procurement contracts of uranium. In addition hedge accounting is applied to some of the interest rate swap contracts entered into, hedging the fluctuations in cash flows of interest payments on borrowings. TVO documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the cash flows of the hedged item.

TVO applies both cash flow and fair value hedge accounting. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and presented in the revaluation reserve. The gain or loss on the fair value of the hedge instruments relating to the ineffective portion is recognised immediately in the statement of comprehensive income within finance income and costs, unless they are capitalized as a part of an investment in a power plant. Changes in fair values accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time are recognised in profit or loss during the maturity of the hedging instrument. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised in the income statement.

TVO applies fair value hedge accounting for hedging fixed interest risk on borrowings that are quoted. The gain or loss relating to the effective portion of interest derivatives hedging fixed rate borrowings is recognised in the profit or loss within finance costs. The carrying amount of hedged borrowings and fair values of derivatives hedging them are considered part of interest bearing liabilities and assets. If the hedge no longer meets the criteria for hedge accounting, the adjustments to the carrying amount of a hedged borrowing is amortised to profit or loss over the period to maturity.

TVO presents fair value changes relating to non-hedge accounted interest rate options and certain interest rate swaps within finance costs as regards those are not capitalised in the cost of the power plant under construction.

Other companies in the Group have derivative instruments that do not fulfil the hedge accounting criteria according to IAS 39. Examples of these instruments are some interest rate swap agreements which have been used to exchange floating rate borrowings into fixed rate borrowings and foreign currency forward contracts hedging the foreign currency risk in fuel purchases. Derivatives are recorded at fair value in the assets or liabilities. Changes in the fair values of foreign currency forwards and interest rate derivative instruments are recorded through profit and loss within finance income and costs. Derivatives are classified as current or non-current assets or liabilities depending on their maturity date.

Employee benefits

Pensions for the personnel in the Group have been arranged through an external pension insurance company. The Finnish (TyEL) pension system, as well as, the voluntary pension insurances are recognised as defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Payments made to the defined contribution plans are recognised as expenses in the period in which they were incurred. Defined benefit plans are plans that are not defined contribution plans. The Group does not have any defined contribution plans.

Provisions and contingent liabilities

Provisions for environmental restoration, asset retirement obligations and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received. Provisions are not recognised for operating costs.

A contingent liability is disclosed when there is a possible obligation that arises from external events and whose existence is only confirmed by one or more doubtful future events or when there is an obligation that is not recognised as a liability or provision because it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably estimated. Contingent liabilities are disclosed in the notes to the financial statements.

Environmental provisions

Environmental provisions are recognised, based on current interpretation of environmental laws and regulations, when it is probable that a present obligation has arisen and the amount of such liability can be reliably estimated. Environmental expenditures resulting from the remediation of an existing condition caused by past operations, and which do contribute to current or future revenues, are expensed as incurred.

Accrued expenses related to the handling of ashes

Group companies may have, in temporary storage, ashes generated from the power plant operations, which are subject to waste tax. These ashes may have an alternative utilisation, an alternative utilisation is being sought or there is no alternative utilisation which will result in the ashes being transported to a waste disposal site. Financial statements include an accrued expense, representing the best estimate for the costs of the handling of the ashes held in temporary storage at the end of the reporting period.

Asset retirement obligations

An asset retirement obligation is recognised either when there is a contractual or a legal obligation and the obligation amount and timing can be reliably estimated. The asset retirement obligation is recognised as part of the cost of an item of property and plant when the asset is put in service or when contamination occurs. The costs are depreciated over the remainder of the asset's useful life.

Assets and liabilities relating to nuclear waste management

The treatment of the nuclear waste management liability has a material effect on the profit and loss of Teollisuuden Voima Oyj (TVO). The nuclear waste management liability based on the Nuclear Energy Act is covered by a contribution to the National Waste Management Fund. The liability covers all future costs for the handling of the existing nuclear waste, including the decommissioning of the nuclear power plants and final disposal of the spent nuclear fuel.

In the consolidated financial statements of TVO the share of the funds in the National Waste Management Fund, is presented as part of non-current assets according to IFRIC 5. The nuclear waste management liability is presented in provisions, within non-current liabilities. Present value of the nuclear waste management liability is calculated by discounting the cash flows based on the planned estimated future operations and their costs taking into account the already realized operations.

The initial present value of the provision for decommissioning of the nuclear power plant is included in the capitalized investment cost of the power plant. The initial present value is adjusted according to subsequent planned future changes. The cost for decommissioning of the plant is depreciated over the estimated useful life of the power plant.

The provisions made for the disposal of spent nuclear fuel at the end of the reporting period, covers all the future cost for final disposal. The cost of the final disposal of the spent nuclear fuel is recognised over the time the nuclear fuel is being used. Any planned changes are recognised immediately in the statement of comprehensive income, based on the spent nuclear fuel at the end of the reporting period.

The time value of money when discounting the nuclear waste management liability is recognised by recording the interest expense in the statement of comprehensive income.

Share Capital

PVO has 15 different series of shares. Each series of shares entitle their owner to the energy generated by a specific subsidiary, associate or joint venture. Each shareholder is entitled to the proportionate share of the energy according to their proportionate ownership of a specific series of shares.

Proceeds received at the inception of the Company and subsequent issue of share capital have been recorded in the share capital, share premium account and after 1 September 2006 also in the reserve for invested non-restricted equity.

Earnings per share

Earnings per share are not presented as the Group operates at cost price. The ordinary shares of Pohjolan Voima Oy are not traded in a public market.

Equity loans to shareholders

Equity loans to shareholders are classified as equity instruments and recognized initially at fair value including transaction costs. The equity loans do not have a maturity date, and the debtor can repay the loan at will in one or several tranches. The debtor's Board of Directors has discretion over the coupon interest payments for the loan. Unpaid interest does not accumulate to the subsequent periods. The equity loan is unsecured and is subordinate to all other forms of debt instruments but senior to the company's other equity instruments.

The interest for the equity loans is recognized as a liability only after entity has decided to pay the interest. The relating interest expense is recognized on a cash basis directly in retained earnings and not through the consolidated income statement.

Assets held for sale and discontinued operations

Assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell, if their carrying amount is recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Assets are not depreciated.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

1. Represents either a separate major line of business or a geographical area of operations
2. Is a part of a single co-ordinated plans to dispose of a separate major line of business or geographical area of operations, or
3. Is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.

Profit of discontinued operations is presented as a single amount on the face of the statement of comprehensive income. Assets held for sale, disposal groups, any cumulative income or expense recognized in the other comprehensive income relating to a non-current asset classified as held for sale as well liabilities relating to disposal groups are presented separately in the face of the consolidated balance sheet.

Segment reporting

Segment reporting according to IFRS 8 applies only to individual financial statements of an entity whose debt or equity instruments are traded in a public market or an entity that is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market. Pohjolan Voima Oy's shares are not publicly traded and it has not issued any debt or equity instruments.

Implementation of interpretations and amendments to New and revised IFRS standards,

In preparing these financial statements, the group has followed the same accounting policies as in the annual financial statements for 2015. The adoption of the following amendments to existing standards on 1 January 2016 has no impact on the consolidated financial statement:

- Annual improvements 2012-2014
- IFRS 14* Regulatory Deferral Accounts
- IFRS 11 Joint Operations (amendment) – accounting for acquisitions of interests in joint operations
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (amendments) – clarification of acceptable methods of depreciation and amortization
- IAS 27 Separate Financial Statements (amendment) – equity method in separate financial statements
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (amendments) – bearer plants
- IAS 1 Presentation of Financial Statements (amendment) – disclosure initiative
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associations (amendments) – investment entities: applying the consolidation exception

The Group will adopt the following standards, interpretations and amendments to existing standards and interpretations published 2016 in its 2017 financial statements or later. Based on initial assessment, Group estimates that these have no impact on the consolidated financial statements:

- IFRS 9 Financial instruments - replaces the multiple classification and measurement models in IAS 39 and it will bring changes to classification and measurement of financial assets their impairment assessment hedge accounting.
A debt instrument is measured at amortised cost only if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and the contractual cash flows under the instrument solely represent payments of principal and interest.
All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.
All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss). In addition, debt instruments can be classified at fair value through other comprehensive income according to entity's business model.
Based on the preliminary assessment prepared by the Group the implementation of the standard will not have material impact on the classification of financial assets as according to the Group's business model financials assets are held and contractual cash flows collected.

Impairment of financial assets will be based on new expected credit loss method.

The Group is in process to prepare a more detailed assessment on the impact of impairment as according to the cost-price model the Group has not experienced any material credit losses in the past.

The new hedge accounting rules) align hedge accounting more closely with common risk management practices. The Group is in process to prepare a more detailed assessment on the possibility to apply hedge accounting.

- IFRS 15 Revenue from contracts with customers - The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.
A new five-step process must be applied before revenue can be recognised:
 - identify contracts with customers
 - identify the separate performance obligation
 - determine the transaction price of the contract
 - allocate the transaction price to each of the separate performance obligations, and
 - recognise the revenue as each performance obligation is satisfied.
 Based on the preliminary assessment prepared by the Group the implementation of the standard will not have material impact in revenue recognition.
 - IFRS 16 Leases - IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key ratios like EBITDA will change.
Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
Based on the assessment prepared by the Group, the implementation of the standard will affect Group's balance sheet and statement of profit and loss to some extent, as almost all lease contracts will be recognized even though the most material lease agreements have already been recognized in the financial statements.
- * Standard, interpretation or amendment is not yet endorsed by EU

2 Critical judgements in applying the entity's accounting policies and critical estimations and assumptions

The Group management makes judgements in the preparation of the financial statements relating to the selection and application of the accounting principles. These decisions relate specifically to those areas where the effective IFRS-standards allow alternative methods of recording, valuation or presentation.

The estimates and assumptions made by management in the preparation of the consolidated financial statements are based on the best knowledge at hand at year end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results and the detailed background information are followed by management together with the business units using both internal and external sources of information. Changes to the estimates and assumptions are recognised in the financial period in which changes occur and all the future financial periods.

Legal obligations

Management judgement is required to estimate timing and valuation of the legal obligations. A provision is recorded when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Due to inherent uncertain nature of litigation, the actual losses may differ significantly from the originally estimated provision.

Impairment testing

Impairment testing is carried out annually for goodwill and for intangible assets with indefinite useful lives. Impairment testing for other assets is performed when there is an indication that the asset might be impaired. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are based on estimated future cash flows received from the use of the asset or the sale of the asset.

Pohjola Voima operations are based on the cost-price method ('Mankala principle'). According to the company's legal documents the shareholders of the Company are invoiced a price for the energy received which covers fixed and variable expenses of the operations. When testing if the assets are impaired based on the value-in-use, the discounted cash flows, correspond, except for a few exceptions, to the recoverable amount and therefore usually there is no impairment recorded.

Environmental provision

Operations of the Group are regulated by a number of laws and regulations. The Group is in compliance with all existing environmental regulations. The Group has recorded, for the industry customary, provisions for environment protection expenses to cover its legal obligations.

3 FINANCIAL RISK MANAGEMENT

The financial risk management in Pohjolan Voima Group is carried out centrally by the parent company treasury department under policies approved by the Board of Directors. The Group's activities expose it to a variety of financial risks: liquidity risk, market risk and credit risk.

The objective of the financing function is to ensure the existence of sufficient funds for operative decision making and to promote the low cost of electricity through its decisions.

Derivatives are entered into only for hedging purposes. Pohjolan Voima does not apply hedge accounting under IFRS.

Liquidity and refinancing risks

Liquidity and refinancing risks relate to the impact on the company's profit and loss and cash flows, if the company is unable to secure sufficient funding for its operations. In addition to sufficient liquid funds and committed credit facilities Pohjolan Voima Group seeks to reduce refinancing risk by diversifying the maturity of its loans as well as sources for its funding.

In accordance with Pohjolan Voima Group's financing policy, the maturity of long-term debt and refinancing is agreed so that a maximum of 25% of the outstanding debt will fall due within the next 12 months. This principle is not applied on the loans granted by the State Nuclear Waste Management Fund.

Liquidity risk is significantly reduced by the fact that Pohjolan Voima Group invoices shareholders in accordance with the Articles of Association, the monthly fixed and variable costs.

Free liquidity is invested prudently and productively in instruments with a duration of up to 12 months. The objective is to diversify investments and these are chosen so that a secondary market liquidity is also ensured in adverse conditions and so that most of the investments can be realized at a low cost.

