

ANNUAL REPORT | 2012

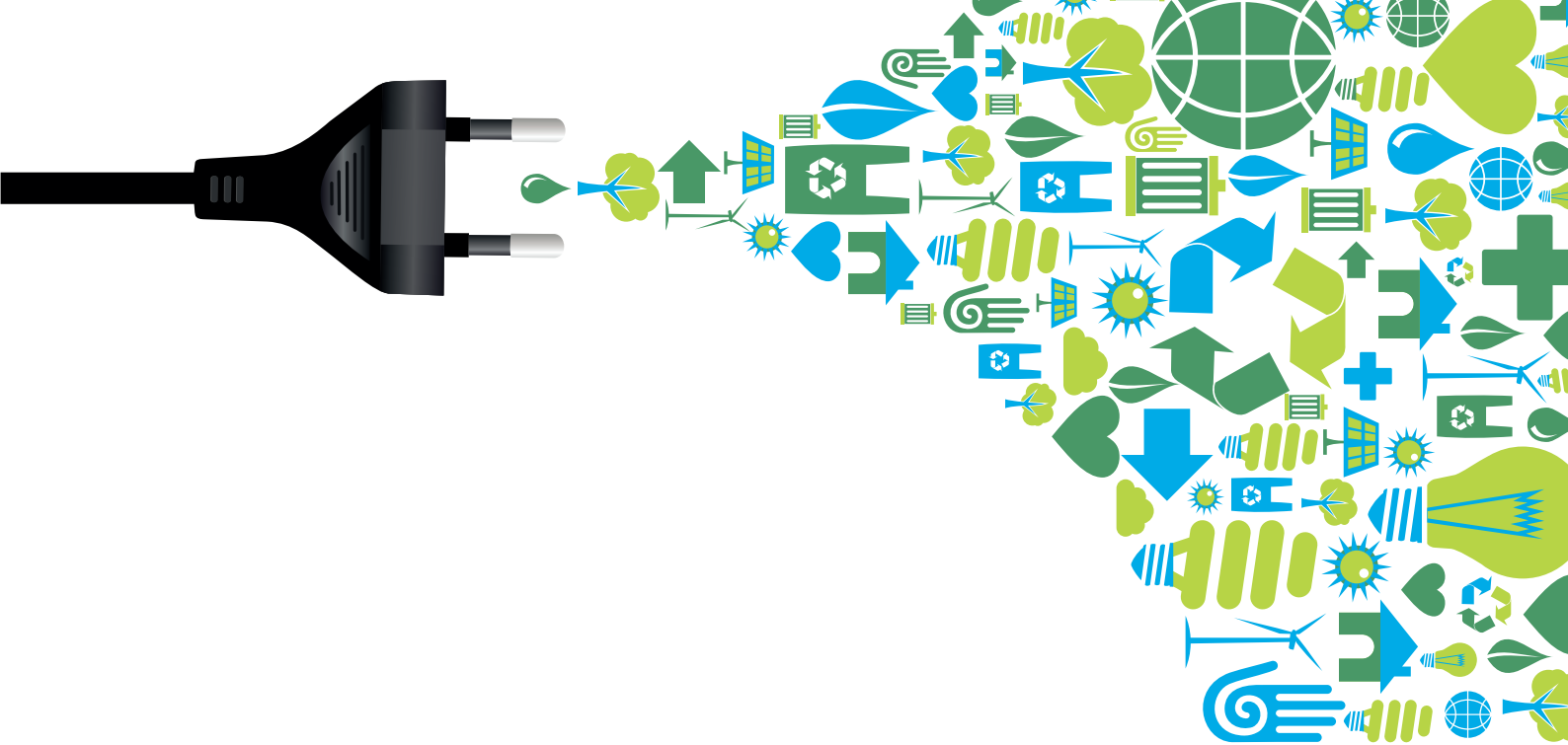


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RENEWABLE AND SAFE ELECTRICITY FOR US AND FOR FUTURE GENERATIONS

Kemijoki Oy produces electricity using hydropower, ensuring the availability of energy reliably, quickly and efficiently, which is highly important in an energy-dependent society. Hydropower is an environmentally friendly, renewable and domestic energy source and means of production, and as such represents a sustainable solution for us and for future generations. The extensive history of hydropower has already proven its case.

EMISSION-FREE ELECTRICITY

Hydropower produces about half of Finland's renewable electricity and up to 85 per cent of the world's renewable electricity, making hydropower by far the most important form of renewable electrical energy. In 2012, Kemijoki Oy produced almost one fifth of Finland's renewable electricity.

Hydropower is a completely emission-free energy source. As a replacement for fossil fuels, hydropower reduces carbon dioxide emissions

and thereby helps combat climate change. The hydropower produced by Kemijoki Oy in 2012 was equivalent to over four million tonnes less in carbon dioxide emissions. This volume is about the same as the emissions from all of Finland's more than 200,000 oil-heated detached houses for a period of four years. Moreover, regulating power produced with hydropower may be used to support other renewable energy sources such as solar and wind power, thereby helping society at large to attain its goals in reducing emissions of greenhouse gases.



CONTINUED AND WIDE-RANGING DIALOGUE WITH CITIZENS

Kemijoki Oy has been operating in Lapland for 58 years. The Company knows its environment, the local citizens and their practices, and the local citizens know the Company. Continued dialogue is a well-established practice. The Company has numerous interest groups, ranging from educational institutions, NGOs and authorities to political decision-makers and the media. The Company's key interest groups are the shareholders, the citizens in the operating area, and the personnel.

Because both the operations and the environmental impacts are local in nature, the citizens living in the area of operation are a key interest group.

Kemijoki Oy searches for environmentally friendly solutions to improve the living environment, together with local citizens and authorities.

HYDROPOWER SECURES ELECTRICITY SUPPLY

Hydropower is a decentralised and reliable form of energy that adapts flexibly to fluctuations in consumption. Hydropower plants can be started up and shut down at short notice, and their output can be regulated. Water can be accumulated in reservoirs to provide regulatory capacity when electricity consumption peaks or when solar and wind power are not available. Hydropower plays a vital role in safeguarding the functioning of the electricity distribution system under normal conditions and in disturbance situations.

Kemijoki Oy is Finland's most important producer of regulating power and the frequency-controlled reserves required for maintaining the electricity distribution system. Hydropower also contributes to the goal of self-sufficiency in electricity production, being a domestic energy source.

CORPORATE SOCIAL RESPONSIBILITY AND OPERATING PRINCIPLES

Responsibility is the cornerstone of everything the Company does, governed by its corporate values and directive *Tapamme toimia* (The way we work). This annual report details how the Company puts responsibility into practice from the environmental, economic and human perspectives.

Corporate governance at Kemijoki Oy is recorded in the basic documents pertaining to the Company, in the agendas of the administrative bodies, and in the goals and policies for principles of operation.

The management regularly reports to the Board of Directors on operations, financial matters, risks and environmental matters. Key operating policies are reviewed and significant risks discussed by the Board of Directors on an annual basis. In accordance with the Company's operations responsibility areas, corporate social responsibility is handled by senior management. ●

THE KEMIJOKI GROUP IN BRIEF

Kemijoki Oy is the most important producer of hydropower and related services in Finland. The Company owns 20 hydropower plants and regulates the Lokka and Porttipahta reservoirs and also Lake Kemijärvi and Lake Olkkajärvi. The electricity produced at the power plants is sold at cost price to the Company's hydropower shareholders.

Kemijoki Oy is the parent company of the Group. The principal subsidiaries are engaged in electricity grid operations and in the sales of services and products related to hydropower technology.

The turnover of the Kemijoki Group was EUR 41.0 million, and the balance sheet total was EUR 461.5 million. The total share capital of Kemijoki Oy was EUR 41.3 million.

During the year under review, the Group employed an average of 224 persons. ●





MISSION, VALUES, VISION AND STRATEGY



STRATEGY

The focus of the Company's operations involves efficiently producing renewable, emission-free energy using hydropower for its shareholders. The Company aims to increase Finnish renewable hydropower production and regulating power.

The use and maintenance of the production system are developed cost-effectively. The value and capacity of the production system are enhanced by upgrading the power plant units. The Company creates and acquires new production capacity whenever it is economically and operationally justifiable. More hydropower will be built in environmentally and socially acceptable ways.

The Company's hydropower expertise will be further developed into a Finnish centre of excellence. The Company ensures its competence through long-term human resources planning and good personnel management. Operating potential is improved through active cooperation with shareholders, other hydropower operators and interest groups. The Company's research and development focuses on developing the production system and furthering investment opportunities. ●

REVIEW BY THE CEO

The year 2012 will be remembered as a good year for hydropower. The amount of electricity produced by hydropower in Finland during the year almost broke the record: the production of Kemijoki Oy, about 5 TWh, was the second highest ever in the history of the Company.

Despite these massive production figures, a major portion of the rainfall remained unutilised, as water had to be discharged through spillways. The water that flowed past the River Kemijoki power plants in the course of the year was equivalent to the annual energy consumption of nearly 110,000 households. Harnessing the hydropower that was now lost would have reduced carbon dioxide emissions into the atmosphere by almost 0.5 million tonnes. It has been predicted that climate change will bring more rain to Finland. Without sufficient reservoirs, we will be losing increasing volumes of this valuable, free and emission-free fuel in the future.

Electricity consumption in industry has decreased in recent years because of the economic recession and the ongoing structural change in industry. In the long term, however, electricity consumption is predicted to grow, as its percentage of all energy use increases with the electrification of society. Indeed, electrification will lead to a decrease in the total consumption of energy and hence in emissions of greenhouse gases.

The Government completed its update to the National Climate and Energy Strategy in February of the current year. The Strategy estimates that Finland will become self-sufficient in electricity production in the 2020s when the nuclear power plant units that have now been granted a Government Resolution come on stream and the production of renewable electricity increases. On the other hand, the updated Strategy acknowledges the lack of sufficient regulating power caused by a significant increase in the percentage of nuclear and wind power, cutting into the percentage of

regulating power. It is a good thing that securing the availability of regulating power is included in the central energy policy debate.

In recent years, the power plant units along the main channel of River Kemijoki have been thoroughly refurbished and are now generating 221 MW more output than before. This represents a substantial increase in output for Kemijoki Oy. Finland will need more hydropower in the future, and the River Kemijoki system still has plenty of untapped potential for both energy and regulating power.

The power plants along the main channel are in good shape following the refurbishment programme. Revised, uniform control and monitoring systems have enabled more efficient use of the plants and made troubleshooting quicker, as witness the high availability figures. Disturbances caused extremely few stoppages, and availability rose to 99.8 per cent.

Hydropower is second to none as a source of electrical energy and is also economically competitive. However, low production costs cannot be taken for granted; the Company has been working long and hard to improve cost-effectiveness.

For the past 15 years, we have participated in a cost comparison among Nordic hydropower companies conducted by an outside consultant. This has fired the Company with a healthy competitive spirit but has also highlighted development points. In the first comparisons, we were close to the average among Nordic companies in efficiency; but in the last two comparisons, we ranked at the very top. This is a testament to the professionalism of our personnel and their will to improve our operations, and also to our dedication to the goals we have set ourselves. We have also been improving occupational safety, and the report indicates that the workplace atmosphere has improved too.



Our personnel has been decreasing in recent years and will continue to do so due to a large number of employees retiring and very few new ones recruited. We have weathered this transition by conducting a critical assessment of what we really need for our core operations and by giving up things that we can do without. We continue to seek active enhancement of our operations. So far, it has been possible to redistribute the duties of retirees among remaining personnel, thanks to our employees' expertise and positive attitude, for which they deserve to be specially commended.

