

Pohjolan Voima Financial Statements Release

2018



**POHJOLAN
VOIMA**

FINANCIAL STATEMENTS RELEASE 2018

Pohjolan Voima's heat and power production continued at the normal level.

Teollisuuden Voima and the plant supplier consortium companies signed and executed a settlement agreement concerning the completion of the OL3 EPR project and related disputes in March.

Pohjolan Voima issued a bond of €125 million.

Operating environment

In 2018, electricity consumption in Finland was 87.4 TWh (85.5 TWh in 2017). Of this volume, 67.5 (65.0) TWh was produced in Finland, while net imports into Finland amounted to 19.9 (20.4) TWh. Imported electricity covered 22.8% (24.0%) of Finnish electricity consumption. Most of the imported electricity came from Sweden. In 2018, electricity consumption in Finland increased by 2% year-on-year. Industrial electricity consumption increased by 2% and electricity consumption in other sectors increased by 3% year-on-year.

Nord Pool Spot trade amounted to 524 (512) TWh. The annual average system price was €43.99 (€29.41) per MWh, while the annual average of the Finnish area price was €46.80 (€33.19) per MWh. The Finnish area price was, on average, 41% higher than in 2017. The increase in the price of electricity was due to the lower water levels in the Nordic countries, higher fuel prices, higher emission allowance prices and increased consumption of electricity.

The price of the EUA emission allowance experienced strong growth in 2018. The emission allowance market price increased from some €8 at the beginning of the year to approximately €25 per metric ton.

Most of the amendments of the Business Income Tax Act (laki elinkeinotulon verotamisesta, 360/1968), which were realised to implement the requirements of the EU Directive preventing aggressive international tax planning, entered into force on 1 January 2019. The Act applies to all companies regulated by the Business Income Tax Act, including energy companies operating according to the Mankala principle. The Ministry of Finance will continue to prepare an "infrastructure exception" for the Act in accordance with a statement from Parliament.

The electricity production subsidy system was reformed in 2018. An auction on 1.4 TWh of renewable electricity other than hydropower was carried out in late 2018.

The Government submitted to Parliament a proposal for an act to ban the use of coal. According to the government bill, the use of coal in energy production will end on 1 May 2029.

Curbing climate change by reducing greenhouse gas emissions and increasing the amount of carbon sinks were discussed even more after the Intergovernmental Panel on Climate Change (IPCC) published its report in the autumn of 2018. It is likely that emission targets will become stricter after the European Parliament elections and the Finnish parliamentary elections. The significance of the circular economy is also on the increase.

According to an annual survey of the attitude of Finnish citizens towards energy, conducted by Finnish Energy, people are more accepting of nuclear power and

hydropower. Meanwhile, their attitude towards the use of fossil fuels and peat has become more negative. Acceptance of forest energy remains high, although some decrease on the previous year was recorded.

Processing of the different parts of the EU Clean Energy Package was nearly completed in 2018. The key issues were the target levels for renewable energy and energy efficiency, the sustainability criteria for biomass and the electricity market as a whole. The Commission has started a reform of the Water Framework Directive with a stakeholder hearing and is expected to issue its proposal in 2020.

The production of weather-dependent wind and solar power continues to grow, which also increases the importance of flexible energy systems and adaptive production, and the risk of a shortage of power will not disappear in the near future. Discussion about the role of hydropower in the electricity production system has increased.

Pohjolan Voima's heat and power production

In 2018, Pohjolan Voima's total electricity supply was 12.5 (11.9) TWh. The Group's own electricity production accounted for 12.0 (11.4) TWh, of which the parent company's supplies to its shareholders were 11.6 (10.9) TWh. The subsidiaries supplied 0.4 (0.5) TWh to their other shareholders. Purchases from the Nordic electricity markets were 0.5 (0.5) TWh, and sales amounted to 0.3 (0.4) TWh. Heat deliveries were 4.4 (4.5) TWh.

Nuclear power made up 63.8% (63.7%) of the electricity supply. The Olkiluoto nuclear power plant units operated by Teollisuuden Voima Oyj (TVO) generated 14.1 (13.4) TWh of electricity, of which Pohjolan Voima obtained 8.0 (7.6) TWh, in accordance with its shareholding. The joint capacity factor of the Olkiluoto plant units was 91.1% (87.2%).

Hydropower accounted for 1.5 (1.8) TWh, or 12.2% (15.0%) of the electricity supply. Hydropower production remained slightly below the normal level due to the dry summer.

Pohjolan Voima produced 0.4 (0.1) TWh of condensing power, which represented 3.3% (0.7%) of the electricity supply. A total of 2.1 (1.9) TWh of electricity was generated in combined heat and power (CHP) plants.

Electricity supply (GWh)	2014	2015	2016	2017	2018
Nuclear power	8,372	8,086	8,136	7,602	7,987
Hydropower	1,745	2,297	1,983	1,794	1,524
CHP	3,254	2,533	2,313	1,919	2,065
Condensing power	1,200	388	396	82	409
Purchases	753	790	545	533	543
Total	15,324	14,094	13,373	11,930	12,528

Key events in 2018

On 14 December 2017, PVO-Vesivoima Oy's Board of Directors decided to reorganise the company's hydropower management services. PVO-Vesivoima Oy's power plants and flow regulation as well as production control were gradually transferred to UPM Energy Oy's Tampere control room during 2018 in such a manner that the transfer was completed by 1 January 2019.