Pohjolan Voima Group mainly uses the domestic commercial paper programs amounting to 300 million Euros in order to ensure short-term financing. As at 31 December 2016 110 million Euros out of the commercial paper program was in use (31 December 2015 117 million Euros).

Pohjolan Voima Group's liquidity is secured by the 23 June 2015 entered 300 million Euros revolving credit facility which matures 23 June 2021. The credit facility has two options to prolong the facility and it does not include covenants. The loan facility was fully undrawn as per 31 December 2016 (as well as per 31 December 2015).

Further, Pohjolan Voima signed a total of 447,5 million Euros of committed credit facilities and a committed bank guarantee facility of 200 million Euros with banks in December 2016. Loans drawn from the committed credit facilities are planned to be used to partially refinance the loan from the State Nuclear Waste Management Fund maturing in 2017 as well as Pohjolan Voima's other bank loans maturing in 2018. The committed credit facilities signed in December 2016 mature during 2019 – 2021. The committed bank guarantee facility ensures Pohjolan Voima's ability to obtain necessary guarantees deliverable to the State Nuclear Waste Management Fund. The committed bank guarantee facility matures in 2019.

Pohjolan Voima Group's financial arrangements do not include any covenants.

The following table presents a maturity analysis on loan agreements. The figures are cash based and interest flows are based on the interest rates prevailing at the closing date. Differences between the balance sheet items and the debt amounts below arise from the transaction costs that have been accrued according to the effective interest method in the balance sheet. Transaction costs for loan arrangements are not included in the cash flows as these have been paid at the time of the signing of the agreements.

Undiscounted cash flows of financial liabilities

2016 1 000 €	2017	2018	2019	2020	2021-	Total	Balance sheet
Loans from financial institutions *	-12 170	-132 756	-28 006	-93 756	-27 846	-294 535	-294 535
Finance costs **	-2 554	-1 874	-1 666	-1 234	-708	-8 036	
Loan from the State Nuclear Waste Management Fund (TVO) ***					-583 334	-583 334	-583 334
Finance costs	-4 331	-5 775	-5 775	-5 775	-5 775	-27 431	
Finance lease liabilities	-13 649	-20 751	066	222	-52 117	-229 805	-229 801
Finance costs	-879	-823	-671	-503	-1 684	-4 560	
Commercial papers	-109 808					-109 808	-109 808
Finance costs	-192					-192	
Pension liabilities	-2 712	-2 712				-5 424	-5 424
Finance costs	-71	-31				-102	
Interest rate derivatives	-2 368	-1 142	-1 575	-1 916	-7 298	-14 298	-4 478
Total	-148 734	-165 864	759	406	-678 761	-1 277 524	

* Repayments to be made in 2017 are included in current liabilities.

** In addition to interest expenses, finance costs also include a commitment fee.

*** The loan from the State Nuclear Waste Management Fund does not have an actual date of maturity, and therefore it is presented as a loan with a loan term of over 5 years. According to the section 52 of the Nuclear Energy Act Teollisuuden Voima Oyj is entitled to borrow from State Nuclear Waste Management Fund against securing guarantees the amount which can not be larger than 75 per cent of the latest confirmed TVO's share in the Fund. TVO has borrowed this amount from the Fund and has granted a loan with the corresponding amount to Pohjolan Voima. The loan is annually renewed. Pohjolan Voima has issued a bank guarantee to the Fund as security.

Undiscounted cash flows of financial liabilities

2015 1 000 €	2016	2017	2018	2019	2020-	Total	Balance sheet
Loans from financial institutions *	-47 703	-9 204	-160 369	-5 284	-116 284	-338 843	-338 843
Finance costs **	-2 876	-2 684	-1 735	-1 508	-1 356	-10 159	
Loan from the State Nuclear Waste Management Fund (TVO) ***					-573 110	-573 110	-573 110
Finance costs	-4 577	-6 293	-6 293	-6 293	-6 293	-29 749	
Finance lease liabilities	-46 378	-21 407	104	393	-92 879	-230 161	-230 142
Finance costs	-340	-317	-221	-141	-404	-1 423	
Commercial papers	-116 843					-116 843	-116 843
Finance costs	-157					-157	
Pension liabilities	-2 712	-2 712	-2 712			-8 135	-8 135
Finance costs	-112	-71	-31			-214	
Interest rate derivatives	-3 240	-1 772	-618	-907	-5 638	-12 174	-2 837
Total	-224 938	-44 458	082	526	-795 963	-1 320 968	

* Repayments to be made in 2016 are included in current liabilities.

** In addition to interest expenses, finance costs also include a commitment fee.

*** The loan from the State Nuclear Waste Management Fund does not have an actual date of maturity, and therefore it is presented as a loan with a loan term of over 5 years. According to the section 52 of the Nuclear Energy Act Teollisuuden Voima Oyj is entitled to borrow from State Nuclear Waste Management Fund against securing guarantees the amount which can not be larger than 75 per cent of the latest confirmed TVO's share in the Fund. TVO has borrowed this amount from the Fund and has granted a loan with the corresponding amount to Pohjolan Voima. The loan is annually renewed. Pohjolan Voima has issued a bank guarantee to the Fund as security.

Market risk

Interest Rate Risk

Changes in interest rates and margins on the interest-bearing receivables and liabilities create an interest rate risk. The objective of the interest rate risk management in Pohjolan Voima, is to protect the Group against the increase of interest expenses caused by the increase in the reference interest rates. In accordance with the financing policy of the Group, the interest rate risk is monitored by means of duration of the loan portfolio for each series of shares. The duration of the loan portfolios of the parent company and subsidiaries are set at the level where the electricity price sensitivity to changes in interest rates is on an acceptable level considering the individual risk-bearing capacity of each series of shares. Interest derivatives are used in the management of the duration.

Currency Risk

Pohjolan Voima Group is exposed to foreign currency risk mainly due to fuel purchases. Coal purchases are made almost entirely in US dollars. Because purchase agreements for coal are entered into up to 10 months in advance before delivery and payment, the euro versus dollar exchange rate changes will affect coal prices and thus also impact the price of electricity produced. The weakening of the euro leads to exchange losses and the strengthening of the euro leads to exchange gains.

The changes in foreign exchange rates are hedged for the undelivered contracts. PVO hedges only purchases that are based on signed contracts or that are secured by derivative financial agreements. Consequently, hedging is made on the date of the derivative contract or on the order date, and it covers the period to the expected payment date of the coal delivery. Hedging is reversed in line with the payment of delivery batches. Cost of hedging is allocated to the cost of each batch of coal, and therefore included in the production costs of each production facility. If the terms of delivery of the coal batches are changed, the hedging will be changed in line with the change of the terms of delivery.

Both short-term and long-term loans are mainly denominated in euros. Other than the euro-denominated borrowings are hedged latest at the time when the loan is drawn. All Pohjolan Voima Group's loans were euro-denominated in 2016 and 2015.

Currency swaps, forward contracts and options can be used for the currency risk hedging. Pohjolan Voima has not used any hedging instruments for the currency risk in 2016 and 2015.

Sensitivity to market risk

Market risk sensitivity arising from financial instruments:

	2016	2015
	Comprehensive income statements	
1 000 €		
+ 10 % change in the EUR/USD exchange rate	0	0
- 10 % change in the EUR/USD exchange rate	0	0
Increase of 100 basis points in market interest rates	6 748	4 490
Decrease of 100 basis points in market interest rates	-7 911	-5 502

Sensitivity to market risk describes the impact in the income statement before taxes and includes the effect in the financial instruments annual net interest costs as well as the fair valuation of interest rate swaps. The fair values and the nominal values of the derivative financial instruments are presented in more detail in the note 29.

Assumptions:

- Euro-dollar exchange rate change is expected to be +/- 10 %.
- Dollar position comprises foreign currency derivatives.
- The interest rate change is expected to be 100 basis points
- Interest rate exposure includes variable interest rate loans, finance lease liabilities and interest rate derivatives.

- The financial structure is expected to remain unchanged during the year. Further, the due date of all loans maturing within a year is expected to be prolonged until the year end by applying the changed interest rate.

Fuel price risk

The energy production of the Group requires fuel purchases from the global market. The most important fuel purchased by the subsidiaries and associates of Pohjolan Voima from the global market is coal.

Pohjolan Voima manages centrally the risks related to the coal purchases according to the utility purchase policy approved by the Board of Directors.

The coal purchase contracts include quantity, price, freight and foreign currency risk. The freight risk can include both a quantity and a price risk. The foreign currency risk is included both in the pricing of the coal as well as the freight.

The availability risk is significant in coal purchases. Sufficiency of coal can only be secured by acquiring sufficient quantities in advance. Due to the limitations of the shipping season, purchases of coal for the production requirements of the year can be initiated already during the previous year. The aim is to time the shipping to the ice free season.

Price risk can be hedged with inventories, long-term purchase agreements and derivative financial agreements. It is also possible to hedge for the price risk by buying a quantity exceeding the annual requirement for coal within the limits of the storage space available. Long-term purchase agreements are used not only in order to secure availability of coal but also to hedge the price risk.

Pohjolan Voima has not used any financial instruments to hedge for the coal price risk in 2016 or 2015.

Credit risk

Credit or counterparty risk is arise from the possibility that a customer or a financial counterparty does not fulfil its commitments. Commercial trade receivables, investments and receivables based on derivative financial instruments expose the company to credit risk. When counterparty banks are selected, only banks with high credit ratings qualify. Derivative financial agreements are entered into only with leading banks and financial institutions. All counterparties are monitored for their payment behaviour and credit worthiness. Pohjolan Voima recognised impairment of 3 thousand euros (2015: no impairment) on trade receivables during the reporting period. Pohjolan Voima sells electricity and heat to its shareholders. Pohjolan Voima operates based on cost price according to its Articles of Association (Mankala principle), which decreases the credit risk related to the trade receivables significantly. There are no significant trade receivables past due in the Group.

Capital risk management

Capital is defined as the equity attributable to the owners of the parent company consisting of share capital, share premium, reserve for invested non-restricted equity, revaluation reserve, retained earnings and equity loans, as well as the equity attributable to the non-controlling interest. There are no external capital requirements it needs to adhere to.

Sufficient equity based financing in the Group enables use of diversified financing types from different sources.

There is a moderate variation of the equity to assets ratio of the Group depending on the investment cycles. Shareholders of each series of shares according to their proportionate ownership are responsible for the equity share of the investments.

Pohjolan Voima follows the equity on assets ratio, which is presented below.

	2016	2015
Equity on assets ratio (%) (IFRS, Group) *	40	42
* Equity on assets ratio%	$= 100 \times \frac{\text{Shareholders' equity}}{\text{Balance sheet total}}$	

4 SOLD NON-CURRENT ASSETS AND BUSINESS COMBINATIONS

Sold non-current assets

Pohjolan Voima and Kokkolan Energia Oy signed 29 December 2016 sales and purchase agreement to sell Pohjolan Voima's subsidiary's, Kokkolan Voima Oy, all shares to Kokkolan Energia. The agreement came to force and the title to the shares was passed 31 December 2016.

Pohjolan Voima and Keravan Energia Oy signed 16 December 2014 sales and purchase agreement to sell Pohjolan Voima's subsidiary's, Keravan Lämpövoima Oy, all shares to Keravan Energia. The agreement came to force and the title to the shares was passed 1 January 2015.

Pohjolan Voima and UPM-Kymmene Wood Oy, subsidiary to UPM-Kymmene Oyj, signed 28 November 2014 letter of intent to sell and by Järvi-Suomen Voima Oy's, a subsidiary of Pohjolan Voima, shares to UPM-Kymmene Wood Oy. The sales and purchase agreement was signed 30 January 2015 and the title to the shares was passed 31 January 2015.

Pohjolan Voima and UPM-Kymmene Oyj signed 30 September 2015 sales and purchase agreement to sell Pohjolan Voima's subsidiary's, Wisapower Oy, all shares to UPM-Kymmene. The title to the shares was passed 30 September 2015.

Pohjolan Voima and Vaskiluodon Voima Oy signed 22 December 2015 sales and purchase agreement to sell Pohjolan Voima's subsidiary's, PVO-Huippuvoima Oy, all shares to Vaskiluodon Voima. The title to the shares was passed 22 December 2015.

Assets and liabilities of sold companies	2016	2015
Property, plant and equipment	0	29 544
Intangible assets	0	103
Non-current receivables	19 974	131 714
Inventories	0	3 063
Trade and other receivables	3 398	20 808
Cash and cash equivalents	2 406	9 855
Total assets	25 778	195 086
Non-controlling interests	0	9 304
Provisions	0	1 000
Borrowings	16 373	120 823
Trade and other payables	1 112	10 504
Total liabilities	17 485	141 631
Net assets sold	8 293	53 455
Gain on disposal	-647	8 077
Total consideration	7 646	61 532
Cash consideration received	7 646	61 532
Cash and equivalents disposed of	-2 406	-9 855
Cash inflow arising from disposal	5 240	51 677

Business combinations

There were no business combinations in 2016 or in 2015.