During the year under review, investments focused on refurbishments of components and equipment at power plants. A sluice gate was refurbished at Petäjaskoski, and unit automation systems were replaced at Anjalankoski. Preparations were made during the year for refurbishment at the power plants on River Lieksanjoki. The first refurbishments began in December, and all units on River Lieksanjoki will be overhauled by 2015.

The Sierilä power plant project has not progressed as we would have liked. The project has

been pending since 2005, and its implementation had to be postponed yet again. At the moment, the processing times for environmental permits are unreasonably long from the perspective of operators. Moreover, there are ambiguities in environmental legislation due to which the long processing times may drag out even more, which is what has happened in the Sierilä project. Flaws in permit processing will inevitably affect whether operators will be willing to make investments in the future.

The Company's financial status remained stable. Real estate taxes accounted for the single most significant expenditure, amounting to EUR 17.2 million.

Jussi Järventaus, Ulla Karvo, Risto Kalliorinne, Mari Puoskari and Janne Seurujärvi left their seats on the Supervisory Board during the year under review, and Seppo Ruohonen and Anssi Paasivirta withdrew from the Board of Directors. I would like to extend our warm thanks to them for their contribution to the Company. ●

Aimo Takala, CEO

ELECTRICITY PRODUCTION AND POWER PLANT OPERATIONS



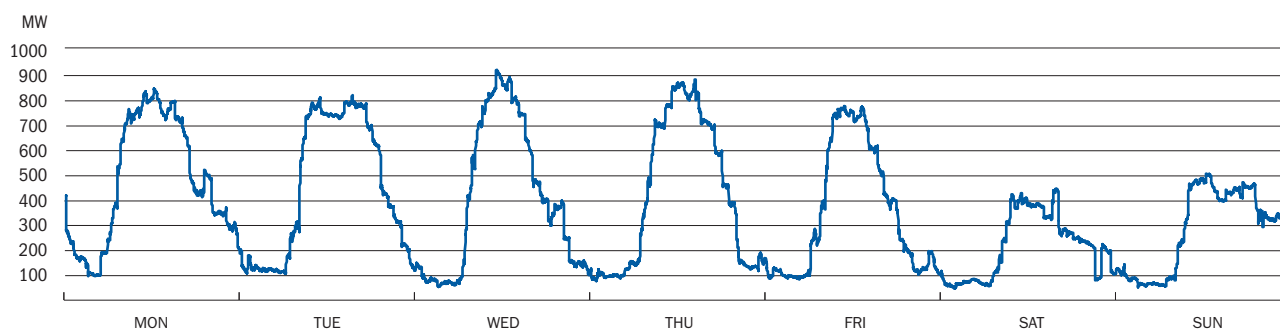
Kemijoki Oy has extensive experience and robust expertise in the construction, use, maintenance and power upgrades of hydropower plants.

The Company uses waterways with responsibility, subject to the terms and conditions of valid permits and current recommendations, taking into account the needs of the environment and other users of the waterways. As an example, the Lokka and Porttipahta reservoirs and the regulation of Lake Kemijärvi contribute significantly to reducing water levels during the spring floods each year.

SECOND HIGHEST ANNUAL PRODUCTION IN HISTORY

The production of Kemijoki Oy, 5,037 GWh, exceeded average hydropower production by 13 per cent and was the second highest annual output in the history of the Company. River Kemijoki accounted for 92 per cent of the electricity produced, and River Lieksanjoki and River Kymijoki for the rest.

Fluctuation in production at the Kemijoki Oy power plants, week 33/2012



POWER PLANT AVAILABILITY WAS GOOD

During the year under review, the availability of power plant units – i.e. their readiness to produce electricity – was very good. When taking into account only unexpected interruptions caused by disturbances, availability was 99.8 per cent, above the long-term average. Total availability, taking into account both disturbances and unit stoppages for maintenance, was 98.4 per cent. This was clearly better than in previous years. There were no power upgrade projects going on, and thus no units underwent extended stoppages.

Availability is sustained at a high level through planned upkeep of units and equipment and through anticipatory maintenance.

VARIABLE WATER SITUATION CONTROLLED WITH DISCHARGES

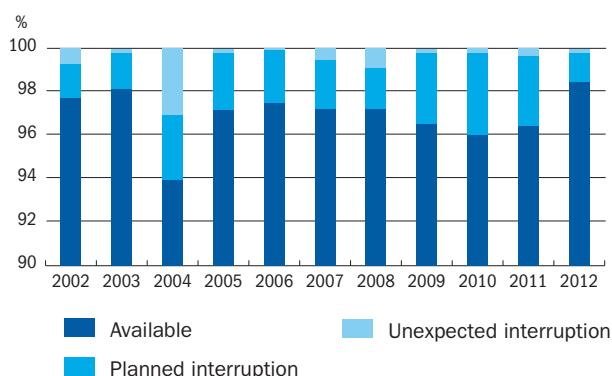
At the beginning of the year, the water supplies of River Kemijoki were 11 per cent lower than on average. The spring flood was 10 per cent higher in volume than on average. Because of the rapid melting of snow, the water flow at Rovaniemi approached damage-threatening levels.

According to established practice, preparations for coping with the flood were made jointly with the environmental and rescue authorities. Timely retention of water in Lake Kemijärvi reduced the flood peak at Rovaniemi so that major damage was avoided.

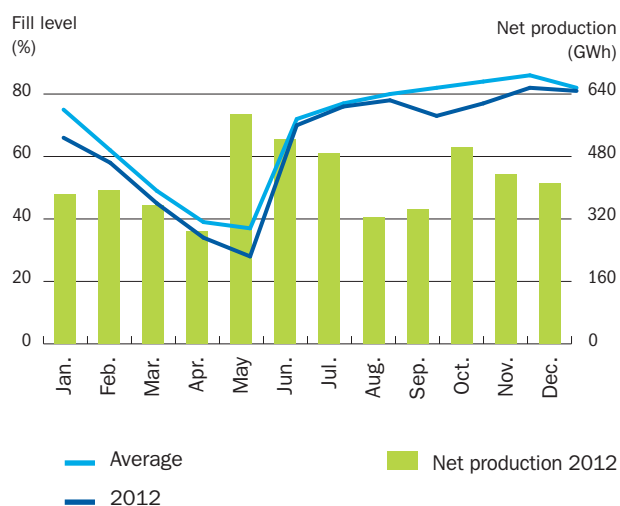
The period of low precipitation in July required discharges from the reservoirs in order to keep the level of Lake Kemijärvi within the parameters specified in the permit. By contrast, there was a lot of precipitation in the autumn, which both increased production and augmented water supply. The level of the reservoirs rose by about 0.5 metres, almost reaching the average level.

First snow fell around the normal time in Lapland, but in November rain and warm weather melted some

Availability of power plants of Kemijoki Oy 2002–2012



Water supplies situation 2012

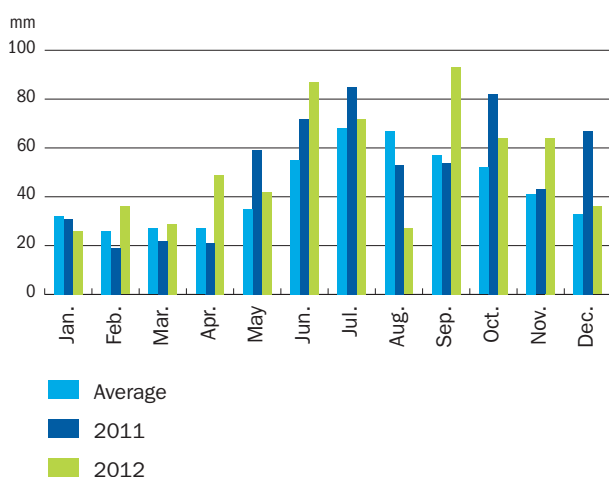


of the snow cover and caused an autumn flood. At the end of the year, 10 per cent more water was bound in snow than on average at that time of year.

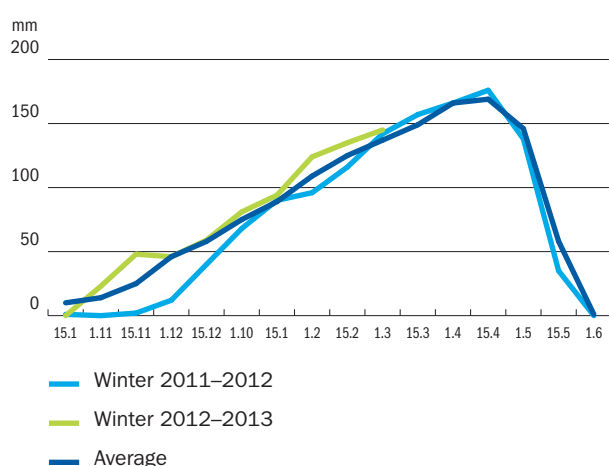
The energy content of the regulating reservoirs in River Kemijoki was estimated at 1,100 GWh, 98 per cent of the average for the time of year.

ELECTRICITY PRODUCTION AND POWER PLANT OPERATIONS

Precipitation in the River Kemijoki catchment basin



Water equivalent of snow in River Kemijoki catchment basin



PREPARING FOR EXCEPTIONAL SITUATIONS THROUGH ANTICIPATION

The terms and conditions specified in the permits for hydropower plants and regulation determine the limits within which the water levels and discharges in waterways may vary. Rapidly changing weather conditions or malfunctions at power plants may lead to deviations from these parameters. Waterway use is monitored for compliance continuously, and any deviations are reported to the authorities in writing. No significant deviations were observed during the year under review.

When the water temperature approaches freezing, the flow of the river is reduced with a view to allowing a permanent ice cover to form. Ice cover reduces the formation of slush dams and thereby keeps the power plant heads clean. Good ice conditions are also good for recreational use of the river and improve the safety of people on the ice.

Exceptional usages, such as discharges and their impact on water and ice conditions, are announced in advance on the Company's website and in the local media.

In the case of an oil spill or other environmental damage to the waterways, there are instructions on joint operations with the rescue authorities to minimise potential or actual damage.

GENERAL SAFETY OF POWER PLANTS AND DAMS SCRUTINISED

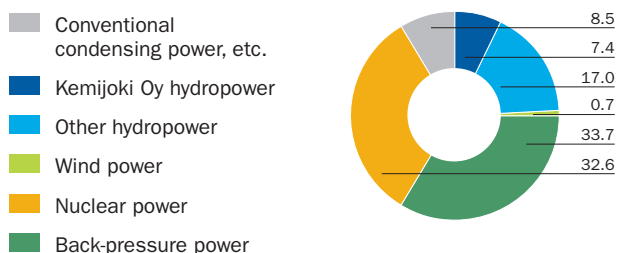
Kemijoki Oy owns the most dams in Finland and is responsible for their safety, monitoring them continuously and keeping them in shape in accordance with the maintenance programme.

Periodical inspections were conducted at the power plants and dams at Vanttauskoski, Kurittukoski and Kurkiaska. The dam safety authorities had no remarks to make about the condition of the dams.

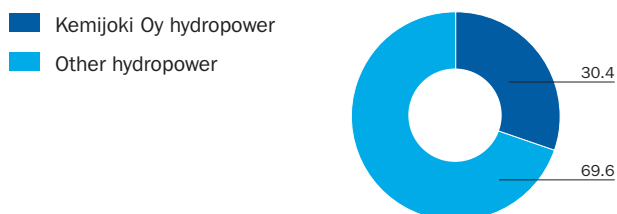
Annual inspections focused on the general safety arrangements at power plants and dams. A survey was made of prohibition signs, warning signs, CCTV surveillance, sound alerts and other warning systems pertaining to discharge changes. The annual inspection instructions and advance maintenance programmes were updated following the risk survey.