In March 2018, TVO announced that it had signed a comprehensive settlement agreement with the companies included in the EPR plant supplier consortium of Olkiluoto 3 (OL3). The settlement agreement concerns the completion of the OL3 EPR project and related disputes. The matter is discussed in more detail under "Major legal actions pending".

According to the schedule updated by the plant supplier in November 2018, regular electricity production of OL3 will begin in January 2020. According to the plant supplier, fuel will be added to the reactor in June 2019, and the plant unit will be connected to the national grid for the first time in October 2019. According to the commissioning programme, the plant unit will produce 2–4 TWh of electricity with varying capacity during the period that will start when the unit is connected to the grid and end when regular electricity production commences.

Pohjolan Voima's joint venture Vaskiluodon Voima Oy sold its Seinäjoki power plant operations and its land property to EPV Energy Ltd in March 2018. The business transaction did not have any effect on Vaskiluodon Voima's Vaasa power plant.

In June 2018, Pohjolan Voima Oyj issued an unsecured bond of €125 million.

On 8 June 2018, Pohjolan Voima Oyj concluded a transaction with Power-Deriva Oy where Pohjolan Voima's energy management operations in Harjavalta were transferred to PD Power Oy. The deal took effect on 1 January 2019.

In June 2018, TVO and its shareholders entered into an agreement on the ownership of shares entitling to a share of Meri-Pori power plant's production capacity. As TVO's owner, Pohjolan Voima Oyj held shares that carried entitlement to a share of Meri-Pori's production capacity. Fortum acquired from TVO's other shareholders their shares providing entitlement to a share of Meri-Pori's production capacity, as a result of which the ownership was transferred on 31 December 2018, and Fortum has been entitled to use TVO's share of Meri-Pori's capacity as of the beginning of 2019. In connection with this arrangement, Pohjolan Voima received a €3.3 million return on capital and recognised a share impairment of €10.9 million, which was paid by the shareholders.

Result from operations and financing

Pohjolan Voima operates on a cost price principle. The 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, key financial indicators are not relevant when reviewing the company's business performance or financial status.

The targets and risks of Pohjolan Voima's financing operations have been defined in a financial policy approved by the parent company's Board of Directors. The financial risks of Pohjolan Voima's business operations are related to liquidity, market and credit risks. Financial risk management has been discussed in note 3 to the consolidated financial statements. Financial risk management.

The Group's liquidity is good. On 31 December 2018, cash and cash equivalents totalled €59 (44) million, and the Group had €300 (370) million of unused binding credit facility agreements and €90 (0) million of unused shareholder loan commitments. Of the credit facility agreements, €21 million will mature in June 2021 and €279 million in June 2022. For short-term funding, the Group had a domestic commercial paper programme of €300 (300) million, of which €215 (190) million was unused.

The Group's interest-bearing liabilities amounted to €1,222 (1,181) million on 31 December 2018. In June 2018, Pohjolan Voima Oyj issued a senior unsecured bond of €125 million. The five-year bond matures 8 June 2023, and carries a fixed annual interest of 1.75 percent.

There were no liabilities involving an exchange rate risk, and the Group's loan agreements do not include any financial covenants.

At the end of the year, the Group's equity ratio was 38.8% (40.4%).

The consolidated result from continuing operations was €514.1 (453.6) million. The operations of PVO-Lämpövoima Oy, the plants of which were closed down in 2015, have been reported in the Group's financial statements as discontinued operations.

The Group's consolidated result for the financial period was €-29.7 (1.1) million. The financial period was mostly unprofitable due to the negative results of the associated companies.

Investments

Total investments of the Pohjolan Voima Group, excluding financial investments and the purchase of emission allowances, amounted to €5.4 (6.6) million.

PVO-Vesivoima Oy took into production operation equipment included in the scope of an electrical and automation modernisation project at the Raasakka power plant, and repairs on a dam at the Melo power plant continued throughout the year. PVO-Vesivoima's investments totalled €2.9 million. Laanilan Voima Oy invested in, for example, a reform of the boiling surfaces of a Pyroflow boiler and the superheater of a 2019 boiler. Laanilan Voima's investments totalled €1.8 million. The Group's remaining investments were made in replacements and renovations.

Between 2004 and 2018, Pohjolan Voima Oyj has invested a total of €841.1 (780.8) million in the new OL3 EPR nuclear power plant project 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.

Personnel

The average number of employees working for the Group was 106 (119 in 2017 and 149 in 2016), including discontinued operations. The number of employees has decreased due to a reduction in condensing production, which has also caused the parent company of the Group to reorganise its operations. The Group's salaries and fees for the financial period, including discontinued operations, totalled €11.0 million (€12.2 million in 2017 and €13.8 million in 2016). The average age of permanent employees was 44 (44) years.