5 NOTES TO THE STATEMENT OF CASH FLOWS

Adjustments to profit or loss for the year (1 000 €)	2016	2015
Depreciation and amortisation	40 480	39 884
Increase/decrease in fair value of derivatives	1 762	-4 279
Income taxes	0	59
Gains (+) or losses (-) from disposal of non-current assets	365	-8 194
Finance costs - net	10 972	13 383
Share of (loss)/profit of associates and joint ventures	11 992	740
Total	65 571	41 593

Change in net working capital	2016	2015
Increase (-) or decrease (+) in non-interest-bearing receivables	11 134	-448
Increase (-) or decrease (+) in inventories	6 653	-2 717
Increase (+) or decrease (-) in current non-interest-bearing liabilities	23 739	-11 780
Change in provisions	-80	-148
Total	41 446	-15 093

6 SALES

1 000 €	2016	2015
Sales of electricity produced	319 178	298 141
Sales of heat produced	156 823	174 167
Sales of purchased electricity	21 559	18 546
Other sales	9 461	8 893
Total	507 020	499 746
Electricity delivered to shareholders (GWh)		
Electricity produced	12 828	13 039
Heat produced	5 068	5 825
Purchased electricity	545	621

PVO's electricity purchases are determined by the electricity required by the shareholders. In 2016, Pohjolan Voima Group's total electricity purchases from continuing operations were 13.4 (13.7) TWh. The Group's electricity generation accounted for 12.8 (13.0) TWh, of which the parent company delivered to its shareholders 12.4 (12.9) TWh. Subsidiaries supplied 0.5 (0.4) TWh to other owners. Purchases from continuing operations from the Nordic electricity market, were 0.5 (0.6) TWh. Heat deliveries were 5.5 (6.3) TWh.

Other sales consist primarily of sales of emission allowances as well as network and management services.

7 OTHER OPERATING INCOME

1 000 €	2016	2015
Rental income	721	1 399
Gain on sale of property, plant and equipment as well as subsidiaries and joint ventures	292	8 329
National reserve capacity remuneration	0	1 509
Government grants	267	24
Electricity production subsidies	2 644	2 980
Other income	6 190	36 282
Total	10 114	50 523

The contracts for the use of reserve capacity in the heavy fuel oil-fired power plants, in Kristiinankaupunki owned by PVO-Lämpövoima Oy and in Vaasa Vaskiluoto owned by PVO-Huippuvoima Oy, were renewed with Fingrid Oyj. The contracts are valid during the reserve capacity period 1.7.2013 - 30.6.2015.

8 MATERIALS AND SERVICES

1 000 €	2016	2015
Fuels	107 160	133 226
Change in inventories	5 760	-873
Materials and services	2 087	2 470
Emissions allowances - carbon dioxide	1 224	3 327
Energy purchased; Nordic electricity market	23 012	31 855
Energy purchased; Associates and Joint ventures	246 987	207 831
Energy purchased; other	8 111	0
External services	6 375	5 426
Total	400 716	383 262

Purchases of fuel consist of coal, peat and bio fuel purchases, which are used for electricity and heat production.

Energy purchases from associates and joint ventures include purchases according to the ownership share in Teollisuuden Voima Oyj, Oy Alholmens Kraft Ab and Vaskiluodon Voima Oy.

9 PERSONNEL EXPENSES

Personnel-related expenses

1 000 €	2016	2015
Wages and salaries		
Board members and CEO	1 415	1 323
Other wages and salaries	7 890	8 542
Pension expenses - defined contribution	1 701	1 903
Other personnel expenses	334	460
Total	11 340	12 228

Average number of personnel

	2016	2015
Salaried employees	104	135
Wage-earners	45	64
Total	149	199

Above average number of personnel includes personnel of discontinued operations in total 34 in 2016 (2015: 64).

Out of this salaried employees amount to 18 (2015: 32) and wage-earners 16 (2015: 32).

10 Depreciation, amortisation and impairment

1 000 €	2016	2015
Amortisation of intangible assets		
Intangible rights	21	21
Other intangible assets	1 289	1 403
Total	1 309	1 424
Depreciation of property, plant and equipment		
Buildings and constructions	4 979	4 994
Machinery and equipment	31 784	31 045
Other assets	2 321	2 160
Total	39 084	38 199
Impairments		
Other intangible assets	86	0
Buildings and constructions	0	132
Machinery and equipment	0	130
	86	261
Depreciation, amortisation and impairment total	40 479	39 884

11 OTHER OPERATING EXPENSES

1 000 €	2016	2015
Repair, servicing and maintenance services	14 769	17 410
Real estate taxes	6 311	6 061
Rents	1 301	2 240
Operation services	18 111	20 031
Other expenses	15 625	47 340
Total	56 117	93 082

Auditor's fees

1 000 €	2016	2015
Audit fees	185	190
Auditor's mandatory opinions	2	2
Other services	18	0
Total	206	193

12 RESEARCH & DEVELOPMENT

Research and development recognised as an expense during the period totalled 0.1 million euros in 2016 (0.3 million euros in 2015).

13 SHARE OF (LOSS)/PROFIT OF ASSOCIATES AND JOINT VENTURES

1 000 €	2016	2015
Länsi-Suomen Voima Oy	0	0
Oy Alholmens Kraft Ab	-156	-39
Tahkoluodon Polttoöljy Oy	0	-1
Teollisuuden Voima Oyj	-10 627	-1 700
Torniolaakson Voima Oy	-116	85
Vaskiluodon Voima Oy	-1 094	913
Voimalohi Oy	2	1
Total	-11 991	-740

Investments in associates and joint ventures are disclosed in note 18

14 FINANCE INCOME AND COSTS

1 000 €	2016	2015
Dividend income on available-for-sale investments	2	3
Interest income on loans and receivables	3 011	3 366
Derivative financial instruments (hedge accounting is not applied)		
Fair value gains	0	4 523
Foreign exchange gains	132	320
Other finance income	0	1
Finance income total	3 145	8 213
Interest expense capitalised on qualifying assets	10 184	12 701
Derivative financial instruments (hedge accounting is not applied)		
Fair value losses	1 762	246
Foreign exchange losses	94	155
Other finance cost	3 839	4 214
Finance costs total	15 879	17 317
Total finance income and costs	-12 734	-9 104

15 INCOME TAX

1 000 €	2016	2015
Taxes for the financial year	9	58
Taxes for the previous financial years	1	0
Change in deferred tax liability	-10	1
Total	0	59

PVO delivers electricity and heating to its shareholders at cost price. According to the cost based pricing the Group does not pay any taxes on its energy related operations, therefore the Group does not recognise any deferred tax assets or liabilities on these operations. Income taxes and deferred taxes are recognised, on the other hand, on the services provided by the Group.

Change in deferred tax:

1 000 €	2016	2015
Accumulated depreciation difference 1.1.	853	852
Charged/(credited) to the statement of comprehensive income	-10	1
Accumulated depreciation difference 31.12.	843	853

Differences between income taxes recognised in the consolidated income statement and the tax rate in Finland as presented in the following table:

1 000 €	2016	2015
Result before income tax	-16 243	11 969
Tax based on Finnish tax rate 20%	3 249	-2 394
Unrecognised tax losses	-1 221	-677
Tax-free income	0	89
Share of profits and losses of associates and joint ventures	-2 114	-203
Non-deductible expenses	0	-1 578
Unrecognised deferred taxes due to cost price principle	39	4 627
Tax losses excluding the deferred tax asset for previous periods	48	77
Income taxes recognised in consolidated income statement	0	-59

16 INTANGIBLE ASSETS

1 000 €	Emission allowances - carbon dioxide	Intangible rights	Other intangible assets	Total
Cost or valuation at 1.1.2016	3 445	280 984	19 244	303 673
Additions	1 119	1		1 120
Disposals	-3 359	-21	-185	-3 565
Reclassifications			358	358
Transferred to assets held for sale			-1 546	-1 546
At 31.12.2016	1 205	280 964	17 871	300 040
Accumulated amortisation and impairment 1.1.2016	0	1 265	14 139	15 403
Disposals			-174	-174
Amortisation for the period		21	1 374	1 395
Transferred to assets held for sale			-504	-504
Accumulated amortisation and impairment 31.12.2016	0	1 286	14 835	16 120
Closing net book amount 31.12.2016	1 205	279 678	3 037	283 920
Closing net book amount 31.12.2015	3 445	279 719	5 106	288 270

1 000 €	Emission allowances - carbon dioxide	Intangible rights	Other intangible assets	Total
Cost or valuation at 1.1.2015	6 410	277 244	18 937	302 591
Additions	3 445	3 740	62	7 247
Disposals	-6 410		-338	-6 748
Reclassifications			583	583
At 31.12.2015	3 445	280 984	19 244	303 673
Accumulated amortisation and impairment 1.1.2015	0	1 244	12 276	13 520
Disposals			-338	-338
Amortisation for the period		21	1 403	1 424
Amortisation and impairment, discontinued operations			798	798
Accumulated amortisation and impairment 31.12.2015	0	1 265	14 139	15 403
Closing net book amount 31.12.2015	3 445	279 719	5 106	288 270
Closing net book amount 31.12.2014	6 410	275 999	6 662	289 071

The intangible assets include the right to produce hydro power totalling 265 million Euros and the right of use of transmission line areas and land based on the Act on the Redemption of Immoveable Property and Special Rights as well as the compensation amounting to 14.4 million Euros paid in 2013, 2014 and 2015 for the water area usage permanent right. The right to produce hydro power, the water area usage permanent right and the right of use of transmission line areas and land are intangible assets, with indefinite useful lives. Impairment testing for these assets is performed annually. Impairment test have not resulted in any need for impairment, because the future generated cash flows exceed the carrying value of the asset. The estimate for right to produce hydro power and the water area usage permanent right which are based on the future amount of electricity produced multiplied by the price for electricity (excluding fixed costs) exceeds the carrying value of the intangible assets. The value of the right of use of the transmission line areas is based on estimates, approved by management, that PVO-Alueverkko Oy's future network income exceed the carrying value of the asset.

There is no goodwill included within intangible rights and other intangible assets.

17 PROPERTY, PLANT AND EQUIPMENT

1 000 €	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost or valuation at 1.1.2016	34 963	130 526	724 213	82 582	5 546	977 831
Additions			2 188		9 037	11 225
Disposals	-73	-70	-62		-2 745	-2 950
Reclassifications	-162	27	5 621	484	-6 328	-358
Transferred to assets held for sale	-879	-310	-7 020			-8 209
Cost or valuation 31.12.2016	33 849	130 173	724 940	83 066	5 510	977 539
Accumulated depreciation 1.1.2016	0	41 638	293 217	41 209	0	376 064
Disposals		-63	-62			-125
Depreciation for the period		4 979	31 784	2 321		39 084
Amortisation and impairment, discontinued operations				544		544
Transferred to assets held for sale		-308	-2 166			-2 474
Accumulated depreciation 31.12.2016	0	46 246	322 773	44 074	0	413 093
Net book amount 31.12.2016	33 849	83 927	402 168	38 991	5 510	564 446
Net book amount 31.12.2015	34 963	88 888	430 997	41 372	5 546	601 767

1 000 €	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost or valuation at 1.1.2015	35 716	152 174	992 285	82 129	16 576	1 278 881
Additions			370	76	13 861	14 307
Disposals		-217	-1 393			-1 610
Change in accounting estimates				27		27
Reclassifications		2 842	21 116	350	-24 891	-583
Transferred to assets held for sale	-753	-24 273	-288 165			-313 191
Cost or valuation 31.12.2015	34 963	130 526	724 213	82 582	5 546	977 831
Accumulated depreciation 1.1.2015	0	58 232	496 897	34 531	0	589 660
Disposals		-253	-1 467			-1 720
Depreciation for the period		5 126	31 174	2 160		38 460
Amortisation and impairment, discontinued operations	165	466	54 778	4 518		59 927
Transferred to assets held for sale	-165	-21 933	-288 165			-310 263
Accumulated depreciation 31.12.2015	0	41 638	293 217	41 209	0	376 064
Net book amount 31.12.2015	34 963	88 888	430 997	41 372	5 546	601 767
Net book amount 31.12.2014	35 716	93 942	495 389	47 597	16 576	689 221

The changes in accounting estimates relate to the asset retirement obligations of landfills. In 2015 the retirement obligation of three landfills as well as the length of the usage right of one landfill was adjusted.