During the year under review, one of the seven sluice gates and the bottom gate at Petäjäsoski were refurbished. Every 20 years or so, the wear and tear caused by water flow and ice is repaired and the hydraulics machinery overhauled so that the sluice gates work without problems when water has to be discharged past the power plant. Sluice gate refurbishment at Petäjäsoski continues. ●

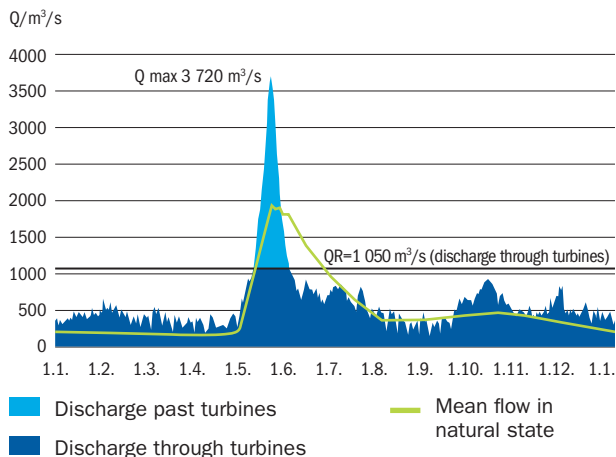
Electricity production (%) in Finland 2012



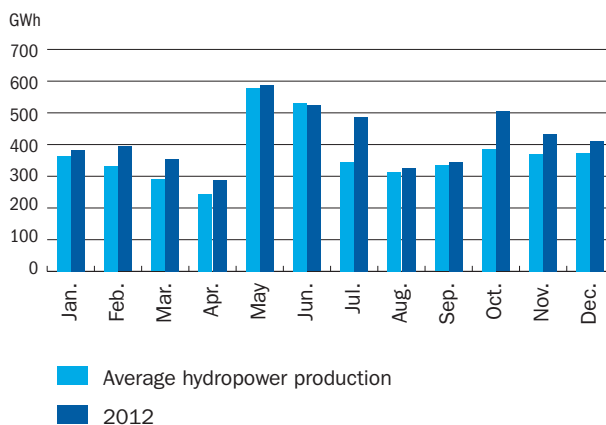
Hydropower production (%) in Finland 2012



Petäjäsoski discharge 2012



Kemijoki Oy monthly production



ONGOING PROJECTS

REFURBISHMENT AT LIEKSANKOSKI BEGAN

Refurbishment of unit 2 at Lieksankoski was begun in December. The refurbishment involves replacing the turbine runner and the generator stator. The runner will be redesigned to improve efficiency and to increase output slightly. No changes will be made to the structures or waterways of the power plant. Completion of the refurbishment has been pushed back from April as originally planned to July 2013.

MAINTENANCE ON RIVER KYMIJOKI

On River Kymijoki, the Anjalankoski power plant unit was overhauled. The automation systems of the units at Inkeroinen and the inlet pipe gate on one unit were replaced.

FINAL INSPECTION ON RIVER KITINEN COMPLETED

The final inspection of the power plants on River Kitinen was completed. The decision of the Supreme Administrative Court in the matter has secured the Company's current power output potential. Some EUR 250,000 in compensation for losses in grayling fishing will be paid to joint property management associations, owners of private water areas and holders of fishing rights. Moreover, the Company will overhaul the banks of the river at Kairala village to improve potential for recreational use.

Investment plan 2013–2020

Power plant	Rated discharge m ³ /s	Increase of discharge m ³ /s	Head m	Increase of output MW	Increase of production GWh/a	2013	2014	2015	2016	2017	2018	2019	2020
REFURBISHMENT AND UPGRADING PROJECTS													
SEITAKORVA II	640	+60	24–17	14	5								
LIEKSANKOSKI I–II, refurbishment	150	+15	12,0	1	1,3								
PANKAKOSKI I–II, refurbishment	150	+15	10,5	0,3	1,1								
TAIVALKOSKI I–III, runner refurbishment	1050	0	14,5										
PORTTIPAHTA	140	+40	30,0	11	2								
VAJUKOSKI	160	+35	16,0	5	2								
KURITTUKOSKI, refurbishment	160	+40	11,0	3	1								
KOKKOSNIVA, refurbishment	260	+	11,5	+	+								
Total				34	12								
NEW INVESTMENTS AND RIVER CHANNEL IMPROVEMENT PROJECTS													
SIERILÄ	650		8,0	44*	155–35*								
LOUE-TERVOLA, river channel improvement			0,5		4,7								
JAATILA-KOIVU, river channel improvement			0,3		9								
PORTTIPAHTA, Souvakönnä river channel improvement			+		+								
Total				44	133,7								

* = The negative numbers for Sierilä represent its influence on the Vanttauskoski power plant

SIERILÄ POWER PLANT PROJECT DELAYED FURTHER

In May 2011, the Regional State Administrative Agency for Northern Finland granted the Company a licence to construct and operate the Sierilä power plant. The licence was granted on the basis of comparison of interests: the benefits of the project were assessed at EUR 112 million, while the damage, disadvantages and other losses were assessed at about EUR 8 million.

In June 2012, the Vaasa Administrative Court overturned the decision and returned the matter to the Regional State Administrative Agency for Northern Finland for reprocessing. According to the Administrative Court's decision, the licence cannot be granted until a special permit for derogation pursuant to the Nature Conservation Act has been granted.

The Company has appealed the decision of the Vaasa Administrative Court to the Supreme Administrative Court, because the legislation does not specify in which order the various licences and permits must be obtained.

A special permit for derogation pursuant to the Nature Conservation Act will of course be needed, and it will be applied for once the required investigations and measures have been completed. The Company has worked with the Lapland Centre for Economic Development, Transport and the Environment to plan measures enabling the level of protection for endangered species to be maintained. The impact area of the proposed power plant includes the only known colony in Finland of a rare species of butterfly, the Leaf-roller Butterfly (*Capricornia boisduvaliana*). Efforts to safeguard this species have been going on for many years. Transplantation yielded good results last year, as individuals were observed to breed naturally at three transplantation locations.

Sierilä will be the last power plant to be built along the main channel of River Kemijoki.

The power plant will have a nominal capacity of 44 MW and an annual production of 155 GWh. The real estate tax payable on the power plant will amount to about EUR 1 million.

RIVER CHANNEL IMPROVEMENT BETWEEN LOUE AND TERVOLA PENDING

The river channel improvement project planned between Loue and Tervola will reduce flow loss and improve ice conditions in the channel. At present, there are narrows in the channel which remain open in the winter and accumulate slush dams, reducing the head and forcing water onto the river banks.

The purpose of the project is to improve energy production capacity but also to reduce the adverse effects of slush dams, as requested by local residents. The river channel improvement project will involve dredging the river, reinforcing the banks and landscaping them some 15 km downstream from the Ossauskoski power plant.

A permit was granted for the project, but the matter was appealed to the Vaasa Administrative Court, where it is now pending. The project is scheduled for 2013. ●





ENVIRONMENT

The water used in hydroelectric power production is not polluted or consumed in the process, but hydropower does change natural flows in waterways, with temporary or permanent impacts on the natural environment of the waterways, the landscape and the lives of local residents.

The environmental impacts of these operations are well known, and they are taken into account at every stage of the production chain. Environmental impacts are prevented, alleviated and monitored according to plans approved by the authorities, and also through volunteer action.

The Company is constantly working with interest groups to seek solutions that are environmentally friendly and improve the quality of the living environment. The Company further prepares for future environmental challenges by closely monitoring national and international trends affecting the Company's operations and by participating in research projects to promote environmental protection.

In the year under review, the Company spent EUR 3.3 million on its statutory obligations and environmental improvement.

REFURBISHMENTS HELP ENVIRONMENTAL PROTECTION

Refurbishments and upgradings of the power plant units along the main channel of River Kemijoki have contributed significantly to environmental protection efforts, gaining an increase of 221 MW in hydropower production, which is emission-free and has excellent regulating power properties. The annual extra output facilitated by power upgrades is about 230 GWh, equivalent to the annual electricity consumption of about 50,000 average households. If produced using fossil fuels, this amount of energy would generate 214,000 tonnes of carbon dioxide emissions per year.

Thanks to modern technology, the efficiency and energy efficiency of the power plants have

increased, while the risk of oil spills has decreased. Considerably less oil is now used at the power plants, because the new turbines use oxygen-free water instead of oil to lubricate the runners.

Power plant refurbishments and power upgrades are also important for achieving energy efficiency goals: the Company is a party to an energy efficiency agreement whose goal is to enhance energy production by 100 GWh between 2008 and 2016.

CONTINUING IMPROVEMENT OF LANDSCAPES AND WATERWAYS

River bank protection, landscaping and clearing work is undertaken every year. Local residents are consulted while the work is being planned. Obligations pursuant to the terms and conditions of permits will be continued to be met at their present level in the near future. Significant projects include dredging at the reservoirs and the river bank overhauls at Kairala village in Pelkosenniemi.

LAKE KEMIJÄRVI REGULATION DEVELOPMENT PROJECT CONTINUES

The Company is committed to an extensive regulation development project on Lake Kemijärvi, running from 2005 to 2015. The project is being undertaken jointly with the Town of Kemijärvi and the Lapland Centre for Economic Development, Transport and the Environment.

The principal actions during the year under review were the overhauls of Lake Kostamojärvi and Lake Pöyliöjärvi, where water quality was improved for instance with increased aeration and maintenance fishing. During the year under review, the Company contributed EUR 70,000 to the project, which is principally financed out of EU funds.

The regulation development project has been publicised online and through bulletins. The project

ENVIRONMENT

has improved cooperation between interest groups and increased public awareness of hydropower production and its importance.

PROGRESS ON REGULATION OF LOKKA AND PORTTIPAHTA RESERVOIRS

In 2006, the Sodankylä local authority made a proposal regarding a regulation development project for the Lokka and Porttipahta reservoirs. During the year under review, recommendations for action were completed under the leadership of the Lapland

Centre for Economic Development, Transport and the Environment, and these were approved by the steering group. The recommendations concern fisheries development, regulation practices, multi-purpose structures, the overhaul of River Luirojoki and publicity.

Potential for implementing these recommendations will be investigated in 2013 under the leadership of the Lapland Centre for Economic Development, Transport and the Environment.

WATER QUALITY IS GOOD

The Company uses water for its production and contributes to care of the water environment in its impact area. The state of the waterways and fisheries is constantly monitored. Loose waste is also cleared from the river, as this helps ensure uninterrupted power plant function. The average volume of waste removed per annum is about 20 truckloads or about 200 cubic metres, consisting mainly of grass and small tree branches. The waste does, however, also include plastic and other waste that must be sorted out before being taken away.

Water quality in Lake Kemijärvi and River Kemijoki is good. Water quality in the Lokka and Porttipahta reservoirs has been improving with age and is now close to the average level for lakes in northern Finland. Mercury content in fish has been steadily decreasing both in the reservoirs and along River Kitinen.

The EU Water Framework Directive states the objective of achieving good chemical and ecological status in surface waters by 2015. Under the definitions in the Directive, the regulated portion of River Kemijoki is a “heavily modified water body”, and the Lokka and Porttipahta reservoirs are “artificial water bodies”.

The main channel of River Kemijoki, Lake Kemijärvi, River Kitinen and the Porttipahta reservoir were estimated to fulfil the status requirements set forth in the Directive apart from the Ala-Kemijoki reach,



which was considered to merit a status lower than 'good' because of the absence of fish passages. Assessment of the Lokka reservoir and River Luiro was postponed to the next planning period.

EXPERTISE IN NATIONAL PROJECTS

The Company is involved in several projects aiming to alleviate the environmental impact of hydropower, participating for instance in the Regulated Rivers Research Programme run by the Finnish Game and Fisheries Research Institute. The purpose of the programme is to produce practical information on how to develop fisheries and to promote sustainable development of migratory fish populations.