The average number of employees working for the parent company was 50 (57 in 2017 and 65 in 2016). Salaries and fees for the financial period totalled €5.2 million (€5.7 million in 2017 and €6.1 million in 2016).

Environment

Environmental management systems certified in accordance with ISO 14001 are in use in the majority of Pohjolan Voima's production companies, which helps to ensure the achievement of environmental objectives and continuous improvement of operations. All of the production companies also use the energy efficiency system ETJ+ or ISO 50001 Energy Management System. Some of these systems are certified. Furthermore, the environmental management system of TVO (Pohjolan Voima's joint venture) is EMAS registered.

Environmental damage occurred at the Olkiluoto nuclear power plant site in 2018: oil leaked from a machine into the soil. A total of 5 m³ of contaminated soil was removed from the site. Furthermore, an oil spill causing soil contamination, which had occurred at the Olkiluoto nuclear power plant site during the construction of the OL1 plant unit, was detected. Restoration supervised by a third party was carried out. A total of around 250 metric tons of contaminated soil was removed. No significant environment-related deviations took place at the other Pohjolan Voima production plants.

A leak detected in the retaining earth dam of the Melo power plant in 2016 was repaired by grouting throughout the year. The repairs should be completed by the end of 2019. The repair work has not affected the environment or the power generation operations at the power plant.

Water levels were regulated and hydropower plants operated in compliance with the permit conditions. In line with its obligations, PVO-Vesivoima stocked the Iijoki and Kemijoki waterways and the sea area with around 2.5 (2.5) million fry during the reporting period. Nearly all stocking plans were fulfilled.

In cooperation with the municipalities in the Iijoki region and other regional operators, PVO-Vesivoima participated in a waterway vision project called *Iijoen otva*. The project was launched by the Oulu Regional Council in late 2015 and concluded at the end of 2018. The main goals of the project included a shared vision for waterways, promotion of the restoration of migrating fish, protection of the Baltic Sea salmon population and promotion of smaller development measures that increased the river's value. PVO-Vesivoima also participated in Finland's largest project on migratory fish, which was prepared as part of the *Iijoen otva* project. The migratory fish project was started in 2017. The budget of the spearhead project is more than €4 million, and the Finnish Government is committed to providing €2

million of funding for the project as part of its *Luontopolitiikkaa luottamuksella ja reiluin keinoin* (“Nature policy based on trust and fairness”) spearhead project. In March 2017, PVO-Vesivoima and Metsähallitus filed a joint application with the Regional State Administrative Agency for Northern Finland for a water management permit to build fishways. Replies to statements and complaints regarding the application were submitted in August 2018. The Regional State Administrative Agency did not make a decision in the matter before the end of 2018.

In March 2017, the Centre for Economic Development, Transport and the Environment for Lapland filed a change application with the Regional State Administrative Agency for Northern Finland concerning stocking and fish stock management obligations with regard to the Kemijoki river. In October 2017, the centre filed a similar application concerning the Iijoki river. In addition to new requirements, these applications involve additions to current obligations. The Regional State Administrative Agency did not announce the applications during 2018.

All the thermal power plants operated by the Group fall within the sphere of the Emissions Trading Act. Carbon dioxide emissions from the production of electricity and heat amounted to 1.6 (1.1) million metric tons. The notes to the financial statements only report CO₂ emissions of the subsidiaries, which amounted to 0.6 (0.5) million metric tons. These figures do not include the emissions of 0.0 (0.0) million metric tons from PVO-Lämpövoima, which is reported as a discontinued operation. Other emissions increased with the production levels. Sulphur dioxide emissions amounted to 1.4 (1.0) thousand tonnes, nitrogen oxide emissions to 2.6 (2.4) thousand tonnes and particle emissions to 0.1 (0.1) thousand tonnes.

The new limits for emissions into the air, set out in the Industrial Emissions (IE) Directive, came into effect in Finland at the beginning of 2016. Some of Pohjolan Voima’s facilities are included in the national IE Directive transition plan adopted by the European Commission on 10 March 2014. The transition plan provides some flexibility for the adoption of the stricter emission limits. The transition planning period is from 1 January 2016 to 30 June 2020.

BAT conclusions related to the reference document on best available techniques for large combustion plants (LCP BREF) were published on 17 August 2017. Power plants the main field of activity of which is energy production will be allowed four years to adjust their operations to the conclusions. Environmental permit applications for these power plants will be prepared in 2018. The emission limits will be stricter in the case of future environmental permits.

Pohjolan Voima and its subsidiaries, associated companies and joint ventures are not aware of any 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. TVO 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

Risk management aims to ensure realisation of the strategy and achievement of business goals, as well as safeguard continuity and disturbance-free operations.

Risk management is carried out in line with the Group's risk management policy. The Group applies a decentralised risk management model: each subsidiary's Board of Directors and the parent company's units are responsible for the risks related to their operations, as well as their identification and analysis. Group-level risks are reported to the parent company's Executive Group and Board of Directors in accordance with the annual management calendar.

Risks that may compromise the achievement of the objectives are estimated, and measures for their management are defined. The significance of the risks is estimated as the sum of their likelihood of occurrence and impact.