Management has assessed that no other indications of impairment exists.

FINANCE LEASE AGREEMENTS

Amounts of finance leased assets included in property, plant and equipment:

	Machinery and equipment
1 000 €	
31.12.2016	
Cost	295 681
Disposals and reclassifications	24 596
Accumulated depreciation	-106 393
Net book amount	213 884
31.12.2015	
Cost	350 920
Disposals and reclassifications	-25 300
Accumulated depreciation	-120 756
Depreciation charge, discontinued operations	-1 809
Net book amount	203 055

Borrowing costs included in the cost of property, plant and equipment:

	Buildings and constructions	Machinery and equipment	Other tangible assets	Total
1 000 €				
Cost or valuation at 1.1.2016	594	16 175	111	16 880
Additions				0
Disposals	-133	-534		-667
Cost or valuation at 31.12.2016	460	15 642	111	16 213
Accumulated depreciation 1.1.2016	365	6 197	59	6 622
Disposals	-133	-534		-667
Depreciation for the period	20	641	4	665
Accumulated depreciation 31.12.2016	252	6 304	63	6 620
Net book amount 31.12.2016	208	9 337	48	9 593
Net book amount 31.12.2015	228	9 978	52	10 258

	Buildings and constructions	Machinery and equipment	Other tangible assets	Total
1 000 €				
Cost or valuation at 1.1.2015	594	18 440	111	19 145
Additions				0
Disposals		-2 265		-2 265
Cost or valuation at 31.12.2015	594	16 175	111	16 880
Accumulated depreciation 1.1.2015	348	6 776	54	7 179
Depreciation for the period		-1 274		-1 274
Transferred to assets held for sale	17	695	5	717
Accumulated depreciation 31.12.2015	365	6 197	59	6 622
Net book amount 31.12.2015	228	9 978	52	10 258
Net book amount 31.12.2014	245	11 664	57	11 966

The borrowing costs related to the construction of power plants are capitalized as part of the acquisition cost of the asset and depreciated over the useful life of the asset.

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

1 000 €	2016	2015
At 1 January	775 572	776 421
Disposals	0	1 937
Share of profit	-11 991	-740
Other comprehensive income	-4 597	-2 046
At 31 December	758 984	775 572

Associates and Joint Ventures

Company, domicile	Interest held % 2016	2015	Book value 2016	2015
Associates				
Oy Alholmens Kraft Ab, Pietarsaari	49,90%	49,90%	18 079	18 235
Länsi-Suomen Voima Oy, Harjavalta	19,90%	19,90%	33 651	33 651
Tahkoluodon Polttoöljy Oy, Pori	32,00%	32,00%	0	0
Torniolaakson Voima Oy, Ylitornio	50,00%	50,00%	1 867	1 984
			53 597	53 870
Joint Ventures				
Teollisuuden Voima Oyj, Helsinki	58,47%	58,47%	691 624	706 847
Vaskiluodon Voima Oy, Vaasa	50,00%	50,00%	13 582	14 676
Voimalohi Oy, Kemi	50,00%	50,00%	181	179
			705 387	721 702
Associates and joint ventures total			758 984	775 572

Pohjolan Voima accounts for Teollisuuden Voima Oyj as a joint venture in the IFRS consolidated financial statements. Pohjolan Voima Oy owns 58,47% of the share capital of Teollisuuden Voima Oyj at 31 December 2016 (31 December 2015: 58,47%). Based on the Articles of Association and other company records which dictate the basis for the decision making and governance of the company, as well as, Pohjolan Voima Oy's right to appoint board members, the Group has assessed that Teollisuuden Voima Oyj should be accounted for as a joint venture.

Teollisuuden Voima Oyj has investment commitments totalling 864 (832) million Euros.

Goodwill on acquisition of Länsi-Suomen Voima Oy is included in the investments in the associates totalling 28 million Euros at 31 December 2016 (31 December 2015: 28 million Euros). Impairment testing of the goodwill is performed annually. Länsi-Suomen Voima Oy owns the hydropower plant located in Harjavalta at Kokemäenjoki. Pohjolan Voima has assessed that the fair value of the investment in the associate exceeds its book value at 31.12.2016.

Information on the associated companies and joint ventures of the Group, and their aggregate assets and liabilities, revenues and profit or loss for the year is presented below. All associates and joint ventures are unlisted companies.

1 000 €	Assets	Liabilities	Revenue	Profit/ loss (-)
2016				
Oy Alholmens Kraft Ab	119 317	83 088	44 273	-347
Länsi-Suomen Voima Oy	43 688	16 327	2 401	3
Tahkoluodon Polttoöljy Oy	8	0	0	0
Teollisuuden Voima Oyj	7 952 228	6 362 976	343 398	-10 533
Torniolaakson Voima Oy	7 952	4 216	1 357	-46
Vaskiluodon Voima Oy	136 838	103 875	95 314	-455
Voimalohi Oy	1 506	1 136	3 902	3
Total	8 261 537	6 571 618	490 644	-11 375

1 000 €	Assets	Liabilities	Revenue	Profit/ loss (-)
2015				
Oy Alholmens Kraft Ab	123 737	87 137	44 860	-77
Länsi-Suomen Voima Oy	38 549	11 235	1 792	1
Tahkoluodon Polttoöljy Oy	8	0	0	-2
Teollisuuden Voima Oyj	7 463 991	5 851 992	275 746	4 625
Torniolaakson Voima Oy	8 428	4 460	1 588	34
Vaskiluodon Voima Oy	140 650	105 963	93 636	416
Voimalohi Oy	1 264	898	3 639	2
Total	7 776 628	6 061 685	421 261	4 997

Related-party transactions - transactions with associates and joint ventures

1 000 €	2016	2015
Sales to associates and joint ventures	4 156	5 940
Purchases from associates and joint ventures	243 403	237 908
Receivables from associates and joint ventures	357 533	335 887
Liabilities to associates and joint ventures	614 072	588 723

	2016	2015
Personnel employed by associates and joint ventures in average	912	952

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

1 000 €	2016	2015
Investments in non-listed securities	586	586
Total	586	586

Available-for-sale financial assets consist mainly of vacation cottages used by personnel totalling 0.6 million Euros (2015: 0.6).

20 LOANS AND OTHER RECEIVABLES

Non-current loans and other receivables

1 000 €	2016	2015
Loans to associates and joint ventures	288 690	288 825
Finance lease receivables	0	23 776
Other non-current receivables	35 601	30 020
Total	324 291	342 621

Loans to associates and joint ventures include a loan receivable from Teollisuuden Voima Oyj of 288.7 (2015: 288.7) million Euros and a loan receivable from Tornionlaakson Voima Oy of 0.1 (0.1) million Euros. There is no material credit risk related to the non-current loans and other receivables. The fair value of the receivables has been presented in Note 30 Fair values of financial assets.

Trade and other receivables

1 000 €	2016	2015
Trade receivables	60 777	86 811
Pledged cash deposits	182	446
Interest-bearing receivables	208	56
Finance lease receivables	2 129	1 748
Derivatives	0	0
Share issue receivables	37 974	22 864
Prepayments and accrued income	49 305	49 305
Other current receivables	1 523	2 798
Total	152 097	164 028

Carrying values of trade receivables and other receivables approximates their fair value.

Prepayments and accrued income:

1 000 €	2016	2015
Prepayments, energy purchases	23 623	12 621
Indirect taxes	7 997	4 804
Other	6 353	5 440
Total	37 974	22 864

The Group recorded credit losses of 3 thousand Euros in 2016 (2015: 0) on trade receivables or other receivables. The Group had no material outstanding receivables as per 31 December 2016. Therefore, the aging of trade receivables are not presented.

FINANCE LEASE RECEIVABLES

Pohjolan Voima has entered into lease arrangements with shareholders, which are accounted for in accordance with IAS 17 based on the interpretation of IFRIC 4 'Determining whether an Arrangement contains a Lease'. These lease arrangements related to Kokkolan Voima Oy and Wisapower Oy power plants, which produced energy for the sole use of one owner. These arrangements were classified as finance leases in accordance with IAS 17. The Group has transferred substantially all the risks and rewards of ownership to the lessee as investment is made as a capital investment in the companies. It was not economically feasible for the owners of these series of shares to buy energy from any other source and the owners are the only significant users of the produced energy. The arrangements were treated as finance lease also on the basis that the leases cover the entire estimated economical useful life of the leased asset and the present value of minimum lease payments correspond to most of the fair value of the leased asset. There were no IFRIC4-arrangements in force as at 31 December 2016 as Kokkolan Voima Oy was sold 31 December 2016 and Wisapower Oy 30 September 2015.

Other receivables include 2.1 million Euros of receivables related to other leases, according to the classification based on IAS 17 (2015: 2.3 million Euros).

Gross receivables from finance leases:

1 000 €	2016	2015
No later than 1 year	2 132	1 982
Later than 1 year and no later than 5 years	0	11 000
Later than 5 years	0	15 262
Total	2 132	28 244
Unearned finance income	-2	-2 720
Net investment in finance leases	2 129	25 524

The net investment in finance leases may be analysed as follows:

1 000 €	2016	2015
No later than 1 year	2 129	1 748
Later than 1 year and no later than 5 years	0	10 094
Later than 5 years	0	13 682
Net investment in finance leases	2 129	25 524

21 SHORT-TERM DEPOSITS, CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS

1 000 €	2016	2015
Cash at bank and on hand	50 821	53 428
Commercial papers	0	26 122
Total	50 821	79 550

Cash and cash equivalents comprise of cash on hand, bank deposits and other short-term (up to three months), liquid investments.

22 INVENTORIES

1 000 €	2016	2015
Fuels		
Coal	2 635	5 143
Other fuels	4 358	7 867
Prepayments	1 046	1 939
Total	8 040	14 949

No inventory impairment was recorded from continued operations (2015: 60 thousand Euros) and from discontinued operations (2015: 8.2 million Euros) in 2016.

23 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued operations

1 000 €	2016	2015
Income	20 258	79 547
Costs	-21 117	-104 734
Profit before income tax	-859	-25 187
Profit from discontinued operations	-859	-25 187

Cash flow from discontinued operations

1 000 €	2016	2015
Cash flows from operating activities	45 534	16 139
Cash flows from investing activities	26	-15
Cash flows from financing activities	-50 000	-22 033
Cash flows total	-4 439	-5 909

Board of Directors of PVO-Lämpövoima Oy decided 27 October 2015 to propose, that the electricity production of condensing power plants in Kristiinankaupunki and Pori Tahkoluoto will be terminated. PVO's extraordinary shareholders' meeting approved the decision 13 November 2015. PVO-Lämpövoima's operations are presented in the financial statements 2016 and 2015 as discontinued operations. PVO-Lämpövoima's tangible assets and inventory are presented as assets held for sale.

Assets held for sale

The Board of Directors of Pohjolan Voima Oy approved 15 December 2016 the arrangement, in which PVO-Alueverkko Oy's shares will be sold in January 2017. PVO-Alueverkko Oy's assets and liabilities have therefore been presented as assets held for sale. Mussalon Voima Oy signed sales agreement 21 December 2016 on the site and 22 December 2016 on the electricity distribution powerline. The title of these asset passes to the buyer when the purchase price is paid in January 2017. Further, sales agreement exists on the coal inventory owned by Mussalon Voima Oy and the inventory will be sold in January 2017. These assets have also been presented as assets held for sale.

1 000 €	2016	2015
Intangible assets	1 042	0
Tangible assets	8 664	2 928
Loans and other receivables	0	0
Inventory	12 753	25 723
Trade and other receivables	794	0
Total	23 254	28 651

Liabilities related to assets held for sale

1 000 €	2016	2015
Borrowings	0	0
Trade and other payables	560	0
Total	560	0

24 EQUITY

According to the articles of association, PVO supplies energy to its shareholders at cost, i.e.. delivers energy it has produced or acquired to each shareholder according to their proportionate ownership in each series of shares. Shareholders are according to their proportionate ownership in each series of shares responsible for the fixed costs for the underlying shares, regardless of whether the power or energy share is used or not. Variable costs, on the other hand, are invoiced to the shareholders based on the share of the energy delivered.