The Company is also participating in the *Askel Ounasjoelle III* project coordinated by the Lapland Centre for Economic Development, Transport and the Environment for planning fish passages for the Company's power plants in the lower reaches of River Kemijoki.

FINLAND'S LARGEST FISHERIES STOCKING OBLIGATIONS

Kemijoki Oy has the highest fisheries stocking obligations in Finland. The cost of the fisheries obligations were EUR 2.1 million, which is extremely high in the national context. During the year under review, stocking was performed according to a plan approved by the fisheries authorities. As in previous years, the fish stocking was performed by the associated company Voimalohi Oy.

The stocking pursuant to fisheries obligations was completed qualitatively and quantitatively in compliance with the plans except for migratory whitefish in the sea area, for which the production objective was not quite attained. The natural feeding ponds froze over too early, and more

whitefish smolts than usual remained in the ponds; the production shortfall will be made up in future years. A significant reduction was achieved in the accumulated shortage in river lamprey crossovers thanks to a good lamprey year.

The fishing survey report for the main channel of River Kemijoki was completed. The report indicates that the number of fishermen and the volumes of fishing and catches had remained virtually stable since the previous survey in 2005. The five-year fisheries observation report for the River Kemijoki sea area and the fisheries observation report for River Lieksanjoki will be published in 2013.

The fisheries unit of the Lapland Centre for Economic Development, Transport and the Environment approved the new five-year plan for stocking obligations for River Kemijoki.

VALUABLE FLORA AND FAUNA SAFEGUARDED

In any new project, the Company takes active steps to preserve biological diversity in the environment. Surveys are conducted at the planning stage to assess the impact of proposed operations on habitats. Particular attention is given to valuable flora and fauna and to the preservation of their habitats. Soil, plants and seeds that would be submerged are transported to landscaping locations, and similar habitats are built elsewhere. ●



INTEREST GROUPS

ELECTRICITY CONCERNS EVERYONE

In addition to shareholders and personnel, the Company's interest groups include the residents of the Company's operating area, political decision-makers, authorities, joint property management associations and fishing areas, the media and the public at large, schoolchildren and students, research institutions, educational institutions, energy organisations, subcontractors and funding providers.

CLOSE CONTACT WITH LOCALS

The Company engages in continuous interaction with local residents and other interest groups. Some 1,700 environmental inquiries concerning property matters, environmental management and discharges were received during the year under review. The number and distribution of inquiries has remained steady for several years. All contacts and inquiries are replied to, and they are taken into account in developing the Company's operations.

In preparation for the refurbishment of the power plants on River Lieksanjoki, publicity in the region was stepped up. The stages of the project and the Company's operations were presented to the local authority. An issue of the interest group newsletter *Virtauutiset* was distributed to households in Lieksa. Updated information on the project is available on the Company's website. Hydropower and the refurbishment were also presented to the local residents at a public briefing held at the power plant in February 2013.

The present situation in the Sierilä power plant project was presented to local residents at the Oikarainen village. Interaction with local residents has been kept up ever since project planning began.

At Kairala village in Pelkosenniemi, a landscaping plan developed in cooperation with the villagers was presented.

POWER PLANTS ARE FREQUENTLY VISITED

As in earlier years, some 1,000 visitors toured the power plants led by expert guides. The largest group of visitors was schoolchildren. Experts also visited schools to talk about energy. Schoolchildren were also taught about fish at the annual fish biology event, and the Company also participated in the national fishing day.

An open house at Petäjäsoski power plant featured modern hydropower construction, power upgrades at existing power plants, the synergy of flood control and hydropower, and environmental, property and fisheries matters related to hydropower. A turbine manufacturer was on hand to talk about technical advancements in that field. The event drew 500 visitors, and national-level political decision-makers visiting the community also attended.

Visitors have enjoyed the events and visits, and feedback has been good.

ACTIVE COMMUNICATIONS ABOUT CURRENT MATTERS

All events and news were posted on the kemijoki.fi and vesivoima.fi websites and in the interest group newsletter *Virtauutiset*, which is distributed to 53,000 households in the Company's area of operation twice a year.

LOCAL SPONSORSHIP

Kemijoki Oy bears its corporate social responsibility by supporting local public activities. Support is given particularly to children and adolescents in the areas of sports, culture and the environment, and events related to recreational use of the river are encouraged. ●

GOOD WORK MOTIVATION AND SAFETY ARE THE GOALS

Personnel wellbeing is managed through goal-oriented management, long-term HR planning and a safe working environment. Participation in the Company's decision-making is ensured through personnel representatives on the Company's Supervisory Board and Management Team.

During the year under review, the principal goals were keeping up expertise and motivation, achieving an accident-free workplace community and reducing the number of sick days. These goals were attained well. The number of accidents decreased significantly on the previous year, and the number of sick days decreased slightly too.

WELLBEING AT WORK PROBED WITH A SURVEY

A survey was conducted among personnel on wellbeing at work and job satisfaction. The response rate was 78 per cent. The findings showed a slight improvement over earlier surveys.

Employees have a very clear idea of the goals of their particular jobs. For supervisors, giving feedback and encouragement were evaluated as better than in the previous year. The greatest matters for concern among personnel were the reduction in HR resources, fatigue, and competence management.

CONTROLLED COMPETENCE ENHANCEMENT AND TRANSFER

Competence was boosted through general and occupational training during the year under review. Training needs are evaluated in development discussions and through needs assessments. Topics covered at supervisors' training sessions included retirement control, payroll systems and addressing



difficult issues in supervisor-employee situations. New learning and enhancement of professional competence are being encouraged, since the decreasing number of personnel will bring more challenges but also represents an opportunity for remaining employees to broaden their job profiles.

In 2012, an average of 3.3 days per person of training was provided, and training costs amounted to EUR 318,000.

Kemijoki Oy has a retirement control model, the purpose of which is to ensure the retention and controlled transfer of competence and knowledge.

During the year under review, 14 employees retired. Their duties were redistributed within the Company in accordance with the retirement control model. One employee resigned, and one new employee was hired. ●

PERSONNEL

FEWER OCCUPATIONAL ACCIDENTS

The Company aimed to achieve an accident-free workplace community. Three accidents occurred during the year under review, two of which led to a brief absence from work. The accident rate (number of accidents per one million hours of work) during the year was six as compared to 18 in the previous year. The accidents resulted in six days of disability. In 2011, the average accident rate in the energy industry was 11.

Most of the absences due to illness are caused by chronic musculoskeletal disorders. There is a control model for absences due to illness aiming at reducing absences and easing the return to work of employees who have been on a prolonged sick leave.

The percentage of absences due to illness was 4.7 per cent, calculated according to the theoretical number of regular working hours. In the previous year, this figure was 4.8 per cent; the industry average in 2011 was 4.2 per cent.



PERSONAL WELLBEING SURVEY

The purpose of the wellbeing at work programme is to maintain occupational health and functional capacity and to reduce the number of sick days.

During the year under review 70 per cent of the personnel took up the offer of taking a personal wellbeing survey. Based on the results of the survey, the employees set personal goals to promote their wellbeing. Occupational health care is supporting the attainment of these goals for instance by organising activities in weight control, sleeping disorders and physical exercise. Measurements are conducted to monitor progress.

Alongside the wellbeing programme, support was continued for personnel sports and recreation activities.

OCCUPATIONAL HEALTH CARE

In addition to statutory preventive occupational health care, personnel are provided GP-level medical care, age-based checkups and the services of an occupational physiotherapist and psychologist.

The national *Alkoholihaitat hallintaan* (Controlling adverse impacts of alcohol) campaign of the Institute of Occupational Health, which began in 2011, continued in 2012 with training of a support group and coaching for supervisors concerning how to bring up the subject of intoxicant problems.

PENSION FOUNDATION

At the end of the year, there were 405 valid retirement decisions, of which 280 concerned old age pensions and disability pensions, and 125 concerned family pensions. The total amount of retirement obligations was 26.7 million euros.

The pension foundation is an 'A' pension foundation and was closed on 31 December 1991. ●

Personnel key figures in 2012

Number of employment relationships	No.	%
Permanent as at 31 Dec	190	97.5
Fixed-term as at 31 Dec	5	2.5
Fixed-term on average in 2012	16	
Full-time as at 31 Dec	186	95.4
Part-time as at 31 Dec	9	4.6
New employment relationships in 2012	No.	
Permanent	1	
Fixed-term (incl. summer employees)	77	
Total	78	
Employment relationships terminated in 2012	No.	
Retired	14	
Resigned	1	
Total	15	
Gender distribution as at 31 Dec	Men	Women
Other employees	71	7
Clerical staff	44	24
Senior salaried employees	38	7
Senior management	3	1
Board of Directors and CEO	9	1
Personnel details as at 31 Dec		
Average age of personnel	51 years	
Average length of employment (permanent employment relationships)	23 years	
Absences due to illness	4.7 %	
Accident rate *)	6	

*) The accident rate is the ratio of the number of accidents over hours worked. The figure is given per one million working hours.

BASIC FACTS ABOUT THE COMPANY

Basic facts about Kemijoki Oy	
Central government holding	50.1 per cent
Chairman of the Board of Directors	Matti Ruotsala
CEO	Aimo Takala
Personnel as at 31 Dec	195
Head offices in Finland	Rovaniemi

Shareholders	Hydropower shares per cent	Monetary shares per cent	Total share capital per cent
Finnish government		52.37	50.10
Fortum Power and Heat Oy	63.79	15.40	17.50
Lapin Sähkövoima Oy	10.62	9.28	9.34
UPM-Kymmene Oyj	19.00	3.45	4.13
City of Helsinki / Helsingin Energia	3.91	0.81	0.94
Rovakairan Tuotanto Oy	1.64	0.66	0.70
Rovaniemen Energia Oy	1.04	0.38	0.40
Kemijoki Oy	–	17.65	16.89

Key figures for the parent company	EUR million
Turnover	39.4
Other operating income	11.8
Operating expenses excl. Real estate tax	36.9
Real estate tax	17.2
Salaries and benefits paid to personnel (including pension and ancillary costs)	10.2
Profit/loss for the financial period	0.6
Balance sheet total	460.5
Gross investments	11.8
Research and development	0.2
Equity ratio per cent	20.6

Payments to key interest groups	
Personnel	Personnel costs (incl. pension and other ancillary costs): EUR 10.2 million
Public sector	Taxes: Real estate taxes: EUR 17.2 million Income taxes: EUR 238,000
General economic interest	Subsidies and donations: EUR 37,000
Shareholders	Dividends paid to shareholders: EUR 654,000
Investments	Investments: EUR 11.8 million

ADMINISTRATION OF KEMIJOKI OY

AS AT 1 JANUARY 2013

SUPERVISORY BOARD

- **Ari Heikkinen**, Administration Director, Chairman
- **Sanni Grahn-Laasonen**, Member of Parliament
- **Harri Jaskari**, Member of Parliament
- **Juha Laaksonen**, M.Sc. (Econ.)
- **Paula Lehtomäki**, Member of Parliament
- **Juha Mäkelä**, General Council
- **Seppo Nordström**, NGO expert
- **Johanna Ojala-Niemelä**, Member of Parliament
- **Jari Pirinen**, Executive Manager
- **Risto Rautava**, entrepreneur
- **Anja Silvennoinen**, Senior Vice President, Energy Business Area

Sari Kerttula, Real Estate Assistant, personnel representative

Martti Myllykangas, Engineer Fitter, employee representative

BOARD OF DIRECTORS

Matti Ruotsala

- Chairman of the Board, M.Sc. (Tech), b. 1956
- Member of the Board since 2008

Principal occupation

- Executive Vice President, Power Division, Fortum Oyj

Employment history

- KCI Konecranes Oyj, COO
- Oy Valtra Ab, Managing Director
- AGCO Corporation, Vice President