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

Key risks and uncertainties

The Group's most significant risks are related to the schedule and revenue generation capacity of the OL3 EPR project of the joint venture TVO. The original plan was to begin commercial electricity production of the plant unit in late April 2009, but completion of the plant unit has been delayed. According to the schedule updated by the plant supplier in November 2018, regular electricity production of the plant unit will begin in January 2020. The risk related to planned completion refers to a situation where commercial operations cannot be started as planned, which leads to additional costs.

Several risk management actions related to the OL3 EPR project were implemented in 2018 to improve TVO's readiness to commission the OL3 EPR unit and operation of three nuclear power plant units. The settlement agreement that entered into force in March 2018 was one of the most important risk management actions. TVO monitors closely the compliance of the conditions set in the settlement agreement and that the commissioning of the OL3 EPR plant unit is executed according the schedule provided by the supplier.

If the OL3 EPR project fails to reach projected output level, load factor or operating cost structure or the output level is restricted by the main grid, there is a risk that the production expenses will increase in comparison to the objective. This risk has been analysed with the help of various scenarios influencing OL3's profit-yielding capacity.

As risk management measures, TVO as a licensee ensures, among other things, that the OL3 EPR plant unit has undergone extensive functional testing before nuclear test operations are launched. TVO will ensure that the experiences from the Taishan sister plant are fully utilized during nuclear commissioning of the OL3 EPR plant unit.

Changes in Group structure

Powest Oy was registered as having dissolved through voluntary liquidation on 4 December 2018.

Share capital and share issues

On 31 December 2018, Pohjolan Voima's share capital was €65.3 (65.3) million and the total number of shares was 32,509,113 (32,509,113).

No share issues were carried out during the financial year

Table: Pohjolan Voima Oyj's shareholders

Shareholder	Shareholding, %	Shareholding, %
	31 December 2018	31 December 2017
EPV Energy Ltd	5.489	5.489
Etelä-Suomen Voima Oy	1.482	1.482
Helen Ltd	0.619	0.619
Ilmarinen Mutual Pension Insurance Company	1.831	1.831
Kemira Oyj (incl. Neliapila pension fund)	5.060	5.060
Kokkolan Energia Oy	1.845	1.845
Kymppivoima Oy	5.907	5.907
Metsä Group (Metsäliitto Cooperative, Metsä Fibre, Metsä Board Oyj)	3.657	3.657
Myllykoski Oyj*	0.631	0.631
Oulun Energia Ltd	0.906	0.906
Outokumpu Oyj	0.096	0.096
Perhonjoki Ltd	2.167	2.167
Town of Pori	1.401	1.401
Rautaruukki Corporation	0.090	0.090
Stora Enso Oyj	15.608	15.608
UPM Energy Oy*	47.686	47.686
UPM Communication Papers Ltd*)	3.457	3.457
Vantaa Energy Ltd	0.229	0.229
Yara Suomi Oy (incl. pension fund)	1.840	1.840

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

Management

The Annual General Meeting of 20 March 2018 elected the following ordinary members to the Board of Directors: Tapio Korpeinen, Executive Vice President (UPM-Kymmene Corporation); Seppo Parvi, Chief Financial Officer (Stora Enso Oyj); Jukka Hakkila, Group General Counsel (Kemira Oyj); Anders Renvall, Managing Director (Kymppivoima Oy); Tapani Sointu, Vice President (UPM-Kymmene Corporation); Esa Kaikkonen, CEO (Metsä Group/Metsä Tissue); Rami Vuola, President & CEO (EPV Energia Oy); Patrick Wackström, Managing Director (Porvoon Energia Oy - Borgå Energi Ab) and Heikki Liukas, Senior Advisor (Yara Suomi Oy).

At the Board meeting on 20 March 2018, Tapio Korpeinen was elected chairman of the Board and Seppo Parvi was elected deputy chairman. The Board of Directors convened 18 (15) times in 2018. The company's President and CEO was Lauri Virkkunen, MSc (Tech.), MSc (Econ.), until 15 August 2018 and Ilkka Tykkyläinen, MSc (Tech.), thereafter.

Major legal actions pending

TVO was a party in arbitration proceedings compliant with the rules of the International Chamber of Commerce (ICC) concerning the delay to the construction of the OL3 EPR and the related expenses. The arbitration proceedings began in December 2008 at the initiative of the plant supplier.

In July 2015, TVO updated its estimated expenses and losses, which amounted to approximately €2.6 billion until December 2018, at which time regular electricity production should have begun at the Olkiluoto 3 EPR unit according to the schedule provided by the plant supplier in September 2014. The compensation demand last updated by the plant supplier in April 2017 amounts to some €3.59 billion. This sum is based on an updated analysis provided by the plant supplier regarding the events up until September 2014, and up until the end of December 2014 with regard to some claims. The sum includes past-due interest (until the end of June 2017), around €1.58 billion in payment items postponed by TVO pursuant to the plant delivery contract and some €132 million in lost profit as claimed by the plant supplier.