Reconciliation of the number of shares:

1 000 €	Number of shares	Share capital	Share issue	Share premium	Revaluation reserve	Reserve for invested non-restricted equity	Equity loans	Retained earnings	Total
01.01.2015	38 594 951	64 912	109 537	336 778	9 553	243 347	35 109	214 017	1 013
Proceeds from share issue	1 123 815	1 890	-60 232			61 044			252
Transfer to retained earnings and reserve for invested non-restricted equity									2 702
Acquisition and annulment of own shares	-1 101 607	-1 953		-41 844		37 300		6 497	0
Repayment of equity loans		-741		-6 251		-43 797			-50 789
Other comprehensive income					-2 046		-35 109		-35 109
31.12.2015	38 617 159	64 108	49 305	288 683	7 507	297 894	0	206 347	-16 213
Transfer to retained earnings and reserve for invested non-restricted equity									913 843
Acquisition and annulment of own shares	-500 000			-18 391		9 208		9 183	0
Decrease of the number of shares	-6 312 066								0
Refund of reserves				-50 000		-20 912			-70 912
Other comprehensive income					-4 597			-17 491	-22 088
31.12.2016	31 805 093	64 108	49 305	220 292	2 910	286 190	0	198 039	820 844

Shares

The number of shares at 31 December 2016 was 31.805.093. The shares have no nominal value. All issued shares are fully paid.

The company has 15 registered series of shares

Share capital by share category

	Number	1 000 €
Series A: - entitling the holder to obtain energy produced or purchased by PVO-Vesivoima Oy	13 350 077	22 453
Series B: - entitling the holder to obtain 56.8% of the energy produced or purchased by Teollisuuden Voima Oyj's - Olkiluoto plant 1 and 2	7 124 507	11 983
Series B2: - entitling the holder to obtain 60.2% of the energy produced by Teollisuuden Voima Oyj's Olkiluoto plant 3 once its construction is completed.	4 722 703	7 943
Series C: - entitling the holder to obtain energy produced or purchased by PVO-Lämpövoima Oy	2 224 498	11 954
Series C2: - entitling the holder to obtain 56.8% of the energy produced or purchased by Teollisuuden Voima Oyj's Meri-Pori coal power plant	359 198	604
Series G: - entitling the holder to obtain 49.9% of the energy produced by Oy Alholmens Kraft Ab	354 290	596
Series G2: - entitling the holder to obtain 76.0% of the energy produced by Kymin Voima Oy	238 216	401
Series G4: - entitling the holder to obtain 72.0% of the energy produced by Rauman Voima Oy	296 486	499
Series G5: - entitling the holder to obtain energy produced by Laanilan Voima Oy	155 272	261
Series G6:	646 217	1 087

- entitling the holder to obtain energy produced by Porin Prosessivoima Oy Series G9:	589 071	991
- entitling the holder to obtain 54.0% of the energy produced by Kaukaan Voima Oy G10-sarja	213 600	359
- entitling the holder to obtain 84,0 % of the energy produced by Hämeenkyrön Voima Oy Series K1:	176 428	297
- entitling the holder to obtain energy produced or purchased by Kokkolan Voima Oy Series M:	307 707	2 921
- entitling the holder to obtain 100,0% of the energy produced by Mussalon Voima Oy Series V:	1 046 823	1 761
- entitling the holder to obtain 50.0% of the energy produced by Vaskiluodon Voima Oy	31 805 093	64 108

The following shares were issued during the financial year:

There were no share issues subscribed in 2016.

Other changes in shareholders' equity:

Annual General Meeting of Pohjolan Voima Oy decided on 22 March 2016 to cover negative retained earnings of 9.2 million Euros by lowering the reserve of invested unrestricted equity fund by the same amount.

The company decreased the number of shares in C-series from 7.107.592 to 2.224.498 shares and the new number of shares was registered 25 May 2016. After the decrease 50 million Euros was returned as refund from share premium to the shareholders of C-series.

The company decreased the number of shares in M-series from 1.736.679 to 307.707 shares and the new number of shares was registered 25 May 2016. After the decrease 13.6 million Euros were temporarily transferred from share premium to the reserve of invested non-restricted equity to await the refund to the shareholders of M-series later in 2016.

In K1-series a refund of 4.8 million Euros was made from share premium (through the reserve of invested unrestricted equity) and 2.5 million Euros from the reserve of invested unrestricted equity in December 2016 according to the decision of the extraordinary shareholders' meeting.

The company acquired its own shares in H-series in December 2015 and started the annulment. The annulment was registered in the trade register 5 January 2016.

The Extraordinary General Meeting of Pohjolan Voima decided in December 2011 to participate in the bidding and engineering phase of the construction of a new nuclear power plant Olkiluoto 4 (OL4) and the Extraordinary General Meeting of Teollisuuden Voima decided to commence the bidding and engineering phase. Pohjolan Voima draw down shareholder loan of 35.1 million Euros (2014: 35.1 million Euros) during the years 2011-2013, for the financing of the OL4 project bidding and engineering phase. Extraordinary General Meeting of Teollisuuden Voima decided 24 June 2015 not to apply for a construction license for OL4 plant unit during the validity of the decision-in-principle. OL4-project was terminated and the equity loan was repaid to the shareholders participated in the project.

Share premium

Share premium is recorded under the old Limited Liability Companies Act (29.9.1978/734), and was calculated as the difference between the nominal value of the shares and the subscription price. Share premium is restricted equity under the Limited Liability Companies Act. Share premium may be reduced to cover losses or it can be returned to owners under certain conditions.

Revaluation reserve

Derivative instruments used in cash flow hedging and fair value gains or losses on investments available-for-sale are recorded in the revaluation reserve. Fair value changes are transferred to the profit for the year when hedged cash flows realize. Fair value changes in investments available-for-sale are transferred to the profit for the year when the investment is disposed of or when its value has been impaired.

Invested non-restricted equity

Subscription prices for shares are recorded in invested non-restricted equity to the extent that they are not, based on an explicit decision, to be recorded as share capital.

Equity loans

Equity loans are recognized initially at fair value including transaction costs. The equity loan do not have a maturity date, and the debtor can repay the loan at will in one or several tranches. The debtor's Board of Directors can decide that relating interest will not be paid for a certain period. Unpaid interest does not accumulated to the next period. The equity loan is unsecured and subordinate to all other debt instruments. The equity loan holders do not have shareholder rights, nor does the loan dilute the shareholders' holdings.

25 PROVISIONS

1 000 €	Environmental provisions	
At 1 January 2016	4 826	
Additions	0	
Disposals	-961	
Effect of discounting	24	
At 1 December 2016	3 889	

1 000 €	2016	2015
Non-current	3 889	4 826
Total	3 889	4 826

Environmental provisions

The environmental provisions include provision for the landscaping of power plant landfills. The present value of the landscaping is capitalized as part of the other tangible assets and recorded as a provision. The environmental provision totalled 3.9 million Euros at 31 December 2016 and it is estimated that it will be fully utilised by 2030.

The discount rate used to determine present value was 0.36%.

26 DEFERRED TAX LIABILITIES

1 000 €	2016	2015
Accumulated depreciation difference 1.1.	853	852
Charged to the statement of comprehensive income	-10	1
Accumulated depreciation difference 31.12.	843	853

27 BORROWINGS

1 000 €	2016	2015
Non-current:		
Borrowings from associates and joint ventures	583 334	573 110
Borrowings from financial institutions	282 365	291 140
Pension loans	2 712	5 424
Secured financial liabilities	216 152	183 764
Total	1 084 562	1 053 437
Current:		
Borrowings from financial institutions	12 170	47 703
Pension loans	2 712	2 712
Other interest-bearing current liabilities	109 808	116 843
Secured financial liabilities	13 649	46 378
Total	138 339	213 636
Total borrowings	1 222 901	1 267 073

Fair values of non-current and current borrowings are presented in note 30.

Teollisuuden Voima Oyj is obliged to nuclear waste management. The obligation entitles Teollisuuden Voima Oyj to borrow 75% of its holdings in the State Nuclear Waste Management Fund. Teollisuuden Voima Oyj has granted corresponding loans to its shareholders. Pohjolan Voima's share is 583.3 (573.1) million Euros.

The secured financial liabilities consist of finance lease contracts relating to investments in power plants. Pohjolan Voima Group has 8 finance lease contracts for power plant machinery with an average lease term of 10 years (31 December 2015 7 contracts). Contracts expire in 2016 to 2020. Sale and lease agreements included in sale and leaseback arrangements are evaluated as a whole: Sale does not transfer the risks and rewards of ownership to the buyer, which means that criteria for derecognition are not fulfilled for the seller i.e. the lessee. The arrangement does not transfer the right of use of the assets to the finance company.

OTHER NON-CURRENT LIABILITIES

1 000 €	2016	2015
Other non-current liabilities		
Other non-current liabilities	0	905
Derivative financial liabilities		
Interest rate swaps	3 626	2 454
Total	3 626	3 359

Fair values of derivatives are disclosed in note 29.

INTEREST-BEARING NET LIABILITIES

1 000 €	2016	2015
Interest-bearing liabilities total	1 222 901	1 267 073
Interest-bearing financial assets		
Non-current		
Loan receivables	288 690	288 825
Finance lease receivables	0	23 776
	288 690	312 601
Current		
Pledged cash deposits	182	446
Interest-bearing receivables	208	56
Finance lease receivables	2 129	1 748
Cash and cash equivalents	50 821	79 550
Total	53 340	81 800
Interest-bearing financial assets total	342 030	394 401
Interest-bearing liabilities net	880 871	872 672

28 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

1 000 €	2016	2015
Trade payables	17 191	13 474
Liabilities to associates and joint ventures	30 738	15 613
Accrued expenses	16 487	17 409
Other current liabilities	6 266	12 490
Held emission allowances, Energy Authority	1 206	3 496
Derivative financial instruments	853	383
Total	72 742	62 864

Emission allowances are recorded at cost and are presented separately on the balance sheet. The obligation relating to emission allowances are recorded at book value of the held allowances to short-term debt. Allowances and the related obligations are derecognised when they are reported or sold.

Accrued expenses:

1 000 €	2016	2015
Accrued personnel expenses	2 728	3 403
Accrued expenses for fuel purchases	4 846	7 045
Accrued expenses for energy purchases	824	901
Accrued rents	1 519	1 136
Interest liabilities	1 092	974
Other	5 476	3 949
Total	16 487	17 409

29 DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivative financial instruments

	2016	2016	Total
1 000 €	Positive fair values	Negative fair values	
Interest rate swaps	285	-4 763	-4 478
Forward foreign exchange contracts and swaps			0
Total	285	-4 763	-4 478

	2015	2015	Total
1 000 €	Positive fair values	Negative fair values	
Interest rate swaps	1 355	-4 192	-2 837
Forward foreign exchange contracts and swaps	0	0	0
Total	1 355	-4 192	-2 837

Nominal value of derivative financial instruments

1 000 €	2016	2015
Interest rate swaps	387 000	372 000
Forward foreign exchange contracts and swaps	0	0

30 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

1 000 €	2016	Financial assets and liabilities at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities carried at amortised cost	Book value total	Fair value total	Note
Non-current financial assets								
Available-for-sale investments				586		586	586	19
Loan receivables			288 690			288 690	288 690	20
Finance lease receivables						0	0	20
Other receivables			35 601			35 601	35 601	20
		0	324 291	586	0	324 877	324 877	
Current financial assets								
Cash and cash equivalents			50 821			50 821	50 821	21
Loan receivables			390			390	208	20
Share issue receivables			49 305			49 305	49 305	20
Trade and other receivables			62 300			62 300	62 300	20
Prepayments and accrued income			37 974			37 974	37 974	20
Finance lease receivables						2 129	2 129	20
Derivative financial instruments		0				0	0	20
		0	200 789	0	0	202 918	202 737	
Total		0	525 080	586	0	527 796	527 614	
Non-current financial liabilities								
Borrowings from associates and joint ventures					583 334	583 334	583 334	27
Borrowings					285 076	285 076	285 076	27
Secured financial liabilities					216 152	216 152	216 152	27
Other non-current liabilities					0	0	0	27
Derivative financial instruments		3 626				3 626	3 626	27
		3 626	0	0	1 084 562	1 088 188	1 088 188	
Current financial liabilities								
Loans and commercial papers					124 690	124 690	124 690	27
Trade payables					17 191	17 191	17 191	28
Other current liabilities					38 210	38 210	38 210	28
Accrued expenses					16 487	16 487	16 487	28
Secured financial liabilities					13 649	13 649	13 649	27
Derivative financial instruments		853				853	853	28
		853	0	0	210 228	211 081	211 081	
Total		4 479	0	0	1 294 790	1 299 269	1 299 269	

As at 31 December 2016 the amount of offsetting derivative instruments included in the financial assets and financial liabilities in the Group was -4.5 (2015: -2.8) million Euros.