Key elected posts held simultaneously

- PKC Group Oyj, Chairman of the Board
- Fortum Power and Heat Oy, Member of the Board and CEO
- Oy Halton Group Ltd, Member of the Board
- Teollisuuden Voima Oyj, Chairman of the Board
- Componenta Oyj, Member of the Board

Tapio Korpeinen

- Deputy Chairman of the Board, M.Sc. (Tech), MBA, b. 1963
- Member of the Board since 2008

Principal occupation

- CFO, UPM-Kymmene Corporation

Employment history

- UPM-Kymmene Corporation, Manager, Energy and Pulp Business Group
- UPM-Kymmene Corporation, strategy and reorganisation
- Jaakko Pöyry Oy, management consultation manager

Key elected posts held simultaneously

- Pohjolan Voima Oy, Chairman of the Board
- Teollisuuden Voima Oyj, Member of the Board
- Varma Mutual Employment Pension Insurance Company, Member of the Supervisory Board

Risto Andsten

- M.Sc. (Tech), b. 1961
- Member of the Board since 2007

Principal occupation

- Vice President, Fortum Power and Heat Oy

Employment history

- Fortum Power and Heat Oy, hydropower and heat management

Key elected posts held simultaneously

- Fortum Generation Ab hydropower companies, Member of the Boards
- Finnish Energy Industries, Chairman of Committee for Power Generation

Maarit Herranen

- M.Sc. (Tech), b. 1964
- Member of the Board since 2006

Principal occupation

- Moventas Gears Oy, HR Manager

Employment history

- Moventas Oy, HR management
- Oy Metsä-Botnia Ab, management of production, development and business activities

Tapio Jalonen

- M.Sc. (Tech), b. 1958
- Member of the Board since 2009

Principal occupation

- Managing Director, Rovakaira Oy and Rovakairan Tuotanto Oy

Employment history

- Management related to the electricity acquisition, sales, distribution and administration in a regional electric company

Key elected posts held simultaneously

- Lapin Sähkövoima Oy, Chairman of the Board
- Energiapolar Oy, Chairman of the Board
- Associated companies Rovakaira Oy and Rovakairan Tuotanto Oy, Member of Boards

KEMIJOKI OY:N HALLINTO 1.1.2013

Pekka Manninen

- M.Sc. (Tech), b. 1954
- Member of the Board since 2012

Principal occupation

- CEO, Helsingin Energia

Employment history

- Helsingin Energia, management positions

Key elected posts held simultaneously

- Teollisuuden Voima Oyj, Member of the Board
- Finnish Energy Industries, Member of the Board
- Energiafoorumi ry, Member of the Board
- EPV Energia Oy, Member of the Board
- Suomen Hyötytuuli Oy, Member of the Board
- Suomen Merituuli Oy, Chairman of the Board
- Subsidiaries of Helsingin Energia, memberships of Boards

Markku Tapio

- M.Pol.Sc., b. 1948
- Member of the Board since 2012

Principal occupation

- Senior Financial Counsellor, Government Ownership Steering Department

Employment history

- Director of the ownership policy unit and assistant director of the industry department at the Ministry of Trade and Industry

Key elected posts held simultaneously

- Neste Oil Oyj, Member of the Board and the HR and rewards committee
- VR Group Oy, Member of the Board and the HR committee

AUDITOR

KPMG Oy Ab, Authorised Public Accountants (KHT); principal auditor **Antti Kääriäinen**, Authorised Public Accountant (KHT) and Chartered Public Finance Auditor (JHTT)

MANAGEMENT

Aimo Takala

- CEO, M.Sc. (Tech), b. 1954
- Employed by the Company since 1979, CEO since 2003

Key elected posts held simultaneously

- Lapland Chamber of Commerce, Chairman of the Board
- Kemijoki Oy associated companies and subsidiaries and Kemijoki Oy pension foundation, Chairman of Boards

Kaj Hellsten

- Senior Vice President, LL.M., b. 1954
- Employed by the Company since 1984
- Legal matters, permits related to water rights

Key elected posts held simultaneously

- Finnish Energy Industries, Committee for Hydropower, Member
- Eurelectric WG Hydro, Member

Leena Roiko

- Senior Vice President, LL.M., b. 1959
- Employed by the Company since 1993
- Administration, HR, administrative services, real estate management, construction, funding, financial management, communications, secretary to the Supervisory Board and the Board of Directors

Timo Torvinen

- Senior Vice President, M.Sc. (Tech), b. 1965
- Employed by the Company since 1991
- Production services, production technology, operations, maintenance

Key elected posts held simultaneously

- Finnish Energy Industries, Committee for Power Generation, Member

The members of the Board of Directors and of the Management Team do not own shares in the Company, nor do they own shares or have rights to incentive programmes based on the distribution of shares.

PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

LAPIN SÄHKÖVERKKO OY

Lapin Sähköverkko Oy specialises in business pertaining to area networks in the 110 kV electrical power network leased from Kemijoki Oy. There are four customers in the area network at ten connecting locations. The network controlled by the Company comprises three power lines totalling 116 kilometres and four electric stations.

The company chiefly purchased services associated with the operation of the network, such as operational control, local operations and maintenance, from the parent company. Lapin Sähköverkko Oy employs one operational manager.

The total amount of electricity production and consumption in the area network was 665 GWh. The company had a turnover of EUR 2.3 million and declared a profit of about EUR 52,000 for the year under review.

The company is a wholly owned subsidiary of Kemijoki Oy.

KEMIJOKI AQUATIC TECHNOLOGY OY (KAT)

Kemijoki Aquatic Technology Oy offers services and products used for surveying river channels, dam safety, and waterway testing. The company employs 10 persons and had a turnover of EUR 4.8 million, declaring a profit of about EUR 164,000 for the year under review.

The company is a wholly owned subsidiary of Kemijoki Oy.

VOIMALOHI OY

The purpose of Voimalohi Oy is to carry out fish stocking on behalf of its owners, Kemijoki Oy and PVO-Vesivoima Oy.

Voimalohi Oy is a production company that farms most of its stocking parr itself at facilities leased from shareholders and in natural feeding ponds. It also obtains some stocking parr on contract from other producers and carries out the actual stocking.

During the year under review, Voimalohi Oy had a permanent staff of 13 persons. The company had a turnover of EUR 3.5 million and declared a loss of EUR 0.

Kemijoki Oy owns half of the share capital of the company. ●



REPORT OF THE BOARD OF DIRECTORS

The main purpose of Kemijoki Oy is to produce electricity for its shareholders at prime cost. In addition to the parent company, the Kemijoki Group includes five subsidiaries, the principal ones of which are Lapin Sähköverkko Oy and Kemijoki Aquatic Technology Oy.

PRODUCTION AND INVESTMENTS

During the year under review, the Company's hydropower plants produced a total of 5,037 GWh of electricity, representing 30 per cent of the hydropower electricity produced in Finland.

Production exceeded the long-term average by 13 per cent. Water supplies increased by 98 GWh during the year. The fill level of the water supplies was two per cent lower than average at the end of the year.

The total availability of power plants affecting production was 98.4 per cent, which was significantly better than in previous years: there were no power upgrade projects going on, and thus no units

underwent extended stoppages. When taking into account only unexpected interruptions caused by disturbances, availability was 99.8 per cent, equal to the long-term average.

Principal investments during the year were the refurbishment of unit 2 at Lieksankoski, which began in December 2012 and will be completed in summer 2013, and on River Kymijoki the overhaul of the Anjalankoski unit and the replacement of unit automation systems and the inlet pipe gate of one unit at Inkeroinen.

In June 2012, the Vaasa Administrative Court overturned the construction licence granted by the Regional State Administrative Agency for Northern Finland for the Sierilä power plant and returned the matter to the Agency for reprocessing. The Company appealed the Administrative Court's decision, and the matter is currently pending at the Supreme Administrative Court.

During the year under review, investments totalled EUR 11.8 million, compared with EUR 21.5 million in the previous year.

Key figures for the Group, 2008-2012

	2008	2009	2010	2011	2012
Turnover EUR million	44.9	39.6	41.0	41.1	41.0
Other operating income EUR million	7.4	9.5	9.4	10.1	14.5
Operating expenses excl. Real estate tax EUR million	38.9	35.0	34.9	36.9	41.0
Real estate tax EUR million	14.9	15.2	17.0	16.8	17.2
Salaries and benefits paid to personnel EUR million	11.3	11.6	11.9	12.0	11.4
Profit/loss for the financial period EUR million	-7.1	-7.0	-7.0	-7.7	-8.3
Equity ratio per cent	29.5	27.7	24.9	22.7	20.7
Balance sheet total EUR million	434.6	434.5	453.7	459.5	461.5
Gross investments EUR million	16.5	18.5	25.4	21.5	11.8
Research and development EUR million	0.2	0.2	0.3	0.2	0.2
Average number of staff	273	266	267	261	224

FINANCES

Cost-efficiency is the Company's main financial goal. The development of the parent Company's expense structure corresponded to that which was planned. Real estate taxes accounted for the single most significant expenditure, amounting to EUR 17.2 million.

The total for the Company's entire loan portfolio was EUR 365.1 million. At the end of the year, the Group had EUR 221.2 million in long-term financing loans. In addition to this, the Company has a long-term financial leasing agreement, the capital of which is EUR 24.4 million. At the end of the year, the Group had EUR 119.5 million in short-term financing loans. Short-term financing and liquidity management have been arranged by way of a commercial paper programme and credit facilities. Company's liquidity remained good.

The average interest rate for financing, including 'leasing' financing, was 1.90 per cent at the end of the year. The hedging rate of the financing portfolio was 61.2 per cent at the end of the year.

The depreciation difference in the parent Company's balance sheets was reduced by the maximum amount, EUR 12.2 million. When the parent company's depreciation difference was transferred within the Group to the result for the financial period and to imputed tax liabilities, it appeared as a loss in the consolidated balance sheet.

At the end of the year under review, the balance sheet total for the parent company was EUR 460.5 million, and the consolidated balance sheet total was EUR 461.5 million. The Group's equity ratio was 20.7 per cent.

Other operating income from services and the selling of property totalled EUR 11.8 million. Because Kemijoki Oy operates on the prime cost principle, presenting economic indicators is not relevant for the purpose of evaluating business activities, financial position or performance. Cost-efficiency is the Company's main financial goal.

ADMINISTRATION AND MANAGEMENT

In addition to valid legislation and the Articles of Association, Kemijoki Oy follows the principles of sound corporate governance. Corporate governance

at Kemijoki Oy is recorded in the basic documents pertaining to the Company, in the agendas of the administrative bodies, and in the goals and policies for principles of operation. The Company complies with the recommendation on listed companies in Finland issued by the Securities Market Association as applicable and unless the Articles of Association provide otherwise.

The highest decision-making body of the Company is the Annual General Meeting. At the AGM in the year under review, the following were elected to the Board of Directors: Matti Ruotsala (chairman), Risto Andsten, Maarit Herranen, Tapio Jalonen, Tapio Korpeinen, Pekka Manninen and Markku Tapio.

Further at the AGM, the following were elected to the Supervisory Board: Ari Heikkinen (chairman), Sanni Grahn-Laasonen, Harri Jaskari, Juha Laaksonen, Paula Lehtomäki, Juha Mäkelä, Seppo Nordström, Johanna Ojala-Niemelä, Jari Pirinen, Risto Rautava and Anja Silvennoinen.

The Supervisory Board's most important duty is to supervise the administration of the Company, led by the Board of Directors and the CEO, and to instruct the Board in far-reaching and important matters of principle. The Supervisory Board has eleven members. Two personnel representatives also take part in the meetings. The Supervisory Board held four meetings. Average attendance at the meetings was 75 per cent.