The court of arbitration issued three final and binding partial decisions in 2016 and 2017 on the principal matters pending. In the partial decisions, the majority of the matters were decided in favour of TVO, and the majority of the plant supplier's claims regarding these matters were rejected. The monetary claims made by the parties were not addressed in the partial decisions.

In March 2018, TVO announced that it had signed a comprehensive settlement agreement concerning the completion of the OL3 EPR project and related disputes with the plant supplier consortium companies, Areva NP, Areva GmbH and Siemens AG, as well Areva SA, the parent company of Areva companies, of which the state of France owns 100%. The agreement entered into force at the end of March 2018.

TVO has announced that, under the terms and conditions of the settlement agreement:

In order to provide and maintain adequate and competent technical and human resources for the completion of the OL3 EPR project, Areva will source the necessary additional resources from Framatome S.A.S., the majority owner of which is Electricité de France (EDF).

The supplier consortium companies undertake to ensure that the funds dedicated to the completion of the OL3 EPR project will be sufficient and will cover all applicable warranty periods, including setting up a trust mechanism funded by the Areva companies to secure financing of the expenses from the completion of the OL3 EPR project.

The turnkey principle of the OL3 EPR plant contract and the joint and several liability of the supplier consortium companies remain in full force.

The settlement agreement also noted the plant supplier's most recent schedule, according to which regular electricity production in the unit would have commenced in May 2019.

The ICC arbitration concerning the costs and losses caused by the delay of the OL3 EPR project was settled with financial compensation of €450 million to be paid to TVO in two instalments by the plant supplier consortium companies. TVO received the first instalment of €328 million when the settlement agreement entered into force in March 2018. The second instalment of €122 million is to be paid upon completion of the OL3 EPR plant unit, or on 31 December 2019 at the latest.

The parties withdrew all ongoing legal actions related to the OL3 EPR project, including the arbitration proceedings and appeals pending before the General Court of the European Union.

The supplier consortium companies were entitled to receive from TVO an incentive payment of a maximum of €150 million upon completion of the OL3 EPR project in compliance with the schedule laid down in the settlement agreement. The agreement stated that in the event that the supplier consortium companies failed to complete the OL3 EPR project by the end of 2019, they will pay a delay penalty to TVO, the sum of which would depend on the actual time of completion of the OL3 EPR project, but which would not exceed €400 million.

During the first quarter of 2018, TVO added a provision of €150 million for the maximum amount of the incentive payment to be paid to the supplier consortium companies if the OL3 EPR project was completed within the schedule laid down in the settlement agreement. TVO received from the plant supplier, the Areva-Siemens consortium, an updated schedule for the commissioning of the plant unit in June 2018. According to the information provided in June, regular electricity production in the OL3 EPR unit was to start in September 2019. Hence, the provision was withdrawn by €50 million during the second quarter of 2018. In November 2018, TVO received a new, updated schedule from the plant supplier, the Areva-Siemens consortium. According to this schedule, regular electricity production in the OL3 EPR unit will start in January 2020. The new schedule caused total withdrawal of the provision, €100 million, in the last quarter of the year. These settlement payments to TVO and any penalty payable to TVO due to any additional project delay have been taken into account when calculating the final total cost estimate of the OL3 EPR project. Based upon the latest schedule offered by the consortium, the cost estimation of TVO and settlement agreement, TVO estimates that overall cost of the OL3 EPR project will be approximately €5.5 billion in total.

In 1989, the predecessors of PVO-Lämpövoima, a wholly owned subsidiary of Pohjolan Voima, and Fortum Power and Heat Oy (FPH) signed a cooperation agreement that provides the parties with a permanent right to use certain power plant structures and equipment owned by the other party. The agreement concerns the Tahkoluoto coal power plant owned by PVO-Lämpövoima and the Meri-Pori coal power plant owned by FPH. Production operations at PVO-Lämpövoima's Tahkoluoto power plant ended in 2015. For this reason, PVO-Lämpövoima terminated the cooperation agreement in March 2017. FPH contested the termination. In August 2017, based on an application filed by FPH for injunctive relief, the District Court of Helsinki ordered PVO-Lämpövoima to allow FPH to continue its use of the structures and equipment of the Tahkoluoto power plant in accordance with the cooperation agreement. In September 2017, FPH started arbitration proceedings in accordance with the arbitration rules of the Helsinki Region Chamber of Commerce concerning PVO-Lämpövoima's termination of the cooperation agreement.

At the same time, FPH filed a complaint with the District Court of Helsinki with regard to Pohjolan Voima, demanding that the permanent rights of use should also be valid in relation to Pohjolan Voima. PVO-Lämpövoima and Pohjolan Voima have refuted all the claims presented by FPH.

On 8 June 2018, PVO-Lämpövoima, Pohjolan Voima and FPH signed an agreement by which the parties agree upon the cancellation of all pending processes and legal proceedings, as well as the transfer of the assets jointly used by PVO-Lämpövoima's Tahkoluoto power plant and FPH's Meri-Pori power plant under the cooperation agreement to FPH and the sale of a land area owned by PVO-Lämpövoima to FPH.