	Gross amounts recognised in the balance sheet	Related amounts not set off in the balance sheet	Net amount					
Derivative contracts 2016	4 479	0	4 479					
Derivative contracts 2015	2 837	0	2 837					
1 000 €	2015	Financial assets and liabilities at fair value through profit and loss	Loans and receivables	Available- for-sale financial assets	Financial liabilities carried at amortised cost	Book value total	Fair value total	Note
Non-current financial assets								
Available-for-sale investments				586		586	586	19
Loan receivables			288 825			288 825	288 825	20
Finance lease receivables						23 776	23 776	20
Other receivables			30 020			30 020	30 020	20
	0		318 845	586	0	343 207	343 207	
Current financial assets								
Cash and cash equivalents			79 550			79 550	79 550	21
Loan receivables			502			502	56	20
Share issue receivables			49 305			49 305	49 305	20
Trade and other receivables			89 608			89 608	89 608	20
Prepayments and accrued income			22 864			22 864	22 864	20
Finance lease receivables						1 748	1 748	20
Derivative financial instruments	0					0	0	20
	0		241 829	0	0	243 577	243 131	
Total	0	560 674	586	0	0	586 784	586 338	
Non-current financial liabilities								
Borrowings from associates and joint ventures					573 110	573 110	573 110	27
Borrowings					296 563	296 563	296 563	27
Secured financial liabilities					183 764	183 764	183 764	27
Other non-current liabilities					905	905	905	27
Derivative financial instruments	2 454					2 454	2 454	27
	2 454	0	0	0	1 054 342	1 056 796	1 056 796	
Current financial liabilities								
Loans and commercial papers					167 258	167 258	167 258	27
Trade payables					13 474	13 474	13 474	28
Other current liabilities					31 598	31 598	31 598	28
Accrued expenses					17 409	17 409	17 409	28
Secured financial liabilities					46 378	46 378	46 378	27
Derivative financial instruments	383					383	383	28
	383	0	0	0	276 117	276 500	276 500	
Total	2 837	0	0	0	1 330 460	1 333 297	1 333 297	

Fair value estimation

Carrying value of receivables and other receivables with variable interest rates are calculated using the effective interest method. This is also a reasonable estimate of their fair value. Short-term trade and other receivables approximate their fair value, as the effect of discounting is not significant for these receivables due to their short maturities.

Available-for-sale investments include investments in unlisted securities, which are carried at acquisition cost because their fair values are not readily available. The Group has no intention to dispose of these securities.

Carrying value of long-term loans and short-term interest-bearing liabilities is calculated using the effective interest method. Carrying value of loans with variable interest rates is a reasonable estimate of their fair value. Carrying value of short-term interest-bearing liabilities approximate their fair value, as the effect of discounting is not significant due to their short maturity. Fair value of loans with fixed interest rate is determined using a discounted cash flow method. Discount rates used are the market interest rates at the closing date, which were in between -0,37 - 0,66% (-0,2 - 1,0 %).

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value at the closing date. The fair values reflect the prices, which PVO would have to pay or would receive, if it called a derivatives contract. Fair value of interest rate swaps is determined using a discounted cash flow method using market rates prevailing at the closing date as the discount rate, which were -0,37 - 0,66 % (-0,2 - 1,0 %). Fair values of forward foreign exchange contracts and swaps are determined using quoted forward rates from contracts with similar duration. PVO does not apply hedge accounting according to IAS 39, so the changes in fair values for derivative instruments are recorded in the statement of comprehensive income.

According to IFRS 7, items measured at fair value are classified into three different levels for the notes, depending on how much the fair values are based on market information. Fair values of instruments categorized as Level 1 are based on quoted prices (unadjusted) in active markets for identical instruments; fair values of Level 2 instruments are derived, either directly or indirectly from quoted prices and Level 3 of the fair values are determined using input data that is not based on observable market data. Only derivative financial instruments are recorded at fair value in the balance sheet and they are all in Level 2 in the fair value hierarchy.

31 CONTINGENT LIABILITIES AND ASSETS AND PURCHASE COMMITMENTS

1 000 €	2016	2015
On behalf of own loans		
Pledged deposits	87	397
Other contingent liabilities	594 353	586 538
On behalf of associated companies and joint ventures		
Guarantees	37	40
Guarantee according to Nuclear Energy Act	82 089	78 164
On behalf of others		
Guarantees	0	0
Total	676 566	665 139

The pledged deposits relate mainly to margin accounts for the electricity trading and emission allowance trading.

Other liabilities consist mainly of the parent company's loan guarantees. In 2016 a bank guarantee of 583.3 million Euros (2015: 573.1 million Euros) was given to the State Nuclear Waste Management Fund. A bank guarantee relating to the pension (TyEl) loan amounts to 5.4 million Euros (2015: 8.1 million Euros). Fingrid Oyj has been given a guarantee of 3.8 million Euros (2015: 3.8 million Euros) related to the reserve capacity agreement.

Guarantee under the Nuclear Energy Act

According to the Finnish Nuclear Energy Act, Teollisuuden Voima, a joint venture of which Pohjolan Voima owns 58.47%, is obliged to fund the decommissioning of nuclear power plants and final disposal of spent nuclear fuel through the Finnish State Nuclear Waste Management Fund.

The amount of the contingent liability is determined by the administrative authority (Ministry of Employment and Economy) based on the Nuclear Energy Act. The directly enforceable guarantees relating to Nuclear waste management given by the shareholders of Teollisuuden Voima Oyj cover the uncovered portion of nuclear waste management liability as well as a liability for any unforeseen expenses of nuclear waste management in accordance with the Nuclear Energy Act. The directly enforceable guarantee given by Pohjolan Voima is 82.1 million Euros (2015: 78.2 million Euros).

INVESTMENT COMMITMENTS

Joint ventures

Pohjolan Voima Oy has committed to an investment into the nuclear power plant Olkiluoto 3 EPR built by Teollisuuden Voima Oyj during 2004 to 2016. The commitment consists of a 432 million Euros investment, a shareholder loan of 108 million and an additional shareholder loan of a maximum of 361.4 million Euros. As at 31 December 2016 Pohjolan Voima Oy has fulfilled 720.6 (2015: 720.6 million Euros) of its commitments. Investments are based on the financial plan of Olkiluoto 3 EPR, according to which capital is raised in accordance with the progress of the project.

LEGAL PROCEEDINGS

Joint ventures

Teollisuuden Voima submitted in 2012 a claim and defense in the International Chamber of Commerce (ICC) arbitration proceedings concerning the delay and the ensuing costs incurred at the OL3 EPR project. The quantification estimate of TVO's costs and losses updated in July 2015 is approximately 2.6 billion Euros and covers the period until the end of 2018 which is according to OL3 plant supplier the starting point of OL3 EPR's regular electricity production.

The proceedings were initiated in December 2008 by the OL3 EPR plant supplier. The monetary claim the plant supplier updated in February 2016 is in total approximately 3.52 billion Euros. The sum is based on the Supplier's updated analysis of events that occurred through September 2014, with certain claims quantified to 31 December 2014. The sum includes penalty interests (calculated to 30 June 2016) and payments allegedly delayed by TVO under the plant contract 1.45 billion Euros as well as 135 million Euros of alleged loss of profit.

In November 2016, the ICC Tribunal made a final and binding partial award. In the partial award, the ICC Tribunal addressed the early period of the project (time schedule, licensing and licensability, and system design). This comprised many of the facts and matters that TVO relies upon in its main claims against the supplier, as well as certain key matters that the supplier relies upon in its claims against TVO. In doing so, the partial award finally resolved the great majority of these facts and matters in favour of TVO, and conversely rejected the great majority of the supplier's contentions in this regards. The partial award did not take a position on the claimed monetary amounts. The arbitration proceeding is still going on with further partial awards to come before the final award where the Tribunal will declare liabilities to pay compensation.

TVO considers its claims to be well-founded and has considered and found the claims of the Supplier to be without merit. The partial award provides material confirmation for the position.

TVO has sought to obtain more detailed information from Areva Group on its announced restructuring and its impacts on the OL3 EPR project. As TVO has not received such information it begun legal proceedings at the end of September 2016 before the Commercial Court of Nanterre in France. The aim of this is to urgently obtain this information with a view to securing the assurances that all the necessary financial and other resources, particularly in relation to the EPR technology capabilities, will be allocated for the completion and long-term operation of OL3 EPR and that the Supplier Areva-Siemens will meet all their contractual obligations and liabilities.

The companies belonging to the plant supplier consortium (AREVA GmbH, AREVA NP SAS and Siemens AG) are jointly and severally liable for the plant contractual obligations.

No provisions or receivables have been recorded based on the arbitration proceedings.

32 OPERATING LEASES

The Group has leased the Helsinki, Harjavalta, Nokia and Oulu office spaces. The lease expires in 2022 for the Helsinki office. Other leases are valid for the time being. The contracts include the possibility to continue the lease period after the expiration date of the initial contract period.

1 000 €	2016	2015
No later than 1 year	637	655
Later than 1 year and no later than 5 years	3 146	3 206
Total	3 784	3 861

33 EMISSION ALLOWANCES

Carbon Dioxide Emission

Generally the Group holds emission allowances covering the annual CO₂ emissions. If the actual emissions exceed allowances held, the company has recognised an expense for emission rights at market price for each ton of emission exceeding its allowances. PVO-Lämpövoima's, which is classified as discontinued operations, emission information is not included in the below listed information.

	2016 t CO ₂	1 000 €
Allowances received free of charge	539 196	
Combined annual emissions of the plants'	689 335	
Emission allowances held	2 378 405	
External sales of emission allowances *	44 000	232
External purchases of emission allowances **	251 005	1 256
	2015 t CO ₂	1 000 €
Allowances received free of charge*	279 284	
Combined annual emissions of the plants'	698 602	
Emission allowances held	2 331 257	
External sales of emission allowances **	0	0
External purchases of emission allowances ***	194 704	1 574

* Emission sales are included in revenue.

** The cost of purchased emission rights are included in materials and services and remaining emission allowances held at the closing date are included in the balance sheet as intangible assets.

34 RELATED-PARTY TRANSACTIONS

The Group's related parties include the parent company, subsidiaries, associates and joint ventures as well as the largest shareholder, UPM-Kymmene Group. Related parties also include the Board of Directors and the Corporate Executive Team members including the CEO and Deputy CEO.

Parent company and subsidiaries:

Company	Production	Country	Ownership (%)	Voting right (%)
Hämeenkyrön Voima Oy	Thermal Power	Finland	84,000	84,000
Kaukaan Voima Oy	Thermal Power	Finland	54,000	54,000
Kymin Voima Oy	Thermal Power	Finland	76,000	76,000
Laanilan Voima Oy	Thermal Power	Finland	100,000	100,000
Mussalon Voima Oy	Thermal Power	Finland	100,000	100,000
Porin Prosessivoima Oy	Thermal Power	Finland	100,000	100,000
Powest Oy	Services company	Finland	80,519	98,805
PVO-Alueverkot Oy	Network company	Finland	80,519	80,519
PVO-Lämpövoima Oy	Thermal Power	Finland	100,000	100,000
PVO Power Management Oy	Services company	Finland	100,000	100,000
PVO Power Services Oy	Services company	Finland	100,000	100,000
PVO-Vesivoima Oy	Hydropower	Finland	100,000	100,000
Rauman Biovoima Oy	Thermal Power	Finland	71,949	71,949
Rouhialan Voimansiirto Oy	Services company	Finland	100,000	100,000

List of associated companies and joint ventures

Company	Registered Office
Associated companies	
Oy Alhomens Kraft Ab	Pietarsaari
Länsi-Suomen Voima Oy	Harjavalta
Tahkoluodon Polttoöljy Oy	Pori
Torniolaakson Voima Oy	Ylitornio
Joint ventures	
Teollisuuden Voima Oyj	Helsinki
Vaskiluodon Voima Oy	Vaasa
Voimalohi Oy	Kemi

Transactions with related parties, 1000 €

Related party transactions relate to normal business operations of Pohjola Voima.

2016	Sales	Purchases	Receivables	Liabilities
Associates and joint ventures	4 156	243 403	357 533	614 072
UPM-Kymmene Group	195 525	65 530	19 254	11 836

2015	Sales	Purchases	Receivables	Liabilities
Associates and joint ventures	5 940	237 908	335 887	588 723
UPM-Kymmene Oyj	226 179	90 325	7 777	7 445

UPM Energy Oy owns 47.3% (2015: 0%) and UPM Paper ENA Oy 3.5% (2015: 0%) of Pohjolan Voima Oy's share capital.