The Board of Directors is in charge of the administration and organisation of the Company's activities in compliance with legislation and the Articles of Association. According to the Board of Directors agenda, the Board of Directors confirms the Company's strategy and organisational structure and makes decisions concerning the Company's rewarding system. The Board of Directors has seven members. During the year under review, the Board of Directors held 14 meetings. Average attendance at the meetings was 95 per cent. The Board of Directors evaluates its own activities on an annual basis.

On 18 April 2007, the Annual General Meeting authorised the Board of Directors to decide on the transfer of 412,580 B-series shares owned by the Company, according to the principles agreed upon by the shareholders, in one or more consignments. The authorisation is valid until further notice. Thus far, the Board has not used its authorisation to transfer shares.

The CEO runs the day-to-day administration of the Company. The Management Team assists the CEO in the management of the Company and in the implementation of the chosen strategy. Internal inspections are outsourced. Assessments are reported to the Board of Directors. The Board of Directors approves the internal inspection plan of action.

RISK MANAGEMENT

The goal of risk management is to ensure the continuity of the Company's operations and development, and to support the attainment of the Company's strategic and economic goals. The Board of Directors annually reviews the Company's risk management and related policies. In addition, the Board processes and manages the key risks related to the Company's activities.

The CEO is responsible for adequately arranging risk management according to the guidelines of the risk management policy. Each division is responsible for recognising, assessing, handling and reporting its risks. The development of risks is assessed on a regular basis.

The Company's most important property, the power plants, has been insured according to the insurance policy approved by the Board of Directors. Systematic maintenance of power plants and the constant development of operating processes are used as safeguards against risks. A fire or a major machine breakdown could cause substantial damage to property, as well as losses due to unplanned interruptions.

The most important risks for hydroelectric power companies involve increasingly stringent and ambiguous environmental legislation and potential changes in taxation and tax-like fees. When legislative provisions allow for several interpretations, this breeds insecurity in the investment environment and undermines the predictability of permit processes. Prolonged permit processes also have economic impacts. Raising taxes or imposing additional fees

would further add to the Company's operating expenses. The Company manages financial risks according to the financing policy approved by the Board of Directors.

Environmental risks are managed according to the environmental system. Risks associated with personnel are taken into account in the human resources policies and other guidelines. Risks associated with the Company's data security are managed by way of adequate technical solutions and the training and instructions given to the personnel.

ENVIRONMENTAL AND QUALITY ISSUES

The most significant environmental impacts arising from the operations of the Company have to do with the construction of new power plants, the water regulation used at existing power plants, and the regulation of waterways. About 8.6 per cent of the turnover, EUR 3.3 million, was used for environmental management. Fisheries obligations accounted for EUR 2.1 million out of this sum.

The Company observes environmental and quality policies which are reviewed annually. The Company's environmental system is certified under the ISO 14001 standard. The Company is also committed to improve its energy efficiency in accordance with the Energy Efficiency Agreement for Industries. Energy efficiency is incorporated in the environmental system.

PERSONNEL

During the year under review, the Group employed an average of 224 persons.

Three accidents occurred during the year under review, two of which led to a brief absence from work. The accident rate (number of accidents per one million hours of work) during the year was six as compared to 18 in the previous year. In 2011, the average accident rate in the energy industry was 11.

BONUS AND INCENTIVE SYSTEMS

Kemijoki Oy uses a performance bonus system for both management and personnel.

The Board of Directors approves the performance bonus system for the personnel. The performance bonus system supports the attainment of the Company's financial and operating goals. Employees may also be rewarded with a bonus for exceptionally good performance that produces added value for the Company.

The Board of Directors approves the pay and the grounds for performance bonuses for the CEO and the Management Team. Managers' compensation consists of basic pay and a performance bonus. The earning period for performance bonuses is three years. The amount of any bonus depends on how well the Company's economic and operational goals are attained. The CEO has a pension benefit equivalent to 66 per cent of the salary upon which the pension is based.

Performance bonuses for both personnel and management and how they are determined are in compliance with the government's ownership steering instructions.

The CEO has a separate employment agreement signed in 2003. According to the agreement, the retirement age for the CEO is between 60 and 63 years. The pension is 66 per cent of the salary upon which the pension is based. The period of notice is six months. In cases specified in the CEO's employment agreement, the CEO will also receive severance pay to the amount of 12 months' salary in addition to the salary for the period of notice.

The fees of the members of the Supervisory Board and the Board of Directors are determined at the Annual General Meeting.

OUTLOOK FOR THE NEAR FUTURE

Power upgrading and refurbishment at power plants will be continued in accordance with the investment plan. Refurbishment of the second unit at Pankakoski will begin towards the end of 2013. The power upgrade for the second unit at Seitakorva will begin in 2014.

The timetable of the Sierilä power plant project was altered yet again because of the prolonged permit process.

PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The total sum of distributable profit available to the parent company amounts to EUR 2,728,134.38 as at 31 December 2012. Nothing has occurred after the end of the financial year that would have a significant effect on the Company's operations.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.34 per share, as stated in the Articles of Association, be paid to the B-series shares not owned by the Company at the time of payment, a total of EUR 654,298.72.

The Annual General Meeting will be held in Helsinki on 2 May 2013 at 10.00.

Helsinki, 28 February 2013

Board of Directors of Kemijoki Oy

CONSOLIDATED PROFIT & LOSS ACCOUNT

EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Turnover	41,026	41,137
Change in stocks of finished and unfinished products	73	-88
Other operating income	14,530	10,063
Materials and services		
Materials, supplies	-3,394	-3,010
External services	-8,741	-4,455
Personnel expenses	-10,894	-11,007
Depreciation, amortisation and value adjustments	-12,340	-12,873
Other operating expenses	-22,871	-22,396
Profit (loss)	-2,610	-2,629
Financing income and expenses	-8,448	-9,272
Loss before extraordinary items	-11,058	-11,901
Extraordinary items	1	7
Loss before appropriations and taxes	-11,057	-11,894
Income taxes	2,719	4,203
Loss for the financial period	-8,338	-7,691

CONSOLIDATED BALANCE SHEET

EUR 1,000	31.12.2012	31.12.2011
ASSETS		
Fixed assets		
Intangible assets	28,705	29,292
Tangible assets	423,765	423,591
Investments	510	837
	452,980	453,720
Current assets		
Current assets	218	145
Short-term receivables	8,029	5,585
Cash in hand and at bank	316	26
	8,563	5,755
Total assets	461,543	459,475
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	41,286	41,286
Contingency fund	694	694
Retained earnings	61,895	70,240
Loss for the financial period	8,338	7,691
	95,536	104,528
Liabilities		
Deferred tax liability	16,204	19,195
Long-term liabilities	221,216	254,889
Short-term liabilities	128,587	80,863
	366,008	354,947
Total equity and liabilities	461,543	459,475

CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Cash flow from operating activities:		
Profit (loss) before extraordinary items	-11,057	-11,894
Adjustments:		
Planned depreciation	12,340	12,873
Financing income and expenses	8,448	9,272
Share of the profit/loss of associated undertakings	-1	-7
Other adjustments	-110	-914
Cash flow before change in working capital	9,620	9,330
Change in working capital:		
Increase (-) / decrease (+) of short-term business receivables without interest	-2,459	-1,047
Increase (-) / decrease (+) of inventories	-73	88
Increase (-) / decrease (+) of short-term loans without interest	-178	49
Operating cash flow before financing items and taxes	6,909	8,421
Interest and charges paid from other operating financing expenses	-9,002	-9,125
Interest received from operating activities	5	13
Direct taxes paid	-260	-424
Cash flow before extraordinary items	-2,348	-1,115
Cash flow from operating activities (A)	-2,348	-1,115
Cash flow from investments:		
Investments in tangible and intangible assets	-11,572	-20,816
Proceeds from disposal of tangible and intangible assets	200	1,035
Proceeds from disposal of other investments	137	
Proceeds from disposal of shares in subsidiaries and associated undertakings	189	
Cash flow from investments (B)	-11,046	-19,780
Cash flow from financing activities:		
Withdrawals of long-term loans	0	30,000
Repayments of long-term loans	-46,152	-36,033
Withdrawals of short-term loans	60,491	23,605
Dividends paid and other distribution of profit	-654	-654
Cash flow from financing activities (C)	13,684	16,918
Change in liquid assets (A+B+C) increase (+) / decrease (-)	290	-3,978
Liquid assets at the beginning of the financial period	26	4,003
Liquid assets at the end of the financial period	316	26

ACCOUNTING POLICIES

The financial statements have been compiled in accordance with the Finnish Accounting Act and valid rules and regulations governing accounting in Finland.

EXTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of all the subsidiaries in which the parent company, directly or indirectly, holds over 50 per cent of the votes conveyed by shares. Companies for which the company holds between 20 per cent and 50 per cent of the votes and a shareholding of at least 20 per cent are treated as associated undertakings.

ACCOUNTING PRINCIPLES OF THE CONSOLIDATED FINANCIAL STATEMENTS

Mutual shareholdings

The consolidated financial statements have been prepared using the acquisition cost method. Any price paid for shares of subsidiaries exceeding the shareholders' equity is allocated in full to fixed assets. Allocated goodwill is eliminated using the depreciation plan for the fixed asset in question.

Intragroup transactions

Intragroup transactions, as well as any intragroup receivables and debts, have been eliminated.

Deferred tax liability

Any change in deferred tax liability has been calculated as a change in the parent company's depreciation difference. The cumulative depreciation differences of the parent company have been divided into deferred tax liability and retained earnings. Deferred tax liability is shown as a separate item under long-term liabilities.

Associated undertakings

Associated undertakings are accounted for using the equity method. The Group's pro-rata share of the profit or loss of associated undertakings is shown both under other operating expenses and extraordinary items.

Fixed assets

Fixed assets have been entered in the balance sheet at their original acquisition cost as the direct acquisition and cost price from which depreciation according to plan has been deducted. Depreciation according to plan has been calculated according to straight-line depreciation based on the economic impact of the item. The depreciation plan corresponds to that of the previous year.

Entry of financial instruments

Financial instruments are entered at acquisition cost. Derivative instruments are for hedging and are intended to be retained to maturity. The cash flow from financial instruments will be realised at the same time as the cash flow from the instruments below.

Financial assets

Financing securities have been entered at acquisition cost.