Events after the end of the financial period

On 20 February 2019, Pohjolan Voima announced having made a decision to demolish the condensing power plants at Tahkoluoto in Pori and in Kristiinankaupunki. The market-based production operation of the plants, owned by PVO-Lämpövoima Oy, a subsidiary of Pohjolan Voima, was ceased due to unprofitability in June 2015, after which various possible new uses for the plants were investigated. Preparations for the final demolition began in 2017. The actual demolition work is expected to start in the spring of 2019.

On 25 February 2019 Radiation and Nuclear Safety Authority (STUK) gave its statement on operating licence application of Olkiluoto 3 EPR plant unit. STUK does not see any obstacles to grant the permission as applied until the end of 2038. STUK has reviewed according to the Nuclear Energy Act OL3 EPR plant units safety, and also operation of the TVO Group as entity, such as resources, know-how and nuclear waste management. The Finnish Government makes the decision on the operating licence.

Outlook

The production of electricity and heat are expected to be similar to the previous year, except for the fact that Pohjolan Voima no longer owns shares providing entitlement to the production capacity of the Meri-Pori power plant.

TVO will continue with the implementation of the Olkiluoto 3 EPR nuclear power plant unit and the preparations for production operation. Commissioning of the OL3 EPR unit will continue in cooperation with the plant supplier in compliance with the plant supplier's commissioning programme. The goal is to be able to add fuel to the reactor in compliance with the plant supplier's schedule in June 2019 and to connect the plant unit to the national grid for the first time in October 2019. According to the statement given by the Radiation and Nuclear Safety Authority (STUK) 25 February 2019 TVO has met the prerequisites for receiving Finnish Government decision regarding the operating licence for the OL3 EPR unit. TVO has estimated that OL3 will produce 2–4 TWh of electricity with varying capacity once it has been connected to the grid but is not yet in commercial operation.

The plan is to transfer to the construction phase of Posiva Oy's project on the final disposal of nuclear fuel in 2019.

Helsinki 28 February 2019

Pohjolan Voima Oyj
Board of Directors

FINANCIAL STATEMENT SUMMARY AND NOTES TO THE FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 000 €	Note	1.7. - 31.12.2018	1.7. - 31.12.2017	1.1. - 31.12.2018	1.1. - 31.12.2017
Continuing operations					
Sales	1	259 339	219 642	514 096	453 603
Other operating income		-10 168	1 050	2 968	21 968
Materials and services		-198 510	-169 779	-402 536	-352 573
Personnel expenses		-4 909	-5 124	-9 959	-10 511
Depreciation, amortisation and impairment	2	-19 447	-19 860	-39 048	-39 484
Other operating expenses		-28 657	-28 937	-53 437	-52 016
Share of (loss)/profit of associates and joint ventures		-6 429	-509	-19 535	-9 424
Operating profit or loss		-8 781	-3 517	-7 451	11 563
Finance income		1 443	631	2 728	4 329
Finance costs		-9 032	-6 245	-27 637	-14 063
Finance costs - net		-7 589	-5 614	-24 909	-9 734
Profit/loss before income tax		-16 370	-9 131	-32 360	1 829
Income tax expense		0	843	0	838
Profit/loss for the period from continuing operations		-16 370	-8 288	-32 360	2 667
Discontinued operations					
Profit/loss from discontinued operations		3 533	-788	2 611	-1 570
Profit/loss for the period		-12 837	-9 076	-29 749	1 097
Other comprehensive income:					
Items, that may be reclassified later to profit or loss					
Share of other comprehensive income of associates					
Changes in the fair value of available-for-sale financial assets		0	-198	0	-8
Cash flow hedging		3 099	-2 722	4 166	-5 369
Other comprehensive income for the period		3 099	-2 920	4 166	-5 377
Total comprehensive income for the period		-9 738	-11 996	-25 583	-4 280
Profit attributable to:					
Owners of the parent		-11 906	-8 861	-29 098	-10 392
Non-controlling interest		-931	-215	-651	11 489
		-12 837	-9 076	-29 749	1 097
Total comprehensive income attributable to:					
Owners of the parent		-8 807	-11 781	-24 932	-15 769
Non-controlling interest		-931	-215	-651	11 489
		-9 738	-11 996	-25 583	-4 280

CONSOLIDATED BALANCE SHEET

1 000 €	Note	31.12.2018	31.12.2017
ASSETS			
Non-current assets			
Intangible assets	2	284 173	283 364
Property, plant and equipment	2	497 440	531 077
Investments in associated companies and joint ventures		714 625	744 184
Other financial assets		486	505
Loans and other receivables		446 034	385 962
Non-current assets total		1 942 758	1 945 092
Current assets			
Inventories		12 038	5 190
Trade and other receivables		84 399	86 452
Cash and cash equivalents		59 598	43 857
Current assets total		156 035	135 499
Assets held for sale		4 653	8 845
Total assets		2 103 446	2 089 436
EQUITY			
Equity attributable to owners of the parent			
Share capital		65 293	65 293
Share premium		216 822	216 822
Reserve for invested non-restricted equity		326 683	328 869
Revaluation reserve		1 700	-2 466
Retained earnings		165 879	192 792
Total		776 377	801 310
Non-controlling interests		40 515	42 197
Total equity		816 892	843 507
LIABILITIES			
Non-current liabilities			
Provisions		3 345	4 491
Borrowings	3	1 107 672	1 040 611
Other non-current liabilities		6 293	2 993
Non-current liabilities total		1 117 310	1 048 095
Current liabilities			
Borrowings	3	114 533	140 126
Trade and other payables		54 711	57 708
Current liabilities total		169 244	197 834
Liabilities related to assets held for sale		0	0
Total liabilities		1 286 554	1 245 929
Total equity and liabilities		2 103 446	2 089 436