UPM-Kymmeny Oyj does not own (2015: 42.83%) shares of Pohjolan Voima Oy.

The Board of Directors and Executive team

Senior management of Pohjolan Voima consists of the board members and the executive management team members, including the President and CEO and the deputy President & CEO. The Group has not granted any loans to senior management, and has no business transactions with management.

1 000 €	2016	2015
Salaries and other short-term employee benefits	2 087	2 073
Total	2 087	2 073

35 BREAKDOWN OF SHARE OWNERSHIP AND SHAREHOLDER INFORMATION

Shareholder	2016 % of shares	2015 % of shares
EPV Energia Oy	5,46%	6,42%
Etelä-Suomen Voima Oy	1,43%	1,86%
Helen Oy	0,60%	0,85%
Kemira Oyj (ml. Eläkesäätiö)	4,98%	4,35%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	1,87%	3,88%
Kokkolan Energia Oy	2,41%	2,33%
Kymppivoima Oy	5,77%	9,33%
Metsä Group (Metsäliitto, Metsä Fibre, Metsä Board Oyj)	3,64%	3,01%
Myllykoski Oyj *)	0,61%	0,87%
Oulun Energia Oy	0,93%	1,74%
Outokumpu Oyj	0,10%	0,08%
Oy Perhonjoki Ab	2,18%	2,30%
Porin kaupunki	1,41%	1,76%
Rautaruukki Oyj	0,08%	0,06%
Stora Enso Oyj	15,54%	15,17%
UPM Energy Oy	47,35%	0,00%
UPM Paper ENA Oy	3,53%	0,00%
UPM-Kymmene Oyj	0,00%	42,83%
Vantaan Energia Oy	0,22%	0,31%
Yara Suomi Oy (ml. Eläkesäätiö)	1,88%	1,55%
Pohjolan Voima Oy**	0,00%	1,30%
Yhteensä	100,00%	100,00%

*) Myllykoski Oyj is a part UPM-Kymmene Group.

**) H series' shares acquired from the shareholders 22 December 2015 and the annulment of the shares acquired was in process as at 31 December 2015. The annulment was registered 5 January 2016.

Shareholders by sector	% of shares	% of shares
Forest industry	70,68%	61,88%
Energy companies	19,00%	25,14%
Chemical industry	6,87%	5,90%
Metal industry	0,18%	0,14%
Other	3,28%	6,94%
Yhteensä	100,00%	100,00%

36 EVENTS AFTER THE REPORTING PERIOD

Teollisuuden Voima Oyj filed 26 January 2017 with the Ministry of Economic Affairs and Employment an application for the renewal of the operating license of Olkiluoto 1 and Olkiluoto 2 plants. The renewal of the operating license is applied for from the Government until the end of 2038. The 20-year operating license in force at the moment must be renewed by the end of 2018.

The EU Commission made a positive conditional decision on the state aid in January. Teollisuuden Voima requires that the restructuring respects the completion of the OL3 EPR project within the current schedule and that all liabilities of the plant contract are respected.

Group company Powest Oy sold shares of PVO-Alueverkot Oy and the title of shares passed 31 January 2017. Simultaneously Pohjolan Voima Oy, PVL-Lämpövoima Oy and PVO-Vesivoima Oy sold certain electricity distribution powerline components. The transaction resulted in a remarkable sales profit in Powest.

In Pori, Kaanaa's industrial park occurred a fire 30 January 2017, which caused large damages to the industrial operators using steam produced by Porin Prosessivoima Oy. Steam deliveries to Kaanaa industry park are disrupted for the present. The investigation of the damages caused by the fire has started. The length of the disruption of steam deliveries is currently not known.

PVO-Lämpövoima offered its coal power plants in Kristiinankaupunki and in Tahkoluoto, Pori, in January 2017 in peak load reserve capacity for the period 1 July 2017 - 30 June 2020. The Energy Authority made the purchase decisions 20 February 2017 and neither of the plants was elected. The plants are under long-term mothballing and the investigations of the realization of the plants will continue. The plants are valued according to the lower of cost or market principle in the financial statements.

The portion of Meri-Pori coal power plant owned by Fortum Power and Heat Oy was elected in peak load reserve capacity. The effects on the portion of Meri-Pori owned by Teollisuuden Voima is under investigation.

Parent company financial statements (FAS)

Content

Income Statement

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Cash Flow Statement

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PARENT COMPANY FINANCIAL STATEMENTS (FAS)

INCOME STATEMENT

1 000 €	Note	1.1. - 31.12.2016	1.1. - 31.12.2015
Revenue	2	445 766	512 849
Other operating income	3	507	35 635
Materials and services	4	-184 859	-214 806
Personnel expenses	5	-7 497	-8 494
Depreciation, amortisation and impairment	6	-1 458	-1 386
Other operating expenses	7	-250 650	-318 325
Operating profit or loss		1 809	5 473
Finance income and costs	8	-6 946	-14 648
Profit or loss before appropriations and taxes		-5 137	-9 175
Income tax expense	9	-8	-8
Profit or loss for the year		-5 145	-9 183

BALANCE SHEET

1 000 €	Note	31.12.2016	31.12.2015
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10	1 352	1 822
Property, plant and equipment	11	842	1 140
Investments	12		
Holdings in Group undertakings		423 090	480 736
Other investments		1 034 925	1 035 372
TOTAL NON-CURRENT ASSETS		1 460 209	1 519 070
CURRENT ASSETS			
Non-current receivables	13	35 580	30 113
Current receivables	14	126 968	143 555
Investments	15	0	26 122
Cash and cash equivalents		54 403	45 136
TOTAL CURRENT ASSETS		216 951	244 926
Total assets		1 677 160	1 763 996
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	64 108	64 108
Share issue		49 305	49 305
Share premium		216 822	285 214
Revaluation reserve		218 644	218 644
Reserve for invested non-restricted equity		286 191	297 894
Retained earnings		0	0
Profit or loss for the year		-5 145	-9 183
TOTAL EQUITY		829 925	905 982
ACCUMULATED APPROPRIATIONS			
Depreciation difference		0	0
Provisions			
Other provisions	17	0	100
LIABILITIES			
Non-current liabilities	18	636 046	628 535
Current liabilities	19	211 189	229 379
TOTAL LIABILITIES		847 235	857 914
Total equity and liabilities		1 677 160	1 763 996

CASH FLOW STATEMENT

1 000 €		1.1. - 31.12.2016	1.1. - 31.12.2015
Operating activities			
Operating profit or loss		1 810	5 473
Adjustments to operating profit or loss	1)	1 331	1 284
Change in net working capital	2)	-20 343	-26 794
Interest paid		-8 822	-10 537
Interest received		4 364	4 871
Dividends received		1	1
Change in provisions		-100	100
Other financial items		-3 677	-3 827
Income tax paid		-7	-4
Cash flow from operating activities		-25 443	-29 433
Investments			
Acquisition of subsidiaries		0	-2 702
Proceeds from other investments		0	85
Purchases of property, plant and equipment and intangible assets		-306	-1 147
Proceeds from the sale of shares in subsidiaries		7 645	61 531
Refund of reserves		50 000	22 675
Proceeds from sales of property, plant and equipment and intangible assets		241	121
Increase (-) or decrease (+) of loan receivables		0	-24 793
Cash flow from investing activities		57 580	55 770
Financing			
Proceeds from borrowings		10 223	64 909
Repayments of borrowings		-2 711	-37 821
Proceeds (+) or repayments (-) of current interest-bearing liabilities		14 409	-93 408
Refund of reserves		-70 913	0
Purchase of own shares		0	-50 788
Proceeds from issuance of ordinary shares		0	62 934
Cash flow from financing activities		-48 992	-54 174
Net (decrease)/increase in cash and cash equivalents		-16 855	-27 837
Cash and cash equivalents at 1.1.		71 258	99 095
Cash and cash equivalents at 31.12.		54 403	71 258
1) Adjustments to operating profit or loss			
Depreciation, amortisation and impairment		1 458	1 386
Losses(+) or gains (-) of sales of non-current assets		-127	-103
		1 331	1 284
2) Change in net working capital			
Increase (-) or decrease (+) of non-interest-bearing receivables		11 080	-40 934
Increase (+) or decrease (-) of current non-interest-bearing liabilities		-31 423	14 140
		-20 343	-26 794

Notes to financial statements

1 Basis of preparation

Pohjolan Voima Oy's financial statements have been prepared in accordance with Finnish Accounting Standards (FAS) and other laws and regulations governing the preparation of the financial statements in Finland.

Pohjolan Voima Oy (0210161-4, Helsinki) is the parent company of Pohjolan Voima – Group.

Revenue

Revenue is recognised net of value-added taxes and discounts. Revenue is recognised at the time of delivery.

Other operating income

Revenue from activities outside the normal operations is reported in other operating income. This includes items such as rental income and gains on sale of assets.

Research and development costs

Research and development costs are expensed as incurred.

Pension costs

Statutory pension liabilities are covered through pension insurance arrangements.

Foreign currencies and derivative contracts

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences are presented within finance income and cost in the income statement.

In accordance with the financing policy, Pohjolan Voima Oy enters into derivative contracts only for managing the interest rate risk and for hedging purposes. The interest rate risk is monitored by means of duration, which is set at the level where the electricity price sensitivity to changes in interest rates is on an acceptable level considering the individual risk-bearing capacity of each series of shares. Derivative contracts are not fair-valued but considered as off-balance sheet items. Derivatives used to manage interest rate risk are accrued for the contract period and they are recognised against the interest expenses of the hedged loans. Pohjolan Voima Oy enters into foreign exchange rate derivative contracts relating to the fuel purchases of its subsidiaries. The key figures of foreign exchange rate and interest rate derivatives are disclosed in the notes.

Income taxes and deferred taxes

The tax expense for the period comprises current tax, relating to the current period and any adjustments made to taxes for the previous financial period. Pohjolan Voima operations are based on cost price and the company does not pay any taxes on its energy related operations. No deferred tax assets on the operating losses from previous periods have been recognized.

Non-current assets

The intangible assets and property, plant and equipment is stated at historical cost less accumulated amortisation and depreciation according to plan. Historical cost includes the variable costs of the investment. Received government grants have been deducted from acquisition cost. Depreciation is calculated using the straight-line method based on the estimated useful lives. Depreciation and amortization is started when the asset is taken into use.

The estimated useful lives have been defined as follows:

Other capitalised long-term expenditure	3-10 years
Machinery and equipment	3-20 years
Buildings and constructions	8-30 years

Investments

Investments include holdings in investment funds with short-term interest and certificates of deposit of financial institutions. Investments are recognised in the balance sheet at cost. They are included in cash and cash equivalents in the cash flow statement.

NOTES TO INCOME STATEMENT

2 SALES

1 000 €	2016	2015
Sales of electricity produced	312 783	358 618
Sales of heat produced	127 718	147 574
Other sales	5 265	6 657
Total	445 766	512 849

3 OTHER OPERATING INCOME

1 000 €	2016	2015
Gains on sale of property, plant and equipment and other investments	139	106
Rental income	339	809
Other income	29	34 720
Total	507	35 635

4 MATERIALS AND SERVICES

1 000 €	2016	2015
Energy purchases	184 859	214 806
Total purchases	184 859	214 806

5 PERSONNEL EXPENSES AND AVERAGE NUMBER OF PERSONNEL

1 000 €	2016	2015
Wages and salaries		
Board members and CEO	964	947
Other wages and salaries	5 148	5 902
Total	6 112	6 849
Pension expenses	1 130	1 255
Other personnel expenses	255	390
Total	1 385	1 645
Total personnel expenses	7 497	8 494
Average number of personnel		
Salaried employees	64	82
Wage-earners	0	1
Total	64	83

6 DEPRECIATION, AMORTISATION AND IMPAIRMENT

1 000 €	2016	2015
Depreciation according to plan		
Intangible rights	21	21
Other capitalised long-term expenditure	689	659
Buildings and constructions	19	34
Machinery and equipment	196	225
Investments	447	447
Impairment of non-current assets	86	0
Total	1 458	1 386

7 OTHER OPERATING EXPENSES

1 000 €	2016	2015
Energy purchases	244 496	275 718
Repair, servicing and maintenance services	247	494
Rents	697	1 428
Real estate taxes	11	46
Fees to experts	2 767	3 493
Other expenses	2 432	37 146
Total	250 650	318 325

AUDITOR'S FEES

1 000 €	2016	2015
PricewaterhouseCoopers Oy:		
Audit fees	103	109
Auditor's mandatory opinions	2	0
Other services	18	3
Total	123	112