Current assets

Current assets are shown at their original acquisition cost according to the FIFO principle. The value of current assets includes variable costs in addition to its share of permanent production wages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2012

EUR 1,000	2012	2011
TURNOVER BY BRANCH		
Electricity sales	39,340	39,613
Electricity network operations	1,677	1,515
Other business activities	10	10
Total	41,026	41,137
OTHER OPERATING INCOME		
Proceeds from the disposal of fixed assets	171	922
Rents received	593	637
Sale of services	8,765	6,438
Other	5,001	2,065
Total	14,530	10,063
NUMBER OF EMPLOYEES		
Personnel at the end of the year		
Clerical employees	122	130
Other employees	85	87
Total	207	217
Average number of employees	224	261
PERSONNEL EXPENSES		
Wages and compensation	8,980	9,030
Pension expenses	1,434	1,457
Other social security expenses	480	519
Total	10,894	11,007
MANAGEMENT SALARIES AND COMPENSATION		
Supervisory Board, Board of Directors and CEO	512	500
PERSONNEL EXPENSES CAPITALISED UNDER FIXED ASSETS	2,797	3,943

EUR 1,000

2012

2011

DEPRECIATION AND VALUE ADJUSTMENTS

Depreciation on intangible assets	919	946
Depreciation on tangible assets		
Buildings and structures	1,827	1,826
Hydraulic structures	2,190	2,179
Machinery and equipment	7,404	7,922
Total	12,340	12,873

OTHER OPERATING EXPENSES

Rents	191	183
Property taxes	17,213	16,836
Other	5,467	5,376
Total	22,871	22,396

FINANCIAL INCOME AND EXPENSES

Dividend income		
From others	2	3
Interest received		
From others	3	4
Interest paid		
To others	-8,205	-9,056
Other financial income	0	6
Other financial expenses	-247	-228
Financial income and expenses total	-8,448	-9,272

EXTRAORDINARY ITEMS

Associated undertakings profit/loss	1	7
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INCOME TAXES

Income taxes on ordinary operating activities	-271	-292
Change in deferred tax liability	2,991	4,496
Total	2,719	4,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2012

NOTES TO THE BALANCE SHEET

EUR 1,000

INTANGIBLE AND TANGIBLE ASSETS

	Acquisition cost	Increase	Deductions	Accumulated depreciation	Balance sheet value 31.12.12
Intangible assets					
Other long-term expenses	62,396	345	0	34,037	28,705
Tangible assets					
Land and water	46,694	4	38	0	46,660
Buildings and structures	136,754	1,840	0	53,748	84,847
Hydraulic structures	190,982	4,570	0	83,371	112,182
Machinery and equipment	315,466	15,943	49	165,499	165,860
Advance payments and ongoing acquisitions	24,904	5,018	15,705	0	14,217
Total	714,800	27,375	15,792	302,618	423,765
Shares and holdings	837	0	327	0	510
Total	778,034	27,720	16,119	336,655	452,980

Machinery and equipment directly serving electricity production

2012

2011

Undepreciated part of acquisition cost as at 31 Dec

126,322

118,658

Planned depreciation periods

Other long-term expenses	mainly	80 years
Power plant buildings		80 years
Other buildings and structures		20 to 60 years
Hydraulic structures		80 years
Principal power plant units		40 years
Other machinery and equipment		10 to 30 years
Fixtures and vehicles		5 years

INVESTMENTS

SHARES

	Participating interests	Other	Total
Acquisition cost as at 1 Jan 2012	411	426	837
Reduction	-232	-95	-326
Acquisition cost as at 31 Dec 2012	179	332	511
Share in profit/loss of Voimalohi Oy	-1	0	-1
Book value as at 31 Dec 2012	179	332	510

SHARES AND HOLDINGS

Group interest %

Shares in associated undertakings owned by the parent company

Voimalohi Oy, Kemi

50.0

EUR 1,000	2012	2011
ITEMISATION OF RECEIVABLES		
Short-term		
Accounts receivable	5,157	3,760
Other receivables	54	58
Prepayments and accrued income	2,818	1,767
Total	8,029	5,585
Short-term receivables from associated undertakings		
Other receivables / associated undertakings	222	198
SUBSTANTIAL ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME		
Employee retirement fund receivables	13	75
Other	2,583	1,455
Deferred tax asset	0	20
Total	2,597	1,549
CHANGES IN SHAREHOLDERS' EQUITY		
Share capital as at 1 Jan	41,286	41,286
Share capital as at 31 Dec	41,286	41,286
Contingency fund as at 1 Jan	694	694
Contingency fund as at 31 Dec	694	694
Retained earnings as at 1 Jan	62,549	70,894
Distribution of dividend	-654	-654
Used by the Board of Directors for general purposes	0	0
Retained earnings as at 31 Dec	61,895	70,240
Loss for the financial period	-8,338	-7,691
Total shareholders' equity	95,536	104,528
Share of accumulated depreciation difference entered in shareholders' equity	-49,935	-59,151

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2012

EUR 1,000	2012	2011
LONG-TERM LIABILITIES		
Long-term debts		
Loans from financial institutions	146,216	179,889
Bond 2012	75,000	75,000
Total	221,216	254,889
Debts due in five years or more		
Loans from financial institutions	41,313	113,855
SHORT-TERM LIABILITIES		
Loans from financial institutions	119,541	71,396
Pension loans	36	170
Accounts payable	2,651	2,957
Other loans	1,356	794
Accruals and deferred income	5,003	5,546
Total	128,587	80,863
SUBSTANTIAL ITEMS INCLUDED IN ACCRUALS AND DEFERRED INCOME		
Salaries, including social security costs	3,692	3,723
Interest	790	1,340
Other	522	483
Total	5,003	5,546

EUR 1,000	2012	2011
SECURITY GIVEN AND CONTINGENT LIABILITIES		
Security given on own behalf		
Debts secured by mortgages on property		
Loans from financial institutions	4,452	5,936
Mortgages given	36,336	36,336
Pension loans	36	170
Mortgages given	3,500	3,500
Mortgages given total	39,836	39,836
Contingent and other liabilities		
Guarantees		
On own behalf	28,674	33,595
On behalf of associated undertakings	50	53
On behalf of others	158	129
Leasing agreements		
Amounts payable during the current financial period	947	1,243
Amounts payable during following financial periods	1,852	3,631
Residual value liability	22,037	22,039
Total	53,717	60,691
Derivative contracts		
Interest rate derivatives		
Market value	-4,966	-4,180
Value of underlying asset	104,018	130,962
Exchange and interest rate swaps		
Market value	683	-564
Value of underlying asset	46,429	53,571

Other financial liabilities not entered in the balance sheet

VAT liability on properties

The company is obliged to revise the VAT deductions made on real estate investments completed between 2008 and 2012 if the taxable use of those properties decreases during the review period. The maximum liability is EUR 2,703,375.68, and the final year of the review period is 2018.

Retirement obligations

By agreement, the retirement age for the CEO of the parent company is between 60 and 63 years. The retirement obligation is partly covered with voluntary pension insurance.

PARENT COMPANY PROFIT & LOSS ACCOUNT

EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Turnover	39,383	39,684
Other operating income	11,818	10,561
Materials and services		
Materials, supplies	-2,828	-2,675
External services	-6,226	-4,973
Personnel expenses	-10,159	-10,267
Depreciation, amortisation and value adjustments	-12,245	-12,791
Other operating expenses	-22,612	-22,130
Profit (loss)	-2,869	-2,591
Financing income and expenses	-8,465	-9,279
Loss before appropriations and taxes	-11,333	-11,869
Appropriations		
Change in depreciation difference (+ decrease / - increase)	12,206	12,771
Income taxes	-238	-242
Profit for the financial period	635	661

PARENT COMPANY BALANCE SHEET

EUR 1,000	31.12.2012	31.12.2011
ASSETS		
Fixed assets		
Intangible assets	28,705	29,292
Tangible assets	423,365	423,301
Investments	1,296	1,643
	453,366	454,236
Current assets		
Short-term receivables	6,776	4,989
Cash in hand and at bank	316	26
	7,092	5,015
Total assets	460,458	459,251
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	41,286	41,286
Contingency fund	694	694
Retained earnings	2,093	2,087
Profit for the financial period	635	661
	44,708	44,727
Accumulated appropriations	66,140	78,346
Liabilities		
Long-term liabilities	221,216	254,889
Short-term liabilities	128,395	81,290
	349,611	336,178
Total liabilities and shareholders' equity	460,458	459,251

PARENT COMPANY CASH FLOW STATEMENT 31 DECEMBER 2012

EUR 1,000	1.1.-31.12.2012	1.1.-31.12.2011
Cash flow from operating activities:		
Profit (loss) before extraordinary items	-11,333	-11,869
Adjustments:		
Planned depreciation	12,245	12,791
Financing income and expenses	8,465	9,279
Other adjustments	-86	-812
Cash flow before change in working capital	9,290	9,389
Change in working capital:		
Increase (-) / decrease (+) of short-term business receivables without interest	-1,806	-1,040
Increase (+) / decrease (-) of short-term loans without interest	-805	-163
Operating cash flow before financing items and taxes	6,679	8,186
Interest and charges paid from other operating financing expenses	-9,019	-9,130
Dividends received from operating activities	2	3
Interest received from operating activities	2	9
Direct taxes paid	-213	-258
Cash flow before extraordinary items	-2,549	-1,190
Cash flow from operating activities (A)	-2,549	-1,190
Cash flow from investments:		
Investments in tangible and intangible assets	-11,329	-20,540
Proceeds from disposal of tangible and intangible assets	158	835
Proceeds from disposal of other investments	326	0
Cash flow from investments (B)	-10,845	-19,705
Cash flow from financing activities:		
Withdrawals of long-term loans	0	30,000
Repayments of long-term loans	-46,152	-36,033
Withdrawals of short-term loans	60,491	23,605
Dividends paid and other distribution of profit	-654	-654
Cash flow from financing activities (C)	13,684	16,918
Change in liquid assets (A+B+C) increase (+) / decrease (-)	290	-3,978
Liquid assets at the beginning of the financial period	26	4,003
Liquid assets at the end of the financial period	316	26

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

31 DECEMBER 2012

EUR 1,000	2012	2011
OTHER OPERATING INCOME		
Proceeds from the disposal of fixed assets	162	820
Rents received	1,630	1,893
Sale of services	9,648	7,285
Other	379	564
Total	11,818	10,561
NUMBER OF EMPLOYEES		
Personnel at the end of the year		
Clerical employees	117	125
Other employees	78	82
Total	195	207
Average number of employees	211	249
PERSONNEL EXPENSES		
Wages and compensation	8,371	8,425
Pension expenses	1,334	1,343
Other social security expenses	455	499
Total	10,159	10,267
MANAGEMENT SALARIES AND COMPENSATION		
Supervisory Board, Board of Directors and CEO	512	500
PERSONNEL EXPENSES CAPITALISED UNDER FIXED ASSETS	2,797	3,943
DEPRECIATION AND VALUE ADJUSTMENTS		
Depreciation on intangible assets	919	946
Depreciation on tangible assets		
Buildings and structures	1,826	1,825
Hydraulic structures	2,190	2,179
Machinery and equipment	7,309	7,841
Total	12,245	12,791

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS 31 DECEMBER 2012

EUR 1,000	2012	2011
OTHER OPERATING EXPENSES		
Rents	46	45
Leasing rents	1,044	1,111
Real estate taxes	17,212	16,835
Other	4,311	4,139
Total	22,612	22,130
FINANCIAL INCOME AND EXPENSES		
Dividend income		
From others	2	3
Interest received		
Other interest received		
From others	2	3
Interest received total	2	3
Interest paid		
To Group companies	-2	-8
To others	-8,205	-9,056
Interest paid total	-8,207	-9,065
Other financial income		
From others	0	6
Other financial expenses	-262	-225
Financial income and expenses total	-8,465	-9,279
CHANGE IN DIFFERENCE BETWEEN ACTUAL AND PLANNED DEPRECIATION		
Other long-term expenses	919	946
Buildings	1,826	1,822
Hydraulic structures	2,190	2,179
Machinery and equipment	7,270	7,824
Total	12,206	12,771
INCOME TAXES		
Income taxes on ordinary operating activities	232	242

NOTES TO THE BALANCE SHEET

EUR 1,000

INTANGIBLE AND TANGIBLE ASSETS

	Acquisition cost	Increase	Deductions	Accumulated depreciation	Balance sheet value 31.12.12
Intangible assets					
Other long-term expenses	62,396	345	0	34,037	28,705
Tangible assets					
Land and water	46,533	4	38	0	46,499
Buildings and structures	134,909	1,840	0	51,759	84,989
Hydraulic structures	189,318	4,570	0	81,706	112,182
Machinery and equipment	312,068	15,830	13	162,353	165,533
Advance payments and ongoing acquisitions	24,979	4,889	15,705	0	14,163
Total	707,807	27,133	15,756	295,818	423,365
Shares and holdings	1,643	0	347	0	1,296
Total	771,846	27,478	16,103	329,855	453,366