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

1 000 €	1.7. - 31.12.2018	1.7. - 31.12.2017	1.1. - 31.12.2018	1.1. - 31.12.2017
Cash flow from operating activities				
Profit before income taxes	-16 370	-8 288	-32 360	2 667
Adjustments, total	33 319	28 171	83 058	42 563
Change in working capital	-4 676	3 517	-8 949	-447
Cash generated from operations	12 273	23 400	41 749	44 783
Finance cost, net	-4 446	-4 745	-10 067	-12 490
Income taxes paid	0	1	-4	36
Net cash generated from operating activities	7 827	18 656	31 678	32 329
Cash flow from investing activities				
Proceeds from sales of shares in participating interests	2	0	2	0
Capital expenditure	-2 452	-3 319	-5 538	-6 458
Proceeds from sales of fixed assets	-54	-1 665	265	6 738
Equity refunds received	3 310	0	3 310	0
Changes in non-current receivables and other financial assets	-60 225	-58 117	-60 210	-41 274
Cash flow from investing activities	-59 419	-63 101	-62 171	-40 994
Cash flow before financing activities	-51 592	-44 445	-30 493	-8 665
Cash flow from financing activities				
Proceeds from issuance of ordinary shares	0	49 305	0	49 305
Acquisition and annulment of own shares	0	-296	0	-296
Net charge in loans and other financing activities	-31 135	-16 767	41 466	-42 169
Dividends paid to non-controlling interests	-311	0	-311	-15 304
Cash flow from financing activities	-31 446	32 242	41 155	-8 464
Net increase (+)/decrease (-) in cash and cash equivalents	-83 038	-12 203	10 662	-17 129

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 000 €	Share capital	Share issue	Share premium	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interest	Total equity
Balance at 1.1.2017	64 108	49 305	220 292	2 910	286 190	198 039	820 844	41 035	861 879
Comprehensive income									
Profit or loss						-10 392	-10 392	11 489	1 097
Other comprehensive income:									
Cash flow hedges				-5 369			-5 369		-5 369
Changes in the fair value of available-for-sale financial assets				-8			-8		-8
Total comprehensive income for the period	0	0	0	-5 376	0	-10 392	-15 769	11 489	-4 280
Transactions with owners									
Share issue	1 481	-49 305			47 824		0		0
Transfer to retained earnings					-5 145	5 145	0		0
Non-controlling interest of a liquidated and sold group companies							0	4 977	4 977
Adjustment relating to former business combinations of a company dissolved			-3 470				-3 470		-3 470
Acquisition and annulment of own shares	-296						-296		-296
Transactions with owners total	1 185	-49 305	-3 470	0	42 679	5 145	-3 766	4 977	1 211
Dividends to non-controlling interest							0	-15 304	-15 304
Balance at 31.12.2017	65 293	0	216 822	-2 466	328 869	192 792	801 310	42 197	843 507
Balance at 1.1.2018	65 293	0	216 822	-2 466	328 869	192 792	801 310	42 197	843 507
Comprehensive income									
Profit or loss for the period						-29 098	-29 098	-651	-29 749
Other comprehensive income:									
Cash flow hedges				4 166			4 166		4 166
Total comprehensive income for the period	0	0	0	4 166	0	-29 098	-24 932	-651	-25 583
Transactions with owners									
Transfer to retained earnings					-2 186	2 186	0		0
Non-controlling interest of a liquidated and sold group companies							0	-720	-720
Transactions with owners total	0	0	0	0	-2 186	2 186	0	-720	-720
Dividends to non-controlling interest							0	-311	-311
Balance at 31.12.2018	65 293	0	216 822	1 700	326 683	165 879	776 377	40 515	816 892

NOTES TO THE INTERIM REPORT

Accounting policies

The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies adopted are consistent with those of the Group's annual financial statements for the year ended on 31 December 2018.