8 FINANCE INCOME AND COSTS

1 000 €	2016	2015
Dividend income		
from others	1	1
Interest income from investments		
in participating interests	2 622	2 572
Other interest and finance income		
from Group undertakings	1 667	2 115
from others	78	379
Total finance income	4 368	5 067
Interest costs and other financial costs		
Group undertakings	-5	0
participating interests	-3 213	-4 577
Others	-8 096	-8 916
Impairment of non-current assets	0	-6 222
Total finance costs	-11 314	-19 715
Total finance income and costs	-6 946	-14 648

Other interest and financial income includes exchange rate differences (net). 43 165

9 INCOME TAXES

1 000 €	2016	2015
Income taxes for the period	8	8
Total	8	8

NOTES TO BALANCE SHEET

10 INTANGIBLE ASSETS

1000 €	Intangible rights	Other capitalised long-term expenditure	Total
Cost or valuation at 1.1.	95	5 134	5 229
Disposals	-22	-185	-207
Reclassifications	-	359	359
Cost or valuation at 31.12.	73	5 308	5 381
Accumulated amortisation 1.1.	-31	-3 376	-3 407
Accumulated amortisation of disposals and reclassifications	-	174	174
Amortisation for the period	-21	-689	-710
Impairment	-	-86	-86
Accumulated amortisation 31.12.	-52	-3 977	-4 029
Net book amount 31.12.2016	21	1 331	1 352
Net book amount 31.12.2015	64	1 758	1 822

11 PROPERTY, PLANT AND EQUIPMENT

1000 €	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost or valuation at 1.1.	199	1 054	2 884	46	155	4 338
Additions	-	-	42	-	346	388
Disposals	-74	-70	-6	-	-31	-181
Reclassifications	-	-	-	-	-359	-359
Cost or valuation at 31.12.	125	984	2 920	46	111	4 186
Accumulated depreciation 1.1.	-	-877	-2 321	-	-	-3 198
Accumulated depreciation of disposals and reclassifications	-	63	6	-	-	69
Depreciation for the period	-	-19	-196	-	-	-215
Accumulated depreciation 31.12.	-	-833	-2 511	-	-	-3 344
Net book amount 31.12.2016	125	151	409	46	111	842
Net book amount 31.12.2015	199	177	563	46	155	1 140

Production machinery and equipment at 31.12.

0

12 INVESTMENTS

1000 €	Holdings in Group undertakings	Receivables from Group undertakings	Holdings in participating interests	Receivables from participating interests	Total
Cost or valuation at 1.1.	486 958	746 103	288 689	580	1 522 330
Disposals	-57 646	-447	-	-	-58 093
Cost or valuation at 31.12.	429 312	745 656	288 689	580	1 464 237
Accumulated impairment 1.1.	-6 222	-	-	-	-6 222
Accumulated impairment 31.12.	-6 222	-	-	-	-6 222
Net book amount 31.12.2016	423 090	745 656	288 689	580	1 458 015
Net book amount 31.12.2015	480 736	746 103	288 689	580	1 516 108

Revaluations included in the cost at 31.12.

0

13 NON-CURRENT RECEIVABLES

1 000 €	2016	2015
Loan receivables	0	135
Capital loan receivables	1	1
Other non-current receivables	35 579	29 977
Total	35 580	30 113
Receivables from Group undertakings		
Capital loan receivables	1	1
Total receivables from Group undertakings	1	1
Receivables from participating interests		
Loan receivables	0	135
Other non-current receivables	35 579	29 977
Total receivables from participating interests	35 579	30 112

14 CURRENT RECEIVABLES

1 000 €	2016	2015
Trade receivables	43 031	73 951
Loan receivables	135	0
Other receivables	108	899
Share issue receivables	49 305	49 305
Prepayments and accrued income	34 389	19 400
Total	126 968	143 555
Receivables from Group undertakings		
Trade receivables	-20	68
Prepayments and accrued income	644	421
Total receivables from Group undertakings	624	489
Receivables from participating interests		
Trade receivables	50	119
Loan receivables	135	0
Prepayments and accrued income	25 025	13 785
Total receivables from participating interests	25 210	13 904
Prepayments and accrued income:		
Accrued financial expenses	1 670	706
Accrued personnel expenses	26	19
Accrued interest income	634	673
Accrued sales of emission rights	535	889
Accrued arrangement fee for credit facility	976	1 171
Accrued VAT on prepayments	5 704	3 135
Accrued energy purchases, credit	840	0
Accrued energy purchases	23 624	12 621
Others	380	186
Total	34 389	19 400
Interest-bearing receivables		
Non-current assets	288 690	288 690
Current assets	54 538	71 393
Total	343 228	360 083

15 INVESTMENTS

1 000 €	2016	2015
Holdings in investment funds with short-term interest, certificates of deposit and commercial papers		
Reacquisition price	0	26 170
Book value	0	26 122
Difference	0	48

16 EQUITY

1 000 €	2016	2015
Share capital 1.1.	64 108	64 912
Transfer from share issue	0	1 890
Purchase and annulment of own shares	0	-741
Transfer to reserve for invested non-restricted equity	0	-1 953
Share capital 31.12.	64 108	64 108
Share issue 1.1.	49 305	109 537
Transfer to share capital	0	-1 890
Transfer to reserve for invested non-restricted equity	0	-61 044
Share issues during the year	0	2 702
Share issue 31.12.	49 305	49 305
Share premium 1.1.	285 214	333 308
Transfer to reserve for invested non-restricted equity	-18 392	-41 843
Refund of reserves	-50 000	0
Purchase and annulment of own shares	0	-6 251
Share premium 31.12.	216 822	285 214
Revaluation reserve 1.1.	218 644	218 644
Revaluation reserve 31.12.	218 644	218 644
Reserve for invested non-restricted equity 1.1	297 894	243 347
Share issues	0	61 044
Transfer from share capital	0	1 953
Transfer from share premium	18 392	41 843
Refund of reserves	-20 912	0
Purchase and annulment of own shares	0	-43 796
Transfer to retained earnings	-9 183	-6 497
Reserve for invested non-restricted equity 31.12	286 191	297 894
Retained earnings 1.1.	-9 183	-6 497
Transfer from reserve for invested non-restricted equity	9 183	6 497
Retained earnings 31.12.	0	0
Profit or loss for the year	-5 145	-9 183
Total	829 925	905 982
Distributable earnings 31.12.		
Retained earnings	0	0
Profit or loss for the year	-5 145	-9 183
Reserve for invested non-restricted equity	286 191	297 894
Total	281 046	288 711

Share capital by share category, see note 23 in the consolidated financial statements.

17 PROVISIONS

1 000 €	2 015	2 014
Other provisions	0	100

18 NON-CURRENT LIABILITIES

1 000 €	2016	2015
Loans from financial institutions	50 000	50 000
Pension loans	2 712	5 424
Other non-current liabilities	583 334	573 111
Total	636 046	628 535
Liabilities to participating interests		
Other non-current liabilities	583 334	573 111
Liabilities with more than five years to maturity		
Other non-current liabilities	583 334	573 111
Total	583 334	573 111
Non-interest-bearing and interest-bearing non-current liabilities		
Interest-bearing	636 046	628 535
Total	636 046	628 535

19 CURRENT LIABILITIES

1 000 €	2016	2015
Other interest-bearing liabilities	157 765	143 356
Trade payables	43 450	75 648
Accrued expenses	9 974	10 375
Total	211 189	229 379
To Group undertakings		
Trade payables	16 382	65 356
Accrued expenses	616	-142
To Group undertakings, total	16 998	65 214
To participating interests		
Trade payables	26 005	9 531
Accrued expenses	4 440	5 629
To participating interests, total	30 445	15 160
Accrued expenses		
Accrued personnel expenses	1 726	1 914
Accrued interest costs	4 167	5 394
Accrued energy sales, credit	1 520	1 048
Accrued energy purchases	1 781	885
Accrued emission right purchases	534	1 013
Others	246	121
Total accrued expenses	9 974	10 375
Non-interest-bearing and interest-bearing current liabilities		
Non-interest-bearing	53 424	86 023
Interest-bearing	157 765	143 356
Total	211 189	229 379

20 GUARANTEES AND CONTINGENT LIABILITIES

1 000 €	2016	2015
Guarantees		
Guarantees for loans		
On behalf of participating interests	20	22
Other guarantees		
As security for own liabilities	588 757	581 135
On behalf of Group undertakings	3 800	3 800
Total guarantees	592 577	584 957
Leasing liabilities		
Payments during the following year	83	93
Payments in subsequent years	68	151
Total leasing liabilities	151	244
Rental liabilities		
Payments during the following year	632	649
Payments in subsequent years	3 016	3 081
Total leasing liabilities	3 648	3 730
Other contingent liabilities		
Guarantee according to Nuclear Energy Act	82 088	78 164
As security for own liabilities	181	271
Total other contingent liabilities	82 269	78 435

According to the Finnish Nuclear Energy Act, Teollisuuden Voima, a joint venture of which Pohjolan Voima owns 58,47%, is obliged to fund the decommissioning of nuclear power plants and final disposal of spent nuclear fuel through the Finnish National Nuclear Waste Management Fund.

The amount of the contingent liability is determined by the administrative authority (Ministry of Employment and Economy) based on the Nuclear Energy Act. The directly enforceable guarantees given by the shareholders of Teollisuuden Voima Oyj cover the uncovered portion of the Nuclear Waste Management obligation as well as a liability for any unforeseen expenses of nuclear waste management in accordance with the Nuclear Energy Act. The directly enforceable guarantee given by Pohjolan Voima is 82.1 million Euros (2015: 78.2 million Euros).

21 DERIVATIVE FINANCIAL INSTRUMENTS

1 000 €	2016	2015
Nominal values and market values of derivative contracts providing a hedge against exchange rate and interest rate risks were as follows		
Interest rate swap contracts (nominal value)	564 000	564 000
Market value	-2 116	-2 020
Average maturity, in year	3,1	3,1
Variable reference interest rate	6 kk Euribor/ 3 kk Euribor/ 1 kk Euribor	6 kk Euribor/ 3 kk Euribor/ 1 kk Euribor
	1,095%	1,231%
Fixed interest rate (in average)		
Interest rate swaps hedge the following financial instruments with variable interest rates:		
Loans from financial institutions	50 000	50 000
Loan from the State Nuclear Waste Management Fund (TVO)	583 334	573 110

Financing risks

Board of Directors approve a financing policy for the company, which determines the purpose and risk levels for the financing operations. The refinancing risk is managed through diversified sources of financing, sufficiently long maturity of loans and a balanced schedule of maturity. The primary loan currency is the euro. If loans are taken out in other currencies, the currency risk is eliminated by means of derivative contracts. The interest rate risk is monitored by means of duration, which is set at the level where the electricity price sensitivity to changes in interest rates is on an acceptable level considering the individual risk-bearing capacity of each series of shares.

The Group maintains a certain amount of liquid assets, credit limit arrangements and commercial paper programmes to reduce the liquidity risk. The Group's liquidity is secured by the 300 million Euros revolving credit facility, which matures in 2021. The loan facility was fully undrawn as per 31.12.2016. For its short-term financing, the company uses mainly its domestic 300 million Euros commercial paper program.

The excess liquidity is invested in secure and profitable instruments with a duration of up to 12 months. Investments are diversified to various instruments and the investment instruments which are chosen based on guaranteed liquidity in the secondary market even under unfavorable.

The foreign exchange risk inherent in Pohjolan Voima Oy subsidiaries' fuel purchases in foreign currency, is managed by foreign exchange derivatives according to coal procurement policy approved by the Pohjola Voima Oy Board of Directors. These transactions are managed centrally by the parent company.

Signing of the Board of directors' report and financial statements

Board of Directors' dividend proposal

The parent company Pohjolan Voima's profit and loss account indicates a loss of € 5 144 766,45.

The Board of Directors proposes to the Annual General Meeting that the loss be transferred to the retained earnings account, and that no dividends be distributed.

Helsinki, February 28, 2017

Tapio Korpeinen
Chairman

Seppo Parvi
Deputy Chairman

Hannu Anttila

Jukka Hakkila

Anders Renvall

Tapani Sointu

Rami Vuola

Kari Hannus

Markku Vartia

Lauri Virkkunen
President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, March 8, 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant

Auditor's Report (Translation from the Finnish Original)

To the Annual General Meeting of Pohjolan Voima Oy

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of Pohjolan Voima Oy (business identity code 0210161-4) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 8 March 2017

PricewaterhouseCoopers Oy

Authorised Public Accountants

Jouko Malinen

Authorised Public Accountant