Machinery and equipment directly serving electricity production

	2012	2011
Undepreciated part of acquisition cost as at 31 Dec	126,322	118,658

Planned depreciation periods

Other long-term expenses	mainly	80 years
Power plant buildings		80 years
Other buildings and structures		20 to 60 years
Hydraulic structures		80 years
Principal power plant units		40 years
Other machinery and equipment		10 to 30 years
Fixtures and vehicles		5 years

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS 31 DECEMBER 2012

EUR 1,000

INVESTMENTS	SHARES			Total
	Group companies	Participating interests	Other	
Acquisition cost as at 1 Jan 2012	796	420	426	1,643
Reduction	0	252	95	347
Acquisition cost as at 31 Dec 2012	796	168	332	1,643
Book value as at 31 Dec 2012	796	168	332	1,296

SHARES AND HOLDINGS

Parent company interest %

Shares in subsidiaries owned by parent company

Kemijoki Aquatic Technology Oy, Rovaniemi	100
Kiinteistö Oy Kivisommelo, Rovaniemi	100
Lapin Sähköverkko Oy, Rovaniemi	100
Seitalohi Oy, Rovaniemi	100
Vesivoimalaitosten Konehuolto Oy, Rovaniemi	100

Shares in associated undertakings owned by the parent company

Voimalohi Oy, Kemi	50.0
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SALARIES AND COMPENSATION PAID TO THE SUPERVISORY BOARD, BOARD OF DIRECTORS AND CEO OF KEMIJOKI OY IN 2012

	Salaries and fringe benefits	Incentive pay	Total
Chairman of the Supervisory Board	7		7
Deputy Chairman of the Supervisory Board	4		4
Members of the Supervisory Board	26		26
Chairman of the Board of Directors	28		28
Deputy Chairman of the Board of Directors	17		17
Members of the Board of Directors	85		85
CEO	240	77	316
Total	406	77	482

During the year under review, EUR 8,500 was paid into the CEO's voluntary pension insurance.

FEES PAID BY KEMIJOKI OY TO THE AUDITOR IN 2012

	2012	2011
Audit fees	25	22
Other fees	2	7

EUR 1,000

2012

2011

ITEMISATION OF RECEIVABLES

Short-term

Accounts receivable	3,904	3,084
Receivables from companies in the same Group, accounts receivable	11	140
Receivables from associated undertakings	222	198
Other receivables	44	26
Prepayments and accrued income	2,595	1,541
Total	6,776	4,989

SUBSTANTIAL ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME

Employee retirement fund receivables	13	75
Social insurance compensation	48	53
Other receivables	2,534	1,414
Total	2,595	1,541

SHARE CAPITAL BY SHARE TYPE

	no. of shares	2012 nominal value	Acquisition cost incl. asset transfer tax	no. of shares	2011 nominal value
Hydropower shares (A series, 1 vote)	105,956	1,791		105,956	1,791
Monetary shares (B series, 1 vote)	1,924,408	32,522		1,924,408	32,522
B series shares owned by the Company	412,580	6,973	7,084	412,580	6,973
Total	2,442,944	41,286	7,084	2,442,944	41,286

Hydroelectric power shares entitle shareholders to purchase the electric power produced by the company.
Money shares entitle to receive dividend.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS 31 DECEMBER 2012

EUR 1,000	2012	2011
CHANGES IN SHAREHOLDERS' EQUITY		
Share capital as at 1 Jan	41,286	41,286
Share capital as at 31 Dec	41,286	41,286
Contingency fund as at 1 Jan	694	694
Contingency fund as at 31 Dec	694	694
Retained earnings as at 1 Jan	2,748	2,741
Distribution of dividend	-654	-654
Used by the Board of Directors for general purposes		
Retained earnings as at 31 Dec	2,093	2,087
Profit for the financial period	635	661
Total shareholders' equity	44,708	44,727
Distributable funds	2,728	2,748
ACCUMULATED APPROPRIATIONS		
Accumulated depreciation difference		
Other long-term expenses	15,307	16,225
Buildings and structures	18,350	20,176
Hydraulic structures	27,559	29,750
Machinery and equipment	4,924	12,194
Total	66,140	78,346
LONG-TERM LIABILITIES		
Long-term debts		
Loans from financial institutions	146,216	179,889
Bond 2010	75,000	75,000
Total	221,216	254,889
Debts due within five years or more		
Loans from financial institutions	41,313	113,855
SHORT-TERM LIABILITIES		
Loans from financial institutions	119,541	71,396
Pension loans	36	170
Accounts payable	1,842	2,690
Other loans	2,268	1,701
Accruals and deferred income	4,708	5,333
Total	128,395	81,290
Amount owed to Group companies		
Accounts payable/Group companies	140	173
Other short-term debts/Group companies	948	810
Total	1,088	983

EUR 1,000	2012	2011
SUBSTANTIAL ITEMS INCLUDED IN ACCRUALS AND DEFERRED INCOME		
Salaries, including social security costs	3,509	3,563
Interest	790	1,340
Other	410	430
Total	4,708	5,333
SECURITY GIVEN AND CONTINGENT LIABILITIES		
Security given on own behalf		
Debts secured by mortgages on property		
Loans from financial institutions	4,452	5,936
Mortgages given	36,336	36,336
Pension loans	36	170
Mortgages given	3,500	3,500
Mortgages given total	39,836	39,836
Contingent and other liabilities		
Guarantees		
On own behalf	28,487	33,527
On behalf of associated undertakings	50	53
On behalf of others	158	129
Leasing agreements		
Amounts payable during the current financial period	936	1,233
Amounts payable during following financial periods	1,842	3,611
Residual value liability	22,037	22,039
Total	53,509	60,592
Derivative agreements		
Interest rate derivatives		
Market value	-4,966	-4,180
Value of underlying asset	104,018	130,962
Exchange and interest rate swaps		
Market value	683	-564
Value of underlying asset	46,429	53,571

Other financial liabilities not entered in the balance sheet**VAT liability on properties**

The company is obliged to revise the VAT deductions made on real estate investments completed between 2008 and 2012 if the taxable use of those properties decreases during the review period. The maximum liability is EUR 2,703,375.68, and the final year of the review period is 2018.

Retirement obligations

By agreement, the retirement age for the CEO of the parent company is between 60 and 63 years. The retirement obligation is covered with voluntary pension insurance.

PROPOSAL FOR THE DISTRIBUTION OF PROFIT BY THE BOARD OF DIRECTORS

The total sum of distributable profit available to the parent company amounts to EUR 2,728,134.38 as at 31 December 2012.

Nothing has occurred after the end of the financial year that would have a significant effect on the company's operations.

The Board of Directors shall propose to the General Meeting that

• a dividend of EUR 0.34 per share, as stated in the Articles of Association, be paid to the B-series shares not owned by the Company at the moment of distribution	EUR 654,298.72
• to be transferred to retained earnings	EUR 2,073,835.66
	<u>EUR 2,728,134.38</u>

Helsinki, 28 February 2013

Matti Ruotsala

Risto Andsten

Maarit Herranen

Tapio Jalonen

Tapio Korpeinen

Markku Tapio

Pekka Manninen

Aimo Takala
CEO

AUDITORS' REPORT

TO THE ANNUAL GENERAL MEETING OF KEMIJOKI OY

We have audited the accounting, financial statements, report of the Board of Directors and administration of Kemijoki Oy for the financial year 1 January to 31 December 2012. The financial statements comprise the consolidated and parent company balance sheet, profit and loss account, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE CEO

The Board of Directors and the CEO are responsible for the preparation of the financial statements and report of the Board of Directors and for ensuring that they give a true and fair view in accordance with current Finnish legislation concerning the preparation of financial statements and the report of the Board of Directors. The Board of Directors is responsible for the appropriate arrangement of the control of the Company's accounts and finances, and the CEO is responsible for ensuring that the accounts of the Company comply with the law and that its financial matters are arranged in a reliable manner.

RESPONSIBILITY OF THE AUDITOR

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the Company or whether they have violated the Limited Liability Companies Act or the Articles of Association of the Company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

OPINION

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of the financial position and financial performance of the Group and of the parent company, in accordance with current Finnish legislation on the preparation of financial statements and the report of the Board of Directors. The report of the Board of Directors is consistent with the financial statements. We recommend that the members of the Supervisory Board and the Board of Directors of the parent company and its CEO be granted discharge from liability for the financial period covered in this audit.

Rovaniemi, 18 March 2013

KPMG Oy Ab

Antti Kääriäinen

Authorised Public Accountant (KHT), Chartered Public Finance Auditor (JHTT)

STATEMENT BY THE SUPERVISORY BOARD

The Supervisory Board has examined the financial statements of Kemijoki Oy for 2012, as well as the consolidated financial statements, the report by the Board of Directors, the proposal by the Board of Directors for the use of distributable funds and the audit report submitted by the Company's auditor, all of which the Supervisory Board finds acceptable. The Supervisory Board recommends that the financial statements and consolidated financial statements be adopted, and agrees with the proposal of the Board of Directors as to the manner of distributing profit.

The Supervisory Board hereby states that the instructions given by it have been followed and that it has received the information needed for carrying out its duties from the Board of Directors of the Company and from the CEO.

Helsinki, 20 March 2013

Ari Heikkinen

Sanni Grahn-Laasonen

Harri Jaskari

Juha Laaksonen

Paula Lehtomäki

Juha Mäkelä

Seppo Nordström

Johanna Ojala-Niemelä

Jari Pirinen

Risto Rautava

Anja Silvennoinen

	Built between	Upgrading	Head m	Output MW	Average annual energy GWh	Production 2012 GWh
River Kemijoki watercourse area						
Porttipahta	1979–81		30.0	35	100.2	118.8
Kurittukoski	1985–87		11.0	15	42	47.4
Vajukoski	1982–84		16.0	21	69.4	81.0
Matarakoski	1993–95		7.0	11	31.3	34.9
Kelukoski	1999–01		7.0	9.8	38.1	38.1
Kurkiaska	1990–92		12.5	27	83.1	92.1
Kokkosniva	1987–90		11.5	25	79.1	91.7
Seitakorva	1958–63	2004	17.0–24.0	130	506.3	551.8
Pirttikoski	1956–59	2009–10	26.0	152	581	646.3
Vanttauskoski	1967–72	2010–11	22.0	95	447.5	491.6
Valajaskoski	1957–60	2003	11.5	101	365.2	420.0
Petäjaskoski	1953–57	2006, 2011	20.5	182	687	775.0
Ossauskoski	1961–65	2008	15.0	124	501	563.2
Taivalkoski	1972–76	1999	14.5	133	528.7	619.8
Permantokoski	1960–61	2005	24.0	13	50.5	65.9
Lokka	1967		7.0–12.0	0.1	0.5	0.2
Total				1,074	4,111	4,638
River Lieksanjoki power plants						
Pankakoski	1964		10.2	15	65	86.2
Lieksankoski	1960		11.4	16	75	83.4
Total				31	140	169.6
River Kymijoki power plants						
Anjalankoski	1983		9.7	20	130	117.5
Inkeroinen	1922, 1994		9.7	17	80	112.4
Total				37	210	229.9
Grand total				1,142	4,461	5,037

KEY TO ABBREVIATIONS

a = year
 h = hour
 kWh = kilowatt-hour (energy)
 MWh = megawatt-hour
 = 1,000 kWh
 GWh = gigawatt-hour
 = 1,000 megawatt-hours
 = 1,000,000 kilowatt-hours

W = watt (power)
 kW = kilowatt
 MW = megawatt
 = 1,000 kW
 m³/s = cubic metres per second
 Q = discharge
 Q_{max} = maximum discharge
 Q_R = rated discharge
 mm = millimetre

CONTACT DETAILS

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