The preparation of interim 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. Although these estimates and assumptions are based on the management's best knowledge of today, the final outcome may differ from the estimated values presented in the financial statements. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

1 REVENUE

1 000 €	7-12/2018	7-12/2017	2018	2017
Sales of electricity produced	181 574	143 057	339 355	293 484
Sales of heat produced	62 973	61 726	138 304	132 635
Sales of purchased electricity	10 471	10 820	28 230	19 482
Other sales	4 322	4 039	8 208	8 002
Total	259 339	219 642	514 096	453 603

Electricity delivered to shareholders (GWh)

Electricity produced	6 109	5 887	11 985	11 397
Heat produced	1 396	1 533	3 958	3 960
Purchased electricity	190	250	532	533

2 CHANGES IN INTANGIBLES ASSETS AND PROPERTY, PLANT AND EQUIPMENT

1 000 €	31.12.2018	31.12.2017
Opening balance	814 441	848 366
Depreciation, amortization and impairment	-39 048	-39 484
Depreciation, amortization and impairment, discontinued operations	-362	-362
Additions	7 465	7 217
Disposals	-883	-1 296
Closing balance	781 613	814 441

3 INTEREST-BEARING NET DEBT AND LIQUIDITY

1 000 €	31.12.2018	31.12.2017
Current interest bearing liabilities	114 533	140 126
Non-current interest bearing liabilities	1 107 672	1 040 611
Interest bearing liabilities		
Cash and equivalents	59 598	43 857
Interest bearing net debt	1 162 607	1 136 880

Liquidity, unused committed credit facilities and debt programs	31.12.2018	31.12.2017
Cash and cash equivalents	59 598	43 857
Unused committed credit facilities		370 000
Total	59 598	413 857
In addition:		
Unused commercial paper program	215 000	190 000

4 FINANCIAL INSTRUMENTS

The Group has not made any significant changes in policies regarding risk management during the reporting period. Aspects of the Group's financial risk management objective and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

1 000 €	31.12.2018		31.12.2017	
	Net fair value	Nominal value	Net fair value	Nominal value
Interest rate swaps, non-hedge accounting	-6 304	262 000	-3 001	272 000

Financial assets and liabilities by measurement categories and fair value hierarchy as of 31 December 2018

1 000 €	Fair value through profit and loss		Amortised cost	Book value	Fair value	Level 2	Level 3
Non-current financial assets							
Other financial assets	486			486	486		486
Loan receivables			409 153	409 153			
Other receivables			36 881	36 881			
	486		446 034	446 520			
Current financial assets							
Cash and cash equivalents			59 598	59 598			
Loan receivables			184	184			
Trade and other receivables			60 185	60 185			
Prepayments and accrued income			24 029	24 029			
	0		143 996	143 996			
Total	486		590 031	590 517			
Non-current financial liabilities							
Borrowings from associates and joint ventures			195 859	195 859			
Borrowings			733 286	733 286			
Secured financial liabilities			178 527	178 527			
Derivative financial instruments	6 293			6 293	6 293	6 293	
	6 293		1 107 672	1 113 965			
Current financial liabilities							
Loans and commercial papers			90 693	90 693			
Trade payables and other current liabilities			54 700	54 700			
Secured financial liabilities			23 840	23 840			
Derivative financial instruments	11			11	11		11
	11		169 233	169 244			
Total	6 304		1 276 905	1 283 209	6 790	6 304	486

Financial instruments that are measured at fair value in the balance sheet are presented according to fair value measurement hierarchy:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted price included within Level 1 that are observable for the assets or liability, either directly (i.e. prices)

Level 3: inputs for the assets or liability that is not based on observable market data (unobservable inputs)

The fair value of financial instruments are not materially different from their carrying amount.

5 RELATED PARTY TRANSACTIONS

Transactions with related parties, 1000 €

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

	31.12.2018			
	Sales	Purchases	Receivables	Liabilities
Associates and joint ventures	8 999	260 210	461 126	210 855
UPM-Kymmene Group	206 800	68 792	20 946	10 002
	31.12.2017			
	Sales	Purchases	Receivables	Liabilities
Associates and joint ventures	3 378	224 743	411 191	221 868
UPM-Kymmene Group	181 026	65 480	18 036	9 847

6 CONTINGENT LIABILITIES AND ASSETS AND PURCHASE COMMITMENTS

1 000 €	31.12.2018	31.12.2017
On behalf of own loans		
Pledged deposits	70	90
Other contingent liabilities	203 705	203 881
On behalf of associated companies and joint ventures		
Guarantees	32	35
Guarantee according to Nuclear Energy Act	77 227	106 494
Total	281 034	310 500

Guarantee under the Nuclear Energy Act

According to the Finnish Nuclear Energy Act, Teollisuuden Voima, a joint venture of which Pohjolan Voima owns 57.06%, 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 77.2 million Euros (2017: 106.5 million Euros).

INVESTMENT COMMITMENTS

JOINT VENTURES

Pohjolan Voima Oyj has committed to an investment into the nuclear power plant Olkiluoto 3 EPR built by Teollisuuden Voima Oyj during 2004 to 2018. The commitment consists of a 432 million Euros investment, a shareholder loan of 108 million and an additional shareholder loan of a maximum of 451 million Euros. As at 31 December 2018 Pohjolan Voima Oyj has fulfilled 841 (2017: 781) 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.

OPERATING LEASES

The Group has leased the Helsinki, Nokia and Oulu office spaces. The lease expire 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 €	31.12.2018	31.12.2017
No later than 1 year	652	649
Later than 1 year and no later than 5 years	1 647	1 955
Later than 5 years	-	95
Total	2 298	2 699